

HOUSE OF ASSEMBLY

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE

Thursday 27 July 2006

MEMBERS

Mr Best (Chair)
Mrs Butler
Mrs Napier
Mr McKim
Mr Sturges (Deputy Chair)
Mr Whiteley

SUBSTITUTE MEMBERS

Mr Booth
Mr Will Hodgman

IN ATTENDANCE

Mr David Llewellyn, Minister for Energy

Ministerial Office

Nick Wright, Adviser
Graham Wilson, Adviser

Aurora Energy Pty Ltd

Dr Peter Davis, Chief Executive Officer
Mr John Hasker, Chairman
Mr Paul Bloomfield, General Manager, Retail
Mr John Devereaux, General Manager, Network
Mrs Nell Bingham, Manager, Corporate Finance
Mr Adrian Wild, Manager, Corporate Affairs
Mr Stuart Hatton, Manager, Commercial Services

The committee resumed at 11.04 a.m.

CHAIR (Mr Best) - Welcome everyone from Aurora. I invite the Minister for a short overview and then answer a few questions.

Mr LLEWELLYN - Aurora has just completed its eighth year as a stand alone company. The company's 1100 employees have continued to serve the Tasmanian community very well, I believe. The final audited results for the year are not yet available but I know that, like the previous seven years, it has been another strong performance. This level of performance has been maintained at a time of significant challenge for Aurora. Aurora Energy entered the National Energy Market in May 2005. The completion of Basslink in April this year exposed Aurora from the beginning of April to the first tranche of retail competition. Aurora has done a great deal of work to prepare, not only carefully managing competitive threats but also to take advantage of opportunities in Tasmania and also interstate. The management team has been strengthened to deal with the challenges and deliver on opportunities - financially, strategic and technical. Now, after eight years of rehearsal, the main game of competition in the national market has commenced. Aurora's focus is to extend beyond the purely commercial. Instead, Aurora's purpose, devised by its employees, is and I quote:

'To see the Tasmanian community prosper from our efforts.'

This obviously requires commercial success. Aurora's vigorous commercial focus is underpinned by a determination to succeed on the non-financial aspects of its balanced score-card approach to the business, including outstanding levels of customer service and network reliability, strong commitment to public and employee safety, employee engagement in the best employer zone nationally, and a commitment to model corporate citizenship which ranks Aurora amongst the leading businesses operating in Tasmania. It also has a determination to build on its assets and expertise and to work with carefully selected partners to grow the value of the business.

Aurora Energy has a significant role to play in the continuing strength of the Tasmanian economy. It delivers energy at prices which the independent Tasmania Energy Regulator confirms are nationally very competitive. Aurora's network is critical to delivering the benefits of energy reform to all Tasmanians because those poles and wires bring electricity to homes and businesses throughout the State, that is an important aspect. Aurora has invested heavily in the distribution network. The network reliability strategy for the next decade requires even more substantial investment, which will underpin Tasmania's economic growth. The obligation as well as the need to maintain customer service standards and take advantage of new opportunities here and nationally, in both energy and communications will fully test the Aurora team.

The leaders of the team are Aurora's chairman, John Hasker, and Chief Executive Office, Peter Davis. In the back row we have the general manager of retail, Paul Bloomfield; general manager of network, John Devereaux; general manager, commercial services, Stuart Hatton; and Manager, Corporate Affairs, Adrian Wild.

Mr Chairman, with those comments I will invite questions of the Aurora people.

Mr WILL HODGMAN - I would like to direct a question broadly to people from Aurora. The Minister for Energy has stated this week during hearings involving Hydro Tasmania that the

Government would contemplate distributing part of Hydro Tasmania's \$1 billion debt to the other energy entities - Aurora and Transend. I am interested in your reaction to this and what it might mean to Aurora to be encumbered with additional debt.

Mr LLEWELLYN - I think you are talking about something that I have said previously. So I think I would need to respond -

Mr BOOTH - On a point of order, Mr Chairman. I wonder whether or not the minister should step aside while this conversation is taking place because of his obvious conflict of interest. He is the minister responsible for Hydro, and now, being also the minister responsible for Aurora, we might be encouraging him to accept debt-shifting?

Mr LLEWELLYN - I want to comment on the point of order.

CHAIR - There is no point of order.

Mr WILL HODGMAN - I did say that you had made the comment. I am interested in the reaction.

Mr LLEWELLYN - But you have taken me out of context, you see.

Mr WILL HODGMAN - Is it a case that there is a different context now that you are with Aurora than it was when you with Hydro the other day. They have the \$1 billion debt.

Mr LLEWELLYN - No, not at all. I think this same question was asked by people in the Legislative Council yesterday when I was in the discussion on Transend. I did put it in the context in which the question was asked. Rather than being verbally, in a sense, about what people think was said, I think that it is better that I say exactly what was said and then we can get the appropriate response from the Aurora board. In doing that, can I just say that I was asked a question with respect to a number of issues when both Hydro and Transend were before the Legislative Council and I said that as a new energy minister it was my duty and obligation of responsibilities now that we have been through a very successful phase of energy development in this State.

We have delivered the gas pipeline and the Basslink cable, there has been a disaggregation of Hydro businesses and how they have been operating for the last eight years or so. There was a different imperative at the time of this aggregation in the mind of the previous Rundle Government in regard to how that Government saw the businesses. As you know, at that stage they were preparing to sell some of the businesses to private industry. So what I said in response to questions along those lines was that it was for me, as an incoming minister, to look at how the businesses were positioned and the structure of the businesses and so on. I am sure that the people of Tasmania would want me to do that, together with asking a whole lot of other questions and to get some expert opinion on that.

There was a follow-up question that someone asked me regarding the issue of debt to equity ratios within the Hydro and whether that would mean there would be an opportunity for a transfer of debt or whatever. To a direct question on that I said that would be one of the possibilities, but there was a whole series of other possibilities that might come out of discussion, and one of the possibilities might be that we continue exactly as we are at the moment. So it is very hypothetical

in that sense. I want to analyse these things and look at them before I make comments about them. So it is in that context.

Mr WILL HODGMAN - Sure, but you are the minister and you have acknowledged that there is a possibility that you might seek to redistribute some of the debt that is currently carried by Hydro Tasmania to the other energy entities. You are the person responsible for that.

Mr LLEWELLYN - That is a possibility along with a whole lot of other possibilities and it is very hypothetical because we need to do the work and analyse how the businesses are positioned. That is something that I am committed to do in the future and something that I have shared with all of the boards now in an ongoing program to see how we are best placed for energy delivery from a Tasmanian community context into the future.

Mr WILL HODGMAN - Had you discussed this particular matter with the board of Aurora or the administration of Aurora prior to your statement on Tuesday this week.

Mr LLEWELLYN - I do not meet with the board but I meet with the chairman and the CEO and other representatives. We have had some discussions about how we need to set the energy policy agenda into the future given that we have been through a successful period and we need to reassess and so on. Of course Aurora regularly does that as part of their corporate management and arrangements.

Mr WILL HODGMAN - Have you spoken to them about the possibility of them taking on some debt from Hydro?

Mr LLEWELLYN - No, I have not talked about that aspect. You have asked me questions and other people have asked me questions about that and I think that I have answered in the context in which it is appropriate that those answers should be given.

Mr WILL HODGMAN - I would seek a response from Aurora as to that issue - your attitude in relation to potentially taking on some additional debt.

Mr HASKER - I am happy to give an initial answer to Mr Hodgman's question. I reiterate what the minister said, that when disaggregation occurred back in 1998 the intention of the Government at the time was to sell off Aurora. On that basis, and I think sensibly so under that premise, we took on more debt than we might have if it was a level playing field. We have worked on that basis ever since.

[11.15 a.m.]

Mr BOOTH - Aurora took on more debt?

Mr HASKER - Aurora was given more debt - I think, Kim is the better term - as it split up, because if we were sold locally or internationally the other party would have inherited that and taken it out of the State debt system. I think that was sensible. But that did not occur, so we have from the start probably had a higher debt than would have otherwise been the case, and we have sought professional advice as to our debt equity ratio and hence our credit rating. Perhaps I will ask Dr Davis to give you a more detailed answer of what capacity we currently have in the question of our debt equity and our lending covenant.

Dr DAVIS - Thank you, Chairman. I think the first point I would like to make in response to Mr Hodgman's question is that one needs to consider what Aurora is trying to do at the moment. Aurora is seeking to improve the reliability outcome for Tasmanian customers, and therefore we need to continue to invest in our system to ensure that we are able to deliver economic benefits to the people of Tasmania. Clearly there has been a lot of investment in energy infrastructure over recent years, and it is important that Aurora provides that connection through to the customers so that the benefits of that investment flow through to customers. We have also seen a period of, I think, unprecedented economic activity in Tasmania which has kept Aurora very busy. We have been adding on to the network as new customers are being connected and new developments occur in the State.

To put a figure on that, traditionally we have budgeted about \$13 to \$15 million per year for what we call customer-generated work, and for the past few years that has been running at \$30 million a year. This is a good news story. This indicates that people in Tasmania are investing in businesses needing additional electricity in the State, and Aurora has responded to that. Now clearly we have to be able to fund that, and we certainly look to our internal cash-generating capacity to ensure that we can fund that, but debt is part of the equation. Our debt ratios have remained fairly standard and stable over the period that Aurora has been in existence. Our debt-to-equity ratio is around about the 50 per cent mark, and therefore in accordance with industry norms. We did in fact slightly reduce the debt a year or two ago in preparation for NEM entry - getting into the National Electricity Market - because we recognise there are additional costs there, and reliability expenditure, but it also moves up and down.

So I think the important point to make is that we try to manage the business prudently on behalf of our shareholders and the people of Tasmania, and therefore we try to maintain our debt-to-equity ratio such that we can manage the debt. Given that we have requirements for further investment to respond to the needs of our customers, certainly we would not see a significant opportunity to take on additional debt but, as the minister has flagged, these matters are always under consideration. The critical thing we want to do is ensure that Aurora is able to deliver on its strategic plan. We have a bold vision as to what Aurora can do for the people of Tasmania. We are uniquely positioned because of the fact that we connect to every customer in the State. We have electricity infrastructure going into every home and business. We are currently trialling sending broadband communication signals over our power lines. So there is a tremendous opportunity for Aurora to really add value, and to achieve that we need to make sure that we have the capability to fund those activities.

Mr WILL HODGMAN - I hear what you say, and I am impressed with your record to date and what you have planned for the future. What I am conscious of, though, is that you might be encumbered by additional debt that the minister has not ruled out putting onto your financial circumstances. I am just interested to get a handle on how much it would affect your capacity to continue to do the very good things you are talking about.

Dr DAVIS - I think at the end of the day this is a matter for the owners. The owners decide what they wish to do with the business, and I guess I have painted a perspective from the point of view of the board and management of Aurora. We are comfortable with where we sit at the moment, but at the end of the day if the owners wanted to review that situation that is their prerogative.

Mr WILL HODGMAN - But you would not surely want any additional and unanticipated debt, because I gather the first you heard about this was via the newspapers on Tuesday morning.

Dr DAVIS - The issue of our debt is something we are always discussing. Where the debt comes from, obviously we would like to put in place our initiatives. In fact, I would be prepared to go to my own board and say, 'You need to borrow more money to deliver these initiatives'. If there was to be restructuring, that would be something to take into the picture. But at the end of the day these are matters for the owners.

Mr WILL HODGMAN - Had you anticipated, though, the possibility of taking on more debt via a redistribution from that which Hydro currently carries?

Dr DAVIS - I think it is fair to say that I read the newspapers, along with everybody else, and I am not surprised that the first question today is one relating to debt.

Mr WILL HODGMAN - Prior to that, though, when you look at your long-term situation and you manage your debt, as any prudent business does, have you factored in the possibility that the Government might one day say, 'If Hydro has \$1 billion worth of debt, it would be a good idea perhaps to spread that out over the other energy entities' and you might therefore have to take an amount on?

Dr DAVIS - What I can say, and I think the minister referred to it in his opening remarks, is that we have gone to a great deal of trouble to improve our capability to analyse these issues. We have recruited a new CFO from interstate with experience in the National Electricity Market and in industry. He is here today. In the consideration of the matter of debt, in fact there have been reviews done by all businesses using consulting advisers to look at the appropriateness of their debt-to-equity ratios. These are matters that have been under consideration ever since 1998 when the allocation was made, as it was.

Mr WILL HODGMAN - But you did not know before this week about the possibility of the Government perhaps redistributing this debt?

Mr LLEWELLYN - Mr Hodgman, I think you are again taking the issue out of context. What I said was that, as a new minister for Energy and looking into the future, trying to position ourselves in the best possible way, we need to review how the structure of our three businesses is operating and all the issues associated with that.

Mr WILL HODGMAN - But surely you did not pluck this out of the air? It is a very serious issue and one which would have ramifications for all entities.

Mr LLEWELLYN - I did not pluck it out of the air; I am telling you what I said.

Mr WILL HODGMAN - It is not like you are ruling out the death penalty or something. I understand it is just a possibility but surely, as the Energy minister, you must have given it some thought. Have you taken advice from your department on this matter?

Mr LLEWELLYN - I am telling you what I am saying, and that is that it is prudent to look at how we operate as an energy business in Tasmania. At the moment we have three separate energy businesses, and that has existed since the disaggregation in 1997. Whether that is the right positioning as we move into a new era, operating in the National Electricity Market, whether there might be a different way of looking at that, it is prudent that I look at all of those aspects. One aspect associated with that is how the debt was distributed in 1997 and what the appropriate debt

arrangements are into the future. I am very aware that Aurora has had this on their agenda from inception. They very carefully analysed these particular issues and I am very happy with the outcomes that they are working on at the moment. I do not want you to put words into my mouth or into the media's minds that are not factual.

Mr WILL HODGMAN - You said it yourself. Have you taken any advice from your department or the Department of Treasury about this option?

CHAIR - I am not trying to hold things up, but I think you have had a pretty good go on this question. You have asked it a few times.

Mr WILL HODGMAN - If the minister could just answer that last one, I will move forward.

CHAIR - I am just saying to you that I will let you have the last bite of this one, but it is the same question over and over. Mr Booth is also seeking the call, so I will let the minister finish off and then give the call to Mr Booth.

Mr LLEWELLYN - As I said before, as a new minister, we need to position ourselves appropriately in the national -

Mr WILL HODGMAN - It is a yes or a no. Have you taken advice from your department or Treasury?

CHAIR - Order. I will give the call to Mr Booth.

Mr BOOTH - Minister, you have failed to rule out that you sought advice, so I am assuming you have sought no advice before you made that statement that you are intending to saddle \$300 million of Hydro's debt across to either Aurora or Transend. That is correct, isn't it - that you sought no advice before you made that statement?

Mr LLEWELLYN - No, in your usual way, Mr Booth, you are now verballing me directly about the issue.

Mr BOOTH - Well, did you seek advice or not? Yes or no? It is simple, isn't it?

Mr LLEWELLYN - I have sought advice -

Mr BOOTH - This is the trouble with you guys; I just want to get a straight answer so could you just answer the question?

CHAIR - Order, Mr Booth, order! Put your question. If you want to make speeches and so forth that is in that little room next door.

Mr LLEWELLYN - Is this an interrogation or question time arrangement?

Mr BOOTH - You can make it an interrogation if you don't answer the question. What we are trying to do is get the truth out of you.

Mr LLEWELLYN - Usually the normal format of these committees is that you ask a question of me and then I am given an opportunity to answer it instead of coming back with repeated statements and interrupting me in the process.

Mr BOOTH - Bryan Green had the same sort of approach and it took a long time to get the answers out of him as well.

CHAIR - Order!

Mr LLEWELLYN - Well, that is a nice little comment. Mr Chairman, I think that is going beyond the pale, quite frankly.

Mr BOOTH - Given that you have told us that the Aurora board has worked particularly hard - I think you said that you inherited substantial debt with the company which you have worked very hard as a board over the years to pay off, and congratulations for that because obviously that is what boards want to do, what effect would it have on Aurora's bottom line? It is blindingly obvious that you would be saddled with a debt that was unproductive; you would not get anything with that debt, you are simply going to be given a debt that has come from another entity which you have not created, so it is an unproductive debt. The only effect of that would be to raise your borrowing costs, wouldn't it?

Mr HASKER - It would increase our interest burden which would show up in the net profit that we would have prior to paying a tax issue and a dividend to government. It would reduce both tax and the amount of dividend.

Mr BOOTH - Yes, or alternatively if you want to keep the same level of dividend you would have to put power prices up, wouldn't you? That is the only way Aurora raises revenue, is it not, through power prices?

Dr DAVIS - In fact Aurora does not raise revenue through setting power prices because the prices are set by an independent regulator. Aurora makes a submission to that regulator but the regulator is basically there to ensure that the interests of all Tasmanians are protected. In fact the power price situation is one we are quite proud of. The regulator in his most recent announcements pointed out that Tasmanian business prices were in fact the lowest in the country and our residential prices were in the bottom quartile as well. Given the importance of electricity in this State, the regulator has gone to a lot of trouble to ensure that that is the situation and clearly that means that Aurora has to manage its business very efficiently because we do not have that lever to put the prices up or whatever. So the regulator is independent, it is a framework to manage pricing in this State, and Aurora has to operate within that framework.

Mr BOOTH - What I am saying is that obviously you go to the regulator with an ambit claim, if you like, for where you need to be.

Dr DAVIS - You would not go with an ambit claim.

Mr BOOTH - That is the only way you get your price increases, by justifying to the regulator that your costs are at a level that justifies a particular tariff.

Dr DAVIS - The process is that the regulator looks at our submission and he looks at submissions from customers, from lobby groups, from anyone who wants to contribute. He runs an open and public consultation process -

Mr BOOTH - I understand that.

Dr DAVIS - and he also benchmarks our performance against other utilities in other States, so we certainly do not have the opportunity to make, in your words, an ambit claim. It is a very considered process and at the end of the day the regulator sets the pricing framework and that effectively provides protection for Tasmanian customers.

Mr BOOTH - When you go to the regulator and you make your case, if you had \$300 million of debt shifted to you or a proportion of that, that forms your bottom line which you use to justify your power increases, so the only way that you can pay that interest is through power pricing. That is correct, isn't it? The only way Aurora raises money to pay its debts is through its power prices.

Dr DAVIS - Clearly, the prices that we receive for our product is the revenue side and obviously we can also manage our costs, which we do very diligently. That is why, as I said, we are comfortable with the level of debt that we currently have. It is benchmarked at about the right level and given that we have a strategic plan to invest in infrastructure in Tasmania, to improve the economic situation in Tasmania and improve reliability for customers right around the State, then clearly we like to have that capability.

[11.30 a.m.]

Mr BOOTH - So increased debt would then either be at a cost to the service that you are providing or to power prices, or whatever. You would not get anything with it, would you if you suddenly inherited a debt which was not linked to any increase in productivity or based on a new set of transmission lines, new infrastructure, or something? It is simply an anchor that you will inherit that you have to pay off, and you have to do that at a cost to other things.

Dr DAVIS - As I said, we are comfortable with the level of debt that we currently have. If we were to increase the level of debt we would want to be doing that to fund our strategic initiatives in Tasmania.

Mr BOOTH - Yes, something directly positive that could weigh in your hands.

Mr LLEWELLYN - I can add to that response. The member is trying to make a case that somehow or other additional debt is going to be reflected in additional prices because of some debt transfer that may or may not occur. I just want to remind the member and the committee that the actual cost of electricity is made up of the price that is apportioned in the generation area, in the transmission area, which is very much a regulated area, and that apportioned in the retail distribution side of the business. So if there were to be transfers of funds from one area to another, then that does not necessarily mean that there is an increase in costs to consumers, because those other factors need to be considered in that particular argument.

Mr WILL HODGMAN - We have received some conflicting advice from other members of the Government about the regulator, or GPOC, in fact, in relation to the findings of a GPOC investigation into prices relating to MAIB or electricity. Can you just state whether or not it is the case that, irrespective of a determination by the Energy Regulator, the Government has the

capacity to either ignore that recommendation or elect to proceed in a different way. For example, if the Energy Regulator set electricity prices at a certain level, can you confirm whether or not the Government has the power, the authority or right to ignore that recommendation?

Dr DAVIS - I can certainly confirm that because I am in the detail of that on a daily basis. The regulator is entirely independent and has been established by the Parliament to be independent. We have had situations where he has made determinations that we did not like, and have written to him. Indeed even the minister and past ministers have written to him saying, 'We don't really like that', but it does not make any difference. At the end of the day, the regulator is independent and it is a very public process.

Mr WILL HODGMAN - Yes, I understand that.

Dr DAVIS - So it is not possible, under the way the regulator is established, for the Government to set the prices through that mechanism; that is why he is there.

Mr LLEWELLYN - We are part of the National Energy Market, under the ACCC originally and now the Australian Energy Regulator. I think section 6 of the rules that they operate under determines these arrangements. We are still using Mr Reeves here as the regulator in the Tasmanian context with respect to the contestability aspect with our businesses and retail consumers. Eventually we will have to test that through a public benefit test arrangement as to whether or not, in the total context, we maintain that regulated contestability. That is not triggered until 2010, but before that we will need some public benefit test arrangement associated with it.

Mr WILL HODGMAN - So the government of the day is bound by the determination of the Energy Regulator with respect to the tariffs he or she sets.

Dr DAVIS - That's correct.

Mr WILL HODGMAN - There is no discretion -

Dr DAVIS - None at all.

Mr WILL HODGMAN - I understand Aurora is stuck with it, but I am just interested in whether or not the Government has any capacity to override it.

Dr DAVIS - None at all. Mr Chairman, can I make one point just to close off the earlier line of questioning. There was quite a discussion about the impact of additional debt in Aurora and the impact on power prices; of course we are all sitting here today thinking about Aurora, but the thing is, where did that debt come from? If it came from one of the other businesses, and one would assume it would come from Hydro Tasmania, we need to recall - and the Minister started to make the point - that the end-use price is, at the end of the day, achieved by a building-block approach. So you have the energy component, which is about 44 per cent of the total; you have the transmission component that is about 12 per cent; you have the distribution component, all the poles and wires right around the State, which is about 34 per cent; and finally there is the little retail bit on top to run the call centre and all of those things, which is about 10 per cent.

In the event - 'possibility' I think was the word used - that Aurora did have some additional debt moved from Hydro Tasmania to Aurora, then that would result in a reduction in profitability

for Aurora, but there would be an equal and offsetting increase in profitability from Hydro. So in terms of a building block, it still adds up to the same thing. It is actually just rearranging the deck chairs within the industry.

Mr WILL HODGMAN - Does that necessarily follow? The ratios are different - it is fairly simplistic.

Mr LLEWELLYN - That is the very point that I made to Mr Booth a moment ago. I think it is important to put that issue on the agenda. I think what you are trying to talk about now is hypothetical in the context. Certainly as a prudent and incoming Energy minister I need to analyse all these issues. I have set about doing that and we need to reflect on how we go about our energy businesses into the future. We are now in the National Energy Market. Is the structure of our businesses appropriate, including our debt-to-equity ratios, or how the businesses are positioned.

Mr WILL HODGMAN - What about bringing them all back together? Have you thought about doing that?

Mr LLEWELLYN - We are not contemplating bringing them all back together. There is a context to that, because I think it is quite foreseeable that they could operate in a different context in the future. There certainly would still be a retailing arm, a distribution and transmission or networking arm, and a generation arm, so they are the natural businesses that are formed from it.

Mr WILL HODGMAN - Have you thought about privatising any of them?

Mr LLEWELLYN - Absolutely not. You are the only party that are interested in privatising the Hydro.

Mr WILL HODGMAN - No.

Mr BOOTH - The deckchair analogy was too good to miss. Last year's was the *Titanic*, wasn't it? That is interesting when you are talking about the Hydro and debt shifting. That is where I have to respond to this building-block approach. You have either got three separate entities with desegregation or you might as well vertically integrate the whole thing and bring it back under one umbrella. What is the point of having three separate boards and pretending that you have separation of companies and structures and pretending that you are in competition to some degree. Then you have a minister who simply thinks that Hydro's got this Basslink gamble and a problem with a facility fee, so we will just debt-shift that across to the other parts of the organisation that effectively are, and ought to be, independent, separate entities. I understand the position here. Obviously the Minister is wearing a different hat today when he is dealing with this, but I put it to you that there is an essential flaw in your argument. You can't just simply say that it is one entity and allow one of your legs to underperform.

Mr LLEWELLYN - No-one said that. That just underlines your misunderstanding and your provocative statements.

Mr BOOTH - You can't pretend that it is actually going to have no effect on debt when in actual fact if Hydro did not have Basslink in the first place you wouldn't have the debt problem and you wouldn't need the money to gamble on it.

Mr LLEWELLYN - I reiterate what Dr Davis said about the building-block approach and the percentages there. You were making hypothetical suggestions about possibilities of debt transfers and so on having an effect on the Aurora bill that a consumer might pay. We have pointed out to you that the bill comprises a number of elements.

Mr BOOTH - But doesn't that take the blowtorch off the organisation that actually needs the money? Effectively you're giving Hydro a \$300 million break to make up for their failure to manage their resources properly, aren't you?

Mr LLEWELLYN - The Hydro have said that they are very comfortable with their debt arrangements at the moment, with 50/50 debt-to-equity arrangement. They said, in the discussion with the Legislative Council, they would be more comfortable if they had a 60/40 debt to equity ratio, which was more in keeping with other generators around Australia. I pointed out to them that there was a difference with the Hydro business in Tasmania in that it was publicly owned. There is more security in a publicly owned company than a privately owned company, so you cannot make exactly those comparisons. Hydro said that they were comfortable with their debt ratios and they will proceed with them. The point that is being made is that if those ratios change by some equity reapportionment then the actual cost of energy from each of the businesses changes, but it does not mean that the actual bill paid by a consumer alters at all. It just means that there is a change of apportionment between the businesses.

Mr WILL HODGMAN - But would you agree that it does certainly impact on the entity's capacity to attend to other things, as Hydro said - their capex program, for example?

Mr LLEWELLYN - I doubt it.

Mr WILL HODGMAN - It can impose an additional burden, an unexpected burden on an entity, as I suspect it would in this case, that could limit -

Mr LLEWELLYN - That is about trying to find our way forward in a way that the business provides the very best outcomes for the shareholder - that is, the people of Tasmania.

Mr WILL HODGMAN - It might affect their capacity to deliver a secure energy source. Their reliability might be affected by it. We know that energy entities do have ongoing -

Mr LLEWELLYN - That is the purpose of these hearings as well. Yesterday and the day before we went through discussion on capital programs, on how prepared and what action the businesses had taken to look at risks and those things. That is what we should be talking to Aurora about.

Mr BOOTH - We are interested in Aurora at the moment. You have two -

Mr LLEWELLYN - Your interest is in making political points.

Mr BOOTH - other hats and you have an interest in debt-shift from an underperforming company to Aurora, which appears, from what they are saying, to be performing particularly well. That is the issue here; you can't just treat Aurora as if it is part of Hydro's debt repository or somewhere to bury their problems. If Hydro has a problem they should deal with it themselves and fix up their own organisation or whatever. I think it is extraordinary that you could possibly

suggest that an unattached debt that has no infrastructure or any asset value to it could be transferred to another organisation.

Just to clarify the debt-to-equity ratio, what is your debt-to-equity gearing ratio in Aurora - so that we can have a comparison with Hydro?

Dr DAVIS - Do you want to bring Mr Hatton to the table because this sounds like a technical question?

Mr BOOTH - What is your gearing ratio with debt to equity. I guess you'd have to look at the terms of the debt shift and what interest rate you'd be paying on that.

Mr HATTON - Our debt-to-capital ratio is 50 per cent. That is basically in line with our peers across the industry. I think it is fair to say that, across the industry with additional capital expenditure by our peers, we expect that they will be taking on extra debt to fund that additional capital as well. So the debt-to-equity ratio, certainly from our perspective, is a reasonable ratio for the company.

Mr BOOTH - What about gearing ratios?

Mr HATTON - Again, in line with our peers; our serviceability ratios are in line with our peers across the industry.

Mr BOOTH - What rate would that be?

Mr HATTON - There are a whole number of different ratios that you can calculate from the annual report. Probably the more important ones are things like your pre-tax serviceability ratios. For 2004-05 ours in the range of 2.8. That means for every \$2.80 that you generate there is \$1 paid in interest. That is a reasonable ratio for the industry.

[11.45 a.m.]

Mr BOOTH - Are you comparing them with Hydro's ratios or are you talking about similar companies?

Mr HATTON - Similar companies.

Mr LLEWELLYN - Similar companies; we are talking about a distribution and retail business here.

Mr BOOTH - I just wanted clarify it because I did mention Hydro in comparison to Aurora.

Mr HATTON - I am talking about other retail businesses.

Mr BOOTH - Not Hydro, okay.

Mr HATTON - Obviously, as a generation company they have a different balance sheet set-up from ours, given their assets.

Mr BOOTH - So hypothetically if you took on another \$300 million worth of debt, what effect would that have on your debt-to-equity ratio and your gearing ratios. You would not know what rate you would have to take it from.

Mr HATTON - It really comes down to what you are doing with that debt and what that debt then means for things you are not spending the money on.

Mr BOOTH - So it is the opportunity cost as much as anything?

Mr HATTON - Yes.

Mr WILL HODGMAN - The State budget papers disclose that the dividend from Aurora is to fall from about \$11.129 million in 2005-06 to \$10.656 million in 2006-07, and the dividend did fall from 2003-04 to 2004-05. Now, there is some explanation in the State budget papers as to changes in dividend returns to the Government for other GBEs but none is given for Aurora. I am interested to know why that is and why, in another year of record profits, the return to government is reduced?

Dr DAVIS - I will start then Stuart will talk about the dividend. At the end of the day, Aurora is in a challenging market. We have to respond to competitive challenge. We are seeing the introduction of competition in this State, which means that our retail margins are always under pressure. That is what competition is about; we welcome that. That is a good thing because that means that Tasmanian customers have the opportunity for better results.

We have a very substantial capital investment program to improve reliability, as I have previously referred to, and the implication of that is that you have additional costs. A fair chunk of that related to expenditure to make Aurora ready for the National Electricity Market. We are operating in a much more complex national market now than previously. It was necessary for Aurora to invest in a number of systems to enable us to settle with the National Electricity Market. Many of those systems are IT systems, computers and so forth. We put in about 12 new computer systems to deal with the national market.

The reason that is of significance is that computer systems depreciate over about five years, whereas poles and wires and concrete depreciate over about 40 years. So these things add up to some additional pressure on the business in terms of profitability. I think the final element that I would comment on is the fact that we have seen increases in costs. One of the consequences of the economic boom is that the materials that we use are more expensive. I think the prices of copper and aluminium, which we use in our distribution lines and so on, have increased substantially. In addition to that, our wage costs have increased. So we have got effectively capped revenues because they are set by the independent pricing regulator and we have seen an increase in costs and depreciation associated with both caps and our input costs, which leads to a bit of a reduction in profitability. However, the dividend has been maintained at about the same level.

Mr LLEWELLYN - The prediction for this year is that the sum of \$30.6 million will be returned to government through income tax equivalents dividends and loan guarantee fees.

Mr HASKER - Stuart, do you want to make a preliminary comment on dividend?

Mr HATTON - I think Peter has outlined well what is actually driving the dividend return -

Mr WILL HODGMAN - Yes, I am interested if you could elaborate on that.

Mr HATTON - As the CEO has outlined, the dividend is very much a function of the net profit after tax of the organisation, and that is driven by everything that is above that line which is interest appreciation and all the other costs and revenues that go into that. So certainly the expectation is that the result for this year as outlined will be lower than the prior year due to the causes that the CEO has outlined.

Mr WILL HODGMAN - So, Minister, from a government perspective then - and I am not suggesting it should not be - it is appropriate that something like the pending entry into the National Electricity Market is a factor that could justifiably reduce the dividend paid by the company to the Government to allow them to absorb that additional cost. Is that right?

Mr LLEWELLYN - I think that is what the CEO and CFO have just indicated. I think, as I say, the forecast return to government this year was a little higher, and I mentioned that, but it is still substantial, I think in total around \$28 or \$29 million, which is the return from income tax equivalent, dividends and loan guarantee fees. That is what I have been advised. That is obviously subject to all the necessary -

Mr WILL HODGMAN - Some of those are not discretionary. I probably should be asking the Treasurer as much as anyone, but I just know the fact, which is justifiable. As I say, I understand why you are now being required to do that, which makes me wonder even more how they are going to cope with the additional debt that you are contemplating dropping on them.

Mr BOOTH - He has not advised them of that yet, though.

Mr LLEWELLYN - Contemplation is your word, not mine.

Mr WILL HODGMAN - Only joking. We don't need to go there.

Dr DAVIS - The other comment I would make, of course, is that the dividend is a matter for the board, not for the minister, and at the end of the day the dividend that the board recommends is a fraction of the profits that Aurora achieves over the year, and certainly management have to inform the board of the various drivers that the business is experiencing. Whilst there is some pressure on the business, I think when you look at what Aurora is doing and what it has achieved over the year in question, we are very comfortable - very happy indeed - with what has been achieved. We have had substantial investment in the network throughout Tasmania, and we have had the best economic boom we have ever seen. Aurora has been able to accommodate that and get customers connected. Of course, when we invest in the network the customers make some sort of contribution according to our contribution policy, but at the end of the day we have spent about \$30 million in customer-generated works and about \$100 million in capital.

That is all setting Tasmania up for the future, but of course Aurora does not get that money back straightaway. We have to firstly go through a process whereby we convince the regulator that the expenditure has been in accordance with his determination, that it has been appropriate and prudent. There is an independent Reliability and Network Planning Panel that makes sure we do not just go building power lines for the fun of it, that they are actually appropriate for the end use and, assuming we get through all those hurdles, it then takes us about 30 years to actually get

the returns, because those assets last about 30 years and the contribution and capital that we make then comes back in over a 30-year period.

So it is not surprising that in a time of economic boom Aurora is having to invest heavily to support the growth in Tasmania. We take a bit of a hit on our profitability in the short term, but those returns will come in over the long term, because we have increased the size of the asset base and the equity in the ownership of the assets that we have, and those returns will come in. Clearly we would like the returns to come in more quickly, but the reality is that we have to set prices that are competitive and we put our recommendation to the regulator who sets those prices, which gives us the framework. We have all these people reviewing our performance and checking on us, and at the end of the day when we make an investment and fund it either through our internal cash generation or through borrowings, we see that paid off over time. The real important factor there is that the regulator sets the return that we are entitled to get. It is called the weighted average cost of capital - the WAC - and I think it is 6.5 per cent, so the regulator makes sure that we are only getting a prudent type of return for this type of asset.

It is a complex picture and certainly when I go to the board I need to be able to explain that it is not one single thing that leads to Aurora's profitability.

Mr BOOTH - So how do you think the regulator would look at a \$300 million boat anchor, then?

Dr DAVIS - I think the regulator's terms of reference really look at what the customers are achieving and at the prudence of our expenditure. At the end of the day, the profitability of Aurora is a pretty minor factor in the considerations of the regulator. He is not there to make sure that Aurora is making particular profits.

Mr LLEWELLYN - By way of qualification, those figures I mentioned before were based on the normal issue as far as government and GBEs are concerned; that is, the net profitability of the company when you take into account taxation, depreciation, amortisation and those sorts of issues. The normal approach for government is to set the dividend at 50 per cent of that basis from those figures.

Mr BOOTH - Dr Davis, you spoke earlier on about an increase in reliability costs as a result of entering the NEM. How much in dollar terms did that cost you for those reliability costs that you spoke of?

Dr DAVIS - It is not reliability costs, we are investing in reliability for the Tasmanian network, which is effectively a regulated monopoly. At the end of the day you do not expect to have competition in the provision of basic infrastructure. It would not make sense to have a set of Aurora power lines going down one side of the street and a competitor's set of power lines down the other side of the street. So the comment that I made was in relation to effectively the competitive part of our business.

You need to recognise that these were decisions not made by Aurora, these were decisions made at Federal government level as part of national competition reforms and we have spent about \$17 million in getting our systems and processes ready. We have been able to do this in a regulatory environment where our costs have been contained in real terms, so that is a relatively modest investment given that it is probably the biggest change we have seen in the history of the business.

What it does mean, however, is that it opens up opportunities for Aurora to act as a national player. Obviously we have the Tasmanian market which is our home base and we are very pleased and happy to be here, but there are opportunities to grow our business through activities interstate and as a result of entering into the national market all of those customer opportunities are there. So Aurora does in fact have customers in other States as well and we have been active in growing our business in other States but clearly we have to have the systems and so on to enable us to settle with the market and we now do.

Mr BOOTH - So they are the reliability cost increases that you are talking about?

Dr DAVIS - No, that is a specific cost to build in systems to interact with the National Electricity Market and it includes the fact that we now have to have very controlled and special governance arrangements to manage energy risk, trading and all those sorts of things. The reliability costs are much more what the regulator has allowed us to spend. He gave us five years' worth of activity and the expenditure there is of the order of \$500 million over five years, but we need to recognise that a lot of that is associated with maintaining the infrastructure that we have in Tasmania. We have a substantial amount of assets. We are approaching a billion dollars worth of assets in this State and those assets wear out and need to be maintained and upgraded and, as I have mentioned, customers also wish to connect to the system. So we spend around about \$100 million a year on the network but of that a lot of it is maintenance, replacement and connecting new customers. The regulator allowed us about \$25 million to spend specifically on reliability enhancements.

[12.00 p.m.]

Mr BOOTH - As a result of NEM entry?

Dr DAVIS - It has nothing to do with NEM entry.

Mr BOOTH - Sorry, this was to do with the entry into NEM.

Dr DAVIS - Reliability has nothing to do with NEM. NEM is purely the fact that there is now the opportunity to buy and sell electricity into the National Electricity Market via Basslink. The reliability is very much about our own network here in Tasmania.

Mr BOOTH - Are there any challenges that have arisen directly as a result of NEM in terms of access to security of generation, for example, or collapse of the system?

Dr DAVIS - I think it is fair to say that Aurora entered the NEM with no fanfare or excitement, and that is exactly what we wanted. We have been in the National Electricity Market since 29 May 2005, so the Tasmanian region has been in the market for over a year. We have had Basslink connected since April 2006 and we have put in place systems to enable us to operate in that environment. Whilst it has been a huge amount of work for our staff, we have had to do a lot of training and bring in some new people and put in the systems that I referred to, it has all gone remarkably smoothly. I think one of the reasons for that is that Tasmania is one of the last jurisdictions to enter the National Electricity Market and therefore we have been able to learn from the experiences and mistakes, if you like, of the other jurisdictions that went ahead of us.

Mr BOOTH - What is the difference in outage frequencies when you suffer power losses - since pre-NEM and now with NEM - distribution or generation problems?

Dr DAVIS - Effectively no change. There is a system by which, if there is a trip on Basslink, it is possible that major customers could be shed. That is subject to commercial arrangements with those customers. There has been no impact on reliability for small customers.

Mr BOOTH - What about the big outage in the Moonah-Glenorchy area a couple of months ago? What was the cause of that?

Dr DAVIS - That is one. There was an issue where Basslink tripped and it was necessary for the system controller to shed some load in Tasmania to maintain the frequency that needed to be there. That all went as planned, but it did mean there was some small loss of loading in Tasmania. As it turns out, there is an investigation being undertaken by the National Electricity Market operator, NEMMCO, but we have not yet seen their report on that particular incident.

Mr WILL HODGMAN - In relation to that, I note from your previous report that you were concerned about reliability and the impact it has on your reputation. I assume, given contestability, that is a particularly important issue for you now. How does this event impact on that? Is that a cause for concern? What mitigation strategies, if any, can you put in place to avert that sort of problem doing damage to your business?

Dr DAVIS - We are in an interesting position because Aurora is a distributor/retailer. That means we effectively have a line of business which is electricity distribution and network and we have a separate line of business as a retailer. For accounting purposes and so on we ring-fence them because they are fundamentally different. One is an monopoly and one is basically in the competitive space. Certainly when the power goes off, people will basically say, 'Aurora has lost the power', and they may choose to think that if they wanted to take their business elsewhere that they would shift from Aurora to another retailer. The ironic thing is that if they decided to do that, they would not achieve any more reliability with the other retailer either because the other retailer is connected to exactly the same network system. So Aurora provides the network and then retailers hang off it, if you like. Clearly we do not want to see our customers turning away from us for any reason, but particularly turning away for reasons that will not help them. So I guess our strategy there is, as I mentioned earlier, to continue to invest in the network and to improve the reliability. The regulator allowed us \$25 million to spend over five years, specifically targeted at reliability improvements. Of course, as we improve reliability electricity sort of disappears off people's radar. Electricity is something that people notice when it is off, but they don't notice it when it is on. Clearly Aurora's objective is to make sure that it is on. That, of course, leads to the corollary benefit that people respect our brand and they like what we do. It is pleasing to report that there has been substantial and ongoing improvement in network reliability. I think it is fair to say we don't want to stop there. We are seeing in Tasmania ever increasing demands for reliability. We have a lot of regional areas - we call them economic clusters - which once upon a time had three fishermen and a farmer living there, but now they have multimillion dollar tourism developments and so on. That has lifted the bar a bit for Aurora. We have to provide better reliability right around the State. Our task is to convince the Electricity Regulator that he should allow us to expend the money to improve reliability right around the State. We are working towards that at the moment.

Mr WILL HODGMAN - It is good to reflect on the wonderful economic position we have in Tasmania as a result of the Howard Government.

Laughter.

Mr WILL HODGMAN - In relation to Basslink and the involvement in the NEM, the Minister revealed recently that he is also contemplating the regulation -

Mr LLEWELLYN - Don't verbal me again.

Mr WILL HODGMAN - No, you admitted this; it is another one of these things that you are thinking about doing, and that is regulating the Basslink cable.

Mr LLEWELLYN - I'll have to put this in context in a minute, but you continue.

Mr WILL HODGMAN - The Hydro report that came to light referred to this as an option for -

Mr LLEWELLYN - The illegal document.

Mr WILL HODGMAN - You seem to be implying that I have done something illegal, which is an extraordinary suggestion.

Mr LLEWELLYN - Be careful, because you might.

Mr WILL HODGMAN - No, I haven't. Unlike some of your team, I am not being investigated for any illegal activity, as far as I am aware.

Mr STURGES - Mr Chairman, point of order. That is quite an unparliamentary comment to make.

Mr BOOTH - It is a statement of fact.

Mr STURGES - Well, Mr Chairman, certain investigations are being undertaken at the moment, but there has been no proof of any illegality.

CHAIR- Can I ask Mr Hodgman to continue his question.

Mr WILL HODGMAN - Yes, I will. The Minister keeps trying to attach illegality to this document, which is very revealing. It does say that this option would potentially result in a cost flowing to the Tasmanian consumer. Now what I want to do today is explore what impact this particular issue would have for Aurora, if any, and how that risk of cost being transferred to the consumer might extend to you as the retailing agency or entity?

Mr LLEWELLYN - Again, I need to put this into context because you asked me this question in the Estimates debate as a result of information you obtained from a document that formed part of a process of developing a final outcome from the Hydro. It was a working document. Nevertheless, it was a document that was supplied illegally by someone within Hydro to competitors -

Mr WILL HODGMAN - But what it says is true, though, isn't it, about the regulating of the link and the fact it would lead to increased -

CHAIR - Order, Mr Hodgman, let the Minister answer and I will give you the call.

Mr LLEWELLYN - Some of those competitors were competitor generators, one of which did the right thing and returned that document, because they understood the sensitivity and the commercial aspect of it. It is a very serious issue for Hydro because they are operating in a very competitive marketplace. It is tantamount to insider trading that those sort of situations should occur. People can make large amounts of money out of situations if they know things in advance of their competitors, and that information was provided also to the media and to yourself.

Mr WILL HODGMAN - You are not disputing the contents of it, though, are you?

Mr LLEWELLYN - There was some comment about Basslink and the nature of the operation of Basslink. Basslink is a link that operates on an unregulated basis. It could operate on a regulated basis, as do most of the other transmission links in Australia. I responded to you and said it was a matter that I also sought some information from Hydro about as to what would occur or what the financial situation would be if that link were to be regulated. It is not Hydro's call in regard to that, it is National Grid's; National Grid is the owner of that particular link.

It was a perfectly proper question for me to ask of the Hydro, and they are working on it. I have not had a response from them about that issue, but it was part of my process, as an incoming Energy minister, to assess all of the aspects of my portfolio. I think to do otherwise would find me wanting, so that was the response.

Mr WILL HODGMAN - Yes. How would it affect Aurora if you went down that track or if that option were taken up?

Mr LLEWELLYN - You can ask Aurora about that.

Mr HASKER - Neither Dr Davis nor I have seen the material you are referring to.

Mr WILL HODGMAN - It is not so much about the material; the minister has diverted the question, unfortunately, from what I was getting at.

Mr LLEWELLYN - Well, ask it again.

Mr WILL HODGMAN - I am, I am trying to if you would stop interjecting. If Basslink becomes a regulated entity, Hydro Tasmania, via this document, say that it would result in increased cost to consumers in this State, so how would it impact on Aurora? What is your view on whether or not you think the thing should be regulated, or whether it would be your preferred view to have it regulated?

Dr DAVIS - I think the first point to make is that it would not be appropriate for Aurora to proffer a view as to whether or not it should be regulated or not regulated, but I can outline the difference that we would experience. As a regulated link, it then starts to look like any other piece of transmission infrastructure, so there would be a fixed charge. We call it TUOS, Transmission Use Of Systems. So we would get a TUOS charge coming through from Basslink, just the same as we get TUOS charges coming through from Transend.

As a regulated link, you would know exactly what that charge was, and clearly you know what it is. My understanding is that to get a regulated link it would be necessary for both the Tasmanian and Victorian sides to contribute, and a regulator would make an assessment as to the

appropriate level. So from our perspective it would not make much difference; it would just be another building block, it is just a charge that we would have. I am not in a position to make any comment as to what the quantum of that charge would be because Aurora has done no work in that area.

As an unregulated link, it just means that it is more like a power station, if you like. When we try to purchase electricity from Victoria, we are effectively paying a charge for the use of Basslink. At the end of the day, it is a dollar flow; we cannot quantify what the difference would be, and that is certainly a matter of policy. My understanding is that the link has been established through commercial arrangements, and it is one of the reasons it was able to be delivered.

Mr WILL HODGMAN - Okay. Do you accept the proposition that if it became regulated it would result in an increase cost to Tasmanian consumers?

Dr DAVIS - No. I have not seen the document so I cannot accept -

Mr WILL HODGMAN - That's really all it says; it doesn't go into an analysis of it.

Dr DAVIS - I have no idea whether it will increase or decrease, but I suspect the Victorian consumers would be pretty interested in whether or not it is regulated as well. I think that is really the critical element because the Regulator would determine the benefits that accrue to the parties on each end of the link. It is an entirely hypothetical exercise because Aurora is not party to any of those discussions or to the commercial arrangements between National Grid and other parties.

Mr WILL HODGMAN - Is it the experience in other States on joining the NEM that the electricity prices for domestic consumers have increased? I know they did in South Australia.

[12.15 p.m.]

Dr DAVIS - The idea of a market is that there are signals to reflect supply and demand. So the experience that other jurisdictions have had with joining the National Electricity Market is dependent on where they sat in the supply and demand balance at the time. Victorians, when they first joined, saw substantial reductions in power prices because there was an oversupply of power stations at the time. By the time the South Australians got around to joining, they were actually in the opposite position; there were insufficient power stations, and so they saw an increase in price. That, of course, is the way a market works. If there is an increase in price it encourages people to invest in generation and build a power station to take advantage of that, and that is how you actually get the right amount of power stations to supply the customers. So the experiences varied, but the critical thing is that the market delivers a price signal that reflects the costs of being in the market.

Mr BOOTH - Just going back to reliability of supply and the frequency of outages, we talked about the major one. Have there been any other outages in Tasmania as a result of Basslink, or the interconnector, tripping?

Dr DAVIS - As I mentioned, I believe there have been a couple of short outages which have impacted only on the major customers, but those major customers have some arrangements in place to allow them to participate in that system. At the end of the day it is a matter for the system controller to make sure that the Tasmanian system is kept in a secure state. As the electricity loads vary it may be that there is a need to shed a customer under pre-arranged commercial arrangements to ensure that the system remains in a secure state. I think from

Aurora's perspective we have had to do a lot of preparation to get ourselves into the National Electricity Market. We have done a lot of work on metering. A whole lot of new meters have been put in place to measure the flows between Hydro and Aurora, so we have lifted the standard of measurement. We are very comfortable that Basslink is an extraordinary engineering achievement. It is a project that has a 20- or 30-year life, and it has only been running for three months, so it does not surprise us that there may be the occasional little teething issue, but they are certainly not matters that have affected Aurora.

Mr WILL HODGMAN - Can I just check on that so I am clear. Those same problems would exist for any other retailer that enters the market. It is the fault of Basslink, not the retailer?

Dr DAVIS - I think the upper House had the opportunity to question Transend. At the end of the day the system security in transmission is a matter for Transend. Aurora takes the low and medium voltage off the end of that. As the Tasmanian economy has grown it has been necessary for both Transend and Aurora to invest in network infrastructure to support the new customers in the growth that has occurred. What we have to do is make sure that we stay ahead of the game and maintain system security and reliability as growth happens, and that is why Aurora has been spending over \$100 million a year investing in the network.

Mr BOOTH - I am interested in the role that Comalco plays within the network. It is like a big thermal shunt load that you use to govern the transmission station as part of that governing process and regulation of voltage control and so forth. With the operation of the NEM, if you got a call, say, to sell power in Victoria, would you actually sell Tasmanian power over the NEM into Victoria, or are you buying power on the mainland and selling it as part of your commercial retailing expansion?

Dr DAVIS - We can do both. Basslink is a wonderful facility for Tasmania, because it connects between two States. Aurora can buy on import, so we can source energy from Victoria, ideally at low prices overnight, which we can put in our portfolio, but it can go the other way.

Mr BOOTH - You control then, as part of the regulation system, the power that is supplied to that shunt load at Comalco. If you have a trip on Basslink then it cuts off the supply to Comalco and you continue to deliver power to Tasmanian users. Now that the NEM is operating and that the new connector is sending power backwards and forwards, presumably, if you got a call for a 15-minute block of power to be delivered to Victoria would you use the facility to switch off Comalco and shoot their power across and then switch it back on?

Dr DAVIS - The answer to that question is 'no'. The reason for that is that Aurora as a government-owned business has to operate within very conservative risk management parameters, which we are very happy to do. So we are not really an energy trader. We are not in the business of buying and selling and trying to gain in the market or anything like that. Aurora is very much a purchaser of energy. So we buy energy to supply our customers. We have a number of large customers and we have what are called fixed hedge contracts. We try to keep everything nice and stable. We certainly haven't been undertaking the scenario that you flagged.

Mr BOOTH - Are you the suppliers to Comalco? They pay their electricity to Aurora or do they trade directly with Hydro?

Dr DAVIS - No, Aurora is the only retailer in the States at this time. From 1 July there is the opportunity for other retailers to start operating. But as the incumbent retailer, yes we are the

supplier to all the customers in Tasmania. That ranges from the smallest pensioner right through to the largest smelter, which is Comalco.

Mr BOOTH - In regard to your obligations, Comalco has a long-term contract drawn up before the Hydro disaggregated. You have taken on board the liability to maintain those contracts for a fixed period of time at a fixed rate?

Dr DAVIS - I think it is important that we recognise that some of our customers, Comalco is one of them, operate in commercially sensitive, competitive markets and it is not appropriate for me to comment in detail on any particular customer.

Mr BOOTH - No, I did not ask you that. What I asked is whether you have taken on the liability to continue the service obligation to those customers who had contracts in place before you became Aurora?

Dr DAVIS - I wouldn't use the same words.

Mr BOOTH - The obligation?

Dr DAVIS - 'Obligation' might be used. At the end of the day, a retail business seeks to have customers and so we are pleased to have large customers. Certainly those large customers used to be contracted to the Hydro Electric Corporation prior to disaggregation. Then in 1998, when disaggregation occurred, Aurora was fortunate to take on those customers and they are still our customers.

Mr BOOTH - So you have the contractual liability for a fixed period?

Mr LLEWELLYN - The word is 'novated'. The contracts were novated.

Dr DAVIS - Thank you, Minister.

Mr BOOTH - Thank you. So you have the novation of those contracts and you still have the obligation to provide power at the novated cost. If there is an opportunity to sell power across the NEM at a higher rate, you could simply turn Comalco off because - I know you don't want to disclose the amount but it is a very -

Dr DAVIS - Not if you have a contract.

Mr BOOTH - That is the point I am going to get to. Thank you. You are contracted to them so you cannot turn it off. So you have to take power and give it to Comalco, effectively at a discount to what the market would pay for it because you are still wearing the novated cost. Do you get a concession back from Hydro for those novated costs or do you just pay a flat rate and sell high to some people and low to others?

Dr DAVIS - I think I made it clear that these contracts are commercial-in-confidence. But at the end of the day, there is nothing to do with concessions or anything like that. Our major industrial customers provide important inputs into the State -

Mr BOOTH - No. With respect, that is not it.

Dr DAVIS - No, let me finish the answer. They -

Mr BOOTH - I am here to ask you questions about Aurora.

Dr DAVIS - I was about to answer the question.

CHAIR - Order, Mr Booth. First of all, you know the Standing Orders are to question the respective minister. In some ways it is a liberty to have officers and so forth answer question. So don't interrogate. I will let you ask the question and then move on

Dr DAVIS - Thank you, Mr Chairman. I will complete my answer. The large customers in Tasmania do not want to risk their businesses playing on the pool, and similarly, Aurora does not want to risk its business playing on the pool. Generally, because those customers make large capital investments in Tasmania, they tend to have longer contracts and that is very common in the NEM - that larger customers tend to have longer contracts than smaller customers. Therefore, yes, we have a contractual obligation and that provides not only security of revenues to Aurora but also general stability. So there is never a question of wanting to walk away from contracts that provide us with a margin to then go and take risks in the NEM. As I mentioned, there are very strict policies relating to energy trading and we tend to be more of an energy purchaser. We purchase the energy that we need to supply our customers, from Comalco right down to the pensioners.

Mr BOOTH - The question that I am trying to get to here is that Comalco have been a thermal shunt for helping to control the Tasmanian -

Mr LLEWELLYN - Thermal shunt!

Mr BOOTH - Well, that is what it was called - to help control to regulate the power supplies. You have to govern them some way and it is a great way to do that, and you do you use that for voltage control and system stability across the State. You have disaggregated and Aurora is running the business very well apparently from the balance sheets of investments that you have been making and so forth, so this is not a criticism of Aurora. It is more for me to understand how you profitably run Aurora if the regulating benefits of a big industrial and the economies of scale that it might have given to drive hydro industrialisation at some point in time have effectively been transferred to the retailer of power who is unable to generate a return beyond those public service obligations with the light or the supply system control mechanisms that it arguably delivers to the system. But that is not really your problem. Your problem and your charter is to be a retailer of electricity and make money for Aurora and therefore for the business that you represent and the people of Tasmania. But if you are carrying effectively the liability of a low-return contract as opposed to the cost of buying that from Hydro -

Mr STURGES - What's the question?

Mr BOOTH - This is what I am trying to get to, because it is recorded that the price that they get for it is less than the cost of production.

Dr DAVIS - Let me just respond by saying that I am not going to comment on the profitability or margins of individual contracts. Comalco, Zinifex and Australian Paper and all these customers in Tasmania are customers of Aurora. We provide them with power. The

arrangements that they may have for providing system security are not arrangements with Aurora. They are arrangements with the system controller or with Transend and they do not impact on us.

Mr BOOTH - So is it a fact that the price you sell power to some of the bulk industrials - and you do not have to identify them because there are a number of them - the unit cost that you charge them is less than the unit that you pay Hydro for that same power, or does Hydro give you some sort of rebate on that?

Dr DAVIS - Again, I am not going to give any details of the commercial arrangements that we have. Aurora is not in the business of subsidising any customers. They are commercial transparent arrangements between the parties and that is all I can say. There is certainly no question that there are any issues associated with those customers. They have been in the State for a very long time. Aurora is proud to supply them and there is no issue about rebates or any of those sorts of things.

Mr BOOTH - So do you ever sell power to anybody for less than the cost of purchasing it from Hydro?

Dr DAVIS - Again, that is a commercial question which I should not answer. But I will just say that as a matter of principle we had some earlier questions about the profitability of Aurora and the fact that there had been some decline in our revenues. We are spending money, as I described, on various matters and it is clearly not in our interest to sell any of our product at a loss. That is just normal business sense.

Mr BOOTH - So you will not rule out that you do sell some power cheaper than what you paid for it.

CHAIR - Order. I think that has been answered and it has been put to the committee that that is a commercial question and again, it is covered very well in the Standing Orders. I will give Mr Hodgman the call.

Mr WILL HODGMAN - I am interested in pursuing the contestability issue and some progress on where things are at with that and what impact it is having or anticipated to have. It is hard to know where things are at until we see your most recent finances, but could you provide us, to start with, a bit of an overview on where things are at and where you are finding yourself placed in the market?

[12.30 p.m.]

Mr LLEWELLYN - I can. From 1 July 2006, the first tranche from when Basslink was commissioned. I think it was seven months - there are approximately 10 of our customers that are contestable, and they are the mineral processors, heavy manufacturing plant and so on that we were talking about a moment ago. The expected date for tranche 2 is 1 July 2007 and there are some 54 additional customers that fit into that contestability limit of 4 gigawatt hours per year. The first one that I mentioned - tranche 1 - was 20 gigawatt hours per year. They would represent food processing plants and multistorey office complexes. Then there is tranche 3 from 1 July 2008 for 0.75 gigawatt hours per year customers. There are approximately 295 of those including supermarkets, engineering workshops and smaller commercial complexes. Tranche 4 will be from 1 July 2009 for 0.15 gigawatt hours with contestability limits. There will be 1 030 of those customers, and that will probably range from fast-food restaurants, service stations to larger

offices. Then there will be full contestability of domestic customers on 1 July 2010, subject to the public benefit assessment and so on.

Mr WILL HODGMAN - Is it too early now to say what impact opening up the market has on your bottom line? Are you aware of interest from competitors at this point in time?

Dr DAVIS - I can comment on that. I think it is fair to say that the introduction of contestability has been having an impact on Aurora for many years prior to the actual start date. I think that is reflected in the fact that even customers who are not yet contestable are experiencing competitive power prices. The regulator pointed out that the prices charged to business customers in Tasmania are amongst the lowest in the country. Whether that means that we have sharpened our pencil too much too early remains to be seen, but clearly, Aurora could not charge high prices to customers if someone was to come along and undercut them and take away the customers. So there are two aspects to competition. The first is tightening of margins as we sharpen our pencil and seek to improve the service and pricing that we offer to customers. That is the first impact, so that impacts on the bottom line. The second impact is if the customers, despite our best efforts, choose to swap to an alternative retailer, in which case we lose the whole of the margin. I am not able to reveal details of how many customers have left Aurora, but we are very conscious of the fact that we are operating in a commercial market and that many of our competitors are larger than us.

I think it is fair to say that we saw this coming some way out and got ourselves ready in advance and that is why Aurora has licences to retail in Victoria, South Australia, New South Wales and the ACT. We have been able to learn in those markets and win some customers off other retailers before they come down here and win customers off us. It is a changed environment. The attitude of our staff is very positive. We have a lot of sales and account managers who are very fired up about the fact that they have to do their best to retain customers in the Tasmanian business. It seems to be going pretty well. As the minister said, as we get more and more customers contestable, we will see how successful we are. I have said to my chairman - assuming I am still here - that I will probably be the first chief executive to turn up to a board meeting and announce that customers have departed. That is something we are steeling ourselves for, but it is a reality that there will be customers who will turn away from Aurora. Our objective is to position Aurora as a model corporate citizen and a key part of the Tasmanian community, offering excellent service and reliability using Tasmanian-employed staff. We think Tasmanians will support us in this competitive environment.

Mr BOOTH - How are you going to stop cherry-picking from these other companies? You guys have a substantial obligation - effectively a community service obligation - which is where I was trying to get to with the bulk power users but didn't want to go down there. You have responsibilities for poles and wires and you also have responsibilities as a straight-out retailer of electricity which you buy for wholesale and resell presumably in the same way as other people who want to become retailers will do, but presumably they will not have the same 'public service obligations' that you speak proudly of having.

Dr DAVIS - I would not use the words 'public service obligations'. The reality is Aurora is a company with an independent board and we have made decisions about what positions our company best in this environment. We went to our own people - we have nearly 1 100 Tasmanians working for Aurora - and we asked them what it is that gets them out of bed and why they come to work for Aurora rather than working for somebody else. We were pretty impressed to hear that in the words of our own people they thought that the purpose of Aurora was to see the

Tasmanian community prosper from our efforts. It is nothing about our community service obligation. When our guys go out in storms to service the lines when they have been knocked down by trees or whatever, they are doing it because they want to keep the customers on. So we have elected with that purpose coming from our people that we will participate in the Tasmanian community, not as a community service obligation but because that is the type of company we want to be, and that is reflected in our support of junior football, junior sport and sponsorship of community welfare organisations. We work closely with the welfare sector, we underwrite the no-interest loan scheme in Tasmania, so Aurora tries very much to be part of the community and we do not see that as an obligation that is a disadvantage to us in any way.

Mr WILL HODGMAN - But you are unfairly disadvantaged by having to pay dividends and tax to the Government where your competitors don't. Is that something you have to live with?

Dr DAVIS - I imagine they pay dividends to their shareholders as well.

Mr BOOTH - But isn't that precisely the point I made about cherry picking? You have all these things that you are now saying you might not call community service obligations but there is certainly a debt in terms of what you have to pay to do all these sponsorships and other things. What is to stop a mean, lean and nasty electricity retailer coming in and simply cherry-picking your customers and not picking up any of those things that you are talking about? I totally support the concept of Aurora being Tasmanian and all of those things and there are some great contributions to the economy. Good on you, that is a terrific thing. I just think that being thrown into a competitive environment like this that puts you in a position where you are subject to cherry-picking.

Mr LLEWELLYN - Your line of questioning has been along the lines of the Greens' mantra on this issue that some how or other there is a subsidisation process going on with industry and that is not the case.

Mr BOOTH - No, it is about the competitive environment, that is all. I was trying to find what the situation was in that regard but I have asked the board here a question in regard to cherry-picking, given the other things that you do. Of course, if you subsidising power to a bulk industrialist -

Mr LLEWELLYN - But we are not.

Mr BOOTH - If you are not, tell me the price? Fine.

Dr DAVIS - The answer to your question, Kim, is very simple: customer loyalty.

Mr BOOTH - Okay.

Dr DAVIS - That is the answer. There will be customers who might want to go to a lean, mean, nasty retailer. That is okay, they will go, but our assessment of the Tasmanian attitude towards Aurora and what we do in this community is that the great majority of our customers respect what we do and they will stay with us. That is not the say that we cannot be more efficient and effective in our delivery of service and cost if we need to do that.

Regarding cherry-picking certainly we know that the other retailers are active in the State. A good tactic that our customers like to use is when our account manager goes to visit they have the

account management card from one of our competitors sitting on the desk so the customers like to remind us that the competitors are out there, but that is fine.

Mr BOOTH - But like any percentage of your business when it is cherry-picked, unless your fixed costs go down then your prices are going to have to go up, aren't they? So the result of cherry-picking will be that the only people who cannot achieve the discounts through pricing are the ones who are regulated and do not have the option of competition which, as we know, will mean that the mums and dads would be the last ones considered.

Mr LLEWELLYN - Do not get the idea that prices are not going to increase into the future. The cost of living adjustment alone will dictate that over time energy prices will not remain as they are in 2006.

Mr BOOTH - Of course, but the point I am making is that at the moment Aurora has the luxury of the whole 100 per cent of the pool of consumers. Once you have introduced competition into that, you are also bound by the weight of other things like your poles, wires, bulk pricings and so forth. If you get cherry-picking of some of the contracts by lean and nasty suppliers, and if you lose part of your market share and you do not drop your fixed costs, then prices are going to have to go up. It is just simple, straightforward sense, is it not?

Dr DAVIS - I think the response to that is fairly straightforward. The first thing is that we are talking about retail competition here. When I described the building block in the total size of the stack, the retail bit is only the little bit at the end. Aurora has a very successful and viable distribution business, oversighted by the regulator, which we will continue to run, so we do not see any issue with price increases occurring as a result of our losing customers. There are two reasons for that. Firstly, we have the independent regulator; secondly, Aurora is winning customers. My objective is to win more customers from other retailers than they win from us. Because we are a national player we are able to do that, and we have been very successful in winning customers interstate.

Mr WILL HODGMAN - Can you give us a broad feel of how you are doing interstate and where?

Dr DAVIS - Obviously our annual report is yet to be released for this year, but I can flag that our sales interstate are, I think, of the order of \$30 million, and we have really only just started into that market.

Mr HASKER - Chairman, Mr Booth is very keen on this cherry-picking concept, and I think there are two scenarios I can put to you. One is that a lean, mean and hungry retailer, or a number of them, will come into this State. They will run a call centre from an existing operation in another State, or, as is the trend, in another country, and they will cherry-pick. That is how it works. Alternatively, there are many branch offices of major Australian companies in this State who may well be open to a presentation in their head office, whether it be Adelaide, Melbourne or Sydney, for a national deal.

Mr WILL HODGMAN - Can I just shift focus a little bit. Unfortunately we only have three hours together today, so I am conscious of time.

Mr LLEWELLYN - Want more, do you?

Mr WILL HODGMAN - It would be nice, actually, if you would give us an extension.

Mr LLEWELLYN - Talk to the Working Arrangements committee about it.

Mr WILL HODGMAN - You were trying to cancel these hearings at one point. Now you are offering us more time.

Mr LLEWELLYN - No, not at all. They were never cancelled.

Mr WILL HODGMAN - You tried to, but you just couldn't do it - couldn't get away with it.

Mr LLEWELLYN - I suppose you have forgotten that you lost the election.

Mr WILL HODGMAN - So we just do not need GBE scrutiny any more? That is becoming arrogant if you think the election overrides the need for this very important process.

Looking at some of your new ventures, which is obviously another way you can increase your revenue stream, I just want to ask some questions about the broadband over powerlines project and how that is progressing. I don't know if you can give me an overview.

Dr DAVIS - Yes, absolutely. Our broadband over powerlines initiative is something we are very excited about. It was launched with some fanfare last year that we would be in a position to provide broadband communications over our existing powerlines. We are the first company in the southern hemisphere to undertake a trial of this type, and we have partnered with Mitsubishi Electric out of Japan. We have rolled this technology out into several suburbs around Hobart, up on Tolmans Hill and Mount Nelson and also into Burnie. What we are doing at the moment is what we call a commercial trial, so we have several hundred customers who are actually paying to take broadband signals over the powerlines. We are taking feedback from them about whether they like the product and does it work well. We are working with Mitsubishi to look at the costs associated with all the clever gear that brings this technology to Tasmania. We are going through a formal due diligence process to see that we can make a business case to roll this out to the broader Tasmanian community. I think it is very much leading edge technology. When you see a customer plugging their PC into the powerpoint and then streaming video through the powerlines it is pretty impressive. I guess our competitors provide a service where, if you have so-called broadband and you try to download a trailer from, say, the movie website, you get a little tiny image. We thought we would test the broadband over powerlines and see what it would do, so instead of putting it on a little thing like that we put it on a 42-inch plasma and it was possible to actually watch a movie as it came down through the powerline. We are getting very substantial download speeds, which means that broadband over the powerlines is a genuine alternative to optical fibre, but it has the benefit that every Tasmanian home is already connected, so we have that last mile connection - the copper wires that are in the home. Technically it is very exciting and positive, but what we have to do is make sure that we can make all the commercial numbers stack up. It is all part of a big picture of what Aurora can do in this State.

[12.45 p.m.]

Mr WILL HODGMAN - How many customers have you attached now or hooked up?

Dr DAVIS - I think we have about 300 at the moment.

Mr WILL HODGMAN - How many would have access to it? What sort of interest has there been in people taking it up in these areas?

Dr DAVIS - A huge interest. I'll be open: we have had some technical challenges as we've worked through it, and that is the whole purpose of doing the trial.

Mr WILL HODGMAN - What are they?

Dr DAVIS - When we rolled it out on Mount Nelson we sent the signal up the bends - the wiggly bits - and we discovered we had to put some special gear on the poles to make it work, so it took a little bit longer than we expected. The customers were very patient. They really wanted to have the service. When our retailer - which is TasTel, a subsidiary company of Aurora - went out and started knocking on the door once we got the system available, something like half the customers wanted to go with the product.

Mr WILL HODGMAN - So, a 50 per cent take-up.

Dr DAVIS - Yes, in terms of that trial. We will have to be conservative once we do our numbers as to how it looks, but Tasmanian customers are crying out to have high-speed communications delivered into their home. When we come back to our purpose to see the Tasmanian community prosper, we believe that is an area where we can make a contribution.

Mr BOOTH - So for a mainland connection you just hook down onto the optic-fibre cable belonging to Telstra?

Dr DAVIS - There are a range of optical fibres available, yes. Aurora has some optical fibres of its own. We use optic fibre to manage our distribution network, switching and so on between substations. We have optical fibre; we have the broadband over powerlines; there are trunk optical fibres available in the State - some Telstra, some government - and these are matters that our board will be considering over the coming months.

Mr BOOTH - So you would envisage that it would be nationwide across the wires, like your system?

Dr DAVIS - Aurora has taken the lead in Australia - a group of utilities like Aurora have got together, called UtiliTel. They are looking at what is involved in bringing broadband over powerlines right throughout Australia. Clearly, this is a major initiative and therefore we have been working with the regulator in telecommunications, the Australian Communications and Media Authority in Canberra. We have facilitated work in New South Wales because we are in the lead. I think Country Energy in New South Wales have been very interested in what we are doing. I believe that they are also starting to run a small trial. But this is all about making sure that the regulatory environment and commercials are in place, and then hopefully we can get up a case to roll it out.

Mr WILL HODGMAN - Is it a fact that there are some issues with respect to emissions or interference levels that are affecting other lines of communication? I have had some representations from a group in the community. Is it the case that this technology does interfere, not just with amateur or ham radio operators, but also potentially with emergency or other services in the community?

Mr LLEWELLYN - I understand that was one of the issues. Dr Davis can give us a more detailed account of this, but a lot of the new technology has in fact remedied radio frequency interference which results from high speed switching within the equipment itself. Dr Davis can tell you how that has resulted from the actual trials to date.

Dr DAVIS - I referred to the fact that we are working with the Australian Communications and Media Authority. At the end of the day, they are the body that oversee the allocation of bandwidth and radio interference and so on. So our trial is being conducted under their auspices. They are doing a lot of measurements to make sure that we do not create any difficulties, and clearly we need to make sure that we don't. Two things that are important there. One is, in response to feedback from the ACMA, that we have certainly made sure we don't operate in any frequencies associated with emergency services, so that they are notched out of the spectrum. The other thing is that the regulator requires that people don't unreasonably interfere with each other. At the end of the day, the radio spectrums are full of users, whether it is roller doors or remote openers for cars or radio hams or whatever. They run what is called a managed interference regime, where it is recognised that there will be some interaction, but that needs to be done in such that it doesn't make it impossible for people to operate.

The key thing that we are finding is that with the new technology that has come out of Japan there are very low emission problems, and obviously it is being supervised by the regulator. But of course the issue here is there are hundreds of thousands of people who want to benefit from this. So we have to make sure that we respect both the large group and small group.

Mr WILL HODGMAN - There have been complaints lodged with the authority about this issue from radio users in the State, as I understand. Is that right?

Mr LLEWELLYN - I don't know. With respect to the trial, I don't know what the outcome has been there. All radio equipment, even your humble television set, produces radio frequency interference at a very low level. That is the point that Dr Davis is talking about. So this new generation of equipment I think has gone a very long way to be within the standards of the various frequency management authorities through the Australian Government. There may have been a couple of instances where people have complained about the trial -

Mr WILL HODGMAN - It is my understanding that a complaint was lodged with the authority by aggrieved interested parties in the State. I am not sure where that is at, and what impact that has and what it means for you and the project.

Dr DAVIS - We need to make sure that we roll out a technology that meets all the standards, brings benefits to Tasmanian customers and doesn't unduly impact on others who might want to use similar spectrums. Certainly, all around the world, wherever broadband over powerlines has been rolled out, there have been submissions, particularly by radio amateurs who want to make sure that their activities are not impacted in any way. The European Commission has in fact invited all its member states to facilitate the roll out of broadband over powerlines, and the same thing in the USA. At the end of the day, we see a great opportunity here for a Tasmanian business to bring new services to all Tasmanians, which the customers are crying out for. Yes, we will do it so that we are operating within all the guidelines. Yes, we will have to take on board feedback from various parties as we move through that process.

Mr WILL HODGMAN - How is it going on Tolmans Hill with the underground wires?

Dr DAVIS - Underground is good.

Mr WILL HODGMAN - Is it better or a different challenge for you?

Dr DAVIS - I think the really interesting thing is that, as we continue to work on the technology, we are finding it is delivering very high speeds to customers' houses. We have just done a little trial in West Hobart in the last few weeks and the actual chip that is used to send the signals is 200 megabytes per second. So that is super fast and it goes out into our powerlines. When we have measured it at the houses it is still getting 20, 30, 40 megabytes per second at the switchboard. So the indications are that we have a very exciting technology here. It requires a very complex back office and so on to manage it all. I am really hopeful that we can get a business case up so that we can offer this out to Tasmanians. But it is a trial; it is both a technical trial and a commercial trial. Our board will be evaluating the success of that trial over the next few months.

Mr WILL HODGMAN - Have there been any reports of malfunction to electrical appliances and interference in the houses, as it was suggested originally might occur?

Dr DAVIS - No. What you are talking about here is a very tiny signal that sits over the top of the electricity signal. The electricity signal is a 50-hertz wave in the proper cable and this is just like a little bit of a wave on top. So there is no issue. One of the things that people have said is, 'What about when the power is off, I will lose my Internet'. Well, that is true, but if the power is off then you have probably lost a whole range of appliances so our objective is to make sure that we keep it all working.

Mr BOOTH - So the Government is not taking the opportunity to roll out its optic fibre cable to join onto this stranded cable in your trenches up at Tolmans Hill, or anywhere else you are putting it underground?

Mr LLEWELLYN - That is not a question for the committee.

Mr BOOTH - Yes, I am asking whether the Government is taking the opportunity to use their trenches. That is a reasonable question.

Mr LLEWELLYN - There are certainly opportunities to use the Government's infrastructure, as there are with regard to Transend. Transend has quite a lot of fibre optic cable; when they replace services they will add to the network too. So that goes marching around the State into various areas, so there are a lot of fibre-optic opportunities. Once you access the worldwide web, which is the source of all these things, you go onto other providers. You do not necessarily have to start with broadband over power cables in Hobart and end up with broadband over power cables in Queensland to actually have a connection or a service.

Mr BOOTH - That is right. I was drilling down to whether or not that stranded cable is doing anything in the ground.

Mr LLEWELLYN - It would be wonderful.

Mr BOOTH - It has not done much yet. There are still plenty of signals left in it because not much has come out of it.

Mr WILL HODGMAN - I am just interested in the complaint to the authority, which I have been advised has been lodged. I am not sure about the process of it. Is there any liability that might extend to Aurora or any impact as a result of this complaint that could flow to Aurora?

Mr LLEWELLYN - Who is this to - the management authority?

Mr WILL HODGMAN - No, the Communications and Media Authority. Are people liable for compensation or some other remedy if their existing rights or livelihood is impacted by this technology?

Dr DAVIS - We are aware of that one complaint. Aurora investigated and we found no evidence of any interference.

Mr WILL HODGMAN - Is this from the Mount Nelson?

Dr DAVIS - I have a general note that there was one complaint. It was investigated; it was a formal complaint. Clearly the regulator will take note of that complaint as the regulator sets the parameters under which we have to operate.

Mr WILL HODGMAN - Who tests the emission?

Dr DAVIS - That is being done by the regulator. We have our own equipment and we make sure that our equipment is good, but the regulator has even fancier equipment than we have. The regulator tests to make sure that we are not creating any problems. As I say, the new technology is able to operate on much lower power than the technology from two years ago. It provides faster signals with less effort to get it through the power lines. It is pretty positive. Yes, there will be people feel that they should complain; we will investigate their complaints and hopefully there will be no basis to those. The regulator will take into account all of these factors, both in our own trial and also what is happening in New South Wales, and they will then set the regime for how broadband over power lines is available to all Australians.

Mr LLEWELLYN - This is not an unusual circumstance. In telecommunications and so on, in the wider context there are always issues of spurious radiation that might be the result of a television transmitter or a radio station or whatever, a non-conformity which puts out some subharmonic or intermodulation that interferes with someone. So they are traced down and checked out as they are produced. They usually result from some non-conformity in the electrical circuitry, and it is resolved. So they happen and there are hundreds of them within Australia. The spectrum management branch, Telstra, and other people manage these on a day-to-day basis, so this is no different really in that sense.

CHAIR - The time being shortly after 1 p.m. We will break for lunch and be back at 2 p.m.

The committee suspended from 1.00 p.m. to 2.00 p.m.

Mr WILL HODGMAN - I have a question about your present financial details. Are you able to provide the committee with the detail of Aurora's financial position for the financial year, notwithstanding the fact that the report has not been compiled?

Mr HASKER - We are yet to finalise our accounts and the board have even yet to see a draft and then the Auditor-General takes a month or so to go through it. However, we can give you a very broad indicative comment.

Mr WILL HODGMAN - Transend was able to provide unaudited figures this week, I understand, but -

Mr HASKER - They have a much simpler and smaller business.

Mr LLEWELLYN - What Transend provided were the sorts of things that I have already provided you with - an indication of the return to government, which effectively was based on a 50 per cent apportionment of the dividend. It shows that in essence Aurora has done very well again - a little bit less, I think, than what was predicted, but -

Mr WILL HODGMAN - It is not another record is it?

Mr LLEWELLYN - I do not think it is a record but these things are not audited yet, and they are have not been given the board yet.

Mr HASKER - Is there something specific you wanted to ask?

Mr WILL HODGMAN - No, I was just wondering if you were able to provide that information, notwithstanding the fact that you had not finalised your report but if it is still in a delicate stage -

Mr LLEWELLYN - We would obviously be able to provide the range in which our capital and ongoing programs are - the strength of those during this last year and the work that has been done in that area. So that is another indication that the -

Mr WILL HODGMAN - I would be interested in some of those issues with respect to complaints and so on, but it was profit, debt and sales, that sort of thing, that I was looking for. But if you cannot provide it, we can be patient.

Dr DAVIS - The indications are that Aurora will deliver a profit in line with its business plan, which is something in excess of \$20 million. It is certainly not a record, but it is in line with our expectations.

Mr WILL HODGMAN - So it is around \$20 million? All right then.

Mr HASKER - The figures jump around year to year because of different tax rates. Clearly they will move as interest rates move and interest is, everyone tells me, about to go up again.

Dr DAVIS - I would certainly be happy to offer a briefing though as soon as we have some figures.

Mr WILL HODGMAN - I would appreciate that; it is useful for us.

Mr BOOTH - Likewise. I am not sure what Will was after but I was certainly looking for a kind back-of-the-envelope calculation. If you cannot give it, that is fair enough, but what we wanted was something general on your profit and debt levels so that we could make a crude

comparison - and I say that because it would only be a crude comparison - with the unaudited figures that we had from Transend.

Mr HASKER - It will be a sound year.

Mr BOOTH - Have your debt levels gone up much this year?

Dr DAVIS - There has been some increase in borrowings. As I indicated, we have been undertaking pretty large capital programs. In the annual report that is tabled we spent about \$100 million capital. In the year that has just completed, it is about \$130 million. As I indicated, that is in response to a lot of that customer generated work and entering the NEM. So there has been a bit of an increase in borrowings to manage that, but those numbers obviously will be subject to audit in the annual report.

Mr BOOTH - So generally, would they be considered as an investment amortised over 25 years or something like that? Would that be the nature of the borrowings?

Mr HASKER - Yes and our debt equity ratio remains similar.

Mr BOOTH - In terms the gas roll out, have you had to bear any cost burden as a result of incidents such as cutting your cables, knocking down poles and so forth?

Dr DAVIS - No, I don't think it has been a cost burden. I think there has been at least one major interaction between our assets and the gas trenching and that is currently under discussion. But no, it has not been a significant cost burden to us. Of course, Aurora is participating as a gas reseller, so we are involved in selling the gas but not doing the pipe work. That is clearly the matter for Powerco.

Mr BOOTH - But you say there was a significant incident. What has happened there?

Dr DAVIS - Yes, there was an incident in New Town where an underground cable was dug up in the process of putting the gas pipes in. So we are obviously in discussions with Powerco about costs associated with that. But in terms of a cost burden, no, it is very minor.

Mr BOOTH - Did that have anything to do with the collapse of the Basslink thing? Was that a load loss that triggered off the problem with Basslink there?

Dr DAVIS - No.

Mr BOOTH - What about disruption to supply in terms of customers?

Dr DAVIS - It has not been an issue. We have noticed them doing roadworks but we have our people out blocking the roads as well when we are doing work. So it is just part of the business.

Mr LLEWELLYN - I think I mentioned in the Transend GBE hearing that when you look back to 1997 or 1998 with the disaggregation, at the time the best estimate from Dr Norton, who was the CEO for the combined organisation before the disaggregation, of ongoing capital costs in the medium term, was in the order of \$125 million. He said that would be satisfactory, as he could see it into the future. You can see the strong growth in capital costs that occurred with

almost that budget in itself from Aurora, \$90 million or so from Transend and between \$60 million and \$70 million from the Hydro. It is much more now with the very strong response we have in replacing our ageing equipment and getting it into shape.

Mr BOOTH - I understand that a lot of the additional expenditure you have made this year is capital expenditure on new product - new lines, new poles and wires, and rolling out to new opportunities, new consumers - rather than what you would have been talking about -

Mr LLEWELLYN - Yes, but even if you just take the normal capital - I am not sure of the figures, Dr Davis can tell you the figures there - I think there is around \$40 million of new development and the balance is capital. So again, it is fairly substantial.

Mr HASKER - Substantial operating costs.

Mr WILL HODGMAN - On gas, can you provide some information as to progress for that arm of the business? What customer connections you have and those things?

Dr DAVIS - The actual number of customers that we have connected up is again one of these commercial-in-confidence issues because the gas roll out is competitive and there are two retailers competing to win Tasmanian gas customers. We are one option. They don't tell us their numbers and we won't tell you ours, as a result.

Mr WILL HODGMAN - We know the tables.

Dr DAVIS - Yes. But the only comment I would make is that, compared to our budget, the gas sign-ups are exceeding expectations. So gas is something that Tasmanian customers are embracing.

Mr WILL HODGMAN - Can you say - and I understand the sensitivities - what your proportionate split is with respect to commercial-industrial against domestic? Are your customers predominantly commercial?

Mr HASKER - I think we need to be vague on that.

Dr DAVIS - The spread is indicative of the market base, so we are winning in all market segments. We have a small number of very large customers, a bigger number of middle-sized customers and a larger number of residential customers.

Mr WILL HODGMAN - Are you pursuing each with the same degree of vigour and interest?

Dr DAVIS - Yes, we have sales people who basically go and talk to customers and our role as a reseller, as a retailer, is to provide what customers want. Clearly there are customers who see benefits with using gas, particularly for process heating and such things. Certainly the large customers are pretty clear-cut. For residential customers it is probably more customers making decisions to install gas appliances rather than electric, although there are a number of customers who like thermal heating who are also moving from wood to gas.

Mr BOOTH - Minister Giddings has used gas rollout photo opportunities a couple of times to cook some sausages. Have they been restricted to Aurora customers?

Dr DAVIS - What, the sausages?

Mr BOOTH - The media opportunities.

Dr DAVIS - I don't know.

Mr WILL HODGMAN - Are you happy with your progress in this market?

Dr DAVIS - Yes, we are.

Mr HASKER - Competitively we are.

Mr WILL HODGMAN - Last year in your annual report you identified the fact that the delays in the rollout of the distribution network was a negative for your position for profitability. Do you continue to have those concerns?

Dr DAVIS - It is not a negative for profitability. At the end of the day, if you sign up a customer obviously it is nice to be able to give them the product that they have signed up for. So we do have some customers who are waiting, but we are in the hands of the distributor in that regard in terms of making sure that the products are there.

Mr WILL HODGMAN - Sorry, I meant more in terms of your capacity to access potential customers. There have been reports that delays in reticulation have reduced the level of interest in the residential sector particularly. Do you find that still to be the case?

Dr DAVIS - Look, I think there is a growing interest. The stage 1 route is pretty well established and I think as you move around the streets of Tasmania you see evidence that the pipes are being rolled out and we win customers along that route. I think people recognise it is a major infrastructure project. It is not unlike when we want to connect people with electricity - that takes a while to build the equipment and get people connected. There is always a degree of frustration but nothing out of the normal.

Mr WILL HODGMAN - What about the fact that there is still some doubt as to whether stage 2 will occur? The Government has not committed to stage 2B - is that a concern to you, given your investment in this market?

Dr DAVIS - We are using targeted marketing, so we are not running big television adverts that sort of hit the whole market. We tend to letter-drop or put information in with our bills or whatever, but clearly once there are further customers available Aurora will go out there to win them. It is a very incremental thing for us.

Mr WILL HODGMAN - I note from your report last year that you were seeking input and feedback from the community via community consultation and the phone helpline and the web site and so on. Can you advise what feedback you have received from the public about natural gas and whether there is a sufficient level of public awareness and interest in this as an alternative energy source, that sort of thing?

Dr DAVIS - That is a level of detail that I do not have.

Mr BLOOMFIELD - There are many levels of education going on with our customers. Powerco embark on a letterbox drop as they enter an area. We are part of that process, so that is Option One. In areas where we find it profitable we will doorknock and talk to people. There is a level of education in the community but there is actually also a level of scepticism, probably created by 80 years of fantastic electricity product in the market. So it is a tough market for gas to break into, and we are pretty keen to do that, and very generally the word is getting out there. We have a lot of people who have moved away, as we know, and moved back into the State, so they have a level of awareness about gas. The feedback from our customers is that they want it to be proven as a safe energy option, and I think it is demonstrating that. There has been a year or two of good, safe operation and they will get confidence from that.

Mr BOOTH - Do you separate your sales staff in terms of gas salespeople and electricity sellers?

Mr BLOOMFIELD - No.

Mr BOOTH - So if the same person basically can wear two hats you would often then be competing against yourself. For someone who wants a thermal load, for example, you would go along and say, 'Even though you're paying this to Aurora now for your electricity, we can do it cheaper with gas', so there is an active attempt by Aurora to compete against itself in that regard, isn't there?

[2.15 p.m.]

Mr BLOOMFIELD - Yes. It is an interesting market in Tasmania in that you could argue we compete against ourselves but it is actually the two energy sources that are competing. At the end of the day Hydro heat is probably the mainstay of heating for Tasmanians. Heat pumps are the main heating appliance used and that is an extremely cheap method. The multiplier effect means it is probably a 2-cent average, so it is not for price that people are buying gas. As Peter explained, it is more likely to be people who have had a wood heater and enjoy that sort of warmth who would go for a gas fire rather than a heat pump.

Mr BOOTH - But there would be smaller industrial users who are part of that cherry-picked group, the ones you have access to, where you would be effectively competing against yourselves for the supply of the power, wouldn't you, even though it is two types of energy and therefore that does have an effect ultimately on the overall demand for electricity power and your profitability in that sector.

Mr BLOOMFIELD - Absolutely.

Dr DAVIS - I guess that is one of the reasons we are in it. As a retailer, if you go into a shop you would expect to find more than one brand of cornflakes on the shelf. The role of the retailer is to bring those products to their customers. In our case, we would rather that we sold the gas than someone else sell it. If someone else sells it and that customer goes away from electricity, there is a margin lost to us there. But if we sell it ourselves, instead of getting an electricity margin we get a gas margin.

Mr BOOTH - Although it does affect ultimately, unless you can then sell those units of power somewhere else, your fixed costs in terms of poles and wires, transformers and so forth are still going to be chewing their heads off, aren't they? You do not have the same economy of scale,

so are you anticipating you may suffer a drop in overall demand for electricity sales, particularly as you move to competition, as gas replaces some of that energy demand?

Dr DAVIS - When the gas project started I think we were on the record as saying that our expectation was that the overall economic growth in Tasmania would be such that you would not really see a reduction due to the impact of gas. Gas certainly stimulates the economy and it can only do so much. If a factory decides to put in gas heating or gas for processing, they are still going to have motors, pumps, lights and all that sort of thing, so we think the two will grow together and we certainly do not see it as a threat.

Mr BOOTH - Are you predicting your business case on a percentage growth in both energy sales - gas and electricity - that predicated your business case over the next five-year or 10-year period? What are your projections for energy consumption in Tasmania over the next five-year period or 10-year period, say?

Mr BLOOMFIELD - We work around both. We have to be a bit careful in that the energy market is far broader than gas and electricity. A lot of our gas penetration at the moment is into non-electricity-type markets, so we are giving up LPG, some of the old oil and some coal. The decision process for businesses is a lot more difficult. It goes more to the heart of the clients and what they are trying to do rather than the actual energy source. One of the first ones we converted over was a galvanising plant. Galvanising can be done by electricity and a lot of other ways but at the end of the day, the engineering company that designed the piece of plant for them said, 'You're better off going with gas'. So gas was a second-order decision rather than a first-order decision.

There is a whole process in the national market for predicting energy growth and I think that is running at about 1.73 per cent. That generally excludes the major industrial-type customers. Consumption is predicted to go on a curve of about 1.72 per cent growth. The international market is even more, at about 2.5 per cent.

Mr WILL HODGMAN - What sort of investment has Aurora made into getting into this market in terms of personnel and capital investment?

Mr BLOOMFIELD - We had to do some simple things with areas such as billing. We needed to separate our billing system, which was in tens or twenty thousands of dollars. We are not very sophisticated in what we are billing because we are only in the tens or hundreds of customers. We have one dedicated sales person who is doing the small to medium-enterprise type business. We have our account managers in the larger end of town. It is their second pocket, if you like; they say that the gas is in their back pocket so it is always there.

There are some regulatory frameworks that we need to put in place and we are working with the regulator on that, and obviously there is some promotion which is done jointly with Powerco. So Powerco do a general promotion when they go into an area and we put promotional stuff in with theirs, as with Option One. The business case that we put to our board was called a marginal cost business case and it was very low-key and very low-cost. About every three months we look at the rollout and how many customers are available and decide whether we are going to ramp up or not.

Mr WILL HODGMAN - And that is dependent on the extent of that rollout. So your growth in this area is largely dependent on the extent of rollout broadly across the State.

Mr HASKER - Just the retail.

Mr WILL HODGMAN - Yes. So I assume you would want the distribution network to continue spreading across the State, albeit slowly. Would that be fair?

Dr DAVIS - I think it is always good when the customers have the options. Clearly we have those customers as electricity customers at the moment, so if they would like to switch to gas we would like to capture them as gas customers. We have the situation where gas is at full retail contestability, so it is down at the mums and dads levels and electricity is not. However, we are comfortable with the progress that we are making in the gas market so we are pretty neutral, I guess. But from a customer perspective, customers like to have the choice and our role is to provide that choice. So on that basis, we would like to see it continue to roll out.

Mr BOOTH - As a retailer, do you see any opportunity to get involved in putting in a CNG - compressed natural gas - plant to retail for automobiles and so forth?

Dr DAVIS - We have a little new ventures group that is always out there doing the blue-sky stuff looking for new opportunities that Aurora might want to be involved in. I have seen CNG mentioned in that context but I think we are a long way off from progressing down that path, so we have not pursued that.

Mr WILL HODGMAN - What about the co-generation project that last year's report mentioned you were looking into with an international partner? What does that involve?

Dr DAVIS - There are some opportunities to leverage gas and other fuels to produce both electricity and steam in customers' plants. Last year we flagged that that was an area that we were working on and are continuing to do so. We have an international partner based in Canada that is building their first couple of trial plants in the United States at the moment. So in terms of our update this year it will probably be much like it was last year. We have not actually made an investment in that space but we are continuing to monitor developments. There are some applications in Tasmania, particularly now that we have natural gas available, and we have some engineers who are interested to take those opportunities, but we do not have a formal project at this time.

Mr WILL HODGMAN - So that is shifting quietly from being a retailer to a generator as such.

Dr DAVIS - Aurora's licence allows us engage in what is called distributor generation, which is basically for very small plants, I think using less than 10 megawatts, and it is in that context. So retailers often provide that but it is again more focused on what customers would need and at the end of the day customers really do not want to buy electricity. What they actually want to buy is heat, motive power, refrigeration, air conditioning and all those sorts of things. So you start to move more towards being a solutions provider and if customers want thermal performance such as processed heat, if we can combine our ability to source natural gas with our engineering experience generally, we can provide targeted customer solutions. But it is relatively small compared to the rest of our activities.

Mr LLEWELLYN - Aurora does get involved in a lot of environmental issues of course, which would be of interest to people. They are involved quite a lot with respect to the Greenhouse Challenge and a series of issues that are being addressed, from the pay-as-you-go

process through to the purchasing of solar energy from a number of interactive private systems under the Aurora network's buying-back program that they have. There are many other things that are of interest there.

Mr HASKER - Mr McKim always asked us each year how many hybrid cars we had bought.

Mr WILL HODGMAN - Yes. I reckon Mr Booth is getting to that one.

Laughter.

Mr BOOTH - We will get to that one. I just want to go back to the damage to Aurora's equipment caused by the Powerco gas rollout at New Town. Is that the only asset damage that Aurora has suffered at the hands of the gas rollout with Powerco? If not, what are the other ones and what would the total quantum of actual cash damage be, and has it been resolved or how are you resolving it?

Dr DAVIS - My understanding is that there have been a number of what I would call small interactions. The reality is that whenever people dig the road up we encourage them to be safe. I think Telstra use the slogan 'Look before you dig', and we have the same premise. There have been some interactions where perhaps the cables have proved to be not exactly where Powerco thought they were, but they are relatively minor. There has been some minor inconvenience to customers as a result but I do not have the detail of each and every one of those small incidents. Interestingly enough, my colleague to my left has just pointed out that it actually was not Powerco that dug up the cable at New Town; it was Telstra, so there you go.

Mr BOOTH - But the costs that you incurred will be recovered fully.

Dr DAVIS - Yes.

Mr BOOTH - In regard to the capacity of the system you spoke about and how you are rolling out new supply lines to different areas of development and so forth, I think Transend spoke about having an obligation to go out and try to make sure that if there was anybody who wanted to provide some generators that would decentralise in that sense to avoid having to have a bigger trunk line, they did that. Do you have the same issue with the supply of power to some of the regions being inadequate at this point or at some time in the foreseeable future to provide the amount of power that you need to distribute?

Dr DAVIS - Certainly the regulator has certain targets for us in terms of reliability, and there are a number of feeders that Aurora has that don't yet meet the standards set by the regulator. We have a pretty extensive program of work to upgrade those feeders and we have used a targeted approach. If you would like, I can get our General Manager, Network to come up with some of the detail, but effectively, we look at protection which is how the things switch on and off, we look at strengthening the trunk, which is the little part near the central part of the feeder, and we look at fault response, so there is a range of things that we work on. Of the 300-odd feeders around the State, we have identified which ones will lead us to the greatest return for our activity. Perhaps I could introduce John Devereaux.

Mr DEVEREAUX - Sorry, I wasn't able to hear the question very well.

Mr BOOTH - What I am concerned about is what strategy you have in place and your obligations, I suppose, as a power retailer rather than a producer, to look at the network cost if you have an inadequate supply coming in from the central generators. It may be cheaper to set up a decentralised small unit, it could be a recovery thing like the co-generation thing you were talking about, or a remote gas plant or wind or solar or some other acceptable solution. Is that something that Aurora are looking at there to encourage the setting up of co-generation?

Dr DAVIS - I can answer that part and Mr Devereaux can talk about the wire solution. We recognise that distributed generation is an option, and where it is cost-effective to put in distributed generation then we would do so, but we also recognise that distributed generation means fuel supply and a range of other issues to make it work. So in terms of addressing the performance of the bulk of the feeders where reliability isn't quite where we would like it, we have a strategy that involves a range of things including strengthening the trunks and improving the protection, and so on. That would be our principal focus.

There may be some niche situations where at the end of a very long line, or whatever, it may be cost-effective to use a localised distribution, a distributed generation solution, but generally, as I said earlier, we try to keep ahead of the game and recognise where the economic growth is coming from, recognise where we can actually prove reliability, and get the best return out of our capital. We have our Network Reliability Planning Panel, an independent panel that oversees what we do, and we have the regulator. Perhaps John would like to talk about some of the medium term strategies that we have in place.

[2.30 p.m.]

Mr DEVEREAUX - As the retailer we have an obligation to make sure that we have the right level of supply. As Peter just said, there are a number of bodies on the regulatory side, including the regulator and the Network Reliability Planning Panel, which place obligations on us to plan, apart from what we might do ourselves. We have a 10-year view of the planning horizon, as well as 20- and 40-year views, and we match our investment to the forecast load.

In terms of our reliability strategy, we have a range of strategies: a feeder strategy, our protection strategy, the remote control strategies. They are all designed at accessing the funding that was referred to earlier, the \$25 million-odd for reliability improvement, to make the system work better than it does now. We do not suffer from a constraint of generating capacity or energy capacity around the State.

Mr BOOTH - That is the supply side of it, but the transmission side is constrained at the moment?

Mr DEVEREAUX - I cannot speak about the transmission side but obviously with the impact of Basslink there are more constraints on that system than there would have been. In terms of the distribution system, there is no real constraint on our capacity to get energy where it needs to go according to current demand.

Mr WILL HODGMAN - Has Basslink circumvented the concern with respect to storage levels in dams or does that remain?

Mr DEVEREAUX - You would have to talk to Hydro about that.

Mr LLEWELLYN - Unfortunately you will have to wait until February next year.

Mr BOOTH - Couldn't you just take your other hat off for a minute?

Mr LLEWELLYN - I can, yes.

Mr WILL HODGMAN - Aurora have identified that it is a concern to them as well.

Mr LLEWELLYN - I think, from a Hydro perspective, it has enabled better management of water storages so that we get a more efficient and effective outcome. It has very clearly done that. I think that will be shown in the comments that Hydro will make in their annual report. It is not appropriate for people from Aurora to make comment about that but it is very clearly the case. There is less water now spilling into the river systems. It can be managed in a better way so we can conserve water, and we can import energy and lift our supplies also.

Mr WILL HODGMAN - But not export and to make money out of it at this point?

Mr LLEWELLYN - This was the point made in the GBE hearings with the Hydro; they have only been operating a few months. We have been importing quite a bit of energy but along with that import we are doing better than our projected budget in regard to profits from the system. So you can import energy and make money at the same time by taking opportunities from spot prices and opportunities on the national market, and at the same time manage your water system in a much more effective way.

Mr BOOTH - There is an issue about distribution. You have a decentralised generation system around the State, so some of your generation capacity is not able to come through Basslink: the cable is not big enough and the transmission network is not big enough to get it right down south. What about your obligation? For example, I do not know whether Lake Margaret, having gone offline, affects your capacity to provide power. I would imagine there is plenty of power available over there; I am not sure. If Mathinna closed down, what effect would that have in terms of the size of the trunks that you need to get out to the north-east. At the moment you are drawing power from Mathinna so your main trunk does not have to be as big as it would be if you had to replace that power in those remote areas. Are there any issues there?

Mr LLEWELLYN - Private operators can establish small supplies and then they have to be fed into the network. That is part of the national arrangement. From a regulator point of view, if additional wires or infrastructure are needed to provide more certainty to a remote area, then there is an obligation on Aurora, as there is on Transend, to look at more prudent and cost-effective alternatives.

Mr BOOTH - That is what I am getting at. They might need to put a little power station out there, for example.

Mr LLEWELLYN - Yes, that is true. I think we have to go through that process otherwise we can be penalised by the regulator.

Mr DEVEREAUX - Aurora and Transend have a joint planning forum which meets monthly. As I mentioned, they have that very long-term view, down to a 10-year view, then down to an annual planning view. We put the planning proposals before the RNPP - the Reliability Network Planning Panel - on an annual basis and all the considerations that you are referring to now are very much part of those deliberations.

Dr DAVIS - I think it is fair to say that we have to work with Transend to make sure that we deliver the most effective outcome to Tasmanian people. Not many people would be aware that in fact a large part of our work force is dedicated to working on Transend assets. We have a network services group that specialises in EHV - extra high voltage - construction maintenance and switching, so that acts as a contractor to Transend. We work pretty closely with them. By way of example, the reliability panel looks at making sure we put together the combination of transmission and distribution in the most effective way. For instance, we have spent about \$44 million over the last few years improving the reliability of the City of Hobart, but of that \$44 million about half was paid by Transend because it was a mixture of transmission and distribution upgrades.

We have optimised that to build special substations. We have redeveloped the Creek Road and Risdon substations; we have upgraded the sub-transmission to 33 000 volts, and we have redeveloped east Hobart and West Hobart. All of these things are connected to Transend because Transend provide what we call the big injection points. They have the responsibility for bringing the power from wherever those power stations are to the customers. At the end of the day we seem to work well with them. Our responsibility, having got the power into the zone substation, is to make sure we distribute it to our customers.

Mr BOOTH - In those upgrades you have obviously had to remove and replace a lot of transformers in the system, which would have had PCBs in them. What is your problem with the PCBs? Do you have contaminated sites that you are still trying to deal with? Have you assessed the potential liability of PCB background environmental levels as a result of previous transformer oil spills with polychlorinated biphenyls?

Dr DAVIS - We have to work very hard to make sure that we manage our assets in a safe way. I am pleased to advise that in the year just gone we opened a new million-dollar facility at Rocherlea in the north, which is a statewide facility specifically for the management of our used transformer oil. It has a special treatment facility there for any PCB-contaminated oils that might come out of transformers. It is part of our normal environmental and safety risk management. We have a lot of transformers throughout the State and we have a very dedicated safety system which reports any problems in terms of any spills or anything like that.

Mr BOOTH - What percentage of your transformers still have PCB contamination in them? You are not using PCBs any more in the oil, presumably?

Mr DEVEREAUX - I cannot tell you what the percentage is off the top of my head - I will be happy to provide that information to you - but it is quite small. The PCB content is reducing over time.

Mr BOOTH - So is the facility you have put in simply a separation and storage facility and then it is shipped off, or is it an actual disposal facility? If so, how does it work?

Dr DAVIS - It is a storage and management facility. The most highly contaminated substances are removed and treated at facilities that are dedicated for that purpose.

Mr BOOTH - So that would go to offshore burning, I presume?

Dr DAVIS - No, we do not burn things offshore. I think they go to a specialist plant in Victoria.

Mr WILL HODGMAN - On reliability issues, are you able to tell us what you had to pay in terms of the guaranteed service level payments?

Mr HASKER - What period did you want?

Mr WILL HODGMAN - The relevant financial year, 2005-06, notwithstanding the fact the report is yet to be produced.

Mr DEVEREAUX - I can tell you that up until the end of May we had paid out \$465 000.

Mr WILL HODGMAN - Okay. So that is a fair drop then from -

Dr DAVIS - Yes, we made a decision in the year that occurred to make a payment based on some very bad storms that occurred in the north of the State in February 2005. The amount that we paid out just on that one storm was \$1.4 million. So the reason we have seen a drop is because we haven't had a terrible storm like that in the year that has just gone.

Mr WILL HODGMAN - Are they all \$80 payments?

Dr DAVIS - Yes.

Mr WILL HODGMAN - There is a concern with respect to how that fine is structured. It has been suggested, with some validity, by local government representatives that it disadvantages those living in regional or remote areas because they effectively have to suffer more outages than people living in urban areas before they are entitled to that compensation. Do you have any comment on that, Minister?

Mr LLEWELLYN - It has been arbitrated, hasn't it?

Dr DAVIS - Yes. The regulator came up with this scheme. The purpose is to give Aurora an incentive to improve its reliability, so there is a financial penalty if we do not improve sufficiently. In determining that arrangement, the regulator noted that, whilst you might get poorer performance in those rural areas, it also costs us more to service those areas. If rural people were to experience the same level of reliability that we have in the city, it would cost us many hundreds of millions of dollars to achieve it. So there is a balance here. It does cost us more to service those rural customers. Therefore the regulator deemed that they would have to experience 15 outages before they received their \$80. If you are in the city I think it is nine outages before the \$80 is paid.

Mr WILL HODGMAN - Does it follow, then, that they are likely to experience a higher number of outages over the same time compared to people are in urban areas?

Mr LLEWELLYN - I though you were going to ask whether or not that is likely to change, and I was going to answer that that is up to the regulator.

Mr WILL HODGMAN - No. Is it the case that people in remote areas do suffer more outages and therefore would be entitled to that benefit within the same period?

Mr DEVEREAUX - The reality is that the experience of customers in the more remote areas is not as good as the experience in urban areas simply because of the intercon activity that is available in the urban areas. The outage experience is greater because there are longer feeders, more trees and more chance of an outage. So when the regime was introduced, it recognised that reality.

Mr WILL HODGMAN - You shouldn't have mentioned trees.

Laughter.

Mr WILL HODGMAN - Isn't it the reality, though, that these people suffer if their fridge or freezer stops, or their Internet goes down, as the result of an outage? They need to suffer five times more than somebody who lives in an urban area, yet they are deprived of compensation, which in many respects is token.

[2.45 p.m.]

Mr DEVEREAUX - The scheme was established in 2004. At that point in time the reality is that our rural customers, as everywhere else in the country and in fact the world, were experiencing outages more frequently than our urban customers. The GSL scheme was provided as an incentive for Aurora to reduce the incidence. Therefore the funding for those outages reduces over time, but it is starting from a point where rural customers experience outages at a greater frequency than urban customers.

Mr BOOTH - What level of data logging do you have for power surges and frequency variations throughout the State? Do you have a strategy for that?

Mr DEVEREAUX - I am not sure that data logging is the right term, but we have a number of devices spread throughout the system which enable us to measure variations in voltage frequency and at the same time measure the incidence of outages.

Mr BOOTH - So are you able to verify that people, in rural areas particularly, aren't getting extended brownouts or spikes and so forth?

Mr DEVEREAUX - It depends on the particular part of the network you are referring to and whether we had one of the relatively smart devices. In instances where we don't have a smart device, we need to test for that. We actually install a specific data logger for that purpose.

Mr BOOTH - Anecdotally, a friend of mine data logged the supply to the Meander area and at that point in time it was appalling. There were spikes, brownouts and severe frequency fluctuations in that area. He was able to do that quite simply. I am just wondering about it because there are often complaints that farm motors in dairies and so forth will burn out as the result of a brownout.

Dr DAVIS - Certainly customers do let us know when they are experiencing those problems. In some cases we will do our own data logging to verify it or we can pick it up from the devices that John is talking about.

Mr BOOTH - In the event of damage to infrastructure caused by brownouts or spikes or frequency fluctuations, is it your legal obligation to pay damages?

Mr LLEWELLYN - Not so much in the frequency management area, I wouldn't have thought.

Mr BOOTH - It can affect control circuits.

Mr LLEWELLYN - Yes I know, but that area is more monitored by Transend at the higher level because it is to do with total loads on systems and the like. Voltage variations and spikes in the system are probably applicable.

Mr HASKER - We do not have perfect knowledge of what is happening in every house. We rely on the phone.

Mr BOOTH - Yes. I was thinking in terms of knowledge accumulation, so that when somebody comes to you and says, 'My pump has gone down again' or 'My light bulbs have all blown', then you've got a problem there.

Mr HASKER - We have aggregated data, yes.

Dr DAVIS - We have a standard tariff agreement between ourselves and all our customers. It has a section that deals with the issue of damage to appliances or sensitive equipment. It sets out that our aim is to provide safe, reliable and good quality service which meets the standard specified by the Tasmanian Electricity Code. It acknowledges the fact that there will, from time to time, be random power surges and power dips or brownouts. It talks about the fact that sometimes those might be for reasons outside Aurora's control, such a tree falling through a line or something like that. It provides some advice as to the sort of protection that people can put in their homes to avoid surges and so on.

Mr BOOTH - What is the highest surge you have experienced in Tasmania in the last couple of years that you are aware of?

Mr DEVEREAUX - I could not give you that number off the top of my head. We certainly do report all this sort of activity through the normal regulatory process but I cannot tell you what the biggest spike that I am aware of is.

Mr BOOTH - Can you provide that later? Can you give us some indication of the level of specification -

Mr LLEWELLYN - What sort of variation do you want? Do you want a lightning strike? There is a big spike that occurs under those conditions.

Mr BOOTH - You could give me a lightning strike if you wanted to. I am interested in the stability.

Mr LLEWELLYN - So I could grade from that right down.

Mr BOOTH - Well, yes, and the frequency of those events, because I am not really talking about things that are attributable to God, I suppose; I am talking about things that are attributable to supply system failures within the network.

Mr WILL HODGMAN - I was just asking if you believed in God - I don't know.

Mr STURGES - When it suits him.

Dr DAVIS - I think most of our customers recognise the system that we have. The Tasmanian system has been developed over many years and Tasmania is actually a very diverse economic zone, so we have customers living all over the place and we find that those in the more remote areas are in fact very appreciative of the efforts that we make to keep them on and they recognise that they are not going to get the same reliability as they would in the city.

Mr BOOTH - Yes, but that could be a policy matter that they may in fact lobby a politician about and they might criticise Aurora for it.

Mr WILL HODGMAN - On a different tack, does Aurora have any employees registered with or required to be registered with the Tasmanian Compliance Corporation? Any engineers or any people?

Mr DEVEREAUX - That is sub judice.

Mr WILL HODGMAN - No, seriously, do you know if your employees need to be registered with the Tasmanian Compliance Corporation?

Dr DAVIS - I do not know the answer to that question off the top of my head. We do not do a lot of building and when we do we tend to subcontract it out so we would use accredited building contractors to do those sorts of things.

Mr WILL HODGMAN - That regime does extend to other groups, not just builders and others.

Dr DAVIS - Builders and architects.

Mr WILL HODGMAN - Engineers.

Dr DAVIS - Not that I am aware of. Our engineers tend to be members of the Institution of Engineers and our people are trained through our training school and accredited in various ways. I am not aware that we have a large -

Mr HASKER - I think it is unlikely, Will.

Mr DEVEREAUX - I would be very confident in saying that our engineers are electrical engineers as opposed to those involved in the building and construction industry and I am very certain that there is nobody who needs to be accredited under that regime.

Mr WILL HODGMAN - Could you tell us a bit about safety over the last financial period?

Mr LLEWELLYN - Programs or what?

Mr WILL HODGMAN - More on safety incidents, workers -

Mr LLEWELLYN - So you don't want to listen to the good news.

Mr WILL HODGMAN - No. I know that you have had a very good safety record and there have been improvements over time. I am interested in the safety incidents including workplace-related incidents that have resulted in workers compensation.

Mr HASKER - I can perhaps provide some initial answers there. I think that Aurora are very much at the cutting edge of the industrial scene in safety. It is a prime priority of our board. When we meet it is the first issue we discuss. It is compulsory for the individual general managers to report along with the safety manager and until the board has satisfied themselves that they have fully reviewed the month and any incidents, the rest of our board meeting will not proceed. We publicly present our safety results within our annual report and looking at it globally, these guys are at the cutting edge.

Mr BOOTH - How about hybrid cars now?

CHAIR - Sorry, the time is - no.

Laughter.

Mr WILL HODGMAN - They're still answering my question, Chair. Has there been a continued improvement, as there has been in recent years?

Dr DAVIS - Yes, there has. Over the past two years we have had a consistent downward trend in the number of incidents that occur. We measure the lost time injury frequency rate which is the -

Mr HASKER - Which is an international measure and eliminates the small-big relationship.

Dr DAVIS - Regarding the number of lost time injuries per million hours worked in the last two years the mean for our lost time injury frequency rate was 5.1. The previous two years it was 12.4. So we have substantially improved that. We still have a way to go. Our average is 5.8 now and that compares favourably to best practice for this industry of about 5.0. Clearly, our objective would be to have zero injuries, so we work very hard with safety systems and cultural interventions to try to reduce the number of injuries that we have. We do have a very transparent reporting regime whereby if someone slips and spills a cup of tea on themselves that comes through as an injury, particularly if they have to have medical treatment, or a bandaid, or whatever, so we come right through.

Mr WILL HODGMAN - Presumably they are mainly John's people, I gather - the people in the field.

Dr DAVIS - The office workers need to maintain a safe approach as well, but certainly in our services division we are conscious that our people are working in a pretty dangerous environment.

Mr WILL HODGMAN - With a dangerous product.

Dr DAVIS - With a dangerous product. A factory has constraints, but our workplace is right around the State, so safety is something that we work very hard on. Some of it is rules and process, but some of it is behavioural safety as well. We have been doing some work with the

University of Tasmania's psychology department on how you get to the next level. We implemented a -

Mr WILL HODGMAN - Were there any serious injury incidents reported in the last year?

Dr DAVIS - No, there have been no major incidents.

Mr BOOTH - How about the hybrid cars?

Dr DAVIS - The answer is four.

Mr BOOTH - Could I have a breakdown on those savings at some point in time?

Dr DAVIS - We are happy to do that. We found that the hybrid cars, in terms of the running cost - and we have monitored them over some time - are similar to a four-cylinder car like a Corolla, because they cost a little bit more to buy and then you do not get as much when you sell them because people think they are going to have to replace the batteries. But based on our analysis it would appear that they are a little cheaper to run than a larger vehicle like a Falcon or whatever.

Mr BOOTH - So the life cycle analysis makes them very competitive with other cars.

Dr DAVIS - It does, yes. That is why we have had three of them in the fleet for a while and we have actually bought a fourth one which we are using in our education program where we go out to about 50 schools around Tasmania and promote electrical safety. We use our linesmen or technical people to go out and meet with primary schoolchildren, and they turn up in a hybrid car, so it has been a useful addition to the fleet.

CHAIR - Thank you very much.

The committee suspended at 2.58 p.m.