The Government Owned Corporations Scrutiny Committee convened at 8.30 am.

POWER AND WATER CORPORATION

Madam CHAIR: Good morning, everyone. Welcome to the budget estimates hearings for the Government Owned Corporations Scrutiny Committee. I welcome the Chair of the Power and Water Corporation Board, Mr Alan Tregilgas.

Mr Tregilgas, please introduce the representatives of the corporation accompanying you today.

Mr TREGILGAS: Thank you, Madam Chair. I am here as the chair of the board, and with me, on my left, is Michael Thomson, the corporation's chief executive officer. On my right is Djuna Pollard, the corporation's Executive General Manager Strategy and Transformation.

Madam CHAIR: Thank you, Mr Tregilgas. Would you like to make an opening statement on behalf of the Power and Water Corporation?

Mr TREGILGAS: I would indeed, Madam Chair. The committee has before it the corporation's 2016-17 Statement of Corporate Intent; however, I want to use my opening statement to canvass two other significant matters, namely the expected outcome of the 2014-15 financial audit and the main issues arising, and the board's response to the findings of the 2014-15 financial audit and its strategic review in the form of the Board's Strategic Directions 2016-2020 paper.

First, to the 2014 financial audit. After a delay of some eight months, in coming days the corporation's 2014-15 financial statements are expected to be endorsed as true and fair by the Auditor-General, but with qualifications. These qualifications are a count of two different matters of substance. First, there are shortcomings in the adoption of the fair value method of asset valuation; second, there are concerns the Auditor-General has associated with possible losses on gas sales.

However, for IES Pty Ltd, which is Power and Water's only subsidiary, the Auditor-General seems likely to issue a disclaimer of opinion, that is, she is unable to form an opinion. This reflects unresolved reconciliation issues associated with parent subsidiary transactions in combination with asset accounting problems. Importantly, this disclaimer is not significant enough in itself to cause the Auditor-General to qualify the corporation's consolidated accounts which incorporate IES financials, but it is a disclaimer of opinion nonetheless.

In October 2015 issues then identified by the Auditor-General with the corporation's draft 2014-15 financial statements were so pervasive that the board chose the lesser of two evils, preferring to miss statutory deadlines in order to rectify the accounts on the one hand, rather than sign what would have been misleading financial statements on the other. Since then significant rectification work has been undertaken involving considerable effort on the part of the Auditor-General, her team and advisers, and Power and Water staff. As a result, the audit position has improved considerably, especially by addressing shortcomings in financial separation.

I am pleased to say that financial separation is now, at last complete, albeit 24 months after structural separation. Where the Auditor-General and the board differ is not with regard to the asset valuation issues. Where we differ, at least for now, is in relation to the extent to which the corporation's existing gas purchase and transportation contracts, unnecessary loss-making, are so onerous, and how losses expected in future gas sales contracts should be quantified. Because of the significant uncertainties the board is unable to reliably quantify the net financial outcome on its long-term gas contracts. Rather than make an onerous contract revision at this time, the board has opted instead for a contingent liability note. As to the losses on sales of bank gas, the board has opted for an impairment allowanced based on its expectations regarding future gas sales prices.

The board accepts the other area of qualification which relates to the Auditor-General's assessment that the corporation's transition to fair value as a basis for asset values, away from our historical cost values, in conjunction with the financial management system, or FMS re-implementation project, was mishandled and unsatisfactorily completed.

This is an area in which the board is much less sanguine about the issues the Auditor-General has raised. A significant amount of work is still required to fix the problems identified by the Auditor-General, created by the poorly executed move away from historical costs to fair value.

Improvements possible during 2015-16 will not be enough, regrettably, to prevent the 30 June 2016 fixed asset values from also being qualified by the Auditor-General. In all other respects, however, our aim is for a clean 2015-16 audit, but time will tell. The board is also committed to achieving an unqualified audit opinion in relation to its fixed asset balances at 30 June 2017. It will take us that long to address the issues with our financial asset registers and asset valuations.

I now turn briefly to the Board's Strategic Directions paper. Partly in response to shortfalls highlighted by the financial audit, the board recently completed a reassessment of corporate strategies required over the next three to five years. The resultant strategic directions paper provides more context to the business improvement targets incorporated into the SCI finalised earlier. Essentially, the strategic directions paper is the board's conversation with senior management, but we have opted to make this paper more widely available, given the extraordinary circumstances associated with the delayed 2014-15 audit.

The board acknowledges that systems in government shortcomings revealed by the 2014-15 financial audit and confirmed by the board's strategic view are deep-seated problems. These problems inhibit proper business operations and undermine performance outcomes significantly. These deficiencies essentially predate structural separation. They were out of sight, out of mind, at least to past boards and management. There can be no doubt the structural separation shone the light on fundamental business systems and process inadequacies.

That is the board's responsibility. The board's past and present must accept ultimate responsibility for the extent to which governance failures tolerated and sustained these inadequacies. The board, in turn, has held relevant senior management accountable for the underlying operational failures.

Lest there is any doubt, the overwhelming majority of the corporation's workforce is not to blame. The people at Power and Water are engaged and driven to meet the needs of our customers and to face the constant demands of our unique environment. They are motivated to make a difference for the benefit of Territorians, but for some time they have been overdue for leadership, direction and the changes necessary to become truly customer-centric.

The board now in place is committed to fixing the corporation's problems systematically and sustainably. As detailed in the strategic directions paper a business transformation program has been initiated, involving a strategic top-down approach which will be planned and implemented in a formal, structured way.

The board vision for the corporation is that Power and Water has the leadership systems and processes to be commercially focused and customer-centric as a multi-utility that is respected by the community.

Against this background, I formally table the Board's Strategic Directions paper to the committee. At this point, that completes my opening statement, thank you, Madam Chair.

Madam CHAIR: Thank you, Mr Tregilgas. Are there any questions on the opening statement?

Ms MANISON: Thank you, Madam Chair. Thank you, Mr Tregilgas for what was quite a frank and up-front assessment of where we are at with the Power and Water Corporation post-structural separation. It is an extraordinary situation to be in. Structural separation was announced by the government in December 2013. The government tried to pass legislation to enable the structural separation of Power and Water Corporation in March 2014. It was a crisis of numbers within the government, when the members for Arafura, Arnhem and Namatjira left the CLP, which stopped them from passing it at those sittings.

In April, the Public Accounts Committee held an inquiry into the structural separation to which Power and Water presented. Mr Tregilgas, you presented as the person managing NewCo, which was responsible for managing the structural separation process for the Department of the Chief Minister. Then in the May sittings the government passed its legislation to structurally separate Power and Water Corporation. As of 1 July 2014 structural separation occurred. Structural separation was all about, from the Treasurer's perspective as the shareholding Minister, driving financial transparency, to drive competition and to drive efficiencies within the utilities market here in the Northern Territory.

But, since structural separation, Power and Water has been unable to produce an annual report and financial statements. We have seen the extraordinary situation where the Auditor-General had to, in the Treasurer's Annual Financial Report 2014-15, put in a basis for disclaimer of opinion with regard to the first financial statements that were presented to her for audit. As you have said here today, you have now had to put in a second lot of financial statements and hopefully the audit will come through very soon.

I want to say up front, we have a lot of hard questions to ask because this is a difficult situation that Power and Water Corporation is in. But, firstly, I need to wholeheartedly agree with you that all Territorians would agree your workforce do an amazing job serving the Territory; making sure the lights are on, the water is running, the sewerage is happening – they do a very good job. I acknowledge that in your opening statement you specifically pointed to the board and the previous management, saying you feel that they are, ultimately, the accountable parties here.

I must say, Mr Tregilgas, from the Opposition's perspective, we warned the government time and time again …

Mr CONLAN: A point of order, Madam Chair. I was just wondering if we might be getting to a question any time soon.

Ms MANISON: I will get to a question. I think it is important to put in context the history of what has happened and why we are where we are today.

Thank you for providing the Board's Strategic Directions document, but I think it is important to point out some of the information within that document. It is deeply concerning if we do not get things right going forward, the consequences of what may happen.

The Board's Strategic Directions is a very frank and up-front, detailed, honest document. This is where we are at, at the moment, with the Power and Water Corporation because of structural separation. We see that there are …

Madam CHAIR: What is your question, member for Wanguri?

Ms MANISON: Can I just read this part out so I can put the question into context, Madam Chair?

Madam CHAIR: You have given a lot of context, but I will give you some more latitude.

Mr CONLAN: I think we are fulsome with context at the moment, Madam Chair.

Ms MANISON: This has been quite a process and I think people need to be reminded of the history of where we are at.

Madam CHAIR: We are here to ask the questions, member for Wanguri.

Ms MANISON: Okay, Madam Chair, I will ask this question: going to 4.4.4, 'Wider consequences of a poorly performing Power and Water Corporation', on page 22, it reads:

> *Failure to act and remediate Power and Water's finances brings with it the substantial risk that one or more of the following consequences result:*
>
> - *Electricity and water prices are higher than necessary.*
> - *Power and Water's impact on the budget (and taxpayers) is higher than necessary and continues to increase, through lack of dividends revenue to the budget, high and increasing community service obligation subsidies and the need for additional equity injections by Northern Territory government.*
> - *The Northern Territory Government's credit rating is negatively impacted by the Corporation's poor finances. Power and Water's over-reliance on borrowing causes Territory public debt levels to increase. Power and Water currently accounts for in excess of 20% of the Northern Territory non-financial public sector's total debt of just over $5 billion. As long as Power and Water's finances remain sub-investment grade, this is likely to reduce the Northern Territory Government's credit rating. Together, these provide a clear rationale for change.*

We can see there are some very big issues there with the consequences of not getting the Power and Water Corporation's finances correct.

My first question is do you have the confidence that we will get Power and Water's finances in order and financial statements completed soon for the 2014-15 financial year? What consequences does that have on the financial reporting and the integrity of that information for the 2015-16 financial year?

Mr TREGILGAS: I am happy to answer that last question about the 2014-15 accounts, when they will be finalised. The board has signed off on the 2014-15 accounts. They are with the Auditor-General and although she is now completing her processes we expect those accounts and our annual report to be released within the coming days.

I cannot be more specific than that because this is a matter for the Auditor-General, and the minister who is responsible for tabling the statements. I am pleased you have noted that observation in our strategic directions paper. The fact is that statement has been true for quite some time. While Power and Water's finances are underperforming and not transparent, they will constantly give rise to those sets of much wider concerns. It has to be said that structural separation has had the effect of shining a light on aspects of our financial performance and governance which need to be dealt with, and probably only would have been dealt with as a consequence of structural separation.

I will not deny that structural separation, particularly the financial separation part of it, has not been a smooth and seamless process. It has not been completed in the time frame that any of us would have been comfortable with. Financial and legal separation, ideally, should take place at the same time. That has not been the case.

It has been about Power and Water; that has been the problem. It is not for the want of trying on the part of Power and Water. The financial management systems and the systems that are in place have, for quite some time, not been well enfaced. Some of our process and some of our systems were not robust enough to provide the financial transparency that is required.

What is interesting about the audit qualification is that the focus of the qualification is on a couple of areas which were matters decided upon by the then board before structural separation was on the cards. That related to the decision to go to fair value. That decision was taken in 2012, where structural separation was not on the table. That implementation has not been successfully achieved to date.

The other issue is that board at the time – this again was in 2012-13 and, I am sure before then – has always been interested in financial transparency. I know the board, before structural separation, was intent on achieving accounting separation, at least at the business unit level.

It was recognised by previous boards that both those aspects – the move to fair value away from historic costs, and accounting separation – were vital. Delivering on those undertakings has been the real challenge to Power and Water, not the structural separation *per se*. It came later.

I will acknowledge that structural separation was an additional exercise and, from time to time, that might have been a competing priority which might have complicated the fair value and accounting separation exercises. These were things that had to happen.

We could not pursue fair value or accounting separation because without that transparency Power and Water's financial performance would always be sub-par. We would always have trouble really understanding what the issues were and holding boards to account, let alone holding managements to account.

Ms MANISON: That, historically, has been part of my concern, the process being rushed through. It was well highlighted in the lead-up to the structural separation by the government going forward with putting through the legislation to drive structural separation on 1 July 2014 that Power and Water was complex, and the government was very clear that it wanted to separate the finances as part of that.

Was the government made aware of the complexities with the financial systems within the Power and Water Corporation prior to the structural separation? You would expect, surely, that the shareholding minister had a good understanding that this was a complex process. Were these issues foreseen prior to structural separation?

Mr TREGILGAS: The effective accounting separation and final separation was always very close to the top of the agenda in the planning and implementation of structural separation. On a number of occasions, the various teams got together to discuss the state of play. There were times when there were serious considerations of going to plan B with regard to the way we were undertaking structural separation, but Power and Water at the time, understandably, on the advice of the finance team and executive management, knew that while the challenge was significant there was hope and expectation that the financial management system reimplementation project would succeed in time for the first year of the accounts under structural separation being successfully audited.

With the benefit of hindsight, I think we all underestimated and were a bit optimistic when it came to the time frames and complexities involved. These issues have been of concern to Treasury, the Utilities Commission and shareholding ministers for 10 years. The lack of transparency, the difficulty in obtaining financial information that drills below the consolidated accounts of the old Power and Water – and in that context that we had to push on. It was almost inevitable that if we delayed we would never get to a point of satisfactory financial transparency.

We had to deal with these problems and, at last, we have. Regrettably, they have taken longer than they should have. That is a benefit of hindsight, but it is also a reflection that the challenges were large.

Ms MANISON: At the time of the separation of Power and Water Corporation, one thing I was concerned about was potential job losses due to the structural separation. It turns out I was completely wrong about that.

With regard to the full-time equivalents between Power and Water Corporation, Territory Generation and Jacana Energy, my count is, since the structural separation between the three government-owned corporations, there are now about 163 extra employees. I will ask for the current latest full-time equivalent number in the Power and Water Corporation and a breakdown by business unit. Where have those extra resources and extra people had to go within the Power and Water Corporation since structural separation?

Mr TREGILGAS: I will answer that at a very general level and I might get Michael to provide some detail in that regard. Clearly, as we have been addressing our financial separation difficulties, that has involved the need for more peoplepower. In some sense, some of our post-structural separation growth in our workforce would have been associated with the need to complete aspects of that separation satisfactorily. Some of that surge in staff numbers by nature will be temporary and will be dealt with now we can put this financial separation behind us. Michael, is it more than our financial staff?

Mr THOMSON: Current staff numbers are about 949 at the moment; as at March 2016, 951; immediately post-separation, 908; and prior to separation, 1056.

Ms MANISON: Would you be able to provide a breakdown of those staff current FTE staff by business unit in the Power and Water Corporation?

Mr THOMSON: I can do that as at the 31 March 2016. I do not have the update.

Ms MANISON: That is fine; the nearest pay cycle is fine.

Mr THOMSON: Gas Supply Unit, seven; Retail, about 69; Financial Services, about 36; Governance and Corporate Services, 151; Power Networks, 350; Remote Operations, 106; Economics and Regulation, 15; System Control, 44; and Water Services, 173. And that is with rounding.

Ms MANISON: Thank you, Mr Thomson. At the time of structural separation – and I went back over the Power and Water's inquiry into the structural separation. When I went through the submission from NewCo with regard to the anticipated cost post-structural separation, it pointed out that – and I will quote the ongoing cost because of structural separation:

> *NewCo's estimate is that the additional annual costs of these two new corporations is likely to total up to about $4m annually.*

I am keen to find out what additional costs Power and Water Corporation now shoulders post-structural separation.

Mr TREGILGAS: My response to that is Power and Water is not exposed to higher costs. In a sense, some of the costs that NewCo would have identified are costs that now reside in Jacana and T-Gen. Those boards are new and the executive management teams are additions, so you will need to ask them those questions.

Ms MANISON: I will.

Mr TREGILGAS: As far as I am concerned, the cost of structural separation *per se* remains unchanged for Power and Water, at $3.5m mark. They were essentially one-off costs in 2013-14 and flowed over. There was just over $1m of the $3.5m which was incurred in the 2014-15 year. As I said, that relates to costs that we can specifically assign to structural separation and costs that were not associated with projects already in train. Of course, projects already in train were moved to fair value – accounting separation of our business units. Those areas were already in train and, in some sense, have caused us some grief and unexpected costs. But I do not and cannot attribute that to the structural separation.

Ms MANISON: Last year at estimates we discussed the fact you were doing the financial management systems project. You were still embarking on stage one. At that time there was about $7m that had been expended on that and the total was forecast at about $10.5m. You had not decided whether or not you would require a second stage of that project as well. Can you update me on where that project is at and how much it has cost? Have you gone down the pathway of stage two and, if so, what are the anticipated and expected costs?

Mr TREGILGAS: I will get Michael to provide some of that detail, but it is certainly true that we did complete the FMS reimplementation project, the one that you are referring to. That was a project which involved improving the interfaces between our various financial systems to ensure they could separately report on T-Gen and Jacana, as well as provide a basis for separate reporting of our ongoing multiple business units. Do you have a costing to give the committee, Michael?

Mr THOMSON: No, we will take that on notice and providing costings.

Mr TREGILGAS: We did pretty well spend, I think, what we budgeted which was a significant …

Ms MANISON: The $10.5m.

Mr TREGILGAS: … amount and, as I have recognised, that project in and of itself did not achieve all the objectives we set for it.

Ms MANISON: Have you decided as a board to proceed down to stage two to continue with that, or is the project completed?

Mr TREGILGAS: Well, from my perspective the project is completed, but the work is not. We are doing …

Ms MANISON: So there are more upgrades to FMS and work required?

Mr TREGILGAS: … some of that work through other processes, given that we had to revisit some aspects of the design of that FMS reimplementation project, which did not in the end achieve all the requirements set for that project.

Ms MANISON: Can I put that question on notice, Madam Chair?

Question on Notice No 9.1

Madam CHAIR: Yes, please restate the question for the record, member for Wanguri.

Ms MANISON: What was the total cost of stage one of the FMS upgrade? What is the future cost associated with upgrades to the financial management system forecast at?

Madam CHAIR: Do you accept the question, Mr Tregilgas?

Mr TREGILGAS: Happily, yes.

Madam CHAIR: The question asked by the member for Wanguri of Mr Tregilgas has been allocated the number 9.1.

Ms MANISON: Last year, when we were going through the Statements of Corporate Intent we also discussed that there was a cash flow issue. Power and Water at the time – I think it was in the vicinity of about $5m that you had gotten an overdraft for. How are the cash flow issues within Power and Water Corporation at the moment? Have you had to get any further injections of cash into Power and Water Corporation, aside from the community service obligations?

Mr TREGILGAS: I am happy to answer that question, though I might ask Djuna to provide a bit of the detail. In our SCI last year we were looking at a negative bank balance, an overdraft of some $5m at 30 June 2015. As it turned out, we were in the black at the end of 2015 because we were able to take some steps to avoid the overdraft. That included some injection of equity, but we were able to modify the pattern of transactions to achieve a reasonably healthy balance at year end, at 30 June 2015.

We continue to work hard at our liquidity position. This year, I think, in our SCI we are not foreseeing a negative cash balance over that period. We have taken certain steps, and perhaps Djuna might explain those.

Ms POLLARD: Djuna Pollard, Executive General Manager, Strategy and Transformation. We did have an injection of $40m of cash by the Northern Territory government, combined with tight control of operating expenditure and capital expenditure. Our projection as at 30 June 2016 is to have a $13.3m cash balance on hand.

Ms MANISON: So Power and Water Corporation required a $40m additional injection of cash from the Northern Territory government in the last financial year? Why was that?

Mr TREGILGAS: We certainly did benefit from such an injection. It was a reflection that, again, the financial separation of the three corporations was still evolving. There was an initial divvying up at the commencement of structural separation of the old Power and Water bank account between the three corporations.

The Power and Water Corporation always felt that it did poorly in that exercise. Since structural separation, we understand, the new corporations had relatively healthy bank balances – and growing ones – while we struggled to keep the liquidity that we required to run our business. That was eventually accepted and understood by Treasury and the Treasurer. The injection that was given to us prior to 30 June 2014 was a reflection, effectively, by Treasury that there were further adjustments required between the three GOCs and their accounts. The way it was implemented was, in the first instance, by the government injecting cash into Power and Water where it was clearly needed. I think they took a little while to work out where they were going to extract cash from Jacana and T-Gen.

Ms MANISON: Do you see this as a one-off cash injection of $40m, or do you see that in future years this will have to be watched very closely and that there may be a need for further injections of cash from the Northern Territory government into Power and Water Corporation?

Mr TREGILGAS: I think this matter needs to be watched from an external stakeholder's perspective, but from the board and management's perspective at Power and Water, one of the many objectives of our business transformation project is, in fact, to improve the financial position of the corporation, which of its nature will improve our liquidity position and bring it to a level that we are comfortable with. We are not far off that now, but fundamentally the work that has to be done is work by the corporation itself.

If we find ourselves requiring further equity it will be a reflection that we have not achieved our transformation or our business improvement targets. That will be a reflection on us as a board and a management. We do not need any further …

Mr WOOD: If you need that much money – Power and Water is not making sufficient money to run its own business. We have always known that is the case because the government has always put money into Power and Water. Where does Power and Water, therefore, not make sufficient funds to run its own operation? Where does it lose, basically? You mentioned in your strategic directions – is the issue with gas that you actually lose money because you are paying for gas that you cannot use? Is that part of the problem?

Mr TREGILGAS: Thanks for that question. Power and Water basically has five businesses. Two of them are not-for-profit businesses. They are smaller ones. There is our remote business, our IES business, and there is our system control business that dispatches and ensures system security and reliability. Both those businesses are only just recovering their cash costs because that is the nature of the funding. I think we are going through a process with IES of re-negotiating a funding arrangement where we hope to try to redress some issues. There but there is a bit of negotiation to go. In some senses the onus is on us to provide the financial information that can better inform the process of funding of IES. As you know, we have not been able to provide the information in a satisfactory form, although that has been corrected.

Those businesses are barely keeping their head above water, almost by definition. Our gas business, you have identified correctly, should be a cost-recovery business. It is not a for-profit business. We have our gas for the purposes and the benefit of electricity consumers in the Territory. Power and Water does is not a profit-making business for us, but the struggle there is to sell the gas we are now contracted to purchase in a way that recovers our costs. The government has recently recognised that Power and Water has not been able to charge full cost-recovery and in this budget, I think, there is an amount to cover our loss-making in the gas business – $18m in 2016-17, and in 2017-18 there is another $18.7m – so, in that sense, in that business some of the deficit is covered. We still have a task and we …

Mr WOOD: Is that $18m for gas on top of the $40m that the government …

Mr TREGILGAS: It is, yes. With that, the equity injection at the end of 2014-15 was purely to get our bank balance to a point where it is appropriate for a business like ours to have the cash needed to run the business on hand. That was a divvying up of the cash between us, T-Gen and Jacana being adjusted.

Mr WOOD: I remember you saying that.

Mr TREGILGAS: Yes.

Mr WOOD: On that, I am trying to get an idea how much the government has to put in to keep everything going.

Ms MANISON: Can I ask along that line of questions – there has been a $40m cash injection from the government and an $18m community service obligation in gas. I have a question with regard to the community service obligation that has been paid for the 2016-17 year. Usually it is around the $59m mark. This year it is up at almost $78m. I appreciate that this includes Jacana Energy as well. Why has there been such a steep increase there?

Mr TREGILGAS: I may be able to deal with the CSOs to Power and Water *per se* and we …

Ms MANISON: Has your community service obligation aside from the gas increased in the next financial year?

Mr TREGILGAS: The figures I have in front of me, which are in our Statement of Corporate Intent, are in the public version. In 2016-17 there is about $15m in pensioner and carer concession CSOs and a uniform tariff concession CSO together. That number is largely unchanged from the previous year.

Ms MANISON: That will be Jacana Energy? I have to raise that question in regard to the increase to the community service obligation.

Mr TREGILGAS: Yes. We receive CSOs, but CSOs are because of explicit government decisions to price below cost recovery. That is a government decision as opposed to ours.

Gas is an area where we are struggling for market reasons, not only for government reasons. Our profitable businesses – and by profitable, that is not extortionary. Our margins are pretty thin and our rate of return on the capital which the government and taxpayers have invested in us is a relatively low rate of return compared with rates return in other utilities. Our power networks business and our water businesses are the two areas that, basically, generate the returns that we require to operate the business as a whole.

Mr WOOD: If you have true structural separation, should you have included the gas? If you were a normal business you would go along to the gas company and ask for a contract for gas. In this case, the government made a contract that has another 18 years to run, I gather, so it has a set price. If you were to start again as a new structurally-separated body, I presume you would go to the gas company and say, 'As a new body we would like to negotiate a gas price'. Considering there are people who will come on line that now have solar power being produced – there are other companies as part of the market – you are stuck with something. Does that mean structural separation is a little unfair, to some extent, by you having gas included in your business?

Mr TREGILGAS: There is a bit of history as to why Power and Water still has the gas business. There was an option to move the gas contract with T-Gen, because Territory Generation is the main beneficiary and the old Power and Water generation was the beneficiary of the gas contract. It was decided not to shift the gas contract to Territory Generation at structural separation but to leave it with Power and Water on the basis that the government was intent on trying to foster competition in the generation market. The belief was that competition would acquire new entrant generators to purchase gas from the entitlement from this gas contract. The belief was that if it was with Territory Generation, new generation entrants would feel disadvantaged having to purchase gas from their competitor.

Mr WOOD: Has there been a move to separate the gas section completely from any of the present three groups so it becomes a separate …

Ms MANISON: That was not originally part of the plan to make it …

Mr TREGILGAS: Gas is separated.

Mr WOOD: Yes, I know but as its own business.

Ms MANISON: … a separate government-owned corporation?

Mr TREGILGAS: Part of our business transformation process is to recognise that we are a multi-utility business and one of our multi-utility businesses is a gas supply business. We are intent at the corporation to run this gas business successfully and commercially. That will be a challenge. It is a challenge we want to take up. I want to show that we are able to do it, which is part of the reason we are a foundation customer to the northern gas pipeline, the interconnector with the eastern states, to increase the options we have around the sale of surplus gas we have. I am happy to talk about that.

I want to finish answering the question you asked. Our water business is probably in a healthier position than our power networks business. Our power networks business is under some stress because it is a regulated business and the Utilities Commission, in the first instance, and the minister have put the screws on our power networks business in anticipation that this will continue to be the case when we move to the regulation of the Australian Energy Regulator. Again, we are planning and rising to those challenges. We expect over the next two or three years that the power networks business will become more commercially sustainable, as it needs to, as we enter into the national regulatory regime.

We have a range of challenges here, and these are being made more apparent by our accounting separation, the process we are going through internally. They are part of the fundamental reasons we are adopting a business transformation program we have developed.

Ms MANISON: With regards to gas, I see in your SCIs that there are significant changes in your projected revenues from the last SCI to the current SCI. For example, for 2017-18 that figure has gone up somewhat to $50m, and in 2018-19 that figure again jumps to about $90m, so there is an increase there. What is driving those increases?

Mr TREGILGAS: Djuna can perhaps sort that one out. Generally speaking, the projections and the change in the projections reflect the fact that we are in the process of negotiating new gas contracts with players. My recollection is that some six months ago we really had only contracted and committed sales for about 80% of the gas we have available under the Eni Blacktip contract. So, we have a sales task of 20% of that. We are expecting to complete negotiations with some parties and these are outside of the power generation area. That would be reflected in those projections.

There is also a step up in the gas price between us and T-Gen in 2018, which is why our CSO ends in 2018; we are able to step up at the end of our present gas supply agreement with T-Gen.

Ms MANISON: You must see that as something very positive going forward for Power and Water.

Mr TREGILGAS: We can, again, start to look at that gas business as a business that can be sustained within our Corporation. The challenge is for us to step up to the mark. An option for government can be, and may be at some time - if we are unable to make a success of that business, it is taken out of our hands. As a board, we do not want to see that. We do see economies of scale and scope from keeping these businesses together and we think we can help facilitate competition by being a supplier of gas.

Mr THOMSON: Sorry, can I just make a comment as well. Some of the changes in forecast reflect, as we sell certain volumes of gas, that we actually get into cheaper gas as we use it up. So we also have projections going forward as to when we get through some of our bank gas. Depending on sales volumes we then enter into cheaper gas going forward, so it also reflects in the forward forecasts, some of the gas volumes, and when we start getting cheaper gas based on sales volumes going forward. That explains some of the variations in the gas forecasts as well.

Mr WOOD: Can I ask on that, one is your Incitec Pivot contract - what percentage of the 20% would that take up?

I will throw in another question, you say gas will get cheaper because you will be selling a greater volume, but is the gas at contracted price set with Eni and, therefore, how can you change that?

Mr TREGILGAS: A price path was set when the contract was entered into, some eight to 10 years ago. It is an indexed price path, quite a usual one. The price path was set back in the market circumstances of 2008, or whenever that contract was entered into.

In some senses, the challenge for us is not always the price, but it is the take-or-pay obligation that we have under that contract. Ten years ago we were much more optimistic about the extent to which electricity consumption would increase. Our contracted volumes under that contract have grown at a fairly healthy 2% per annum year on year over the 25 years, which was the expected growth in power consumption, and therefore electricity by gas demand – and now of course things have changed. We are all economising a lot. People are going off-grid and things like that, but under this contract, which is quite normal, we are obliged to bank the gas we do not use and, effectively, pay for it.

That is probably more of a challenge that we have, that we have a volume of gas. The price was not high in the middle of the last decade, but there are cheaper parcels of gas around that others might be able to offer. They cannot quite offer the volumes we can offer. It is volumes that are probably more of a problem for us than price. Gas market prices fluctuate; they go up and down. It is part of the debate we are having with the Auditor-General about what future gas prices might be. All we know about future gas prices is that we do not really know what they will be; they could go up or down over time. We have to deal with that as we get to them.

Mr THOMSON: Our commitments to both T-Gen, volume-wise, and Intertec Pivot account for about 80% of the gas coming out of the Eni. There are volume variances in what T-Gen and, potentially, Intertec Pivot will take each day, and that creates an opportunity to sell that spot-price gas going forward. Depending on which markets we can open up there and what arrangements we can come to – and we are in negotiations with a number of players around that now. Again, that is potentially an upside for the gas business as well.

Ms MANISON: Just turning back to Indigenous Essential Services, the subsidiary of Power and Water Corporation. As discussed in your opening statement, you said there will be another basis of disclaimer of opinion from the Auditor-General around the financial statements. Why is that, and how is that impacting Indigenous Essential Service, the Remote Operations business unit and their delivery of power, water and sewerage services to remote communities?

Mr TREGILGAS: This disclaimer of opinion, this inability of the Auditor-General to form an opinion – and we understand that will be her opinion. She has not yet …

Ms MANISON: Do you have any reasoning on what is driving that?

Mr TREGILGAS: I understand the reasons are twofold. They relate to the asset valuation issues we were having at the corporation as a whole, although, disappointingly and ironically, the basis of valuation – there was a change, but some of the complications were not there in IES. It was a simpler move than for the corporation as a whole, and IES was not impacted by structural separation. The issues that have arisen in IES cannot be attributed directly to structural separation.

Fundamentally, Power and Water's financial systems have been set up with just one bank account. My understanding is that we have managed to get clean audits with that one bank account, including IES, until now. The audit process has involved the Auditor-General lowering the financial materiality level for IES, which means some issues now are more apparent and in her line of sight than they were previously. I think, too, that some mistakes were made in design of the FMS reimplementation, which complicated the accounting between the parent corporation and IES as a subsidiary, which is regrettable.

I understand we have just about fixed up those reconciliation issues, but it has taken us nine months to do that and we had to draw a line. We are confident that for 2015-16 we will not have a disclaimer of opinion for IES.

Ms MANISON: Will you be able to produce an annual report for IES for 2014-15?

Mr TREGILGAS: That is my understanding, but I might ask a director of IES to answer that question.

Ms POLLARD: Yes, we will be able to produce an annual report for IES as well. The IES accounts are also with the Auditor-General currently and we are expecting her to issue her audit opinion in the coming days.

Ms MANISON: Excellent, and it is not impacting service delivery on the ground to remote communities, but is about financial issues?

Mr TREGILGAS: It is purely financial issues. It is purely head office issues and does not impact upon the delivery of services.

Ms MANISON: Excellent. You mentioned shared bank accounts in your response before. Is the Power and Water Corporation still sharing any bank accounts with Territory Generation or Jacana Energy?

Mr TREGILGAS: No, I think both those corporations now have their own bank accounts and have had from day one, so that is not an issue. In some sense it is the fact – internally, within ongoing Power and Water, we continue to have one bank account. That is often the case in corporations, but our financial systems probably have not been designed with the possibility in mind that financial transparency was required. The ideal way to do that is in fact to have separate bank accounts, but my understanding is that within Power and Water we still have just one bank account.

Mr GRAHAM: Dwight Graham, Chief Financial Officer. Can I just clarify the question? That was quite a long answer there.

Ms MANISON: I just asked if Power and Water was still sharing bank accounts with any of the other government-owned corporations.

Mr GRAHAM: Each of the three government-owned corporations has its own bank account and has had since structural separation. The revenue for Jacana Energy flows through PWCs bank account, which is due to the legacy billing system that we have. Jacana Energy is in a process of developing its own billing system, and that project is under way at the moment.

Ms MANISON: The revenues get paid to Power and Water Corporation and then you have to transfer it over to Jacana Energy?

Mr GRAHAM: That is correct. We call that daily cash sweeping.

Mr TREGILGAS: I was attempting to answer the question about the source of the IES reconciliation issues. Dwight, I think it would be useful if you could give us, in a nutshell, the problem there. Am I correct in saying we think we have resolved that issue and that the matter in the fifth will not be an issue in our 2015-16 audit?

Mr GRAHAM: That is correct. Similar to Jacana, the IES revenues flow through the PWC account as PWC is effectively the retail agent for IES. As part of structural separation it should not have touched IES, but in the split up it did and some transactions got split differently to what we expected. It caused us a problem with the reconciliations which we were not able to resolve in time for the Auditor-General to form an opinion on that.

We continue to work on that and are very near the end of it. We believe we will have that resolved in the next few days, such that the 2015-16 audit will be clean on that and the company issue.

Mr DEPUTY CHAIR: Was Jacana meant to take over the billing for Indigenous Essential Services, or would it always stay with Power and Water?

Mr TREGILGAS: It was always to stay with us; that is correct. We continue to have a retail licence for IES and remote operations. Jacana is not involved in supplying and retailing power to all IES communities and many small remote communities.

Ms MANISON: Last year at estimates we also spoke about the issue that had become apparent about stranded assets within Power and Water Corporation as a result of structural separation. We had been speaking about IT systems, physical assets, property leases and people in positions within the Power and Water Corporation. What has happened with that issue? Do you still have a number of stranded assets that are recognised within the corporation or you can see coming forward within the corporation?

Mr TREGILGAS: We discussed stranded assets. They are to do with physical things as opposed to people. They are to do with IT contracts and so on. We have endeavoured to phase the transfer of some functions from ourselves to Jacana in the retail space in a manner that could minimise the possibility of us bearing costs that were no longer associated with our functions. We did that through these transitional service agreements.

It is true to say, and I am sure you will ask my Jacana counterpart, that Jacana has been anxious to move, in some areas, to its own systems and has sought to accelerate the conclusion of some of these transitional service agreements. We are probably prepared to do that, in part because these transitional service agreements have been at some cost to us in servicing Jacana. That decision to ultimately see Jacana move to some of its own systems might be less costly than we thought because of the contract servicing costs that we are experiencing now.

Mr THOMSON: I can provide some further comment on that. Most of the T-Gen assets have been separated. We have a small contract with them for ongoing back office IT support. They are free to move from that at any time, but it is providing value for both parties and they have chosen to stay there.

On the Jacana side of things, we are looking at extending the transitional services agreement because they are still going through the process of implementing their billing system. We still have shared shopfronts and other assets. We are currently in negotiations and discussions with Jacana about how we move forward with those joint assets.

In a number of cases, as Jacana is implementing its own systems, we now have the opportunity to wind back some of ours, which we are starting to do. Particularly in the IT space, we no longer need so many IT licences given that Jacana is now implementing its own. As Jacana implements some of those systems, we are starting to wind back some costs associated with that at this point.

Mr DEPUTY CHAIR: On assets, do you know now what you own? You say in one of your reports in your strategy that you will set up an asset management strategy. So, I presume you can only have an asset management strategy if, by now, you know what your assets are. Has that been finalised and settled?

Mr TREGILGAS: The issue with our assets is not whether we know what assets we have. We are very comfortable that we know what assets we have. Although, there is an interesting wrinkle to that in the IES Pty Ltd audit opinion because, in that process since structural separation, there has been some discovery of assets. We are wrestling with whether those assets really have been discovered, whether they are, in fact, assets that have already been written off or whether they are assets that should be depreciated. That is part of the Auditor-General’s rationale, one of the reasons why the Auditor-General is not yet able to form an opinion and, therefore, this disclaimer opinion.

When it comes to the main business, as far as the board is concerned and as far as I am concerned, there is not an issue about whether we have all our assets identified. It is primarily a valuation issue. If we are doing work in the asset management system space it is to properly manage our assets. We need a lot of information about those assets, their age, cost and condition, and it is that management sophistication and information which investment in our asset management system is about, not just making sure we load up into our system the fact we physically own these assets.

Mr DEPUTY CHAIR: Is that done internally? Obviously, with a lot of your assets – there would be people who still work in Power and Water and who would know pretty well, for instance, when power lines went in a certain area. There would be some record of that, or do you have to bring in an external …

Mr TREGILGAS: Sure, inspections and those types of things are done, but from time to time we engage major asset management advisers to go through verification processes. I think there was a major asset verification process undertaken in 2013 as a basis for the move from historical cost to fair value. As a result of that, there are hundreds of thousands of assets on our asset register.

Mr DEPUTY CHAIR: Once you have the knowledge of your assets is there an automatic upgrading of the state of those assets, because you know them all and you add some on? Do you have to keep bringing another company in all the time or does the system look after itself?

Mr TREGILGAS: Once it is in place it should look after itself because you are simply adding new assets and removing old assets. The system then provides a basis for planning and maintenance, or planning and renewal and replacement of assets.

Mr THOMPSON: Also, from a non-financial valuation point of view, we have robust asset management plans. We lodge those with the Utilities Commission. Coming in under the AER jurisdiction as well, we have to provide long-term asset management plans and they are robust. Under the process going forward, regulatory information notices which we are required to lodge with the Australian Energy Regulator, we have to set out a lot of the condition of the assets and we have to provide a lot of technical information on the assets. There is a lot of work going on with that now, but in terms of technical, robust asset management plans, I think they are of a good standard.

Mr DEPUTY CHAIR: The reason I raise that is in your table on page 11 of your Statement of Corporate Intent, under operational performance, you included 'to develop and implement an asset management strategy'. That is why I was asking where it is at. I think that is pretty well answered.

Mr TREGILGAS: Our asset management strategy is an evolving document and a conversation with our stakeholders. The basic information is there. We just have to get some of our values right. Unfortunately, for different purposes you need different values. For income tax purpose they are different, for regulatory purposes they are different, and the Auditor-General's requirements are different again. That is part of the nightmare of the process and part of the challenge.

Ms MANISON: Turning back to your SCI again – I think that is what the member for Nelson is going through at the moment – and looking at your financial summary and your net profit after tax, on page 24, when you compare your SCI for the previous year to this year it appears that your net profits after tax for the next few years have gone down significantly. On your projections for 2016-17 you have budgeted a slight increase, but for 2017-18 they have gone down from about $43m to about $28m, and for 2018-19 from $46m down to about $10m. What is the reasoning around those changes of forecast?

Mr TREGILGAS: I might ask Dwight Graham to provide a reason for the fluctuating profile. Most of us would probably expect a nice, smooth profile, but that is not the case.

Mr GRAHAM: Each year we assist five different business units. Movements in those are being consolidated into the overall profit for the company. The biggest change is the gas end. As the chairperson explained earlier, that is a constantly evolving process which involves looking for different sales and negotiating. The cash coming in from the gas is treated one way, but there are accounting profits. Where gas is banked, while we have paid for that from a cash perspective, it is not until we sell it that we actually see the result. The biggest change there has been the gas affecting that net profit.

Ms MANISON: Turning back to that the additional $40m that was placed into Power and Water Corporation late last year, could it be put that towards any particular projects or bodies of work, or was it just to get the bank balance up to ensure that you have enough cash in the bank?

Mr TREGILGAS: It was an equity injection. It was not an equity injection to support any particular project. It was to provide additional equity for the business …

Ms MANISON: Yes, thank you.

Mr TREGILGAS: … as part of the correction in the carve-up of the bank balances.

Ms MANISON: Thank you. With system control, can you please update us on what is happening within system control? At the time of structural separation, and in the lead up to it, there were ambitions expressed for possibly making gas its own government-owned corporation, and system control too. I understand that it is moving to AEMO? Can you please talk us through what is happening?

Mr TREGILGAS: I am happy to give you some background. I will acknowledge that the establishment of a Territory electricity market operator, or TEMO, subsidiary of Power and Water has been under consideration by the board. Our market and system operations functions, which continue to be conducted by Power and Water, are vital to the quasi-regulatory role because it is providing services to all electricity market participants focused on security. It is a really important function. It grows in its importance. In the middle of last year the Treasurer commissioned a joint working group comprising representatives of Treasury, Power and Water and the Australian Energy Market Operator, or AEMO. I happen to chair that working group and we were asked to examine issues associated with a possible transfer of electricity market and system management functions in the Territory from Power and Water to the Australian equivalent, AEMO.

In a nutshell the joint working group set up to advise that the Treasurer recommended that the immediate transfer of system control market operations to AEMO was neither practical nor appropriate.

Ms MANISON: That is staying within Power and Water Corporation?

Mr TREGILGAS: That is right. Such a transfer should only be considered once the wholesale electricity market here in the Territory, which is in development and has reached an appropriate level of maturity, which is still some years away, in my view. In the meantime, the relevant function should be retained within Power and Water, although the joint working group proposed that the functions be retained in a subsidiary to be established to undertake these functions with a governing board that involved some independent members, including a representative of AEMO.

Ms MANISON: What would be the benefit?

Mr TREGILGAS: The board has not acted on establishing this subsidiary.

Ms MANISON: Do you see that happening in the next financial year?

Mr TREGILGAS: From a Power and Water Corporation board perspective, I think we are interested to see how quickly the establishment of our wholesale market the NTEM, the Northern Territory Electricity Market, occurs and we would not want to get too far ahead of that game.

Ms MANISON: Would it be safe to say there will be no changes within the system control for the next couple of years?

Mr TREGILGAS: That is correct.

Ms MANISON: Thank you. In regard to jobs, within the Board's Strategic Directions is the move to looking at the business units and giving them more responsibility for their operations because you believe that will drive a better level of service and efficiency within those business units?

I have been approached by a couple of people in the last few days. You do not usually get too many approaches before estimates, but I have been approached by a few people who I was not expecting to approach me, saying they were concerned about job security within Power and Water Corporation. As part of the work with board's strategy going forward in 2016-20, would that include looking at the organisational charts and staffing charts within the Power and Water Corporation?

Can people feel pretty safe within their jobs at the moment? I am asking this question because people have asked me to put it to you, because there are some concerns about job security and they are seeking some assurance around that.

Mr TREGILGAS: Okay, thank you for that question and I can understand why some people might be concerned. That is probably a reflection that we have neither communicated nor developed how we might go about our business transformation project.

I think it is inevitable that it will involve a degree of downsizing, but the board of management is planning to achieve that in a gradual way, as opposed to a pre-emptive way. I repeat what I would have said at the last GOC scrutiny that Power and Water will continue to rely on natural attrition whenever we undertake downsizing. We have a fair bit of turnover in our staff, although in some areas it is much less than others. We will not be planning any forced redundancies or any slash and burn, or things like that, which is why the board has set up its targets in a medium- to long-term way. We are focusing on fiscal year 2020, so the 2019-20 year, which is the final year. We will be implementing things gradually over that period of time. Precisely how we go about this transformation has to be part of a dialogue with our staff. Under our enterprise agreement we are obliged to go through consultative processes and we are very mindful of those requirements. Those things will happen.

At the moment, management is responding to our medium-term goals the board has set, developing its response. We expect there will be a more detailed plan formulated, as chance would have it, by August. That then will be a basis of conversation with our staff as we develop those plans further in response to input from our staff, and we will have discussions with our future shareholding minister, whoever that might be.

Ms MANISON: With regard to this downsizing, is there any particular section or areas of the Power and Water Corporation you feel is the likely place that will occur?

Mr TREGILGAS: If you look at the strategic directions document – a focus for the board has been the size of our corporate overhead and we have a view that maybe our head office function areas are larger than ideal in a commercial organisation. The business has evolved a bit too much to be mimicking a government department, as opposed to a commercial utility.

One of the targets set by the board is about bringing down our corporate overhead as a proportion of our overall costs. I guess we will be starting at the corporate levels. These are back office as opposed to front office. It is not to say there might not need to be an examination of staffing levels in some of our business units as well, but they are probably a second phase. They will be, in some sense, a response to regulatory imposts upon us, including how the Australian Energy Regulator, the AER, develops views about the cost structure it might regard as appropriate for a business of our size and our nature in the power networks area.

But to start with, we will be looking at our corporate functions. It is set out pretty clearly that we are aiming to get our corporate overheads as a proportion of our operating expenses down from the high, well above average mark down to about the average mark of most of our comparators.

Ms MANISON: You are committed 100% through this period of change that you will be communicating thoroughly with staff about this very hard decision?

Mr TREGILGAS: That is right. We are obliged under our EA, and it is good management anyhow to bring everyone into the tent. At the moment, the board has started a ripple with its strategic directions, but management is now doing its own responses and it will then reach out to the organisation to help develop and finalise our business transformation strategy.

Mr DEPUTY CHAIR: I have a number of questions regarding water. You will know there are issues about the Howard East Borefield at the present time. The minister made some statements the other day about the possibility of bores running dry. Has the Department of Land Resource Management been in discussions with Power and Water over whether there would be any cutbacks in water being pumped from the Howard East Borefield for Power and Water purposes?

Mr THOMSON: I will make some comment and, if need be, we can bring up our expert. At the moment we are in discussions, but we are not actually extracting from that aquifer any more than we have been. We are, this year, roughly aligning with the extractions that we had from last year which are down on the previous year.

On that note, I would like to introduce David George, our Acting General Manager of Water Services, who can provide some further detail.

Mr GEORGE: Yes, member for Nelson, I can answer those questions.

We have not had any indication from the water regulator or Land Resource Management about any adjustments or changes to our extraction licence which exists for the Howard East/McMinns Borefield area. We are aware and conscious of the issues in the Howard East region and we will be working with the Department of Land Resource Management to optimise our pumping regime in the borefield, but there is no indication from them that there will be a reduction in our licence.

Mr DEPUTY CHAIR: Is your licence - some licences are high, some medium, some low in relation to security - a high-security licence and, therefore, you can pump the maximum you need to pump in any year?

Mr GEORGE: Yes, so in the Howard East region there is no tiered system for licences currently; that applies in areas where there is a water allocation plan in place. In the Howard East area all licences are at the same level of security.

Mr DEPUTY CHAIR: I just thought I should say we are hoping to try to have some discussions with Land Resource Management hopefully tomorrow. Maybe we can get a public meeting because I think there is a lot of concern and I would be interested if Power and Water could come to that meeting. I think that would be handy because, you would know, a lot of times the issue about lack of water is put on the shoulders of

Power and Water. Whether that is true or not is another issue so I will not go further down that path at the moment, but I just thought I would clarify that.

Mr TREGILGAS: The corporation is always happy to participate in those community discussions.

Mr DEPUTY CHAIR: The other issue – Intrapac is the company wanting to build a subdivision at Noonamah Ridge. It has just released its supplementary environmental impact statement and I was reading that yesterday. They say they are applying to the Utilities Commission to be a provider of public water supply to that area. Would Power and Water object to that as – you might say – the monopoly that looks after water in the Darwin region?

Mr TREGILGAS: That is not a matter that the board has yet had an opportunity to consider. We certainly have a licence which, basically, obliges us to supply water to whoever we can and, therefore, in some senses we are a monopoly provider. I am aware that the Utilities Commission, from time to time, is quite happy to consider schemes at the margin that might keep us on our toes. We have to recognise that might play a role within the framework that the government has developed, but are you aware of this Michael?

Mr THOMSON: No, I am not specifically aware and I would have thought …

Mr GEORGE: I have a bit of awareness about this. It became evident yesterday when we received a supplementary EIS for public comment for this project. Intrapac have indicated in the past that they intend at an early stage of their development to provide their own water supply. We have not had any approach from them and it is for them to contact the Utilities Commission to discuss.

Mr DEPUTY CHAIR: In line with those water questions, where are we with the future water supply from the point of view of water storage capacity? I have seen the documents Power and Water put out some years ago, which are very good. Has anything been advanced? Do we have any indication that a new asset is being put into future plans in a concrete way, rather than simply some ideas for the future?

Mr TREGILGAS: This matter is under consideration by the board. We know that just over the forward estimates horizon there will be a requirement for significant investments in additional water storage capacity. The board has been firming that – at some stage that will involve bringing Manton Dam back in, but that there are other aspects that we will be doing as well. We are still considering those matters and I am probably not in a position to provide any certainty at this point. Again, consultations need to take place. There are funding and financing matters, and there is consideration to be given to the extent to which there might be alternative sources of provision, and to involvement in the development of water storage and water harvesting for the Darwin region.

Mr DEPUTY CHAIR: Would you, as the power and water body, be the ones that actually go out and get the funds to do that? Are you the people who build the capital? The federal government has a $2bn Developing the North fund. I think they might even have one for dams, water storage. Are they the sort of things you would be looking at to see fi you can get the money to build this infrastructure?

Mr THOMPSON: Yes. We will be looking at all of those funding models. In terms of your comment, I also make the comment that we are working with the Commonwealth and accessing some of those funds in terms of exploring opportunities for water in the north. Again, David George might be able to answer, but I think we have secured about $3m funding to do some water studies with the Commonwealth on opening up the north.

Mr GEORGE: We are working on future water source investigations and feasibility studies, in particular off-stream storage in the Adelaide River region. Over the next four years we are investing in planning, feasibility and concept design for future water sources in that area. We are doing that in conjunction, somewhat in parallel, with the CSIRO. They are funded through the National Water Infrastructure Development Fund to the tune of $15m across the whole of northern Australia. They are looking specifically at some of the areas which we have indicated are future water source regions for Darwin. We are working closely with them on ensuring our investigations are done collaboratively. That will assist us with our feasibility studies.

Ms MANISON: How are we going with water supply in the Top End from Darwin River Dam? We have seen a step-up in your water conservation messaging to the community in the last 12 to18 months. How is that going with regard to water supply and concerns about dam levels?

Mr GEORGE: We acknowledge that Darwin region demand has grown as Darwin grows to the extent that augmentation is now required or is on the horizon. To ensure we remain within the availability of our systems we are implementing the Living Water Smart program as well as continuing to assess and move towards concept design for future augmentation, so we are working in both streams there.

The climate in the Darwin region has a great impact on water use. Last year, 2014-15, we saw quite an exceptional water demand, the largest we have seen, but we have a lumpy demand profile, which varies quite considerably from year to year depending on the length of the Dry Season, more so than the size of the Wet Season. It moves around.

We are currently comfortable with the dam levels. It is at 86% in Darwin River Dam currently. The dam did not quite fill this year, but 86% is a reasonable level. We had reasonable rainfall in the catchment area itself.

Ms MANISON: Very good.

Mr DEPUTY CHAIR: I might just ask a question on water. There has been a lot of talk now and you would have heard that in regard to the Berry Springs Aquifer, Land Resource Management said no more water was to be removed from that aquifer. I have heard a minister say the next thing you have to do is wait for town water to come to that subdivision. I think it is a long way off because I am not sure the minister knows exactly where that subdivision is.

My understanding, when people have asked for town water – Power and Water has asked for the best version possible of water supply to those areas. I have had people ask me to write to Power and Water to find out whether they could have town water down their road, and I have had quotes from Power and Water for about $19 000 per block to $39 000 per block. One of the issues is the difference between what people want and what Power and Water needs. That area is in relation to Power and Water wanting a so-called Australian standard domestic watering system which allows the pressure required for firefighting.

Most people in the rural area would regard living in the rural area as, ‘That’s life. If your house burns you either get your bore going or you get the local fire brigade.’ But by having this higher standard of water supply, more than just for domestic water, the cost is much higher than it needs to be.

Does Power and Water have to stick with that Australian standard or can it provide a service which is basically to supply people with water for their showers and toilets instead of having to go up to that higher standard, which is very expensive?

Mr GEORGE: Member for Nelson, thank you for that question. There are a number of aspects there. I would absolutely say yes, that we need to follow the Australian standards or the appropriate standards for water supply.

Mr DEPUTY CHAIR: Our local fire brigade they do not agree with that standard, by the way.

Mr GEORGE: Okay. I disagree with that because the fire standards, Australian standards for fire management, set the pressure and flow standards for our systems. That is administered by NTES, so those standards are applied to our systems and, when systems are installed, Fire and Emergency Services test our systems against those standards.

The cost of servicing the properties, like you said, is very high. Those are rural/residential areas and there is great spacing in between customers, so there is a lot of infrastructure in between, which is why the costs are so great. What I think we would not want to return to is the banjo connection scenario, which is alternative to an appropriate standard of service, I believe.

Mr DEPUTY CHAIR: Banjo connections are a continuing problem. My last question is about sewerage. The budget papers last year had $4.5m for sewerage to the Howard Springs village and there were a couple of meetings. I must admit, Power and Water did not turn up to those meetings. They were run by Land, Planning and the Environment. Last I heard, that sewerage system would go to Coolalinga and then to Zuccoli. When I asked the minister why it is not in this year’s budget he said there has been a change and the sewage will now go to the sewerage pumping station at INPEX, which, in the original discussions, was not on the cards.

Could the Power and Water people tell me what is happening in relation to the sewerage project for Howard Springs village, when is it expected to start, and how it can be connected to the INPEX pumping station when previously they said it could not?

Mr GEORGE: I am able to answer that, member for Nelson. That is mostly a question for the Department of Lands, Planning and the Environment. It is their budget and their proposal ...

Mr DEPUTY CHAIR: But it is your pumping station at INPEX.

Mr GEORGE: We have had discussions about connecting to the pumping station at INPEX for an initial early stage of the Howard East area, not for the total build of any future sewerage system in that area. There is a small existing capacity that would be available.

Mr DEPUTY CHAIR: If Howard Springs village expands the way the Planning Commission wants it to, not that we all necessarily agree with that, it could not operate until there was an alternative source for the sewage from that expanded village?

Mr GEORGE: Correct.

Mr DEPUTY CHAIR: All right. So it is only for about 10 people.

Mr GEORGE: I could not tell you.

Mr DEPUTY CHAIR: It seems a lot of money for very few people. All right. I will have to ask the minister more questions on that.

Ms MANISON: Power and Water is expecting this question about the Leanyer waste stabilisation ponds. It has been a big issue for people, particularly in Leanyer and Muirhead and, at times, in Wanguri and Lyons, where you can smell the ponds. It seems to be in the last four months in particular that it has stepped up quite a bit. It is a deep issue to people in the community, particularly with Muirhead still to grow and we have another two new suburbs coming on with Muirhead north and 2 CARU. People want to have confidence that Power and Water is on top of these issues.

Speaking to residents in Leanyer who have been there for a long time, it is constant and has become quite noticeable at times – not all the time, but it happens from time to time. It is a lot more frequent this year. People want to have confidence that Power and Water is on top of this issue and is dealing with it in a way to ensure that as future residential growth occurs this will not become a bigger issue and that you will reduce the problem. At the moment it is a problem.

The new treatment plant is going in, so I am keen to get an understanding of the time lines on that treatment plant. Do you feel that will have an impact? Has Power and Water also looked at the management plans? I have written to Power and Water and asked them at estimates last year. We have had the practice of the sludge piles, which is when the ponds are cleaned out and you scrape the material off when you de-sludge them. Traditionally, that has been put at the boundary of Muirhead. Now people have built houses next to that location. I appreciate that has been used in the past because it is a spot that is above sea level, but residents live there now.

We need this infrastructure to co-exist, but it is at the point where we need to change the management at the ponds so local residents can co-exist with this vital infrastructure. What work is Power and Water doing with the management of the Leanyer waste stabilisation ponds to deal with these matters?

Mr TREGILGAS: I am the man to answer this question. This issue was discussed at our board meeting this week. It is a matter in our lives well and truly now ...

Ms MANISON: Local residents would appreciate it if Power and Water is looking at it with some urgency so they have confidence that action is taken.

Mr TREGILGAS: David can give you some of the response that he gave the board on this matter when we discussed it.

Mr GEORGE: Thank you, member for Wanguri. Yes, we acknowledge there has been increased community concern in that region, particularly this year, 2016. We have had a number of complaints lodged at Power and Water. We believe the treatment plant is operating as normal through this period and the increase in odour concern has been exacerbated by the unusual weather conditions we have had. Everybody would agree that the weather has been unusual for this time of year and that has amplified the odour issues at the site.

Notwithstanding that, we are absolutely progressing with treatment upgrades at the site. We have approximately an $8.5m project to deliver inlet works to the site. That is the influent to the treatment plant and that is the first step in treatment augmentation at the site. It is a common first step for the future treatment improvements at that site. It has been designed in that way.

We are preparing our tender documents at the moment. We will tender for construction, and finalising the design which is at about 90%. We expect to be constructing at around the end of this year, that being the calendar year. There is over a 12-month construction period for that work, probably an 18-month construction period for those works.

The inlet works will manage the influent sewage to the site. It is a screening process and it manages a lot of the solids and pollutants that come into the plant. That has a number of environmental and operational benefits. It will mean that there will be a significant reduction in de-sludging requirements in the ponds, as a lot of that material will be disposed of off-site at the beginning of the process. So the de-sludge operations will be significantly reduced in their frequency.

Ms MANISON: I think the main concern for the residents was they understand that maintenance has to happen, and maintenance is a good thing, but literally piling the de-sludge materials right next to residents is no longer appropriate.

Mr GEORGE: That is right. Historically it has been stored on that site for stabilisation purposes and treated with lime. That has been the case for 35-40 years, well before there was residential development in the area. We acknowledge that there are better ways for managing that and the inlet works will help us with that process significantly.

The current stockpiles of bio-solids, as I refer to them in that area, are unlikely to be causing significant odour issues. They are stable and treated with lime so they may be located in that part of the plant, but they are unlikely to be causing significant odour. That is coming from the treatment ponds.

Ms MANISON: Future material will not be stockpiled there? It will be taken off site?

Mr GEORGE: Correct.

Ms MANISON: Thank you. In terms of formal odour monitoring in the area to ensure that these works actually do take effect, and as the population continues to grow that the problems do not grow as well, are there any plans from Power and Water's perspective to ensure they have a better understanding of odour? It pops up from time to time.

Mr GEORGE: Odour measurement is very challenging and difficult to do. We rely more so on modelling, what we expect odour to be from the site - taking into account topography and the wind, climate, directions. That is what we use to understand the issues around Leanyer and Sanderson. It is difficult to calibrate that with actual odour outcomes, but, yes, we will implement odour assessment in the area going forward.

Ms MANISON: Excellent. My constituents will greatly appreciate that.

Mr McCARTHY: Can you give me an update on the Robinson River project as listed in the capital works on the Budget 2016-17 and also if there is any work on new water supplies for Epenarra and Minyerri.

Mr GEORGE: Those are questions for Len Griffith, General Manager Regions and Remote for water services.

Mr GRIFFITH: Could I just have the question again please? It was on water at …

Mr McCARTHY: On the Robinson River project, which is listed in Budget 2016-17, are there any updates on Epenarra and Minyerri in terms of investigation of water supply?

Mr GRIFFITH: As far as the Robinson River supply is concerned you would be aware that there are some difficulties out there. We have a surface water source as well as bores, and we have been doing some significant work there over recent times, building new tanks and installations for that supply. We are progressing quite well there, but struggling with our water supply and our sources. We are doing some investigations to see if a gallery installation is applicable. Essentially, a gallery is an installation similar to one we have at Oenpelli, where we put a series of bore holes in the ground and install a series of integrated pipes that draws water from a source that is not necessarily open. It is more an inflow from the water table.

We have been progressing that at Robinson River. As far as Epenarra is concerned we have had some fairly major concerns for quite some time around our water source from the Frew River aquifer. We have drilled new bores there in recent years and we are quite confident we can meet demand. At the end of the day, like all of our remote communities we need to make sure that we integrate our water supply with the water demand management process. We need to engage the communities and make people more aware of water usage, particularly in those areas where we have stressed source water aquifers.

I attend the Barkly Regional Coordination meeting, which is all the heads of agencies, on a monthly basis. I have been working with that agency, which includes the Barkly Regional Council, and taking along presentations to make people in the Barkly aware of some of the water restrictions we have in that area, particularly at Epenarra. By raising that awareness we have spread the word about demand management and what that means as part of the ongoing water supply for those communities. Have I answered your question sufficiently?

Mr McCARTHY: That is great information. If you are prepared to make a comment. At Epenarra previously there was strong resistance to any new infrastructure that prevented the national partnership housing program from delivering. My argument is that if we knock down old tin houses and build new infrastructure, it gives us a new platform to work from for water efficiency. Is that correct?

Mr GRIFFITH: Thank you for your question, member for Barkly. In my role as General Manager Regions and Remote I work very closely with the Department of Local Government and Community Services. In fact, I met with their infrastructure team yesterday afternoon and we spoke about housing at Epenarra.

There is no doubt that with any stressed water supply we have to be very careful about the population that we encourage through building further houses. With all due respect, a lot of the houses at Epenarra were more tin sheds than fully functioning homes. We are not saying that more homes cannot be built there; in fact, we are working with the Department of Local Government and Community Services and very carefully assessing that infrastructure. We are putting in place a more intense monitoring of the bores there. We have in-house hydrologists in our section of remote operations to work through the figures and ensure what the likelihood of sustainability will be around the potential for housing in Epenarra. I would be hesitant to put a number on it or say exactly how many houses could be built, but we are looking in the near term of about six to 12 houses. I think that is how many have been mooted for that area.

We are working closely with the department, offering all the support we can to ensure if those houses are built that they are sustainable and the water supply is adequate.

Mr McCARTHY: Thank you. For local knowledge, it is about basically decommissioning tin sheds, so it will be the same population, but it will be new supporting infrastructure where I expect we would be able to deliver better water efficiency. Those tin sheds are substandard in all aspects of sustaining human life.

The last question from me – is there any work going on in terms of the stress on water at Minyerri?

Mr GRIFFITH: Minyerri is pretty much the same as all our communities. We are doing some substantial work with demand management right across the sector of our remote communities. I have some information about communities that are quite substantial in regard to being at risk, if you like. Minyerri is one of those, as are many others, particularly in the Barkly and including Epenarra.

We are working on investigating water source options. Where that option is declining or at risk, we are backing that up with a good demand management strategy with those communities. Minyerri is at risk; no doubt.

Mr DEPUTY CHAIR: That concludes this session. Thank you very much for coming. We appreciate your candid answers to the questions and we will move to Jacana after a five-minute break.

The committee suspended.

JACANA ENERGY

Mr DEPUTY CHAIR: Good morning, everyone. I welcome the Chair of the Jacana Energy Board, Mr Noel Faulkner. Mr Faulkner, please introduce the representatives of the corporation accompanying you today.

Mr FAULKNER: Thank you very much, Mr Deputy Chair. I am extremely pleased to introduce a couple of our new executives. We have been able to recruit a couple of Territorian executives over the last 12 months ...

Mr DEPUTY CHAIR: They must be good.

Mr FAULKNER: They have proven to be exceptionally good so far. We have Michael Hoare on my right as Chief Financial Officer; Will Oliver, who has been appointed as General Counsel and Company Secretary; Stuart, whom I should have introduced first. Sorry, Stuart.

Mr DEPUTY CHAIR: You are going up the scale.

Mr FAULKNER: He is an old hand now. Stuart Pearce is our CEO; Danny Moore, Executive Manager, Sales and Strategy; and we also have Donna Hatton who is the ministerial liaison and Customer Experience and Advocacy Officer. That is a function that was previously performed by PWC which we have taken over in the last 12 months.

Mr DEPUTY CHAIR: Mr Faulkner, would you like to make an opening statement on behalf of Jacana Energy?

Mr FAULKNER: We have a few slides we would like to go through, if that is okay – mainly focused on our performance in 2014-15 and to date this financial year, which may set the scene for subsequent questions.

We will table those slides, if we can.

Mr WOOD: Mr Faulkner is speaking to the slides that he has handed out.

Madam CHAIR: Okay.

Mr FAULKNER: I might move through the presentation fairly quickly, if that is okay. Any questions as I go - just interrupt.

What we have listed there is our half a dozen key targets which were contained in our SCI, our 2014-15 targets. Gross margin, we were targeting 5.9%, we have actually achieved 6% which was right on the mark. More importantly I think, the cost to serve we were able to get down from a target of $178 per customer to $164 per customer. You will see when I come to the 2015-16 year, performance to date has actually increased above $164 and there are couple of reasons for that.

Our EBIT, earnings before interest and tax, was $15m compared to $14.4m. Return on equity – 36 actual, compared to 35. Grade of service is something we were particularly focused on since we went live. That is the percentage of calls answered in the call centre within 30 seconds. The Utilities Commission set a target of 63% for that which was aligned with our target for 2014-15. We were able to achieve a target of 70%.

The abandonment rate is the percentage of calls that actually drop out before they are answered because of the delay in answering, effectively. The grade of service and the abandonment rate are fairly closely aligned.

Moving on to 2015-16 performance, a target of 4.3% for gross margin - year to date, end of May, we are running at 5.3%, so slightly ahead of target there. Our cost to serve – you will see we had a target of $173 and we are running at $184 per customer at the moment. There are a couple of reasons for that, which I will ask Michael to go into when we get to the end of this slide. The EBIT, 9.8 compared to a target of 5.5. Return on equity 10.6 to 6.5.

Grade of service has dropped and is running around about 5.8%, but what has happened during the year is that we actually took that service over from Power and Water Corporation. We went live with our own call centre on 1 February and in the three months up until that transition there was some extremely low performance in the PWC supplied service. In January, the grade of service was about 13%, December was 25%, and November about 50% or 52%, which has impacted negatively on our performance year to date.

We are averaging about 65% since 1 February, which is only slightly above the Utilities Commission target and the abandonment rate, once again, of 5.6% is related to that 57.7% grade of service.

Michael, do you want to just cover off that $184 cost to serve?

Mr HOARE: Michael Hoare, Chief Financial Officer. There are two main reasons for the cost to serve being greater year to date. The first one is that we are looking to implement new systems next financial year, and there have been some set up costs in doing the research to make sure we picked the appropriate systems to go forward with. The second reason, as Noel alluded to, is that the call centre and credit management have come in house to Jacana Energy. We still do have some system restraints with PWC. It means we have brought staff on, and they still have staff in PWC who still perform some of the services from Jacana.

As we implement our new systems, the PWC costs will come off and Jacana Energy will then become more efficient and the costs will come down.

Mr FAULKNER: The increase from 173 to 184 on an 80 000 customer basis is about $800 000. About $200 000 of that is associated with residual PWC costs. Another $300 000 to $400 000 is associated with the transition, or preparing for the transition to the new retail operating system and the financial management system. We are putting a lot of effort up front into those systems. Everybody has a war story in terms of what goes wrong with IT implementations, so we are doing a lot of work to get the contractual arrangements right with the providers. We are also making sure we have identified all the possible risks and the mitigation strategies associated with those risks. That has cost more than we anticipated, but we believe it is money well spent.

The next line gives us some comparative data with other retail authorities in Australia. You will see the size of Jacana Energy compared to even Aurora Energy in Tasmania. That is about $276 000 compared to Jacana Energy's $80 000. Of course, when you talk about AGL and Origin Energy you are talking about $2.2m and $2.8m. A relatively small customer base does not provide the same opportunity to spread the fixed costs. Our gross margin at 6% is significantly below the gross margin of all the other entities.

Our cost to serve – at $164 000, given the size of the entity our 2014-15 performance was quite acceptable. If we look at the forward targets for our cost to serve – our target for 2016-17 is $165 000, getting us back to where we were in 2014-15. We are progressing significantly in the forward years to an extent where, in two or three years' time, we will be one of the most efficient retailers in the country using the cost-to-serve measure.

Madam CHAIR: Mr Faulkner, I need to remind you that this is being telecast and people cannot see what you are referring to. The normal practice is to ask departments, in your case the GOCs, to provide a five-minute opening statement and then take questions. Given that you only have an hour, is it possible to talk to the points fairly briefly and maybe allow for questioning? I am assuming that the panel members have a number of questions.

Mr WOOD: I have not seen this paper so we need to have them explain what this paper means.

Madam CHAIR: Is that the will of the panel? It is a different format that is being presented here. Okay, if that is the case then we will continue.

Keep in mind that people can only listen to what you are saying. They cannot see what you are referring to.

Mr FAULKNER: I will move on quickly. The next line deals with some key initiatives that have been implemented since we last met. We have had a 5% price decrease to tariff customers, the mass market customers which was introduced on 1 January this year. We relocated to new accommodation in the old TIO building in January this year. We have also opened a small office in Alice Springs to house our credit management customers. There are only about four or five people in that group. It would have been commercially more favourable to centralise that activity in Darwin. We thought it was important to retain that regional presence, so we have maintained that function in a small office in Alice Springs.

Michael mentioned earlier that the contact centre and credit management has moved in house from Power and Water Corporation. That is part of our longer-term strategy of progressively taking over the functions that are currently provided by PWC through a transitional services agreement.

We have two IT projects in train. One is the provision of a retail operating system, and the other is a financial management system. We have introduced a time-of-use tariff, which is the Switch to Six campaign, and I think about 160 customers have taken up that offer so far. We have also started to establish a customer and community reference council. This is to provide a forum to enable Jacana Energy to get a feel for what is important to the end use customers and community groups by having a regular meeting with selected representatives. Those meetings will probably be held on a quarterly basis.

A huge challenge for us is in the cost of goods sold for mass market customers being greater than the revenue we receive. The cost of goods sold – the two big elements of that are the generating costs and the network costs. We actually sell it to end use customers for less than what those costs are. It is an unusual situation in that regard in that the more you sell to those customers the less money you make. It is propped up by a community service obligation, but not completely covered by the CSO.

We have little control over our revenue and even less control over costs. Of our revenue base, about 23% is CNI customers. We have some control over the contractual arrangements and the costs associated with our sales to those. The balance is what I call franchised customers, so that price is set by the government and we have no control over the revenue associated with that customer base.

The mass market retail prices, however, compare favourably to other jurisdictions. We have a couple of slides in here which show the relative price of electricity to the mass market customers compared with the other states. But, because of the discrepancy in consumption, which in the Territory is much higher, the average annual bill for those customers is higher than in other jurisdictions. The other challenge we face at the moment is the significant increase in the market price of renewable energy certificates. The cost of those certificates represents about 5% of our total costs, and the certificates have increased in price from around $50 to – I think the market is about $81 to $82 at the moment.

Our next slide provides a breakup of our total revenue of $511m. Taking on board your comments a minute ago, Madam Chair, 56% of that revenue is from the mass market customers, 23% is from commercial industrial, 18% is customer service, and a small amount is pensioner concessions and other revenue. Other revenue is interest on cash during the year.

More importantly, the next pie chart will give you an indication of the total costs of our undertaking – 56% of the cost which flows through to the end use customer is generating costs, which is roughly $300m a year. The cost of PWC networks is 35%; generating costs is T-Gen; 5% is the renewable energy certificates; and only 3% is the actual costs associated with operating Jacana Energy.

When you are looking at achieving some efficiency, overall savings and reduction in pricing for end use customers it is fairly easy to see where you need to target your activities – 10% reduction in generating costs would enable you to reduce prices to the extent of $30m; 10% reduction in Jacana Energy's costs will save you $1.5m, which is a huge difference.

The next slide gives you some indication of how those network and wholesale costs compare to a couple of other retailers in Australia. Network costs are AGL, $147 MW/H; $103 for Origin Energy; and $83.6 for Jacana. Wholesale costs – the generation costs are $34.8 MW/H for AGL; $52.5 MW/H for Origin; and $189 MW/H for Jacana.

I mentioned before that the price per kilowatt hour in the Territory is favourable compared to other jurisdictions, and the next slide will show this. There are only three other states which have a lower price per kilowatt hour than the mass market customers in the Territory, which is ACT, Tasmania and Western Australia. You will see on the price per kilowatt hour basis, the Territory compares favourably to the rest of the nation. We have shown what the price per kilowatt hour would be without the CSO. The small green bar on top indicates the CSO component of the price.

There was some media coverage recently about the increase in energy in the Territory. It was not just the Territory; it was nation-wide. We have shown the comparison of the rate per kilowatt hour for mass market customers in January 2015 compared to January 2016. It has reduced – 1 January 2015 mass market customers were paying on average 28c KW/H, which is down to about 26.7c.

Finally, as I mentioned previously, the next slide shows the megawatt hour usage per customers per annum. Although the unit price compares favourably to the rest of the country, there are only three other states that are lower. You can see that the consumption, the megawatt hour per customer per annum, is much higher than it is in just about all other states. It is about on par with Tasmania, but the consumption is higher than all the other states.

Mr WOOD: On that graph for Tasmania, is that over the last year when they had problems with power supply or is it an average for Tasmania?

Mr FAULKNER: That is the 2013-14 year.

Mr WOOD: Okay, thanks.

Mr FAULKNER: The final slide shows some key strategies that we currently have in our long-term corporate plan.

Madam CHAIR: Questions?

Ms MANISON: Thank you, Madam Chair. Thank you, Mr Faulkner. My first question is about the community service obligations you pointed out, and the component of that in the tariff pricing. I put this question to Power and Water before and they said it would be likely that this increase was to Jacana …

Mr FAULKNER: They said talk to us, did they?

Ms MANISON: They said talk to you.

Mr FAULKNER: How many times did they say that?

Ms MANISON: Not too often, so you are okay. Budget Paper No 3 says that the community service obligation payment from the Northern Territory government has increased from $59m to about $78m in 2016-17, which is the regulated retail electricity tariffs, including Jacana Energy. Has your community service obligation payment from the Northern Territory government coming into Jacana Energy increased for this 2016-17 year? If so, what do you attribute that to?

Mr FAULKNER: I certainly has. I will pass over to Michael to give the exact figure ...

Ms MANISON: How much has the increase been?

Mr FAULKNER: The 5% reduction in price has equated to about $23m per annum. From the figures you have just given me, it has not been enough to cover that anyhow.

Mr HOARE: The figures you quoted are exactly the figures for 2015-16 and the increase to 2016-17. It is approximately a $17.5m increase. As Noel’s slide alluded to, there has been a 5% reduction in pricing and a top-up from the CSO.

Ms MANISON: That payment was a direct result of the 5% decrease at 1 January? That is why that community service obligation has gone into Jacana?

Mr FAULKNER: That is correct, and we have had some other increases. The cost of the renewable energy certificates, for example, of $7m is on top of the negative impact we get from the price reduction, but it is up to the government that is handled. As a result of the CSO not being exactly the same as the reduction in prices, it just flows through to the bottom line. So our 2016-17 EBIT will be lower than what it would have been otherwise. The government can either increase the CSO then take the proceeds from profit as a return, or they can keep the CSO where they like and just reduce the EBIT.

Mr WOOD: Is it a case of robbing Peter to pay Paul?

Mr FAULKNER: Well, it is the same outcome.

Mr WOOD: Yes, but one looks good in the newspaper - 5% reduction in electricity prices - but on the other hand we are using taxpayers’ money to fill the CSO. So you are losing money on one hand and gaining some money, but not the whole amount in the other hand.

Mr FAULKNER: Normally the government would expect a return from the business in any case in terms of dividends from the business. In regard to the 5% reduction, it does not matter whether it is from the dividend or from reducing the CSO associated with the reduction in prices.

Ms MANISON: Would you consider yourself to be fully structurally separated from the Power and Water Corporation? Are you still sharing any staff, systems or bank accounts with the Power and Water Corporation?

Mr FAULKNER: I will let Stuart comment more fully on that, but we are not completely separate from PWC at this stage. A couple of the systems I mentioned a little while ago, the retail operating system and the financial management system, will be a huge step forward in that regard, but we are also still using some of the PWC staff to perform some of our functions. Stuart, do you want to comment on that further?

Mr PEARCE: Yes, thank you Noel. Yes, we still rely on Power and Water's retail operating system for billing and payment processing. We still rely on Power and Water to perform certain credit management tasks and activities for us. We still rely on them to provide some services or backup support for our call centre, but on the positive side we have established our own call centre, as Noel mentioned just before, and that has been up and running since February. We have transitioned some of the credit management activity across to our Alice Springs office and we expect to transition the remaining parts of that over the next couple of months.

Most corporate services are in house now, so we are looking at putting our own fairly basic accounting and finance system in. We will be able to manage and report our own financials within a few months, hopefully, and we are in the process of establishing our own billing capability, which is due to go live, probably at the end of this calendar year or early next year at the latest. I would say by the first quarter in 2017 we should be pretty much standalone.

Ms MANISON: With the establishment of Jacana Energy as its own individual government-owned corporation, you have looked to put in your own financial management system?

Mr PEARCE: That is correct.

Ms MANISON: You are looking to put in your own retail customer system.

Mr PEARCE: That is correct.

Ms MANISON: Are there any other IT systems which you have had to put in as part of the establishment of Jacana Energy?

Mr PEARCE: No, they are the two big systems for us.

Ms MANISON: How much did it has cost to implement these two new systems, which are crucial to your business, particularly when you see the problems Power and Water is having with its financial management system at the moment? Do you have dollar figures on those?

Mr PEARCE: We do. We have approved budgets, so we have business cases that are being approved by the board and I am sure we could provide those numbers, but I ask if we could do that as commercial-in-confidence because we are a competitive business.

Ms MANISON: Can I put that on notice?

Question on Notice No 10.1

Madam CHAIR: Can you restate the question please, member for Wanguri.

Ms MANISON: Will Jacana Energy provide the total cost of the establishment of its IT systems for retail management and financial management, understanding that information will need to be commercial-in-confidence?

Madam CHAIR: The question asked by the member of Wanguri of the Chair of Jacana Energy has been allocated the number 10.1.

Ms MANISON: Thank you, Madam Chair.

Mr FAULKNER: I think it is important to note that the functionality provided by the retail operating system that we are implementing is much greater than is currently available with PWC and provides an online service that the rest of the country currently enjoys. Territorians do not at the moment.

Ms MANISON: It will give your business greater capability, which is understandable. It is something that you would strive towards to be competitive, because you will have competitors out there ultimately. That is the aim, is it not?

Mr FAULKNER: Absolutely.

Ms MANISON: What is your current full-time employment equivalent? When I have compared the figures for the old retail section at the Power and Water Corporation at the time of structural separation, retail had about 78 full-time equivalents, and it was 75 up until the latest figure that I was provided with, which was about 69. At Jacana Energy we have seen this grow from the June quarter of 2015 at 20 to now being at 52 full-time equivalent staff. That is from the figures in the March 2016 report from the Office of the Commissioner for Employment's statistics. Is 52 correct in your current FTE count for Jacana?

Mr FAULKNER: It is actually higher than that at around 56. A lot of the increase is associated with the transition at the call centre from PWC to Jacana Energy. I am pretty pleased to be able to advise that 64% of the staff are female.

Ms MANISON: Thank you, Mr Faulkner. I am trying to get my head around the separation of Jacana from Power and Water Corporation. If a person today has a power bill inquiry and they are a Jacana customer, and they phone the number on their bill, where does that phone call go to?

Mr PEARCE: It comes to us.

Ms MANISON: It goes straight through to you? If Power and Water take any calls because people phone Power and Water mistakenly thinking it is the old Power and Water call centre, what do they then do with that customer?

Mr PEARCE: They will typically transfer them to us if it is a straight inquiry, and that is the way that should work.

Ms MANISON: They will just hit transfer on the phone.

With the retail front counters, you said you have a presence in Alice Springs. Was that correct or is it just in Darwin?

Mr PEARCE: It is an office in Alice Springs. We do not have our own retail customer centre in Alice Springs.

Ms MANISON: If a customer presents, wanting to talk about their power bill to a retail front counter, do they go to Power and Water at present, or do they have nowhere to go?

Mr PEARCE: They go to the Power and Water shopfronts. Power and Water provide a service to us under the transitional service agreement, which is a shopfront service. Customers who have queries or want to perform certain transactions will go to the shopfronts owned by Power and Water. Power and Water charge us for that service.

Ms MANISON: It is a fee-for-service …

Mr PEARCE: It is not as sophisticated as that. It is just the costs they think we should pay.

Ms MANISON: Okay. So your customers are still welcome to walk into a Power and Water front counter to have their billing issue or concern dealt with …

Mr PEARCE: That is correct.

Ms MANISON: … the Power and Water staff there who then have a service agreement with Jacana Energy. So you are effectively paying Power and Water Corporation for that …

Mr PEARCE: To provide that service on behalf of our customers; that is correct.

Ms MANISON: Okay, so that is happening there. Do you expect in the future that you would open your own shopfronts, or do you see it as being more efficient and working well to continue this arrangement with the Power and Water Corporation?

Mr PEARCE: I think we are always looking at ways of how we can create additional value for our customers and how can we provide better service for our customers. I think one of the areas that we would like to focus on, because I think it has probably not had the focus that it deserves, is online service, giving people the ability to manage their electricity affairs in their own time, which is really important for people who are working between the hours of 8 am and 5 pm, or businesses.

We constantly look at how we can best use a variety of channels to provide service to our customers. That includes our call centre, the shopfronts and online. I guess that mix changes over time depending upon consumer preference.

It is not much good us saying we will only provide services through a particular channel – and the customers want it through a channel. We are always listening to what our customers say and looking at the efficiency and effectiveness of those channels.

Mr FAULKNER: I think we will find that when we get the retail operating system in place it will provide online functionality, which does not exist at the moment. That will change the number of visits and the purpose of the visits to the shopfronts in any case. As part of our long-term strategy we are looking at what the best channels are, but at this stage we do not have any accurate data for the number of Jacana Energy customers visiting those shopfronts or the purpose of those visits.

I think we are about to kick off or have started, with the aid of PWC, to collect some of that data to give some intelligence to enable us to inform our future strategy in that regard.

Ms MANISON: Thank you. Have you seen an increase in your customer base since we met at estimates last year, especially with your commercial customer base, which you said represents 23% of your revenue? Clearly that is where you are constantly, I imagine, on the hunt and trying to negotiate and get more customers on board. Have you had much success there or have you seen any changes, up or down, in your customer base in the last 12 months?

Mr FAULKNER: You are talking about competition in the CNI market. Can we provide that information offline? Obviously that is of interest to our competitive retailers, but we are happy to provide that information if we could.

Question on Notice No 10.2

Madam CHAIR: Could you restate the question please, member for Wanguri.

Ms MANISON: Has there been an increase in the commercial customer base for Jacana Energy in the last 12 months?

Madam CHAIR: The question on notice has been allocated number 10.2 and that answer will be provided in confidence to the committee.

Mr WOOD: You stated in your corporate intent that you had won a large CNI customer back from a competitor.

Mr FAULKNER: We have won a couple of CNI customers back from a competitor. We are fairly pleased with how we are going in the competitive market at the moment. The level of activity seems to have changed a bit. I am not sure how much I can say here, but there is probably only one predominant competitive retailer out there at the moment. There may be a second one that is dabbling a bit.

Ms MANISON: In your annual report for 2014-15 – congratulations on producing an annual report for 2014-15. It is quite an achievement in this area this year. You have recorded a net profit after tax of $10.4m. Are you confident you will make a profit again this coming financial year?

Mr FAULKNER: Yes. We are on target for about $9.8m this year, even given the negative impact of the revenue from price reduction.

Ms MANISON: Would you be paying the Northern Territory government a dividend as a result of the 2014-15 year?

Mr FAULKNER: There is a dividend policy in place. The board has not taken a decision at this stage on whether or not the dividend would be paid, and there has been no discussion with the shareholding minister at this stage in relation to the payment of the dividend.

Ms MANISON: How many generators is Jacana Energy purchasing power from?

Mr FAULKNER: Only one.

Ms MANISON: Only one, that being Territory Generation, the obvious choice?

Mr FAULKNER: That is correct.

Ms MANISON: Are you looking to other generators to put purchasing agreements in place?

Mr FAULKNER: We did have some extensive discussions with one potential generator. We could not reach satisfactory commercial arrangements through those negotiations. That stalled. Subsequent to that we have not engaged, at this stage, with any other generators.

Ms MANISON: Have you found that over the last 12 months there has been any increase in the market in retail competitors that you are competing with at the moment?

Mr FAULKNER: Numbers are pretty much the same. There has been a change in the retailers who are competing, but numbers are about the same.

Ms MANISON: Do you see any significant threats on the horizon in the next 12 months from Jacana Energy's perspective and how you are operating?

Mr PEARCE: Do you mean new competitors coming to the market or …

Ms MANISON: Competitors or operating as a government-owned corporation. When you look forward and do a bit of risk management, do you see any threats in the short to medium term? What are the things you plan to try to mitigate?

Mr PEARCE: None that you would not normally expect to find in a competitive market. The issue up here is that because the number of contract customers is quite small compared to the total size of the customer base, there is always the possibility that we could lose a large customer and that would have a big impact on the bottom line. But in the capability of our team and our ability to compete – not just on price, but also on value, and the fact we are a local retailer and have a very strong focus on customer service – we are quite confident we can meet most competitive challenges.

You are right; in a competitive market there is always the threat that somebody could take a large group of customers, but that is just the nature of the business we are in.

Ms MANISON: Sorry, Gerry; did you want to ask a question?

Mr WOOD: I do, but that was not me.

Mr FAULKNER: Sorry, I was going to add to that. One of the threats is if a competitive retailer comes in and starts buying customers. We have a margin policy in place approved by the board, and we will not buy customers. We will not sell at a loss.

The other significant threat is, at the moment, under the current legislation another generator can come in and also get a retail licence. A small generator, if they are not already established – and there is one already established – could source a retail licence and sell directly to end use major customers. That is a very real threat for us.

Ms MANISON: There has been some contraction in the Territory economy. We are hearing from many businesses doing it tough. Is that something that Jacana Energy is feeling?

Mr FAULKNER: We have not seen that. I will ask Michael to comment, but our commercial industrial revenue year to date is ahead of forecast. It is helping to offset some of the revenue loss through the price reduction. But we have not seen that in our figures to date. Is that correct, Michael?

Mr HOARE: That is correct. The other thing is on our receivables as well, and the debt is outstanding. That has been steady and it slightly improved this financial year as well.

Ms MANISON: That is positive.

Mr FAULKNER: That is a good point, our bad debt write-offs is about on par with the national figures.

Ms MANISON: How is the uptake of home solar energy systems impacting Jacana? It seems to be on the increase.

Mr FAULKNER: It is. Do you have the figures on that, Stuart or Danny?

Mr PEARCE: This is a question that continues to come up each year. There is no doubt that our feed-in tariff is particularly generous. When people are faced with rising electricity costs they tend to look at rooftop solar systems as a way of managing those costs. It is a bit of a double-edged sword for us because there is the cost of supporting the feed-in tariff which is quite expensive …

Ms MANISON: Which is one for one still?

Mr PEARCE: Yes, it is. We offset that with our mass market customers. As Noel mentioned before, the more they use the more we lose, so in some ways it is in our interest to encourage efficiency and to look at non-grid supplied solutions. Danny, you have some numbers …

Mr FAULKNER: That is not a sustainable position.

Mr PEARCE: No, definitely not.

Mr FAULKNER: That is an abnormality.

Mr PEARCE: It is caused by that.

Mr WOOD: On the solar industry, when you charge people you also have a certain component of the cost of the network included. People who are on solar systems do not pay anything for the network. Do you see that as an uneven playing field which governments have to address? Basically, those who do not have solar panels are subsidising those who do have solar panels because they are paying for the network and the other people are not.

Mr PEARCE: I think from a factual perspective that is absolutely correct. It is not really my place to comment on what is right or wrong policy, but where you do have feed-in tariffs you have cross subsidies built into your electricity pricing.

Mr WOOD: Who set the rules for the solar industry? Who allowed, for instance, me to put solar panels on my roof and attach it to Power and Water's network?

Mr PEARCE: I guess every jurisdiction has slightly different history and a slightly different approach in terms of the way they have gone about developing their feed-in tariff schemes. But, fair to say, I think in most states now feed-in tariffs are set by the retailers, certainly in the larger jurisdictions, and typically the feed-in tariffs set at the cost of (inaudible) generation.

Back to your point, things like network are excluded so you might get 6c to 7c per kilowatt hour on the feed-in tariff in another jurisdiction. In the Northern Territory I think is still one for one, so it is around 26c kWh.

Mr FAULKNER: I think it is important to note that the other jurisdictions have gone down the same path. Their initial feed-in tariff rates were extremely high - I will not mention any, but extremely high - so they have gone down that path. I do not know what the background is in the Territory, but it is probably similar to other states with a fairly high feed-in tariff, and they realised how much that is costing the community in the cross-subsidisation issues and they have moved to the sort of tariffs that Stuart is talking about.

Ms MANISON: For some reason it comes to mind that I have heard something along the lines of potential rebranding of Jacana. Is that something you are looking at?

Mr FAULKNER: No, not at all. We are just looking at getting some advice from specialists to help us position ourselves and differentiate ourselves from Power and Water Corporation. Coming back to your point earlier about there still being some confusion amongst the customer base about what Jacana does and what Power and Water does, we are not looking at rebranding. We are simply looking at what can we do to try to position ourselves in the market more clearly.

Ms MANISON: Some more general questions, if that is okay, around global figures that I try to collect every year so we can do a bit of a comparison of where we are at. It would be great if I could get a breakdown of your full-time equivalent numbers and how many executive positions you currently have at Jacana Energy.

Mr FAULKNER: Full-time equivalents we have 19 male and 37 female, a total of 56, and somewhere in our pack we have the executive numbers – five executives.

Ms MANISON: Thank you. Could we get total expenditure for intrastate, interstate and any international travel?

Mr FAULKNER: Zero for international; interstate travel would be mainly a couple of board members.

Mr PEARCE: Total travel costs from July 2015 to March 2016, as Noel said were zero for international; interstate was $74 000; and intra-Territory travel was roughly $36 000.

Ms MANISON: Thank you. The costs associated with Mr Faulkner and the board – the costs of the board?

Mr FAULKNER: For a full 12 months?

Ms MANISON: Yes.

Mr FAULKNER: It was $236 000.

Ms MANISON: Do you give any grants out from Jacana Energy?

Mr PEARCE: We have the Stay Connected program, which is our hardship program, and we provide $35 000 per annum funding to five organisations, being St Vincent de Paul, Anglicare, Salvation Army, Catholic Care and Somerville. Our rationale for doing that is that the funding is used to help customers who are facing extreme financial difficulty in paying their bills.

Mr WOOD: Just on that, you have reminded me of a question I had. Are people able to use power cards in your area of operation? Could a family in Howard Springs say, ‘I would like to be on a power card system rather than a metering system?’

Mr PEARCE: That is a really good question. I am not really into the operational aspects. I will have to flick that off to Danny.

Mr MOORE: Danny Moore, Executive Manager, Sales and Strategy. That is correct. Customers can elect to have a prepayment meter. There is a cost associated with that. Power and Water own the meter and the infrastructure, and they must change the meter if it needs changing to put a prepayment-type meter in place.

Mr WOOD: Any idea what the cost of that would be? Roughly.

Mr MOORE: I think it is around $500 mark but we can come back with that. It is on the website.

Mr WOOD: So, it can be done. If someone wanted to go solar and not be connected, but have a swipe card so that, when needed, they could connect in that way …

Mr MOORE: Unfortunately those meters do not work with solar because of the power coming back into the grid that needs to be measured.

Mr WOOD: I am talking about solar for yourself, like being independent but not quite independent.

Mr FAULKNER: That is one of the issues with solar. At the moment there is no storage capacity, so you still have the cost of having the network and the availability for when solar is not there. The improvement in battery technology is such that it might not be too long before offline storage is available, and that will be a whole new ball game.

Ms MANISON: How much has Jacana spent in advertising in the financial year to date?

Mr PEARCE: Total advertising spending is $77 000. That would be our Switch to Six campaigns. We have been running energy efficiency campaigns to try to encourage lower usage, once again, to help our customers manage their electricity spend.

Mr FAULKNER: We have had a presence at the Darwin Show and a couple of trade days, so that would include all of that, I imagine. The Alice Springs show …

Mr WOOD: If you are looking at how much you pay for electricity, do people on the cards – some people in my area might have a card. Is it cheaper than through the normal meter?

Mr PEARCE: The difference in the tariffs between the prepayment meters and a billed customer is the bill customer incurs a daily fixed charge plus a variable consumption charge. With the power cards, they are bundled into a single consumption charge, so the rate per kilowatt hour is slightly more but they do not pay a fixed daily cost. On average it should be about the same.

Mr WOOD: I think when you have a lot of people in your family who use power, it might be possible to say, 'Well, you can pay for it directly'.

Mr FAULKNER: It would be handy if you could give them a card each, and once they run out that is it.

Mr PEARCE: We have actually recently run a campaign encouraging people to move to a sort of prepayment, pay as you go, so much per fortnight arrangement so they avoid the big bill coming in. They have already prepaid towards that.

Ms FYLES: How many people take up that offer of prepay? If you do not have the figures, that is fine.

Mr PEARCE: I do not have the figures on hand, but that was way above our business case in terms of a response to that recent campaign. We saw a 26% increase in the number of customers electing to move to regular direct debit payments. When we move to our new retail operating system we will have more functionality to be able to help customers with that bill-smoothing component.

Madam CHAIR: I have a question. Why is the Northern Territory's average residential consumption so high, compared to other states?

Mr PEARCE: Some other states have gas as an alternative fuel, like Victoria. One of the key drivers is the extremes in temperature. In the Wet Season air conditioning use is extremely high and we had a prolonged Wet Season this year. Largely it is just a function of the weather. Also, there is no alternative fuel.

Mr FAULKNER: So you see it when the bills go out after those periods, through the call centre.

Mr PEARCE: That is one of the things we have certainly seen in the last few months. Bills are higher and calls to the call centre are higher, and that is why average handling time – it can impact on operations, certainly.

Madam CHAIR: If there are no more questions, on behalf of the committee I thank you all for attending today and also the officers who have attended to provide advice. Thank you very much; it has been very interesting. We will have a short break and return with Territory Generation.

The committee suspended.

TERRITORY GENERATION

Madam CHAIR: Welcome to the Deputy Chair of Territory General Board, Ms Leeanne Bond. I invite you to introduce the representatives of the corporation who are accompanying you this morning.

Ms BOND: I am representing David De Silva, who is unable to attend as chair. I am the Deputy Chair of the board. Tim Duignan is our CEO, and Steve Bartlett is our CFO. We have other members of the executive team and management.

Madam CHAIR: Thank you. Would you like to make an opening statement?

Ms BOND: Yes, thank you. Good morning, members of the committee, Territory Generation executive and employees, ladies and gentlemen. I am glad to be here to give you an update on Territory Generation's activities.

I have already introduced the panel, but just a little more about me. I am the Deputy Chair of Territory Generation. My background is as a chemical engineer. I have worked for 25 years in the energy, minerals, infrastructure and water sectors. Now I am a professional company director with a portfolio of board roles. As I said before, with me are Tim and Steve.

I express my thanks to the Territory Generation executive and all employees for what they have achieved over the last 12 months. We have been driven by our vision, which is to be the trusted and respected employer and electricity generation business of choice. It has been an extremely busy year and I would like to reflect on some of our achievements.

First, I would like to talk about our safety performance. The health and safety of our employees is our highest priority and I chair a board committee that focuses on people and safety. From 1 July 2015 to date, Territory Generation has had two lost-time injuries or LTIs. These incidents involved a slip on the stairs in our former head office and a lower arm injury sustained by an apprentice working with a conduit bender. In the previous year we had one LTI.

While in many respects we have had great progress on safety, safety incidents are preventable and learnings from these incidents have been shared across the business. We have worked to encourage a strong culture of safety awareness, accompanied by an increased focus on reporting. We have introduced a number of initiatives to ensure that our employees and contractors are safe and healthy when they arrive at work and when they leave.

T-Gen is focused on providing employees with adequate training to do their jobs and progress their careers, and fostering a culture in which they can thrive and achieve. Over the last 12 months we have procured a new training management system and it will be operational later this year.

We have also done a lot of work in encouraging diversity in the workforce; this is something close to my heart. We have introduced a diversity policy which aims to recognise and value the distinct contributions that employees can make because of their unique backgrounds, skills, experiences and perspectives.

This policy is supported by strategic programs like the women's leaders forum, which Tim established in September 2015, and I am the sponsor of that forum. The WLF aims to provide opportunities, mentoring and support for current and future women leaders in Territory Generation. I was able to host the four women on this program in Brisbane for a view of the electricity industry outside of the Northern Territory, which gave them a lot of insight.

Our diversity policy was recognised this year as a runner-up in the Women in Resources Northern Territory Awards. We are now looking to broaden our diversity program through a focus on attracting more women into non-traditional roles, such as engineering, and increasing our Indigenous participation across the business.

I would like to talk about our operational performance. Over the last 11 months Territory Generation has been focused on repositioning the business to increase reliability and efficiency. I am pleased to announce that T-Gen has worked with Power and Water's systems control to set a reliability record in the Darwin/Katherine electricity system. Through system analysis of power generation and transmission, the Darwin/Katherine system is now much more resilient and better able to cater for moments when a generator goes offline with little or no notice. An under-frequency load shed occurs when generation into the system does not meet demand. To balance this equation, some end users have to cut power.

The Darwin/Katherine system has now operated for 293 days without a single contingency of under-frequency load shed, and has remained stable through several unplanned maintenance events. This is the second record we have set for reliability in the last two years. Ultimately the work we have done has reduced the number and severity of outages across the Darwin/Katherine region, giving businesses and residents increased confidence in their electricity supply.

T-Gen has adopted a focused and disciplined approach to asset management and maintenance, and I expect this approach to deliver important efficiency improvements, as well as a reduction of Territory Generation's costs. Our focus on costs has resulted in a very positive financial performance. The financial transformation objective identified in last year's Statement of Corporate Intent has been successfully implemented and the business now has its own standalone systems and business processes. Each month the board receives a report from management comparing the financial performance of the corporation against the SCI targets.

As we are subject to competition, details of our forecast and actual performance will remain confidential until our annual report is published, but what we can share is that the extended period of hot weather in the Darwin/Katherine region has resulted in demand being higher than forecast.

This has resulted in increased revenue, but also high operating costs, so we are running our machines harder and longer. Overall, we expect our returns to the Northern Territory government to be in line with our SCI expectations.

Regarding Alice Springs and Tennant Creek, one of the most significant outages of the year occurred on 30 January, when a system black in Alice Springs was triggered by failure at Ron Goodin Power Station.

This event highlights the need to replace ageing equipment at our power stations in Alice Springs and Tennant Creek, where some units are approaching 50 years of age.

A $101m project to replace 18 units at these locations commenced earlier this year after the Northern Territory government approved this landmark investment. These projects will drive down the cost of producing electricity, increase reliability and reduce fuel consumption and carbon emissions.

In summary, Territory Generation continues its focus on reliability, increasing efficiency and driving down the cost of producing electricity. Thank you for the opportunity to make an opening statement. I now defer to the committee for questions.

Ms MANISON: Thank you, Madam Chair, and thank you for that opening statement, Ms Bond. My first question to Territory Generation – have you achieved total structural separation from the Power and Water Corporation?

Ms BOND: I would say yes, but I will defer it to the CEO.

Mr DUIGNAN: Largely, yes, we have. The majority of the systems have been put in place in Territory Generation now and we have achieved that separation. There are a low number of IT systems that we still have a service level agreement in place with Power and Water. We converted what was a transitional service level agreement. A couple of those services that were under the original agreement have now been transferred to a service level agreement because it makes sense for us to do that. It is the most efficient way to go forward for those particular services.

Ms MANISON: Do you share any staff or bank accounts with Power and Water Corporation still?

Mr DUIGNAN: No, we do not.

Ms MANISON: Okay. It states in your annual report that you - and I think we discussed this last year - have gone to your own financial management system and your own asset management system; is that the case?

Mr DUIGNAN: That is the case. Yes, we have installed a system called Pronto, which is an integrated financial management system and asset management system in the one package.

Ms MANISON: Would it be possible to provide the committee with the total cost of implementation of Pronto for Territory Generation?

Mr DUIGNAN: It would. The total cost of doing that was $1.8m. There was an additional of about $120 000 for training on top of that, so additional training.

Ms MANISON: I said to Jacana in the last session that it is quite an achievement to get your 2014-15 annual report in, so well done on that.

Are the systems working for you, particularly the asset management systems and the financial management systems, given that you are a new GOC and generation in particular has a lot of assets?

Mr DUIGNAN: Yes, the new systems we have installed are very robust and are working very well.

Ms MANISON: Excellent. My next question is in regard to growth and staff numbers within Territory Generation. At the time of the structural separation I got on the record the full-time equivalent numbers within the Power and Water Corporation, for example the retail section before it went off to become Jacana. I also asked the same question of the generation section within the Power and Water Corporation at the time.

On 1 July 2014 there were 150 full-time equivalent staff members within generation. I see in the latest Northern Territory Public Sector staffing figures we have Territory Generation at the March quarter sitting at 200 FTE staff. Is that your current number of staff, 200?

Mr DUIGNAN: Just to reiterate the numbers that we had at separation – on pay one 2014-15 financial year we had 148.25 FTEs with the positions in our organisational structure at that point, when the structure came over from Power and Water, of 171 positions. The FTE at pay one 2015-16 – in July 2015 we had an FTE count of 180.35. The current FTEs at pay 26 this year – we had 199.51, with an establishment of 198 positions.

We have grown in number, largely due to having to install or improve our systems on a number of fronts such as safety, financial management systems and asset management systems – right across the business. That has caused us to swell in numbers. There are a lot of temporary positions at the moment. We expect those to come back to our original establishment number, which was 171 when we came out of Power and Water.

At that point we will be doing all the functions that were being done under a transitional service level agreement by Power and Water. We will be doing those in house as well. There will be a number of efficiencies that we have achieved out of the systems that we are putting in currently.

Ms MANISON: Thank you. In your annual report for 2014-15 you had a net profit after tax of $36m in that financial year. You discussed this somewhat in the opening statement, Ms Bond. Are you forecasting similar results again this year?

Mr BARTLETT: Thank you for the question, member for Wanguri. We will be looking at a profit for this year. It will not be to quite the same extent as the previous year. We had a reduction in our wholesale pricing between the 2014-15 year and the 2015-16 year. We are expecting that to drop back, but we will still be in a profitable position.

Ms MANISON: In your annual report you forecast paying a dividend of $18m to the Northern Territory government. Did that occur?

Mr BARTLETT: Yes, it did.

Ms MANISON: How is the relationship between Territory Generation and Power and Water Corporation going? I am thinking about the communication within System Control and with Territory Generation.

Mr DUIGNAN: As was alluded to in the opening address by the deputy chair, we have achieved a record in reliability in the Darwin/Katherine region. That came through a very close working relationship with System Control. We improved the performance and reliability of our machines and made available a diverse range of equipment to service the needs of the system in the Darwin/Katherine region.

At the same time, in conjunction with us, System Control went through a very rigorous approach to the system settings so that the system was made more resilient to the loss of a generation unit. As we said, we went 293 days without a single contingency event of under-frequency load shed. We are now able to lose a single generator at almost full load and it does not cause an under-frequency load shed. This is a big improvement. I think the previous record before separation was something like 121 days, which gives you the quantum leap that we have achieved.

We are still putting the days on now; today is 293 days. Hopefully we can get a full year without one of those events happening.

Ms MANISON: Very good. One thing that is stated – I think it is in your annual report or your SCI – is that one of the long-term risks you saw going forward, or one of the things that you were trying to secure or finalise, was a long-term gas supply, which is a very important component to your business. How is that going?

Mr DUIGNAN: Thank you for your question. We currently have a three-year gas supply arrangement in place with the Power and Water Corporation. That underpins our wholesale pricing for the period of 1 July 2015 through to 30 June 2018. That agreement was put in place to allow us the time to go through the negotiation process for what should be a longer-term arrangement with Power and Water Corporation.

Ms MANISON: When do you expect to have that finalised?

Mr DUIGNAN: Before 30 June 2018.

Ms MANISON: Very good. We hope it is a bit sooner. Your annual SCI states that the key challenges in the year ahead include decreasing energy sales from solar uptake. How has that gone in the last year and can you see any trends in that area kicking in, going forward?

Mr DUIGNAN: Thank you for that question. Yes, the demand for electricity in all our regions across the Northern Territory has been affected by the uptake in solar, particularly at the household level. There is some momentum in the commercial industrial area where the larger solar power systems are now starting to appear. Efficiency gains through people being more aware about electricity efficiency and the cost of living has driven our forecast to basically a flat profile, so we do not see load growth in any of our markets in the forward estimates period.

Mr CONLAN: Can I ask a follow-on question from that, member for Wanguri, in keeping with solar?

Ms MANISON: Go for it.

Mr CONLAN: The budget papers confirm that $75m will be invested to upgrade power generation at Alice Springs. I understand this will involve installing 10 new gas engines at the Owen Springs Power Station. There has been some discussion in the community that this money may have been better spent on expanding solar generation capability in the Alice Springs community. My concern is that affordable technology does not currently exist to store power for a sufficient time to meet the electricity demand for Alice Springs. Has Territory Generation done any modelling on the cost or feasibility of converting to solar as the dominant source of power supply for Alice Springs?

Ms BOND: I will give a general answer. Yes, this has focused our attention quite a lot and, obviously, in preparing the business case for our investment we have looked at all the opportunities. Tim, do you want to talk more specifically about the solar and battery, and that decision process?

Mr DUIGNAN: Sure. We have a fact sheet on that which we want to table, if that is okay, Madam Chair. It is a key concern to people of Alice Springs and we are fully aware of that. They have done an exceptional job with the Solar Cities program, and the like, to have a very solid penetration of solar in that market. It runs at about 40% of the existing average demand in Alice Springs, which is probably one of the higher penetrations in the world, certainly in Australia.

With that it brings some issues for us. To give you a bit of a synopsis on the decision around Alice Springs, as you are aware, we are the generator of last resort in Alice Springs, so we have an obligation to the people of Alice Springs to supply power 24/7, 365, at an efficient and reliable, cost-effective manner.

The document you see in front of you gives a synopsis of the modelling we undertook with regard to solar in that market and looking at a few alternatives. One of the things we have seen is that the implementation of solar and storage technology on a utility scale basis across Alice Springs would dramatically increase the power price, therefore placing more burden on the cost-of-living expenses, and it would be detrimental to the industrial commercial growth in that region.

Madam CHAIR: Could you explain how it would increase the price of electricity?

Mr DUIGNAN: Sure, I will go through that. Our modelling is supported by a third-party engineering company. Aurecon did a lot of modelling for us on the technical aspects of the requirements of solar for that market. It showed that large-scale solar and storage is not yet cost competitive with gas-fired generation. The storage required would be for up to seven days. We have seen recently with the cloud cover there – that fact sheet shows, from 2 to 8 May this year, the impact of the cloud cover on Alice Springs. It shows that we would need seven days storage to cover the requirements of that market should it be a solar only solution.

The cost of the storage is currently prohibitive. The major driver of the economics for the solar solution is the storage. The estimates at the moment for the seven-day battery storage would be in the order of $1.5bn to $2bn for that market. The analysis on tariff impact would show that would drive up prices by 345% for that market.

Madam CHAIR: Could I clarify – that is if it was 100% solar?

Mr DUIGNAN: Under the analysis we did we maintained the generation we had at Owen Springs, the 36 MW of generation, and we were using that in conjunction with the 100% solar effectively, giving our coverage of energy of about 75% – solar was covering about 75% of the energy, with the current diesel gas engines we have at Owen Springs covering the other 25%.

Ms MANISON: Your challenge is you always have to have a spinning reserve ready to go. Worst case, the power completely goes out you still have the power supply to keep going …

Mr DUIGNAN: The storage battery system provides a lot of that. To cover off in certain circumstances we needed to maintain the dual fuel engines there. Because we have already sunk capital in that market we thought we will not pull that out; we will just run as much solar as we can in conjunction with dual fuel capability that is already in Alice Springs, without putting in the new engines. That is where we got 75% of the energy would be covered under the solar solution, with seven days storage, which would basically cost about $1.5bn to $2bn.

Ms MANISON: We know that the solar technology and the battery technology is rapidly changing and improving. I look at the example in Alice Springs of the Uterne plant, where you have the 1 MW section and the 3 MW section. They have only been built a couple of years apart, yet the 3 MW section is pretty much the same size as the 1 MW section. That tells you a bit about how technology advances, grows and gets better.

People want to see more renewables in the Territory. Will Territory Generation be keen to pursue more renewable technology and uptake when it is appropriate and when you see the costs stack up? Last year we were talking about you looking at the potential of doing more solar projects because you have the power purchase agreement in place in Alice Springs. You were also looking at Tennant Creek and Katherine. Is the growth in solar energy within Territory Generation something you are aspiring to further down the line?

Mr DUIGNAN: Absolutely. The solution we are introducing in Alice Springs is meeting the current demand requirements. It is n-2 meeting the current demand requirements. Any load growth in that system will require additional generation, and we see that being serviced by solar, renewable or alternative energy sources in the future. The battery technology is currently cost prohibitive on a utility scale, but we will see that rapidly change in the future.

In fact, in Alice Springs we are installing, as part of the new projects – we have allocation of about $2.5m to go towards alternative energy source to support the current solar in Alice Springs. One of the issues we have with solar in Alice Springs being such a high penetration in that market is that it requires a lot more spinning reserve from our generation in that market. Instead of 5 MW of spinning reserve or capability to ramp up, we are carrying out eight to 10 because of the impacts of clouds coming across the solar that is installed in Alice Springs.

We have made an allocation in the project budget to improve the spinning reserve system and the stability in the market down there by installing what could be super capacitors, or a battery storage system. That will give us about a 17 to 20-second response, which enables our engines to bring another engine on or bring the existing engines to ramp up rapidly enough for any cloud cover. The implementation of that additional technology will allow more solar to be installed on roofs. We will cover off our existing issue with solar; therefore it opens that window to have a lot more penetration of solar in commercial, industrial and domestic households.

The problem that we are facing at the moment is the cost of storage for utility scale solar, but we are currently putting together our renewable energy strategy, which we hope to make available for some community consultation across the Territory later this year, and which places a road map and a vision for Territory Generation's renewable energy strategies moving forward.

Ms MANISON: That is very good to hear.

Madam CHAIR: Can I just ask a question on Alice Springs? One of the questions asked at the time that the $75m was put on the table to buy 10 new gas-fired generators – was solar considered in that commitment? The answer I am hearing is yes, it was.

Ms BOND: Yes, that is correct.

Madam CHAIR: And what you have just said was considered during that time, prior to making that commitment, in regard to the planning and the consideration for solar energy?

Mr DUIGNAN: That is correct.

Ms BOND: I would just like to add that the renewable energy strategy is driven from board level. We are very across this area which is rapidly changing. Through my work on other boards I can see that too. This space is developing. As evidenced by the issue with Ron Goodin earlier this year, we need to do something now with our fleet in Alice Springs and Tennant Creek to bring down the cost and increase the reliability, but that does not close us off to developing our renewable energy strategy and moving as the technology becomes more affordable.

Madam CHAIR: You said that the cost of this new technology is prohibitive. It means that the electricity would be too expensive to buy and use now, for example in Alice Springs. What sort of time frame would you guess? How long will it take before it will be more viable?

Ms BOND: That is an interesting question. Obviously technology does move very quickly and there are some rules of thumb for that.

Madam CHAIR: Looking into a crystal ball.

Ms BOND: But, you are looking into a crystal ball, so not immediately.

Mr DUIGNAN: The development of electric vehicles will push battery technology rapidly and we are seeing Tesla setting up mega battery factories and Total is in that market now. So a major global oil and gas player is now moving into an alternative energy source or storage source, being batteries. Samsung is in that market. All the major global electronic and even fuel companies are starting to move into that space, as are vehicle companies, BMW and others. That will have a large impact on the cost of storage technology.

Other technologies are starting to emerge on the solar thermal side. Solar photovoltaic is the creation of electricity stored in batteries. Solar thermal takes the thermal heat of the sun, focuses it to a point and stores heat. We are seeing a lot of advances in that. It was a very expensive technology some years back, but with the requirement for storage, with more solar penetration into markets, solar thermal is starting to come into its own.

This is a long answer to your question, but I think in five to 10 years we will be right in the space. Various experts made forecast graphs based on a fall in cost of batteries. We will not see as steep a fall as we saw in solar panels for instance, but a significant reduction in the cost of battery technology is being predicted. How far that will go is unknown. Solar panels themselves are predicted by 2020 to cost two thirds less than today.

Madam CHAIR: Can I just clarify? I think I heard you say before around 40% of Alice Springs power comes from solar generation at the moment. Is that what you said?

Mr DUIGNAN: The installed capacity of solar is equivalent to about 40% of the average demand across the year for Alice Springs.

Madam CHAIR: Thank you.

Mr CONLAN: To give a definitive answer – to effectively meet 70% of total demand in Alice Springs with solar power would require seven days' worth of storage. That would come at a cost of $1.5bn to $2bn and in itself would push wholesale prices up 345%.

Ms BOND: That is correct.

Madam CHAIR: At the moment.

Mr DUIGNAN: Just one clarification on that. It was 70% of the energy, not of the demand.

Mr CONLAN: So 70% total demand met by new solar requirement?

Mr DUIGNAN: It is energy. Yes, that is correct.

Madam CHAIR: This is a hot debate in Alice Springs.

Mr DUIGNAN: Absolutely.

Mr WOOD: Just a couple of things on that. Part of the reason you have renewable energy is to cut down carbon emissions. I am never sure whether we live in the real world. Batteries will produce carbon emissions. Batteries are not everlasting. Batteries will have to be replaced. Does someone actually sit down and consider whether we would produce less carbon emissions by using gas powered fuel stations, rather than having solar power based on battery systems, which might, for all I know, produce more carbon emissions than if we had stayed with a solar daytime power and a backup of gas electricity production?

Ms BOND: Definitely any decision to take on any new technology would include total lifecycle cost assessment, but also carbon efficiency of those two choices. The answer is yes; we would consider the balance of any change to a new technology. I do not have a comment. There are a lot of changes in batteries and different types of batteries will have a different carbon footprint, so I am not across what might be available in five or 10 years' time.

Mr WOOD: I get worried that what looks good and popular and sounds fantastic may not be – if you start to look at the life time product from when it is manufactured to when it finishes and how many carbon emissions that would produce. That is what concerns me. I am not against batteries. Batteries have been around for quite a few years anyway, so they are not new. If there is a wholesale take-up of that technology, what effect would it have?

Just the other issue, you mentioned solar thermal. I was in Seville in Spain about two or three years ago. They have an array of solar thermal plants that they have been trialling. With storage of power from a solar thermal system they have large boilers which are insulated and can retain heat. They can use that heat to run a steam-fired generator. Are your generators steam or are they just …

Mr DUIGNAN: We have one steam unit out at Channel Island. Unit 6 is steam turbine.

Mr WOOD: What about in Alice Springs?

Mr DUIGNAN: None in Alice Springs.

Mr WOOD: So the problem would be that if you are going solar thermal, which is a heat system, you would have to change over your generating systems to match it. Would that be correct?

Mr DUIGNAN: You would have to install a steam turbine to harness the actual heat and convert it into electricity but one of the advantages of solar thermal for a business like Territory Generation is being able to harness the waste heat going up the exhausts and use that in the process so you get some utilisation out of your existing plant, and you get the benefit of the solar. Overall you get a very efficient system operating together.

Mr WOOD: I think that is more the way we should go. I am not saying it is perfect either. It has its issues in regard to windy and cloudy days. Look at the new solar thermal plant going up in Port Augusta for, I think, an Austrian tomato growing company which will grow hundreds of acres of tomatoes, desalinising the water, producing heat and producing electricity, all from that one process. Maybe that is the way to go in Alice Springs, rather than just solar panels.

Ms BOND: On the fact sheet we handed out, the fourth option is solar concentrating, but there is a development of technology – the ability to buy that right now is not as prevalent as the solar PVs, but we are watching all the technologies.

Mr DUIGNAN: To follow up on that, we are certainly not locked into solar PV with battery technology. I agree with your thoughts on the lifetime costs. There are some issues that the disposal of the battery technology, the lithium batteries – no one has come up with a concept of what they will do with this waste. There is a something of an issue as that technology takes off and we get large volumes of waste – the end of the life of batteries and the like. There could be an issue with that which needs to be resolved.

Ms MANISON: Staying with the theme of Alice Springs, especially when we have two Alice Springs members here, what is happening with the Ron Goodin Power Station and the decommissioning plans?

Mr DUIGNAN: I am happy to say that the contractor, Clarke Energy, has mobilised to site this week at Owen Springs, doing earthworks and the civil works associated with the new generation there. New generating equipment will start to arrive on site there from September this year, with the project on target to be fully commissioned and operational in December 2017.

As part of the project we will keep the Ron Goodin Power Station fully operational until we are satisfied that the new plant is as reliable as or more reliable than what we currently have. We will go through a bedding-in period with the new Owen Springs Power Station to make sure we do not have commissioning or post-commissioning issues. New generating plants tend to go through a period of bedding-in where small issues can come up and cause problems, so we will keep the Ron Goodin Power Station ready to operate.

We will not do anything with that for probably six months after we are fully commissioned, so mid-2018 would be when we look at what we will do with Ron Goodin or start the works around its demolition. That station will be decommissioned and demolished and the land made ready for some redevelopment.

Ms MANISON: I am keen to get an understanding about the decommissioning process, but also the expansion of Owen Springs. At Ron Goodin you have a range of staff at the moment. What type of jobs are they in, how many of them are there, and how will the decommissioning of the power station impact their jobs? Will they be going over to Owen Springs or do you foresee that there will need to be redundancies and natural attrition job losses? What are the plans going forward?

Ms BOND: The upgrade is needed to drive down our costs and increase efficiency. We understand there will be impacts for our staff. As Tim said, we have about 18 months to phase in the new plant and we will be talking to our staff over that time.

Ms MANISON: You are going from a very old power station with old generators to a very new power station. Last time I was taken out to Owen Springs they were pointing out to me how automated a lot of the systems are there. How will that affect your current staffing levels and the jobs of people currently working there?

Mr DUIGNAN: To expand on the numbers, we have about 55 people in Alice Springs. They are across a range of roles, being mechanical, electrical, management, administration and the like. The nature of our operations will change there, as you rightly said. We have very old equipment, some of it approaching 50 years of age, which takes some tender loving care to keep online and operating, which the people there are very good at. We have very good staff in southern region.

Our philosophy will move more to an operator/maintainer operating regime. At the Owen Springs Power Station we will still maintain a 24-hour, seven-day-a-week, 365-day-a-year shift operation with people on-site. It is 26 km out of Alice Springs and, if we were to have a major issue there, we do not want to have the down time of mobilising people on a weekend to get to the station. So, we will have that on the site. There is no intention to ever run that site unmanned. There have been some rumours floating around that we would go to unmanned operation. That will not happen.

We are in constant communication with the staff there about any impacts on the staff as we develop the operating regime. There will be no forced redundancies or anything like that. There may be some natural attrition over time. Currently we are looking at the numbers there and wondering whether we have enough to go through this transition period. After that, we will transition to a new working model. As I said, it is in full consultation with our people in that region.

Ms MANISON: You said you have 50-odd full-time staff there. Do you have any projections on what your full-time staff will be once Owen Springs is fully operational and Ron Goodin is decommissioned?

Mr DUIGNAN: We are also looking at business opportunities there to utilise the very good people we have and their excellent skills in maintaining reciprocating engines. We see there is a very good opportunity for us to build a business with those people on what we term a mobile maintenance-type arrangement. We have a number of remote power stations at Yulara, Kings Canyon and Tennant Creek where a mobile maintenance team could be utilised to maintain our own equipment. We also see an opportunity to offer those services to other groups. It is hard to answer that question right now because we are developing these models as we speak.

Ms MANISON: Okay then.

Mr DUIGNAN: Ideally, we will be putting people on. We will have a business model that requires more people, but …

Ms MANISON: But no forced redundancies. Thank you.

Madam CHAIR: Is it fair to say that the decommissioning of the Ron Goodin Power Station may take years? I am hearing locally that it could take quite a long time.

Mr DUIGNAN: It will take some time. We are talking probably a 12-month period to go through the decommissioning and then the demolition process. But it will not take years. We have to do some more investigation around soil contamination and all those sorts of issues. Once we get to the point where we can set some machinery on-site and do some soil sampling and that sort of thing – but it is an operational power station at the moment and it is very difficult to get rigs in there to drill holes in the ground in an operational power station.

Madam CHAIR: The decision has definitely been made to demolish the whole building, or the buildings?

Mr DUIGNAN: Our business case has allocated funds to do that. We lease the land from Power and Water, so we will be giving the keys back to Power and Water. If Power and Water was to come to us and say, 'Actually, we could use that as a storage facility, so get all the engines out of there and put a concrete pad in there. We will use it to store all our transformers and things for Alice Springs,' we would hand the keys back with a shed that is operational for storage.

We have included that in our business case to rehabilitate the land to a state where it could be used for other purposes, but it would be up to Power and Water at the end of the day; it is their land. If they want the building, we are more than happy to give them the building.

Madam CHAIR: Do you know the size of the land owned by Power and Water? It is probably not a question for you.

Mr DUIGNAN: Yes, there are many hectares through that Sadadeen Valley so they own a fair bit of land through there, from the gate, right down at Tunks Road, all the way up and almost over to the town camp and the hills.

Mr WOOD: Can I ask a completely different question? You talked about the Darwin to Katherine grid. Part of that grid is covered by a power station run by Energy Developments at Pine Creek. How does that work? Especially from the point of view of the reliability of supply, do you have any sort of input into that company's ability to also maintain supply?

Mr DUIGNAN: Thank you for that question. The Pine Creek power station was on a long-term power purchase agreement with Power and Water and then Territory Generation. That original agreement came to an end in April this year. We have done a short-term agreement to extend that to the end of the financial year on the basis that we were waiting to see what was happening with the development of the NTEM …

Mr WOOD: What is the NTEM?

Mr DUIGNAN: The Northern Territory Electricity Market. We have an interim market at the moment. The problem with the interim market is you cannot financially settle in that market, so for a generator you need to have bilateral agreements with a retailer to get money for your generation. We get dispatched over the

INTEM, but we do not have a financial settlement out of that market yet so it is a one-way market at the moment.

We continue to talk with Energy Developments Limited, EDL, on another agreement to keep them in the Northern Territory electricity supply system - albeit through Territory Generation - so they can get a financial settlement for the generation that they generate, but that is an ongoing negotiation at the present.

Mr WOOD: They are producing power for some of the mining companies, are they? Or are they just producing power for you?

Mr DUIGNAN: We are the off taker of all their supply. They generate then it goes into the grid and we then sell that power to Jacana Energy or the other retailers. They produce it for us. At the present they do not have any direct relationships with customers that I am aware of.

Mr WOOD: If they were to fail, you could still produce enough power for the Darwin to Katherine grid?

Mr DUIGNAN: We have adequate capacity to meet the maximum demand in the Darwin/Katherine grid on an n-2 basis without EDL.

Mr WOOD: Do you need EDL? And that is not being nasty to them, but just looking at it from a commercial perspective, why do you need to have an agreement with them?

Mr DUIGNAN: The quick answer is no. As Territory Generation, we do not need the capacity provided by EDL at Pine Creek. The more complex answer is that there is a market coming. The intention is to have competition for ourselves. We are trying to provide a mechanism that bridges the gap until that market comes into place. They can then face us in the marketplace as a competitor. We are being a nice competitor.

Mr WOOD: When is that likely to happen?

Mr DUIGNAN: No exact date has been set for the NTEM to come into play, as I am aware. The discussion is around 1 January or 1 March next year for the full NTEM to come in. Whether that happens as a full NTEM or the next step towards the NTEM, we are not sure yet.

Ms MANISON: At Brewer you have a similar situation there as at Pine Creek. Is that the case?

Mr DUIGNAN: That is correct. The Brewer power purchase agreement will come to an end in December this year.

Ms MANISON: Will that be the end of the relationship?

Mr DUIGNAN: The Brewer power station is a 20-year power purchase arrangement. At this stage we do not expect to see that agreement renewed.

Ms MANISON: To come back to a question I had earlier on, last year we spoke about looking at options for solar power in Katherine and Tennant Creek. You are now going in and upgrading capacity with generators in Tennant Creek. Has further work been done around those solar options, or potential, in Katherine and Tennant Creek?

Mr DUIGNAN: In Tennant Creek we have been focused on delivering the new generation project, but it is our intention to look at Tennant Creek, particularly as a development site with solar-thermal or solar photovoltaic with battery storage. We would use Tennant Creek to solve the issue of a storage solar and thermal power station, and the integration required to make it work together. We see Tennant Creek as a great site for that. It has great solar irradiation there. We will move our attention now that the construction is under way to look at solar options at Tennant Creek.

Ms MANISON: And Katherine?

Mr McCARTHY: Hear, hear.

Ms MANISON: I thought the member for Barkly would be pleased with that.

Mr WOOD: Tennant Creek is one of the best areas right across to Broome, I think, for solar.

Mr DUIGNAN: Yes, it is.

Ms MANISON: And Katherine? You just said you have the generation capacity there, so the same work is not being looked at in Katherine?

Mr DUIGNAN: We are working with a number of proponents who are looking at solar in Katherine. There are two major projects being investigated there that we are keeping abreast of. We may become part of those projects as we go forward.

Ms MANISON: More power purchase-type arrangements, like you have in Alice Springs?

Mr DUIGNAN: Possibly, yes. We have not formed an opinion on whether we need to own and operate those or just be a power purchaser from a third party. It will come down to an economic equation for the business and making sure it is NPV positive for us.

Mr WOOD: It could be hydro in Katherine?

Mr DUIGNAN: It could be.

Mr WOOD: Hang off the old railway bridge? They are the systems they use. When I was in Hanover last year they had systems hanging off bridges that produced power. The Katherine River flows all year round. I am not sure why you could not have a combination.

Mr DUIGNAN: Micro-hydro has come into its own.

Mr WOOD: And you do not need battery storage.

Madam CHAIR: If there are no more questions I would like to thank you all for coming before the committee this morning. On behalf of the committee, thank you.

Mr DUIGNAN: Thanks for the opportunity, thank you.

Madam CHAIR: That now concludes the Government Owned Corporations Scrutiny Committee public hearing process. I remind officers that all answers to questions taken on notice must be given to the First Clerk Assistant by 7 July 2016. Late answers cannot be accepted.

On behalf of the committee I extend my many thanks to Ms Bond, Mr Alan Tregilgas and Mr Noel Faulkner for attending today, and the officers they have working with them. I also extend our thanks to all others who have helped with this hearing. I also thank the members of this committee and other members who participated in the hearings for the work they have put in, and the overall manner in which these public hearings have been conducted. I now close the public hearing of the Government Owned Corporations Scrutiny Committee for 2016.

Thank you.

The committee concluded.
