

POWER AND WATER CORPORATION

Mr CHAIRMAN: Good morning. I declare open this public hearing of the Government Owned Corporations Scrutiny Committee of the Legislative Assembly of the Northern Territory on Friday 25 June 2004, and I extend a welcome to everyone present.

I table a copy of the order of the Assembly dated 18 May 2004, which appoints a committee for the purpose of examining and reporting on the activities, forms, principles and financial management of the Power and Water Corporation, a government owned corporation under the *Government Owned Corporations Act*, with reference to the Power and Water Corporation's Statement of Corporate Intent 2003-04. The order effectively uses the current membership of the Public Accounts Committee. I should also point out that the committee, at its meeting on 21 May 2004, agreed that the timing of the public hearing shall be 9 am to 11 am Friday, 25 June 2004, in accordance with paragraph 15 of the order of the Assembly.

I also report that at that meeting, the member for Karama was elected Deputy Chair of the committee in accordance with paragraph 4 of the order. I advise that as a result of a resolution of the committee, representatives of the media can be present and are able to report and broadcast proceedings of this hearing.

Procedural issues that I should bring to everyone's attention before I call for questions are:

- under section 20 of the order of Terms of Reference for this committee, questions should be put directly to the Chairman of the Board of the Power and Water Corporation with assistance from the Managing Director and other officers as required;
- although this is a public hearing, it should be noted that under section 21 of the order of the Assembly, the Chairman and other witnesses will advise when evidence is of a commercially sensitive nature and such evidence shall be heard *in camera*. As Chairman of this committee, I will invite the Chairman and witnesses to give reasons for a request for *in camera* evidence;
- the procedures adopted by the recently completed Estimates Committee to address questions taken on notice shall also be utilised through the public hearing of this Government Owned Corporations Scrutiny Committee;
- for the sake of completeness, the Treasurer has already addressed questions during the Estimates Committee's public hearing on Tuesday 22 June 2004 in which the issue of Community Service Obligation payments made to the corporation by the government and dividends paid to the Territory government by the corporation were raised.

I now table the Annual Report 2002-03 and the 2004-05 Statement of Corporate Intent of the Power and Water Corporation.

The committee will now proceed to consider the activities, performance, practice and financial management of the Power and Water Corporation with respect to both the tabled documents.

I welcome from the corporation Mr Neil Philip, Chairman of the Board, Mr Kim Wood, Managing Director, Mr Andrew Macrides, Company Secretary and General Manager of Business Services. I now call on the chairman to make an opening address.

Mr PHILIP: Thank you, Mr Chairman. The Power and Water Corporation is about to complete its second year as the Territory's first government owned corporation. The corporation is again on track

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to meet and exceed the targets in its 2003-04 Statement of Corporate Intent. Before I move on to the 2004-05 statement, I want to draw your attention to some of the challenges of the past year, along with some of our achievements, and I would like to start with the challenges.

Two corporation line workers were seriously burnt in an incident involving a transformer fire at Mt Bundy Mine on 5 December 2003. Both employees are recuperating and, I am pleased to say, have since returned to work. The incident was fully investigated, with some important safety recommendations being implemented as a result.

Sadly, in March 2004, two Alice Springs employees passed away. Robert Peckham and John Hendy were valued corporation employees with many years of service. Their deaths were felt throughout the organisation and counselling was made available to all staff.

In April 2004, an Occupational Health and Safety Audit was undertaken by international safety experts Dupont. This review recommended a number of safety initiatives, which the corporation will implement over time. One of the most important safety policies launched this year was the Zero Harm Policy, which seeks to reduce work place injuries to zero by 2007.

The corporation received increased media attention this year following government's decision to increase prices for Tranche 4 contestable customers. The corporation does not set franchise tariffs. As a consequence, the corporation felt compelled to launch a customer communication initiative to allay concerns and increase understanding in the community about electricity prices.

The \$6.3m project to reduce dry weather effluent discharges from Ilparpa Swamp started during the year. The implementation of a new retail management system started this year, with only a short time to go before implementation. This \$9m investment sees the corporation's current 13 year-old mainframe-based system replaced with a modern generic utilities system.

The corporation undertook capital works and repairs and maintenance programs of some \$94m this year. These programs, along with our annual operational expenditure of around \$260m, resulted in a total cash outflow of more than \$350m, with much of this money flowing into the Northern Territory economy, with many local suppliers and businesses partnering with the corporation to get the job done.

I would like to make it very clear that, despite some uninformed media comment to the contrary, there has not been and will not be any reduction in the corporation's maintenance program. We will continue to invest what is needed.

Looking ahead to 2004-05, the corporation is forecasting another year of solid performance. I point out that this year's Statement of Corporate Intent provides targets for the corporation at the consolidated level, including our subsidiary companies, Indigenous Essential Services Pty Ltd, Darnor Pty Ltd and Gasgo Pty Ltd.

The corporation is targeting ongoing improvements in all our service measures in 2004-05. The Nightcliff Undergrounding Project will continue in 2004-05, with the corporation adding \$1m to the government's contribution of \$3m for this year's work.

Construction of a transmission line to Dundee Beach will start in 2004-05. The corporation is investing \$1.35m in addition to the government's contribution of \$3.8m to that project.

As well as \$18m for increased capacity at the Ron Goodin Power Station at Alice Springs, we are investing \$10m on new generators for Tennant Creek. These investments will see supply reliability improve for our customers and will allow for increases in demand well into the future.

To increase reliability and security of supply to the Darwin CBD, a new \$8.3m zone substation will be constructed at Frances Bay starting this year.

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The corporation will continue to provide essential utility services to remote Territory communities through our fee-for-service arrangements with the Department of Community Development, Sport and Cultural Affairs.

The corporation is forecasting revenue growth this year of 2.8%. The corporation is a business. It needs to make a profit so that it can reinvest in its assets, thereby continuing to improve the quality of service to its customers. The absence of a profit would mean that we were dependent on our shareholder for equity to fund our operations and this would be unsustainable.

Nett profit forecasts in the SCI are \$40m in 2004-05, \$34m in 2005-06, and \$37m in 2006-07. Profit in 2005-06 and beyond is affected by an increase in energy expenses and an overall increase in CSO funding in 2004-05, mainly for Tranche 4 customers. Based on the profit forecast, the corporation's board will declare dividend payments in each year set at 50% of nett profit after tax, that is, \$20m in 2004-05, \$17m in 2005-06, and \$18m in 2006-07. In addition, because of its increased profitability, the corporation will make tax equivalent payments of \$17m in 2004-05, \$15m in 2005-06 and \$16m in 2006-07.

Asset renewal and augmentation will remain a priority for the corporation. Our capital investment program from 2004-05 to 2006-07 totals \$215m. We continue to invest in maintaining our assets, with the corporation's total repairs and maintenance program for the same period forecast at \$150m. This means the corporation will spend \$365m on its assets over the next three years. We hope that a significant proportion of that will go to local industry.

Our projected debt to equity ratio for 2004-05 is 46.3%, with interest bearing liabilities at 30 June 2005 estimated to be \$300m. Pre-cash flows are sufficiently strong to cover the corporation's financing costs of \$25m per year.

We remain conscious that one of the corporation's most significant risk areas is ongoing fuel supplies. There is sufficient gas contracted to satisfy forecast electricity demand until about 2009. The corporation is engaged in negotiations for longer-term gas supplies with all possible gas producers. The gas contracts we are seeking have the potential value of more than \$1.5bn over 20 years.

The corporation's work force has increased by some 2.5% since 1 July 2002, with more hiring in the process. As at 1 June 2004, the corporation employed 732 people across the Territory.

The corporation aims to make a lasting contribution to the community, and one way we do this is through our annual sponsorship program. In that program, we invest up to \$200000 a year in a range of projects that better the community for all Territorians.

To sum up, the corporation is looking forward to 2004-05, and improving on the good results of 2003-04. We are committed to providing the Territory with appropriate service levels while operating commercially. Thank you, Mr Chairman.

Mr CHAIRMAN: The time is now 9.10 am, and for the *Hansard* record I wish to advise that, pursuant to section 12 of the terms of reference of the Estimates Committee, Madam Speaker has nominated the member for Brennan to replace the member for Drysdale.

I also wish to advise that pursuant to section 12 of the terms of reference of the Estimates Committee, Madam Speaker has nominated the member for Port Darwin to replace the member for Greatorex and the member for Barkly to replace the member for Karama.

The committee will now proceed to consider the Power and Water Corporation's Statement of Corporate Intent 2003-04. I call on the shadow minister.

Mr DUNHAM: Thank you, Mr Chairman. I will start with an issue that we discussed at some length

last time, and that is the logo. I note that an agreement was reached for it to be phased out by next week, 30 June. I wonder, therefore, whether all the costs for what has been described as a fiasco have been captured and whether they approximate the \$100 000 estimate that you gave last year.

Mr PHILIP: Mr Chairman, I refer that matter to Mr Wood.

Mr K WOOD: The changeover cost is approximately \$85 000 we estimate. It should be noted, as referenced, the \$100 000 compensation was received from the designer. That \$85 000 will include signage, car signage, signage on buildings and things like that. Items excluded from that \$85 000 amount are items that are changed over cyclically, such as uniforms, vehicle signage, stationery, brochures, remote area signage, which was not done at the last changeover and which is part of an ongoing replacement program and would have been covered by natural attrition with or without a logo changeover.

Mr DUNHAM: How much has been spent creating the new Power and Water logo?

Mr K WOOD: The all-up cost of \$85 000 included the design fee for the new logo. Andy, are you able to help on the actual cost itself with that item?

Mr MACRIDES: Not specifically. It was not particularly expensive. The logo was used the first time round at the Environment Awards, so the logo was actually in existence as a logo. The cost of producing it was less than \$10 000.

Mr DUNHAM: Less than \$10 000 to develop it?

Mr MACRIDES: Yes.

Mr DUNHAM: All right. Did you have to pay any compensation to the European Commission?

Mr MACRIDES: No.

Mr DUNHAM: Okay. Your new logo bears an uncanny resemblance, almost an exact resemblance, to one that is already own by Sunkist. Are you aware of this?

Mr K WOOD: Yes, we are aware that our logo contains, as you have displayed, a leaf. The primary look and feel of the Sunkist logo is the yellow can. Many logos contain ...

Mr DUNHAM: Orange can.

Mr K WOOD: Yes, yellow and orange can. Many logos contain generic items. For instance, the map of the Territory is contained in the logos of Top End Hire, Territory Uniforms, Top End Constructions, Kerb North guttering, Territory Conveyancing Services, NT Repairs and Painting, and Norsign. Palm trees are contained in the logos of Palm Village, Top End Hire, Stronsay Mowing, Tropic Optics and Tree Tops Restaurant. Buffalo Horns - AANT, Wildman River Stock Connections, NT Springworks and the Buff Club. Leaves are used in lots of logos, including nurseries, beauty salons, environmental groups, skin care and soft drinks.

The leaf portrays a freshness, a newness, growth, purity and environmental image. As you are probably aware, there is little in the way of new logos out there. Most contain items that you could say are contained in other logos. The Sunkist label we are aware of, we have looked at, and the main element is the yellow-orange sun, the leaf and the text sit in front of it. The logo has been registered through the registration process and, in fact, the leaf was drawn by a local firm. We do not anticipate any issues whatsoever with a generic item in this.

Mr DUNHAM: There are a couple of issues arising from that. Did you go for a logo that was so

mundane that it was captured on various other company registered items to avoid this, as opposed to going for something that was uniquely representative of the Power and Water Corporation?

Mr K WOOD: It was a pre-existing logo, as Andrew said, and the intent was to provide an environmental look and feel, some freshness and growth. It is certainly a generic item that is not particularly unique, but we thought, given that we generate a good deal of our energy from renewable means here, we are generating power from gas, which is providing half the CO2 discharge from coal-based generators down south, we thought that the leaf, the environmental flavour, lent itself to what we are trying to achieve here in the Territory.

Mr DUNHAM: You would have to concede that it is almost an exact replica, even where it appears on the word at the latter part of the corporate livery, you would have to concede that is almost a direct lift of something that is already widely in use by the Cadbury Schweppes company.

Mr K WOOD: To be fair, the way you presented the logo there is not the way it is presented on the can. The primary image is the orange-yellow sun, and it would appear to me that the way to display the logo is particularly designed to make it look very much the same and, in fact, it does not in real life.

Mr DUNHAM: I have various of your corporate documents here, and it would appear to me, in any event, that it is almost a direct lift from an already existing logo.

Mr K WOOD: As I said, Mr Dunham, it is a generic item that is used in many logos in this country. The leaf was drawn by a local firm and it has been successfully through the registration process.

Mr DUNHAM: You have not had any talks with Cadbury Schweppes about their logo?

Mr K WOOD: No, no. The only possible problem you could have with a logo like that is if it were construed to be passing off. We are operating in very different markets. There is no passing off issue here. It would seem to me that it would be very unlikely at common law there would be any basis of an action.

Mr DUNHAM: On the last occasion when this fiasco occurred, what was the passing off issue?

Mr K WOOD: On the last occasion, what happened was that we were going through a registration process and we discovered that the logo was very similar to the European Commission. We asked them whether they had any difficulties with us using that logo. We voluntarily withdrew our registration. It was clear at that time that the logo was potentially plagiarised. This situation is a very different situation. The logos are in different market places. They are not particularly similar in our view. It has been through the registration processes and we do know the logo was drawn fresh by a local firm.

Mr DUNHAM: Yes. On the last occasion, we talked about this at some length at this very committee and, in evidence, the corporation said: 'We want to do lots and lots of research and make sure we get it right'. Was that research done prior to this almost exact replica?

Mr K WOOD: As I said, I believe the way you are portraying that logo makes them look very similar and, in fact, in actuality, on the can, it is not as similar as you are alleging. We did identify a local firm and we did get the logo drawn from scratch.

Mr DUNHAM: Was that firm engaged on a certificate of exemption, or did it go to open tender?

Mr K WOOD: No, it did not go to open tender. The firm was Sprout Creative, which had a contract with us to provide marketing services and it was done as part of that contract.

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Mr DUNHAM: Okay. You are telling us that you did do the extensive research. You did go to a local company. The fact that it is similar is not a concern to you because you exist in different markets. Can I ask you if you have sought legal advice as to the approximation, I would say almost exact approximation, to the Sunkist logo?

Mr K WOOD: Over those two logos?

Mr DUNHAM: Yes.

Mr K WOOD: No, not at this time.

Mr DUNHAM: Do you think you should seek legal advice?

Mr K WOOD: We may well do that, but after going through the previous logo issue, we do have a good feel for what the law surrounding logos and passing off is.

Mr DUNHAM: That was the hope.

Mr K WOOD: Yes. Legal advice may or may not be sought in this instance, but we certainly do not believe we will have any difficulties with this logo whatsoever.

Mr PHILIP: You would have to say a leaf is a far more generic than the disc-mounted device that was used previously.

Mr DUNHAM: Yes. If what you are saying is you went for something that was so generic that it is held by many companies, one wonders if it is going to portray the marketing image and edge that you are seeking.

Mr K WOOD: Well, the important issue...sorry.

Mr DUNHAM: The corporation is spending an enormous amount of money on advertising positioning - for a monopoly company, I think that is a fairly ironic thing - and lots and lots of glossy brochures about the work of the company. I would have thought to go for something that is readily held and readily available by others, including your competitors. If what you are saying holds true, your competitors could set up and use exactly the same logo. I would have thought that that is probably not in your best marketing interests.

Mr MACRIDES: The important issue, Mr Dunham, is the retention of the Power and Water device itself.

Mr DUNHAM: Pardon?

Mr MACRIDES: The important issue is for us is the retention of the Power and Water branding device.

Mr DUNHAM: So if a competitor to Power and Water came to town and had a name that was similar to yours and used the leaf, would you see that as problematic?

Mr MACRIDES: If a competitor came to town and had a similar name to ours, it would be problematic for the competitor, because that logo, and with the Power and Water device itself, is now registered. We own the trademark.

Mr DUNHAM: You own the name and the leaf?

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Mr MACRIDES: We own the trademark; Power and Water with the leaf. That whole device is trademarked.

Mr DUNHAM: What I am saying to you is: a competitor could come to town and call themselves WaterPower with the same little leaf, and on the advice you have given us, there is nothing that can be done about it.

Mr MACRIDES: Well, sorry, that is not true. As Kim mentioned, he mentioned the term 'passing off', and that would be a clear example of passing off; a competitor operating in the same industry as ours and using a similar branding device to ours.

Mr DUNHAM: When did you discover that these two logos were so similar?

Mr K WOOD: We have been aware for some weeks now that the Sunkist leaf had some similarities but, as I said before, many logos include leaves on them in this country. It is not seen as a major problem with this particular logo.

Mr DUNHAM: In a note to staff, you talked about the logo. You said that it was first designed in 2002, and now you are telling me that it has only been in the last couple of weeks that you have been aware that it had a very close approximation to an existing trademark logo.

Mr K WOOD: Look, 'close approximation', Mr Dunham, are your words. Our looking at this tells us that the primary device on the Sunkist can is the orange and yellow sun, and the leaf is included in many logos in this country. So while you may see it as a particularly significant issue, we do not.

Mr DUNHAM: Okay. I would have thought that you would be the world's experts in Darwin on this matter, given what happened to the corporation last time it used a logo. This is now the third logo in three years. I hope you are right about your legal advice about Cadbury Schweppes not being offended by this. For mine, it does not really grab me, but if that is the way the Power and Water Corporation wants to go forward, good. I turn now to some of the money issues.

Mr G WOOD: Sunkist will enjoy that bit of publicity, that is for sure. Their sales would have gone up.

Mr DUNHAM: Oh, there you go, they could have copied Pauls Iced Coffee, mate, and the same thing would have happened.

Mr G WOOD: Surely.

Mr CHAIRMAN: Or the Territory flag, Mr Dunham, [inaudible] logo.

Mr DUNHAM: Well, the Territory flag is a bit different.

Mr CHAIRMAN: It is; it is the Territory's flag, not a political [inaudible].

A member: Which you don't like.

Mr CHAIRMAN: No, no. I don't like it being used for political purposes.

A member: You won't go near it.

Mr CHAIRMAN: No, no. I don't like political parties hijacking the flag.

Mr DUNHAM: After that little aside ...

Mr Bonson: It is the Territory flag.

Mr DUNHAM: ... we are going back again to the CSO, Community Services Obligation payments. I note this year they have gone up by \$1m for the uniform tariff, if I can put my hand on it.

Mr PHILIP: Yes. Page 82.

Mr DUNHAM: There are additional monies for the Tranche 4 electricity customers, but for the uniform tariff, it has gone up by \$1m. Can you tell us what component of the uniform tariff is the CSO to peg domestic electricity prices?

Mr PHILIP: Mr Dunham, I will answer that with support from Andrew Macrides, if I could. There has been no exercise to separate the so-called pegging of electricity prices in terms of the structure of the CSO. The CSO is built around, I guess, providing for the revenue shortfall that arises when our reasonable costs are calculated. The calculation is not made by us, it is made by the Utilities Commissioner, and that calculation leads to the shortfall in revenue being compensated, not fully, as you are aware. It is no mystery that electricity prices have been pegged or frozen since the early 1990s. Certainly, for residential customers, there have been no domestic price increases and that has been a policy of the current government and previous governments.

Mr DUNHAM: The changeover is that you are now a government-owned corporation. I would have thought that it was very important to exactly identify the cost of providing for something that you would not have done corporately, but you are being forced to do because of a political promise, and such a promise was the pegging of domestic power prices.

Last financial year, I note that the CSO did not go up; in fact, it went down. This financial year, it has gone up on that item by \$1m. If I were foolish enough to believe that it cost \$1m for the corporation to fulfill the government's promise of pegging domestic electricity prices, I would suggest that you have a really big problem with the corporation in the next five years of the next government because you might find that you only get \$2m or \$3m to fulfill this promise. What I am saying is: surely, it is more than that and surely it is in the best interests of the corporation to find out what you are doing to pay for a political promise.

Mr PHILIP: I will ask Andrew Macrides to answer the \$1m figure with a bit more precision than I have. However, certainly in terms of, as I say, domestic price increases, the freezing of those, it was no mystery before we became a corporation. In fact, it was one of the fundamentals of the transition to corporation. It was well understood by the previous government and by this government, and certainly by the corporation, that we would not have power to set prices for franchise customers, and the whole basis of the competitive arrangements that were put in place were to introduce competition at a higher level in terms of a business, particularly the business community in tranches, and we have just gone down into Tranche 4 with some grief.

However, there is no question that my board has at no stage gone to government and said we want the power to set franchise electricity prices. It is government's decision to make those prices, to freeze them, unfreeze them, increase them, decrease them, and we are totally comfortable with that.

Mr DUNHAM: We agree with that. It is the government's decision to do it but, likewise, there is a government onus to pay for that decision. Under the new arrangements, if the government makes a decision that is not in your best commercial interests, it has to, in a very transparent way, pay for those, surely.

Mr PHILIP: I agree with that.

Mr CHAIRMAN: Shadow minister, there was an indication that the Chairman was going to defer to Mr Macrides for further information on that \$1m. If we could just let the Chairman finish his response and then come in with another question.

Mr PHILIP: I agree with your comment, Mr Dunham, in relation to the transparency. I believe it is essential to the whole process and structure of the corporation. We are comfortable that the total numbers are absolutely transparent and that the shortfall in the commissioner's determination of what should be the CSO and what we actually receive is known to all.

The fact that the government has decided to accept a lower rate of return in lieu of making full CSO payments, we keep that transparent. There is no great mystery to it. There is no mystery in terms of price freeze; it is known to everyone. I am not quite sure how we satisfy you in terms of striking out a component to say: 'Well, that is the component that relates to prices being frozen' as opposed, for example, to the provision of a uniform tariff to Territorians wherever they are across the Territory. I am not trying to be evasive. I am just not sure what it is you are trying to ...

Mr DUNHAM: Well, I put it to you then that if two parties are lining up for an election next year, which will happen, and there is a bidding war about pegging domestic tariffs, and people go to the budget papers, it is quite a reasonable thing to say: 'Well, that will cost us \$1m a year because that is what it cost us last year, and we will factor it in and send it off to Access Economics and say it is fully costed, and for \$5m everybody in the Territory can have their power prices pegged'. Would that be a fairly simplistic and silly way of doing this?

Mr MACRIDES: Mr Dunham, I think that the \$1m increase - that is probably a simplistic way of doing it. I suspect the \$1m increase is due to CPI indexation of the uniform tariff itself rather than related to the price cap component. You are certainly right; the CSO does include two components that are not easily differentiated. One is the geographic location component, the uniform tariff itself, people paying the same tariff regardless of where they live in the Northern Territory; and the second element being the price freeze component itself. As the Chairman has indicated, we simply are a recipient of a CSO; we do not set the CSO.

Mr DUNHAM: But it is in your best interests to make sure that whatever it is you are doing on behalf of the government you are being fully compensated for, surely?

Mr MACRIDES: Yes.

Mr DUNHAM: Would you not do your own computations to say: 'Well, the government said they will give us \$1m a year to peg domestic, we have done our computations, we find out it is actually \$10m, and we will debate on the basis of our numbers versus whoever's'? What I am saying to you is that for the Chairman to say there has been no exercise to estimate the cost of pegging is quite surprising because you may be carrying quite a big subsidy for a political promise.

Mr PHILIP: Mr Dunham, there certainly has been an exercise to cost the total value of CSOs. We make our submission to the Utilities Commissioner and, in making that submission, we put forward what the reasonable costs are of us doing our business. We include return on capital, return of efficient operating and maintenance costs, and so on. The Utilities Commissioner goes through a laborious exercise to determine what is a reasonable cost of us producing electricity and, therefore, if there is a shortfall determining the CSO that ought be paid to us, setting aside government's then decision to say: 'We will take a lower rate of return'.

There is no question that in determining the total CSO and the total cost to us of both price freezes and uniform tariff, that is certainly not something that is not taken into account. What I was trying to say was it is not an exercise that I have before me that is clearly separated out in terms of the total numbers. However, you can be sure that, in arriving at the total figure, the cost of that price freeze is taken into account.

Mr DUNHAM: So if a political party were to say that they would cut power costs next year, how would you know how to provide the cost ramifications to independent observers? You would have to bundle it up the same way you are doing now, wouldn't you?

Mr PHILIP: Yes.

Mr DUNHAM: And it would be totally hidden in those complex computations that have taken place at the Utilities Commission. A decision to reduce your profit line should be costed, surely.

Mr MACRIDES: It is a very difficult question to answer, Mr Dunham. We know the Utilities Commissioner has valued the CSOs at \$62.4m. Government has allocated \$43.6m this financial year by accepting a lower rate of return, so the value of CSOs is between \$43.6m and the \$62m assessment of the Utilities Commission. We could sit down and do a complex analysis of what component of that \$62m relates to the geographic location issue and what relates to the price freeze issue. I am just not sure now that advances anything.

Mr DUNHAM: What you are telling us is that the Utilities Commission has accepted that the government promises outside of your commercial sphere cost \$62m and they have sent you a cheque for \$48m?

Mr MACRIDES: Well, to get it right, the Utilities Commission has valued CSOs at \$62.4m. That valuation includes both the uniform tariff component and, presumably, a component for the price cap.

Mr DUNHAM: Yes.

Mr MACRIDES: And, yes, the government has then said: 'Look, we are not going to allocate the full CSO, as the owner of this business', and remember, this CSO relates to our franchise market place, not our contestable market place, so it is our monopoly operation.

Mr DUNHAM: Yes.

Mr MACRIDES: The government has then said: 'In relation to that operation, we are prepared to accept a lower rate of return as the shareholder rather than allocate the full quantum of the CSO'.

Mr PHILIP: And if I could add to that, Mr Dunham, that return, for example this financial year, would effectively derive an adjusted nett profit after tax of \$4m, an adjusted return on equity of 0.55%, and an adjusted return on assets of 2.86%. So if the full CSO were to come in, those figures would move upwards, obviously. With the CSO stripped out, that is the real return in terms of return on assets and return on equity.

Mr DUNHAM: You assess the CSO at one level. You get less, and the government, in a trade-off for that, says: 'I will accept a lower rate of return'.

Mr PHILIP: That is right.

Mr DUNHAM: That becomes an operational issue, does it not? You have to reconfigure your operations so that you are possibly doing less.

Mr PHILIP: Not at all. It is more a cash flow issue. The cash still flows in via the CSO, so the cash is still there.

Mr DUNHAM: So you can keep all your work programs and your R and M programs intact?

Mr PHILIP: Absolutely. At the end of the day, the nett cash flow that is spun out of the business is more than sufficient to meet your capital program, your maintenance and operational costs and so on.

Mr DUNHAM: Okay. Can you tell me the routes whereby the government can take money from the Power and Water Corporation? We know that there is a dividend paid, for instance. What are the other routes?

Mr PHILIP: Tax equivalent payment.

Mr DUNHAM: Tax equivalents.

Mr MACRIDES: I guess there are three ways the government can withdraw money from the corporation. One is dividend and another is tax equivalent payments. Tax equivalent payments simply put us in the same position as any other business, so that is a competitive neutrality issue for us.

Mr DUNHAM: Yes.

Mr MACRIDES: The third way government can get money out of the corporation is, obviously, to withdraw equity from the corporation itself, so to make withdrawal of equity from the business.

Mr DUNHAM: Is there a fourth one, and that is interest? Is the government essentially your banker?

Mr MACRIDES: The government is our banker at the moment. The interest payment is simply a payment on the debt component.

Mr DUNHAM: Right. We will go to the tax equivalents. I note from Budget Paper No 2 at page 83 that there were no tax equivalents paid last year, and the reason for that is apparently:

The most significant variation relates to Power and Water. Power and Water has not had to pay income taxes prior to 2004-05 as it had significant carry forward tax losses which have offset taxes that would otherwise have been payable on profits.

Last year, you did not pay tax equivalents, did you?

Mr MACRIDES: That is correct.

Mr DUNHAM: This year, you are paying \$18m?

Mr MACRIDES: Correct.

Mr DUNHAM: Can you tell us how the government had to forgo that tax?

Mr PHILIP: I will answer that if I can. The accumulated tax losses that we had going into the 2002-03 financial year were substantial. We looked like it was unlikely that we would pay tax. I think we were forecasting out some 18 months. The operational performance of the business was stronger than we thought, and as we went into the 2003-04 financial year, we saw that operational performance coming through and, effectively, the soaking up of our tax losses faster than we thought.

We then decided it was time to make a provision for income tax. That is the regime we are under, so when we had the tax losses, it was not an issue. It was really the fact that we used those tax losses more quickly than we anticipated, and only because we were producing stronger financial outcomes in terms of profit.

Mr DUNHAM: So it is a pretty robust company, is it not?

Mr PHILIP: It is.

Mr DUNHAM: You have had tax losses that you have been able to meet, and so government is now in a cash-positive position with this quicker than they thought. You are able to absorb the differentiation in Community Service Obligation monies and at the same time, prices are going up. Do you think there is a capacity for government to provide some relief for power consumers as opposed to some of these other devices that are used?

Mr PHILIP: That is something I cannot answer, Mr Dunham, because really, as I said before ...

Mr DUNHAM: It is an option, though.

Mr PHILIP: It is not a matter for the Power and Water Corporation. In terms of prices going up, they have gone up for Tranches 1 to 3 and, recently, for Tranche 4, but that is a consequence of the competitive regime that was introduced and the fact that we set free a regime that required competition and, I guess, pricing neutrality amongst potential competitors in terms of a competitor coming into the market. We had one of those come in and then exit, but the regime itself is not - in fact, it is the same regime that applies in almost every other state in Australia, perhaps bar Queensland, to a degree.

Mr DUNHAM: Okay. I have some questions on Alice Springs. Alice Springs has power blackout problems that were described in the media. I wonder if you could tell me the reasons for those blackouts.

Mr PHILIP: Could I refer that to Mr Wood, please?

Mr K WOOD: On 17 April, a blackout occurred in Alice Springs, commencing at 8.29, following a trip of all generating plant on the system. A restoration of supply was delayed by several difficulties and supply not re-established to the first customers until around 9.25. It was 11.12 before supply was re-established to the last customer, and a large number of consumers on the western side of Alice were without supply for more than two hours.

Our investigations indicate that the primary cause of the blackout was what is called a voltage collapse causing a loss of the generator auxiliary plant, which provides the excitation and other services for the plant, and it resulted in tripping then of all generation.

We have had a look at the several thousand logged events that our data loggers and data systems capture. An analysis was done, and it indicates that it was what we call a voltage collapse based on a malfunction of automatic frequency regulators on one of the main generators. It is difficult, in a complex inter-connected system with multiple generators running, to determine the exact nature, but we do believe, as I said, we lost reactive power, it caused a voltage collapse, which then meant that the system started to shut itself down as the protection came into play.

Mr DUNHAM: Was it a problem with a shortage in generation?

Mr K WOOD: No, not this particular problem. No.

Mr DUNHAM: Right.

Mr K WOOD: Alice Springs is becoming increasingly tight, and the corporation has committed significant funds to ensure that as early as next summer there will be sufficient generation there, but, no, this was not a tightness of generation problem.

Mr DUNHAM: So the \$18m that the Essential Services minister announced for additional generation capacity in Alice Springs would not have been a remedy for this problem?

Mr K WOOD: No.

Mr DUNHAM: Okay. Has there been some delay in augmenting generation in Alice? Is there something you would have preferred to have done earlier?

Mr K WOOD: No. There is no question in our mind that we would like to have additional plant in place, whether it be permanent plant or temporary plant, for next summer. Alice Springs is getting tight. The increase in load there has been well above the increase in population level. It appears to be primarily driven by the move from evaporative airconditioning to refrigerated airconditioning and it has caused quite an acceleration in demand there. We believe we will have sufficient plant to meet the town's demand by next summer.

Mr DUNHAM: Is that about 10 MW, do you think?

Mr K WOOD: It will be in the order of 8 MW to 12 MW. It is hard to know. It depends on temperature and demand growth.

Mr DUNHAM: Is there a remedy - I know that there are substantial or there are numbers of facilities in Alice Springs that have their own standby generation.

Mr K WOOD: Yes.

Mr DUNHAM: Is a better remedy to look at buying in that power and running those sets to buy in on peak times from sets that would otherwise be sitting waiting for a calamity?

Mr K WOOD: I think it is a remedy, but is it the best remedy? No.

Mr DUNHAM: Why?

Mr K WOOD: Well, normally with uncontrolled disparate lumps of small generation, will they be available when you want them, are they adequately maintained, will the owner of them switch them on as required? All of those things are outside our control. Typically, they are fuelled with diesel, which is expensive fuel compared to running gas, and for all sorts of reasons it is a hard lump of generation to control. The nature of that generation is short-term temporary standby generation when problems arise, and that is by far the best use of that sort of generation.

Mr DUNHAM: Have you done the exercise?

Mr K WOOD: No.

Mr DUNHAM: I mean, it might be expensive but it is also peak generation, which is interesting. The other thing is they are bound by contract to you. You are providing them a service, and they also do that through a meter. One would have thought you could do it the other way, too, where the meter exports in to the line and there are contractual obligations. Some of them are public servants, like, for instance, the hospital campus would have significant standby power. I would have thought that it is worth at least an analysis of the power capacity that is underutilised in Alice, disparate and all that it is, and look to capture that to see whether it gets close to your 10 MW.

Mr K WOOD: Based on my long experience in the utilities sector, peaking generation using diesel fuel is an expensive option. I certainly suggest to you that it is not an optimal solution.

Mr DUNHAM: All right. The failure actually occurred twice in two weeks. They were different problems the second time?

Mr K WOOD: The second failure was on 1 May. We had a large genset trip, Set 9, which is our

largest gas turbine there, tripped with an overheating problem. We then had a distribution failure at 1.13, which interrupted a further 830 customers. It was a line fault. Both events were one week apart but actually quite different events. That is the nature of electricity supply and generation configurations.

We lose power from time to time for protection reasons, based on lightening strikes or animal strikes on power lines. We sometimes face overheating or oil pressure issues in turbines themselves, and on other occasions we face equipment malfunction at zone switchyards and things like that. There are a number of factors in an electricity network.

Because of the speed that electricity travels, as we know, almost the speed of light, whenever there is a failure, it has a ripple effect right through the network. These networks are full of protection that switches bits and pieces of it off to ensure there is no catastrophic failure to plant. There are many reasons. While the incidents at Alice Springs are regrettable, they are unrelated.

Mr DUNHAM: Could you get some protection by having a more comprehensive grid? I know you generate out of two sites there. Is there the capacity to provide some protection, for instance, for the south side of town with Brewer Estate generation?

Mr K WOOD: We look at the network configuration on a regular basis, Mr Dunham. I am not entirely sure that we can provide any more protection for Alice Springs by reconfiguration of the grid. The key thing is to ensure we have adequate generation capacity to hit peak loads. We are investing a lot of money to do that. The next thing is to ensure that the plant and the network are well maintained, and we strongly believe that we are doing that. Then I think it is the configuration and switching of that network, and there was a lot of effort going on amongst our system control and generation control staff both here and in Alice Springs to ensure that happens as well.

Mr DUNHAM: The existing generation in Alice Springs is now pretty much surrounded by residential, and there are complaints from time to time about noise, smell and whatever. Will the additional \$18m worth of generation exacerbate this problem or have you looked to other technologies or other devices to suppress the noise and emission?

Mr K WOOD: That is a good question, and it certainly goes to the heart, I think, of some concerns of Alice Springs residents. The newer turbines will be quieter and cleaner so they will improve the situation for nearby residents.

Mr DUNHAM: Could we look at putting them at Brewer?

Mr K WOOD: If they were to be put at Brewer, where we have an independent generator generating for us, there would need to be an augmentation of transmission lines, which would incur additional costs, and some additional equipment required. It is an alternative, but by far the easiest and cheapest option is to put them at the Ron Goodin Power Station. They will allow us to retire noisier, less clean plant so there will be better outcomes for residents in Alice Springs.

Mr DUNHAM: Right. Are the two options on the table, or have you dismissed Brewer?

Mr K WOOD: We have dismissed Brewer at this stage, as I said, because it requires a transmission augmentation and it is a less efficient use of funds there.

Mr DUNHAM: Okay. Now we go to predicting the future, which has been tricky for the Treasurer, and I guess it is the same for you. I note that you estimate revenue growth at 2.8%. The Treasurer is estimating growth at over 5%, and he claims that is a result of an economy that will grow. Can you tell me why you have picked a figure that is half of the Treasurer's growth figure?

Mr K WOOD: We are not forecasting anything but demand in electricity usage. That is all we are forecasting. So we are forecasting electricity demand growth, not economic growth numbers the

Treasurer may or may not be forecasting.

Mr DUNHAM: All right. You would expect the two would have a nexus?

Mr K WOOD: Well, they certainly would have some correlation, but they are not the same number.

Mr DUNHAM: Right. What is your estimate for the growth of the economy?

Mr K WOOD: We do not have an estimate for growth of the economy on the table here. All we are forecasting is demand growth so we can ensure we have transmission and generation available to meet that. We see that ...

Mr DUNHAM: You also talked about an increase in the cost of your fuel, which I suppose is inevitable not only in the current economic climate, but the fact that your contracts, obviously, are coming to the more expensive end. Can you tell me whether that particular component, the increase in the energy component, will rise at greater than 2.8% and, if so, what is your estimation over the next five years?

Mr MACRIDES: The increase in costs associated with the supply of gas is, as you have just indicated, as a result of changeover in supply from different contracts. That changeover occurs in the next financial year, but then it actually goes down the following year. So it is hard to say that over the next five years, the increase in gas costs is going to be 2%, 3%, 5% or whatever because of the way contracts operate and the switching between the various contracts that exist for gas coming out of the Mereenie fields.

Mr PHILIP: One of the tariffs falls away next year ...

Mr MACRIDES: It does.

Mr PHILIP: ... the return tariff, which does reduce part of the costs. The other fact that is not recognised very well is that we will spend something in the order of \$60m on diesel and other fuels in the next two years. We are about to go to contract on that now, and there are certainly price increases in our diesel requirements. Those contracts, by their nature, generally have rise and fall-type provisions in them. So there is some prospect, depending on what oil does, that they might well go up or they could go down.

Mr DUNHAM: We did question the relevant minister about the federal government's energy policy, particularly alternative energies. It would appear from his answer that the only viable alternative energy is replacement of diesel with solar. Are you a beneficiary of this, or is that another department's, the incentives and research and the grants?

Mr K WOOD: We can a beneficiary of it. In the past, the scheme has involved some subsidisation of capital cost for particular types of renewable energy projects, such as solar energy projects, and our Bulman and Kings Canyon photovoltaic projects have been, in some ways, part-funded by the Australian Greenhouse Office. Going forward, as we or third parties build for us solar-based installations, we will receive some funding from those sources.

Mr DUNHAM: The predicability of continuity of energy supply, I note what you said about 2009 being the critical year, and that you are talking to all suppliers. Could you tell us whether it is likely that there will be a firm commitment within the next year on gas after 2009?

Mr PHILIP: Mr Dunham, that is possible, probably more possible than likely. It will depend on the offers on the table. We do actually have an offer on the table now, and many of the commercial terms have been agreed. However, like a lot of these offers, there is one term that always requires a lot of agreement, and that is price. We are certainly negotiating hard on price. We are very mindful that we must get a price that sees the whole of the Territory, and certainly our business, as competitive in the long term because the contracts offered, by their nature, are long term. It is not correct to say that the

gas runs out in 2009. It does not run out. There will be a strong tail of gas and that leads us to other options.

If the price pressures at the Top End are too extreme, it leads us to other options including exploring how we use that gas tail out of Alice Springs, including additional exploration. We are drilling a well, as we speak, in Palm Valley. We have recently had some suggestions that we look at further exploration in the centre of Australia. Most of that is designed to keep potential suppliers honest. We want some competition in pricing. We are talking to all the potential suppliers bar ConocoPhillips, who have now told us that they do not have gas available for us out of Bayu-Undan, a matter of some disappointment to us, I might add.

Mr DUNHAM: I had heard last year that ConocoPhillips had given an undertaking to sell some gas, which was unfortunately described as 'dirty' and offended them at the time, but they have reneged on that, or what? My understanding was there were some undertakings given by ConocoPhillips that the Bayu-Undan gas or a portion of it would be available for the Channel Island Power Station.

Mr PHILIP: Perhaps 'undertaking' is too strong a word. It was more in the nature of a suggestion or a discussion, and that was that they would make available to us some 40 PJs of gas, however it was described at the time, but not particularly, by the way, at a time of great worth to us. From memory, the gas would be available from approximately 2007, it was certainly before our current contracts expired, and that amount of gas would be the equivalent of two years' supply for us. That has fallen away completely. I have not heard it suggested ...

Mr DUNHAM: That is disgusting. ConocoPhillips came to us with a good neighbour policy. They were very bullish about pushing us as a foundation customer. There has been a lot of noise about bringing gas onshore and now we find, gas onshore, none of it, but none of it will be used for domestic consumption. I know it is outside the province of the Power and Water Corporation, but I and my colleagues will be talking to the government about this because it is a matter of exerting some pressure to make sure that the gas offshore comes to the benefit of Territorians. For none of it to be used, not one molecule, to generate power here, I think is disgusting, but that is a comment, obviously, that you have very little capacity to do anything about.

Mr PHILIP: We share the disappointment. In terms of capacity to do something about it, our capacity to do something about it at Power and Water is to make sure that we get the best contractual terms the next time round and if that requires us to make investments, we will certainly consider it. We will do what we can to get gas at the best price.

One of the realisations that has occurred recently, this is not just a matter for Power and Water, of course; it is a matter for the Territory and for all us. Yes, we share your disappointment. In fact, my managing director was hounded a little for describing some of these approaches as 'un-Australian'. There was a certain irony at SEAAOC, I thought, when one of the speakers talked about Kim Wood who described all of the gas being exported offshore and none available for domestic consumption as 'un-Australian'. One of the speakers took issue with that but otherwise thought the point was well made. His speech followed immediately on the Indonesian Secretary-General's speech, which talked about how 25% of gas must be reserved for domestic consumption in Indonesia. So it is an issue for all of us.

Mr DUNHAM: I will hand to my colleague now, and take some questions up later, because of his long history in it, for obvious reasons. This is a very significant matter that we have to progress further than just this committee, but I would appreciate the opportunity for my colleague to ask some questions.

Mr CHAIRMAN: Shadow minister? Are you opening up to other members of the committee to ask questions?

Mr DUNHAM: Yes.

Mr BURKE: I am as surprised as my colleague that no Bayu-Undan gas is going to find its way in to

our reticulation system or certainly to power our own generators. Do not take it too personally, Mr Wood, but as far away as two years ago, I was raising the issue of Bayu-Undan gas and the fact that some should be reserved for the Territory. It is fair to say that it seemed to me that, on the Power and Water agenda, Bayu-Undan gas was just one of many options, not a high priority and, in any case, it was not all that good a gas anyway, which disappointed me at the time.

I thought that with the final contractual arrangements with Phillips, it was time for Phillips to pay the tiller man. The Northern Territory government had done enormous work for that company over many years, fighting land rights battles with them, urging the Commonwealth and having, as you know, very acrimonious discussions and arguments with the East Timorese Interim Government. To find out that, at the end of the day, there is not one molecule of this gas coming to the Northern Territory, I find terribly disappointing.

From a Power and Water perspective, do you believe that you really tried hard enough to get a deal with ConocoPhillips two years ago?

Mr PHILIP: May I answer that, please, Mr Burke? I think we did. If we go back in history, you talked about two years ago and our gas options, up to about 18 months ago, we had spent at least 12 months negotiating with both ConocoPhillips and the NAG, the Sunrise joint venture, for gas supply. We were running those discussions over a period of 12 months in tandem. We had got down to price, terms, almost all of the commercial terms agreed between the two potential suppliers. Were we paying a lot of attention? Absolutely. They were, and, in fact, of the two, you could not put a hair between the two contracts at that time. And then, effectively, ConocoPhillips walked through the door and said: 'We have sold all our gas to the Japanese for LNG'.

Then the Sunrise joint venture went on the backburner with the floating LNG and all of that stuff. So, it is not within the power of us at Power and Water to say to ConocoPhillips: 'Well, that is just not good enough. We will withdraw permits or do something nasty to you'. I think there is quite a bit of uncertainty about how much power the Territory actually has to play hardball, for want of a better expression. There is no question that, in terms of the way we approached the negotiation and our expectations of who the supplier was most likely to be, it was very much ConocoPhillips from Bayu-Undan. So it was a great disappointment to us, but not something that is within our control, ultimately, to say.

Mr BURKE: Can I ask you to what extent you got assistance from government? I mean, this surely is not an issue that Power and Water has to argue on its own. I mean, this is a whole-of-government issue driven by the Chief Minister, certainly as shareholding minister, and the utilities minister should have been assisting Power and Water in this case. Did Power and Water feel they were doing this on their own?

Mr PHILIP: Not at all. No, I think government were making the efforts they could. We certainly kept each other as informed as we could. There is no question, though, if you look back at when the levers could be pulled, they go back a fair way in terms of, as you mentioned before, assisting with native title acquisitions and site acquisitions and clearances and so on. Those moments of influence were some time ago. Hindsight is a wonderful thing, and I think perhaps our expectations were a little high as to how the game was played, and I think that is true of government then, your government, Mr Burke. I think it is true of government now, and it was certainly true of the Power and Water Corporation. We were in a commercial negotiation, we had got to a very good position, we thought, in terms of price and terms and then we were disappointed.

Mr BURKE: Well, the last card was played after we lost government, unfortunately, and it was not with the benefit of hindsight. In my opinion, you could see this coming all the way down the track, and if you want to talk about what are the limited levers government has got to pull, they have got approval for a \$10m tonne plant out there, and they want to extend that plant. I would have thought that the government's position should be not one more extension, not one train goes in to that plant at all no matter who the proponents are until the Northern Territory is guaranteed a supply of gas from whatever comes onshore. That should be the position of the government right from the outset, from this point onwards.

Mr G WOOD: Hear, hear.

Mr PHILIP: Mr Burke, that is a matter for government – sorry?

Mr G WOOD: I just said ‘Hear, hear’.

Mr PHILIP: I just want to add one thing in terms of ConocoPhillips: I would not want anyone to have the view or thought that they were the evil ones and all the other producers were wonderful people. This is a very tough business. I do not think the approach of ConocoPhillips, frankly, is out of character with the way big oil and big gas approaches domestic consumption in this country. I think it is not out of character, and we have to be very sure that if Sunrise, for example, comes onshore, that there are some new rules written about domestic gas availability and consumption, but I certainly

Mr DUNHAM: Likewise with Blacktip.

Mr PHILIP: I certainly would not want to say ...

Mr DUNHAM: I mean, Blacktip is heavily reliant on government for a number of other issues. We are the owner of a major piece of gas reticulation from the north to the south. We have leverage. Do not take this as saying that you have to be the lead runner in it, but the government is endowed with options, and it is well endowed with options, for all of these explorers and all of the finds off our coast to make sure there is a win-win for local people who want to turn their lights on and make sure it is powered by local gas.

Mr BONSON: That is a Commonwealth problem.

Mr BURKE: It is not a Commonwealth problem.

Mr DUNHAM: There you go.

Mr BONSON: Well, what is the Commonwealth’s role?

Mr BURKE: That is how much you know.

Mr BONSON: Well, what is the Commonwealth’s role then?

Dr LIM: Are you asking the question there, or are you asking the question across the table?

Mr BONSON: I am asking Steve.

Mr CHAIRMAN: We were having a civilised discussion about gas availability for local power station. That is fine. Let us keep going, let us tease it out. If you have anything to expand about roles and jurisdictions, fine, add it in. However ...

Mr BURKE: I believe we have said enough on that. Can I just ask some questions with regard to the brochure ...

Mr CHAIRMAN: Member for Brennan, we will just click it over this way now. I have to fix ...

Mr BURKE: On that subject.

Mr CHAIRMAN: Are you still on the same subject?

A member: No, he's not.

Mr CHAIRMAN: If you have moved off the subject, I will open it up to other committee members.

Mr BURKE: On Bayu-Undan gas?

Mr CHAIRMAN: Yes.

Mr BURKE: Okay. We have not finished on our questioning on a whole range ...

Mr CHAIRMAN: No, of course not. I will come back to you. We are only here until 11 am, so I want to give any other members an opportunity. Does anyone over this side have any questions?

Mr G WOOD: About what has gone before us?

Mr CHAIRMAN: Well, it is a wide-ranging conversation we are having here.

Mr G WOOD: I was a little concerned about this leaf, Mr Philip. I am concerned about the future of Darwin trees now, because if Sunkist have patented this, then there are a lot of people in Darwin's gardens who have a big problem.

However, I digress. I was also concerned about the supply of gas for the LNG plant. I raised it last year as well. I find it very disappointing that the government has put huge money into Power and Water's water line. You are putting money into the power line, and there has been a road built, which will need repairing. Now, except for a bit of payroll tax and some goods and services, we will basically get nothing out of that project. I support the opposition, and I hope the government will come out strongly and put pressure - I know we are dealing with big companies, as you say - on ConocoPhillips to do the right thing. I have had my neck on the line, I suppose, for supporting ConocoPhillips for its siting. You know that I do not approve of industrial development in the harbour except for essential industry, but I have always supported ConocoPhillips going there because of access to the West Arm deep water.

I am extremely disappointed if that is the way they treat people who have supported them because they believed they would bring jobs to the Territory, it would bring economic activity, then they turn around and say: 'Well, we are not going to give you some of your gas to supply electricity to your plant' is very disappointing. As I said, I support the opposition, and I hope the government will come down hard as well. That is just a comment.

Mr PHILIP: Thanks, Mr Wood. If I could respond quickly to that, in terms of the infrastructure and so on, contributions or elements in which Power and Water was participating to the LNG plant, we want a return and we are getting a return on our investment. There were no freebies coming out of Power and Water for the LNG plant. I cannot add any more than to say I think your disappointment is well expressed and shared.

Mr G WOOD: Except that, as you know, there is a pipeline that goes to the LNG plant, which is far larger than required for the LNG plant because the theory is that government will get their money back from industrial sites in the middle of the harbour. It is part of one big plan by the government of which the LNG is part and the pay-back by the company is pretty lousy.

Mr BURKE: Could I ask you a couple of questions on the brochures. These would be described as – you used the word 'positioning'.

A member: Yes.

Mr BURKE: I thought they were pretty defensive, actually. I just wondered what the marketing advice and expertise was on some of these brochures. It seemed to me to be an overreaction to some political and media comment, but a massive over-reaction by Power and Water that, to my mind, seemed to be more defensive than positive in promoting its corporate image.

Mr PHILIP: I will refer that to Mr Wood.

Mr K WOOD: There was a lot of information - and could I describe it probably most correctly as misinformation - in the press on power pricing earlier this year. The brochure is purely factual. It is meant to put into the market place the facts about where our power pricing is, both domestic electricity price comparisons and commercial price comparisons. There is essentially nothing in here but a variety of facts, which were to counter a lot of misinformation that was put about by a number of groups up here. So we certainly do not feel as if it was defence; it was simply to defend the corporation's good name and to provide the people of the Territory with factual information.

Mr PHILIP: Could I just add to that? It did get to the point where we were getting worried mums and dads saying: 'Crikey, my power is going up 40%!'. That was the sort of call we were getting and people were pulling me aside and saying: 'What the hell are you doing? You are putting up my power prices by 40%'. We felt, as a board, it was imperative that we make clear to our franchise customers that nothing had changed or would change for them and that the price increases relating to Tranche 4 affected some 120 businesses to differing degrees and, really, just to calm the suburbs down. After all, the bulk of our customers are those people. We thought it was important that we put the facts out in front of them because of that sort of interpretation of the information that was being put out in the community.

Mr BURKE: If you look at, say, a factual brochure like this, it says, on page 6:

The NT Government pays an annual subsidy of \$42 million to Power and Water.

That implies to the customer that Power and Water is being subsidised by \$42m, full-stop. The truth is a dividend is being returned to government of 50% of that subsidy, is it not? You should factually be saying to Territorians that not only does the government pay a subsidy of \$42m but, in fact, 50% of their effort and Power and Water's effort is returned to a dividend back to government.

Mr K WOOD: The key with putting information like this in the market place is to, one, allay the fears that we had the highest electricity prices in the land and that everyone's power costs were going up. The tension or the balance with a document like this is to present information simply so that it is accessible and understandable. Most of us who live out in the suburbs are not necessarily completely financially literate, so we tried to put an array of facts to remove the fear. I guess we could have made this document much larger with much more information, but we took the view that this was a balanced document that removed any of the concerns that we were hearing expressed through the phones, in the papers and on the street.

Mr BURKE: I just make the point that I think that was an inaccurate statement and did nothing. That seemed to me to be just a straight falsification of the true facts, and that is that nett-nett at the end of the day, the government does not pay \$42m or \$48m; it pays about \$20m. It gets the rest back in dividend.

Mr PHILIP: We certainly were not trying to be disingenuous, Mr Burke. I accept your comment. The amount of the dividend will go up and down depending on the amount of the profit, as will the taxation equivalent payment. It is difficult to say in any particular year what the total quantum of those returns to the government might be. I accept your comment. There was certainly nothing mischievous about saying that we receive from government, as we have for a long time, \$42m-odd subsidies in the form of CSOs.

Mr BURKE: I was not aware until I read your Statement of Corporate Intent that there is this negotiation as to whether or not they will pay a full CSO or whether they will accept a lower dividend. I

would have thought that there is an issue of transparency there. Is that actually in the legislation? It is in the legislation, okay. Is it, therefore, correct to say that the true CSO that should be being paid to Power and Water by government is \$40m more than they are actually paying?

Mr PHILIP: I have not done the math, but it was \$64m-odd as opposed to \$62.4m, so, not quite true. That is the true value or the true quantum of the CSO as assessed by the umpire, the Utilities Commissioner, but in the same way as we talked before about it being the province of government to say: 'We retain pricing powers' say for franchise customers, there is nothing that is not transparent about government saying: 'We will give you less of a CSO but we will take a lesser return on our assets'. That is something, as I understand it, that is done not just in the Territory, but other places as well.

Mr BURKE: All right, I will not labour that if that is the case. Can I ask you about the CSO for remote communities, Aboriginal essential services? I think, from memory, it is about \$14m. Does that CSO encompass the cost of generation and default payments as well?

Mr PHILIP: Could I get Andrew to respond to that? The position has changed a lot with that ...

Mr BURKE: A major issue has been recouping the normal payments that should be made to Power and Water in remote power generation.

Mr MACRIDES: Mr Burke, the actual payment is no longer classified as a CSO; it comes to us as a capital grant through the Department of Community Development, Sport and Cultural Affairs. The way that the grant is calculated, it takes into account the cost of delivering services in those communities, so that is the repairs and maintenance costs, the capital costs for augmenting services in the communities, and the operational costs associated with the provision of services in the communities less what the corporation receives back via tariffs that are charged to people in the communities, so the electricity, water and sewerage payments that we receive from community organisations and individuals. The nett difference is what we receive as a capital grant.

Mr BURKE: Is there a different methodology between urban areas and remote areas for the capital grant, what was the old CSO, or what you would generally call a CSO?

Mr MACRIDES: The methodology has not changed in terms of the way it is calculated. It was always the same way, it was shortfall funding, the difference between what we receive by way of income from delivering services in these communities and the true cost of delivering the services to these communities. What has changed over the last couple of years is that there has been a significant increase in the capital funding that we have been provided in order to augment services in these communities.

Mr BURKE: Where is the rigour being applied to ensure that householders, through that capital grant, are paying their normal householder payments to Power and Water?

A member: Disconnection.

Mr MACRIDES: That payment is the same as anyone living in an urban area, so it is a uniform tariff that applies.

Mr K WOOD: Electricity is typically provided via pre-payment meters, so tokens must be purchased and then put into a pre-payment meter before electricity can be delivered.

Mr BURKE: That is across the board?

Mr K WOOD: Not completely across the board but, by and large, the bulk of our indigenous communities use pre-payment meters.

Mr BURKE: What about water and sewerage?

Mr K WOOD: Water and sewerage are on a different basis and, typically, they are provided and not billed, those services.

Mr BURKE: Provided and not billed?

Mr K WOOD: Yes, historically have not been.

Mr BALDWIN: That is not in all cases.

Mr K WOOD: Correct.

Mr BURKE: With the gas turbines at Katherine, there is some talk that those Caterpillar turbines might be going to Alice Springs. Is there any truth in that?

Mr K WOOD: We have Caterpillar turbines at Tennant Creek, and we have been looking at a number of options to adjust our portfolio of generation around the Territory. We are currently in the throes of preparing a generation plan that may see some equipment moved or may not, but there is certainly no will at all at this stage to remove any generation from Katherine.

One of the turbines at Katherine is about to have a major overhaul to bring it back to as-new condition. The board has committed some \$8m worth of funds to improve the generation capacity at Tennant Creek and, as we heard earlier, we will commit some \$18m to Alice Springs, so generation in all three centres will be improved and augmented over the next year or so.

Mr BURKE: Thank you. That is all I have for the moment, Mr Chairman.

Mr McADAM: Thank you, Mr Chairman. Mr Philip, I refer you to page 11, Growth Opportunities, and opportunities to optimise commercial opportunities, specifically in respect to the establishment of new mines. Just some background in the first instance: most people will be aware that there have been some extensive ...

A member: What page was that?

Mr McADAM: Page 11, isn't it?

Mr Dunham: Not on mine, it's not. Oh! It is page 10. Growth opportunities.

Mr McADAM: It is page 11 on mine, but that is not the point. What I am trying to get to is this: obviously, there has been extensive expansion with respect to the mining industry in Tennant Creek, and particularly in relation to Giants Reef, which commenced operations in October last year. Most people would be aware that there are other opportunities in relation to Malbec, which is 900 metres to the west of Giants Reef's existing Chariot mine, the Peko Rehabilitation Project and, of course, potential copper and magnetite production over the next few years.

The other point I wish to make is that, certainly in some cases, particularly in regards to the Peko water course to Warrego where the smelters are and out to Chariot, the generation infrastructure is already in place. What I am asking is: would Power and Water reconsider revisiting opportunities in respect to your operations in the region, given that the majority of the potential power generation is presently supplied by diesel and, in most cases, from people outside the Territory? I think there are some real opportunities for growth in that region, and I would like Power and Water's view in respect to where they see their future in regard to Tennant Creek, particularly in relation to the mining industry.

Mr PHILIP: Could I start, Mr McAdam, then if I could ask Kim Wood to help me? One thing we cannot do at Power and Water in relation to the mining industry is to enter into heavily subsidised deals for power and water.

Mr McADAM: I am not suggesting that.

Mr PHILIP: They are matters for government. There has been a history in the Territory where, certainly Power and Water's experience has been, on occasion, an unhappy one, with contracts for mines that close sooner than you think. I think your point is well made in terms of what is happening at Tennant Creek. Giants Reef is really quite exciting. I think the other mineral prospectivity is very exciting. I would certainly encourage management to do whatever they could to see that the generation infrastructure we have in Tennant Creek is used in the best way we can to assist the development of mining particularly, but not at a cost of our commercial practices being tarnished.

Mr McADAM: No. I am not suggesting in any way that there be any subsidies. I am talking about a proper process, taking into consideration it being competitive, etcetera.

Mr K WOOD: It is a fair question, Mr McAdam. I think that is something that, given the increase in activity at Tennant Creek, we should look at again. The dilemma is that the miners there, typically, their timeframes are shorter than the asset lives that we would need to put in place in terms of transmission lines and other plant and equipment, point one. Point two is that we do not receive the diesel subsidy that the miners receive, so it makes their cost of generation typically below our ability to supply. Nevertheless, I think you make a very good point and that is something we will look at very quickly.

Mr McADAM: I have one other question, if I may, Mr Chairman. I do not have all the technical details, but my understanding is that there are, on certain occasions, contractors and/or Power and Water employees brought in from outside of Tennant Creek in respect to what has been described to me as 'low voltage contracts'. Again, I would ask Power and Water, where possible and subject to professional outcomes, competitiveness and, of course, timely delivery, to give consideration to local companies or, indeed, some sort of arrangement with local companies, that is traineeships. Again, I seek your response.

Mr K WOOD: We do, in fact, fly in-fly out or drive in-drive out to Tennant Creek from time to time now, both our own lines people and, from time to time, contractors. You have made the point to me personally a number of times now that you are concerned about this practice, as are we. We are in the throes of hiring. Lines people are hard to hire for Tennant Creek, but we are in throes of hiring up and also identifying potential local apprentices. We are convinced that we will not be required to fly in-fly out for too much longer. I think in the next several months, we will have sufficient resources on the ground in Tennant Creek.

In terms of local contractors, we certainly are committed to putting as much back in to Tennant Creek as possible in terms of using local contractors, and I suspect that you and I will have this discussion from time to time. I hear you, I understand the concern and the tensions, and I am certainly very keen to ensure that maximum dollars are spent in Tennant Creek for services provided in Tennant Creek.

Mr McADAM: Thank you. That is all I have.

Mr DUNHAM: I will return quickly to Bayu-Undan for one question. We have a Statement of Corporate Intent document that was laid on the Table a month ago, 20 May 2004. I note in your business outlook, you talk about gas supply procurement as including Bayu-Undan. Is this recent news, the Bayu-Undan ...?

Mr PHILIP: Very.

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Mr DUNHAM: So, it is within the last month?

Mr PHILIP: Absolutely, Mr Dunham.

Mr DUNHAM: Okay. Power and Water has commissioned a television commercial promoting staff. Was this advert shot by a local company or was it done by interstate company?

Mr PHILIP: Andy, would you like to take this? You have the details there.

Mr MACRIDES: The advert was put together by Sprout Creative, which is a local company. Obviously, no local company would have at their fingertips the resources that are required to put together something like a television commercial so they would have subcontracted to a number of various suppliers, some of whom would have been local, and some whom would clearly have been interstate.

Mr DUNHAM: Did other companies get a chance to tender on this?

Mr MACRIDES: Again, Sprout have a contract with us for the provision of these types of services. That was, I believe, a two year contract, which ...

Mr DUNHAM: For all services?

Mr MACRIDES: Yes, for a range of marketing, promotional and advertising-type services. That contract actually expired or is about to expire. We went out to the market place in March or May with a new tender for the provision of these services. Tenders have been assessed and a decision will be announced shortly as to who the successful tenderer is for these services in the future.

Mr DUNHAM: These were not variations to contract? The contract is all print, all TV, all your banners and logos, everything all done through one company?

Mr MACRIDES: It covers a range of promotional-type services; graphic design, you name it.

Mr DUNHAM: Could we have a breakdown of the total costs, including mail-outs, design work and TV work?

Mr MACRIDES: Specifically for what, Mr Dunham, the advertising campaign?

Mr DUNHAM: Yes.

Mr MACRIDES: So we are talking about the TV commercials only?

Mr DUNHAM: Yes.

Mr MACRIDES: There were no mail-outs associated ...

Mr DUNHAM: I am happy to put it on notice, but it is the costs for all your mail-outs on advertising, all of your printing, promotional work, TV work, and the advertising consultants.

Mr MACRIDES: I would need to take that on notice.

Mr DUNHAM: Yes.

Mr CHAIRMAN: You will take that on notice? For the purpose of *Hansard*, shadow minister, could you clarify that?

Question on Notice

Mr DUNHAM: How much did Power and Water spend on print advertising, television advertising, radio advertising and mail-outs? Please give a breakdown of the total campaign: how much was spent on each medium, how much was spent on advertising consultants preparing your local campaign.

Mr CHAIRMAN: Are you prepared to take that on notice, Mr Philip?

Mr PHILIP: Yes, Mr Chairman.

Mr CHAIRMAN: That question is will be number 10.1.

Mr DUNHAM: The generation capacity of Darwin: is generation currently sufficient to meet the - the growth in revenue is over 2%. Do you expect generation to go up by about the same amount, and do we have sufficient generation?

Mr K WOOD: Mr Dunham, we have sufficient generation capacity for some years in Darwin. The way that generation capacity is measured varies. In terms of gross amount of generation to supply the demand here, we have more than sufficient generation. The way that you normally like to do this, though, is to have sufficient generation to allow for the failure of one or more sets. That has a specific description. We call it N minus 1 or N minus 2. We can allow for a set to fail or trip off and still cope with demand. We have sufficient generation capacity in the Territory to allow for a major plant failure at any given time and ...

Mr DUNHAM: [inaudible].

Mr K WOOD: Yes, and will for some time to come. Depending on the time of year, we often carry a minus 2 capability as well.

Mr DUNHAM: All right. If you are at N minus-1, when do you do your major maintenance on sets? When do you take them off-line?

Mr K WOOD: Ideally, and it is not always ideal, it really depends on when the failures are, you should do major maintenance on sets during the period of minimum demand during the year.

Mr DUNHAM: Now?

Mr K WOOD: Yes.

Mr DUNHAM: And that is taking place now; major overhauls of sets are underway at the moment?

Mr K WOOD: Yes, we have been doing major overhauls of sets during the Dry period, and we are about to do what is called a hot section on Set 7, the LM6000, at Channel Island. It has 23 000 or 24 000 hours. Normally, a hot section is done on that type of set before 25 000 hours, so we will do that now before the period of peak demand.

Mr DUNHAM: When the power went off because a generator had run out of fuel, can you tell me why that set was being used?

Mr K WOOD: I am just stretching my memory. The sets that ran out of fuel were the sets out at Berrimah that run on aero fuel, and they would have been run at a particular time, either due to plant

failure or capacity issues.

Mr DUNHAM: When we heard from the minister in parliament, he said they ran out because the problem was we did not have petrol in the tank, but, essentially, there had to be another problem there to be even running these sets, surely, because of the high expense of running them.

Mr K WOOD: Yes, we use the Berrimah sets and the sets in Katherine as contingency. They are not base-load sets; they are not run regularly because the fuel is more expensive for the Berrimah sets. We run the Katherine sets from time to time when there is high lightning activity between here and Katherine. The Berrimah sets we run from time to time when there are equipment failures at Channel Island or when there are line constraints that cause us to want to run the sets closer to the big load at Berrimah, the industrial load.

Mr DUNHAM: All right. Water: last time we were here, we talked about the find of water on the other side of the harbour on Cox Peninsula. Can you tell us how close that water is to being harvested for the benefit of the people?

Mr K WOOD: The construction of a rising main is currently underway and is expected to be completed by September 2004. So, shortly after 2004, there will be a cart access point for consumers over there.

Mr DUNHAM: Will that be for Dundee consumers as well? Is that the intention, eventually, to take that water?

Mr K WOOD: There is no current plan at this stage to run water to Dundee Beach.

Mr DUNHAM: All right.

Mr G WOOD: Darwin River would be closer than Cox Peninsula.

Mr DUNHAM: Well, there was an election promise to run it into Dundee Beach, but that is all right.

Mr G WOOD: Who made that?

Mr DUNHAM: Water – well, your candidate said it in one of his newsletters, which I have a copy of up there.

Mr CHAIRMAN: Well, might have to table that because ...

Mr DUNHAM: No, no, no. I will table it at the appropriate time closer to the election, mate.

Mr CHAIRMAN: Well, that is good.

Mr G WOOD: I think there are a lot more important issues.

Mr DUNHAM: There was some discussion some time ago about augmenting the Darwin River Dam supply by connecting it to Manton Dam. Is that still an option? Is it under consideration?

Mr K WOOD: Mr Dunham, it may be an option, but I cannot comment on that at this stage. The water from Manton Dam is not harvested and used at this stage. We have no plans for any significant capital expenditure to do that at this stage, although it is probably one of the options that the water team have on their radar screen, but there are certainly no plans to do that.

Mr DUNHAM: Okay. I put on the record that I admire your ambition of Zero – what did you call the

thing?

Mr MACRIDES: Zero harm.

Mr DUNHAM: Zero Harm by 2007. Following the unfortunate accident with the two staff, the media seemed to focus on their fault, which I thought was a little bit unfortunate. One would have thought that there were a number of factors in that accident. Can you tell us why that was the route that was taken by the corporation, virtually blaming the victims?

Mr PHILIP: Perhaps if I could start, then Kim can add to it. There was certainly absolutely no intention on the corporation's part to place fault at the foot of the employees and somehow exonerate ourselves from fault. That was not the case at all. The corporation's reaction to the treatment of the employees - the after care, the support of their families and so on - was admirable. It was never in question. We absolutely wanted to give them and their families the fullest support we could. I think it is just one of those things. The report into the incident had a number of aspects to it and, things being what they are, the media tended to grab the one that said 'Power and Water blames employees'. Not so. Entirely ...

Mr DUNHAM: It did appear that way from the outside looking in.

Mr PHILIP: Yes. Entirely incorrect.

Mr K WOOD: I have been here just a month shy of two years now, and the thing that I have learnt is that the media is interestingly different from time to time up here.

Mr DUNHAM: I hope you are listening up the back there!

Mr G WOOD: We know!

Mr K WOOD: There was never any intention to blame employees. The two guys and the other workers with them suffered horribly as a result of that accident. The facts of the case were that the accident was caused by a number of factors. The report that was released was long and detailed. The media had a quick look, got a couple of quick grabs, and went to press pretty quickly. That was a little unfortunate because it meant the next day, we had a lot of work to do to explain and try and convince a number of the affected staff that we were not - I was not trying to blame individuals. There was never any intention to blame individuals and that is certainly not the way we felt internally.

To be honest with you, I suspect we have done more for these two young blokes and their families than almost any other company in the land would do. We went well above what almost any other organisation I have ever seen would do financially and in many other ways for these two young blokes. The fact that they have returned to work very quickly after what was a pretty horrific accident is an indication of the support they were given and the care that the corporation provided to them. We would be very ordinary people if we just rushed out and blamed two young blokes who suffered horribly. That is not what we did. That may have been the way the press beat it up, but that is not what we did.

Mr DUNHAM: Thank you. That is good to hear. The prognosis for the water supply in Alice Springs, are we continuing to draw it out of the aquifers and at what rate?

Mr K WOOD: The aquifer is being drawn down. That is a fact. At what rate - I would like to take that question on notice. The aquifer has a large life remaining to it and there are other potential sources of water. There are a number of aquifers in Alice Springs. We are currently examining an aquifer recharging scheme based on reusing some of the effluent that is currently overflowing to Ilparpa Swamp.

Alice Springs' water supply is in no short- or medium-term risk. Longer term, there are other sources

of water, we believe, and there is a lot of effort going in to managing the water resource at Alice Springs. So it is not an issue to be concerned about in the short to medium term.

Mr CHAIRMAN: Do you want that taken as a question on notice?

Mr DUNHAM: No, thank you. I suppose the issue is they have been very unusual years, over the last decade or so, for rainfall.

Mr K WOOD: Yes.

Mr DUNHAM: It would appear the aquifer is not being recharged and replenished through that rainfall, and we are drawing it down, so the prognosis in an arid zone like Alice Springs is not good. Could I ask if some of those other aquifers are on Owen Springs and whether, that now being government owned, the Power and Water Corporation has identified those sites as reserve sites for potential future expansion of water?

Mr K WOOD: Mr Dunham, that is a good question. I would like to take that on notice, if I could.

Mr CHAIRMAN: Do you want that one? For the purposes of *Hansard*, shadow minister, could you repeat that?

Question on Notice

Mr DUNHAM: Could I ask the Power and Water Corporation to investigate whether some of the potential future water supply sites for Alice Springs are on Owen Springs Station, which is a government owned property, and whether those sites have been reserved for the exclusive use of Power and Water for the potential for water supply for Alice Springs?

Mr CHAIRMAN: You will take that question on notice?

Mr K WOOD: Yes.

Mr CHAIRMAN: I allocate number 10.2 to the question.

Mr DUNHAM: The other one relates to Ilparpa, and you mentioned yourself about the reuse of effluent, which, I know, happens around the world, but is a particularly abhorrent thought for most Australians. Is some of that research being done through Desert Knowledge or are you doing it in-house or are you employing consultants?

Mr K WOOD: We are working in conjunction with DBIRD and CSIRO, as well as our in-house skills. We have some expertise in-house, and one of our young engineers has won a Churchill Fellowship in the last 12 months and this is the subject of his research.

The intention is to take the effluent out of the swamp, pipe it to the Arid Zone Research Institute, and we are currently investigating what we call ground aquifer recharging, so it would be recharged into an aquifer, which is a different aquifer from the town water supply aquifer, and then, in the short to medium term, used for irrigation for horticulture.

Mr DUNHAM: It would naturally cleanse in the aquifer, which would act as a biological filter?

Mr K WOOD: Yes. One, the sand itself does some filtering as the effluent goes down, and, two, keeping water underground for extended periods provides a natural sterilisation process. It is not our intention that this water will be used in the town's drinking supply at all, but it could well form the basis, all going well, for commencement of a horticultural industry of some sort in Alice Springs.

Mr DUNHAM: But you will be seeking potable water standards?

Mr K WOOD: What we are seeking is good quality water standards, and, typically, because it is going to be used for horticulture, the salinity is the question, not the drinkability of the water, but the salinity levels. Salinity levels well below 1000 mg per litre is what we are seeking. So it does not ...

Mr DUNHAM: This has particular applicability on Aboriginal communities where we are still using conventional western sewerage systems when the water could be deployed for a better use. Is it intended that the model that he comes up with is applicable on small sites, or is it sort of an Alice Springs township type scale?

Mr K WOOD: At this stage, Mr Dunham, it is purely Alice Springs. It is called SAT technology. It is still quite new in Australia. There are a couple of examples of it in Australia now, but it is early days, so we are really learning as we go. It looks particularly applicable to the Alice Springs geographic area. As to its further applicability, I guess we will determine that over the new few months or years.

Mr DUNHAM: Can I ask if, after the Arid Zone Research site, which is obviously the research component, would it be available to be pumped back into town, for instance, to the Golf Course Estate?

Mr K WOOD: At a cost, there is no doubt about that. The major cost in water reuse is, essentially, infrastructure. Very few customers want to pay a lot for grey water, as it is called, and I assume that our customers will be looking to us to pipe it around to where they need it. It then becomes a commercial question as to what the cost of infrastructure is versus the beneficial use to which the water can be put.

Mr DUNHAM: But it is potentially a CSO? The government could ask you to do it, and you could do it?

Mr K WOOD: Possibly, yes.

Mr DUNHAM: Can you tell me: is the overflow from Ilparpa still going down St Mary's Creek?

Mr K WOOD: From time to time it does. We have provided some culverts and channelling to improve the cosmetic look and feel of that overflow, but until that water is taken out of Ilparpa, from time to time there will be overflows, yes.

Mr DUNHAM: And what would you call the status of that water?

Mr K WOOD: It has been through biological treatment in the sedimentation ponds. It is not fit for drinking, but neither is it raw sewage; it has been through some bacteriological treatment.

Mr DUNHAM: Is there signage? There are a lot of pedestrians from Aboriginal town camps down that way who walk through the creek. Should there be warnings about its status?

Mr K WOOD: Again, I am not sure of the answer to that. I am not sure whether we do have signage there or not. I will find that. I am happy to take it on notice.

Mr DUNHAM: I am down there next week, so I will go and have a look. Yes, I am quite happy with that, Mr Chairman.

Mr CHAIRMAN: Are there any more questions? Questions, not statements.

Mr G WOOD: Mr Philip, there are a couple of issues, mainly rural issues. I will touch on an electrical one. How is the insulator replacement program going in the rural area? Has it been completed yet?

Mr PHILIP: Mr Wood, I will refer to Mr Wood.

Mr G WOOD: We'd make a great pair.

Mr K WOOD: The insulator program is continuing. I can tell you that the system average interruption duration index, that is an electricity industry figure notionally called SAIDI, for the Darwin rural area has shown a 27% improvement from 420 minutes SAIDI in May 2003 to 306 minutes in May 2004. So, in the urban area of Darwin, other regional centres down the track and the rural area, our electricity performance measures are improving and, at an aggregate level, better than the national average.

Mr G WOOD: And the removal of power poles on Leonino and Reedbeds Roads, how are they all going?

Mr K WOOD: That project is either substantially completed or fully completed at this time.

Mr G WOOD: A great project, but I probably should ask you, had they looked at the one power pole on the other side of Acacia Ridge Road ...

Mr Dunham: What is its name?

Mr G WOOD: It is at the other end of Leonino Road, and they have just done the bitumen, I think, at the intersection. I do not know whether you have been through Acacia where there are all the roadworks. There are power poles on the other side, and they ...

Mr Dunham: It is a brownish coloured one and has wires going over the top.

Mr G WOOD: ... have just left it is the middle of the road, so if you go past there, maybe ...

Mr K WOOD: We will have a look at it.

Mr G WOOD: There are a couple of issues regarding watering. As you know, I spoke to you about road construction – sorry, Mr Philip, I didn't speak to you; I spoke to Mr Wood...

Mr PHILIP: No.

Mr G WOOD: ... about road construction in the rural area to some new bore sites. I was speaking to the council, and they said that one of the issues they felt with Power and Water is that they do not always talk to them about what is happening. They gave as an example of some of the new watering sites that you put your card into, no one seems to have come up and spoken to them about entrances and exits. The classic example is on Whitewood Road near the Whitewood Road water tank. There is no bitumen completed from the road to the road. It goes in on an existing bitumen driveway and comes out going across gravel, and they put a little tiny strip of bitumen right on the road. They feel that there is not enough mutual discussion between yourselves and the council.

It is really highlighted with the proposal that you have at the moment to bituminise the roads to your bores from the dirt Girraween Road. You are going to have this strip of bitumen going from your bore to Girraween Road on to a couple of kilometres of gravel road. People are going to look at that and say: 'That is a bit strange'. What I am suggesting is, and I hope it is not too late: would Power and Water, before they decide to put down all the bitumen, at least take up some discussion with Litchfield Shire Council to see whether some cooperative approach could go ahead, and I realise that it would cost money, to seal some of Girraween Road? As you know, it is a road that is not sealed, that is the

eastern section. It is certainly very strange to see a bitumen road connected to a gravel road that is then eventually connects to a bitumen road. There is an opportunity that I hope is not lost, but could you give us an opinion on that, please?

Mr K WOOD: As part of the transfer of title of that vacant Crown land, we were required to upgrade on-lot access. There was approximately 1700m at a cost of about \$180 000 for production bores. The main access road is not sealed, that is true. It is owned by Litchfield Shire Council. It is not a road we would seal and we probably would not have sealed the roads to bores themselves unless we were required to upgrade the on-lot access. However, your point is well made. Some consultation with the council would be a good thing to see if we cannot, cooperatively, come to some arrangement to improve access throughout that road as well. We will certainly talk to them.

Mr G WOOD: Like any company, which enters into public-private arrangements, I would have thought this was an ideal opportunity where maybe council could have paid for the gravel base and you could perhaps pay for the seal. I am not saying that you should have paid for the whole lot. That is where I think the combination could have occurred. Is it too late for those discussions to occur?

Mr K WOOD: I do not believe it is too late for discussions to occur. We will pursue that quickly.

Mr G WOOD: All right, thank you. The bores in Howard Springs are an issue that I am asked about a lot because people do blame the new bores or any Power and Water bores when their bore runs out. Can you say how many bores you have operating at the moment, and can you give us an annual figure of discharge from those bores, please?

Mr K WOOD: The resource allocation and the issue of extraction licences is the responsibility of the Department of Infrastructure, Planning and Environment. DIPE has issued a licence to us for Stage 1 of the Howard East bore field. The issue is that there is an estimated number, and we do not entirely know the number, of over 4500 private bores in the rural area. That number has increased substantially over recent years. Private bores are currently unlicensed, many constructed to a shallow depth and run out of water during extended dry periods.

Any future development of our bore field, and there are only a handful of bores that we have, will be the subject of environmental clearances and approvals. I understand the aquifer is currently being extensively modelled by DIPE with a view to reassessing the allocation of future water supplies to Power and Water. Of all the extraction, ours is under scrutiny, is licensed, and DIPE is certainly aggressively modelling that aquifer.

I know it has been an issue of real concern to rural landholders there. All I can say is that we are operating strictly in accordance with the DIPE guidelines, and that aquifer is being better quantified as we work now.

Mr G WOOD: Could I just say that the minister has just given me approval to have a forum in the rural area in September similar to a forum that was held very close to Freds Pass with the Centre for Hydrological Groundwater Studies, which I do not think many people knew about. That is why I have asked if we could have it in September. Would you be happy to come to that forum?

Mr K WOOD: Yes, very happy.

Mr G WOOD: Thank you. Another question on that same line: you would know there are a couple of subdivisions proposed at the far end of Girraween Road. There is a requirement for the developer to have a sustainable supply of water. Would Power and Water look at a private-public arrangement to extend the town water supply from the Girraween School area to that subdivision?

Mr K WOOD: I would need to take that one on notice. I guess it would go through our normal business investment processes to determine the capital costs and returns, but we would certainly be very happy to look at that, again quite quickly.

Mr G WOOD: I use that model as the model that was used for the LNG plant, where there were some costs that you put in and some costs the government put in, and I think there were some costs that the LNG plant put in.

Mr CHAIRMAN: Member for Nelson, for the purposes of *Hansard*, would you repeat that question?

Question on Notice

Mr G WOOD: Yes, thank you, Mr Chairman. Would you please tell us whether you would consider a public-private arrangement to extend town water supply from Girraween School to the proposed subdivisions north of Daniel Circuit in Herbert?

Mr Dunham: Herbert?

Mr WOOD: Excuse me. Don't show your ignorance.

Mr Dunham: Couldn't we call it Bertie?

Mr CHAIRMAN: Will you accept that question?

Mr K WOOD: Yes.

Mr CHAIRMAN: I allocate number 10.3 to the question.

Mr G WOOD: One last question: I mentioned before there is a lot of what they call spaghetti lines in Litchfield Shire. They are certainly a traditional way of getting water from a mains supply to someone's house. However, many of them are breaking down and, over time, it is only going to get worse. I realise you are in the business of so-called commercial development of your infrastructure, but have you considered at least extending water mains within the rural area to replace these lines, which I know are not yours, but they were given permission to be there years ago, so that we can have a less wasteful and more efficient delivery of water to people in the rural area?

Mr K WOOD: The spaghetti line issue is well known to us, and it comes up regularly. We are looking at reticulation options in the rural area on a regular basis. It essentially boils down to the cost of infrastructure versus the commercial returns. We would like to find a reasonable and cost effective solution to this problem.

Mr G WOOD: At the moment, I think you have quoted between \$9000 and \$13 000 per block, and if you live down the end of the street, you have to get every person to accept that as well. You will never get a solution with that. There has to be some give and take and, as the minister said once when I asked him a question about how are they going to recover the costs for the expensive infrastructure to the LNG plant, one, he said is from the sale of the land and, two is, he said, basically from water charges. Well, if that is the case then one could argue that you will recover your costs of the infrastructure from water charges. It may be a long time, but you will recover it and you will solve a problem at the same time. That is my statement, thank you, Mr Chairman.

Mr CHAIRMAN: I didn't think we would get away without one. Are there anymore questions?

Mr DUNHAM: One quick one: last time we talked about Cave Creek and a fellow called Mr Sullivan, and whether you could investigate the extension of reticulation to his property near Mataranka. Has that been done?

Mr PHILIP: I am sorry, Mr Chairman, I cannot recall that. I should, but I cannot.

Mr K WOOD: Mr Dunham, I do not know. I assume so; I hope so. I am happy to take that one on notice.

Question on Notice

Mr DUNHAM: For the purposes of *Hansard*, the question is: Mr Jim Sullivan at Cave Creek Station near Mataranka is just short of the reticulated power and generates his own. Could the corporation please look at an extension to this property and advise?

Mr CHAIRMAN: Do you accept that as a question on notice?

Mr K WOOD: Yes.

Mr CHAIRMAN: For the purposes of *Hansard*, I allocate number 10.4 to that question.

Mr G WOOD: Yes, another local question: the *mimosa* electricity project, has it got off the ground? Is it going and how is it operating?

Mr PHILIP: I am happy for Mr Wood to respond. It is the subject of some mirth at board level.

Mr K WOOD: As we have further researched the project, what appeared to be a relatively low set of start-up costs seems to be increasing so, no, the project is not built. We are currently in negotiation with the Australian Greenhouse Office seeking additional funds, and they appear to be well disposed to that request to defray the increased costs as we investigate this further. It is new technology. It appears to be more expensive than we initially thought, but there still appears to be a will at the Australian government federal level to provide some additional funding.

Mr G WOOD: That is why you can put a *mimosa* leaf on your logo. The last one is about environment, about house design. There was some discussion here about the future of a proposed Defence Housing subdivision at Lee Point. How much education or how much input do you have in trying to get houses to reduce their electricity costs by better design? That is not just the design of a house; in many cases it can be the design of the subdivision. We are seeing a proliferation of some subdivisions where houses are basically roof to roof, one and a half metres apart, with a wall-to-wall row of airconditioners down one side. Do you have a role in trying to reduce electricity consumption by better house and subdivision design?

Mr K WOOD: Early last week, at a function here at Parliament House, we announced the winners of our second Annual Environment Award program. We conferred awards on a number of people from both here and down the track. We are conscious of our responsibility to ensure that power and water are used conservatively. These resources are finite, whether it is the fuel used to generate power or the water that is provided. Is the corporation committed to reducing its revenue by education? Yes. I made the point in my opening remarks last week at Parliament House that it does seem an anomaly, but we are committed to more efficient design, more conservative use of natural resources and providing or leaving a small environmental footprint.

The environment awards, now in their second year, are a start to that. We are happy to involve ourselves in school education. We provide resource materials and a range of tools and products to help individuals and kids learn more about conserving the environment and using energy more efficiently, and we will do more of that going forward.

Mr CHAIRMAN: Are there any more questions? That being the case, that concludes consideration of

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the Power and Water Corporation Statement of Corporate Intent 2003-04. On behalf of the committee, I thank the chairman and his officers for attending today.

The committee adjourned.
