

GOVERNMENT OWNED CORPORATIONS SCRUTINY COMMITTEE - Friday 27 June 2003

The committee convened at 3 pm.

POWER AND WATER CORPORATION

Mr CHAIRMAN: Good afternoon, I declare open this inaugural meeting of the Government Owned Corporations Scrutiny Committee of the Legislative Assembly of the Northern Territory on Friday 27 June 2003, and I extend a welcome to everybody present. I also table a copy of the order of the Assembly dated 27 February 2003 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 of 29 May 2003, agreed the timing for public hearings to read 3 pm to 5 pm Friday 27 June 2003. The committee has the capacity to vary the dates and time of a hearing under paragraph 13 of the order of the Assembly.

I would also like to report that, at a meeting of the committee on Tuesday 17 June 2003, the member for Sanderson was elected Deputy Chair of the committee in accordance with paragraph 4 of the order. I also advise that as a result of a resolution of the committee, representation of the media can be present and are able to report and broadcast proceedings of this hearing.

Some procedural issues that I should bring to everyone's attention before I call for questions are: under section 18 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 chairperson and other witnesses will advise when evidence is of a commercially sensitive nature and that such evidence be heard *in camera*. As chairman of this committee, I will invite the chairman and witnesses to give the reasons for their request. The procedures adopted by the recently completed Estimates Committee to address questions taken on notice will also be utilised through the public hearing of this Government Owned Corporations Scrutiny Committee.

As I mentioned at the outset, this is the inaugural sitting of this committee and is an historic occasion. To ensure completeness, the Treasurer has already addressed questions during the Estimate Committee's public hearings on Tuesday 24 June 2003 in which the issue of Community Service Obligations 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 2001-02, and 2003-04 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 reference 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, and Mr Mick Clifford, who is the Manager, Regulatory Affairs and Economic Analysis. I now invite members to ask questions.

Mr K WOOD: May the Chairman make an opening address?

Mr CHAIRMAN: Certainly.

Mr PHILIP: Thank you very much, Mr Chairman. 1 July 2003 marks the first anniversary of our birth as the Territory's first government owned corporation. The first year has, in our view, been one of pleasing achievement. In our 2002-03 Statement of Corporate Intent, it effectively sets out our annual performance agreement with the shareholding minister. In that document, we have identified five key

objectives and they are: to improve profitability; improve supply, reliability and product quality for all customers; meet, and exceed where possible, our environmental, public health and safety targets; support staff and maintain a safe working environment; and improve customer service. I am pleased to say the corporation has achieved improvements in all of those areas. We will detail those improvements in our annual report. Notwithstanding that, they remain priority areas as we turn our focus to 2003-04.

Before I move to the 2003-04 Statement of Corporate Intent, I will touch on a couple of key issues relating to the past year. In 2002-03, we developed a new corporate governance structure including an Audit and Compliance Committee of the Board, an Environment Committee and a Risk Management Committee. We have an extensive risk-based internal audit program delivered by Ernst & Young, our internal audit provider. Our annual financial statements are audited by the NT Auditor-General, and he is invited to attend each meeting of the board's Audit and Compliance Committee. We are regulated by the Utilities Commission to ensure that we do not take unfair advantage of our monopoly power to the detriment of our customers. We must comply with ring-fencing guidelines, accounting and cost allocation procedures, information handling procedures and contestable pricing guidelines.

I also want to expand on PowerWater's goal of meeting and exceeding its environmental public health and safety targets. We have achieved improvements in terms of environmental performance through developing a comprehensive environment plan and environmental management system, minimising the environmental impacts of our operations, promoting individual ownership of environmental care among our people, consulting the community on environmental issues, advice to customers on how to reduce energy consumption, and establishing the Territory's first environment excellence awards to recognise outstanding achievements in water efficiency, energy management and minimising waste. We have also released the corporation's first ever comprehensive public report on the quality of our drinking water.

In 2003-04, the corporation is targeting ongoing improvements in all our service measures, and we will invest more than \$13m in improving the reliability of the electricity network alone. Allowing for gifted assets associated with the development of Wickham Point, which I will discuss a little later, revenue growth in 2003-04 is up by 0.5%. Our revenue forecasts are conservative; we forecast increases of 0.5% in 2004-05, and 1.5% in 2005-06. The forecasts in the SCI do not reflect any speculative sales revenue from prospective mining developments, mine expansions such as McArthur River, or gas-based industry development. Our nett profit forecast in the SCI is \$49m in 2003-04, \$31m in 2004-05, and \$30m in 2005-06. As I mentioned earlier, the 2003-04 nett profit figure is inflated by \$10m worth of gifted assets for the Wickham Point water main, being funded by the Department of Infrastructure, Planning and Environment. Accounting standards require gifted assets to be treated by us as revenue at the time they are gifted to us.

Profit in 2004-05 and beyond is affected by an increase in energy expenses. We are bound by contractual arrangements to switch from Palm Valley gas to Mereenie gas, which is more expensive. In terms of dividends based on the profit forecast, the board will declare dividend payments in each year, set at 50% of nett profit after tax; that is, \$24.5m in 2003-04, \$15.5m in 2004-05 and \$15m in 2005-06.

Asset renewal and augmentation will remain a priority for us. Our capital investment program out 2005-06 totals \$148m. In terms of R and M, we continue to invest in maintaining our assets, and our total repairs and maintenance program for that same period is \$125m. In total, we will spend some \$273m on our assets over the next three years, and we expect a significant proportion of that to go to local industry. In terms of our capital structure, our projected debt to equity ratio for this year is 45.2%, with interest bearing liabilities at 30 June 2004 estimated to be \$289m. Free cash flows are sufficiently strong to cover our financing costs of \$40m to \$50m per year.

In terms of fuel strategy, we are very conscious of this area. Ongoing fuel supplies presents to us one of the most significant risk areas. We have sufficient gas contracted to satisfy forecast electricity demand to about 2009. If the Mereenie and Palm Valley gas fields continue to perform as expected, we will have sufficient gas for the next six years. Recently, we conducted a strategic review of our

future gas needs, and the review included assessing potential sources of longer term gas supply, and how it could be structured on the best possible commercial terms. All supply options for feed stock fuel are being considered, and arrangements to secure gas after 2009 are under way. Through its subsidiary company, Gasgo Pty Ltd Corporation, the corporation has developed a clear fuel procurement strategy and work plan to take us through to 2024.

In terms of our people, our work force has remained steady at slightly more than 700 people across the Territory. We are the second largest employer of apprentices in the Territory after Nabalco, and we remain committed to providing employment and training opportunities for young Territorians. Through a sponsored education program, we host apprentices, trainees, undergraduates, graduates, school-based apprentices and indigenous cadets. We also provide six engineering scholarships each year through the NTU, valued at \$5000 each. We seek to support the community, and one of the ways we do that is through our sponsorship program. We invest up to \$200 000 a year in a range of projects that better the community for all Territorians.

To sum up, the corporation is committed to providing a better service to our customers while operating commercially, and we will continue to review all aspects of our systems and processes to ensure we do our business as efficiently as possible.

Mr CHAIRMAN: Thank you very much, Mr Philip. Are there any questions? Member for Drysdale.

Mr DUNHAM: Perhaps I could clarify a few things prior to the question, Mr Chairman. It is not the opposition's intention to inquire into areas that would compromise your commerciality, so it is not our intention to go into closed session at any time, and we would be guided by your advice on that. So if we are asking questions that you believe intrude, we will seek that information in another way, but not in this public hearing. It should also be said that we appreciate the opportunity to be able to question this instrumentality for the first time. As an opposition, we have complete confidence in the board of the Power and Water Corporation,.

Having said that, I have a number of questions, and I will start with Community Service Obligations, which causes me some confusion still. Can you explain why the Power and Water Corporation receives a Community Service Obligation grant from the Northern Territory government?

Mr PHILIP: I will give my explanation, then I will ask Andrew Macrides to support what I say. Essentially, the CSOs are to meet the shortfall in revenue received by us for providing services at below the cost of which we sell them for, and the cost of providing a uniform charge from one end of the Territory to the other in relation to all our services.

Mr MACRIDES: We actually receive two forms of CSO funding. One is for the uniform tariff and the other is for the Pensioner Concession Scheme.

Mr DUNHAM: Could you describe the component parts of the uniform tariff Community Service Obligation?

Mr PHILIP: Could I defer that again to Andrew Macrides, please, Mr Dunham?

Mr DUNHAM: Yes.

Mr MACRIDES: Mick, it is probably better you handle this.

Mr CLIFFORD: The majority of our CSO payment is for what is called the uniform tariff. That is both the price cap and price levelling device. There is no individual calculation of each part or notification of each; it is just a single amount.

Mr DUNHAM: Does that satisfy the Utilities Commissioner that those two objectives are bound into

one?

Mr CLIFFORD: I am not sure that it is a matter for the Utilities Commissioner. That is something between the shareholder minister, the portfolio minister and the Power and Water Corporation.

Mr DUNHAM: One is to ensure the same unit price for electricity across the Territory?

Mr CLIFFORD: Yes.

Mr DUNHAM: And the other is to provide for the cap, which provides some diminution of your profitability?

Mr CLIFFORD: In effect, yes.

Mr DUNHAM: Can you tell us why there are other devices to do what the CSO does; that is to have the Power and Water Corporation do something which would give you a shortfall - given that you would prefer not to - and it is subsidised by government?

Mr CLIFFORD: There are other devices. At any time, a portfolio minister, with the agreement of the shareholder minister, can direct us to do anything which is not commercial, as long as they arrange funding and that such a direction be tabled in parliament. To my knowledge, that has not happened to date. I do not think there has been any instance where it needed to have happened. Another way is for the shareholder minister, the portfolio minister and the board of the corporation to agree that the corporation will perform a Community Service Obligation. I am not sure that that actually needs to be tabled in parliament, but it would probably show up in the budget papers.

Mr DUNHAM: When we questioned the minister for Planning and Environment yesterday about the undergrounding of power, he was convinced that that was a Community Service Obligation - the monies were within his budget to subsidise that service. I know there is some difference of opinion about this, but that is another device, is it not? Some sort of a grant process?

Mr CLIFFORD: A capital grant, yes.

Mr DUNHAM: Can I get that clear? Is there the capacity for another department to undertake to do works and then gift them to you?

Mr CLIFFORD: That is correct.

Mr DUNHAM: There is the capacity for you to be given the actual funds to undertake the work, and then there is the Community Service Obligation?

Mr CLIFFORD: Yes.

Mr DUNHAM: So there are three devices government can use to have you do work that is not of your own volition - if you like, not a commercial proposition.

Mr CLIFFORD: Yes, that would be correct.

Mr DUNHAM: Thank you. Can you tell us about the circumstances whereby PowerWater undertook to do the road works at Leonino Road?

Mr K WOOD: I understand that the Leonino and Reedbeds Roads issue has been around for quite some time. I received a letter from our minister at the time, Mr Vatskalis, asking me to consider whether the corporation would be undertaking those works, as he had been made aware that this was

a matter of some concern for people who lived in the area. I looked at the situation and took a view, based on potential risk of litigation in terms of road accidents and personal injury, and also the potential impact on our supply in the rural area, that the works were, in fact, commercial. We have undertaken a \$600 000 four-year program to remove those poles from, sometimes in the centre of the road, where they were.

Mr DUNHAM: So when the minister informed parliament that it was actually him who made the decision, meaning 'we, the government again looked at the road safety issue' - and thanks to your intense lobbying in relation to my colleague here - 'what changed our minds was the intense lobbying about the change to the realignment policies'. It would appear from what he told parliament that it was a lobbying issue from a local member that changed his mind, that compelled him to do it. I would have thought that they would have had a corresponding CSO given that, essentially, it is a road problem rather than a power problem.

Mr K WOOD: I cannot comment on what was in the minister's mind at the time. All I can say is that we were asked to consider it. I looked at it and then I made the call myself, the decision based on risk and supply risk issues. In my mind it seemed like a very reasonable capital project, not overly large, and quite a commercial decision.

Mr DUNHAM: Is the power being augmented in any way?

Mr K WOOD: Out there?

Mr DUNHAM: Yes.

Mr K WOOD: No, it is simply just a relocation.

Mr DUNHAM: So it is a removal of risk?

Mr K WOOD: It is a reduction of risk. The poles will still be on the side of the road and, from time to time, they are impacted by cars. However, it is a lower risk scenario than the existing Leonino and Reedbeds Roads set-up as it stands today.

Mr DUNHAM: Are there any other easements of this type? Well, there are other easements of this type. Are they under consideration for a similar program?

Mr K WOOD: We do not have any active programs to do what we have done there at the moment. It would be fair to say the corporation is looking with renewed vigour at at risk situations that it finds itself in. It is also reviewing, perhaps, practice in the past and practice today, to see if there is some difference going forward. Our strategy is to try and minimise risk, improve supply and, I guess if there are any obvious similar examples of these sorts of installations, we would consider them seriously.

Mr DUNHAM: Because the next category is similar: they are easement lines that go down informal accesses to battleaxe blocks, and there is a risk with clashing lines of bushfire. So, there are issues relating to undergrowth beneath that infrastructure. There are at least three or four instances where people have made an assumption that it has been a PowerWater thing that has started a fire. Are these part of your risk analysis that you are doing across your reticulation right through the rural area?

Mr K WOOD: It is fair to say we will look at all of these. I am aware of one or more of the instances you have talked about. Our networks people are considering any area. We have a prioritised, or risk ranked, list of repairs and maintenance for capital programs going over the next three years. There is never enough money to do everything we want to do, but we have tried to look at the probability and the level of risk of particularly the capital investments or repair and maintenance investments, and produce simply a ranked risk list, where these things are tackled generally in a priority order - not always, but generally in a priority order.

Mr DUNHAM: I know you cannot do it all at once. All I am asking is: you have now done an audit of this risk, whether it be traffic hazard, bushfire hazard, or any other hazard, and you are going to progressively undertake works of the type that you have done with the Leonino Road program?

Mr K WOOD: We do not have a complete audit of every asset we have had; there are some thousands of kilometres of pipes and wires. However, I believe that we have trawled the network and the water supply and sewer supply retic system for major risk at this stage. We have just finished a major risk analysis process with Ernst & Young, and we have identified what we describe as significant risks, but not every risk the organisation faces.

Mr DUNHAM: When would it be likely that you would undertake the works necessary to take power and water to Dundee Beach?

Mr K WOOD: We have a \$50 000 consultancy budget for 2003-04 to scope the works, essentially cost and size them. It would then be possible to undertake those works in the following year, depending on a contribution from government, as the work is considered non-commercial for us.

Mr DUNHAM: Would there be any components of that that you would consider picking up, or you would see it as totally a government Community Service Obligation grant?

Mr K WOOD: As the election promise was given, we would see that as totally non-commercial. There is some discussion of a prawn development opportunity in Dundee Beach that may add a commercial component to the work, but that is subject yet to some investigation.

Mr G WOOD: Member for Drysdale, may I ask a supplementary to that? Say you put the power in there, and I am talking about the main feeder power. Under the old system - and correct me if I am wrong - power and water extended from the main line into subdivisions that, for instance, did not have power, especially in the rural area, and then charged people a \$5000 covenant. That was in the old days. When you get to Dundee, you are going to have a lot of these subdivisions which are off the main line. What would be the manner in which that electricity will be fed out there and who will pay?

Mr K WOOD: That is an interesting question. The election promise was for a transmission line to Dundee, which would be a 22 kV line – 22 000 volt line. The distribution would then be subject to our normal deset policies, as I understand it, although until we scope and price the works next year, I cannot be any more definitive than that. We really have not done much in terms of analysis of the project, but I would expect that the Dundee distribution would be subject to our normal policies.

Mr G WOOD: What are those policies? Are they different from previous policies, such as the \$5000 covenant?

Mr K WOOD: No. What we normally do is charge a \$5000 contribution for a transformer or a sub, if it is required, and we charge some 75% of the capital costs of the works, with 25% of that being an interest free loan. The deset rules and regulations have not changed for quite some time. They are currently under review and may well be changed in the next 12 to 24 months.

Mr DUNHAM: I am glad you mentioned the interest free loan. There are several consumers who have contacted me, and at least my colleague here, about extensions from the main retic to properties that are currently using their own generated power. There are obviously several sites where this could occur, certainly in the Daly River, Mataranka and Katherine areas, and some of the more remote regions in the Darwin area. Is there a program for this, and is there a consideration for providing some basis for amortising that gear over a long time through a billing regime so that people are not up for the full cost at the start, and it could be progressively put into their bill to organise this reticulation?

Mr K WOOD: That is an interesting question. I have looked at the Daly River Mango Farm request. We have had a number of requests there, as in other places, for people on blocks of land growing

mangos and other things, to access power. It is a vexed issue. The dilemma is CADESCA are funding the Daly River power station in order to provide services primarily to the Aboriginal community, and there appears to be a fairly viable fishing and agricultural industry emerging there. This was probably never really contemplated in the early days when funding was set aside for Aboriginal communities. We have to find a way to get through it. I am not sure what the answer is today. PowerWater has heard the requests; they look reasonable. It is a matter of determining how much should the producers pay, and what does that mean in terms of the infrastructure that is primarily provided there to supply power to the communities. But there is no question that we will have to find a way through this in a reasonable time frame.

Mr DUNHAM: The establishment costs are worrisome to them, but they could easily be amortised by having it as a component of the quarterly bill.

Mr K WOOD: As I said to Mr Wood, we are looking at the detailed policy, and there is quite some argument to make it a little more flexible to accommodate these sorts of situations. The tension in this though is PowerWater would have a queue miles long if we just said it is open slather. We do not have a balance sheet strong enough to fund everyone in the Territory who wants access to power. So there will still need to be some economic signal sent to potential users. We understand our mission is to foster growth and development in the Territory as much as is commercially viable. Finding a way through the maze has not been resolved yet, but we are conscious of the question and we will attempt to find a solution in the next 12 months.

Mr DUNHAM: Can I tell you that there is some angst about million dollar components that do not actually augment power but seemingly are aesthetic, like undergrounding power for people out bush who are generating their own. Also there is definitely angst about the capacity for what you call CADESCA to provide power to Aboriginal communities, where neighbouring non-Aboriginal communities do not have that same program. This is a growing issue of division between people who are non-urban and non-Aboriginal, and those programs that seem to have a priority status there. I understand what you are saying about the queue, but could a book exercise be done, just looking at the limits of our articulation at least, and look at an annual program that would incrementally push the power out into those areas, so that we could have an organised program?

Mr K WOOD: Some of that is a fair question. There is a lot of tension in the Territory about providing power to places that are unserved currently. To give some clarity, we, as an organisation, really have to publish a long-term view as to what our intentions are in servicing the rural area and other locations. It has certainly been my wish, within the organisation in reasonable time frame, to give our customers and Territorians an idea of what PowerWater's intentions are. What you have asked for is probably very doable within a reasonable time frame, and certainly not out of line with what our thinking is internally within the organisation.

Mr DUNHAM: It is also - if I understood your discussion on Community Service Obligation - your capacity to put that bid to government, so you could actually do the work and then mount a CSO argument, as opposed to government coming to you and saying: 'Do this for us and here is the cash'. You could run it the other way?

Mr K WOOD: I guess there are several ways to do it. One is we could put a proposal and see if it had any interest from the community and government. Two is, I guess we could put a proposal up based on anticipated growth rates and when some of these areas became more densely populated and commercial. Three, I guess, is always perhaps off-balance sheet ways of funding, using the private sector or other people risking capital. So there are probably several scenarios we could contemplate.

Mr G WOOD: There was the case I raised in parliament about Cape Creek Station where he said: 'Well look, I run a generator, it costs more or less \$10 000 a year. So, can I put a case to PowerWater that if I put \$7000 away of that, you put the power line in, I pay \$7000 per year. \$3000 goes to my electricity bill, in three-and-a-half years I have paid for the line and I am a happy chappie'.

Mr K WOOD: That is Jim Sullivan.

Mr G WOOD: It is.

Mr K WOOD: I have to say I felt some sympathy for his request. We are unable to consider it, given the current DCEP rules. Stepping outside those rules would give us a problem with others. I guess the other thing to bear in mind is, with all due respect to Mr Sullivan, we are not a bank. However, reviewing the DCEP policy and trying to find a more flexible way to assist people who have some money and a lot of will to get the power on may be useful. It has to be said though, our DCEP policy is, if not the most generous, then amongst the most generous support policies in Australia for extending reticulation. However, having said that, we still are reviewing it, and I personally felt quite some strong sympathy for his situation.

Mr G WOOD: He has been around a long time, worked very hard for the Territory.

Mr DUNHAM: At page 91 of Budget Paper No 2, it says: 'The government has a policy of no increases in non-contestable electricity tariffs and thus provides PowerWater a Community Service Obligation in respect of non-contestable electricity customers'. Is that true?

Mr K WOOD: Yes.

Mr DUNHAM: So the uniform tariff provides the same tariff across the Territory? It provides a basis for the shortfall in the government's commitment not to increase domestic electricity tariffs, and it also provides, for those commercial tariffs that are non-contestable, a further CSO?

Mr MACRIDES: That is quite correct.

Mr DUNHAM: There are three components to it?

Mr MACRIDES: Yes. The reason for that is the way the CSO operates. The CSO is the difference between the gazetted tariff and the efficient cost of delivering those services. So, as costs go up, the CSO changes.

Mr DUNHAM: That is my next question. Why has the CSO not gone up?

Mr MACRIDES: It is difficult to see the change in the CSO in the figures that are there, because of the fact that it is clouded by contestability, and tranche 4 customers who are currently franchised, cease to be franchised in April of next year, so you lose the CSO component for them.

Mr DUNHAM: I would have thought that if the drivers are those three factors, all of which are increasing, the CSO from the government to you should increase.

Mr MACRIDES: What I am saying is, you cannot actually see that change in the CSO, given the fact that these tranche 4 customers cease to be franchised customers and part of that.

Mr DUNHAM: That must lead to the fact that those customers will be paying more after the grace period.

Mr K WOOD: Certainly our early modelling indicates they could be paying more. There is some dialogue between ourselves and Treasury at the moment to find the best outcome for Territorian businesses that are in tranche 4. Early indications are they might be, but I can assure you that we are looking at the impacts. We are modelling those impacts and there are definitely ways to minimise any harm on Territory businesses.

Mr DUNHAM: Can you tell us when the first of those customers will come up for review?

Mr K WOOD: They become contestable and will drop to the default tariff in April next year.

Mr DUNHAM: So it is during this financial period we are in now?

Mr K WOOD: Yes. Starting 1 July.

Mr DUNHAM: 1 July?

Mr K WOOD: Yes. That financial year, it starts on Tuesday.

Mr DUNHAM: Yes. What I am saying is, you or somebody has modelled that you are going to need less CSO because of your commerciality. Part of that modelling is that there are a set of customers who were once protected with this grace period who are now coming out of it. I am no accountant, but surely it has to be that there is a yield in there for you? In your modelling, you must know that they will be paying more for electricity.

Mr K WOOD: What I can tell you is the CSO is a matter for Treasury to resolve, and they determine the level of the CSO. We model, we put forward a CSO number, but Treasury determine the CSO and that is decided by them, not us.

Mr DUNHAM: What if it is unfair?

Mr K WOOD: What do you mean by 'unfair'?

Mr DUNHAM: What if they say: 'There is a political promise to peg domestic tariffs and we will pay you \$15m for it', and through your modelling, it is \$20m. How do you know you are not subsidising a political promise, unless you can actually gauge the effect of that call - whatever it is - and argue that it should be the full cost?

Mr K WOOD: I understand the question. The primary issue for us is to ensure our business is solvent and to act commercially at all times. Our business is solvent. During the period of the SCI, it is generating sufficient free cash flows to run the business. In other words, to invest in CAPEX, to repair and maintain our assets, to pay our staff and service our debt during the next three years. Wherever we are required, and whenever we believe we should act commercially, we do that. We notify government if we are required to, or we will have discussions with Treasury. It is my belief the corporation is acting commercially at all times. The actual quantum of the CSO currently may not give us the return on assets we want but, certainly, the business has positive operating cash flows, is solvent and the board and the business is acting commercially. You could suggest that there is always a level of constructive tension between us and Treasury on the actual level of the CSOs, but it is essentially outside of our control.

Mr DUNHAM: Is there an arbiter? Can you go, for instance, to the Utilities Commission and say: 'Can you run your ruler over this? Is this truly a full cost that is being delivered, or are we being expected to subsidise a political promise?'.

Mr K WOOD: I believe that the UC has determined what the level of a CSO should be and I believe that Ms Prince, several days ago, offered to table the information for you.

Mr DUNHAM: Yes, I have not seen it.

Mr K WOOD: It is a question more rightly put to her.

Mr DUNHAM: Thank you.

Mr PHILIP: That exercise was done in early 2002 by the Utilities Commissioner. That exercise was taken up, at least on the electricity side, with our first SEI and subsequent SEIs. In terms of the CSOs for water, they have not been taken up.

Mr DUNHAM: Going to your comment about ensuring you are solvent and you act in commercial interests, who determined that water should go up by 2.5%? Was that you or government?

Mr K WOOD: The corporation put a pricing submission to government and 2.5% was approved, effective January this year.

Mr DUNHAM: The basis, according to the Chief Minister in parliament, was – and I had better quote it correctly – that water would go up 2.5% after it had already gone up 5% just months earlier, and her quote was: ‘necessary to ensure the business remains viable’. At that stage, you were expecting a dividend to government of \$10.423m, and we know that in another Treasury miscalculation power will actually yield \$20.97m, nearly double. Is it true that this increase was needed for viability?

Mr K WOOD: You would have to ask the Chief Minister as to what she meant by that. The reason we sought an increase was that the additional revenues provide an ability for us to invest in new and replacement plant assets, it lets us service debt, pay wages and expenses, and maintain existing assets. It is also important that our charges are appropriate, or we could be accused by potential new entrants into the industry here that we are under-cutting potential new entrants’ pricing. Certainly, because of our requirement to act commercially, we are attempting to, in our own way, foster competition - much as you may be surprised to hear that - and also ensure we get a reasonable return for the shareholder and for Territorians on the assets, and to send the right economic signals. If we are getting the right return in a particular part of our business, then there is incentive to invest and not let it run down. So it is important to get a reasonable rate of return on the water side of our business.

Mr DUNHAM: Do you expect new entrants in water?

Mr K WOOD: It is unlikely that we will see entrants in water. It is more likely we will see entrants in the electricity side of the business, if we get Timor gas onshore.

Mr DUNHAM: There is actually a line on that page 89 that says, ‘minimum viability costs’. I note the 2.5% was going to yield, if I recall from the time, \$600 000 or \$700 000, and that you are well and truly above the minimum viability costs. In fact, you have a surplus with the CSO there of \$8.2m out of your \$32m. So the 2.5% would seem to be a bit premature, wouldn’t it? You would have thought that this was a long, long way away from having any viability problems.

Mr K WOOD: As I said, you would have to ask the Chief Minister what she meant by the word ‘viability’. Our modelling tells us that the water and sewer businesses are marginal businesses. They are marginally profitable. We are not getting strong incentive to invest in those businesses, although we still are. We have made some significant investments, including the Ilparpa Swamp project in Alice. However, frankly, with the returns we are getting, you could argue that if we were ruthless people – and we are not – you would ...

Mr DUNHAM: No, I would never say that.

Mr K WOOD: ... find we would invest in generational networks. So, it is just a matter of investment signals, and they are not really being sent with the returns we are making from the water and sewer businesses as such.

Mr DUNHAM: When will the new water source discovered at Cox Peninsula earlier this year be in production?

Mr K WOOD: That is a matter for DIPE, which will have the carriage of drilling the bore. It is approximately a \$1.2m project. We expect within the next 12 months - that is our advice – but that is a question for DIPE, I believe.

Mr DUNHAM: Who will own the bore?

Mr K WOOD: The bore will be under the control of DIPE and we will be licensed to extract some water.

Mr DUNHAM: So, it would be a prelude to further subdivision and development? 'When that happens there would be infrastructure gifted so that it would be normalised, the same as this side of the harbour, or what is the process?

Mr K WOOD: That is a question I cannot answer, actually. At this stage all we are planning to do is to provide a secure source of water to the existing tank there. That is as far as our planning and thinking has gone to date.

Mr DUNHAM: The paper reported a substantial find that could trigger resort-type developments and subdivisions. Is that paper talk or is it ...

Mr K WOOD: No, that is the early indication. It seems pretty encouraging, and pretty exciting actually, but my understanding is that ground over there has been drilled with more holes than a pin cushion. There have not been big finds in the past, but this find does appear to be extensive and may well lead to further development, all going well.

Mr DUNHAM: Is the aquifer, or the catchment government owned or privately owned?

Mr K WOOD: The aquifer is under the control of government. My understanding is there are no difficulties with extraction and it is good quality water. If it is proved up, it should be quite a find over there and will be quite a good asset.

Mr DUNHAM: That is the best water story of the year. I have to ask this, and you are expecting it, about your logo. How much will the fiasco - a word used by you guys -- cost you?

Mr PHILIP: Our best estimate of that exercise is a cost of circa \$100 000. We do not expect it to be much more than that. We are fairly pleased, I might say, in the outcome we have reached, given the situation we found ourselves in. We found ourselves in a very difficult situation. It was not of our making. One of the bad things about it is that we attempted to support a local business, we used a local guy, we got duded. We fixed it in the most efficient commercial way that we could, and we would very much like to put it behind us.

Mr DUNHAM: I am surprised that it is \$100 000, I have to tell you, because you had a sticker on every truck, every sign was done. It is good that, with the government owned corporations status, you did rebrand your product. It was probably a good idea, but I would have thought it would have cost much, much more than that - even the labour of pulling the stickers off would have cost thousands.

Mr K WOOD: The time frame we have negotiated, which is the removal of 'disc man' as he is called - 'disc head' - by next year, essentially gives us sufficient time as we turn over vehicles and as uniforms are worn out and paper stock is used; it minimises the disruption. In the short term, we have elected to simply remove the logo from quite a bit of our branding and maintain the same lettering, the same look and feel, just with the removal. So it is quite a cheap exercise to move to an interim stage of simply removing the little logo itself, and as cars and stock and uniforms turn over, we will just issue new uniforms.

Mr DUNHAM: I misunderstood. I thought you had to remove them. So you have been given a licence of type to phase it out.

Mr K WOOD: 18 months.

Mr DUNHAM: Will you be moving to get a new logo, or are you too brutalised by the last experience?

Mr PHILIP: I am not sure if the board is feeling heroic about new logos.

Mr DUNHAM: Logo fatigue.

Mr PHILIP: We will certainly consider it, but we will not be rushing into a new logo in the near future.

Mr DUNHAM: Have you considered resurrecting the old one? It was specific and unique in the NT government. I know you wanted a new look, but I assume it was legitimate if it ran for as long as it did?

Mr PHILIP: There are some heart strings still tugging for the thought of the old logo but, generally, when we went into the exercise, we surveyed the staff pretty comprehensively. You would be surprised how many of our own staff did not like the logo, did not understand what it meant. It is actually a collection of pipes, much beloved by engineers; they thought it was a great logo. There is almost no prospect of us moving back to the old logo.

Mr DUNHAM: I will not talk about a new one, but there were several things coming out of that man's hand, and given that you had power, water and sewerage, I assume, though the last one wasn't that flash either, even when you could use it. It is probably a good idea to really state your corporate uniqueness, even though it was an exercise that caused some hilarity in quarters - even me, I have to admit. It is probably worth having a look at. So this year, you would be looking at branding yourself?

Mr PHILIP: Yes, we have already looked at a couple of options. We have something that is associated with our environmental publications and material that seems appealing to us. It has come to the board for a preliminary look. Once bitten, twice shy. We want to do lots and lots of research and make sure we get it right.

Mr DUNHAM: I can understand you keeping it under wraps, but there is funding this year to do that?

Mr PHILIP: We have not built – I am sorry, maybe Andrew Macrides could answer.

Mr MACRIDES: There will be sufficient funding this year to do it.

Mr DUNHAM: I had to ask that. How will local company ITS, disadvantaged by the government decision to bypass it for a more expensive non-conforming southern company, be compensated?

Mr K WOOD: I am not sure I understand the words used.

Mr DUNHAM: Maybe if you explain. As I understand it, ITS was a local company.

Mr K WOOD: That is right.

Mr DUNHAM: I understand their price was cheaper than the company that got the contract. I also understand the company that got the contract was non-conforming in some senses, and that because it was novel technology, the fear, as I understand it from ITS, is that it might give them a leg-up for further work of this type. So, while they understand that having signed the bits of paper there is no going back, they certainly feel like they were in the right on this particular case, and that for future

works they now have a built-in non-competitive edge over this other competitor who got it. While the minister has been able to describe to me their capacity to complain, seek solace and all that stuff, it really does not address the question that I am asking, and that is: how can we help this group now, given that they are – through no fault of their own – less competitive than somebody who arguably should not have got the contract?

Mr K WOOD: I understand that question. The lack of understanding I had was, I thought you said they were disadvantaged by government, which perhaps I would disagree with.

Mr DUNHAM: Well, I said a government decision.

Mr K WOOD: PowerWater made the decision to select the Perth-based contractor. I will be absolutely honest with you, I certainly was not happy with that decision. It happened about the time I came, and there was little in the way of pricing difference. We did select the Perth-based contractor because they offered a different solar cell technology, which was a more robust technology to use on the Bulman community. It is not glass-based and much more ...

Mr DUNHAM: Bulman or Kings Canyon?

Mr K WOOD: Bulman is using the amorphous silicone, which is a very robust plastic-based solar cell technology that should last for 20 years. It is very hard to damage. If you get stones thrown, or anything like that, it is just very hard to damage. I believe that, while that technology was not asked for, PowerWater at the time found that a very attractive proposition, and probably a more useful technology for that particular site.

I have met with the owner of ITS, and my board has expressed a strong level of dissatisfaction about that decision. I think there is no doubt that PowerWater is committed to buying in the Territory wherever possible. I have indicated to ITS that they should not feel disadvantaged in any way, that there will be a level playing field going forward, and we would consider them very openly and very strongly going forward. However, I do not believe any decision we have made on Kings Canyon or Bulman will preclude them from bidding successfully, potentially, in the future.

Mr DUNHAM: Except their repertoire of works will now be deficient, at least for this job, compared to their competitor. Given the innovative nature of it, I would worry that the competitor can now mount a case on every occasion they go to tender to say: 'Look, I have done Bulman and Kings Canyon', which is not an experience they have been able to share.

Mr K WOOD: After that job was let, we have changed our precis. Every investment decision the corporation makes, every tender that is let, goes through a tender review group that we have set up internally, which I chair. The board has also expressed a strong interest in seeing these decisions as they go forward, and I can assure this committee that there will be no special treatment given to the Perth-based corporation going forward. We are very interested in building capacity in the Territory.

Mr DUNHAM: I am asking for special treatment to be given to ITS. I am actually asking that, having done this, and there is no way to undo it – and I know they are not going to be disadvantaged by the fact that they have chosen to complain and all that sort of stuff. I still believe that, on a head to head basis, there is going to be a deficiency in their portfolio of works compared to the other company. What I am saying is, if they do come up, the assessment process could be blind to that fact at least, so that the level playing field is really available for the assessment.

Mr K WOOD: We have read and understand the procurement policy and strategies. One of the fundamental principles is enhancing the capabilities of Territory business and industry, and we strongly support that. We have started meeting with local suppliers. We have a close relationship, I believe, with suppliers that we have had for many, many years. I have only been here eight or 10 months, but I feel very strongly that I like the majority of our cash to be spent here in the Territory wherever possible.

Mr DUNHAM: Since you stand off budget, you must use your own analyses for predictors, I suppose, for the economy and other things. Can you tell me what inflation rate you use?

Mr MACRIDES: 2.5%.

Mr DUNHAM: The Treasurer put out a press release yesterday saying it was 2.8% for this year. Is that a reviewable rate, and where did you source it?

Mr MACRIDES: The rate is consistent with the figures that were published by Treasury at the time, bearing in mind that the Statement of Corporate Intent was obviously done some time back, and it is just a predictor of outcomes. We review the Statement of Corporate Intent continuously as we go forward. Internally, we obviously revise our forecasts and, if major changes occur with the likely outcome, as you have seen with the financial year that has just passed, we will present a revised Statement of Corporate Intent if there is a material difference in what we think our outcome is going to be.

Mr DUNHAM: Like the profit line.

Mr MACRIDES: Like the profit line, as a result of NT Power exiting the market.

Mr DUNHAM: So, you source your figures, in the main, from Treasury direct?

Mr MACRIDES: We source some information from Treasury. The inflation figure is one.

Mr DUNHAM: For instance, if Treasury is sourcing from the ABS, would you go straight to the ABS, or would you be comfortable with using Treasury's database to source your figures for GSP, population, inflation rate - any of those factors that impinge on your business?

Mr MACRIDES: We obviously have a range of sources that we use for information. In the case of our sales forecast, for example, we have a very robust sales modelling arrangement in place which uses, in the main, population growth. However, it also models loads for every single contestable customer. Therefore, we have some in-house information we use, we are comfortable using some of the Treasury information, and we use external source information as well.

Mr DUNHAM: Essentially, you satisfy yourself as to the robustness of Treasury's data, and you leave the decision as to whether you would go elsewhere as your prerogative?

Mr MACRIDES: Absolutely.

Mr DUNHAM: Right.

Mr MACRIDES: Subject at the end of the day, of course, to us having to - our Statement of Corporate Intent is an agreement between our board and the shareholding minister. As you see, at the end of the day, the shareholding minister has to be satisfied that the figures that we are presenting to him are robust and based on valid data. If we put an inflation rate in there of 4%, and Treasury, for example, are advising that it is 2.5%, we would obviously be asked to justify why we have 4%.

Mr DUNHAM: Do your figures, for instance for electricity consumption, show that the economy is flat, improving, or in decline?

Mr MACRIDES: They show a modest increase, based on what our contestable customers are telling us and, obviously, on past loads.

Mr DUNHAM: So, a modest increase of 1% or 2%?

Mr MACRIDES: 2%, I believe, Mick?

Mr CLIFFORD: 2.5%.

Mr MACRIDES: 2.5%.

Mr DUNHAM: That is electricity consumption?

Mr MACRIDES: Correct.

Mr DUNHAM: Thank you.

Mr CLIFFORD: If I could add, though, that overall we do have some major customers who come or go from time to time, so that our overall sales may not actually be 2.5%. It might be 3% one year and 1.5% the next year. One of the mines is going to close down at Christmas, I believe. That is a major customer for us, probably on its own, as much as all of the growth of all the other customers in one year. So it might be flat again next year.

Mr DUNHAM: Yes, I can understand. I am trying to work out how you work out your trends. It has to be a pretty accurate indicator of community and economic activity if you look at your energy use going up. I was surprised, in the Treasury documents where, for instance, with own source taxation it went up 12%, from \$220m up to \$250m, and the Treasury description of that is that even though tax rates remain the same, activity in some sectors went up. Are there any sectors in your area that would show a 12% increase?

Mr K WOOD: We have taken a conservative view to modelling our financials. We did not want to over-promise and under-deliver, so we believe that our numbers are relatively accurate, but they should be considered as conservative and not as predictors of the economy.

Mr DUNHAM: I am not saying they are. I am just saying they inform, I suppose, on the robustness of the economy.

Mr K WOOD: We have included no gas-based industry or no speculative mine sites, or really anything at all like that that may drive some of Treasury's numbers. I do not know, I am not privy to the modelling Treasury did, but they are still very conservative. Given the nature of our business, we believe that is the most appropriate treatment.

Mr DUNHAM: You talked about your energy, and how you had gas to 2009 out of Palm Valley and Mereenie. Is that gas sufficient on this current trend line, which is existing consumption at a conservative 2.5% to 2009?

Mr K WOOD: Yes.

Mr DUNHAM: So, a big consumer coming along would be troublesome for you?

Mr K WOOD: It would be troublesome for us, Mr Dunham.

Mr DUNHAM: In your PowerWater annual report where you discussed this, the words are: 'Its ambition to develop new markets will be put on hold until offshore gas is available, and in the meantime its current contracts, ensuring supply through to 2009, will need to be managed assiduously'. What does that mean for a new emerging industry coming to the Territory and looking for energy higher than the 2%?

Mr PHILIP: We do have some surplus generating capacity in Darwin, so it would depend on the size of the load. However, if you are talking about major gas-based industry, then we cannot see that happening in the absence of a major gas supplier. A reasonable example of that is the ConocoPhillips LNG plant, where the arrangement we are negotiating with them requires us to toll their gas through our plant. We have the generating capacity to do that but we do not have the gas, so we would be using their gas. It is a bit chicken and egg.

Mr DUNHAM: Yes, but it is a good relationship, as they are next door to you. Can you tell us why that gas is considered to be 'dirty' gas?

Mr PHILIP: The gas that is going to come through our plant is pristine and probably amongst the best gas in the world, Mr Dunham. The description of that gas as 'dirty' gas – we had a long period of negotiation with both ConocoPhillips and NAGV, which was Shell Woodside. What ConocoPhillips said was to contract all of their available gas out of the Bayu-Undan field for LNG, leaving residual gases - probably how you would best describe it at 41 petajoules. They offered that gas to us over a period of some four to five years. It was certainly not a long-term solution to us, four years, and the quality of the gas offered was not aligned with the specifications that we had been negotiating with both ConocoPhillips and NAGV for the preceding two years.

Mr DUNHAM: So it is a relativity term?

Mr PHILIP: Yes.

Mr DUNHAM: Thank you.

Mr G WOOD: Through you, Mr Chairman, could I ask a question.

Mr DUNHAM: About dirty gas? So long as it is not half an hour, Gerry.

Mr G WOOD: You had the half hour. With regard to the supply of electricity to the LNG plant, there was talk that ConocoPhillips would have to have their own generating system. Is that going to happen or are you going to supply them with electricity?

Mr K WOOD: We are in negotiation with ConocoPhillips about running a pipeline to our plant, tolling their gas to our existing generators. We have the capacity to generate for them. That also gives them a bit more robustness of supply. If they generate their own electricity – and they could well still do that – if that generator fails for any reason, they have no back-up or standby. We believe it is in the Territory's best interest if we generate that power for them. We have a much bigger plant than they would build, with multiple generators. It is still unresolved as to how that power will be generated for ConocoPhillips. They may well do it themselves using their own gas, or we may toll their gas for them.

Mr G WOOD: Will a separate pipeline be built underwater from there, or on the land back to Channel Island?

Mr K WOOD: We are still looking at options. We will try and find the most cost-effective option, given the relatively short proposed time frame with that plant, which is 17 years. It may, in fact, be longer, but at this stage, the time frame of 17 years really requires us to look at a cost effective but acceptable solution. We are looking at a number of scenarios.

Mr DUNHAM: I can indicate, given that we are half way through, that I am very well advanced with my questions and if the others do not have too many, we can finish early, Mr Chairman. You said that your biggest risk was continuity of gas. I do not want to misquote you. You said in your risks, fuel strategy was your most significant risk.

Mr PHILIP: That is correct, Mr Dunham.

Mr DUNHAM: You have outlined your risks in this document here, Risk Management:
The key areas of potential risk for the corporation have been identified as business continuity, environment, financial, occupational health and safety.

So you are now saying that since this Statement of Corporate Intent, continuity of energy supply is a bigger risk than those four, or is it a subset of one of them?

Mr PHILIP: I believe 'continuity' is not used in the sense of an interruption to supply coming down a pipeline. In fact, we have just had a recent review of the security arrangements in relation to our pipeline and the facilities attached to it, so it is not used in that sense. Business continuity, in this sense, is used in a more immediate sense of a major failure of a power station, a terrorism act or whatever.

In terms of gas, though, we are confident that we have gas for the next six years. In terms of risk in relation to gas, we perceive the risk for us of contracting early at a high price and a wrong price is greater than taking a little extra time in getting the price right, because it will have a huge financial impact on the Territory if we contract long term, 20 years, to take gas at a price that is high relative to the prices that were being offered to us out of the Sunrise gas field originally.

Mr DUNHAM: I am aware you cannot divulge those. There is an expectation that onshore gas will produce cheaper electricity. I know there are some announcements that have been made about Woodside's Blacktip discovery and the fact that it might come onshore in the next year or so, and might be available for domestic electricity production. Can you give some indication as to the effect that that might have on power prices?

Mr PHILIP: I will not try and do it in percentage terms. I will perhaps let Mick address that. Certainly, we see gas coming onshore as being an opportunity for a reduction in electricity prices. It is not going to be the Nirvana that everyone thinks, in substantial decreases in electricity prices. Where an opportunity for substantial decreases in electricity prices might arise is in better generation associated with a major gas user, where there is surplus electricity available to be sold into the grid. That might be one situation where you see a quantum drop in the price of electricity. However, it is definitely good news. There is no question that the prices that are likely to come out of Timor Sea gas are substantially less than the prices we are paying out of Central Australia. Our energy costs represent some 45% of our operating costs, so it is no small benefit to the corporation, getting gas in the Timor Sea.

Mr CLIFFORD: I can add to that a bit. You are talking about prices ...

Mr DUNHAM: I am talking about prices to the consumer. The expectation is - and I agree with you, it is unreal - that there will be a major reduction in your power bill, regardless of your cost. I guess what I am looking for is some indication of what your modelling would tell you - that, at least, the Blacktip discovery would have effect on a power bill out there for a consumer.

Mr CLIFFORD: That is an awkward question to answer, because the power bill for Mr and Mrs Malak is pretty much determined by the government, having set the uniform tariff and capped prices. They are actually getting an artificial price now. Our costs will change; the amount of the CSO will probably change. If it disappeared completely, then there may be a reduction in prices. It is really an issue for the government of the day to determine whether they continue CSOs at the same level, and allow prices to drop in line with our costs, or ...

Mr DUNHAM: So, in the power price for Mr and Mrs Malak, there are some component features. One is the cost of energy, one is the cost of generation, and one is the level of government subsidy. Each of them can affect each other. What I am saying, though, is, given that a large slice of the power bill is energy, is the expectation that power bills will reduce realistic?

Mr K WOOD: Well, I can give you a brief answer based on some modelling we have done. If the levels of CSOs did not change, and nothing else changed but the cost of the energy, if the energy price halved - say Timor Sea gas fed through to us and we generate from that - the power bill would typically go down 18%.

Mr DUNHAM: Except that it will not be Timor Sea gas by 2009, will it, other than Blacktip?

Mr K WOOD: We do not have any aggressive expectations of Sunrise coming onshore. That is beyond our control.

Mr PHILIP: When we talk about Timor gas, we are really meaning Timor and Bonaparte Gulf gas.

Mr DUNHAM: Yes. I am now going to Tennant Creek and the outage there, which I understand was caused by a bird strike to some sensitive piece of gear. Can you tell me what that bird strike cost?

Mr K WOOD: No. Well, it cost us a lot in terms of reputation. It was an outage that was extensive. But, no, I do not have a cost here that I could give you, but I can get that information to you.

Mr DUNHAM: There are two issues. One is the length of time, which I thought was extensive, given that it was several hours. I understand that it was on a weekend and the difficulties that that poses, but for several hours, when there are two feeders there, I would have thought there was the capacity to at least partially restore, given that the generating system did not seem to be a problem. With two feeders, I would have thought that somehow you could have at least isolated the problem, and got partial power back on in that time. It seems that the blackout was total and for several hours, and I cannot understand why that was.

Mr DEPUTY CHAIRMAN: Mr Wood, before you go on with your answer. Was that a question on notice before? I just did not pick it up.

Mr DUNHAM: No. I think he answered it. The first one was the cost. The second one was ...

Mr DEPUTY CHAIRMAN: Do you want to record it for *Hansard*? That is what I am asking.

Mr DUNHAM: Yes.

Mr DEPUTY CHAIRMAN: Restate for *Hansard*.

Question on Notice

Mr DUNHAM: For the purposes of *Hansard*, if I could have the costs to the blackout. I cannot recall the date, but the extensive blackout that occurred several weeks ago for several hours. If the itemised costs could be provided it would be appreciated.

Mr DEPUTY CHAIRMAN: GOC have agreed to take that on notice, and for the purposes of *Hansard*, it is 10.1.

Mr DUNHAM: The next question is about restoration of power. I do not understand why it took so long to restore it. Was it a problem with identifying where the site was?

Mr K WOOD: The initial assumption was that there was a fire at the plant. The fire services were called and no fire found. Then, it appeared to the operator on duty that we had lost what is called DC

power, so we could not close breakers and restore, we could not get the plant up and running because the DC power appeared to be unavailable. It was not until some hours later that we found there had been a crow across one of the insulators, which caused a short.

We have investigated the fault and it would appear that the length of time to restore Tennant Creek was unreasonable. I do not know whether that was because the chap involved panicked, or whether he went through the appropriate decision-making process and it was a very complex fault to find. I certainly am sure we were not undermanned. I am sure the chap was suitably trained, and suitably skilled and qualified. However, I agree, it took an unreasonably long period of time to restore that station, and we really did not start getting customers back for some hours. It is a scenario I regret, and I hope we have learnt from it.

Mr DUNHAM: I have been asked by people from Tennant Creek - in all fairness, they have also asked their local member. However, I was curious - bird shorts are very common, I would have thought. With the reticulation the way it is configured in Tennant Creek, I would have thought progressive restoration of power would have been an option.

Mr K WOOD: I agree. That is the question that needs to be answered.

Mr DUNHAM: The other thing I have heard is that it also caused problems to a generator set.

Mr K WOOD: We have the newer CAT sets in Tennant Creek configured to use high spec gas, and they have a high compression ratio on their spark ignition, so they can be sensitive as gas specifications vary. In recent times, they have been a little sensitive to the level of gas or the type of gas that has been going through them, and they have been tripping off more frequently than we would like. We have the manufacturer looking at that as we speak, and there has been quite a bit of work going on to ensure the robustness of the Tennant Creek sets. That issue is still unresolved, but I can assure you the corporation is working hard to fix that.

Mr DUNHAM: Are they appropriate for the site? Given that I commissioned them, I will accept the responsibility. However, the question I am asking is: are they an appropriate type and configuration, given that you have great differences in your energy source?

Mr K WOOD: That is a question we are asking ourselves. They are a great resource to have. It may ultimately end up they are in the wrong spot. They may need to be at Alice Springs rather than Tennant Creek. We are completing some plans now, but they certainly will not be wasted. However, there may be some changes to the generation configuration ...

Mr DUNHAM: There are no problem with the Yulara sets – the same sets?

Mr K WOOD: The Yulara sets seem to be working much more efficiently. They are sourcing their gas from the other field and it is, frankly, not a problem. Tennant Creek has had a number of problems, and the community is really getting to the stage where it has had enough.

Mr DUNHAM: Have they ever! I assume they are ringing you mate, because they are ringing me.

Mr K WOOD: We have a very effective local member, I can tell you that. I certainly am talking to them regularly.

Mr DUNHAM: No, I heard that the bird strike had resulted in a problem to one of the generator sets. I did not think it was one of the CATS actually, I thought it was set 5 or 6.

Mr K WOOD: I do not believe the bird strike caused the problem, but there have been a number of problems with the sets. That was an unrelated issue.

Mr PHILIP: Mr Dunham, just to add to what Kim Wood had to say, we have coming to our next board meeting on 29 July a generation strategy that will have us looking extremely closely at the requirements of Tennant Creek and Alice Springs, in particular. We would expect to be fairly decisive about how we implement the recommendations of the policy if the rest of the board accepts them.

Mr DUNHAM: Are there any problems with set 7 at Channel Island? Will they have been all ironed out?

Mr K WOOD: Set 7 has had a number of failures since it has been installed - not an extensive number but it has had four or five failures. I have some details here if you would like me to bore you with them.

Mr DUNHAM: The early problem was diagnostic, and I suppose what I am asking is: are there any problems; do we know what those are; and, have we fixed them?

Mr K WOOD: It is currently experiencing a higher level of vibration than we would like. That is the subject of some discussion with the manufacturer and a third party. We are also attempting to commission to have a look at the set. The set is running adequately but, I guess, any turbine with an increased level of vibration is something that should be looked at by the organisation. We should ensure we find the solution, and we are certainly endeavouring to do that.

Mr DUNHAM: I do not have many more. There was some significant work done – well, I do not know if it was significant but it took some years – on tidal generation work in Aspley Strait. I wonder whether this technology is available. I know that there are several sites for aquaculture around the Top End coast and they are looking, coincidentally, for sites with high tidal movement, which could be a good adaptation for this technology. I am wondering if at Port Hurd, for instance - or any of the other sites - you could be looking at this technology as a power augmentation for conventional generation.

Mr K WOOD: We have commissioned the Centre for Energy Research at the university to produce a strategic plan for renewables for us. My understanding is that they have quite a bit of experience with almost all of the available technologies. Around September this year, we expect to receive a strategic plan that will take us through to 2010 for renewables. Once we receive that, we expect to workshop it with local industry to see if there is local competencies to build some of this plant for us over time. It may include tidal, it may not. I know we have the tides up here to do that, but what we are looking at doing is not being at the bleeding edge of technology. The corporation is interested in being as commercial as possible with any renewable program, so it may or may not include tidal, but we have not seen even a draft of the plan to date.

Mr DUNHAM: Do you want to talk about hot rocks?

Mr G WOOD: Supplementary to the member for Drysdale's questions, one is: what is the latest on wind generation, and if you are going ahead with it where would it be installed? My second question is the one the member for Drysdale mentioned, hot rocks, or geothermal technology. Is the Power and Water Corporation at least willing to look at that as an alternative renewable source of energy?

Mr K WOOD: Through the Centre for Renewable Energy at the university, we are involved with a wind turbine study at Tennant Creek, which appears to be the only place in the Territory where there is sufficient wind to make wind generation viable. My understanding is, early advice from Wolfgang Meike at the University Centre for Renewable Energy is that we have some geothermal activity in the Territory, but it is not sufficiently hot enough to create the superheated steam we may need. I am happy to take that question and put it again to the Centre for Renewable Energy to see if there is some further work to be done there.

Mr G WOOD: I delivered a speech on it in Alice Springs in the adjournment debate, and there was work for the Australian National University. I do not have the professor's name here, but he did identify areas in the Mataranka/Katherine basin which he showed had temperatures round about the

225°C to 245°C, and he believed there was the right temperature there.

Mr PHILIP: If I could add to that, we are following the geodynamics well in South Australia. It is a first. It is a very deep well, and that will be a good pointer to how robust geothermal energy might be in the Northern Territory. I am very glad it is them spending the money on that well and not us, because it is some \$12m, I think.

Mr G WOOD: The advantage, if it is any use in Mataranka/Katherine, is that we have the water.

Mr CHAIRMAN: Mr Wood, could we keep it to questions and not little chats. Are there any further questions?

Mr DUNHAM: I have one more question. Given that the government is committed to agreeing with the Kyoto protocols, could you tell us what the Australian national sign up would cost the Power and Water Corporation?

Mr K WOOD: I do not believe we can answer that question.

Mr DUNHAM: I do not mind you taking it on notice. Essentially, what I am asking is, the current government has said they are committed to the Kyoto principle. I know it is a national signatory that is required. I am asking you what would be the effect on us as a Territory, and you particularly as a corporation, if Kyoto principles were fully ...

Mr K WOOD: Do you want to put that one on notice?

Mr DUNHAM: Yes, I do not mind if you take it on notice.

Question on Notice

Mr K WOOD: I can give you a brief response now which may or may not be sufficient. We currently burn natural gas in our four major centres of generation, which is at least twice as clean as coal-fired stations. The question mark is: would the Territory be required to do anything different than it is doing already compared to the rest of the generation plant in Australia? We are probably amongst the cleanest generation establishment set-ups that exist in Australia. If we were required to reduce our CO₂ emissions then there would be a cost. I guess the question is: would we, given that we are a very efficient generator, a very clean generator today?

Mr DUNHAM: All I am asking is: I do not know if there will be an impact, but could that modelling be done, and maybe it is a risk assessment thing, but if the national government did sign up, what impact would it have on our costs here?

Mr K WOOD: Yes, we will take that on notice.

Mr DEPUTY CHAIRMAN: For the purposes of *Hansard* that will be question 10.2.

Dr LIM: Mr Deputy Chairman, through you, a couple of local member questions in my electorate of Grotorex. Talking about clean generation, several houses along Range Crescent had reason to complain that the paintwork in the backyards has deteriorated as a result of what they perceive to be clouds or whatever coming across. I drew attention of that matter to your staff in Alice Springs. Has that been resolved, and how has it been resolved?

Mr K WOOD: The effect on the paintwork may be related to particulants or pollution from the power station itself, and there is every likelihood that that is the case from what we can see in our investigations. We have a proposal to add a further eight to 10 MW to Alice Springs' generation

capacity over the next 12 to 24 months. What we intend to use for that augmentation is clean burning, gas-fired turbine technology which will significantly reduce both the noise and the particulant pollution that these nearby residents are seeing. We still have pretty much unresolved the site that this generator may go to. We may elect to, in fact, remove that generation from its proximity to those residents and use the new gas turbine as base load generation, so there will be less firing up of these sets that are currently causing pollution. My understanding is they inject some diesel into the turbines to start them and then run them on gas, and it is that starting issue that causes the pollution, potentially. The board has approved the investment in Alice Springs and it should make a marked difference to residents.

Dr LIM: Is there going to be anything done for those residents who are now affected?

Mr K WOOD: We do not have any plans at this stage. Normally, if the resident believes the corporation has affected them, we have a very experienced lady who handles insurance claims and we will be happy to talk to those residents to see if there is a case.

Mr DUNHAM: Where would you site that base load generator?

Mr K WOOD: There have been a number of options. We are a little short on space at the existing plant. We have had some discussions about Brewer Estate as a possibility if we can come to terms with the owners there. There are two current options, and there may be a third or a fourth.

Dr LIM: The other one is about the old Eastside and the outages it has suffered twice in the last 12 months of quite substantial duration. There is a discussion, let us say, about potentially 1400 trees that may be affected in terms of significant trimming, removal, replacement. The cause of concern, obviously, is the significant trimming and replacement costs. Those trees in the old Eastside are very old trees. Some of them are decades old, and to replace them with a tiny shrub is not going to replace the shade that that very shady suburb has. I raised that at a briefing recently with your staff, and I wondered what progress has been made and how much discussion has occurred between the Power and Water Corporation and the Eastside Residents Association.

Mr K WOOD: It is a good question. There is no doubt that tree trimming is one of the most contentious things we do, as any utility does around the country. It has always been contentious and always will be. The problem is that powerlines and tall trees do not mix very well. The other dilemma is that undergrounding is very expensive in established suburbs and typically only used where there are things like cyclone risk and significant outages caused by things other than trees. It is our organisation's view that undergrounding is not commercially viable for that area. I can assure you that no significant trimming will occur without lots of discussion with residents. I know how emotional this issue is.

At the end of the day, though, there are only two solutions. One is aggressive trimming; the other one is replacement of those trees with a more suitable tree. Getting residents to understand that is the key thing. If we rushed in arbitrarily and did some damage, we would hurt ourselves badly and destroy our reputation. So getting the confidence of the residents that we can find an appropriate species that does preserve their visual amenity is the important thing, and we will work hard to do that.

Dr LIM: It is not just the visual amenity. The old Eastside has very tall, shady trees, and living in the centre of the desert, shady trees are obviously a significant measure of heat control in our suburbs. May I suggest to you also that the old Eastside is probably the only suburb in the whole of Alice Springs that has overhead power lines. Every other suburb in Alice Springs has underground power. It would be something that the whole town would aspire to, particularly the old Eastside.

Mr K WOOD: A closing comment is that the issue is unresolved, and it is probably fair to say we have not ruled out any options yet, but undergrounding would appear to be quite uncommercial.

Dr LIM: Unless a CSO can be obtained from the government. I did address this with the Treasurer the

other day, and, whether PowerWater considers that option, maybe then the exercise could be done to work through the financials. If that issue is not even considered at all, then it is out of the equation all the time, and that it is something that I will be putting to the government.

Mr K WOOD: I understand your level of concern, and I am happy to take that back to the organisation. Given our recent experience with undergrounding, we may well be able to cost it and put a proposal. If it is not too onerous for us to do so, I will be happy to consider that.

Dr LIM: Thank you.

Mr CHAIRMAN: On notice?

Dr LIM: You can let me know at a future date. Do you want to take that on notice as a question, Mr Chairman?

Mr CHAIRMAN: If you would, member for Greentree. Perhaps you would like to clarify it.

Question on Notice

Dr LIM: If PowerWater Corporation could provide me with a costed implementation of an undergrounding of power in the old Eastside.

Mr CHAIRMAN: Thank you. That is question 10.3. Member for Nelson, do you have any questions.?

Mr G WOOD: And could they do that for the Nelson electorate?

Dr LIM: It is only a small section of my electorate.

Members interjecting.

Mr G WOOD: You say that you will be granted the pipeline for the LNG plant. You are basically getting a piece of infrastructure, for which you will receive money for the water that goes through it, free of charge. Is there any requirement to pay anything back to the government for that pipe? You have, basically, free revenue, you just pump the water through it and the infrastructure is there.

Mr PHILIP: I will start, and perhaps Andrew Macrides could finish, because I am not an accountant. It is certain that we get granted the pipeline, but that needs to be brought into our books as revenue. In the ordinary course, if we did not have tax losses, we would pay tax equivalent on that additional revenue. That is one aspect of it. The other aspect is that we will charge a commercial rate for the use of that pipeline by ConocoPhillips. It is really a government issue as to how much of the cost of the pipeline they recover in terms of its original construction costs and how they seek to recover that. Ordinarily, they would do that through pricing the serviced block of land. That would be one way of doing it. From our perspective, our accounting standards require us to bring that asset in as revenue and, hence, the inflated profit figure for this financial year.

Mr DUNHAM: The same as a subdivision?

Mr PHILIP: The same as a subdivision.

Mr G WOOD: I was going to ask you about subdivisions. I was going to ask about Girraween Estate. There have been some problems with Girraween Estate and the supply of water from bores. The developer did extend the water into that area, and there were some issues about how much local

residents should pay. That is all finished. I received a reply from the minister regarding the Girraween Estate, and extending the water supply again, and I got a figure back estimated at \$9000 to \$12 000 per property, which is quite substantially higher than the original quotations. Some people did ask me: 'Well, if we pay the \$9000, isn't the pipeline ours?' I know there would be questions of maintenance but, to some extent, if they are paying full tote odds for the pipeline, how is it yours?

Mr PHILIP: I do not know that example, I know I cannot answer effectively. I am not sure if Andy or Ken, would you?

Mr MACRIDES: I can only talk in relation to the gifting of assets to the corporation and the requirements of accounting standards which say, basically, that when you get an asset, you have the asset valued, and whatever that value is, you bring it in your books as revenue. That revenue, because there is no cost associated with it, goes straight to your bottom line as profit, which means at the end of the day you will give half of that profit back to government as a dividend. If it were not for the fact that we have accumulated tax losses, we would be paying tax on it. As the chairman said, we also then collect revenue from the use of that pipeline on a commercial basis. That revenue, though, essentially covers the cost of maintaining that pipeline in perpetuity. The revenue that we raise from the pipeline itself covers the maintenance cost of that pipeline.

In relation to Girraween, I cannot talk specifically about that issue, but we obviously have an extension policy. In the same way that we have one for power networks, we have a water and sewerage services extension policy which operates on similar lines to the way that the DSEP policy operates all the networks side of our business.

Mr G WOOD: One of the problems in the Litchfield Shire is that you have these spaghetti lines - as they call them - where years ago the water main would finish at point A and each householder sent a black trolley line to their house, whether it was 5 m away or 500 m away. We have quite a large number of those systems working in the Litchfield Shire and a lot of them starting to deteriorate with the movement of gravel through the pipeline, or the pipeline is just poor quality and starting to split. For that to be overhauled - and admittedly they are all private lines, but they will be wasting water and there is all sorts of problems - would that require a CSO, not some assistance directly from PowerWater?

Mr DUNHAM: It could be either.

Mr G WOOD: It could be either?

Mr K WOOD: Possibly. It is a hard question to answer but, given the distances involved, quite a problem.

Mr G WOOD: It is a problem, it is not going to get any better.

Mr K WOOD: No. Going back to an earlier response I gave to Mr Dunham, it is important that the corporation publishes, in a reasonable time frame, its intentions in extending services in the rural area, to allow residents out there to be able to make their own decision - perhaps better informed - as to whether they need to replace their own infrastructure or whether it may be coming their way in a reasonable time frame. I expect any extensions in the rural area will go over a number of years, and may be not as extensive as people may want. It is one of the issues the organisation has not communicated well to date.

Mr G WOOD: There used to be the WSSEP scheme there. Does the WSSEP scheme still exist?

Mr K WOOD: Yes.

Mr G WOOD: On a more serious note, the issue of risk. There are two issues that concern me. One is the placement, of course, of power poles in positions where they get run into and people die. It always

seems that the power poles tend to be right on the edge of the bend. Does the Power and Water Corporation look at the risk of where some of its infrastructure goes in relation to vehicular movement?

Mr K WOOD: What we attempt to do is to follow Australian standards, or best practice, in siting of infrastructure. Given the nature of the infrastructure, often it is on an easement adjacent to a busy road, it is not always ideal or perfect in its location. However, I can assure you that we are attempting to identify best practice or Australian standard procedures in where this infrastructure is sited.

Mr G WOOD: The second question is a more serious one. On some Aboriginal communities, power lines become points of young people or older people committing suicide. Have you been looking at that issue, at ways of trying to reduce the accessibility of power lines to the young people.

Mr K WOOD: I visited Papunya earlier this year after a suicide off one of our water towers, and asked the town clerk specifically whether he thought we could have done better. A young chap had jumped off a water tower railing about six foot off the ground, with a rope around his neck and had, essentially, strangled rather than hung himself. The town clerk assured me that no matter what we had done - given that this was a fence that could be climbable by a young guy or girl. He said: 'Kim, you probably could have done very little to stop the chap climbing the fence'. There was little we could have done to secure the tower. We have anti-climbing devices on most high infrastructure bits and pieces. Having seen the water tower and the fence, it would be difficult to see what we could do to secure it or our poles from various agile young guys or girls. I walked away thinking that perhaps the solution does not lie in physical security but maybe in other means that are outside of PowerWater's control.

Mr G WOOD: On consumer debts - it has a section on write-offs, \$476 000. Is that debts electricity, water, sewerage charges that you could not recover? Is it mainly that?

Mr K WOOD: Yes, it is.

Mr G WOOD: How are you going at reducing that? There has been some talk in the news that you are going to charge interest or whatever it was on bills not paid. How are you reducing that cost?

Mr K WOOD: We have elected not to pursue interest on overdue amounts. I have had some experience in utilities in other places where punitive measures do not seem to be as effective as a high level of outgoing calls. There is a range of payment options and perhaps some sympathy and understanding for what causes people not to be able to pay their debts, and determining those who cannot pay versus those who will not pay. I am very interested in our corporation being more proactive, making more outgoing calls and determining really what people's situations are rather than just turn off the water or the power.

Mr G WOOD: Would you be looking at perhaps extending the system that is on that to some Aboriginal communities, for instance, the card system? Is that a possibility in urban areas?

Mr K WOOD: The card meters seem to be reasonably effective on the communities at this time, and Andrew is telling me it is an existing option now.

Mr G WOOD: If you look at the land use objectives for the Darwin region, all the sewerage facilities either now or in the future put sewage waste into the harbour. Does PowerWater consider any other possibility, or is there new technology which will allow this water not to be discharged into open, natural waters?

Mr K WOOD: We have further upgrades planned at the treatment plant at Ludmilla over the coming financial year to improve the quality of the effluent. We are currently undertaking a range of environmental investigations to understand, I guess, and refine the current strategies, including a biodiversity study at East Point and some hydrodynamic modelling of Darwin harbour.

We also have on our planning horizon a major upgrade to the quantity and the quality of the treatment of the Ludmilla Waste Water Treatment Plant. There is no doubt the regulatory environment will put us under increasing pressure to improve our current practices.

Mr G WOOD: Are there alternatives for releasing water into the harbour? I know we use water for the Marrara oval and the golf course, and that has its problems as well with high nitrates. You also have problems, for instance, if the proposed Weddell town goes ahead – the siting for the sewage farm is actually downstream from the Blackmore aquaculture project, and with the tide movements you could be getting polluted water into the aquaculture farm. Are there options that do not allow the release of the water?

Mr K WOOD: It is unlikely that there will be an economic solution that will totally stop treated effluent flowing into the harbour. It really depends on the community's ability and desire to pay. There is no way that there would be sufficient demand for treated effluent in the Darwin area, which means that some of our treated effluent has to go somewhere. I guess the question is: to what level is the treatment, how good is that treated water and will it have an impact on the wildlife in the harbour? Today, we can determine no impact at all. There have been a number of studies done, one involving NTU, and we can find no detectable impact on the shellfish. Having said that though, as I said before, I believe there will be increasing pressure on us from environmental regulators to improve the quality of the effluent.

Mr G WOOD: I thank PowerWater for coming out and having a forum in the rural area regarding changes to the insulators on high voltage lines. However, there was also discussion about the influence of the new bore field at - I think it is called the East Howard bore field - and I still get questions asking me: 'Why is my bore dropping because of the water being taken out of that East Howard bore field?' Is that PowerWater's job to keep monitoring it, or will it be DIPE's job to monitor water usage in that area?

Mr K WOOD: Resource allocation and issue of extraction licences is DIPE's issue. They have licensed us for the Howard East bore field, stage 1. The issue out there appears to be that there are over 4500 private bores in that area. The number has increased substantially over recent years and private bores in the rural area are currently unlicensed. Many of them are shallow and many do run out of water when it gets dry.

Mr G WOOD: What do you mean by unlicensed?

Mr K WOOD: Well, I understand that private bores at the moment do not require licensing.

Mr G WOOD: They require permission to have a bore and they must be registered.

Mr K WOOD: That is right.

Mr KIELY: A point of order, Mr Chairman! Could we perhaps seek another briefing for these things. I am looking at the time and thinking that this is more like a briefing rather than an interrogation of the budget.

Mr G WOOD: We are allowed to ask PowerWater about matters of policy. They intend to put 16 bores in this area.

Mr KIELY: We have parliament sitting at 5 pm and I would like to get the report under way.

Mr DUNHAM: I just made an indication that I would be happy to finish earlier, but it is your prerogative, Gerry.

Mr KIELY: It is your prerogative, member for Nelson.

Mr G WOOD: At the ...

Mr CHAIRMAN: Again, member for Nelson, we have been through this before.

Mr G WOOD: That was my last question.

Mr CHAIRMAN: Thank you.

Mr G WOOD: Bar one, and if you let me have bar one, it is not that important.

Mr CHAIRMAN: Certainly. Please ask it.

Mr G WOOD: Are you still sponsoring Palmerston Cricket Club?

Mr K WOOD: No.

Mr G WOOD: Thank heaven. Would you sponsor the Southern Districts Cricket Club?

Mr K WOOD: We actually have a process to assess sponsorships. I believe we are sponsoring a wide number of worthy causes, and we would be very happy to entertain your request.

Mr WOOD: It is a worthy cause. Thank you, Mr Chairman. See? Patience, member for Sanderson.

Mr CHAIRMAN: Thank you, member for Nelson. We would like to thank you gentlemen for coming in here this afternoon. Your presentation was most helpful. As I said, you are part of an historic process. To Neil, Kim and Andrew, thank you very much. That concludes the Estimates Committee deliberation of matters in respect to PowerWater.

The committee adjourned.
