B.3.

Prior to 1 January 2014, Alan Tregilgas was employed by DCM in the role of Electricity Reform Adviser, on a six month Executive Contract of Employment through to 31 December 2013. The role of Electricity Reform Adviser was not dedicated to the structural separation project until 25 September 2013 following the Government's decision to proceed with PWC's structural separation.

All Alan Tregilgas' employment costs since 25 September 2013 are being counted as costs associated with PWC's structural separation.

Prior to July 2014, Alan Tregilgas held the position as Under Treasurer, Department of Treasury and Finance on an Executive Contract of Employment commencing 6 September 2012. He was also employed as the Territory's Utilities Commissioner between 2000 and 2009.

B.6.

Costs incurred to date by NewCo (DCM), DTF and PWC, along with the latest full year establishment costs and the ongoing additional annual costs are set out in the following Table.

PWC Structural Separation Costs, estimates	**Spend to 31 March 2013** ($000s)	**2013-14 establishment costs**[(a)] ($000s)	**2014-15 add'l annual ongoing costs** ($000s)
Board	**0**	**150**	**700**
CEO, CFO and support	**124**	**250**	**1,300**
Additional staff	0	0	1,000
Specialist external advice			
legal	150	750	
commercial advice & project management	270	750	
legislation and executive search	205	300	
technical advice & financial modelling	0	350	
Total specialist external advice	**2,150**	**2,150**	**400**
Corporate costs (branding, comms, etc)	15	250	600
TOTAL	**764**	**2,800**	**4,000**

Source: New Corporations Unit, Department of the Chief Minister; See PAC Submission 24 April 2014
(a) As approved by the Treasurer.

B.7.

Risk identification and mitigation is an integral part of the ongoing implementation process. The risks referred to here relate to the possibility that any of the implementation objectives may be violated or missed.

Besides the usual project management objectives (of completing the separation 'on time' and 'within budget'), these implementation objectives are that PWC's structural separation be achieved:

- at no inconvenience or disruption to end users,
- consistent with the fair and equitable treatment of employees,
- in a manner supportive of improving competition and efficiency through regulatory reform, and
- last but not least, in ways that involve no net cost to Territory power consumers.

Separate documentation in relation to any such implementation risks and mitigation strategies is not available at this time.

B.8.

The organisational structures that have been provisionally approved for GenCorp and RetailCorp are provided as separate documents accompanying these answers. These structures are subject to ongoing consideration including in consultation with affected staff. It is requested that these detailed charts be treated as confidential at this time.

B.9.

See answer provided in B.6.

B.10.

Including expenditure incurred prior to 1 January, the total expenditure incurred by DCM on NewCo's operations through to 31 March 2014 is $205,000. This is the sum total of DCM's contribution to PWC's structural separation costs.

NewCo is not responsible for all expenditure incurred by the Northern Territory Government on PWC's structural separation. Structural separation expenditure is also being borne by PWC itself and by DTF. Total expenditure on structural separation through to 31 March by PWC amounts to $435,000 and by DTF amounts to $124,000.

This expenditure involves the incremental (or additional) costs directly arising as a result of planning for and implementing PWC's structural separation. These costs do not count the use of existing staff or resources (unless those positions have been backfilled), nor the costs of regulatory reform or business improvement.

B.11.

The answer provided at B.6 shows the current estimates in relation to ongoing structural separation costs.

The corporate costs component includes an allowance for additional user charges yet to be negotiated that may be necessary to recover any additional spend by the ongoing PWC on IT systems essential to the efficient provision of shared services to the two new corporations.

B.13.

On behalf of PWC's power retail business unit and the future RetailCorp, NewCo has had initial negotiations with the Northern Power (NP) consortium, the proponents of the proposed 60MW power station which would be constructed at Weddell to compete with GenCorp.

NewCo is not privy to NP's arrangements regarding the site of the proposed new power station at Weddell.

<u>B.14.</u>

The loss of market share by GenCorp to new generators like NP will only reduce the costs of wholesale power paid by power retailers in the Darwin-Katherine market.

Any of GenCorp's generation assets made redundant by the entry of third-party generation competitors will be restricted to those generation assets that cost more to operate in order to produce power than the newer generators. Most of these redundant generation assets reflect poor investment decisions by past Boards and management of PWC. Writing off the value of these redundant assets is generally accepted accounting practice in such circumstances. Writing off the value of these assets means that GenCorp's customers are not expected to continue to bear the cost of past investment mistakes by PWC. As a result, GenCorp's costs of producing power is not expected to rise as a result of entry by new generators. The writedowns are notionally borne by taxpayers, but these valuation losses have no meaning for or impact on taxpayers as they involve sunk costs in that they involve values that are not recoverable by taxpayers.

Any of GenCorp's gas take that is made surplus to its requirements is expected to be sold instead by PWC's Gas Sales Unit to the new generators taking market share from GenCorp. These alternative sales are permitted under PWC's existing gas supply agreements. PWC's take or pay obligations will be unaffected. As a result, GenCorp's costs of producing power is not expected to rise as a result of entry by new generators.

Plant which is run at its optimal efficiency level from a gas usage perspective often produces higher cost power than plant that is able to use less gas per unit of power output. Hence, plant running at optimal efficiency from a narrow gas usage perspective does not imply that such plant is producing power at least cost or that it is being dispatched in its economic or least-cost merit order. Acceptance of this fallacy has seen PWC's costs of generating electricity generally being higher than it should have been.