

**Madam CHAIR:** I welcome everyone who is listening, or trying to webstream. I believe they are having small technical difficulties, but you can follow us on Twitter and keep up to date with everything that is going on this morning. We hope you join us shortly if you are on the web once these difficulties are resolved.

Good morning everyone. As Chair of the committee I declare this public hearing of the Government Owned Corporations Scrutiny Committee of the Legislative Assembly of the Northern Territory open and I extend a welcome to everybody present.

On 28 August 2014, the Assembly appointed this committee to examine and report on the activities, performance, practices and financial management for the Power and Water Corporation, Territory Generation and Jacana Energy with reference to those corporations' Statement of Corporate Intent.

As in previous years, membership of the Government Owned Corporations Scrutiny Committee is the same as of the Public Accounts Committee. Other members of the Assembly may participate in the public hearings provided the composition of the committee never exceeds three government members, two opposition members and one Independent member, and a quorum of three committee members is maintained.

To assist Hansard I will advise the membership of the committee at the commencement of each session and I will also acknowledge for the record when there is a change of membership of the committee throughout the hearings.

As in past years, the committee asks that opening remarks are restricted to the maximum of five minutes. I will then invite members to ask questions on the opening statement. I will then invite policy questions regarding the corporation's 2014-15 Statement of Corporate Intent.

In accordance with section 13 of the committee's Terms of Reference, members are reminded that questions shall be directed to the board chair in the first instance. The board chair may refer a question to an officer who may then be directly questioned on subsequent questions on the same subject, unless the board chair chooses to take the question. I also note that in answering any questions, officers shall not be required to comment on policy matters or to give an opinion.

Witnesses should be aware that evidence given to the committee is protected by parliamentary privilege; however, I remind witnesses that giving false and misleading evidence may constitute contempt of the Legislative Assembly.

I also note that all the microphones on the tables are normally on, although they do have an off switch if required.

When a board chair indicates they will provide an answer to a question, or part of a question, at a later time I will request the member who raised the matter to clearly and concisely restate the question. I will then ask the board chair if they accept the question. If it is accepted, I will allocate a number which will identify that question. Corporation officers should take note of the question number and ensure it is clearly identified in any response given by the board chair during the public hearing process or at some later date.

Answers to questions taken on notice must be provided in writing to the Clerk Assistant Committees by 29 October 2014. The Assembly has given the last date for the publication of answers on 30 October 2014, and the committee cannot receive answers after this time. As in the case of estimates hearings, questions taken on notice and the answers received will be published on the Assembly's website.

For the purposes of the official recording of the *Hansard*, I request that board chairs introduce those officials who are accompanying them at these hearings. As well, when a board chair refers a question to an officer, that officer needs to clearly identify themselves each time for the *Hansard* record.

## **POWER AND WATER CORPORATION**

**Madam CHAIR:** The committee will now proceed to consider the activities, performance, practice, financial management of the Power and Water Corporation.

I welcome the Chair of the Power and Water Corporation Board, Mr Ken Clarke. Please introduce the representatives of the corporation accompanying you today.

**Mr CLARKE:** Thank you. Good morning, members of the Government Owned Corporations Scrutiny Committee. My name is Ken Clarke and I am here today as Chair of the Power and Water Corporation. I would like to introduce the Chief Executive of the Power and Water Corporation, Mr John Baskerville; Lisa Watson, the Deputy Chief Executive; and Djuna Pollard, the Senior Executive Manager Strategy, Economics and Regulation.

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

**Mr CLARKE:** I would, thank you very much.

The 2013 year was one of reform and consolidation for the Power and Water Corporation. Many of the changes undertaken were substantive and required a considered assessment of the corporation, its goals, practices and business objectives. These challenges were met head on and have set the scene for the future.

Organisational realignment came with structural separation. This Northern Territory government initiative involved considerable transformation of Power and Water and required a strong commitment from staff to ensure its smooth implementation. Legal separation was achieved and Jacana Energy and Territory Generation were able to commence operation on 1 July 2014.

There is still much to do to finalise separation and staff continue to work hard to achieve this. The corporation supports this structural change as an important step towards improving efficiency and minimising the electricity pricing process.

Focusing on delivering safe, reliable and least-cost services to customers continues to be the central focus for the Power and Water Corporation.

Delivering essential services across the vast Northern Territory landscape in one of the harshest climatic zones in the world is a demanding task. Things do not always go smoothly. Extreme temperatures and severe conditions place incredible stress on equipment, and occasionally faults occur. The system black event of 12 March 2014 was one such outcome. While regrettable, the event provided the opportunity for much valuable learning. In response, the corporation has made procedural changes and brought forward infrastructure upgrades in order to prevent similar events. From the lessons learnt, a strong foundation is now laid for a more reliable electricity supply in the future.

Structural separation may have raised concerns in some circles about the ability of the three corporations to work together should there be a crisis event. On Thursday, 11 September 2014, interruption of gas supply from ENI's Blacktip gas platform to the Channel Island Power Station provided an opportunity to find out.

The Power and Water Corporation's power networks and system control worked closely with Territory Generation and Jacana Energy to limit the impact to customers of the gas flow issue. Success in this regard is more remarkable in that the CEOs of the other corporations had been very recently appointed and were new to the Territory.

Power and Water extends appreciation and thanks to Tim Duignan and Stuart Pearce for their professional and cooperative contributions during that crisis. This stands us all in very good stead as we approach this year's cyclone season.

The interruption to the gas flow was an unforeseen event that had the potential to cause far more disruption than it did. As well as cooperation between the corporations, there was another important factor. It is a testament to the corporation's strong relationships with its major customers that during the event many powered up their own generation or cut back their usage to reduce demand on the network. Many of these customers did so voluntarily, and all did so willingly. Their actions helped preserve gas in the line and facilitate shorter power interruptions spread across the Darwin/Katherine region. Power and Water extends its sincere thanks.

Looking ahead, it is clear that northern Australia is set to grow, therefore consideration must be given to how to use our valuable natural resources as the population subsequent development continues to expand. Specifically, the supply of quality water to residents and businesses is under the spotlight. Power and Water has developed the Darwin Regional Water Supply Strategy to focus on this issue. Within that, the Darwin Living Water Smart Program plays a critical role in keeping a lid on water supply costs for the community, deferring the need for additional infrastructure investment.

To put it in perspective, Darwin households currently use more water than households in Brisbane, Sydney and Melbourne combined, and that use is increasing. We can all do better. I encourage everyone to participate in Power and Water's Living Water Smart Program and support the goal to reduce water use by 10 GL per year over the next five years. This equates to around 25% of our total consumption.

Finally, Power and Water continues to develop its strategy around long-term energy supply for the Northern Territory. Gas sale opportunities have the potential to greatly benefit the Territory and drive further economic development. While the changes over 2013-14 have been considerable, the corporation has responded and adapted with new opportunities identified and embraced them. Consequently, Power and Water's future is full of prospect and possibilities.

A new Statement of Corporate Intent has been drafted. This outlines the corporation's goal and aspirations for the future.

I take this opportunity to congratulate Power and Water Corporation's management and staff on their dedication and commitment to the delivery of key outcomes and the way in which they have met all their challenges head on with determination over the past year.

The board and I look forward to working with the Power and Water Corporation in the future. Thank you.

**Madam CHAIR:** Thank you, Mr Clarke. For the benefit of Hansard, I will mention who is sitting on the committee at the current time. We have the member for Nelson, Mr Gerry Wood via video link from Alice Springs – welcome; Nathan Barrett, member for Blain; Gary Higgins, member for Daly; Natasha Fyles, member for Nightcliff; and Nicole Manison, member for Wanguri.

Are there any questions on the opening statement?

**Ms MANISON:** Yes, Madam Chair. First, with regard to the structural separation of Power and Water Corporation, we see that Territory Generation and Jacana Energy have been unable to provide a completed Statement of Corporate Intent. They say they are waiting for some final financial information to be provided by the Power and Water Corporation. How is that process going and is it complete?

**Mr CLARKE:** I might pass that on Djuna.

**Ms POLLARD:** Djuna Pollard, Senior Executive Manager, Strategy, Economics and Regulation. We are still working through that process with both Jacana and Territory Generation. Power and Water Corporation is providing shared services to both Jacana and Territory Generation. One of those shared services that is being provided is the provision of financial information, therefore that is the reason why both their Statements of Corporate Intent were issued in interim form.

**Ms MANISON:** Do we have a date on when you expect to be able to provide complete financial data so they can provide complete and final Statements of Corporate Intent?

**Ms POLLARD:** At this stage, we are working to 31 January 2015 to have financially separated information, so all three entities - Power and Water, Jacana and Territory Generation - are able to produce audited financial statements 2014-15 financial year.

**Ms MANISON:** Mr Clarke, with regard to gas sales you mentioned in your opening statement. Is it Power and Water's guidance you are getting at the moment still that gas is going to be separated from the Power and Water Corporation just like generation and retail have been?

**Mr CLARKE:** There has been no mention of that.

**Ms MANISON:** With regard to gas and how things are going at the moment, do you have a surplus supply of gas at the moment?

**Mr CLARKE:** Yes, we do.

**Ms MANISON:** With regard to that gas, are you looking to sell it?

**Mr CLARKE:** Of course.

**Ms MANISON:** With that, have you entered into negotiations for that gas with any other corporations or buyers out there?

**Mr CLARKE:** Yes, we are constantly looking for markets and we are having discussions with a buyer.

**Ms MANISON:** Would you be able to tell us who that buyer is?

**Mr CLARKE:** I do not think I can. No, in fact, the people we are currently talking to is quite a lot longer than I had envisioned and what I was referring to as a major user.

It would be okay to discuss this? It would be the other ones as well, I would have thought.

The major one is Northern Power. We are also having discussion with Darwin LNG. There are a number of other ones. I am not sure what the sensitivity is, more for them than for us to be quite honest.

**Ms MANISON:** With regard to the Northern Power - this is the Weddell Power Station, the 60 MW power station that is getting established?

**Mr CLARKE:** That is correct, yes.

**Ms MANISON:** Have you finalised a deal with them to sell them gas?

**Mr CLARKE:** No, we have not.

**Ms MANISON:** That is still under way at the moment. How much surplus gas are we talking about that Power and Water Corporation has at the moment?

**Mr CLARKE:** At the moment - I will get that number. I think 4 PJ is the accumulated back gas at the moment. We will get that. I will come back to that if you would not mind.

**Ms MANISON:** You are looking to sell all of that gas out in the market?

**Mr CLARKE:** Of course, yes.

**Ms MANISON:** What is the process you are going through to attract buyers for that gas? Is it something where you are going directly to potential buyers, or do you have expression of interest processes out, or are people approaching Power and Water Corporation? How is that process working at the moment?

**Mr CLARKE:** All of the above. The one that is probably the most exciting is to do with the pipeline south. That is looking like quite a real probability now rather than a possibility. But there are others. There are many energy users within the Northern Territory - miners in particular who want access to the gas if they are on a rig. We talk to these on a regular basis.

**Ms MANISON:** Granted that Power and Water Corporation is a government-owned corporation, what transparency are we going to see around those gas sales? How will people see how that gas is being sold?

**Mr CLARKE:** That is an interesting point because there is now gas on gas competition. The issue is about how much information is exposed to the public which is yet to be determined, to be quite honest.

**Ms MANISON:** That is all my questions at the moment before getting into the financial statements.

**Madam CHAIR:** Are there any further questions on the opening statement?

**Mr WOOD:** Madam Chair, could I ask a question?

**Madam CHAIR:** Yes, of course.

**Mr WOOD:** Mr Clarke, in relation to you saying the role of Power and Water was to minimise prices paid by residential and small to medium customers to ease the cost of living pressures on Territorians, you said in your opening statement in your executive summary of your Statement of Corporate Intent that you do that by not collecting dividends. If you are not collecting dividends, is that a way around being more efficient?

**Mr CLARKE:** You better refer to me - you mean not paying dividends, I presume, is it? On which page is it?

**Mr WOOD:** You say - I will see if I can find for you.

**Mr CLARKE:** Oh, I know what you are referring to.

**Mr WOOD:** On page 4 of your executive summary. You gave it a mention when you said the role of the PWC was to try to become more efficient ...

**Mr CLARKE:** Yes.

**Mr WOOD:** ... to reduce the price burden on residential customers. It said, basically, you do that by not collecting dividends. But, if you do that, is that not saying it is a short-cut version of minimum prices rather than efficiency?

**Mr CLARKE:** Yes, I do not actually have the bit about dividends. Can you see a reference to dividends?

**Mr WOOD:** It is the fourth paragraph.

**Mr CLARKE:** Okay, yes. This follows from the then Treasurer's decision to reduce the revenue cap for the networks. The Treasurer said at the time that he wanted to keep the electricity prices down, and the way he was going to do that was to forgo dividends being paid to the government.

**Mr WOOD:** Right. But, does that let you off being more efficient, which is the theory behind breaking up the original Power and Water into three GOCs - so you become more efficient, and therefore, reduce the increases in prices?

**Mr CLARKE:** No, in fact, it is going to put us under great pressure. One of the objectives was, in fact, to put us under more pressure. This reduction in the revenue cap the then Treasurer imposed is in addition to the 27% reduction in costs the Utilities Commission has built into its assessment of our revenue cap. What the Treasurer was saying was, 'We want you to go further with the cuts than what the Utilities Commission has posed. If we cannot get there, the end result is the dividends to government will be less'.

**Mr WOOD:** Okay. In relation to gas, how did it previously work with the gas supplies to Territory Gen? The government basically bought the gas under contract from ENI. There was an internal little company – if I can call it that - that supplied gas to Territory Gen. You have taken that role as part of your responsibilities as PWC? Is that correct?

**Mr CLARKE:** Well, sort of. Now Territory Generation is a separate legal entity. Before, Power and Water was the one legal entity, so we were both the gas buyer and gas supplier to Territory Generation. It was all within the family. Now, Territory Generation is a separate organisation completely, so Power and Water Corporation is actually selling gas. It will be a contractual arrangement with Territory Generation.

**Mr WOOD:** So, when you sell gas, say to Northern Power, do you sell gas to Territory Gen ...

**Mr CLARKE:** Yes.

**Mr WOOD:** ... will the gas price be the same for both? How are you going to negotiate that price, bearing in mind, of course, the government bought the gas at a set price in the first place?

**Mr CLARKE:** The government has introduced competition. One of its objectives is to have the level playing field. But we operate as commercial organisation. Our task is to, basically, make as much money as we can from our gas sales. We will be negotiating separately with Northern Power and Territory Generation to maximise our return within the overall framework the government has set, where they want a level playing field between the competitors.

**Mr WOOD:** I am looking at the old system and the new system. Would Territory Gen more or less be set a price that would be the price of gas until the gas contract runs out? Are you saying now that price can be renegotiated by Territory Gen?

**Mr CLARKE:** That is correct, yes.

**Mr WOOD:** Which, in theory, could mean lower gas prices?

**Mr CLARKE:** It could mean lower, or I guess in theory, higher.

**Mr WOOD:** Yes. Does it also take off the responsibility - one of the concerns I have is if Northern Power come in, for instance, and buy your extra gas at surplus, then there is not so much a concern by Territory Gen that if they want to go down a path of renewables, which would mean they would use less gas, if Northern Power takes some of their retail costumers they are not left with the burden of the extra gas you are? Is that correct?

**Mr CLARKE:** Yes. The essence of competition is to get everyone to sharpen the pencil. That includes us. If we lose gas sale to, say, T Gen if they went to renewables, then we will be out there pursuing those other markets.

**Mr WOOD:** Territory Gen could go to, for instance, if Santos put gas into the pipeline – it could go to them?

**Mr CLARKE:** Yes.

**Mr WOOD:** One other thing. You had two major interruptions to power - one was the blackout and one was the gas flow interruptions. Part of the problem of the gas flow interruption was that ConocoPhillips was doing its maintenance at the same time. Has the Power and Water looked at those risks and seen whether that cannot happen again? Have they put in some control to make sure that is pretty well impossible to happen again?

**Mr CLARKE:** I will probably pass to John. The essence of an unplanned outage is that it is unplanned, you do not know when it is going to happen. Whatever contingency we put in place, if all of the things line up in the wrong way, we can still get into strife. John, would you like to address the the number of things we have done?

**Mr BASKERVILLE:** John Baskerville, Chief Executive Officer. The ConocoPhillips outage was planned for three years, so we knew about it. We did not know about the failure of the Blacktip well head. We know well in advance what ConocoPhillips are up to. In the normal situation that would not occur, but on the day Murphy's Law - both happen together.

**Mr WOOD:** Will ...

**Mr BASKERVILLE:** Gerry, we are doing a lot of work with ConocoPhillips and APA, the gas pipeline owners, behind the scene to make sure if events like that happen in the future we are more streamlined. That sort of event - we never plan for anything like that.

**Mr CLARKE:** Gerry, we have probably got a temporary problem until INPEX come on-stream. When they come on-stream we will then have another backup supply.

**Mr WOOD:** Yes, that is what I was presuming would happen. You reduce the chance of it just lining up the maintenance of ConocoPhillips as it did.

**Mr CLARKE:** Yes, we were really unlucky. It was a dreadful shame.

**Mr BASKERVILLE:** As it turned out, we had gas available from Mereenie from Santos.

**Mr WOOD:** Okay, thanks, Madam Chair.

**Madam CHAIR:** Thank you.

**Mr HIGGINS:** Mr Clarke, you mentioned in one of your answers following the opening statement, and again you alluded to it with the member for Nelson about this new pipeline the Chief Minister announced this week. You said that has given you potential with your excess gas. Do you want to expand on that? What potential we have there and what problems that is going to save us?

**Mr CLARKE:** It does two things really - more than that. First of all, it would give us the opportunity to get rid of out bank gas. That is the gas where we have a take or pay obligation. If we do not use it, we bank it. By bank, it means it is sitting there in the ground until 2032 or 2033, whenever it is, and we have access to that gas. They are relatively small quantities, though they are growing. The bigger issue is probably to do

with the excess gas. There is another quite large quantity of gas we can access at half the price of the current gas. If we can sell and get a pipeline south - because our volumes, relative to the Australian market, are relatively small. If we can get a pipeline south we should be able to sell all of our gas at a better price, and not only get rid of our bank gas, but access that cheap gas. That would mean the cost of fuel in the Northern Territory would be a lot lower and, therefore, electricity prices would be a lot lower.

#### **Statement of Corporate Intent**

**Madam CHAIR:** Thank you. The committee will now consider questions relating to the Power and Water Corporation's 2014-15 Statement of Corporate Expense. Are there any related questions?

**Ms MANISON:** Yes, Madam Chair. Mr Clarke, going to the SCI for Power and Water Corporation and the financial projections on page 17. Looking at the figures for 2013-14, can I first confirm those figures you have in the SCI are based on the current makeup of Power and Water Corporation; that is, without generation and without retail?

**Mr CLARKE:** Yes, they are.

**Ms MANISON:** Okay. Would you be able to confirm with me the total revenue for the 2013-14 financial year for the Power and Water Corporation was \$562m?

**Mr CLARKE:** Yes.

**Ms MANISON:** That is without generation and retail?

**Mr CLARKE:** That is correct.

**Ms MANISON:** Of that revenue, how much would you directly attribute to tariffs you charge customers?

**Mr CLARKE:** It is the majority of it. There is a CSO of about \$70m-odd, \$80m-odd. There were other revenue items. In that year there was an insurance claim of \$10m or so. Have we any more detail?

**Ms MANISON:** A rough figure would be about \$480m of that is directly attributed to the people who pay their bills?

**Mr CLARKE:** In that order, yes.

**Ms MANISON:** So, Territorians paying their bills, there is about \$480m of revenue?

**Mr CLARKE:** In that order, yes.

**Ms MANISON:** Just to confirm this financial year. The financial year just gone, 2013-14, the Power and Water Corporation was able to make a \$260m profit?

**Mr CLARKE:** I wish it were true. They talk of lies, damn lies, and statistics. Unfortunately, there also lies, damn lies, and accrual accounting, where accounting processes require certain things to be done, and it really is quite confusing. Let me explain. We have a net profit showing of \$259m. However, around about \$200m of that - the majority of that - relates to the correction, the revaluation, of assets.

What happened was assets were impaired, written down in 2009-10, because of the amount revenue that was coming in was insufficient to service, or be seen to be servicing, the assets that were there at the time. Power and Water actually had an accounting loss of something like \$300m. This is a reversal of that. Because of the increases in the tariffs - the 20%, the 5% and the 5% - they have what they call a technical name - I have it here somewhere. What is the enhancement called? What do we call this when we revalue it? What is the technical name?

**A witness** interjecting.

**Mr CLARKE:** Oh, it does not matter. It is just a reversal of the impairment.

**Ms MANISON:** Mr Clarke, if we were to compare how you have gone about calculating that net profit after tax, in comparison to the previous SCI and the year before that, we are looking at the same methodology, effectively?

**Mr CLARKE:** It might be the same methodology ...

**Ms MANISON:** Effectively, the financial year before, we are talking about a net profit after tax you had forecast initially for this financial year was about \$7.6m. But if you look at the current SCI, that comes in at \$260m. The SCI prior to that, you are looking at about \$8.6m. That is a whopping leap ...

**Mr CLARKE:** Yes, but it is all ...

**Ms MANISON:** Are you using the same way of calculating that net profit after tax, from your previous SCIs? I appreciate those previous SCIs, mind you, also incorporated Territory Generation and also retail, so you would have expected them to be less of what you just stated. That seems to be a whopping leap.

**Mr CLARKE:** No, it is fundamentally an accounting adjustment. Assets were written down in 2010 by \$300m-odd. This year they have been revalued by almost that exact same amount – that is including Territory Generation and Jacana.

It is just a reversal of an accounting transaction that had to be done according to the accounting standards in 2010, because the revenue was not enough given the size of the asset base. Now the revenue has increased, the accounting standards require Power and Water to revalue the assets, given it was written off as a loss in 2010 when the accounts then were showing losses of similar amounts - a loss of \$250m-odd. Now we have to show a profit of \$250m.

**Ms MANISON:** Going back to that point about revenue and increased revenue due to the power and water price increases we have seen, are you able to provide the committee with a comparison? Given the SCIs from previous financial years include generation and retail, can you give us a like comparison? This year we have seen revenue up at \$562.3m, which you said most is attributed to the prices Territorians pay for their power and water. Are you able to provide us with a comparison for the previous financial years so we can see 2012-13 and 2011-12, so we can get a like comparison of what the actual revenue collection from Power and Water was?

**Mr CLARKE:** I am sure we can. We may not be able to do instantly. We may have to take it on notice.

**Ms MANISON:** Madam Chair, can I put that question on notice please?

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#### **Question on Notice No 11.1**

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

**Ms MANISON:** To find out what the total revenue collected by the Power and Water Corporation was for the financial years 2011-12 and 2012-13, without including the generation and retail business units so we have a like comparison to current Power and Water Corporation.

**Mr CLARKE:** On the same basis as we have in the SCI?

**Ms MANISON:** Yes.

**Mr CLARKE:** We might even be able to get you the answer to that ...

**Madam CHAIR:** So, you accept the question Mr Clarke.

**Mr CLARKE:** Yes, I do.

**Madam CHAIR:** That question will be No 11.1.

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**Mr BARRETT:** Madam Chair, if I can follow that same line of question ...

**Ms MANISON:** Sorry, member for Blain, just because of ...

**Madam CHAIR:** It is on notice.

**Ms MANISON:** Madam Chair, is the process still, as the shadow I keep the ...



**Madam CHAIR:** Yes, I just want to get that question now. The question asked by the member for Wanguri of the Power and Water Corporation is Question No 11.1.

**Mr BARRETT:** Madam Chair, am I allowed to ask questions following the same line of question?

**Madam CHAIR:** On that question?

**Ms FYLES:** No, Madam Chair, the protocol is ...

**Madam CHAIR:** Sorry, member for Nightcliff, whilst it is lovely to hear you, I am dealing with something. That question has been taken on notice, so you cannot ask a question on that because they are going to find out.

**Mr BARRETT:** I was following the line of questioning the person was asking that culminated in that ...

**Ms MANISON:** I have more questions. Usually, I thought the process is that the shadow ...

**Madam CHAIR:** Another member of the committee can jump in on a line of questioning, as long as it is line ...

**Mr BARRETT:** It is very particular to the line of questioning she asked, so ...

**Ms FYLES:** Just one second, Madam Chair. Can I just clarify the normal process is the shadow minister is entitled to ask questions. We are not following the normal process?

**Madam CHAIR:** The normal process I am well aware of - if the question is in line with what the shadow is asking. I am not about to hand over to the member for Blain for the next half-an-hour. He is asking a question on the question, then we will go back.

**Ms FYLES:** Thank you, Madam Chair.

**Mr BARRETT:** I will ask the question through the Chair. If you deem it is okay I will continue ...

**Ms FYLES:** Just ask the question then.

**Mr BARRETT:** The question asked about the net profit and the number came in at \$259m. About \$200m of that profit is a part of the correction to the asset value we have just discussed. My mathematics says there is \$59m that was the amount of profit this company has generated. So, in line with that \$59m, can we get a number on what was the total subsidy received by Power and Water over the same period?

**Mr CLARKE:** It is in the order of \$70m to \$80m.

**Mr BARRETT:** So if the total subsidy is around \$70m to \$80m, and the amount of profit is \$59m, effectively we are still looking at a net loss?

**Mr CLARKE:** Yes, that is correct.

**Ms MANISON:** Mr Clarke, would you be able to provide the committee with the calculations - I know at Power and Water you love to crunch the numbers and have a look – of the bills. I appreciate now you have the water and sewerage component of the business. Generally, you do a calculation around what the average household customer charge would be for, say, a large household, a small household and a small business. Would you be able to provide the committee with the present average bills for a small household, large household and a small business for their water and sewerage?

**Mr CLARKE:** I think we have those numbers here. Djuna Pollard might read these out.

**Ms POLLARD:** For a small family, which we describe as two adults in a house or a unit, the 2014 bill, excluding carbon for a year, would be \$820 per annum.

**Ms MANISON:** Just water/sewerage?

**Ms POLLARD:** That is for water only.

**Ms MANISON:** For water only, yes.

**Ms POLLARD:** Sewerage is \$765 per annum.

**Ms MANISON:** Yes.

**Ms POLLARD:** If we move to a larger family, two adults with children living in a house, water is \$2969. Sewerage again is \$765.

**Ms MANISON:** Do we have the figures for small business?

**Ms POLLARD:** Yes. Small business I can give you also. Water, \$7058 per annum, and sewerage would be \$10 151 per annum.

**Ms MANISON:** Wow! Are you able to give us a comparison for the previous financial year of what those averages were, and also the financial year before that? Can we have a look at 2011-12 and 2012-13?

**Ms POLLARD:** I do not have those with me to hand, but we can, hopefully, get back to you throughout the course of this hearing.

**Ms MANISON:** That would be appreciated, so thank you for that. We will wait for that information.

Going now towards the separation of the Power and Water Corporation. We had long discussions about this in May at the last Public Accounts Committee, Mr Clarke. One thing that has interested me and a many Territorians is how much has the separation actually cost Territorians? We know you are still involved in some fairly complex shared service arrangements with the two new government-owned corporations, but also there has been a lot of work done at Power and Water to prepare for the split, and you are still participating in that work which is ongoing.

At the Public Accounts Committee's hearing, we heard figures had not been finalised for what the actual structural separation would cost. To this date, would you be able to provide us with what structural separation cost you in the previous financial year, 2013-14, and what you are forecasting for this financial year? If possible, are you able to itemise those items around the cost for structural separation?

**Mr CLARKE:** Looks like we can. The general comment is that the costings are broadly consistent with what the government said. They set a budget of about \$2.2m and we have come slightly under. The Treasurer approved expenditure totalling \$2.8m, the amount spent by the Northern Territory on separation in 2013-14. That is for everybody. Expenditure of \$2.1m was incurred by Power and Water to 30 June 2014. It comprised \$1.2m for legal expenses, \$640 000 for project management expenses, \$125 000 for branding and logo, \$8000 to develop budget models, \$41 000 on the new board, CEO, CFO, salary, and expenses ...

**Ms MANISON:** Outline the CEO, CFO ...

**Mr CLARKE:** That would be the two new boards and CEOs and CFOs salaries. There was \$84 000 on other expenses such as insurance and membership of the (inaudible).

For the period up to 30 June, \$0.8m is to be recovered from Territory Generation and \$0.8m is to be recovered from Jacana. The idea was we incurred all the costs, but those costs that could be attributed to the new entities, we are to get them reimbursed by those entities.

**Ms MANISON:** Does this include the advertising campaign? We saw that running on fairly high rotation around the papers and the TV with regard to trying to explain to people how the new arrangements, particularly around the billing, works with the split up of Power and Water. Does that include the development of that campaign but the actual cost of the placement of the campaign?

**Mr CLARKE:** Yes, it does.

**Ms MANISON:** What was the cost of that particular campaign?

**Mr CLARKE:** I do not know. I am presuming the \$125 000. That would be all the advertising? We will get the numbers.

**Ms MANISON:** Thank you. With regard to the establishment of the boards, are you saying the Power and Water Corporation footed that bill, or is that something the new entities have ...

**Mr CLARKE:** Well, they did not have any money up-front so, effectively, we had to lend them the money and we are going to recover it.

**Ms MANISON:** That was for the recruitment of those boards? That cost was ...

**Mr CLARKE:** Whatever costs were involved. I really do not know what the detail of the costs were. They would include recruitment, for sure.

**Ms MANISON:** Can we get a breakdown of those costs of establishing the new boards and the new executive positions that had to be recruited to Territory Generation in Jacana Energy prior to the 1 July separation? As you were saying, the work had to be done before they were split up.

**Mr CLARKE:** I am not sure that would have been appropriated. Yes, you might have to ask T Gen because we do not have the disaggregated details.

**Mr BASKERVILLE:** It was not done by us, it was done by DCM.

**Ms MANISON:** Okay.

**Mr CLARKE:** Oh, okay. Right.

**Ms MANISON:** Did you have many changes within Power and Water Corporation itself with regard to your board and executive level positions due to the structural separation?

**Mr CLARKE:** No.

**Ms MANISON:** So, we are going to get the information about the specific split-up advertising and marketing campaign?

**Mr CLARKE:** Okay. Total expenditure, branding of Jacana Energy was \$70 000, branding of Territory Generation was \$66 000. These totals include advertising costs, costs for the designs of the new logos, production cost with television and radio ads, costs associated with communication with customers, uniforms costs, legal advice provided by Clayton Utz ...

**Ms MANISON:** Does that include placement of the advertising?

**Mr CLARKE:** Say again, sorry.

**Ms MANISON:** Does that include placement of the advertising? What it cost when you put it on Channel 9, the costs of putting it in the *NT News*?

**Mr CLARKE:** Yes, press, radio and television campaigns.

**Ms MANISON:** You have given me the Territory Generation the Jacana costs. Does that include the Power and Water as well on top of that? Did you guys foot some of that bill too?

**Mr CLARKE:** I do not know. This would be the costing associated to with our - Djuna was saying she thinks that there might have been some part of this related to us but not much.

**Ms MANISON:** Can we chase up that figure as well, Mr Clarke?

**Mr CLARKE:** We will see what we can chase down. It that all three.

**Ms MANISON:** That is all three.

**Mr BASKERVILLE:** The advice is it was all three.

**Ms MANISON:** So, the \$70 000 and \$66 000 includes all three?

**Mr CLARKE:** Yes.

**Ms MANISON:** Thank you, Mr Clarke. Going into your current staffing figures within Power and Water Corporation, would you be able to provide me with figures around your total number of staff as at today with a breakdown of business unit?

**Mr CLARKE:** As at today, we have 902 FTE, full-time equivalents. By business units, I will just put them in whole numbers. The gas supply is nine; retail, 75; financial services, 34; governance and corporate services, 149; power networks, 326; remote community operations, 95; strategies and economics regulations, 17; system control, 34; and water services, 162. Total is 902.

**Ms MANISON:** How many executive level positions do you currently have within the Power and Water Corporation?

**Mr CLARKE:** I have seen that somewhere. We have it here, we will come back to it in a moment.

**Ms MANISON:** You will be able to provide that as well? And the number of board members you currently have in the Power and Water Corporation Board, Mr Clarke?

**Mr CLARKE:** Seven.

**Ms MANISON:** So, seven members of the board. How does that compare to the previous board of Power and Water Corporation prior to the separation?

**Mr CLARKE:** I am not sure.

**Ms MANISON:** No. Thank you. Turning back to the events we were speaking about a bit earlier with disaster system black in March, and the blackout that left everybody in the dark. It was a huge effort by your staff on the day to get the power back on and they should be commended for all the hard work they did internally within Power and Water. But, afterwards we know there was a report into what happened with system black. Could you please tell me how work on recommendations in that report are progressing within the Power and Water Corporation?

**Mr CLARKE:** I will pass over to Mr Baskerville.

**Mr BASKERVILLE:** There were three reports done after system black. One independent report we had done by AECOM, a firm we brought in. To date, as at 22 August 2014, we have 86% of those recommendations completed and working feverishly to get it up to 100%.

**Ms MANISON:** Which recommendations have not been completed, Mr Baskerville?

**Mr BASKERVILLE:** There are things to do with the finalisation of the work we have to do in the switch yard at Hudson Creek. That will not take place until probably next year in the Dry Season.

**Ms MANISON:** You have completed half the switches there? You still have half to go?

**Mr BASKERVILLE:** Yes, we have completed half of the switches. We installed three this Dry Season. We have three to go next Dry Season. The other recommendations related to generation. I need to ask the question as to what the progress there is. Partly the cause of system black was the fact that the black start capability did not fire up on the day. All that work has been completed.

The big part – it will go from 86 to 98 when we finish the bay in Hudson Creek and installation of the three new circuit breakers. That is holding it up. We cannot do it this year.

**Ms MANISON:** What are the budgetary implications of implementing the recommendations from those reports been for Power and Water Corporation?

**Mr BASKERVILLE:** In fact, a lot of the work we have done in rectifying the situation is our normal business, so there was not a large budget impost for Power and Water because we would do it anyway.

**Ms MANISON:** You did not have any specific outline budget to implement those recommendations?

**Mr BASKERVILLE:** Yes, it was all under way, so the big cost for us was the circuit breakers and the work we are doing on the switches at the switch yards, which is around \$3.5m.

**Ms MANISON:** We know that some of the issues from system black occurred within system control. We have heard there was a report done into system control many years ago, and one of the recommendations of that was to get improved staff training in system control, to give the staff extra support to be able to do their very highly complex jobs, as you well know. They were looking at getting a simulator of some type there to be able to help in staff training. Whatever happened with that?

**Mr BASKERVILLE:** The simulator is up and running, and the guys are being trained in relation to the system black. That event on the day has been run through the simulator. All the guys on the desks have been through that simulation of the chain of events on system black.

**Ms MANISON:** Mr Baskerville, how long has that simulator been up and running for? When did that get implemented?

**Mr BASKERVILLE:** Not that long. Three weeks after the event.

**Ms MANISON:** It was after the event we actually got that up and running?

**Mr BASKERVILLE:** Yes.

**Ms MANISON:** Okay, that was when that came into place. Thank you for that.

Going back to some information that was provided by the Power and Water Corporation with regard to written question No 203 - and I thank you for the information you did provide, it was extremely extensive. We did put a lot of questions on the record at the time, so thank you for that.

From the information provided we saw there were 737 electricity outages over one hour in 2013 and 2014. I want to see what work you are doing in the Power and Water Corporation to be able to minimise blackouts, particularly ones that go for over an hour. You were very detailed with the fact that there were a range of reasons why those outages occur. I am keen to hear what work is happening in the corporation to minimise disruptions to customers across the Territory.

**Mr CLARKE:** Mr Baskerville.

**Mr BASKERVILLE:** If we go back to the Casuarina event which caused an extensive blackout, following that there was the Mervyn Davies report – Mervyn Davies is currently one of our board members. The recommendations were to concentrate on the zone substations. We have had a massive program going over the years to replace those substations with new equipment. That will be finalised in the next couple of years. We are doing a big replacement program at the 22 Mile currently, with a new zone substation. That work has been undertaken over the last four or five years.

Now we have to concentrate on what is in between the substations. A lot of the failures that are happening in the northern suburbs is with old equipment that has been there for 35 or 40 years and in relation to switching stations. Many of these switching stations have old switch gear which use-by date is long gone. We have a program in place to start replacing those units. As well as that, in the northern suburbs there is a lot of old cable terminations that were done in the days with pitch fill. Pitch fill terminations crack after a period of time with our Wet Seasons, and we get a hell of a lot of outages.

The other thing that is being done intensively in Power and Water is we now have a tree trimming exercise where we go through before the Wet Season and extensively cut back the undergrowth.

**Ms MANISON:** Yes, a very good program too. Can you confirm what your capital works and repairs and maintenance budget is for this financial year?

**Mr BASKERVILLE:** Capital for power 2014-15 is \$75.4m, water \$42.4m, sewerage \$24.2m, corporate \$19.6m ...

**Ms MANISON:** What would you attribute that corporate spend of \$19.6m to mainly? IT systems or ...

**Mr BASKERVILLE:** I have all the figures here. Do you want me to rattle them off?

**Ms MANISON:** No, if you could table that, that would be great.

**Mr BASKERVILLE:** Okay, we will put it in a different format for you.

**Mr WOOD:** Member for Wanguri, could I just ask a question on the capital expenditures? Just one question on the remote operations, that dollar value of \$18m ...

**Ms MANISON:** I am sorry, the ...

**Mr WOOD:** Can I butt in to ask the CEO a question about the remote operations capital expenditure on that same list you had there?

**Ms MANISON:** Yes Gerry, I have a fair bit to go, but yes, quickly.

**Mr WOOD:** Is the \$18m the government announced yesterday or the day before - something like \$25m - as part of a payment into solar power generation? Where does that figure turn up in your capital expenditure program?

**Mr BASKERVILLE:** That is only ...

**Mr CLARKE:** It is not in there yet, Gerry, it has only just been announced. We have only just got the approvals.

**Mr WOOD:** Thanks.

**Ms MANISON:** Thank you, Gerry. Going back to another point. I am sorry, I have missed one of my previous questions. With the information you are going back and providing to me with regard to the average bill for the previous financial years. Going back into your previous records prior to 1 July split, are you also able to provide me with those same calculations done based on electricity for the 2011-12 and the 2012-13 financial years?

**Mr CLARKE:** This the average bill?

**Ms MANISON:** And the 2013-14.

**Mr CLARKE:** I am sure we have that available.

**Ms MANISON:** Would I be able to get that by the end of this session as well?

**Mr CLARKE:** I think so.

**Ms MANISON:** Thank you, that is great. That is on top of the water and sewerage - a breakdown of the average bills for 2011-12, 2012-13 and 2013-14 for a small household, a large household, and a small business. Thank you.

With regard to the shared services structure you have with Territory Generation and Jacana, what shared services provisions are still in place and how many staff are involved in providing shared services at the moment?

**Mr CLARKE:** I will ask Djuna Pollard to answer that. What services and how many staff was the question?

**Ms MANISON:** Yes, which staff? What services and how many staff are involved in the shared service provision at the moment.

**Ms POLLARD:** Yes I have the services to be provided here. I do not have the staffing numbers associated with those at this point in time.

Services to be provided include corporate services, which is HR functions, procurement, work health and safety, environment, risk management, audit facilities, security, quality management, and corporate communications. Then we move into the provision of IT and communication technology services, financial services, which I mentioned previously which spans finance, accounting and tax services, then retail operations for Jacana Energy are also being provided by the Power and Water Corporation.

**Ms MANISON:** You said before you have maintained 75 staff and retail within the Power and Water Corporation as opposed to going over to Jacana?

**Ms POLLARD:** Yes, to close that out, the retail operations obviously include customer billing, call centre and front counter functions.

**Ms MANISON:** Thank you. Staying on the issue of retail and billing, I understand there have been some issues with the new bills and so forth. How has that been going?

**Mr CLARKE:** I will ask Djuna to answer that.

**Ms POLLARD:** There were some issues relating to what we term a rebilling project which was associated with the roll back, if you like, of the tariff increases. In structural separation processes, the billing processes have been going really smoothly. The bills are going out now. We have had dual brand of bills go out with Jacana and PWC dual branding for our small and medium business and residential customers. For the large customers, the contracted customers, they are receiving Jacana Energy bills. Obviously, Power and Water is still issuing bills for water and sewerage services.

**Ms MANISON:** Have there been any issues with people who had deductions established in place for their power and water bills in breaking that up?

**Mr CLARKE:** Mary-Anne might be able to answer.

**Ms GOMATOS:** I am Mary-Anne Gomas, General Manager for Power and Water, Retail. We have been working with the likes of BPAY and NAB to make sure that customers have minimal impact, and moving deductions over where we can, working with customers who have a split with both water, sewerage and electricity. We are working with that so the impact has been quite limited at this stage.

**Ms MANISON:** So, it has been pretty clean. We have not had any problems with people who had automatic deductions set up for their billing? When split up, the power to the water and sewerage component has not been an issue for people with their deductions?

**Ms GOMATOS:** The ones we have, we have fixed, so we have not had any great major impacts come to us at this stage.

**Ms MANISON:** Have you numbers on how many people have had issues with that?

**Ms GOMATOS:** No, not on me. We can get those figures for you.

**Ms MANISON:** That would be wonderful if we could get those figures.

**Ms GOMATOS:** Yes.

**Ms MANISON:** Thank you. Another question with regard to this shared service provisions. Clearly, you have IT systems going across the board between the three different corporations. How has that been going? We all know you can anticipate and plan to the best of your ability, but when things go live from day one sometimes things can go a bit pear-shaped. Has it been going okay or have you encountered any issues with IT systems?

**Mr CLARKE:** No, they are independent of the structural separation. The Power and Water Corporation is upgrading its IT systems, both on the assets and financial planning side. We have some problems with them to be able to use it, and we are going to have to put a fair bit of effort to get it fixed.

**Ms MANISON:** Can you talk us through, Mr Clarke, what have been the issues that have been encountered from 1 July with these IT systems due to the separation? Where have the problems occurred?

**Mr CLARKE:** Oh, it was pre-1 July. It was nothing to do with 1 July. The system is not producing the sort of information we require, which is cost by line of business, by location. We are going to have to get it to produce enough information for the respective organisations to be able to produce financial statements for the organisation as a whole.

**Ms MANISON:** Okay.

**Mr CLARKE:** We need the sort of information Jacana and T Gen need for our power and water networks.

**Ms MANISON:** How are you dealing with that internally at the moment? Is it meaning you are having to duplicate some services or ...

**Mr CLARKE:** No, we are not duplicating any services, we are trying to get our system up and running and working properly so it will produce the information everyone requires.

**Ms MANISON:** Were there any issues with contractors, for example, when you went over to the new arrangements?

**Mr CLARKE:** Not as far as I am aware.

**Ms MANISON:** Everything went okay? The split did not impact anything there?

**Mr CLARKE:** No, because we are still running all the systems. It is still within the Power and Water Corporation.

**Ms MANISON:** Okay. With regard to the complete split of Power and Water from Territory Generation and Jacana, do you anticipate there will be a date where you are operating separately from those government-owned corporations, or is there always going to be a shared services relationship going forward?

**Mr CLARKE:** Quite frankly, we do not know yet. They have to assess the value of our services. They probably have to go out and price what they could get those services for. There will be some things like billing, for example, where it makes sense that we and Jacana would have the same system. It is still under development, basically.

**Ms MANISON:** Going back to a few questions around the gas again, Mr Clarke. One thing I read in Territory Generation Statement of Corporate Intent was that Territory Generation has entered into an interim gas supply agreement with Power and Water, future uncertainty over the terms of the gas agreement with respect to prices, availability and take or pay obligations in a competitive market is a tiered risk to business.

Are you working with Territory Generation to mitigate this risk to them, or is it something where you have gone your separate ways? The split happened on 1 July, and you just see them now as another business and you are trying to drive the best value for your business at Power and Water Corporation? How are you working with Territory Generation around that key risk around gas supply they have been identified in this Statement of Corporate Intent?

**Mr CLARKE:** Basically, what we are seeking to do is find alternative markets for our gas so we can both get rid of the bank gas, and also then access the cheap gas. That is really what we want to be able to do. When we can do that, then those benefits are passed on to our customers and, again, to electricity consumers.

**Ms MANISON:** Effectively, Territory Generation, which used to be part of Power and Water Corporation, you just see as another business out there at the moment? That is how you are treating them and they need to fend for themselves with regard to the gas supply which they see as a big risk. Is that how it is operating?

**Mr CLARKE:** It is a bit bold to say that they fend for themselves. We are in a transitional arrangement. We have lots of things that are transitional. The idea is once we get to the stage where they are a lot more established, then we will have a longer-term arrangement.

**Ms MANISON:** Okay. Also, with regard to the gas negotiations you have been in with the operators of the new 60 MW power station that is going to be built in Weddell. They are not complete at the moment, you are still working through that? That is correct?

**Mr CLARKE:** That is correct.

**Ms MANISON:** Okay. When did those negotiations start with that company?

**Mr CLARKE:** It was actually in the first half of this year. It has been going on for quite some time.



**Ms MANISON:** Did they approach you, or were there any instructions to the Board of Power and Water to go seek out speaking to this operator?

**Mr CLARKE:** No, no. It is our job to sell gas, so our gas people would have been out there. As soon as they would have heard about this, they would have been talking to these guys. The initial suggestion was they were going to buy their gas from Santos. Our fellows were out there talking and saying, 'What about us?'

**Ms MANISON:** Okay. Power and Water, by itself, proactively went out to seek a deal with this company to supply gas?

**Mr CLARKE:** Absolutely.

**Ms MANISON:** You are currently in talks with them, have not finished those negotiations at the moment, so they have not secured their gas supplier yet from you?

**Mr CLARKE:** That is correct.

**Ms MANISON:** Okay, thank you for that.

Do you have a current list of consultancies at this moment in time that Power and Water Corporation is engaged with you can provide us?

**Mr BASKERVILLE:** Across the board?

**Ms MANISON:** Yes, across the board. The consultancies you are currently engaged with at Power and Water Corporation.

**Mr BASKERVILLE:** We will take it on notice.

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#### Question on Notice No 11.2

**Madam CHAIR:** Member for Wanguri, please restate the question for the record.

**Ms MANISON:** Can the Power and Water Corporation provide a list of the current consultancies providing services to them?

**Madam CHAIR:** Mr Clarke, do you accept the question?

**Mr CLARKE:** Yes.

**Madam CHAIR:** The question asked by the member for Wanguri will be question No 11.2.

**Ms MANISON:** In the same vein of questioning, would I also be able to get a list of your current contractors providing services to the Power and Water Corporation and the amount of which they are contracted to provide services for them.

**Mr CLARKE:** Yes, providing we are not breaching any confidentiality, I imagine most of these things are for publishing I guess of their ...

**Mr BASKERVILLE:** Yes.

**Ms MANISON:** Thank you.

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**Ms MANISON:** This is a question where I ask you to go to a bit of detail, with regard to people who get their own solar panels to generate electricity. How does that work within the Power and Water Corporation? Is that still part of the business you have retained, or is that something that has moved over to Jacana to work with? With regard to tariffs and how that works, how does that operate in our ...

**Ms GOMATOS:** We still look after the tariffs for it, like the IES communities. That still belongs to Power and Water Corporation. In regard to, in line with our licence, places like Darwin, Katherine and Alice Springs are now the responsibility of Jacana.

**Ms MANISON:** Okay, so people who invest to put the PV panels on their roof, that is something I can ask Jacana how that is all going ...

**Ms GOMATOS:** Yes.

**Ms MANISON:** ... what the tariffs are, and what they anticipate they will be?

**Ms GOMATOS:** Yes.

**Ms MANISON:** How does that process currently work for billing, or is that something I am going to have to put to Jacana?

**Ms GOMATOS:** Because we are shared service, the billing still is handled through Power and Water retail.

**Ms MANISON:** Okay.

**Madam CHAIR:** Just for Hansard, it is Mary-Anne Gomas, General Manager of retail.

**Ms MANISON:** Is the tariff set by Power and Water Corporation or Jacana?

**Ms GOMATOS:** The tariff buy-back rate for the Darwin, Katherine areas, will be set by Jacana.

**Ms MANISON:** Okay. Given that has just been handed over, can you provide, prior to 1 July, what that tariff was?

**Ms GOMATOS:** Yes, it was one-to-one. Whatever we sold our electricity for, we bought it back from our small customers. I cannot remember the tariff ...

**Mr CLARKE:** 25.6 or 25.8 or something.

**Ms MANISON:** Basically, when Power and Water Corporation put their prices up ...

**Ms GOMATOS:** The buy-back rate went up as well.

**Ms MANISON:** Up as well, excellent. Thank you for that. That is all the questions I have at the moment. I will put the rest to Jacana. Thank you for that.

With regard to community services obligations with remote communities, do you have a specific number for what assistance is given to try to keep the cost of power, water and sewerage down in those places, or is that something that goes right across the board for the Power and Water Corporation?

**Mr CLARKE:** No, there is a specific CSO for the remotes. It is about \$30m, from memory. Jim Bamber has now left the Power and Water but he is looking after Housing Commission these days.

**Mr BAMBER:** Jim Bamber, former General Manager Remote Operations. There is a recurrent operating grant for \$56m through the Department of Community Services, and there is another \$17m out of the current capital grant.

**Ms MANISON:** So that goes into the remote communities?

**Mr BAMBER:** Correct.

**Ms MANISON:** How many are you operating out there, 72, 73 still?

**Mr BAMBER:** There are 72 remote communities and 67 outstations - satellites around those remote communities.

**Ms MANISON:** Thank you for that. Mr Clarke, I have some questions with regard to the networks tariff and the direction you got from the Treasurer - this is going back to June 2014. In the letter, the Treasurer

acknowledges the boards concern about an alternative revenue path, the networks charges. What concerns did you express about the revised direction, and were there any risks to the Power and Water Corporation at the time?

**Mr CLARKE:** The concern we expressed was we were a bit worried that having such a low revenue cap might mean we would not have sufficient cash to meet all our costs. That was the view we expressed, and the Treasurer, basically, said, 'Well I will keep it under. I will monitor it'. What he was seeking to do was to put the pressure on us to get our costs down.

**Ms MANISON:** Can I clarify something within that letter? It stated the revenue requirement increased, were at 7.7% for 2014-15, 8% for 2015-16 then 0% from 2016-17 and 2018-19. Is it actual fact that rather than 0%, you were charging CPI in those outer years? Is that the case?

**Mr CLARKE:** No, that is ...

**Ms MANISON:** Looking at the Statement of Corporate Intent ...

**Mr CLARKE:** Djuna Pollard.

**Ms POLLARD:** Those numbers that were quoted are above CPI. So, it would be the seven points plus CPI. In the outer years, it would just be CPI increase.

**Ms MANISON:** Okay. Basically, where it says 0% from 2016-17 to 2018-19, that in fact is not a nought, it is CPI will be charged in those years?

**Ms POLLARD:** That is correct.

**Ms MANISON:** About what point in the year would you calculate what that CPI charge would be?

**Ms POLLARD:** It is generally done at the end of March quarter. Then, we have obligations each year to submit our network tariff submission to the Utilities Commission, which is our current regulator.

**Ms MANISON:** Have you done any general forecasting estimates around what those charges in those outer years to the network tariff probably will be?

**Ms POLLARD:** Our CPI estimates, at this stage, are around the 2.5% mark. That was our assumption we used for our SCI in 2014-15.

**Ms MANISON:** Thank you, Ms Pollard. I have a couple of questions with regard to some operational matters. I want to ask one question with relation to the Rapid Creek around flood mitigation. It is a related issue with sewage overflow caused in part by the lack of (inaudible) and efficiency in the pumping station at Rapid Creek. Are you aware of this issue, and has any budget provision been made for upgrading the pumping station before the Wet Season?

**Mr CLARKE:** I will hand it to Mr Baskerville.

**Mr BASKERVILLE:** Yes, we recognise there is an issue in Rapid Creek, and we have been working in partnership with local residents and the Department of Lands, Planning and the Environment. We are initiating a public work (inaudible). Most of the problem caused in the Rapid Creek area is to do with overflow relief gullies or ORGs, as they are called. What lots of people do is cover the ORGs up which restricts the ability for them to flow externally. What happens when they cover them up is sewage flows into their house. We have an extensive project going where we have camera inspections of all the sewers in that area.

We have just completed a big descaling exercise in Rapid Creek. The cause of most of the problems we have in Rapid Creek is following heavy rain and storm water ingress into our sewerage system. In some cases, the ORGs, as we call them, have a concrete path installed around them so they are at that level and that is where a lot of water gets into the system. Any opening in the sewerage system is a real concern of ours.

**Ms MANISON:** Thank you, Mr Baskerville. I have some questions with regard to Borrooloola. I believe you are doing some major sewerage upgrade there. Where is that at, at the moment? Apparently, there are

some concerns from residents out that way about the project and how that is going. Could you please update us on how that is going?

**Mr BASKERVILLE:** The Borroloola project has been a problem child, there is no two ways about that. The cause of that is the fact that Borroloola was built on a floodplain. What the contractor encountered during the course of this project was ground water. Ground water flows have restricted some of the work we have had to do, because we had a very deep sewer installation there.

Most of that work is now completed. We have the contractor back on-site as we speak doing rectification work on storm water, road surfaces, and gutters. There is rectification work taking place there at the moment.

**Ms MANISON:** Do you have a budget and a time line for when that will be completed?

**Mr BASKERVILLE:** We hope to see the bulk of it completed before the Wet. Currently, there is a dispute between Power and Water and the contractor, so I cannot go into the budget side of it.

**Ms MANISON:** Is there compensation being paid out as part of that dispute, or it being looked at?

**Mr BASKERVILLE:** There is no suggestion of any compensation involved.

**Ms MANISON:** With regard to the community concern there, what type of communications do you have in place to ensure you are keeping the community updated on what is going on?

**Mr BASKERVILLE:** Our people are regularly visiting there. Our people were there just recently. I sent one of our legal people out to talk to the council and some of the concerned residents to make sure we were listening and getting the facts passed on. We are committed to additional resources to go out there to be on-site. We have a full-time representative of Power and Water there currently, so we are out listening to the community as we speak.

**Ms MANISON:** Time line for completion, sorry, Mr Baskerville?

**Mr BASKERVILLE:** November 2014 is when we hope to have all the roadworks and verges prepared and restated.

**Ms MANISON:** Thank you for that. With regard to the Leanyer waste stabilisation ponds, I have to thank Mr Pudney for giving me a very extensive briefing not too long ago. Confirming we have a huge population growth there with Lyons coming on board. With the new suburb of Muirhead we have further development happening north of there. With regard to those ponds and future developments, have you confirmed any plans for what you intend to do at the Leanyer waste stabilisation ponds?

**Mr CLARKE:** John, I ask you to give us an update on what we have planned there.

**Mr PUDNEY:** John Pudney, previous Acting General Manager. Member for Wanguri, yes, our planning is ongoing. Recently, the Planning Commission released the Draft Darwin Region Land Use Plan which influences us as well. That is a bit of a change in we are now getting a better understanding of where further development might happen. We are still retuning our models. We see a lot of growth in the Leanyer/Sanderson area with expansion of Muirhead and land north of that. There is growth in the Berrimah area and Knuckeyes Lagoon area, and some of that growth might see sewage flows to (inaudible). We are doing some finetuning on the modelling, as previously discussed.

We have also done extensive treatment modelling. We have a trial at the moment in the catchment. We are looking at both additional flows and the impact, and also the actual level and quality of treatment. We are doing extensive studies in Buffalo Creek. We have a discharge trial. We changed the amount of discharge at different times and look at the best way to discharge, taking into account the tidal variations in the creek and trying to reduce the impact on the creek. That work is going to inform our planning and the types of treatment we might need to look at in future.

The EPA has put us on notice in additional higher standards. We are looking at additional types of treatment, not just the pond treatment, the secondary treatment that is currently there. We will have to look at high levels of treatment, other advancements within the pond system, and additional flows.

The flows do not bother us too much. The current capacity of Leanyer/Sanderson can cater for well beyond 2030, and can cater for the current proposed development of north Muirhead.

**Ms MANISON:** Confirming you are not looking at any additional ponds out that way?

**Mr PUDNEY:** No. There was a proposal five or so years ago and before. There was a suggestion to earmark land for potential additional ponds, but that is now not part of our planning or thinking. We are looking at different forms of treatment.

**Ms MANISON:** Thank you, Mr Pudney.

Have we been able to get the information with regard to the billing for the small households, the large households and the small businesses yet?

**Mr CLARKE:** Still coming.

**Ms MANISON:** Still coming, thank you. Another question here with regard to your Goal 7 of your Statement of Corporate Intent to minimise environmental impacts. Can you provide us with an update on monitoring of environmental and health standards for sewerage outfalls and discharges into the harbour and waterways? How often is monitoring undertaken? How frequently are acceptable standards breached? What provisions have been made to ensure we minimise any breaches of those overflows?

**Mr CLARKE:** I will get John Pudney here again.

**Mr PUDNEY:** Monitoring happens in some of the catchments monthly. We have an extensive running program in and around all of our outfalls and, as I described, in Buffalo Creek we also have remote buoys placed at the moment in the Buffalo Creek and outer areas.

We spend approximately \$2m on monitoring at the moment. A lot of this is to inform Power and Water's future treatment detectors. We have a number of systems to minimise the impact on the environment in overflows. Large pump stations have emergency generation. We are continually upgrading additional storage capacity. We have a number of emergency overflow points. We have not experienced any significant increase in emergency overflows.

**Ms MANISON:** We did have that incident out near Ludmilla ...

**Mr PUDNEY:** Yes, we ...

**Ms MANISON:** Was there much follow-up after that?

**Mr PUDNEY:** We had a discharge of treated effluent into Ludmilla Creek for 20 minutes. We provided advice initially that that event was occurring. Initially, we were not aware whether that was going to be fixed quickly or not. The good news was it was fixed quickly.

**Ms MANISON:** What was the cause of that, Mr Pudney?

**Mr PUDNEY:** It was caused by control system failure - a computer glitch on a circuit board. Since that time, we have put additional protection and voltage regulation on all our control systems that have them. Basically, it accidentally shut down the pumps that would send effluent to the normal outfall beyond East Point. But we were able to manually override the system and rectify it.

**Ms MANISON:** Mr Clarke, with regard to the Territory's moves, part of the structural separation reform was the desire to enter the national electricity market and go under the new Australian energy regulator. What work has been done, how is that progressing, and do you have any understanding of what costs there might be to move towards that?

**Mr CLARKE:** We have not heard any more about it yet. It is a matter for the government really.

**Ms MANISON:** You are still operating the status quo ...

**Mr CLARKE:** At the moment, the status quo.

**Ms MANISON:** ... reporting to the Utilities Commissioner.

**Mr CLARKE:** That is correct.

**Ms MANSION:** Nothing has changed in that regard, and you are waiting for advice from the government with what to do there?

**Mr CLARKE:** That is correct.

**Ms MANISON:** Okay. Member for Nelson, did you have any questions?

**Mr WOOD:** Plenty of questions.

**Ms MANISON:** Plenty of operation questions?

**Mr WOOD:** To do with the corporate estate. I have a couple of questions, Mr Clarke. In relation to other revenue you expect to receive in the coming years, I am told that Power and Water intends to charge local government. I heard from Alice Springs that besides the normal charges you charge councils for street lights, you are intending to charge Alice Springs Council somewhere around \$469 000 per year for maintenance. There is also a new fee that appears to have come out of nowhere. In 2015, you will be charging \$0.5m for capital replacement regardless of whether any capital replacement needs to occur. Could you tell us if that is correct?

**Mr CLARKE:** I can tell you in the broad first, the detail we might need to go to Djuna. Essentially, the Power and Water Corporation has been having ongoing discussions for some time with the councils about street lighting charges, with the idea that they unbundle the charge to identify the component parts of the cost of providing street lighting services. Everyone generally agrees it is the right thing to do to identify these costs and pass them to the councils, because the costs are for standards the councils themselves determine.

The reality is with all costs - whether it is electricity or whatever - the cost is borne somewhere. The best way to ensure you get the most efficient use of the resources is, in fact, to allocate those costs to the organisation that is responsible for incurring them.

**Mr WOOD:** Bearing in mind, Mr Clarke, you are saying in your summary of what your role is in your corporation's objectives is to operate at least as efficiently as any other comparable business, therefore, you will be willing to pay rates to the council for your infrastructure? You require those lights to be put in place at the time of development. You have services within council municipalities. You would be willing to pay commercial rates for your facilities to help council offset the costs you are wanting them to pay?

**Mr CLARKE:** Mr Wood, you had better refer that matter to the government.

**Mr WOOD:** I do not know why I should have to because you are saying you are operating as a business. You are willing to hit the councils with a substantial amount of money which will be passed on to the consumer, so you will have a win by getting more revenue, so you can show you are minimising the cost of reducing the price rises for electricity for consumers. But the consumers will have to pick up that money which will be offset by charges in rates for those people. Why should the PWC not be paying rates?

**Mr CLARKE:** There has not been that discussion. This is looking at a particular cost item. As far as I am aware – is it in the legislation? I presume it must be in the legislation. The reason I am saying it is a matter for government rather than the Power and Water Corporation is that is a matter that is governed by the legislation within that framework we operate within. The government sets the rules.

**Mr WOOD:** Okay. On another point about that, if you are meant to operate as a comparable business, then can the council say they do not want you to do the maintenance of those street lights, they will get a private company to do them?

**Mr CLARKE:** Yes, absolutely. That is one of the ideas behind it is; that they will then find the cheapest way to provide that service.

**Mr WOOD:** Which will mean you cannot bill the Alice Springs Council for \$469 000, or \$0.5m in capital replacement, they can do that themselves?

**Mr CLARKE:** Yes, that is correct.

**Mr WOOD:** Okay. Do you have easements over all your street lights?

**Mr CLARKE:** Say again, sorry.

**Mr WOOD:** Do you have easements? For instance, you have your street lights and power poles on council land, generally speaking. Do you have a Power and Water easement over those particular lines, including your water and sewerage?

**Mr CLARKE:** I will just check. I do not know the rules. John Greenwood, General Manager Networks.

**Mr GREENWOOD:** John Greenwood, General Manager for Power Networks. The untitled land which most council land and government-owned land is, there are no easements provided. There is no legal structure for us to be able to gain an easement.

**Mr WOOD:** Technically - I am not sure where this will lead - you do not own those power lines or power poles or assets because anything on council land is owned by the council?

**Mr GREENWOOD:** No, I do not agree, I am sorry, Mr Wood.

**Mr WOOD:** Having been in local government for a long period of time, if you want to plant a mango tree on your front nature strip, that fruit is not owned by you, it is owned by the council. So, if you ...

**Mr CLARKE:** Mr Wood, the issue of ownership is an important matter, and is something we actually want to have clarified, because good government requires that it is absolutely clear who is responsible for that asset. So, the question of ownership is one of the issues we are, in fact, addressing.

**Mr GREENWOOD:** Are you talking street lights or the poles?

**Mr WOOD:** Anything that Power and Water presently own, if it is placed on a council road and it does not own a proper easement that is on the titles, technically it belongs to the council.

**Mr GREENWOOD:** For lands under the control of the council and the Crown, the ownership of the assets or the encumbrances on those lands is a totally separate issue. You will find that there is not a title for most of those lands and you cannot register an easement if there is no title.

**Mr WOOD:** Yes, but from my understanding of the *Local Government Act* things that are placed on the road reserve as permanent structures belong to the owner of that, which is the council.

The reason I raise it is because Power and Water is wanting to charge council for assets. For much of those assets, there is a technical issue about who owns the asset when it is on council roads.

**Mr GREENWOOD:** We have been in discussions with LGANT and the councils around the ownerships of the street lights. I am sure it will be confirmed by the board, but I am sure we would love to hand over ownership of those street lights to the council. We can come to some agreement.

**Mr WOOD:** As I said before, to balance that, I am sure they would love to charge you rates for your infrastructure as well to offset some of those costs. As Mr Clarke said, maybe that is something that has to be worked through with the government.

**Mr GREENWOOD:** The issues around ownership is a pressing matter for us. Street lights cost us a lot of money. We are looking at how we are trying to address that, and talking to the councils about the ownership issue. I do not think you will get much argument from me about the councils wanting to own them themselves. Therefore, the point would be mute.

**Mr CLARKE:** It is under discussion, Mr Wood, and it is a matter that does have to be sorted out because you want to have clear responsibility for who should be looking after those assets.

**Mr WOOD:** I am concerned the money you save will be passed on through rates and there will be no great saving to the consumer because they will have to find the money for the maintenance and the capital costs.

**Mr CLARKE:** In the overall scheme of things, the cost is being borne somewhere. That cost is in the big bucket of costs for delivery of all of these services somewhere. It is just moving that cost from one part to another. The community is sharing in the cost of electricity, so it might change the burden slightly between

a ratepayer and an electricity user maybe, or it might change the burden between a ratepayer and a lesser dividend or a greater dividend for government. In the overall scheme of things, the cost is there, and what we want to do is make sure the costs are being managed by the person or the organisation that is best placed to manage those costs.

**Mr GREENWOOD:** At the moment, the cost of the street lights are covered by our operating costs. How we fund those operating costs is by the electricity tariffs you and I pay. So you are paying for those street lights now anyway. Street lights cost us in the order of \$4.5m a year across the Territory to maintain and we get very little income for that.

**Madam CHAIR:** Sorry, can you just state your name for Hansard.

**Mr GREENWOOD:** John Greenwood.

**Mr WOOD:** Madam Chair, we could go on for a long time about this issue. It is a hot topic.

**Mr GREENWOOD:** We could.

**Mr WOOD:** One of the areas that concerns me is the time taken for a developer to get connection to the Power and Water grid. You get the subdivision done, it has to be done according to Power and Water standards. Then, when the connection is required, one of the complaints I have had is the time it has taken to happen. Again, if you are operating as a business, basically, why can private developers who are qualified and do it according to the standard not do their own subdivisions and connections?

**Mr BASKERVILLE:** We have a policy, Mr Wood, that any connection to our system is done by the Power and Water. A lot of the contractors you are talking about are not qualified to work on live high voltage.

**Mr WOOD:** Is there any restriction? Sorry.

**Mr CLARKE:** I was just going to say our fundamental first principle is safety. We cannot have people connecting to our grid when there is any risk they may not do it correctly.

**Mr WOOD:** That is fair enough, but can private contractors be given the qualifications to do it themselves, or is it a closed shop when it comes to connection to the Power and Water's grid?

**Mr CLARKE:** At the moment, it is a closed shop. It is always feasible there may well be some sort of qualification-type process. But at the moment, that is not the case.

**Mr WOOD:** Do you have an average time of connection for a developer?

**Mr GREENWOOD:** We have a standard, Mr Wood, of 26 weeks for connection, which has been consistently met. One of the issues we face at the moment, particularly with developers, is the developer changing their requirements. The developer will typically go along and talk to one of the consultants that are available to them, and they will do a design which is then submitted to Power and Water. We will check that design. In the past, we have been consulting with these people to come up with the best option for the developer. That consultant then goes back to the developer and says, 'These are changes that Power and Water have made', and, of course, bill them for those hours. In actual fact, the changes are not anything we had made - we are suggesting to this consultant that there is a better cost-effective option for the developer. We are trying to work with them to ensure the least-cost option for them. There are huge lead times for equipment, so we have to make sure any changes take this into account as well.

**Mr WOOD:** All right. I know time is the essence. I would like to take that up further, but I do think 26 weeks is a long period for a developer. I guess some of these things could be sorted out long beforehand.

**Mr GREENWOOD:** My only answer to that is I invite you to come along, and we can demonstrate the process. The only thing I would suggest, Mr Wood, though, is that any developers who has had something on the go for far more than 26 weeks - and in most cases it takes them a lot longer to build it than that - any prudent developer will have this in hand well into the future.

**Mr CLARKE:** Mr Wood, it can be augmentation requirements up to where the development starts. They really have to plan well ahead to make sure we have the capacity to provide the service.



**Mr GREENWOOD:** We would love to get you along to show you the process and what is involved, and how what we do is all put through the system. There is no problem – there is nothing hidden here.

**Mr WOOD:** That is okay. I will be happy to find out the processes, Mr Greenwood.

**Mr GREENWOOD:** Love to have you there, sir.

**Mr WOOD:** Okay. Another question in relation to water usage. Mr Clarke, you mentioned we use more water than Sydney, Melbourne and Adelaide combined. Can you give us the figures for evaporation? We have a six-month Dry Season which no other place has and we have high evaporation. When you are comparing costs - and I am very much in favour of you reducing water usage - how real is that figure that is promoted at the moment in relation to comparing it with evaporation?

**Mr CLARKE:** There is no question that it does not reflect it. In the Dry Season we would have a lot more evaporation. What the comparable number is, I do not know. All we are seeking to do is to reduce the – okay, we have John Pudney here who will know much more about it than me.

**Mr PUDNEY:** Member for Nelson, yes, evaporation is a particular issue in the Darwin region. In fact, probably around 60% to 70% of water consumed out of the dam, if you like, is evaporation, so it is a real challenge. We have a shallow dam which is 8 m average depth, thus it is vulnerable to ongoing dryish Wet Seasons.

The point I am trying to make is I agree evaporation is a significant issue for Top Enders, and we need to take it into account. Those numbers that were quoted in regard to usage do not take into account - it is excluding evaporation. We still use three times as much, or around that, compared to our southern brethren. Then, on top of that, we have evaporation.

**Mr WOOD:** Yes, I just thought the figures were a little - I will not use the word misleading, but they do not tell the whole story. We have high evaporation, therefore, higher water usage to make up for that evaporation loss.

I follow on from that. The thing that concerns me is do you tell other departments about the Living Water Smart Campaign? I raised this issue before. If the government, as a whole, is going to promote the better usage of water, then what discussions do you have with, say, the Department of Transport, which just put down approximately 1.6 km of landscaping that requires highly intensive water use to keep alive? That is the Tiger Brennan section near Tipperary Waters. How do you convince all departments to try to fit in with your Living Water Smart Program?

**Mr PUDNEY:** We have an extensive plan of communications, from ministers down to Chief Executives and officers throughout the stakeholders in this water game. Yes, we are talking with the landscapers of Department of Transport. In some of their high value areas - the lead-ins to airports and a few other sites - perhaps they concentrate on the aesthetics more than the water conservation. Generally, we have had some significant gains working with the department. They are advancing their irrigation systems. They have smart systems in place and they are expanding them.

I cannot talk specifically on the latest Tiger Brennan job. We are questioning the department on the choice of vegetation etcetera, and we will work with them to make sure we get a good result. This is occurring. We are pleased there are a number of initiatives out there that are helping reduce water conversation. We are talking with Department of Housing, Education and a number of other government departments to meet this significant challenge of water efficiency.

**Mr WOOD:** How far back do you think Living Water Smart Program will put the need to build new facilities such as the dams that are proposed?

**Mr PUDNEY:** We are trying to defer bringing Manton Dam back on line at the moment. We believe we can shift that back around five to eight years. We have a number of future water sources in the pipeline. We are looking at new dams and off-stream sources. The objective is to defer these. We are talking at least five years, providing, of course, there is not some other major growth or industrial load, or the like. Whilst our plans are to defer major capital, we also are working very strongly to make sure that with Manton Dam and the other sources, the planning and the design work is ready if a trigger happens.

**Mr WOOD:** I presume one of those triggers to reduce the cost of building more dams is taken on page 23 where it says 'the Howard East bore field will increase the redundancy at the bore field'. What does 'redundancy at the bore field' mean?

**Mr PUDNEY:** We are talking about having more bores in place, so if one bore goes down we can immediately start up another. We are not talking about extracting more water above our licence. Currently, when there is a failure of one bore or more, we are not able to extract the full amount. Hence, we put pressure on our other water sources like the dam.

Our strategy is to ensure we extract up to our limit, and also to even out the extraction so the Howard East capital project that has just recently gone to tender to commission three new bores further out will give us the ability to have greater reliability in the bore field, even out the extraction, and put less pressure on the other sources.

**Mr WOOD:** Do you know if there is any increase on what you take out of the bore field now compared to the maximum extraction you are going to start taking out?

**Mr PUDNEY:** Yes, it is about 20% to 25%.

**Mr WOOD:** I realise you have a licence to do that, but has there been any work done - one of the problems we had is the government put the Howard East Bore Field Water Advisory Committee on hold and it had only just advertised that people would be on it again. What can you say to people who live out there that the maximum extraction is not going to affect the environmental flows in the area because we have never gone this far before?

**Mr PUDNEY:** That is a question for DLRM and the water resource managers, the Water Controller. We are working in accordance with our licence. It is also not just a yearly licence; there is a maximum extraction rate, a monthly rate, etcetera. As I said, we are also evening out our extractions for the impact. There are a few bores close to residents in the rural area. The new bores are hundreds and hundreds of metres away from new residents.

**Mr WOOD:** All right. I ...

**Ms FYLES:** Gerry, can I interrupt and ask a question? Is there any thought of Power and Water putting meters on the bores of residential properties in the rural area - Howard Springs, for example?

**Mr PUDNEY:** Member for Nightcliff, that is not a function of Power and Water. The private bores are managed by the Department of Land Resources. I am aware they had a program of metering for information. As the member for Nelson said, there is a need to understand the aquifer better, so metering in the past has helped understand what water has been taken out. Power and Water has very accurate meters on all its bores. As for future meters on every individual property, that is a question for Department of Land Resource Management.

**Mr WOOD:** Thanks, John. In relation to sewerage - and I am talking about the new Palmerston Regional Hospital which is also meant to be part of a larger plan the government has - which some of us do not agree with - of initially, 1500 blocks around the hospital, and further on another up to 9500 blocks. Initially, where will the sewage for the Palmerston Regional Hospital go?

**Mr PUDNEY:** Member for Nelson, the modelling we have done shows we have capacity to take the initial stage to Palmerston. The Palmerston hospital and perhaps the first stage of Holtz - that northern area you are talking about - will be able to go to Palmerston. We are doing some upsizing of mains in the new CDU subdivision north of Palmerston to ensure that can happen. But in the longer term, we are looking at options. It could go to Palmerston or it could go to a new facility in that general region.

**Mr WOOD:** A similar question in the rural area in relation to sewerage. There are some developments that are occurring that are using their own treatment plants. I understand Power and Water rejected the idea that they should take over the maintenance of those particular treatment plants. As a business, why could you not be the owner of those treatment plants and charge people accordingly, so we know those treatment plants are kept up to the required standard the department of environmental health would require?

**Mr PUDNEY:** There is a recent example they call a linger treatment plant. It is a treatment plant operated under our licence. There is an option to take over if it is built and managed to our standards. (inaudible) is the standard for smaller systems.

I do not have an answer at the moment because it is a question we are looking into. You may have seen a media release yesterday from the EPA that there is a study looking at this very issue of on-site treatment plants, what types should be approved, what is the regulatory environment, and who should run them. I would prefer to get back to you after this study has been done. Perhaps we will have a better understanding of the preferred options.

**Mr CLARKE:** Mr Wood, the board would be very nervous about taking on responsibility for sewerage facilities where we were not absolutely confident they met the required standards. The developers tend to have a goal that is much shorter term than we would have. We just have to be absolutely certain if we were to take on these things, they did not create a burden for other people who pay for the services.

**Mr WOOD:** My concern is the minister has approved development in the rural area which is on 800 m<sup>2</sup> blocks with no guarantee that there will be any way those with treatment plants can be regulated. There are 20 treatment plants on five-acre blocks. The danger, of course, is contamination of the bore field underneath. If someone like Power and Water said, 'We will regulate those treatment plants each year, a number of times per year, and will charge the owners', then I would have some confidence there would be some control over what is happening in this area. I thought, as a business, maybe there is an opportunity to take up some of that revenue.

**Mr CLARKE:** It sounds as though it is more like regulation though, than what I would have thought.

**Mr WOOD:** In regard to the new Darwin River Dam pumping station, what are the improvements the department is doing? Are they going to try to take more water out of the dam?

**Mr PUDNEY:** Yes, absolutely! In peak times in the future, as we grow, the current pump station's peak daily amount will reach capacity in a few years. We need to put in additional pumps, basically, for that peak period. That peak period is generally towards the end of the Dry in the September/October period. It is not necessarily talking about taking more water out of the dam over a year period, it is about the peak flows that happen a few weeks of the year.

**Mr WOOD:** What effects will INPEX have on water usage? There are two parts to that question. They will need to fill up their tanks, I believe, to make sure they are airproof or waterproof. Will they need a large amount of water to operate their generating system and the plant itself?

**Mr PUDNEY:** To fill up their tanks, they have several tanks which require significant flows over a few weeks. That water is used to hydro test the tanks. We are working with INPEX to look at a method where they transfer water from one tank to another to minimise the overall demand.

The pipe network has been upgraded to enable sufficient flows. There has been a new water main built down Jenkins Road for the future for all that precinct - the East Arm whether it is INPEX or others in that area. In the short term, that will allow some peak flows to get into those tanks. Notwithstanding that, we are working with INPEX to minimise the total usage of the water.

**Mr WOOD:** They are paying for all their water? Some people ask me whether they get it for free. I presume they pay commercial rates for the water?

**Mr PUDNEY:** That is correct. They pay the standard commercial rate of what businesses do across the Territory. During operations they would be a big consumer, but probably about half the power station out there now, so less than 1% of the total demand across the system.

**Mr WOOD:** I quickly ask a question on the new proposal to increase the renewable sources of power in other communities in the Northern Territory, which is great - as much as I think we should be doing more about it.

You are a business. Has a cost-benefit analysis been looked at? For instance, you will say this will save X amount of diesel usage, the plant will cost this much money to put in? Do you look at the long-term cost overall to see whether there is a cost benefit by putting in renewables which includes replacement of solar panels in 15 or 20 years' time and the replacement of diesel generation? Is an overall study done to see whether there is a cost benefit, even though we should do it. Simply from the environment point of view, it is great.

**Mr PUDNEY:** Yes, Mr Wood. For this particular exercise, there was a huge amount of effort that went into doing a cost-benefit analysis. Our people spent months, quite frankly, talking to ARENA to develop the

case and to show it was a viable project to do. In fact, ARENA was a bit nervous about giving us the money because the results look very favourable. They are going to be providing \$30m, Power and Water is going to be borrowing \$30m of those orders of magnitude. If we cannot make a go of it with a grant of \$30m, well, solar is looking very sick. In fact, it is looking really good.

The reason it is being done and they are happy to fund it - even though there is quite a large net profit going to be made out of this - is that it means solar will become a part of our normal business practice. It is a sufficiently large project that we can learn a heck of a lot from. So, whenever there is a requirement for augmentation in a remote community, the solar model will be the first one that is tested. We will have all the information to enable us to do that.

On top of that, this solar is just a straight flat panel, there are no bells and whistles with any of this. It is just a straight fixed flat panel. So, as we expect this is going to be very successful, it will be a tremendous boom for all of the remote communities.

**Mr WOOD:** Is it similar to the Bulman Station?

**Madam CHAIR:** I am sorry, member for Nelson, we are a couple of minutes over. I did give you a little time.

**Mr WOOD:** I am working on Alice Springs time, I am sorry.

**Ms MANISON:** A follow-up to the information I requested regarding the small business, the large household, and small household billing information. Have we that and are we able to provide that now?

**Madam CHAIR:** Perhaps we can take that on notice.

**Mr CLARKE:** I will have to take that on notice, I am sorry.

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#### **Question on Notice No 11.3**

**Madam CHAIR:** Member for Wanguri, if you just want to restate your question on notice.

**Ms MANISON:** For the financial years of 2011-12, 2012-13 and 2013-14, and projections for 2014-15, can we please have provided the average small household bill cost for power, water and sewerage? Can we also get that for a large household cost for power, water and sewerage? Can we also have provided for small businesses, what those average costs are to those Territorians?

**Madam CHAIR:** Mr Clarke, do you accept the question?

**Mr CLARKE:** I do.

**Madam CHAIR:** The question asked by the member for Wanguri has been allocated No 11.3.

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**Ms MANISON:** Sorry, by memory, any other outstanding questions we had to get information back on?

#### **Answer to Question**

**Mr BASKERVILLE:** Staffing question you asked about the executives.

**Ms MANISON:** Yes.

**Mr BASKERVILLE:** There were 74 executive contracts across Power and Water as at 30 September 2014.

The other one was the number of people with billing issues, and my answer from retail is, no complaints, just inquiries through our call centre.

**Madam CHAIR:** That now concludes this session. On behalf of the committee, I thank you for appearing before the committee today. The committee will now consider the Territory Generation Corporation. We

will just have a quick two-minute break to exchange over, as we are running a little over time. Thank you very much today.

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The committee suspended

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## **TERRITORY GENERATION**

**Madam CHAIR:** I welcome the Chair of the Territory Generation Board, Mr David De Silva. Please introduce the representatives of the corporation or the company who are here today.

**Mr De SILVA:** Madam Chair, I am very happy to be here today representing Territory Generation. On my left I have our CEO, Tim Duignan. Tim commenced with us on 29 July. To my right I have our Company Secretary, Mr Mark Morelli. Mark is a consultant with Territory Generation on a contract. He started on 1 July and he has a 12-month contract with us.

**Madam CHAIR:** Mr De Silva, would you like to make an opening statement this morning?

**Mr De SILVA:** Yes, thank you, Madam Chair. Members of the committee, Territory Generation is a new GOC, as you are all acutely aware. We commenced our operations on 1 July, having separated under the new reforms instituted by the government. Tim Duignan, our CEO, comes to Territory Generation with 29 years of electricity industry experience, including CEO of EnerTrade, a Queensland GOC, and has formerly consulted to the industry.

Mark Morelli is an accomplished professional accountant and Company Secretary. He has performed the role of CFO until Monday of this week, which is why we have brought him here today. We have our permanent CFO, who has commenced work as of Monday, Mr Steve Bartlett, who will now undertake that role. Mark's focus is now on corporate governance and systems improvement within the organisation.

I ask you to please excuse me, I have come down with some sort of virus over the course of the last two days. It is restricting my verbal expression, unfortunately.

I am also very proud to inform the committee that we have a small board, which I chair. The other representatives of our board are two industry capable people. Leanne Bond is currently in Queensland, Queensland-based. She is an experienced company director who holds other board roles in the energy and water sectors in Queensland and other parts of Australia. Her background is in chemical engineering and she has over 25 years senior management experience across the industrial sectors. She, as well, I am very happy to have present in this room.

Our other board member is Mr John Hubbard. We had a board meeting yesterday and Mr Hubbard stayed around to be here today. John is a former PricewaterhouseCoopers partner and a Director of CS Energy. He has extensive experience in the energy, utility and resources sectors, as well as a strong accounting and financial background. He has an extensive advisory career, specialising in providing advice to the energy industry in the areas of corporate strategy, industry reform, mergers and acquisitions.

What that means, members of the committee, is we have a board and senior management team, coupled with our staff, who have significant and extensive experience in the energy industry.

Personally, I know some of you - not all of you. My background is as a lawyer, practising in Darwin for 25 years. I have operated my own business in Darwin for 21 of those 25 years. In that time I have extensively represented the business sector in particular. I also represented government pretty much for the last 20 years.

I have faced a number of challenges in keeping the business running over the 20 years. We had competition, legal changes and other challenges. I am proud to say that my business has survived. Likewise, I have a very positive outlook for the future of Territory Generation. I have also represented corporations and committees and the like over the years. Prior to joining Territory Generation, I held a director's position on Power and Water Corporation Board for six months, which gave me some insight - I do not say an extensive insight, but some insight - into the operations of Power and Water Corporation. I am particularly pleased to now have the ability to now focus on one business sector; that is, the generation of electrical power.

Territory Generation came into existence following the government commitment to bring the Northern Territory energy sector in line with the reforms that have been taking place throughout Australia since the 1990s. The Northern Territory joined the energy sector reform process 14 years ago, and the establishment of Territory Generation is part of that ongoing process.

Since its establishment, Territory Generation has committed to providing quality service to our customers and we are focused on safely achieving commercial sustainability by reducing expenditure growth and debt and improving business efficiency and (inaudible) liability.

Being a small focus group and organisation, we are able to drill down into those goals and are very confident they can be achieved. I add that in our short existence we commenced a planning process whereby we committed to forming our strategic plans for the next five years. We do not have all the information as yet to complete that, but we are working closing with Power and Water Corporation. You have just heard that they have some systems issues which has precluded the delivery of some of the information to us, but we are working closely with them and we anticipate being in a position to complete our strategic planning by December of this year and implement it as soon as possible.

We are the largest electrical producer in the Northern Territory. We operate and own 592 MW of installed capacity across the Northern Territory, and contract additional 114 MW from independent power producers. The majority of our electricity is produced from natural gas, which is purchased from Power and Water Corporation. We use a range of technologies including industrial and aero-derivative turbines, steam turbines, reciprocating engines, solar systems to convert energy from gas, diesel and renewable sources into electricity.

We then on-supply the electricity to retailers via the Power and Water transmission networks. We produce the electricity from our assets. Our portfolio includes Channel Island, Weddell and Katherine Power Stations on the Darwin/Katherine interconnected system; the Ron Gooden and Owen Springs Power Stations on the Alice Springs system; as well as power station servicing towns and connected communities at Tennant Creek, Yulara, Kings Canyon, Borroloola, Elliott, Daly Waters, Timber Creek and Ti Tree.

Our plans for the future are strong. During the next year, we will implement strategies, as I stated earlier, to steer our corporation towards improved safety, environmental performance and commercial sustainability, as well as delivering positive outcomes for our staff, customers and our shareholders.

We are committed to enhancing the safety of our staff with strategies to drive proactive identification, reporting and management of hazards and incidents in line with our culture of our corporation's safety principles - (inaudible) involved in their working lives.

We are actively pursuing potential opportunities for the business. We are developing strong supplier relationships and making commercial industry decisions based on financial sustainability, robust business analysis and solid strategic planning.

Pricing reforms and a prudent capital investment strategy are also part of the business future for Territory Generation. As you will no doubt ask during the course of questions, you will hear from us we are implementing professional and best practise systems and business processes which will enable us to meet our targets of being an efficient and reliable generator in the Northern Territory, and continually improving our asset management processes, and therefore delivering reliable electricity while reducing our cost to supply.

The team at Territory Generation is proud and capable. I add the board itself is immensely proud of its people. We have, in the short term we have been in existence, gone and met with our staff in Alice Springs and Katherine. We are intending on meeting with Tennant Creek staff next month. We are impressed by the commitment they have shown to the business, the hard-working nature of the individuals in the business, and their driven nature to achieve our goals. I am immensely proud to tell the committee that because if we do not have our organisation working with us we will never achieve long term. We, and the government, hopes we achieve. Our goal is to build on the capabilities of our workforce through the alignment of our values, promoting and recognising the excellence and delivering capacity-building training. We are also committed to environmental sustainability and continue to address our carbon emissions through use of more efficient plant and reduce diesel fuel consumption.

We will be - and our goal is to be - a respected and efficient electricity generation utility that makes a reasonable return. We play an important role in the Northern Territory economy. We recognise that, we will

look after the Territory's natural resources and ensure security of electricity supply. We look forward to the challenges that are coming our way. We know they are coming and we are preparing for them.

Before handing over to the committee, I need to acknowledge - and it is an issue that I have had to deal with - that a lot of our answers will be technical in nature. I am getting across it, it is not easy. We have prepared a fact sheet for the committee which we will hand to the committee to let you understand our business. We also extend to all members of the committee an open invitation to visit our facilities. You will be required to go through our safety induction processes, and we make no exception to that requirement.

My CEO has said I am (inaudible) to come here, she would have to do it. We recognise we have only been in operation since 1 July. If questions emerge in respect to our operations that we are unable to answer, we might have to refer to the Power and Water Corporation Chair and CEO to obtain some answers. But we will endeavour to be as frank and forthright as we possibly can. Thank you.

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

**Ms MANISON:** Thank you, Mr De Silva for being here today. I understand it is a pretty tough virus going around at the moment so you are doing really well to be sitting here. I will take you up on your offer to have a tour of some of the generation facilities. Thank you very much for that, it is greatly appreciated.

In relation to the issues, one of the most obvious things is the fact that we are scrutinising the Statement of Corporate Intent at the moment. We know the Territory Generation one is, in fact, an interim Statement of Corporate Intent. How difficult has it been to get about business as a new government-owned corporation, and you cannot get complete financial records provided to you from the Power and Water Corporation to go on about establishing the business and getting on with the job?

**Mr De SILVA:** Member for Wanguri, we are working positively with that limitation. It is a challenge. For the moment, our focus has really been on understanding what we have, in a physical sense, and planning, bearing in mind the limitations that you do raise. Yes, it is a challenge, and it has positives (inaudible).

I will ask Mr Morelli if he could comment a little further because he has been more intimately involved in the financial side.

**Mr MORELLI:** Yes, member for Wanguri, it has been a challenge trying to operate a new start-up business without the financial information you would normally expect. We are working on, as the Chair said, understanding the business, the people, the assets we have and the process of working forward. We are looking forward to next financial year when we will be able to look at getting the financial information and our cost information in a way that we can try to maintain our costs as a generator and understand them. One of the challenges of a business facing a competitive market is understanding its costs. We are focused on understanding our business and trying to maintain those costs by driving efficiencies and reliability.

**Ms MANISON:** As well as the financial operation, which you do not have a complete picture of, do you have a complete picture of your asset base? Have you been able to obtain all that information very clearly from the Power and Water Corporation to Territory Generation?

**Mr MORELLI:** I will answer that. They have just completed their financial statements as at 30 September as I understand it. We have just been given some initial information last Friday which we are still now trying to analysis and work through. So, no, we do not have a final picture on those things. They will be worked through over the next month or so.

**Ms MANISON:** When would you anticipate you would have a completely clear picture of your finances and your assets base at Territory Generation?

**Mr MORELLI:** We expect over the next month or two we will have that information, and to then, in conjunction with preparing our strategic plan, to be able to prepare a financial plan so that early in the new year we will be able to have a complete picture of our financial information on where we are today, and where we want to go forward. So we need that baseline, as you would understand.

**Ms MANISON:** Granted we have an interim Statement of Corporate Intent here before us today. When would you anticipate you will be providing to the government your final Statement of Corporate Intent.

**Mr De SILVA:** We would hope to be able to deliver our final statement by the end of this calendar year. Obviously, we need the financials before we are able to finalise that, but we are very hopeful of delivering one soon.

**Ms MANISON:** Thank you, Mr De Silva. I am okay with the opening statement.

**Mr WOOD:** I am okay, Madam Chair.

### **Statement of Corporate Intent**

**Madam CHAIR:** The committee will now consider questions relating to the Territory Generations 2014-15 Statement of Corporate Intent. Are there any related questions.

**Ms MANISON:** The first questions goes into revenue for Territory Generation. Granted, I understand there are some issue with obtaining all of your full financial details, but what I am trying to ascertain is what revenue are you projecting to make for 2014-15? Are you able to provide that information for previous financial years of what the breakdown of the revenue for Territory Generation is?

I appreciate that here today I have just spoken to the Power and Water Corporation and, clearly, they are trying to provide me information with regard to their business without the old generation business unit as part of it. But, surely over previous financial years they have broken it down by business unit to be able to provide that information.

What I am trying to find out is what is your projected revenue for this financial year? Am I able to obtain the revenue that the former generation business unit obtained for the previous three financial years?

**Mr De SILVA:** Mr Morelli.

**Mr MORELLI:** I have an expectation of what that revenue is until we have a lot of the financial information to go and work that through. I would prefer to just take that on notice and come back formally on what that information would be.

**Ms MANISON:** Mr Morelli, will I be able to obtain the previous revenue for the former generation business unit for the previous three financial years?

**Mr MORELLI:** I will have to check that with PWC and make sure there is no commercial-in-confidence on that information. Providing it is normally publicly available, I will talk to ...

**Ms MANISON:** It would have been reported on publicly, but it just would have been part of the broader Power and Water Corporation picture in the previous Statement of Corporate Intent. I would imagine we should be able to break it down by business unit, but I want to get a clear picture of that revenue.

**Mr MORELLI:** I understand that and I take that on notice. We will look into what we are able to provide.

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

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### **Question on Notice No 12.1**

**Madam CHAIR:** Of course. Member for Wanguri, please restate the question for the record.

**Ms MANISON:** The total revenue for the former generation business unit of the Power and Water Corporation for 2011-12 year, 2012-13 year, 2013-14 year, and the projected revenue for Territory Generation for 2014-15.

**Madam CHAIR:** Mr De Silva, do you accept the question?

**Mr De SILVA:** Yes.

**Madam CHAIR:** The question asked by the member for Wanguri will be question No 12.1.

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**Ms MANISON:** Thank you Madam Chair. Going to the question of net profit after tax, would you be able to tell us what your forecast profits will be for the 2014-15 year as part of the Statement of Corporate Intent? Again, I am clearly trying to get a picture of what that was in previous financial years. It is your first year of business, and my job of being in opposition is to scrutinise and to see how you are performing over the years that will be coming ahead of us. I am keen to get that information on the record so I can really have a clear look at how Territory Generation will be performing.

**Mr De SILVA:** Yes we understand. I again ask Mark.

**Mr MORELLI:** Same answer as the first question. We have some idea on where we are expecting to go, but until we have that financial information to come back. In our interim Statement of Corporate Intent you will have a picture of a certain goal of commercial sustainability, which has some figures in it, which are available. But they are the figures that I am able to share ...

**Ms MANISON:** Which page is that again, Mr Morelli?

**Mr MORELLI:** Page 11.

**Ms MANISON:** Yes, financial performance there. So the ballpark profit figure you are aiming to make for the 2014-15 year, Mr Morelli ...

**Mr MORELLI:** That is the EBITDA, which is the earnings before interest, tax and depreciation under privatisation.

**Ms MANISON:** You are looking at \$86m.

**Mr MORELLI:** That is the figures we have included in the interim SCI which was prepared by PWC when they were doing the desegregation of the business.

**Ms MANISON:** That goes down slightly in the out years. Is there any reason around that?

**Mr MORELLI:** Again, that was the forecast by PWC. We will have to look at those when we do our final SCI. There would have been a range of different factors in that. It might be some of the arrangements with the MRN pipeline or other commercial arrangements during that year, and changes that were forecast in the business at that time.

**Ms MANISON:** So either way we are looking at about \$86m-odd profit for this financial year. Would I be able to put these questions on notice, with regard to gathering the profits for previous financial years on record, Madam Chair?

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#### Question on Notice No 12.2

**Madam CHAIR:** Member for Wanguri, please restate the question for the record.

**Ms MANISON:** Can I get the net profit figures for the former generation business unit for the financial years of 2011-12, 2012-12 and 2013-14?

**Madam CHAIR:** Mr De Silva, do you accept the question?

**Mr De SILVA:** Yes.

**Madam CHAIR:** The question asked by the member for Wanguri is No 12.2.

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**Ms MANISON:** The other question I had was about your consultants you currently have in place with Territory Generation. Mr Morelli, you are one of them. Are you able to provide for the committee a list of the consultants for Territory Generation you currently have on the books and the value of those consultants?

**Mr De SILVA:** Yes, we will have to take that on notice, but we are prepared to provide that to you.

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**Question on Notice No 12.3**

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

**Ms MANISON:** Can Territory Generation provide a full list of their consultants for this financial year including the amount per consultancy?

**Madam CHAIR:** Mr De Silva, do you accept the question?

**Mr De SILVA:** Yes.

**Madam CHAIR:** The question is No 12.3.

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**Ms MANISON:** The other question I had was with regard to page 12 of the Statement of Corporate Intent. We have been in discussion that you do not have a clear, 100% picture of what your asset base is at the moment, as a new business. That did not come over on 1 July. You did not have that full picture to start your business on day one. But on page 12 of your Statement of Corporate Intent, it states:

*Power and Water Corporation and Territory Generation are currently undertaking a final review of Territory Generation's asset base including the impact of asset disposal and an impairment reversal.*

Can you explain in a bit more detail what this exactly means?

**Mr MORELLI:** Part of the separation process was trying to get an understanding of our assets. As a former business unit of Power and Water Corporation, we, obviously, had some idea of our assets. We had a fixed asset register, there was a range of different reviews PWC had done in relation to its assets. We have been trying to anticipate what the numbers of those asset values we were expecting to come across in the balance sheet might be.

We understand PWC has had a range of values on its assets for different aspects of its business. They have impaired their assets previously because they did not have the income to sustain their asset base. We were of the understanding they were reviewing that impairment they had previously put in their books in the 2010 year, and looking at reversing it. That was our expectation, which may have changed the asset values that were in the form of generation books.

**Ms MANISON:** What leaps out at me of that statement in the SCI however, is the impact of asset disposals. Clearly, one thing we in opposition have been greatly concerned about through this process has been the issue of privatisation of assets and sell-off of assets within Territory Generation. Is this something that Territory Generation is currently looking at as part of this process with disposing your assets by potentially selling them off?

**Mr De SILVA:** I can categorically tell you that there has been no discussion whatsoever in regard to privatisation of any of the assets or any part of the business of Territory Generation.

**Ms MANISON:** Thank you, Mr De Silva. Last year in Power and Water Corporation's Statement of Corporate Intent they projected a return on assets of 3.1% in year 2014-15 and 2015-16. What steps will you need to take to achieve the 8% for 2014-15 and the 6.5% in 2015 set out in your KPIs on page 11 of your SCI?

**Mr De SILVA:** Mr Morelli.

**Mr MORELLI:** In return on assets we are looking actively in our strategic plan on what we can do to improve the efficiency and reliability of our plant. In efficiency, our biggest cost is the cost of gas. We want to make sure we use it efficiently in the whole way we do business. We want to improve the efficiency so we are fit for competition. Competition is coming. We want to deliver a reasonable cost of generating electricity for Territorians. As part of that we have to be efficient. It really comes back to working efficiently on business. Those strategies have been developed in consultation with the workforce to be able to withstand the impact of competition on our business.

**Ms MANISON:** With regard to the capital investment program in your SCI, can you confirm for this financial year your total capital program? Also, what is your repairs and maintenance program for the 2014-15 financial year?

**Mr MORELLI:** Again, we have the figures that were provided by PWC in the interim SCI. There was \$34.7m, of which \$19.7m was major capital works which was greater than \$5m, and minor capital works of less than \$5m of \$15m. That was the original forecast on the PWC.

We are reviewing all of that work. Much of that work relates to the life extension at Channel Island, some work in Tennant Creek for augmentation. In Katherine we have just put a new engine in. The R&M budget for this year as set by PWC was \$18.3m. We expect we will spend less than the \$34.7m this year as we review the program. Again, we are focused on being lean and efficient and we will look at what capital is required to maintain the assets moving forward.

**Ms MANISON:** A reduction in your capital works program for this financial year is what you are anticipating?

**Mr MORELLI:** That is what we expect from what was forecast previously. We are just reviewing the programs and capital works that were there. We are not sure they need to be done in the same way as was planned, and we are looking at how we deliver that in the most cost-effective way.

**Ms MANISON:** When will you have a clear picture about your final capital works and R&M budget for the year once you get through this asset assessment? Is that what you are looking at for the start of next year?

**Mr MORELLI:** That will be part of the SCI. It will be those capital works and repairs and maintenance programs.

**Ms MANISON:** Again, going back to trying to establish and pull out a bit of data with regard to the generation business unit from the previous financial years. Would I be able to obtain the previous three financial years - we are talking about 2011-12, 2012-13, and 2013-14 - the capital works and the R&M budget for the former generation business unit?

**Mr MORELLI:** Again, we can take that on notice and see what we can provide, and work with PWC to see what can be provided in that vein.

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#### Question on Notice No 12.4

**Madam CHAIR:** Member for Wanguri, please restate the question for the record.

**Ms MANISON:** Can Territory Generation please provide the capital works and repairs and maintenance budgets for the former generation business unit for the financial years of 2011—12, 2012-13 and 2013-14?

**Madam CHAIR:** Mr De Silva, do you accept the question?

**Mr De SILVA:** Yes.

**Madam CHAIR:** The question asked by the member for Wanguri is No 12.4.

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**Ms MANISON:** We had a bit of a chat with Power and Water about this, and they did not give me much certainty with their answers in the previous session. I will go back to this point about page 19 where you discuss gas supply. You state in your interim Statement of Corporate Intent:

*Territory Generation has entered an interim gas supply agreement with Power and Water. Future uncertainty over the terms of the gas supply agreement with respect to prices, availability and take or pay obligations and the competitive market is a key risk to business.*

Can you elaborate your concerns with regard to those risks and how they might affect your business, particularly prices you have to charge? I have to say we were not given very much certainty from Power and Water before about how they would work through these matters with you.

**Mr De SILVA:** I will ask our CEO to address you on that.

**Mr DUIGNAN:** Tim Duignan, Chief Executive Officer, Territory Generation. Member for Wanguri, gas supply is one of our key inputs to our business, so it is a critical item. It makes up about 56% of our input costs. As you could imagine, it is something of very keen interest to us in making the business efficient and ready for competition. We have currently an interim gas supply agreement, if you like, which will cover the two years up until 30 June 2016 ...

**Ms MANISON:** So, you have certainty up until that date, to the end of June 2016?

**Mr DUIGNAN:** That is correct. ... so we can price electricity to our retailers for their retail customers. For the future of the gas supply to Territory Generation, we are in negotiations with Power and Water Corporation gas unit for a longer-term gas arrangement. One of the reasons we have put in a two-year interim agreement is to allow us time to make sure we can negotiate a mutually beneficial gas contract for the long term.

**Ms MANISON:** Do you anticipate when you will be able to finalise those negotiations? Clearly, it is very important to secure that gas, especially if you are having to compete with other generators to get that gas?

**Mr DUIGNAN:** We have set a target to try to get a longer-term gas supply agreement within this financial year, by 30 June next year. Because it is a long-term agreement, we do not want to rush the negotiations on that to the extent that we set up a long-term agreement that does not work for either party in the longer term. We have set the target of 30 June in getting ourselves the head room of another 12 months should we need it.

**Ms MANISON:** Is Power and Water the only gas supplier you are speaking to?

**Mr DUIGNAN:** At this stage, yes.

**Ms MANISON:** Would you be open to speaking to other suppliers of gas?

**Mr DUIGNAN:** The issue we have is that currently the Power and Water Corporation is the only gas supplier who can meet our total demand for gas in the Territory. We consume about 20 PJ of gas per annum. As such, they are the only ones in a position to give us the whole-of-business gas deal.

**Ms MANISON:** So, you are going to have to make that work. Interesting discussions ahead.

**Mr De SILVA:** Very much so.

**Ms MANISON:** I wanted to have a discussion with regard to the relationship between Territory Generation and the new Weddell Power Station. With due respect, Mr Duignan, I wanted to clear up and clarify your relationship with that power station first. To clarify, you previously worked on their generation licence application to the Utilities Commission as a consultant?

**Mr DUIGNAN:** Correct. I was the consultant who was working for the consortium for the Northern Power Project in preparation of things like their generation licence and environmental studies.

**Ms MANISON:** Yes, so you worked on that application. Is that something you have declared to the board as a potential conflict of interest?

**Mr DUIGNAN:** I have. I am also, obviously, under very tight confidentiality provisions in my role as a consultant to that consortium. It is my absolute acceptance of those confidentiality provisions with the consortium that had hired me as a consultant.

**Ms MANISON:** Thank you for clarifying that. Going forward, I am keen to find out if there are discussions between Territory Generation and the new Northern Power Group that are putting together this new 60 MW power station at Weddell?

**Mr DUIGNAN:** No.

**Ms MANISON:** So, completely separate and no discussions whatsoever with them?

**Mr DUIGNAN:** None whatsoever.

**Ms MANISON:** So, operating completely independently and not engaged in any discussion?

**Mr DUIGNAN:** No.

**Ms MANISON:** Okay, thank you for clarifying that. I appreciate that, and clarifying your previous role and previous working life before coming on board as the new Chief Executive of Territory Generation.

With regard to a previous written question submitted to the former Power and Water Corporation, we had asked what the staffing figures for the Territory Generation Business Unit were at that time. They returned a figure of 147.8 full-time equivalent staff members in the former Generation Business Unit. Can you please confirm what your FTE figures are as of today?

**Mr De SILVA:** Yes, we currently have 158 employees.

**Ms MANISON:** So, 158.

**Mr De SILVA:** Of those, 154 came across from the Power and Water Corporation.

**Ms MANISON:** Thank you. Another worrying point I saw in your SCI was on page 11 where you state that you are aiming to achieve an operational efficiency capable of competing effectively through negotiation of the EBA. I suppose that leaps out to me as we know you have an enterprising bargaining agreement coming up with your staff.

Previously, the Power and Water Corporation negotiated a very short - I think it was a two-year agreement with the previous EBA. They bowled over those existing conditions before the government made their separation agenda very clear. At the time, we wondered why on earth it was such an easy process, and it all came to light, so to speak.

That would leave a few worrying thoughts in your staff members' minds when you are clearly very keen and put it very publicly that you are looking to drive some new efficiencies through the negotiation of that EBA. When do you expect to have the EBA negotiations commenced and completed, and are you looking to reduce staff or reduce conditions of staff as part of that?

**Mr De SILVA:** We are hoping to drive the EBA independently of Power and Water Corporation. We are waiting for our advice from government on that score. The Commissioner of Public Employment has indicated, as I understand it, contrary to prior EBAs he will leave the negotiations to the GOCs to ...

**Ms MANISON:** Basically, the usual process in the Northern Territory government is that the Office of the Commissioner of Public Employment goes out, works with the unions and negotiates the EBAs through that process. We are looking to start a new process here where you will be negotiating the EBA separately to the Commissioner of Public Employment?

**Mr De SILVA:** In consultation with the commissioner.

**Ms MANISON:** Okay, but separately from the Power and Water Corporation, Territory Generation will have a specific new EBA with conditions to your employees as a new corporation?

**Mr De SILVA:** That is correct.

**Ms MANISON:** Okay, thank you for clarifying that. Can you guarantee there will be no staff cuts as part of that process?

**Mr De SILVA:** We are looking at right sizing the industry at the organisation. On our current projections, we think there will probably be an increase in staff numbers.

**Ms MANISON:** Okay, so no staff cuts there as part of the work you are doing to look at your business at the moment?

**Mr De SILVA:** Correct.

**Ms MANISON:** That is good to hear. Can you also please outline in further detail about your key strategic objective to perform the role of generator of last resort and ancillary service provider, efficiently and effectively under an ancillary services market mechanism. Can you outline exactly what that means?

**Mr De SILVA:** I will ask our CEO to answer that.

**Mr DUIGNAN:** Currently, Territory Generation supplies services in the marketplace for system security, voltage control and frequency control for which we do not actually have a payment mechanism besides bundling that cost of providing those services into the total electricity cost we charge retailers.

Entering a competitive market, we want to compete apples with apples, if you like. We are going to have competitors who are going to bid their generation into the market based on generating electrons for sale to retailers without necessarily provision of those additional services, or the ancillary services, to support the market so the lights effectively stay on.

We are hoping that the market reforms will provide a payment mechanism so we or other generators that enter the market can properly bid for the provision of those services, and if we are the generator that is providing those services, we get paid accordingly.

**Ms MANISON:** Staying along the themes of your key strategic commercial objectives, I wanted to go through a few more of them so you can clarify in a bit more detail what you are doing. With regard to shifting focus toward economic despatch of generation plant and to achieve unit costs of generation which are at the efficiency frontier of generation companies of its size, can you go into a bit further detail of that? What work you are doing?

**Mr DUIGNAN:** We continually benchmark our generation against similar-sized units and corporations throughout Australia and other places around the world with regard to reliability of specific parts of specific units, if you like. We are working to try to increase our efficiency and reliability through knowing where we sit with regard to other corporations and technologies around the world. It is important we measure that and make sure we are covering off, or as good as the world's best standards. Currently, we are not meeting that objective, but we have plans in place to improve our reliability and efficiency going forward.

**Ms MANISON:** Is it more so changing your processes within the power stations with your machines that is going to drive those efficiencies?

**Mr DUIGNAN:** On the efficiency side we are putting a lot of effort into despatch tools - a model where we will understand, firstly, the full costs of each of our units, so we get down to unit level-type budgets and costings so we can then build up our despatch model which we are putting a lot of work into at the moment. So, we have a very comprehensive despatch model. We can build that despatch profile up so we get the most efficient outcome.

**Ms MANISON:** Another objective I want to see if you could give a bit further detail about was:

*... the work to improving the cost-effectivity of wholesale generation prices by accounting for the time and predictability of use.*

Can you talk us through that?

**Mr DUIGNAN:** We are putting a lot of effort into what we are calling a wholesale pricing schedule. We are moving the organisation in preparation for a wholesale market coming into place in the Territory in the near future. We are moving the organisation away from individually pricing customers. We have done a lot of analysis work on getting to a point where we can provide a wholesale price to our retailers, and let retailers then do what retailers do best - innovate to provide pricing to customers that best meets the customer's requirements.

The current arrangement is that generation prices the individual customers, so the larger contestable customers - of which there are about 200 - we individually price at a generation or wholesale level. In doing that, we are limiting the innovation that retailers can show in doing what they do best in pricing their customers.

**Ms MANISON:** Effectively, negotiating directly with the retailers, then they go off and do their business?

**Mr DUIGNAN:** Yes. We will set prices on a portfolio basis. For all their customer base, they will have a peak and off-peak price.

**Ms MANISON:** At present, you do not have a peak and off-peak price?

**Mr DUIGNAN:** We do have a peak and off-peak price. As I said, we would negotiate that, or price that on an individual customer basis, not at a portfolio level for the retailers.

**Ms MANISON:** Another one of your key strategic commercial objectives:

*To work to reduce the business's vulnerability to an excessive level of fixed costs.*

Can you explain in a bit more detail what you are referring to there?

**Mr DUIGNAN:** We are currently exposed to fixed costs in a number of areas, including gas supply with the pipeline costs on the transportation side of that gas, which is a significant component. We are looking at the best ways to manage that particular issue. We are also looking at all our other fixed costs such as insurance and the like to make sure we get the most efficient outcomes on those. We have a very capital-intensive business and insurance policies can be very costly.

**Ms MANISON:** Absolutely. I want to go into the costs around the structural separation that have been incurred by Territory Generation. Clearly, you have had to recruit a new board which is why we have Mr De Silva here today. To clarify, what have the costs around establishing and recruiting a new board been?

**Mr De SILVA:** We are not in a position to answer that question at all. The costs have been incurred by government. I suggest you speak with the Chief Minister's Department on the part of costs.

**Ms MANISON:** Okay. With regard to establishment costs due to the structural separation, do you have any understanding of what it has cost Territory Generation so far? For example, with recruitment of new staff, of re-branding, of advertising, uniforms - all those types of things. Do you have a figure you are spending at Territory Generation you are aware of?

**Mr MORELLI:** A lot of the costs, again, have been incurred by PWC before 1 July, before we started. There would be some costs we would have had post-1 July. We can take it on notice and have a look to see what we can provide, if that is okay?

**Ms MANISON:** Yes, can we put that on notice, Madam Chair?

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#### **Question on Notice No 12.5**

**Madam CHAIR:** Member for Wanguri, please restate the question for the record.

**Ms MANISON:** Could you provide the costs incurred by Territory Generation due to the structural separation and establishment costs of rebranding, advertising and recruitment?

**Madam CHAIR:** Do you accept the question?

**Mr De SILVA:** Yes.

**Madam CHAIR:** The question asked by the member for Wanguri will be No 12.5.

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**Ms MANISON:** With regard to your staffing levels within Territory Generation, clearly, there was a very different structure with the generation business unit in Power and Water prior. When you create a new government-owned corporation, you are going to need a new Chief Executive, as we have here, Chief Financial Officer and so forth. Can you let the committee know how many executive positions has Territory Generation had approved?

**Mr De SILVA:** There are 13 executives.

**Ms MANISON:** So, 13 executives, and they have all had to be freshly recruited?

**Mr De SILVA:** No, no, two have been recruited - our CEO and CFO.

**Ms MANISON:** Would we be able to be provided a list of levels of those executive positions?

**Mr De SILVA:** Yes, I do not see a problem with that.

**Ms MANISON:** Thank you, Mr De Silva.

**Madam CHAIR:** Would that need to be taken on notice, or is that something that you can get now?

**Mr De SILVA:** We can get it.

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**Question on Notice No 12.6**

**Madam CHAIR:** Member for Wanguri, please restate the question for the record.

**Ms MANISON:** Can Territory Generation provide a list of their executive position levels?

**Madam CHAIR:** Mr De Silva, do you accept the question?

**Mr De SILVA:** Yes, we do.

**Madam CHAIR:** The question will be No 12.6.

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**Ms MANISON:** What current shared service arrangements do you have with the Power and Water Corporation?

**Mr De SILVA:** We have a number of shared services through transitional service agreements with PWC. It is intended that we will continue to use these services up to 30 June 2015. Currently, under the TSAs we are provided with finance, economics and regulation, IT support and system administration, risk management, human resources and employee relations, corporate communications, environment, learning and development, procurement, security and emergency, networks metering, (inaudible) and communications.

**Ms MANISON:** Post-June 2015, is it your expectation you will be taking those services in-house? Is that something you are going to try to recreate within Territory Generation?

**Mr De SILVA:** That will be part of our planning processes. We expect to make a decision on that by the end of this calendar year on services we will move forward with.

**Ms MANISON:** Would potential exploring the option of outsourcing some of those services be something you will be looking at as part of your reviews?

**Mr De SILVA:** I will pass that over to Mr Morelli.

**Mr MORELLI:** It is part of our strategic planning process. We will look at the services that are being provided externally and internally. Starting as a former business unit of PWC, we have moved across all those direct employees. As we said, 154 people have moved across from PWC. There may be where you draw that line between what services PWC provides and what we will provide internally. We think we are outsourcing and probably stay with PWC at the moment. We are looking at whether we should provide that internally.

There are some services now that we thought would stay with PWC at 1 July, and they are gradually moving across. There are some financial services that were being performed in the finance team. We have said, 'Can that person better be served working directly in T Gen?' They are fully occupied working on T Gen work. Some of those people have moved across since 30 June and are now working directly for Territory Generation.

We will work through that as part of the strategic planning process - what is core to us we want to do ourselves, what is non-core. PWC is providing the appropriate service and the appropriate cost will continue - and enter into a service level agreement with PWC.

**Ms MANISON:** Is that something you anticipate you will have a full understanding of towards the end of this year, or early next year as well?

**Mr MORELLI:** That is correct. We are looking at that as part of the strategic planning process.

**Ms MANISON:** Thank you. Going back to the issue of system black that occurred in March where we had the major power blackout across Darwin and Katherine, which was a fairly huge event for everybody.



Clearly, there were some issues that also occurred with generation at the time. We have heard a bit from Power and Water Corporation about the work they had to do going into the recommendations of the reports they had commissioned in the catastrophic event.

Clearly, there were some recommendations and some work would need to be done within generation. Can you please outline what work needed to be done, and what work you are still doing to ensure we are doing everything we can to avoid another power failure like that in the Top End again?

**Mr De SILVA:** I will ask Mr Duignan to address you on that. I can say this about that general area. We are actioning everything that has been put in front of us within time on all our action items. Of the 53 action items, we have completed 41. Of the remaining 12 action items, we are awaiting third party Power and Water Corporation input. Otherwise, I will ask our CEO.

**Mr DUIGNAN:** As David has said, we have 12 outstanding items of the 53 actions that were identified for us to resolve. Four of those have been completed - just waiting for action by others to finish them off. Eight outstanding items relate to things that will not immediately stop us responding to a crisis at this point in time.

All the items that would be required to be addressed, that we could rapidly respond to in a system black incident, have been addressed. The things that are outstanding are things like our long-term spares; what we are holding in our spares catalogue to make sure we have the appropriate spares and we are going through a procurement process where required. It is things like that which are still outstanding. As David has stated, we are still well within our allotted time to get all these completed.

**Ms MANISON:** Can you remind the committee of what happened on the day with regard to the faults and the issues that occurred at generation after they had the switching issues within the Power and Water Corporation?

**Mr DUIGNAN:** I was not here at the time, so it is probably a question that should go to Power and Water Corporation to address.

My high level understanding is we had some issues with our black start capabilities at the power stations, and when we went to start those units there were various issues that caused those units not to respond to how they should have. Therefore, although we did not cause the black start incident, it was certainly prolonged by the issues associated with those black start units at Channel Island and Weddell.

**Ms MANISON:** Thank you.

**Mr DUIGNAN:** We have testing regime implement there now to ensure that does not happen again.

**Ms MANISON:** That is good to hear. Basically, with the outstanding recommendations, some of those are ones you are having to work through with Power and Water Corporation to resolve? You are still having to work hand-in-hand with them?

**Mr DUIGNAN:** Absolutely. We work very closely with system control, in particular. They dispatch our plant. We have a very close relationship with system control which will, obviously, continue into the future. We hope to strengthen that, if anything. Yes, we work very closely with that particular part of Power and Water Corporation.

**Ms MANISON:** Thank you. We also saw in September the issues to do with the rolling outages. Clearly, that came down to the fact that you had a problem with gas supply coming in. How much notice did you get that there was going to be an issue on that day?

**Mr DUIGNAN:** There were various notifications of issues that were coming into play. We were notified of that particular event by e-mail at about 6.30 in the morning initially. They had had problems with gas supply, but short duration problems where they were able to reset the equipment on the gas platform to get it running. They had that a couple of times in the run-up to that event. We were notified at about 6.30, 6.40 in the morning of a potential problem.

I put my staff on notice that we needed to watch this very closely and I asked the gas unit which is the intermediary, if you like, for those communications out of Power and Water Corporation to keep me very well informed.

At 11.30 am we had an e-mail from the gas unit that had some commentary from APA, the gas pipeline operator, that indicated we could be in a position by 4 pm that afternoon that we may run out of what is called the iron pack, or the available fuel in the pipeline we would be able to access. Therefore, it signalled an issue for us that we needed to respond very rapidly to.

We took the actions of moving some of our equipment to run on diesel to preserve the amount of fuel in the pipeline. Our actions were on a contingency basis, in that we wanted to preserve the fuel in the pipeline so if the gas pipe did not come back on within a reasonable time, it would not be very deep and long load shedding event in the Darwin/Katherine network.

**Ms MANISON:** Did you end up losing gas supply altogether? You were preparing for the potential for it to cut off at 4 pm. Did it go out altogether or did you still maintain it?

**Mr DUIGNAN:** No, we always had gas supply. We did not run out of gas. We were in contingency mode by running our units, as much as we could get over in a short period of time, on diesel so we could preserve the gas that was in the pipeline - the fuel in the pipeline. If we kept going the way we were, we had been instructed by the pipeline operator that by 4 pm it may have hit that position where we would not have any fuel. It is a fairly complex technical issue, in as far as there is a lot of fuel within the pipeline because it is a very long pipeline. But, if our drawdown rate is very high, it does not have enough time to access the fuel that is in the southern part of the pipeline. It cannot replenish into the north quick enough without the ENI supply into that pipeline. So, by reducing our generation draw on gas, we were able to enable the pipeline to replenish and, therefore, extend the period before we would have no fuel.

**Ms MANISON:** You were effectively prepared for the worst-case scenario of total cut-off of gas supply by running your diesel ...

**Mr DUIGNAN:** We were trying to prevent that from happening. It was very much a contingency operation we did in as far as start our generation on diesel to preserve or reduce the draw on the gas pipeline and, therefore, allow it to replenish from the gas that is stored in the pipeline down south.

**Ms MANISON:** But worst case scenario, if we lost supply of the gas, how long could it be run on the diesel supplies that you had there?

**Mr DUIGNAN:** At Katherine we were holding about 300 000 L of diesel, and at Channel Island we had about 600 000 L available diesel at that point in time. With the units that we would have transferred over, we could have run for about 16 hours on the diesel that was at Channel Island, a little longer at Katherine - probably more like 36 hours in Katherine. Remembering, though, that is without any more fuel coming in ...

**Ms MANISON:** So, basically, no gas and just reliant on your diesel supply?

**Mr DUIGNAN:** On our tanks, yes. But we would extend that available diesel supply by bringing in diesel, and we acted on that very quickly. We had diesel deliveries rolling into both Channel Island and Katherine Power Stations the first thing the next morning. We had 300 000 L delivered across those stations in that period of time. That is part of our contingency to get fuel suppliers to start rolling trucks into our power stations so we can extend that time.

**Ms MANISON:** Absolutely. When did you get the all-clear on the day that the gas supply was back up and running, and you were going to be back in supply and able to generate power the way you wanted?

**Mr DUIGNAN:** The Power and Water Corporation moved very quickly in the gas unit to get some additional supplies out of the southern area. I had Ron Gooden and Owen Springs Power Stations in Alice Springs running on diesel to preserve fuel again. There was plenty of gas to run them, but wanted to preserve it in case this went on for a long time. They had additional gas supplies coming into the bottom end of the pipeline in Alice Springs from the suppliers at that end.

I was asked to start my generation back over onto gas to resolve a couple of technical issues they had in getting the gas into the pipeline at about 10.30 pm that night. I had noticed that the Blacktip field was coming back online, but if there are some technical issues that takes quite a bit of time - a number of hours - before we see the pressure coming up in the main pipeline.

We ran our generation, basically, through the night on diesel until about 8 am the next morning when we got the all-clear from system control to go back over. System control was waiting to see the gas pressures rising to a reasonable level in the pipeline before we took our generation off diesel.

**Ms MANISON:** With your generation equipment, how many of your turbines across the Territory are gas and how many are diesel?

**Mr DUIGNAN:** If we just talk about the Darwin/Katherine region, we have ...

**Mr MORELLI:** Tim, I wonder if you want to go through that presentation paper because that probably explains it quite well, and shows the dual fuel and sole fuel. If you want to turn to the presentations we gave you, it actually has a picture and explains it. Sorry, member for Nelson, I do not know that ...

**Mr WOOD:** With modern technology, I have a copy in front of me.

**Mr DUIGNAN:** Thank you. In the Darwin/Katherine region on page - oh I have no page numbers on here, but there are some photos.

At the Channel Island Power Station we have five frame-six units which are our older gas turbine units. They are all capable of running on both gas and diesel. There is a changeover time to change those units over to run them on diesel. They take about six to eight hours per unit to change them over to run on diesel.

We have two Rolls Royce aero-derivative gas turbines of about 43 MW each, and they will convert over to diesel within an hour. We have to go through a purging process to purge the old fuel out, then start the diesel flow into those units.

The majority of Channel Island Power Station can run on diesel. There is one unit there, the LM6000, which is a 30 MW unit, which I believe is natural gas only.

Weddell Power Station there is 129 MW capacity. Those units are not dual fuel, they are natural gas only.

At the Katherine Power Station we have four units of about 34 MW capacity. All those units are dual fuel and can run on natural gas and diesel.

In Alice Springs, the Ron Gooden Power Station has an open cycle gas turbine of 11 MW that can run on diesel, although we need to make some changes to that to make it capable. It is a very old gas turbine. There are six dual fuel reciprocating engines. They are dual fuel engines that can run straight on diesel almost immediately. Then, there are two black start diesel engines there as well. Again, all of Ron Gooden is capable of running diesel. At Owen Springs, the three new MAN diesels there are all dual fuel capable of running on diesel.

At Tennant Creek we have sufficient diesel capacity to cope with all the load in Tennant Creek should we lose gas supply there. Then, there are a number of stations that are smaller. Yulara Power Station is capable of running the whole or the majority of the station on diesel. There is enough diesel capacity there to meet the load. As I said, at Tennant Creek we have sufficient diesel there to meet the load in Tennant Creek should we lose gas. Kings Canyon is a diesel plant and a number of the smaller centres' power stations are capable are running on diesel as well.

**Ms MANISON:** Thank you. A question that has come up in previous debates before is former generation business unit, now Territory Generation's capacity of how much power you can actually with regard to demand? Do you have any figures on that? We have been told in some cases there is enough generation that Territory Generation would be well and truly capable of supplying the amount of power that is needed in the Northern Territory for many years to come. Do you have any data that you can provide to us with regard to your current demands for power, what your generation capacity is, and the forecast in future years?

**Mr De SILVA:** Sure. Mr Duignan.

**Mr DUIGNAN:** In the Darwin/Katherine region, the maximum demand that has been set previously I believe is about 293 MW.

**Ms MANISON:** So that is an absolute peak?

**Mr DUIGNAN:** That is an absolute peak.

**Ms MANISON:** Everyone has their air conditions on and their fridges open?

**Mr DUIGNAN:** Correct. In the Darwin/Katherine network we have 310 MW of generation at Channel Island, 127 MW at Weddell and 34.5 MW at Katherine.

**Ms MANISON:** Can you just go over those figures again, sorry?

**Mr DUIGNAN:** We have 310 MW in Channel Island, 127 MW in Weddell and 34.5 MW in Katherine.

**Ms MANISON:** So that 293 MW is for demand in Darwin and Katherine, the Top End section?

**Mr DUIGNAN:** Yes, that was the peak demand in the Darwin/Katherine network.

**Ms MANISON:** Absolute peak. Do you have any figures around Alice Springs and Central Australia as well?

**Mr DUIGNAN:** I do. The generation capacity there is 44.6 MW of capacity at Ron Gooden Power Station and 36 MW at capacity at the Owen Springs Power Station. We also have an agreement with an independent power producer at Brewer, capable of producing about 8 MW of supply to us.

I should correct the Darwin/Katherine network as well. We have a power purchase agreement with EDL at Pine Creek which generates about 27 MW.

**Ms MANISON:** And the peak demand in Alice Springs?

**Mr DUIGNAN:** Do you mind if I could consult with my people. The peak demand is 57 MW.

**Ms MANISON:** Have you done any forecasting towards future growth of demand so we can get some figures on what you are anticipating your (inaudible) boards. Clearly, the former generation business unit did some forecasting, and government made investment accordingly to ensure there was adequate generation supply into the future. Are you able to provide us with future forecast peak demand for power supply in the Northern Territory?

**Mr DUIGNAN:** There are numbers that we utilise that are generated from power networks that cover the growth they are seeing in people's applications and the like in the network business across the regions. We utilise those numbers in the majority of our planning. The numbers we are seeing out of that is about 0.7% growth for the Darwin/Katherine network at this point in time.

**Ms MANISON:** That is per year?

**Mr DUIGNAN:** That is per annum, yes.

**Ms MANISON:** What about Central Australia?

**Mr DUIGNAN:** Central Australia is 0.35%, and the Tennant Creek region is 0.0% at this point in time.

**Ms MANISON:** Thank you for that. My last question is regarding Territory Generation's discussions and relationships with other retailers. Clearly, your key business now is generating the power and selling it. Aside from Power and Water Corporation, are you in discussion with other retailers in the Territory about trying to work with them to sell your power?

**Mr De SILVA:** Yes, we are. I will let you know who they are. There are five licensed retailers in the Northern Territory: Power and Water Corporation Retail, Jacana Energy, Q Energy, ERM Power and Rimfire Energy.

**Ms MANISON:** Have you finalised any of those agreements with any of those providers?

**Mr De SILVA:** We are in the process of introducing wholesale pricing, as Tim has previously informed you. We have interim agreements with them.

**Mr DUIGNAN:** We currently have agreements with all those retailers to provide them pricing based on the existing methodology of pricing on an individual customer basis for the contestables, with Jacana providing pricing for generation for the households and small business and the like.

Yes, we have agreements in place currently with all the registered retailers in the Northern Territory. We treat all the retailers in the same manner in the provision of pricing.

**Ms MANISON:** Can you provide us with any details about how much power you are selling to each retailer, and what agreements you have in place?

**Mr De SILVA:** That is probably subject to commercial confidentiality with the retailer.

**Ms MANISON:** Is that something I could put on notice for now, and if that is the response you come back - it is detail I am keen to delve into to get an understanding of ...

**Mr De SILVA:** I am not trying to hold anything back but I suspect, from a legal perspective, it is subject to commercial confidentiality.

**Ms MANISON:** I appreciate that, Mr De Silva. You definitely have a better legal brain than me. Can we put that on the record?

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#### Question on Notice No 12.7

**Madam CHAIR:** Please restate the question for the record.

**Ms MANISON:** Can Territory Generation provide the total amount of power they have negotiated to provide to the five different individual retailers?

**Madam CHAIR:** And you accept the question, Mr De Silva?

**Mr De SILVA:** I accept the question.

**Madam CHAIR:** The question asked by the member for Wanguri will be No 12.7.

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**Ms MANISON:** Member for Nelson.

**Mr WOOD:** I am still alive, yes. Thanks, member for Wanguri.

Mr De Silva, I have a few questions. When the government introduced the concept of breaking up Power and Water into the three GOCs, one of the things the then Treasurer said a number of times was it was to create efficiencies. Am I right to say that you are limited, to some extent, on how efficient you can be? You are either going to pay people less or have fewer people working for you, or you can get a better price on gas? I do not know what else you can do. How can you become more efficient in comparison with Northern Power? It will bring in the latest generating equipment. You have to live with older generation equipment, which is probably less efficient because of the design. Where do you see you being competitive with a company like Northern Power?

**Mr De SILVA:** Thank you, member for Nelson. I ask our CEO to address that question.

**Mr DUIGNAN:** Member for Nelson, efficiency comes in a number of forms and you have mentioned a number of them. One of the key focuses of the organisation is the efficiency of our plant. Yes, you are correct that our plant is ageing, although we have some new plant which will match it with the latest technologies that could come in from competitors. A big focus of our business will be to look at the efficiency of our plant and lift it to the highest possible level and to make sure we despatch that plant on the best possible configuration to ensure we get the highest efficiency out of our plant. With gas prices being 56% of our input costs, it is the thing that will make one of the largest differences in our business.

**Mr WOOD:** What does the term you use in your Statement of Corporate Intent 'despatch' mean in your particular circumstances?

**Mr DUIGNAN:** In the Darwin/Katherine region, we have close to 10 units. Those units all have varying efficiency capabilities. Some of them in the older plant are not as good as some of the new state-of-the-art aero-derivative turbines we have. When we refer to despatch, it is despatching each of those units in an order from the most efficient plants through to our least efficient as we meet the demand in the network.

**Mr WOOD:** Is a generator that is both capable of using diesel and gas a less efficient generator than one that does not? The reason I raise that, of course, is you have three at Weddell that are only gas-fired, but Northern Power, I presume, will not be going down the path of having dual energy generators?

**Mr DUIGNAN:** I imagine that will be the case, yes. The dual fuel can have two disadvantages, one being it can have a reliability issue with regard to the equipment because you have equipment that is not running on a single fuel base and it has to have the additional complexities around being able to swap between the two fuel sources.

In the case of Alice Springs, our units burn a percentage of diesel to actually ignite the gas. At Ron Gooden, we have to burn a reasonable percentage of diesel in order to ignite the gas in that technology.

**Mr WOOD:** On the diesel side, you mentioned there was a large quantity of diesel stored at Channel Island and Katherine. My understanding is diesel has a life. If you do not use it, it will go off, if I could put it that way. Was that an issue during the blackout, that some of the diesel may have been old and not of good enough quality to use?

**Mr DUIGNAN:** You refer to the system black of March?

**Mr WOOD:** Yes, when you had to use diesel.

**Mr DUIGNAN:** That is not my understanding. There has always been a good process within the Power and Water Corporation, and now with us with Territory Generation, in cycling that fuel. We buy fuel into Channel Island, for instance, then we will transport that fuel to the other centres where they use a lot more diesel, so the fuel does not go off. In the cases where we are getting a little concerned about the age of the diesel, we can filter it and treat that diesel. We tend to turn that diesel over once or twice a year so we do not have that issue.

**Mr WOOD:** If you have another problem with the gas flow, and Northern Power is operating, is there any agreement on who has priority receiving the gas in cases where there is a shortage?

**Mr DUIGNAN:** We are not privy to what conditions they have, or may or may not have with the Northern Power project. The underlying philosophy should be if we are in an issue of gas supply, system control will despatch the most efficient plant so we get the biggest bang for the use of that gas.

**Mr WOOD:** All right. A We have realised now that Power and Water is the gas supplier to you and other generators. One of the issues I had before was if Northern Power comes into production and they take some of your retail commercial market, you will have a less need for that amount of gas.

In this case, you will be setting yourself up for a contract in 2016 with Power and Water. Will it be a case that if another customer comes in and takes some of the market from you, you will not need to use all the gas that you contract for? Will you still have a use it or pay for it philosophy or requirement?

**Mr DUIGNAN:** Yes, these are some of the issues we will have and why we need a bit of time to negotiate the long-term arrangements with Power and Water gas unit. If we go blindly into this, we could end up with a large take or pay issue where we are no longer needing to run our generation as much because of the competition which has come in. That would be a short-term issue, but all the same an issue we hope we can address contractually, knowing the Northern Territory is open for competition in the electricity industry.

**Mr WOOD:** If you can get around having to pay for gas you have not used, would that allow opportunities like bringing renewables into the market. The particular renewable company I am talking about is Tennex Energy. You might have heard about the possibility of tidal turbines in the Clarence Strait.

I was looking at something similar in Northern Ireland recently. I saw the restrictions on going down that path, simply because why would you take on renewable power if you are going to have a loss of excess gas you still had to pay for, but could not use. Do you look at the possibilities of trying to add renewables into the system if a player comes in and says, 'We can do it'?

**Mr DUIGNAN:** Absolutely. If it is a commercially sensible thing for us to do, we will look at it. You are correct, it goes to the philosophies underlying the negotiation we will have with Power and Water Corporation gas unit in either making that contract flexible enough so we can accommodate new technologies into the market, or alternatively giving us the ability to manage any take or pay overhang we may end up with.

**Mr WOOD:** Have you had any negotiations with any renewable companies?

**Mr DUIGNAN:** We have some solar generation in our portfolio at this point of time. The Uterne solar field in Alice Springs is currently 1 MW and rising to 4 MW. We have a power purchase agreement with that facility for the output from them. We also have our own solar field in Kings Canyon, which reduces the amount of diesel we burn in Kings Canyon. When we put that in, it was the largest solar plant in Australia. It is 217 KW.

**Mr WOOD:** In the case of Channel Island, you have one steam turbine. Is that correct?

**Mr DUIGNAN:** That is correct, yes.

**Mr WOOD:** What produces the steam?

**Mr DUIGNAN:** The steam for that is produced by two of the frame six gas turbines at Channel Island, Units 4 and 5, which feed into heat recovery steam generation boilers to create the steam that powers that turbine.

**Mr WOOD:** What efficiency is that? I gather that Northern Power, from what I have heard, will get about a 60% efficiency in reusing heat from their generators.

**Mr DUIGNAN:** That might be a number that is right at the top end. We are getting close to the 40% efficiency out of that combined cycle block at Channel Island. It is a very flexible combined cycle block, in my experience. Usually, if you lose one of the gas turbines you lose the steam unit. The combined cycle block at Channel Island has been very well set up, in as far as we can use half the steam unit if we only have one gas turbine on for whatever reason. We are able to maintain our efficiencies for a longer period of time.

**Mr WOOD:** Thank you. One plant not mentioned here is the emergency plant at Berrimah near the golf range. Is that still a functioning power station?

**Mr DUIGNAN:** That power station is not part of our portfolio. I understand it has been decommissioned or is in the process of being decommissioned.

**Mr WOOD:** You do not know. I will have to ask the government what the story is on that, I imagine.

**Mr DUIGNAN:** Yes, that is correct. It is not part of our portfolio.

**Mr WOOD:** You mentioned before that you have to pay for voltage control services. Is that correct? That is part of your area you have to pay for?

**Mr DUIGNAN:** Yes, the services that are traditionally named ancillary services, which are the things like spinning reserve which lead into frequency control-type services. Voltage control in the network and the like - is what makes up ancillary services.

**Mr WOOD:** Is that voltage control also related to feedback from solar panels on roofs?

**Mr DUIGNAN:** Generally that is more an issue for networks.

**Mr WOOD:** Okay. Who else would put up their hand for voltage control services? You said there is a possibility of other people taking on that service.

**Mr DUIGNAN:** Northern Power if they come into the market. I understand it it may be a tender-type arrangement that goes out for pricing those services in the future under a market environment. So anyone who has generation, and where that generation is capable of delivering those services could bid for those services.

**Mr WOOD:** The other issue I was concerned about in relation to the new competition was how you cost in the fact of replacement generators. Northern Power comes in with brand spanking new generators, you have replacement costs at some time. Does that make it harder to be efficient if you have those outstanding capital costs you must face in the future?

**Mr DUIGAN:** Part of doing business in the generation industry is to renew your plant as it reaches the end of its useable or commercial life. We will have capital expenditure programs where we will look at renewing our plant when we analyse that that equipment has reached the end of its usable life, and new technology and more efficient plant becomes a necessity, or a commercial imperative, to put in.

**Mr WOOD:** I will go back to one question I forgot about with diesel. Power and Water supply gas to you. Do they supply the diesel or is that a direct sale from diesel companies?

**Mr DUIGAN:** Around or just before 1 July and the separation happened with Power and Water Corporation, Power and Water Corporation put out for tender for the supply of diesel. That was an open tender process through the normal Northern Territory government procurement process. The winner of that contract was Puma Fuel.

When the separation happened that contract was being finalised, through July and August of this year. We took the old generation unit component of that and took up that contract as Territory Generation for our component. That one contract is being split to service both ourselves and Power and Water Corporation.

**Mr WOOD:** Technically, can you as, theoretically, a private company negotiate with any directly?

**Mr MORELLI:** On the diesel fuel side, yes absolutely.

**Mr WOOD:** No, on gas. Do you have to go through PWC? If you can buy diesel directly from the supplier could you theoretically buy gas directly from any?

**Mr DUIGAN:** Theoretically we could buy gas from other suppliers.

**Mr WOOD:** Okay. You mentioned the one wholesale price. Will that one wholesale price cover the Jacana, PWC, Q Energy, GRM and Rimfire so there will just be one wholesale price, and they have to sort out the differences themselves?

**Mr DUIGAN:** That is the intention.

**Mr WOOD:** Okay. This is my last question. On page 11 under the commercial sustainability, you have the table of key performance indicators. You said:

*These targets are to be reviewed in the process of due diligence and are, therefore, subject to modification. As they stand they are not sustainable.*

Could you explain what you mean by not sustainable?

**Mr MORELLI:** The gearing ratio is what we were referring to there. The level of debt at 80%, the gearing ratio of 80%, we did not believe was sustainable for a commercially-focused generator. We would be looking at that level of debt. It was an initial debt allocation with preliminary numbers that were put together for the generation business. We would be looking at what is the appropriate level of debt once we have financial separation and a starting balance sheet.

**Mr WOOD:** If you were comparing yourself with other similar corporations or generating companies, what would you expect that percentage to be?

**Mr MORELLI:** We would expect it to be 40% to 50%.

**Mr WOOD:** Do you have any idea how long before you could bring it down to that?

**Mr MORELLI:** It depends on if it stays at that level. There is an allocation of PWCs T Corp notes that they allocated on a notional basis to Territory Generation. That is part of getting our opening balance sheet and being able to do our final SCI. We will get a level of debt set for us. When they were doing these initial numbers for the SCI, they notionally allocated an amount of debt. We are saying that debt is probably not sustainable at that level for a business, and we would be looking at talk to the government about how they allocate PWC's debt between ourselves and them, and what is the appropriate level in each business.

**Mr WOOD:** Okay. That is all the questions I had, thank you, Madam Chair.



**Madam CHAIR:** Thank you. That concludes this session. On behalf of the committee, I thank you very much for appearing before the committee today. The committee will consider Jacana Energy at 12.10 pm. Thank you very much for your time.

**Mr De SILVA:** Thank you.

**Mr MORELLI:** Thank you.

**Madam CHAIR:** Gerry, we will hook you back up visually by 12.10 pm.

**Mr WOOD:** All right. I have to leave at 1.20 pm. If you just see a blank wall there - I know it will not be much different from my face - I will not be here after 1.20 pm.

**Madam CHAIR:** No problem. Bye.

## **JACANA ENERGY**

**Madam CHAIR:** For the benefit of Hansard, we have the full contingent of the GOC Committee including Mr Wood in Alice Springs via video link.

I welcome the Chair of the Jacana Energy Board, Mr Noel Faulkner. Please introduce the representatives of the corporation accompanying you today.

**Mr FAULKNER:** Madam Chair, I have Stuart Pearce, the CEO of Jacana Energy on my left, and Fernanda Camara, who is our Chief Financial Officer.

**Madam CHAIR:** Thank you. Mr Faulkner, would you like to make an opening statement of behalf of Jacana Energy?

**Mr FAULKNER:** I have a presentation that has been tabled, Madam Chair, I would like to work through in conjunction with Stuart, if that is okay?

**Madam CHAIR:** Yes. Is that in the form of an opening statement, or would you like to do that, then we can ...

**Mr FAULKNER:** In the form of an opening statement, yes. It may very well cover off some of the issues the committee might want to raise. We might be able to nip some of them in the bud up-front.

A bit of an introduction first. We have a board of three, of which I am the Chair. The other two board members are Caryle Demarte and Clare Milikins – a wealth of experience in those particular individuals in the retail sector. The first and the second pages of the presentation gives you a bit of a background about me. In round terms, I have seven years in Urban Utilities, seven years in local government, and about 28 or 30 years in electricity utilities, both in Queensland and Victoria. I am Chief Executive Officer of a number of utilities - three electricity utilities and one distribution retailer in the water sector.

Stuart.

**Mr PEARCE:** Stuart Pearce. I have eight years in a variety of roles across the retail business, most recently as General Manager of Retail Strategy, where I was responsible for pricing products, our solar business, our smart metering business, our Smart Grid, Smart City project, and approximately 11 years as a consultant to retail electricity sector across Australia and New Zealand, Southeast Asia, and most recently Japan.

**Mr FAULKNER:** And Fernanda our CFO.

**Ms CAMARA:** Hi. Fernanda Camara. I have nearly 15 years' experience in total in Darwin and New Zealand in financial reporting, management reporting, advisory reporting, modelling, and consulting both within the energy sector and the NT Public Sector, as well as the (inaudible) sectors.

**Mr FAULKNER:** Thank you, Fernanda. The next slide is an overview of the electricity supply chain that exists in the Territory at the moment. It is a structure that has probably been in place in most of the other mainland states in Australia at some time. We have the generation, which is currently Territory Generation which, obviously, looks after the generation of electricity.

The poles and wire business is managed by the PWC. In this jurisdiction, it is transmission, distribution and sub-transmission. In some jurisdictions, it is actually a separate entity that manages transmission as opposed to distribution. There is the retailer, of course. It gives you a bit of an idea where Jacana fits in the overall electricity supply chain.

Are people familiar with that, or are there any questions you would like to ask in relation to it?

We are very much the end of the chain. The next slide gives you a bit of idea of the cost build-up of customers' electricity. You can see that generation accounts for approximately 60% of the cost, the network business, PWC, is 38% of the cost, and retail business 2% of the cost. Those numbers will vary across different jurisdictions, but typically retail is around that 2% or 3% mark, split between network and generation. It is a little different in Territory compared to some other states.

What does retail do? I will go through the retail functions quickly. It is really all about the customer interface. What we are about is facilitating the seamless delivery of energy and energy-related services to the end-user customer. I guess one of the elements of Jacana as a retailer, which is different from other GOCs in the Territory, is the competitive environment which operates here. The whole market in the Territory is open for competition in the retail sector at the moment. When we get down the track in some information you might require, we may have to provide that on commercial-in-confidence basis because I am mindful that this is a public committee. Some of our competitors may be (inaudible).

Quickly, the retail functions are wholesale purchasing, in this case T Gen and any other generators which may enter the market in the future; sales and marketing which is absolutely critical, of course, in a competitive environment and the whole concept of defining our brand and brand development; communicating with customers just what retail that does that and what the benefits are to them in the separation from PWC in this case; obviously, new connections to supply; meter data management; billing which is fundamentally the function of the retailer; and collection of payments processes and associated with that; retail products - I am not too sure how much work has been done in that space historically by PWC, but that is all about developing some additional products and services which can add value for the end-user consumer; obviously, regulatory compliance and purchase of some ranks of renewable energy certificates. The government-owned retailer is, obviously, the retailer of last resort, so if we have some customers and no other retailer wants to deal with them, then under the legislation Jacana is obliged to connect them as a customer.

The next slide deals with what we see as the value added by the retailer and Stuart is going to take us through that.

**Mr PEARCE:** Thank you very much, Noel. Probably one of the first things we do to add value to customers is the energy industry, particularly when it is disaggregated into separate entities, can be quite complex in the early stages for customers. So the value we add to it is being the first point of contact for customers when they may have a query or question around their electricity or their energy-related matters.

The second key way in which we add value to customers is through helping them solve their energy problems. That could be large industrial and commercial customers, small business customers or residential customers. Sometimes it might be providing advice on billing, advising them on what the best product is to meet their needs or advising them on specific challenges they have.

Designing and delivering a customer-friendly experience. We want to make engaging with Jacana Energy as seamless as possible and as customer-friendly as possible. Sometimes, utilities do not necessarily design their processes like that, but as a retail business customer service and seamless service provisions is a critical part of what we do.

As Noel mentioned, develop and market retail energy products to meet our customer needs. Where we think we can add value to the relationship, we look at developing the products and services.

We provide account management services for our large customers, timely and accurate billing, a range of convenient payment channels and plans. We have a broad range available to our customers. Similarly customer service challenges including the call centre, shop fronts, online and web presence.

Lastly, the customer advocate. For us, it is all about managing relationship with the customer and being the advocate for the customer and their needs. It is a competitive market and if we are not responsive to customer needs, then frankly we are not delivering on what we should be doing.

**Mr FAULKNER:** The same with (inaudible) statement, taking the customer's problems to the distributors - in this case PWC. (inaudible) we have a situation we take them on board (inaudible) major customers concern ... Thank you very much.

We have taken on board a major customer's concern and have gone with them to the relevant person in PWC to help them with their concern

Some of the issues for Jacana. I mentioned operating in a competitive market and I have already stressed the confidentiality of much of the information. We have only been operating for three months. We went live on 1 July. We probably had a somewhat different situation to T Gen in that we had four staff members on 1 July who were under a secondment arrangement with us from PWC.

What we are finding is the brand and the role of the retailers is not clearly understood, and that is not unusual in this situation where we have structural separation like this. One of the key issues we need to deal with in the near future is to better explain to our (inaudible) customers just what Jacana is all about and start developing our brand and market (inaudible).

It is a thin margin business, so cash flows and management of cash flows, and managing (inaudible) is absolutely critical to the business, as is driving the cost of service. There is key metric that is used by retail businesses which is called cost serve. That is based on the operating cost per customer. In driving efficiencies, the whole intent is to drive that as low as possible, consistent with providing (inaudible) service.

The pie chart earlier showed the high proportion of generating network cost in the customer bills. Of course, the pricing order, the government sets prices for customers who are covered by the pricing order.

Another key issue for us is a lot of our services, initially at least, are going to be provided by PWC under a transitional service arrangement. Another key issue is the fact that we are coming to believe the CSA as provided by the state government probably are not clearly understood within the industry. There is a parcel of work to be done in getting to the bottom of that, and finding out the appropriate levels of CSAs.

Current progress. I mentioned we went live with only a few staff who had been seconded from PWC. If I could, I take the opportunity to acknowledge not only those PWC staff who helped us in the initial phases. My observation of the PWC staff in general who were involved in actually establishing the transition to the new entity is they did an absolutely fantastic job. The whole process was undertaken on a relatively slim budget. The number I am aware of is about \$2.8m, a minor amount compared to some the other amounts that been spent on structural separations. The PWC staff we were involved with, actually undertook the transition work-related activities in conjunction with their day-to-day jobs, so they did an absolutely fantastic job.

We started on 1 July. We had a board of directors of three, and we had three or four staff from PWC. We have developed the corporation's constitution, the board and committee charters, the Code of Conduct. This is all about putting in place appropriate governance arrangements within the organisation. We finalised our legal due diligence. We have not been able finalise our financial due diligence. At this stage, we are still waiting on PWC for financial separation of the entities. It was originally proposed that that would be completed by 1 July. They latest we have from PWC on that is at the end of January next year. We had a briefing from PWC at our board meeting yesterday, which gave us some comfort in the progress they are now making on that project and the target in January.

I thought it was worthwhile mentioning the enhanced service we are now providing through our Contact Centre. The fact that there is now a separate retail service focusing on customer service and customer experience, the first thing you notice when we came into being in July was a grade of service being (inaudible) by the Contact Centre. There are probably three measures you can use to measure Contact Centre performance. One is called GOS, which is grade of service, and the other one is AHT, average handling time, and the third one is (inaudible).

The grade of service you have probably seen from the Statement of Corporate Intent. It is now running at 67%, up from a figure we were provided at the time of about 25%. The percentage of calls where the caller hangs up because the phone is not being answered has dropped from around 20% to 3%. That is a bit of an indication of what can happen when you have a separate entity focus purely on the customers.

We have managed to appoint a CEO and most of our executive management team. We are currently also still negotiating those transitional services level of agreements with PWC. We have a final draft of those

agreements that are just about to be signed off. At the same time, we have been mindful that some of our major customers' contracts are rolling over, and we managed to retain most of those large key accounts.

We have identified some accommodation for the new business, and we have been involved in some negotiations of alternative generators in the Territory. They are negotiations are comparative on go live. The actual negotiations - and I am talking about Northern Power here - have been going on for probably 12 months longer before the legal separation of PWC ...

**Madam CHAIR:** Sorry, Mr Faulkner, to interrupt you. Can you just move your microphone a little closer. Hansard is struggling a little to hear you. Thank you.

**Mr FAULKNER:** In going forward, I will hand over to Stuart to speak to this lot.

**Mr PEARCE:** Thanks very much, Noel. This week, we kicked off our strategic planning process with a strategy day with our board and our team. We will be following that up fairly soon with our operational planning and functional planning across the different parts of the business. We are hoping in the next few months we will be quite a way down the track of having a more clear strategic plan, business plan and associated financials to support that.

The key outcome of that was reiteration of this developing strong customer focus. Key planning for us going forward is to develop that as a key part of our brand. In improving the level and consistency of service delivery, Noel mentioned some of the metrics we have been able to achieve in a fairly short period of time. They key thing in retailing is to be able to deliver that level of service consistently, so customers are getting the level of service they expect and deserve from their energy retailer.

There is a strong focus on efficiency. Energy retailing really is a slim margin business, and efficiency is one of the key pillars you need to focus your business model on. We will be developing a plan to improve the customer experience and our key business processes. In any restructure or separation, parts of processes come apart and they do not always come apart neatly. Part of the process moving forward is to make sure those key customer-facing processes in particular are smooth, responsibilities are clear and they are delivering the outcomes they should be.

Understanding and leveraging new technology where appropriate. There has been tremendous progress in technology and how it can be used in an energy retail setting. Costs are becoming more competitive in a lot of cases. Having a view of how we can leverage technology to deliver better products and services to our customers going forward is a key part of our focus.

Value added advice on energy usage and tips. Energy use is a bit issue across all markets and a key role for energy retailers. A key role they can play is leading the discussion of usage and how, as a consumer, you can manage your usage more effectively to achieve a better outcome.

We are very keen on developing strong community and industry relationships because we are very dependent on other parties for the quality of the service we provide.

Finalising our financial due diligence is a key focus of our organisation. Finalising use of system agreement with the Power and Water Corporation, a customer charter and contract and the power purchase agreement with Territory Generation are key areas that we are focused on at the moment to make sure we get our business model right.

I will pass back to Noel now.

**Mr FAULKNER:** In closing, I just reiterate the fact that (inaudible)

Thanks very much, Fernanda.

Once again, we will be able to share with you information to the extent that it is not commercial-in-confidence to the point where it could damage our competitive position. I understand there is a process where we can table information at a later date to ensure it remains confidential. By the time we get to the next recruitment, which is not that far away now, we will be in a position to share more information with you on the progress we have made over that intervening period.

**Madam CHAIR:** Thank you. Are there any questions on the opening statement?

**Ms MANISON:** Madam Chair, reiterating, like Territory Generation, the other new government-owned corporation, you have been unable to get a full understanding of your financial position because Power and Water Corporation and Jacana Energy is still working through that process. Is that correct?

**Mr FAULKNER:** That is correct, yes. The information that is in the SCI was the information that was put together in the early stages based on a split between the three entities that is undertaken by the PWC. Not being critical of PWC, because at the time they were dealing with their end-of-year accounts on top of everything else with the transition, but that information we have in the SCI has already proven to be not very accurate at all, so we cannot place much emphasis on that in analysing our financial position to date. We desperately need financial separation and an opening balance sheet. Once we get that information we will reforecast our financials going forward.

**Ms MANISON:** With regard to your asset base, I image it is not asset intense as Territory Generation was. Have you been able to get a full picture of that as well?

**Mr FAULKNER:** That is correct. We have virtually no assets at all apart from cash, so it is not an issue for us. The issue for us is the financial separation of the (inaudible).

**Ms MANISON:** You are anticipating that you are going to be able to get that full financial information by the start of next year?

**Mr FAULKNER:** By the end of January is the latest figures provided by PWC.

**Ms MANISON:** When would you expect to have your final Statement of Corporate Intent handed over to the government?

**Mr FAULKNER:** Very shortly after that. But that would almost be getting to the stage where we have to lodge the financial Statement of Corporate Intent for the following year. It really depends on, while the program is anticipating go live, it is an interface that going to provide this financial separation on the end of January.

If there are no teething problems, then it will be very shortly after that that we will be able to revise our forward financials and we would be looking (inaudible) path for our financials. But if there are teething problems, and in a lot of IT system changes there are teething problems, it could be some time after that.

**Ms MANISON:** Thank you for that. You also mentioned in your opening statement that since commencing business and opening the doors on 1 July, there have been some contracts that have come up for negotiation again with your customers. You mentioned that you have been able to retain most of those customers. Looking at your SCI, you have 78 contracted customers which equate for about 34% of your revenue. So they are a huge slice in comparison to the bulk of your customers on pricing orders which is in the vicinity of about 90 000 which equate to about 66% of your business. So losing just a few of those customers takes a couple of percentages out of your revenue. Can you tell us how many customers you have lost so far?

**Mr FAULKNER:** That is information I prefer to table if I could. That is commercial-in-confidence and we do not want to make that information publicly available to other retailers who might be listening in.

**Ms MANISON:** Madam Chair, is there a process?

**Madam CHAIR:** (inaudible)

**Ms MANISON:** In-camera? That is fine.

**Madam CHAIR:** I would like to move a resolution that the Government Owned Corporation Scrutiny Committee resolve that the document Mr Faulkner is about to table will be deemed confidential. Is there a seconder. Natasha? Thank you.

**Ms MANISON:** Thank you for that, Mr Faulkner.

**Mr FAULKNER:** I was just going to add the comment that it is not only the customers you lose but the profitability of those customers. Sometime in the retail competitive market, you will thank your lucky stars if another retailer comes and takes a customer who has been in a loss-making position for you. One of the

things we want to do in going forward is not just retain customers for the sake of retaining customers, but make sure we make a margin out of those customers.

**Ms MANISON:** Okay. Another issue you raised in your opening statement was discussing that you had secured some new key accommodation. Could you take us through what accommodation Jacana has secured?

**Mr FAULKNER:** We are in the process of securing some accommodation. We have not finalised the negotiations at this stage, so I do not know if it would be appropriate to mention the location. But it is relatively small in the physical area. It is half a floor in an office building.

**Ms MANISON:** Basically, you will be relocating to your own separate location altogether?

**Mr FAULKNER:** That is correct.

**Mr PEARCE:** We will, that is correct. It is subject to a business case and is cost-effective and operationally a lot more effective for us as well.

**Ms MANISON:** Thank you.

**Mr FAULKNER:** The preliminary numbers will run is actually a lower cost to us than renting from PWC in the current location. We also have issues of access to conference rooms and boardrooms ...

**Madam CHAIR:** Sorry to interrupt. Mr Faulkner, are you going to table that document now or is it something you are providing ...

**Mr FAULKNER:** I am not too sure I have the actual document that provides for the (unknown) ...

**Madam CHAIR:** Did you want to make changes to it?

**Mr PEARCE:** We will do it perhaps at the end because there might be more documents that are commercial-in-confidence and you can get them all at the same time.

**Madam CHAIR:** Okay. I was not sure if we were going to need to take it on notice or whether it could be provided today.

**Mr PEARCE:** It can be provided today.

**Mr FAULKNER:** I will just check to see if we have it. We have a document that give us the customer churn since competition was introduced, not since 1 July. Is it the former or the latter you are after?

**Ms MANISON:** Any lost customers you have had. I would be expecting that would be, yes, since competition was introduced.

**Mr FAULKNER:** Okay. We have that and we can table it now if you wish.

**Madam CHAIR:** That will remain confidential. Thank you.

**Ms MANISON:** Another question to the opening statement. You mentioned you have been in discussions with Northern Power which will be looking to build the power station at Weddell, as the generator, for some 12 months. Are you in discussions with any other companies about purchasing power?

**Mr FAULKNER:** That is probably another question that is commercial-in-confidence.

**Ms MANISON:** But there are negotiations out there broader than ...

**Mr FAULKNER:** I would prefer not to flag that in public.

**Ms MANISON:** Okay. I might come back to it then. That is fine with me in terms of the opening statement before we go into the rest of the SCI.

**Madam CHAIR:** Are there any other questions?

**Mr WOOD:** I am okay.

### **Statement of Corporate Intent**

**Madam CHAIR:** The committee will now consider questions relating to Jacana Energy's 2014-15 Statement of Corporate Intent. Are there any questions?

**Ms MANISON:** Madam Chair, going into this, first of all I would like to touch on revenue for Jacana Energy. Going to Page 15 of your SCI and looking at your total revenue you have forecast and have budgeted for this year. We know there has been a 25% increase in power so far in the Territory. We know there is a 5% increase to power that is coming in place on 1 January next year. Has that increase been factored into your revenue projections in this SCI?

**Mr FAULKNER:** The revenue projections were put in place in the early stages before we had any staff on board to do any analysis of those figures. What I can say is the actual revenue to date is falling below those figures. We have not yet been able to undertake any analysis to indicate the cause for that. Fernanda might want to comment on that further.

**Ms CAMARA:** I do not think I have anything to add as such. The financial protections are created by Power and Water Corporation. We have not been advised whether there is any additional (inaudible) included in those projections.

**Ms MANISON:** That is something we will see when you have your finalised financial data at the beginning of next year when you are able to finalise your Statement of Corporate Intent and add some revised figures. But the estimates that were in place were for revenue of about \$515m for this financial year. You obtained all that revenue from the sale of power?

**Mr FAULKNER:** It is a combination of energy sales and government CSOs.

**Ms MANISON:** Okay. About what factor of the amount of that is government CSO?

**Mr FAULKNER:** If you talk about round numbers of \$500m, about \$50m were CSOs, so it has been roughly \$450m plus \$50m.

**Ms MANISON:** Thank you for that. The other question is about these figures with regard to net profit after tax as well. Again, that is going to be something you are going to have to review once you get your financial data in at the start of next year?

**Mr FAULKNER:** Yes. Those figures are really (inaudible).

**Ms MANISON:** Okay. With the projections you have, would you be able to talk about the fact that you have forecast here - or Power and Water Corporation forecast on your behalf - that there would be an increase net profit after tax in the forward years? Can you give any explanation of where you would see that profit increase being driven from primarily?

**Mr FAULKNER:** No, we are not in a position to do that, unfortunately. I get back to the point that when we kicked off we had about three staff and we were busy establishing governance arrangements. Even now, we are still in the information phase. So we reached a point where we are not focusing on these numbers at all now, we are focusing on reforecasting as soon as we can get the appropriate information.

**Ms MANISON:** And reforecasting that. Okay.

**Mr FAULKNER:** We would just be speculating at this moment. There would not be any value in speculating (inaudible). It is much better to give a considered opinion and view when we do have the numbers and are more confident.

**Ms MANISON:** I am looking forward to seeing those early next year, then we can crunch through those as well.

**Mr FAULKNER:** So are we.

**Ms MANISON:** One figure I anticipate you would be able to provide us because, clearly, you have your customer based, would be the average price of what a power bill is at present for a small household, a large household, and a small business customer. What is the average power bill for those customer levels?

**Mr FAULKNER:** We have three figures I can provide. A small family, which is defined as two adults in a house or unit, average annual consumption is 6943 KW hours, the average annual bill, 2014 is \$1961, and 2015 with the proposed increase it would be \$2059. These are average numbers. That is an average increase (inaudible).

The other category I have is a large family of two adults with children in the house and one (inaudible). Two children, so it is two adults and two children. Thanks Stuart. That is 15300 kW hours, 2014 bill \$4105, 2015, \$4310, which is an increase of \$205.

**Ms MANISON:** And small business?

**Mr FAULKNER:** Small business takeaway outlet or a small hostel is the description I have here: 50 000 KW hours, \$15 182 going to \$15 941, which is an increase of \$751.

**Ms MANISON:** I am sorry. What was that figure again for 2014, \$15 000 ...

**Mr FAULKNER:** \$15 182.

**Ms MANISON:** \$15 182, sorry.

**Mr FAULKNER:** Going to \$15 941. It is probably worth mentioning at this stage - you are probably well aware of it I am sure - the price of electricity in the Territory compared to the other states is quite reasonable. The total cost is of concern because of the high level of consumption. One of the things Stuart has been talking about all week is what products we might be able to get out there to help people manage their demand and their total cost.

**Ms MANISON:** As far as you are aware, with the competition in the market and considering you have about a 90 000 customer base, is Jacana Energy the only supplier in the market to get households at present for customers of families?

**Mr PEARCE:** To the best of our knowledge we are the sole provider of energy retail services to mums and dads and small business.

**Ms MANISON:** With the new competitors coming into the retail sector, do you know of any that are targeting households within the Territory?

**Mr FAULKNER:** Go ahead.

**Mr PEARCE:** I am not aware of any at this stage. Most of the competition we have seen is probably for the larger IC accounts.

**Ms MANISON:** So you are going in for those contestable-type customers, the big players, the big bills?

**Mr FAULKNER:** As new players in the market, we will target SMEs - small to medium enterprises - when they have some chance of making some margin on it. They will also probably cost the products separately to us. We would look at the net margin. The margin we can offer the customer like that cover all of our costs. Stuart might like to comment on the predator coming into the market will probably cost on (inaudible) market, as long as they make (inaudible) margin they will sign the deal. Their fixed costs are already covered elsewhere by the customers. Being an incumbent retailer, you cannot win. You start off with all the customers, and if you open it up for competition you are going to lose some.

**Ms MANISON:** In your SCI on page 9 you say you want to earn a commercial rate of return within two years. Can you provide us with a definition of what you see are commercial rate of return is? Do you think it is realist to get there in two years? How hard are you going to be pushing to get there?

**Mr FAULKNER:** Stuart.

**Mr PEARCE:** We will be pushing as hard as we can. It is important that we generate a return for our shareholder, and also we survive on a commercial footing. Is it do-able in two years? It is going to be a



tough challenge. Not knowing our starting point, at this point in time, it is a little hard to say how quickly we would or would not get to that position. The intent is to get there as soon as we possibly can.

**Ms MANISON:** Another one of Jacana's focuses in the Statement of Corporate Intent is to shift focus away from maximising its retail market share irrespective of cost. Can you detail exactly what you mean by this?

**Mr PEARCE:** Yes. I think Noel mentioned before it is not uncommon for Tier 2 retailers to price on a marginal basis. We have fixed costs which we need to cover that sometimes competitors will not necessarily build into their pricing structures. We are very clear about ensuring that we operate on a commercial basis and cover our costs. What we mean by that is we are not in the business of buying business, we are in the business of commercial arrangements that are positive for both parties.

**Mr FAULKNER:** I can add in relation to that previous question as well, the commercial rate of return we are likely to achieve and the time line for the achievement of that return will become clearer when we forecast our forward financials.

**Ms MANISON:** Yes, completely understandable, given it is very difficult to go about business when you do not have a full understanding of the figures you are working to and what you have financially. Within your objectives you also state that you want to reduce the corporation's vulnerability by transitioning from an excessive level of fixed cost to flexible variable cost. Can you also outline what this means, how you will do this and which customers will this impact?

**Mr PEARCE:** Would you like me to answer that?

**Mr FAULKNER:** Yes.

**Mr PEARCE:** The details of that are probably a little sketchy at this stage because, as I said, we kicked off our strategic planning process and we will be moving into our operational planning process going forward. What we mean by that is the business is a very thin margin business. If you have an excessive level of fixed costs, you are exposed. As you mentioned earlier, a few key customers with large accounts can open up fairly quickly. What retailers typically try to do is look to have variable costs however much they can. If you lose that customer, you lose the costs associated with the customer - that is the principle of it. If you acquire the customer, then there are certain costs that come with that customer. Typically, that might be around things like call centre costs, or billing costs or some of those sorts of things. At the end of the day, that is pretty much what we mean about variable costs.

In impact on customers, it is always a balancing act to make sure you are not impacting on the level of service you are providing to those customers. For us it is not just about costs, it is about value we choose. Are we providing the level of service we want to be able to provide, the level of service the customers deserve, and can we provide it at that cost? That is the basis on which we make those decisions.

**Mr FAULKNER:** I can add that split between fixed cost and variable cost is particularly important for us, given the size of our customer base. Typically, you would think a retailer would have probably half a million customers minimum - certainly more likely a million customers. We have a very small customer base of 90 000 over which to spread those fixed costs.

**Ms MANISON:** Following on from the estimates process in June, I sat down with the former Treasurer who was the shareholding minister for Power and Water Corporation to ask how things were going with the former retail and moving towards now becoming Jacana Energy. At that time, one of the things he mentioned was that he was looking at potentially partnering you with another private retailer to go about your business. That was something he was quite clear was being explored during the estimates process. Can you report back to the committee how that is progressing? Is that still happening? Are you looking to partner with a private company? I saw in the SCI there is a part where you do mention exploring that option.

**Mr FAULKNER:** I will make a couple of comments then hand over to Stuart. I am not too sure of the context in which that discussion was held and the questions asked. It gets back to the previous question of minimising the fixed cost. Let me go back a bit. The majority of our operating costs - not the cost of sale - are currently floating through the TSA agreements we had with PWC.

We have already done some initial benchmarking into those costs. Our focus in moving forward will be to move those costs to typical benchmark rates that you see across the industry. Then, it is a matter of what strategy you adopt to achieve those benchmark rates. In some cases, we may be able to do it by working

with PWC to get to that position. In other situations for other services, we might take it in-house. For other services, we might look at alternative arrangements for providing those services. That could very well be partnering with a larger retailer to provide some of those services and use their customer base in conjunction with ours to minimise those fixed costs per customers that we currently (inaudible).

**Ms MANISON:** That is something you are considering at the moment as part of your strategic planning process and your financial planning process? That has continued to progress since June?

**Mr FAULKNER:** I have had some preliminary discussions with a couple of retailers in Australia already - very much preliminary stage - to indicate whether or not there is an interest. There is an interest but we have not proceeded to negotiate any further at this stage.

**Ms MANISON:** Would that be something you would anticipate you would have finalised - something would go to your board and the government and I imagine, ultimately, the shareholding minister to make a decision on at the start of the year when you finalise your strategic plan and have all your financial data resolved?

**Mr FAULKNER:** If we are talking about first quarter of next calendar year, that would be a challenge. I do not think we are going to be able to achieve that. Stuart, do you have a view on it?

**Mr PEARCE:** No. It depends on the service, to be perfectly honest. There are certain services we could look to bring back in-house, potentially, sooner rather than later with fairly short notice. There are certain services you want to fully consider over a much longer time period to think about what is the best way to move forward, and the best model to go forward on.

We have not clearly defined what those options might be at this stage, but we have not ruled out any option. I guess I am talking about the big transactional-based services - the billing, the call centre and those sorts of activities. We are on a TSA with PWC, but that expires after two years. Well before then, we need to start forming a view of how we will provide that service to our customers moving forward.

As Noel mentioned, bringing some back in-house might be an option we will consider. Putting some out to market, potentially, could be another option. Extending some of those services on to an SLA arrangement rather than a TSA arrangement also might be considered. Talking to another retailer should not be totally ruled out.

Obviously, the things that would come into helping us making a decision would be things like the quality of the service, the impact on the brand, the cost, the risk, the timeliness of the service and those type of factors. It would be subject to quite a detailed piece of analysis and business case. To say we could do that Quarter 1 next year would be taking on too much risk, and we would be rushing the job.

**Ms MANISON:** Granted, at present you have a service agreement with Power and Water Corporation, you are currently looking at the future and how you are going to go about doing business. You are looking at what you can do in-house, what you might be able to outsource and whether you might be able to partner with another private retailer. Clearly, I am concerned hearing that going down the track we know Power and Water Corporation is currently employing many Territorians to work providing those services to Jacana and so forth. In the future going forward, will it be something that would be a prerequisite of ensuring that you try to retain as many Territory jobs as possible if you end up down the road outsourcing some of those services but also partnering with another private retailer? Is that something you would be taking into consideration as well?

**Mr FAULKNER:** It is certainly something we will take into consideration, but it gets back to the additional cost of keeping the services somewhere where they are provided by Territorians. I know some other jurisdictions have a margin. If the costs of providing that locally are no more than 10% above the best rate you can get, then you can stay in that jurisdiction. I am not suggesting that we apply that approach, but I am indicating it is something we would certainly take into consideration.

**Ms MANISON:** There would be a large expectation from Territorians that the power provider they are dealing with would have locals on board. It will be interesting to see what happens in the future as you know you go through the further development of Jacana establishing the business, and watching the direction the board and the shareholding minister take going forward.

**Mr FAULKNER:** Yes. For the services that are provided by PWC now, we would do our benchmarking exercise in costs and service. My view is that the first stage of the process from then would be to talk to

PWC to see if they could put in place arrangements whereby, working together, we could meet those rates before we started thinking about going elsewhere.

**Ms MANISON:** Thank you. Going back to the number of your contracted customers - the 78 customers earning you 34% of your revenue. Again, I appreciate there are some figures you are willing to give publicly and other figures that you would give *in camera*. What would be the estimated revenue from these customers at present of what you have there? How much is it worth to you? I know you have a few issues with financial data, but can you give us a ballpark figure based on that initial data that Power and Water provided to you?

**Mr FAULKNER:** What page was that on?

**Ms MANISON:** Page 7.

**Mr PEARCE:** Is the question how much revenue we derive from our contracted customers?

**Ms MANISON:** Yes.

**Mr PEARCE:** That is a question we would not be comfortable answering publicly.

**Ms MANISON:** Is that something we could provide again *in camera*?

**Mr FAULKNER:** Commercial-in-confidence.

**Ms MANISON:** Is it being tabled at the end again with the other – if they are willing to take that on?

**Madam CHAIR:** Is it something you could table, once again, confidentially or do we need to go into a closed session?

**Mr FAULKNER:** We do not have the information with us. We could take that question on notice and provide it at a later date, in a confidential process.

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#### Question on Notice No 13.1

**Madam CHAIR:** Member for Wanguri, please restate the question for the record.

**Ms MANISON:** Can Jacana Energy provide the amount of revenue they currently receive from their contracted customers?

**Madam CHAIR:** Mr Faulkner, do you accept the question?

**Mr FAULKNER:** Yes.

**Madam CHAIR:** The question asked by the member for Wanguri is No 13.1, and that will be provided by Jacana Energy in confidence.

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**Mr FAULKNER:** Thanks, Amanda. What period are you looking for that revenue? Is it the current financial year?

**Ms MANISON:** Yes that would be fine. If you can obtain that information from the current financial year that would be great, with what you have forecast.

**Mr FAULKNER:** Are you looking for something more specific than the 34%?

**Ms MANISON:** Yes, that figure there.

**Mr PEARCE:** So, a dollar revenue figure. Yes, okay.

**Ms MANISON:** On page 6 of your Statement of Corporate Intent, you say that one of the reasons you need to get data is to get a detailed understanding of the profitability of customer segments including individual

and major customers. You are currently working through that with Power and Water Corporation? Is that correct?

**Mr FAULKNER:** We have not made a lot of headway on that yet. One of the other challenges we have is understanding the cost of supplying the customers by different customer class. Some of our major customers, where we have been defending contracts, we have reasonable information in relation to those. But, for the broader customer base, there is very little accurate data of the cost of supplying those customers. Even to the extent where there is no certainty around the appropriate level of CSO that should be applying to customer classes where CSOs are applied. The CSO figure was set, probably seven or eight years ago, and it has had some legislation since then. I think the government recognises the need to go back and have a look at the CSO of the appropriate level. It might be whether it is more or less.

**Ms MANISON:** Would Jacana like to see a higher payment, or is it something, I imagine, you would?

**Mr FAULKNER:** Where a CSO is appropriate, we are only looking for an appropriate level of the CSO. We are not suggesting the government should pay something over and above the subsidy necessary to meet the generating cost the CSO is applied to. It is only appropriate (inaudible) that we are looking for.

There are even some situations where there are existing CSOs that appear to be completely unfunded at the moment in some areas as well.

**Ms MANISON:** Okay. Going to the separation of Power and Water Corporation and the establishment of Jacana, you can confirm you have a new board which you are the chairman of. There are three members of your board for Jacana?

**Mr FAULKNER:** That is correct.

**Ms MANISON:** How many executive level positions do you have at Jacana Energy?

**Mr FAULKNER:** We only have about 10 staff in total, completely different to PWC and T Gen. The number of executive positions is probably four, Stuart, is it?

**Mr PEARCE:** Yes, there is five direct reports that I have, with another two starting in the next couple of weeks - about six in direct reports.

**Ms MANISON:** We can confirm the total number of executive staff at Jacana Energy and the total number of employees at Jacana Energy as well? Is that possible at this present time?

**Mr FAULKNER:** Yes, I just need to take a second to check and make sure I have it right.

Five direct reports to me, so I consider them executive level positions.

**Ms MANISON:** Five executive. Yes?

**Mr PEARCE:** Yes, and six indirect reports.

**Ms MANISON:** You have a workforce of 11 people at the moment?

**Mr PEARCE:** Yes.

**Ms MANISON:** Is that five executive including yourself?

**Mr PEARCE:** No.

**Ms MANISON:** That would be a workforce of 12 at the moment within Jacana, and half of those are of executive level?

**Mr PEARCE:** Yes, what I mean by executive level is they report directly to me. I know executive level ...

**Ms MANISON:** Their pay scale?

**Mr PEARCE:** ... has a specific meaning here. These are people who are directly reporting to me. I have to check what that pay scale level is if that is the question.

**Ms MANISON:** Yes, it would be good if we can get that information tabled. Generally, through most of these hearings, if we put the request in we are able to obtain the workforce by job classifications – whether it is an ECO, or an EO I think they are at Power and Water, and so forth. Are we able to get that information provided?

**Mr FAULKNER:** Yes, Stuart, Fernanda has some information here which seems to indicate there are seven people on executive contracts including the CEO.

**Ms MANISON:** So, that is seven out of the total 12?

**Mr FAULKNER:** I just add keep in mind the operating model. Most of the operating services are provided by the TSA with PWC. If you are trying to come up with a figure of the total employees involved in Jacana's operations, you would have to factor in those employees in PWC who are providing services to us.

**Ms MANISON:** Yes. Can you provide the level? Do you have a number on those employees at Power and Water Corporation who do some work within some capacity for Jacana?

**Mr FAULKNER:** No. The services they provide is shared services. They are providing services to us, to Power and Water - different functions within PWC and also, I expect, at T Gen. We could ask PWC if they could split those FTE, full-time equivalents, providing those services.

**Ms MANISON:** At this point, until you do your strategic planning and you have your financial data, it is really difficult to ascertain. This is what Jacana looks like right now. You have a bunch of shared services provided by Power and Water Corporation. You have your key group of 12 employees and the board. Then you anticipate you will be fully separated down the track so, at this moment, you are not quite sure exactly what that employment level will look like at that point in time?

**Mr PEARCE:** Not specifically. For a business the size we are, the ballpark numbers sound about right. If I think about start-up energy retail business which, in many ways this is, the model looks about right and others look about right. Ballpark, but it is a bit hard to be specific at the moment.

**Mr FAULKNER:** Yes, it varies considerably between retailers in the way they provide the services. Generally the number for FTEs, full-time equivalents, is not a metric. The metric in retail tends to focus more on the cost to serve and how that is going to trend over time. Once again, when we finalise our forecasts we will be able to have a cost-to-serve path as well for a new period which will show how that is trending.

**Ms MANISON:** Sorry, I might have missed this. What was the date you anticipate there will be the complete separation and Jacana will be really running on its own two legs. When are you going to be completely separated from Power and Water Corporation?

**Mr FAULKNER:** Financial separation we should be able to achieve in the first quarter of next year on the back of PWC's target of separating and how much in financials by the end of January. Will we ever be completely separate from PWC in provision of services from them to us?

**Ms MANISON:** Still to be determined.

**Mr FAULKNER:** That is part of the transition in deciding how we are going to provide or source those services going forward.

**Ms MANISON:** The ballpark date you think will be next financial year? That is when you will be up and running with all these details all figured out?

**Mr PEARCE:** We would like to be close to doing that. You are constantly looking at ways to improve what the final business model looks like and make it more efficient. Business model, effectively, would be a team like the size we are now. It is not uncommon, increasingly in utilities, to have a series of contracts with service providers. That service provider could be PWC, so we could be securing services from them under an SLA arrangement or it could be another provider. But the basis of the model probably will not alter significantly. It comes back to this thing about keeping your costs as variable and flexible as you can so you do not build a big fixed-cost base you have to recover. It is about being competitive, flexible and being prepared to modify your business model when it suits.

**Ms MANISON:** With regard to the separation again. Do you have a figure on what it has cost Jacana Energy so far with your establishment costs around rebranding with uniforms, relocation of staff, for example, to set up? Do you have any figures around what it has cost you? I heard in your opening statement something about \$2.8m, but I was not sure if you were referring to Jacana exclusively.

**Mr FAULKNER:** No, sorry. The \$2.8m I was referring to was the whole-of-government cost. It is the number I have heard or seen somewhere as being the cost of the project for the structural separation.

**Ms MANISON:** If you do not have the figures here, can I put that as a question on notice trying to obtain ...

**Mr FAULKNER:** Yes. They are fairly minimal, so we are not talking about hundreds and hundreds of thousands of dollars. We have had some costs associated with recruiting staff. I am struggling to think of any other ...

**Mr PEARCE:** Yes, it is not substantial. There are some costs that will be passed through to us from PWC, but it is best we go away and check those numbers. As Noel suggested, they are not large numbers.

**Ms MANISON:** If I could still put that on notice?

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#### Question on Notice No 13.2

**Madam CHAIR:** Member for Wanguri, please restate the question for the record.

**Ms MANISON:** Can Jacana Energy provide the costs of structural separation including advertising, rebranding, uniforms, recruitment and accommodation?

**Madam CHAIR:** And you accept the question/

**Mr FAULKNER:** Can I clarify? Cost to Jacana Energy as a separate entity from 1 July?

**Ms MANISON:** Yes, I am happy with that.

**Madam CHAIR:** The question asked by the member for Wanguri is No 13.2.

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**Ms MANISON:** Thank you for that. Sorry about this, I am going through my notes.

**Madam CHAIR:** Can Gerry jump in before ...

**Ms MANISON:** Yes, Gerry can jump in. Sorry.

**Mr WOOD:** Quickly because I have to go. A question on billing. Are meters within your bailiwick? Is that part of what you have to do? What is the separation? Does Power and Water Corporation read the meters, and you get the data? Is that correct?

**Mr FAULKNER:** That is correct. The meters are owned and installed by PWC, and they arrange the meter reading.

**Mr WOOD:** You said in your Statement of Corporate Intent the cost per customer. I think you had a figure of around \$170 per customer. You say that should be around \$80 per customer if you are going to be competitive. What size is Q Energy and companies like that? Can you compare them or are they only just business retailers?

**Mr FAULKNER:** A quick comment to clarify. The \$80 per customer was based on an entity with a customer base of \$1m, if I recall correctly. So, much greater economies of scale than we have with 90 000 customers. But having said that, we are confident we can get that rate of \$170 much lower than it is at the moment.

**Mr WOOD:** This might sound a silly question. With Power and Water, originally, there was one bill – sewerage, water and electricity. Your role is just to take on the electricity. Is it possible that you could contract their water and sewerage bills, or that could not be part of the equation to make it at least a little more profitable, I suppose.

**Mr FAULKNER:** The billing system, at the moment, is operated by PWC. PWC provides that service to us. Effectively, PWC is billing for water, sewerage and electricity. But electricity is via a service to Jacana. It has the economies of scale in the total customer base it bills. Given our customer base, the last thing we would contemplate would be starting to talk about a separate billing system just for Jacana Energy with 90 000 customers. It would not be viable.

**Mr WOOD:** Right. This is a theoretical question. Technically, companies like Q Energy come from Queensland into the Northern Territory. Is it possible that you, as a business, can operate outside the Northern Territory, either in conjunction with another company or on your own?

**Mr FAULKNER:** I am not 100% sure on what the arrangements are in what we can and cannot do as a GOC. I will need to look into that. Realistically, all that would prevent us from competing interstate would be getting a licence to compete in other jurisdictions, getting supply contracts and having a contract for provision of services. Theoretically, all sorts of things are possible.

**Mr WOOD:** At the moment, it tends to be that you are the static person and everyone else competes with you. Can you be proactive and compete with them?

**Mr Faulkner:** It is something I would like to take a look at, yes. What we are finding, particularly with major customers, in many cases, the procurement of the electricity contracts are conducted from head office. If you have national companies, the head office is in Melbourne and procurement is via that office. They are looking for a supplier who can supply their sites around the country, not just in one particular state. The way we are operating at the moment would certainly put us at a disadvantage.

**Mr WOOD:** Thanks, Madam Chair.

**Ms MANISON:** I have a question with regard to solar tariffs for people who put solar panels on their roof. Is that tariff under review at the moment? Power and Water said before it is one for one. Is that something that is currently being examined?

**Mr FAULKNER:** That tariff was introduced by PWC in about 1998, if I recall correctly. It is one for one where it is separately metered. If the export is metered separately, the customer pays for the electricity coming in at a particular rate, and we buy the export amount from the customer on the way out. The cost of that has doubled in the last 12 months or so. It has jumped from about \$800 000 to about \$1.5m due to the increased number of installations.

We are not currently reviewing that, but we need to look at the appropriateness of us paying that particular rate as well. We purchase the energy, we sell it to the customer, then we buy it back from the customer, it goes back into the network, and wherever it goes, we buy it again. I am not too sure of the financials.

That would have been okay while the PWC was a single entity, but given the separation of generation and retail from the core PWC, I am not too sure that is any longer appropriate. Stuart might want to comment as well.

**Mr PEARCE:** No, you covered the main points. Yes, it is a tariff we inherited. Most of them are - and the products. Over time, we will be reviewing, as any retailer does, its products, prices and channels to make sure they are still appropriate.

With things like feed-in tariffs, the challenge is always efficiency and equity. If you set the price too high then you are prone to creating cross-subsidies in the customer base. If you set it too low you are not going to achieve the outcomes you are trying to achieve.

At some stage, we will take a look at it, as we will all our other products, and make sure the objectives PWC had when it established this tariff is still relevant. If they need to be reviewed, then we would review that. At this particular point in time, no, it is not something we are looking at specifically.

**Mr FAULKNER:** In other jurisdictions, there has been a shift from fairly high feed-in tariffs. Recently, as a matter of fact, some retailers were paying about 44c a unit, which is almost twice what the network supply was. It was costing some distributors tens of millions of dollars a year and they backed away from it.

**Ms MANISON:** So I can be very clear on it, because there are, particularly in the environment where we have seen huge power price hikes, many people looking at putting solar panels on the roof. I have seen it in my electorate where you can see many more households now with the panels on their roof. When many

people are building a new house, it is something they are taking into consideration. It is a fairly big personal investment up-front when they decide to go forward with it.

At this stage, you are not looking to make any changes, or are you looking to review it? People need to have a bit of certainty around the issue going forward.

**Mr FAULKNER:** It is a matter which has not been discussed by the board at this stage.

**Ms MANISON:** Okay. Senior concessions. Is that something you deal with directly through your billing system?

**Mr PEARCE:** Senior concessions we operate on behalf of – sorry, were you going to say something?

Yes, we administer the program on behalf of the Department of Health which sets the rates.

**Ms MANISON:** You are going to continue follow as the rates are set from the Department of Health?

**Mr PEARCE:** Yes.

**Ms MANISON:** So no changes there for seniors?

**Mr PEARCE:** No changes.

**Ms MANISON:** Brilliant, that is fantastic. Since the first round of bills have gone out have you encountered any issues with your billing system and your customers bills, or has that been smooth?

**Mr FAULKNER:** My understanding is it has gone exceptionally smoothly, given the split between retail and water. There were some issues with the change in the tariff - the 30% reduction to the 20% increase which was a government direction, which was before the establishment of Jacana. The separation has gone really well.

**Mr PEARCE:** I am not aware of any billing problems associated with separation.

**Ms MANISON:** That is good to hear. Now you are operating separately and you have some shared systems with the Power and Water Corporation, how is that going? Have you encountered any issues with your IT systems, contractors and that type of thing?

**Mr PEARCE:** Not that I am aware of. I am not sure of anybody else. Fernanda, are you aware of any IT problems or ...

**Ms CAMARA:** No issues as such that I am aware of with the IT. It is working and functioning (inaudible).

**Mr FAULKNER:** It is not an operational issue. The main issue we have is with the financial management system and the financial separation.

**Ms CAMARA:** That is what I was going to highlight.

**Ms MANISON:** Financial data. Yes, that has been the underlining theme today. You need to get that data so you can get on with moving your business forward. Okay, that is all the questions from me, Madam Chair.

**Madam CHAIR:** Mr Wood has gone off to play cricket I think, or his walk.

On behalf of the committee, I thank you for appearing before the committee today. This concludes the Government Owned Corporations Scrutiny Committee public hearing process. I remind officers that all answers to questions taken on notice must be given to the Clerk Assistant Committees by 29 October. Late answers cannot be accepted.

I take this opportunity to thank the members of this committee for the work they have put in, and for the overall manner in which these public hearings have been conducted. I also place on the record a vote of appreciation from the committee to all other members who participated in the public hearing process.



On behalf of the committee, I again extend my thanks to Mr Ken Clarke, Mr David De Silva, and Mr Noel Faulkner for attending today and for the officers they have had working with them. I also extend our thanks to all others who have been helping with this hearing.

I now close the public hearing of the Government Owned Corporations Scrutiny Committee for 2014. Thank you very much. We will see you next year.