The Government Owned Corporations Scrutiny Committee convened at 1.30 pm.

Mr CHAIRMAN: Good afternoon. I declare open this public hearing of the Government Owned Corporations Scrutiny Committee of the Legislative Assembly of the Northern Territory on Friday, 19 June 2009, and extend a welcome to everyone present.

I table a copy of the Order of the Assembly dated 30 April 2009, which appoints a committee for the purpose of examining and reporting on the activities, forms, principles and financial management of the Power and Water Corporation, a government-owned corporation under the *Government Owned Corporations Act* with reference to the Power and Water Corporation's Statement of Corporate Intent 2009-10, which each member of the committee has. The order effectively uses the current membership of the Public Accounts Committee. I should also point out that the timing for the public hearing shall be 1.30 pm to 3.30 pm today in accordance with paragraph 14 of the Order of the Assembly. I also report that the member for Nhulunbuy was elected Deputy Chair of the committee in accordance with paragraph 4 of the Order of the Assembly. I also advise that, as a result of a resolution of the committee, media can be present and are able to report and broadcast proceedings of this hearing.

A procedural issue I should bring to everyone's attention relates to section 19 of the terms of reference for this committee, in that questions should be put directly to the Chairman of the Board of the Power and Water Corporation, with assistance from the Managing Director and other officers as required.

Although this is a public hearing, it should be noted that, under section 20 of the Order of the Assembly, the Chairperson and other witnesses will advise when evidence is of a commercially sensitive nature and that such evidence is heard *in-camera*. As chair of this committee, I will invite the Chairman and witnesses to give reasons for their request. The procedures adopted by the recently completed Estimates Committee to address questions taken on notice will also be utilised through the public hearing of this Government Owned Corporations Scrutiny Committee.

As stated in previous opening addresses to the Government Owned Corporations Scrutiny Committee, in order to provide for completeness of process, an opportunity is made available for members during the Estimates Committee's public hearings to question the Treasurer, the shareholder minister, on the issue of Community Service Obligations made to the corporation by the government, as well as dividends paid to the Northern Territory government by the corporation. Unfortunately, during the appearance of the Treasurer before the Estimates Committee, the questioning of all portfolios was not achieved so the opportunity could not be taken up.

I now table the 2009-10 Statement of Corporate Intent and a copy of the Annual Report of the Power and Water Corporation.

The committee will now proceed to consider the activities, performance, practice and financial management of the Power and Water Corporation. I welcome from the corporation, Ms Judith King, Chair of the Board, and Mr Andrew Macrides, Managing Director. I now call on the Chair to make an opening address.

Ms KING: Mr Chairman and members of the committee, thank you for the opportunity to provide an opening statement. I am Judith King, Deputy Chair of the Power and Water Board, and currently filling the role as Chair pending permanent appointment to the position.

I turn immediately to the major challenges that the corporation has faced during the 2008-09 financial year. First, the report of Mr Mervyn Davies, following the faults in the Casuarina Zone Substation. In September and October, approximately 15 000 customers were affected by separate power outages as a result of equipment faults in and around the 66/11kV Zone Substation in Casuarina. Inevitably, there was widespread community disruption and, understandably, concern.

As a consequence, the Northern Territory government commissioned an inquiry, led by Mr Mervyn Davies, to investigate these faults and Power and Water substation maintenance practices. The inquiry provided its final report in February 2009, in summary, recommending: that there be a move to a more condition-based approach to substation maintenance management; a significant human resources development program in association with that required; a condition assessment and remedial program for all zones and distribution substation equipment should be carried out; and, Casuarina Zone Substation 11 kV switchboard to be replaced.

The corporation quickly responded to the report, accepting its recommendations, and moved immediately to implement them by establishing the Remedial Asset Management Program to restore the confidence of stakeholders and staff in the integrity and safety of the power system.

Implementing the broader recommendations of the report remains a principal challenge for 2009-10. The corporation's response aims at a thorough transformation of asset management philosophy, culture and practice, and is represented by the strategic goal in our Statement of Corporate Intent of being in good operational and asset health.

The attainment of this strategic goal is also the objective of the Asset Management Capability Project, which aims to develop a common approach to managing assets across the corporation. The delivery focus for the AMC will be to simplify asset management processes; improve the quality and management of data; and, provide systems to manage asset and works information.

The second major report I will turn to is the Reeves Report. In February 2009, government commissioned an independent review to assess concerns regarding Power and Water's financial and commercial sustainability. The recommendations from this review were released by the government on 17 April 2009, along with the government's response which included increases to electricity, water, and sewerage tariffs from 1 July 2009; and an expanded role for the Utilities Commission including greater scrutiny of Power and Water's infrastructure, planning and customer standards, and advising on retail pricing.

The corporation recognises that increased revenue is just one side of the financial sustainability issue and is committed to pursuing complementary measures on the cost side which, I might add, are already well and truly in train through rigorous cost control and the identification and realisation of efficiency gains.

Gas supply is the other major challenge faced by the corporation in 2008-09. The delay in the new gas supply from Blacktip was intended to replace the decline in production from the Central Australian gas fields. Securing contingency arrangements for supply has been a major preoccupation for the corporation.

As you are aware, gas to power over 95% of the Territory's electricity will be sourced from the Blacktip field in the Joseph Bonaparte Gulf coming onshore near Wadeye. While the 286 km gas pipeline that connects the processing plant at Wadeye with the existing north-south Amadeus Basin to Darwin gas pipeline was completed on schedule in late 2008, delays have been experienced in the ENI project to supply gas from Blacktip. The latest predictions are that Blacktip gas will be available by September 2009.

Power and Water also reached an agreement for the supply of emergency gas from the Darwin Liquified Natural Gas, DLNG plant. The construction of an inter-connecting pipeline linking the DLNG facilities at Wickham Point to the Amadeus Basin to Darwin pipeline is under way and is due for completion by late June 2009. This will also provide Power and Water with an alternative gas source for the future in the event that supply from Blacktip is interrupted for any reason.

The delay in Blacktip gas supply from the original scheduled date of 1 January 2009 has resulted in the significant and costly increase in distillate use, and Power and Water is pursuing its entitlement to recompense these costs from ENI in accordance with the terms of the contract. The increased

consumption of distillate as a result of the delay is estimated to be around 48.4 megalitres in the 2008-09 financial year and the estimated cost is $47.4m.

The general economic environment has changed substantially over the course of 2008-09, and the financial year commenced in the midst of a resources boom and ended in a global economic recession. The falling commodity prices associated with slowing global activity has impacted mining operations in the Territory resulting in negative electricity demand growth for the Darwin/Katherine region, and that has impacted on Power and Water's revenue. On the upside, the changed economic environment might be expected to be beneficial on the cost side, with an easing of cost pressures built up during the resources boom.

The corporation's five year Infrastructure Investment Program totals $1.1bn. In addition to necessary asset extension, this program reduces, over time, the risk of major equipment failure through a large increase in spending on asset replacement and augmentation.

The corporation's finances: the 2008-09 nett profit after tax is projected at $72.8m, which is an increase of $22.6m compared to the 2008-09 budget of $50.2m. The increase, however, is largely a product of the application of accounting standards. It is not real profit; it results from an impairment write-back of water and sewerage assets which have more than offset unfavourable operational cost impacts of significantly higher energy costs and expenditure related to the equipment failures at Casuarina. The impairment write-back of water and sewerage assets is attributable to the tariff increase announced by government in April 2009.

Excluding the asset impairment write-back, nett profit after tax of $16.4m would have been projected for 2008-09, a $33.8m decrease against the budget of $50.2m. It is also important to note that this budget figure included the receipt of a $50m capital injection contribution from the Northern Territory government which, under accounting standards, is treated as revenue.

While the recently announced tariff increases improve the corporation's financial position, the ongoing significant capital program will continue to have an impact on borrowings with new debt of $528m projected to be drawn down over the next three years. Debt levels increase to nearly $1.1bn by June 2012, with gearing increasing from 45% at the end of June 2009 to 58% by June 2012. Although this debt figure is high, financial ratios are within the financially sustainable range as defined by the Reeves Report and are not inconsistent with interstate government-owned utilities and, importantly, they are manageable.

Developments in remote communities: in April 2009, the Commonwealth government announced a $5.5bn program for new housing over the next 10 years at 26 remote communities based on their potential to become hubs of economic development. Fifteen of these communities are in the Northern Territory. Accordingly, the model of remote service delivery will initially concentrate resources in priority locations to progressively deliver the facilities and services one would expect in any Australian town of the same size. This, and other government initiatives and partnerships, will continue to have an impact on Power and Water's role in providing essential services to remote communities through its not-for-profit subsidiary, IES, Indigenous Essential Services.

The corporation also has programs and strategies in place to minimise our impact on the environment. A principal part of the environmental impact is the greenhouse gas emissions resulting from gas-fired power generation. However, with the replacement of distillate by gas from Blacktip and more efficient generation at Weddell and Owen Springs Power Stations, emissions per megawatt hours generated will be reduced.

In remote communities, Power and Water is considering opportunities to connect island power stations to larger grids; establish regional grids; improve generation efficiency; change fuel sources; and, where feasible, take up renewable energy options. Power and Water is also maintaining major stakeholder status in the Alice Springs Solar Cities project.

As a result of the corporation's response to the Mervyn Davies report and the increased capital

program, a marked increase in personnel is projected for 2009-10, and that includes a high intake of apprentices.

Strategies relating to our customers: Power and Water has commenced a new energy efficiency campaign to assist customers reduce their bills. The centrepiece of the campaign is a web-based Virtual Energy Audit which helps customers identify and estimate savings.

In 2008-09, our sponsorship program of $320 000 supported community groups and events whose values and objectives resonate with our brand. The program of activities we support includes community, environment, sport, arts, culture, technology, business, and children.

I mentioned at the outset that the 2008-09 financial year was a tumultuous year. It was a year that tested the operational and strategic capability of the corporation. The Power and Water Board, its management team and staff look forward to progressing our infrastructure maintenance, replacement and augmentation programs in the coming year to provide the utility services our customers need and expect.

I convey the board's thanks to the hardworking and dedicated workforce that makes up Power and Water.

Members of the committee, I conclude my introduction by saying that I have been involved in the water and electricity industry for just over 20 years now. I can assure you that the management team, and many of their next levels of support, could hold their own with any of the utilities I have worked with and that I am aware of around the country. That is something that has not escaped the executive recruitment industry, I might add. I would not have said that three or four years ago, but I can confidently say that today.

Mr CHAIRMAN: Are there any questions?

Mr ELFERINK: Yes, I have a few questions. The board membership: I take it Neil Philip has moved on?

Ms KING: Yes, Neil retired earlier in the year.

Mr ELFERINK: Thank you. Are Peter Vines, Bob Neil, Margaret Gibson, Barry Chambers and Linda Mackenzie still on the board?

Ms KING: That is correct, yes.

Mr ELFERINK: Is there anybody else on the board now that was not?

Ms KING: Yes. Mervyn Davies has joined the board and attended his first meeting on Wednesday this week.

Mr ELFERINK: He will be an asset, no doubt.

Ms KING: Yes.

Mr ELFERINK: Including Mervyn Davies, how many of the board members actually had a technical background relating to the generation and working of power and water supplies?

Ms KING: Three of us, is it?

Mr MACRIDES: Perhaps I could answer that, Mr Chairman. The board make up has a diverse degree

of skills. We have a number of engineers on the board. Peter Vines' background is predominately in the retail side of energy distribution, he started out as an engineer a long time ago in the network side of the business. Barry Chambers is a former CEO of Power and Water., Bob Neil is also an engineer; he has a background in gas. Merv has the electricity background.

Mr ELFERINK: Okay, I am just mindful of time, so I am going to be looking for brevity. In terms of the management structures, whilst I appreciate the role of the board, you are, of course, the head of the management team. Below you, you will have a serious of managers, or directors, for lack of better words. What is the technical experience on that level below you?

Mr MACRIDES: Perhaps I could introduce my management team, very quickly. All of them are general managers. Each of them head up an operational business within Power and Water, or a support business within Power and Water.

To my left, Darryl Day, who heads up our Remote Operations team. Darryl is an engineer and has been in the utilities sector for a very long time. Jim Bamber heads up our Retail team. Jim has also been with Power and Water a number of years; his background is in information technology. Paul Heaton heads up our Water and Sewerage business. Paul is an engineer; his entire background has been in the water and sewerage business over a long period of time. Bertram Birk heads up our Power Networks business. He has both a trade and an engineering background and has been in the industry for a very long time in the power networks distribution side of the business. John Linton is our General Manager, Development. John is an electrical engineer and has 30-plus years' industry experience in the generation business. In fact, John sits on an international committee that looks at generation-related matters. Jennifer Corke is our Chief Financial Officer. Jennifer, a Chartered Accountant, has come out of industry with many years experience in the finance sector. Rebecca Kardos heads up our Employee and Organisational Services team. Rebecca also has an IT background and IT qualifications. Directly behind Rebecca is Ian Pratt. Ian is our Generation General Manager. He has a trade and electrical engineering background and has been in the industry for a very long time. Dr Keith Beven is a new recruit. Keith is heading up our Remedial Asset Maintenance/Management Project, and his background is in the network distribution business.

Mr ELFERINK: Thank you, Andrew. Of course, we want to get down to brass tacks. I accept what you essentially said was an extension of Her Majesty's *annus horribilis* in the last 12 months. I am curious about one thing that has been omitted by all players, and now that I have you here I am going to ask you the question. In a media release from the Treasurer dated 7 April 2009, Ms Lawrie said, '… the Merv Davies and Andrew Reeves reports set out decades of neglect'. I am curious. Regarding 'decades of neglect', was either the former government or the current government told about the problems with the decaying Power and Water infrastructure?

Ms KING: I will let Andrew partly answer that. However, the 'decades of neglect' were not evidenced by any one, two, or more specific areas that could be identified as requiring urgent attention. I made a comment to Mr Mervyn Davies the other day that I have not seen things here that I have not seen elsewhere - but it was 15 or 20 years ago. I believe it is about the infrastructure industry in Australia - all over, including the Territory - has been very much focused on providing and meeting the requirements for new infrastructure in the utilities, and the issue of ageing infrastructure has, generally, been put at a second level. Then, of course, there is an episode that occurs which shows that there has been a lack of that asset maintenance at a level ...

Mr ELFERINK: What you are describing to me is a growing awareness over time - I own an old car, as the car gets older, I know that more widgets are falling off it.

Ms KING: Yes, that is it, and one day it really blows up on everybody.

Mr ELFERINK: Government would have been told along the way that the widgets were falling off at some point, wouldn't they?

Ms KING: There would have been reports that would have been reflective of the need for increases in

budgets for repairs and maintenance. I do not know if anyone specifically said that something is coming to the end of its life. Andrew or one of the engineers might like to answer that.

Mr MACRIDES: I do not have a lot more to add to what Judith has already said. There are a couple of major reports that have been dealt with in the course of the last couple of years, one of which is, clearly, the Blanch report. The Blanch Report was a review into the age and, I guess, standard of Power and Water's infrastructure. That report was handed down in 2007.

Mr ELFERINK: In 20 words or less, did that report actually identify that there was a problem with the ageing infrastructure?

Mr MACRIDES: That report resulted in Power and Water being given a budget of $814m to spend in its capital and repairs and maintenance program over a five-year period.

Mr CHAIRMAN: I need to clarify that point; it is only a small thing. The member for Port Darwin is obviously allowed to ask that question. I do not have a problem with that question. However, the method of answer from the Managing Director can be longer than 20 words.

Mr ELFERINK: I understand that. I am trying to keep it as tight as I can. I want to stay focused on the issue, thank you.

Mr CHAIRMAN: I appreciate that.

Mr ELFERINK: There was an identification that said you needed to spend $815m, was it?

Mr MACRIDES: $814m.

Mr ELFERINK: $814m on infrastructure. Prior to that, was government told, at any time, that there was an ongoing problem with increasing maintenance demands?

Mr MACRIDES: I have only been in this job for two years, Mr Elferink. Obviously, I cannot comment on what has happened prior to me being in the job.

Ms KING: I would say not in the terms that would spell out to government, 'here is a critical asset which is in danger of failing'.

Mr ELFERINK: Yes. You can understand my concern that you have what can only be described as a massive failure in the Casuarina Substation. As a consequence of that, we then have reports that say there have been 'decades of neglect'. I find it very difficult to understand how there cannot have been submissions to government saying: 'We have a growing problem'. As I described before, my car is getting older; I can see it getting older. I think you described something similar, Judith. Eventually, if you neglect the car long enough, the wheels fall off, the battery fails, whatever. I am trying to trace when the alarm bells were actually going off?

Mr MACRIDES: I can only comment from my perspective of being in the role for the last two years. From my mind, the alarm bells certainly started to go off significantly with the Blanch Report, which resulted in a significant increase in capital allocations to the organisation to spend on its infrastructure.

Mr ELFERINK: What led up to the Blanch Report being commissioned?

Mr MACRIDES: The Blanch Report, as I understand it, was commissioned as part of the enterprise bargaining agreement negotiations at the time, where the workforce was expressing some concerns over the state of the assets and, as a result of that, there was agreement that we would hold an independent review into the state of the assets. I believe that is how the Blanch Report came about.

Mr ELFERINK: You are now starting to understand my opening line of questions about technical expertise, because the workforce is aware and management does not appear to be aware, and I have some concerns about that. Whilst I appreciate this predates you, you can see the disconnect that I am concerned about, where the workforce, as part of their EBA, asks for a report to be conducted into the infrastructure, which management at the time, and the board, seemed to be not as aware of. It is suggestive of a disconnect, wouldn't you agree?

Mr MACRIDES: I would not put it in those terms because, quite clearly, I do not know what management's view was at the time leading up to the EBA negotiations. I have no knowledge about what was happening prior to that date. All I can reflect upon is my knowledge of what happened with Blanch and post-Blanch.

Mr ELFERINK: Judith, can I get a commitment from either you or Andrew - I suspect you are the person to answer this question - to go back - and I am talking about decades – to see if you can find a history for me of communications between the corporation and the government in relation to that? Even if we can get a synopsis of some sort as this is an important issue. Because of this massive failure, and other associated problems, Territorians are now copping a power bill that is, essentially, 25%; it is 23% if you add 18% and 5%, and compounding it, it gets closer to 24.7%, somewhere in that ballpark. So it is 25% over the next two years. The first time major problems were identified was only a couple of years ago in the Blanch Report. I am just trying to get a synopsis of what the actual history of communication between the corporation and government was, which even led to a situation where staff, as part of their own EBA, were actually wanting the infrastructure of the organisation looked at. If I can get a commitment to get that synopsis, I would appreciate it.

Ms KING: I am happy to give you that commitment and, if it would be of assistance, I am sure Mervyn Davies would be very pleased to meet with you and talk about the issues as he sees it, including whether he would put it in the category of 'massive', in terms of it being technically massive. I accept that it is massive in its impact in the community. I will comment that whilst I, personally, and I believe I can speak for the management of Power and Water, have the utmost respect for the people and the knowledge of the people who are on the tools, if you like, the fact is that there is never enough money to deal with all of the issues that are presenting, in terms of the finances available. There is not enough money to meet the issues that are presenting as needing attention. That is always a challenge: to make the call on are you going to commit to further connections in new suburbs, or extensions of power lines, and how do you program and prioritise? In Mervyn Davies' Report, you would note that he talked about the need for the corporation to move to conditioned monitoring as opposed to just programming maintenance. The programming maintenance is what was done historically in other utilities. This is now a major and timely cultural shift for Power and Water to move away from that model to the conditional.

Mr ELFERINK: Thank you.

Mr MACRIDES: Mr Chairman, I assume we are taking that as a question on notice?

Question on Notice No 11.1

Mr CHAIRMAN: Yes. For the purposes of *Hansard*, if the member for Port Darwin would repeat that?

Mr ELFERINK: Will the Chairman of the Board commit to providing a synopsis of the history of communication between the corporation and the Northern Territory government with regard to the decaying infrastructure of the corporation?

Mr CHAIRMAN: For the purposes of *Hansard,* would you be happy to take that on notice?

Mr MACRIDES: Yes.

Mr CHAIRMAN: I allocate that question No 11.1.

Mr ELFERINK: I will come back to this maintenance issue shortly, but now I want to talk about your debt exposure. I am interested that you have told me about the projection out to 2011-12, where your debt equity ratio slides from the current financial year of 78% to 140%. Do I take that to mean that you will be carrying more debt than the actual company is worth?

Mr MACRIDES: No.

Mr ELFERINK: Okay, explain it to me.

Mr MACRIDES: The difficulty we have is in relation to the application of accounting standards. One of the things the Chairman alluded to in her opening remarks was how our profit figure has been affected by asset write-downs and write-ups over time because of the application of accounting standards.

Mr ELFERINK: This is the argument you have been having with the Auditor-General?

Mr MACRIDES: An argument that has occurred in the past.

Mr ELFERINK: I notice it is still mentioned in your last annual report.

Mr MACRIDES: Yes, because it relates back to a qualification from several years ago that takes time to wash through the system as a result of the fact that it affects opening balances, which is, again, a very difficult application of this accounting standard. It depends on how you value your assets, Mr Elferink. At the moment our assets are valued on the basis of a discounted cash flow model, but the replacement costs of these assets is something in the order of $3bn to $4bn, but to have it as a written down value because of the way the application of this accounting standard occurs.

In the context of our borrowings, we certainly are borrowing towards funding our capital program. Over the life of the current Statement of Corporate Intent, our capital program over that period is in the order of $700m, and we will borrow around $528m to put towards that capital program. So, yes, your debt level does go up over time.

Mr ELFERINK: So your debt level by the year 2011-12 will be $1.1bn.

Mr MACRIDES: Yes, it will indeed.

Mr ELFERINK: What is the projection of the value of your company at that time? How much will all your assets be worth?

Mr MACRIDES: Again, it depends on the valuation method you use for your asset base.

Mr ELFERINK: I note that the Auditor-General has been quite specific in insisting on a particular valuation method, and it appears in your last annual report. I am aware this is an ongoing issue, and you have had a write-down of some $88m.

Mr MACRIDES: $88m, and there will be a write-back as a result of the tariff increases in the order of $80m-plus over the next two financial years.

Mr ELFERINK: Do you have a projection of what you anticipate your asset base to be worth at the time that you are carrying a $1.1bn debt?

Mr MACRIDES: If you give me five minutes, I will provide you with the answer to that.

Mr ELFERINK: I would appreciate that. Do you want to take it on notice?

Mr MACRIDES: No, I do need to take it on notice, Mr Chairman.

Ms KING: We have experts here and it is to do with accounting standards. I might just add that the gearing ratio that is projected is still well within the ballpark of what is regarded as a benchmark figure for other utilities.

Mr MACRIDES: Property, plant and equipment at the end of that period is valued at $3.1bn. Obviously, you have to take off accumulated depreciation, and that amounts to $1.3bn, giving you an asset value of $1.975bn.

Mr ELFERINK: What is your current asset value?

Mr MACRIDES: The current asset value is $2.645bn, I am talking about as at 30 June, potentially, although obviously we will not know until we finalise our books. Depreciation of $1.15bn, giving you an asset value of $1.6bn.

Mr ELFERINK: Okay, so more assets than you are carrying debt now and what you are projecting into the future?

Mr MACRIDES: Yes.

Mr ELFERINK: Okay. You get your loans through one agency only, don't you, that is Treasury Corporation, is that correct?

Mr MACRIDES: We do.

Mr ELFERINK: And, basically, they are the clearing house for your borrowing requirements. Before I go any further, the projection of $1.1bn-worth of debt in 2011-12, do any of your projections go beyond that?

Mr MACRIDES: We can model beyond that.

Mr ELFERINK: The reason I ask is because, if you go to Budget Paper No 2, on page 107, they do model a little bit further than that. They model out to the year 2012-13. I have to join a few dots here; as you can understand, I can only work with the paper I have. In the nett debt situation, government will accrue some $150m-worth of nett debt in Budget Paper No 2 in the year 2012-13. The general government sector balance sheet, however, will only accrue $10m in that time, so somewhere in the non-financial public sector operating statement, which is where Power and Water lives, there is an increase of $140m in that financial year. The question I ask is: will there be further borrowings beyond the $528m described in that following financial year incurred by Power and Water Corporation?

Mr MACRIDES: Power and Water will continue to borrow to fund its capital program in all outer years.

Mr ELFERINK: So that projection I am reading in the non-financial public sector balance sheet in Budget Paper No 2 is likely to be incurred by Power and Water Corporation?

Mr MACRIDES: I could not give you that definitive an answer. It would presumably include some of Power and Water's additional borrowings, but I have no idea what makes up that number in that budget paper.

Mr ELFERINK: Okay. I will have to make that assumption. Do you understand my problem?

Mr MACRIDES: Sure, and I honestly do not know. It is a matter for Treasury.

Mr CHAIRMAN: Perhaps a question to the Treasurer.

Mr ELFERINK: Yes, we did not get that far, I am afraid. We have a situation now where the company is essentially doubling its debt in the next four years with a potential to borrow even more, and statements in your Statement of Corporate Intent which say things like – goodness, I cannot lay my hands on it, just excuse me for a second, folks. I notice that there are several qualifications – this one will do – the capital investment program delivery, page 15:

> *The corporation is exposed to several risks associated with delivery of the substantial capital investment program. The size of the program presents a significant challenge to the corporation and its capacity to deliver large numbers of projects on time and within budgeted expenditure levels.*

On that page it also says that:

> *… there is potential for increases in repairs and maintenance costs as a result of improved asset management and to the proposed capital expenditure program through scope and cost revisions which could place pressure on Power and Water's financial position.*

In two places there is almost a qualification that says we might still have more problems and put pressure on our financial position. Am I reading that correctly?

Mr MACRIDES: There are two elements to it, and I suspect you would probably not see anything less from a business of this size. With a capital program of $1.1bn, what you are doing is projecting what costs might be in outer years, because a lot of the capital projects that are in that program are projects that will occur in the future. Until you actually go through full design and scope for each of those projects, you go out to tender on each element of each of those projects, you will not know what the full costs are. Our estimation process looks to the future, looks at what we think might happen with materials and labour costs into the future, and makes some assumptions about growth in each of those areas. You never actually know, until you actually start the process of project management, what the additional costs will be, or whether there are any cost savings, indeed.

Mr ELFERINK: Tracking this historically, from government, an announcement not that long ago, $900m-worth. Then the magic billion dollar figure got rolled out. Now we are up to $1.4bn, and we are not certain as to what it is going to look like into the future.

Mr MACRIDES: Yes, but do not forget you are adding an extra year to your budget figures each year.

Mr ELFERINK: That is right.

Mr MACRIDES: So, you have gone from 2006-07, 2007-08, 2008-09, 2009-10, etcetera.

Mr ELFERINK: Yes, so, every time there is a projection, we get a higher number being spoken about.

Mr MACRIDES: Well, every time it is projected, you are getting an extra year's worth of capital added to the program.

Mr ELFERINK: Every time you add a year. You can understand, from a public perspective, seeing that they just copped it in the neck for a 25% increase in their power bills, 70% on water, essentially, and we have this $900m, $1.4bn and, by the way, it might be more. That is how it is playing out in the public mind. The public, as you can well appreciate, is quite twitchy about the fact that they are

copping these very large power increases, and even larger water increases. They are not getting a great deal of confidence out of documents which place riders in them.

I want to go back to maintenance. I am curious about the ministerial statement from the minister which now seems to be supported, in part at least, by your Statement of Corporate Intent. This is in relation to maintenance of the network. Between 2001 and last financial year, plus or minus $1m, it was, basically, $40m a year for repairs and maintenance over that period. Is that correct?

Mr MACRIDES: I do not have the numbers in front of me. I have only brought the numbers for the following three or four years.

Mr ELFERINK: I will go out on a limb. Plus or minus $1m, for the last seven years it has been $40m.

Mr MACRIDES: That seems an extraordinarily low number over the last couple of years, where I think the number has gone up to $42m to $47m to $50m.

Mr ELFERINK: Yes, the $47m is last financial year's. Prior to that, it was $38m, $39m, $42m, $41m - up and down, but plus or minus - it is the $40m mark. So, the government says: '$10m more for repairs and maintenance. It will be extrapolated out over the next few years'. My concern is that, when it has been tracking along at about $40m, there is an effect of CPI which diminishes in real dollar terms the amount of money available. Added to that is that the network is getting larger, so you are stretching this repairs and maintenance dollar even further. According to the Mervyn Davies Report, that fabric has now stretched to the point where it is tearing.

The government's response is to say: 'We will make it $50m a year'. So, you have quite correctly tracked it: $40m, $47m, $50m. I note in your Statement of Corporate Intent, on page 12, the forecast for repairs and maintenance for 2009-10 represents a 7.6% increase on repairs and maintenance expenditure over the 2008-09 forecast, from $49.9m to $53.7m. The minister stood in parliament and said we will be paying $50m over the next five years. What I am concerned about - and I seek your comment - is that you are doing exactly the same thing as happened in 2001; by sticking around the $50m level, but we have Weddell coming online, and you are moving the Ron Goodin Power Station out to Owen Springs. Again, you have been stretching and pulling the fabric of repairs and maintenance of about $50m over the next five years. Allowing for the effect of CPI in there as well, you will be diminishing it in real dollar terms, plus making it work harder. Aren't we setting ourselves up to make the same mistake?

Mr MACRIDES: The easy answer to that is one of the things you need to take into consideration when you look at the repairs and maintenance program moving forward is the quantum of the capital spend. Clearly, there is a nexus between how much capital you spend and invest in new infrastructure, and how much infrastructure you retire as a result of that capital going into the program itself, and the level of maintenance that is then required moving forward.

The organisation is spending $1.1bn on new infrastructure. Some of that will allow us to retire some existing infrastructure, and some will allow us to augment existing infrastructure. You obviously do not have an immediate repairs and maintenance requirement for new infrastructure - that is down the track. These projections in here are our figures; they have nothing to do with government. These figures are our engineers and our project managers' guess on what is required out there in terms of the existing asset base and maintenance of that and the future asset base.

Mr ELFERINK: So when the minister commits $50 m a year for the next five years, I take it from that answer, that figure does not come from you?

Mr MACRIDES: He is acting upon advice that we have provided him with clearly in the context of our Statement of Corporate Intent.

Mr ELFERINK: Okay. I find his number surprising and, in the absence of projections other than

beyond this financial year, assuming that you provide him that advice, I am concerned about the $50 m a year R&M spend over the next few year, because I suspect it has the same calamitous potential that we have already seen played out.

Ms KING: Can I add to that, Mr Elferink. One of the quantum shifts that is occurring in the corporation is the investment that is currently under way into an asset management system which the corporation has not had previously. That will be a platform for much better control, not only of the state of the assets and the prioritising of R&M, but also the costs associated with it.

Mr ELFERINK: Yes, I noticed a couple of years ago - I hope this is not still before the courts, I am sure it is not - I was surprised that one of Power and Water's staff was able to have in a shed at home $100 000 worth of assets and no one seemed to know where it had gone. I hope the new asset maintenance system covers those sorts of movements as well.

Ms KING: We all share that hope.

Mr ELFERINK: I am sure that we do. I want to get on to another issue of some concern. Judith, you mentioned it in your opening statement in relation to Blacktip and ENI. When I talk about Blacktip and ENI, I am talking about the one project, because I see it in those terms. Whilst I understand we are talking about a pipeline, and an offshore facility and a facility at Wadeye, when I talk about the Blacktip project, I will be referring to the whole thing. Are we comfortable with that?

Ms King: Yes.

Mr ELFERINK: In relation to Blacktip, is it on budget at this point?

Mr MACRIDES: Blacktip and the costs associated with Blacktip have nothing to do with us. There are two contractors associated with Blacktip and two owners of that project. One is ENI, in respect of the onshore/offshore gas facilities; the other one is APA in respect of the pipeline.

Mr ELFERINK: Do you know if it is on budget at the moment?

Mr MACRIDES: I have no idea. At the end of the day, they are just like us: any cost overruns are a matter that they wear.

Ms KING: There is a finance issue for them, and it is in these papers. They are required to recompense Power and Water for the overrun in time and damages associated with that.

Mr ELFERINK: That damages clause is probably in the contract, I would presume.

Ms KING: That is right

Mr ELFERINK: I want to go there quickly because I notice you picked up on this issue in your statement. There is a damages clause, or a penalties clause in the contract. Is there a cap on that penalties clause in the contract?

Mr MACRIDES: There certainly is. Like all commercial contracts, there are caps associated with liquidated damages. The cap that is in the contract, which I obviously cannot give a dollar value for because it is a commercial contract, unless you would like me to provide that in a closed session, but I am comfortable that the cap that is there will cover us for the additional costs that we are incurring in burning diesel.

Mr ELFERINK: All right.

Ms KING: We had discussions with the executives of ENI on Monday of this week. I can assure you

that it is a high priority, it is uppermost in their minds, and they are working very hard to bring this gas on as fast as they can.

Mr MACRIDES: Obviously they want an income stream.

Mr Elferink: Yes.

Mr CHAIRMAN: At this point, I will raise a quick procedural matter. The terms of reference do say that we are in your hands on your advice on commercial-in-confidence matters.

Mr ELFERINK: Mr Chairman, I may go to that point at some point, but not yet, and we may not go to that point. Should that occur, Mr Chairman, I will pursue that. I am much more interested in the big picture stuff than actual dollar amounts. I am curious to hear you tell me that you are comfortable you are within the thresholds of that cap. On a scale of one to 10, how close are you to the threshold?

Mr MACRIDES: Not even close at this stage.

Mr ELFERINK: So, way down the scale? It is a big penalties clause in there.

Mr MACRIDES: It is a substantial penalties clause.

Mr ELFERINK: Okay. I have missed a couple of questions in relation to your debt. Do you mind if we just return to debt issues? Whilst you have your debt being sourced by Treasury Corporation, what interest are you paying on your debt now, and, do you have any projections for interest payments into the future?

Mr MACRIDES: Like any business, we have a range of debt within our portfolio. The interest rate depends on when you take out the debt instrument and when you refinance that debt instrument. When you take on new debt, it is obviously at the prevailing interest rates at the time you take on the new debt. You can assign an average percentage value to the bundle of debt that you have within your portfolio of debt. Offhand, I do not know what that percentage is but, as I said, all new debt that you enter into is based on whatever the prevailing interest rate is at the time that you secure that debt.

In the context of our interest payments over the three years of the SCI, I actually do have a figure for that somewhere, if you would bear with me. Do you want to ask the next question while I take a look?

Mr ELFERINK: Where I am going with this is, as someone who has a car loan I, of course, pay attention to interest rates and the duration of loans and those sorts of things. What did you pay last year in interest payments - about $27m - is that correct?

Mr MACRIDES: Says he, quickly looking for the figure …

Mr ELFERINK: Perhaps I can rephrase the question. The figure given in your financial cash flow statement on page 56 of your last annual report is $27.634m. Is that the correct figure to work off?

Mr MACRIDES: The interest expense - in what year were you referring to, sorry?

Mr ELFERINK: I have your last annual report here. I just want to know how much …

Mr MACRIDES: It would have been around $27m, in that order. In 2009-10, it is projected to be $43m; $2010-11 - $56m; and 2011-12 - $67m.

Mr ELFERINK: From $27m last year to $67m in a couple of years' time.

Mr MACRIDES: I think our forecast for 2008-09 might be around $33m.

Mr ELFERINK: There will be a presumption as to what the underlying interest rate is on those loans, I presume. I hear from various players in the marketplace that credit is likely to become more expensive rather than less expensive over the next couple of years. There is an expectation that because you are entering a marketplace where they are choosing their clients rather than you going down the lending shopping mall, credit is going to become more expensive. I have heard some pretty scary figures. Do your expectations, or projections that you have just given us, calculate in the possibility of big shifts in interest rates?

Mr MACRIDES: The answer is no, not for the purposes of the financial data that is in our Statement of Corporate Intent. Obviously, when we put together financial data like this is you are making assumptions about future cash flows, your revenue, your expenses, interest rates, growth rates, etcetera. We have factored in what we think are relatively conservative figures for debt moving forward, so the answer is no.

Mr ELFERINK: So it is safe?

Mr MACRIDES: Indeed. So if there is suddenly a huge spike, then no, then that would obviously be an impact on the bottom line. By the same token, remember that we are a very weather-dependent business, so if you have an extraordinarily good Dry Season, your water sales will be down; if you have an extraordinarily bad Wet Season build-up, your electricity sales will be up. It is very hard to predict what our revenue and expenses figures are moving forward.

Mr ELFERINK: Economists in the last 12 months have gone from being scientists to soothsayers.

Mr MACRIDES: Absolutely.

Mr ELFERINK: We all understand that. With Treasury Corporation doing the borrowing for you, I presume they go through their normal mechanical process of breaking up the loans, having some short-term, some medium-term, some long-term loans. Are you aware of the loan structure that Treasury Corporation is creating for you?

Mr MACRIDES: We dictate, obviously, what our loan structure should look like in the context of rolling over existing debt, taking on new debt, etcetera. Generally, you look at debt instruments over a three to five year time frame, and then look at refinancing after that period of time. Within our portfolio of debt, there is a range of instruments, each with different maturity dates and different interest rates associated with them.

Mr ELFERINK: So you have a series of loans, I just picked up the time frame - did you say three to five years?

Mr MACRIDES: My understanding is that they are generally – sorry, I am being corrected by my Chief Financial Officer - five to 10 years.

Mr ELFERINK: Five to 10 years. So you have a $27m loan repayment, extra borrowings happening up to $67m, within a safe range of projected interest rate out to a couple of years, and you really do not know what is going to happen after that. Whilst I realise borrowings is a normal part of corporate activity, considering the size of these loans, your income as opposed to your outgoings, are you comfortable that you are not carrying too much exposure to loans into the medium term with the size of the loans you are carrying?

Mr MACRIDES: I do not know, obviously, off the top of my head what loans we have that are coming up for maturity within our existing portfolio over the three year time frame of this Statement of Corporate Intent. I would be surprised if we are talking about a total refinancing of our debt portfolio as it stands at the moment over that time frame. At this stage, in the absence of any crystal ball

gazing about a spike in interest rates, the answer is yes.

Ms KING: If I could add to that, the sensitivities around interest rates were considered in some detail by the Reeves Report when that report was being put together.

Mr ELFERINK: I will be coming to Reeves shortly, but I do appreciate what you are saying. I know that I am asking you to do a crystal ball gazing but do you understand my concern? How this ultimately translates out is that if this does actually take on the shape of a pear, then the people who will be paying are the people who turn on their airconditioners at night, and the people who turn on their televisions and turn on their taps. I have a certain amount of trepidation going into the future, based on some of these numbers.

Mr MACRIDES: Can I just say that our three biggest expense items are, quite clearly, energy, which dwarfs everything else, personnel costs, and repairs and maintenance. Interest expenses are large, but are relatively small by comparison to those other items.

Mr ELFERINK: I assume what you are saying from that is that there is a certain amount of movement available to you? So if some bogey man jumps out of a closet looking like an interest rate, you could absorb that; before, you were passing these things on to customers.

Mr MACRIDES: Again, it very much depends on the revenue side of the business as well, but as the Chairman indicated in her opening statement, cost control is a key element of what we do as a business.

Mr ELFERINK: In answer to a question last year in parliament, the minister, Rob Knight, said that what was happening at the Casuarina Zone Substation would not be passed on to consumers. In answer to a question put by a journalist to Mr Henderson, he said that the tariff increases were a result of the Casuarina Zone Substation. Which of the two gentlemen was correct?

Mr MACRIDES: Obviously I am not going to comment on a political question like that.

Mr ELFERINK: Fair enough. It is an interesting situation because I presume they are taking advice from you? Okay.

The other thing I want to go to is the Reeves review. He actually did not suggest as his preferred target the 18%, 5%, and 20%, 20%, 20% increases. He suggested much higher numbers. Jog my memory: what was he saying about what he recommended to reach commercial levels?

Mr MACRIDES: From what I can recall, he was indicating 40% increases for electricity and 60% for water and sewerage.

Mr ELFERINK: That is in the first year?

Mr MACRIDES: No, over the three-year period.

Mr ELFERINK: Over the three years, okay.

Mr MACRIDES: His water and sewerage tariff increases were accepted. Government was obviously concerned about the quantum of the increase for electricity and presumably had a degree of discussion about what those increases would be.

Mr ELFERINK: Of course there was the political component of having to tell the people of the Northern Territory that they are going to be paying a whole lot more for power and water. I also notice, of course, the increase of 40% was staged over three years. It was shunted back to one year - and I am not expecting you to make an observation on this – and then, all of a sudden, it is just CPI after

that, giving them a two-year buffer before the next election, should it not come earlier.

The issue I want to go to now is something that you said, Judith, that the power and water tariff increases will bring you to sustainable levels rather than commercial levels. Can you describe to me the difference between sustainable and commercial?

Ms KING: I will preface my response to that by saying that Power and Water has been working within the organisation over some years to try to get an effective price path for the components of the industry. There has been a freeze on tariffs in the Territory for some period and, of course, there inevitably needs to be a catch-up once that freeze, for whatever reason, is lifted. Some of the increases are really bringing the tariffs into line here with what is elsewhere. There are graphs in there that show the comparisons.

Mr ELFERINK: Yes, I have seen them.

Ms KING: The difference that you are querying is that the increases that have been agreed put us on to a sustainable, in the sense that it brings us much more into a budgetary situation that can be managed and can meet the demands that we are putting into our SCI, but it does not really put the corporation into a situation where it can do all of the things that it would wish to do to meet its capital, R&M and the other things. It is short of what was modelled as the optimum, but it is sustainable in that it is measurable. Andy might want to add to that.

Mr MACRIDES: There is a distinct difference between the two of them. Financial sustainability is, obviously, the concept of a going concern: your ability to actually pay your bills when they fall due, which we are able to do. Commercial sustainability is a concept whereby you get a commercial rate of return on your asset base. Obviously, commercial sustainability represents a higher level of return than does a financial sustainability envelope.

Mr ELFERINK: That is pretty much how I understood it. However, I pick up on your answer, Judith, because it leads me to an observation. It comes partially back to the repairs and maintenance issue. Sustainability basically means you make ends meet - to oversimplify it. The Power and Water Corporation is then in a position where it can make ends meet. I express some concern. I seek some comment on page 23 of the report, Capital Investment:

• *Works to extend the life of generation Sets 1 to 5 at the Channel Island Power Station. Despite being well maintained, they will soon require in-depth metallurgical work and replacement of critical turbine components.*

In English, that means they are getting older and they will have to be fixed at some point. Regarding sustainability, there is an acknowledgement implicit in that comment that there is a capacity for critical failure because of the critical components that will need to be maintained. If that failure occurs, does that have an effect on your sustainability?

Mr MACRIDES: There are a couple of answers to that question because it covers different elements to it. The first is, the comment relates to simply the fact that generators are like an engine in a car. They have a maintenance regime associated with how long they are in operation for, and manufacturers then indicate, if the engine has been running for 10 000 hours, it requires the following parts replaced in those engines. The engines that we are talking about here are coming up to that period where a number of parts need to be replaced, and all that comment relates to is the fact that that is what is factored into that cost envelope that is there.

Mr ELFERINK: It needs to be done for a reason.

Mr MACRIDES: Exactly. It is not that the plant is in imminent failure mode. It is simply that, over the period of time, that 40 000 hours service, or whatever it might be, is due to occur and that is what has been factored in by way of the capital envelope, or the repairs and maintenance envelope that is in

the document itself.

None of us can give you any guarantees that plant will not fail. No utility can give you that guarantee. It is a very complex series of interactions within a business like ours, in terms of the equipment that is in the field. Equipment does fail. It does not matter how well maintained it is, it can fail. If you have a cataclysmic failure like an engine fail at Channel Island, the business can sustain itself, on the basis that we operate on what is known as N minus two capability in our generation business, so you can afford to lose your two largest gen sets and still meet supply. At any given time, in the Darwin, Katherine interconnect system, you have 80-plus megawatts of capacity sitting there just in case. You can lose one generator, not a problem; you can lose two generators, not a problem, but if there are more than two, you sweat.

Mr ELFERINK: I will come back to one other issue, and I want to receive a comment from you on it. Whilst you say you can absorb a certain amount of debt, fluctuation of interest rates and those sorts of things, ultimately though, if you are absorbing extra interest payments, it does affect other aspects of what you can spend in other places, either debt repayment through attacking principal, or service to customers. Do you want to make any comment about it, or is that a recognition of reality?

Mr MACRIDES: Interest is no different from any other expense within the business. If you have a substantial increase in any expense line in the business, it is something that you have to deal with as a business. You can have a collapse in your revenue tomorrow, which then leads you to problems if you continue with your same expense levels. In any business, it is a balance between the revenue coming in and the expenses, and what you know about those expenses. It depends on a whole range of factors. As I said, if you have a sudden movement of interest rates up to 21% or 22%, no business can sustain that, let alone Power and Water. If it is within the margins, the business will survive.

Mr ELFERINK: Moving on to more mundane issues. Bellamack - God bless its cotton socks - at some point will appear on the horizon. We can buy as much as 150 m² to live on a postage stamp now, according to government. Obviously Power and Water will be supplying the power supply. Is there any specific arrangement in place as to who is paying for that supply to come to Bellamack?

Mr MACRIDES: There are two elements to that question. The first is Power and Water's responsibility is augmentation of supply to meet normal growth. New suburbs coming on line would be considered normal growth. Power and Water is not responsible for the headworks infrastructure within the subdivision itself. All the poles and wires, street lights, sewers, etcetera, within these subdivisions, like any subdivision, are built as part of the development by the developer. At the end of the day, they are built to Power and Water standards and are gifted to Power and Water, which then has the responsibility for the ongoing maintenance of those assets.

Mr ELFERINK: So it is the developer who actually puts the infrastructure in place beyond the headworks. So you come and knock on the front door, the developer opens the front door and says: 'I am just going to get everything ready for you', and you go in and say: 'Yes, that is fine', and then it is your property afterwards?

Mr MACRIDES: The headworks are within the development itself. It is outside the headworks that is Power and Water's responsibility. If you think about it as a gate, up to the gate, it is Power and Water's responsibility; inside the gate, it is the developer's responsibility – in simplistic terms.

The other element to your question is that, up to the gate, obviously there is a development that is occurring which will need to be provided with electricity, water and sewerage services. If we have to upgrade our existing infrastructure to cope with that, then, by and large, that is a Power and Water responsibility, in simple terms. It does not always work that way, but for new developments it does.

In the case of Bellamack, for example, we are putting in a new zone substation out at Palmerston called Archer. That is to upgrade electricity supply to cope with all new subdivision development out there, as well as to cope with growth within the existing Palmerston precinct itself, and putting a new zone substation in also allows us to build redundancy into the system out there, because all of

Palmerston at the moment is serviced by a single zone substation.

Mr ELFERINK: Who is paying for Archer substation?

Mr MACRIDES: Power and Water, as part of our capital program.

Mr ELFERINK: An extension lead, basically, out to the gate …

Mr MACRIDES: That is right. And all the infrastructure within the subdivision, the developer.

Mr ELFERINK: So the cost of infrastructure inside the subdivision needs to be recovered by the developer from whoever they sell the property to, yes?

Mr MACRIDES: It depends who the developer is, presumably, but yes.

Mr ELFERINK: Last time I checked, developers are not registered charities, as a general rule.

Mr MACRIDES: Sometimes government does obviously get involved in the development process, so …

Mr ELFERINK: Are you aware of any such involvement in this particular development?

Mr MACRIDES: I have no idea what the arrangements are for Bellamack. My responsibility is the power, water and sewerage infrastructure up to the gate.

Mr ELFERINK: So if there is an arrangement in place, you certainly do not know about it?

Mr MACRIDES: I am not familiar with it.

Mr ELFERINK: All right. Past the front gate, in goes the infrastructure - this is not cheap stuff, as a general rule, is it, especially to meet your exacting standards? You would expect the developer to spend the appropriate amount of money to meet that particular standard.

Mr MACRIDES: Power and Water has a series of standards for electricity, water and sewerage infrastructure within developments. The developer is required to meet those standards.

Mr ELFERINK: I expect you are probably going to say you cannot answer this, but I will ask it anyhow. Ballpark figure for something like Bellamack: do you know what it would actually cost to put something like that together, from a developer's point of view?

Mr MACRIDES: Look, I am just a dumb accountant, I am not a gifted engineer. I have no idea.

Mr ELFERINK: All right. I did not quite expect that answer.

Mr MACRIDES: Just wanted a bit of comic relief.

Mr ELFERINK: No, that is fine.

Ms KING: I think you can assume it will be cost plus.

Mr ELFERINK: Yes. How much are we spending on diesel as a result of the Blacktip shortcomings, which is now going to be 10 months late?

Mr MACRIDES: Thereabouts. The Chairman has already mentioned that in the opening address. Essentially, it is in the order of $40m-plus in additional expenses associated with diesel as a substitute for oil and gas from Mereenie/Palm Valley.

Mr ELFERINK: I understand how that is working. I am not going into it too much. I note that you are expecting to lower your CO2 emissions substantially in your Statement of Corporate Intent. I know that you are going to start truly measuring that on 1 July 2010.

Mr MACRIDES: No, we actually …

Mr ELFERINK: Sorry, probably the wrong way to express it. I know that July 2010 is when the system will be in place for counting it yourselves.

Mr MACRIDES: No, there is actually already a system in place. There is a mandated renewable energy target we have to meet which is associated with emissions from our power stations. There is already an existing system in place which requires us to monitor emissions from our power stations, and we do that on a monthly basis.

Ms KING: We estimate the cost for 2008-09 is $47.4 m. That is the Blacktip figure.

Mr MACRIDES: Can I clarify that? That is the additional cost of diesel, so it is about $48m, but that is offset by, obviously, a reduction in gas. You are not actually paying for gas, so the nett effect is around $40m.

Mr ELFERINK: Gas being cheaper, though.

Mr MACRIDES: Yes, because it is a substitute at the moment.

Mr ELFERINK: One other quick question. All of your projections into the future: are you projecting for power and water increases once INPEX comes along, not only for the firm itself, but the effect in the community? There will be some 3000 more people living here. Is INPEX factored into your views into the future?

Mr MACRIDES: INPEX is factored in, in the context of a normal growth rate for what is happening out in the communities, so their work camp and the additional people. We certainly have not factored in us supplying INPEX with power as part of their plant. We have been having ongoing discussions with INPEX over what their utility requirements are and that will presumably become clearer over time.

Mr ELFERINK: I am mindful of time, I am trying to get through all of these as quickly as I can.

Whilst we are talking about Blacktip and ENI, one of the southern hemisphere's largest suppliers of natural gas is about 2 km away from your biggest power station. The arrangement for getting gas to your power station from Blacktip, of course, raises a lot of eyebrows. Why isn't ConocoPhillips the supplier? I believe even a pipeline exists now.

Mr MACRIDES: Sorry, you have lost me. I am not sure of the question.

Mr ELFERINK: ConocoPhillips is an LNG supplier about 2 km away from Channel Island, give or take. There is actually a pipeline now, as I understand it, between the ConocoPhillips plant, and they can supply in emergency situations. It is surprising from a layman's point of view that we are trucking in gas from 500 km away, after spending hundreds of millions of dollars to get that gas to our front door, when ConocoPhillips is just over there.

Mr MACRIDES: I obviously cannot comment on ConocoPhillips and arrangements associated with

ConocoPhillips. I can comment on the interconnect into ConocoPhillips. The interconnect into ConocoPhillips is an arrangement that has been negotiated by Power and Water. That pipeline that you have referred to is an 11.2 km pipeline that is currently under construction. It goes from inside the plant, about 2 km of the pipeline inside the plant and about 9 km outside the plant, connecting up to our Weddell spur line. The 9 km section of the pipeline has been commissioned; the 2 km section of the pipeline is currently undergoing commissioning. We will have gas out of the ConocoPhillips plant, probably by the end of this month, assuming everything goes well with the commissioning of the 2 km section.

Mr ELFERINK: Do you know how we ended up in a situation where we have to pipe gas 500 km when we are that close to a gas supplier?

Mr MACRIDES: That was the comment I made at the start of my answer, and that is that I have no idea about what arrangements were in place when ConocoPhillips came into the Territory. At that stage, Power and Water was looking for a supplier. ConocoPhillips was not interested in supplying because they are getting a lot more money out of their LNG sales to Japan than they are out of sales to Power and Water. I have to say that, in terms of the interconnect to the ConocoPhillips plant, there was no imperative for ConocoPhillips to allow us an interconnect arrangement into their plant, or a sales agreement with us for gas out of that plant, but they have.

Mr ELFERINK: I appreciate that; I thank you for that. I am just confused. That is a lot of money to be spending. What is the value of the Blacktip project in terms of taxpayers' dollars?

Mr MACRIDES: None. Well, as I …

Mr ELFERINK: It is just your dollars? Well, it is a lot of money. I mean, if money is the only issue …

Mr CHAIRMAN: Just a second, I think Mr Macrides …

Mr MACRIDES: I was going to say, as I indicated earlier on, ENI are responsible for the offshore, onshore gas facilities - their capital, not Power and Water's capital - all we are doing is buying gas off them, and a pipeline that APA own.

Mr ELFERINK: Okay, so there is a rental on the pipeline?

Mr MACRIDES: There is certainly a rental on the pipeline, and a cost associated with hauling gas through the pipeline.

Mr ELFERINK: Yes, so there is pumping, not pumping, for lack of words, but actual rental on the pipeline, you are buying gas from this source. That is a lot of money, I presume, and I presume that it is commercial-in-confidence dollar amounts, but that is still a lot of money when you consider what has to be built. I mean, that pipeline is also not an act of charity. It has to be paid for, through the rents and stuff, which Power and Water Corporation will be paying for. Even if you are paying the premium that Japan is paying ConocoPhillips, one would expect that you would be a long way off. We know that you can negotiate with ConocoPhillips, you just have. So, what happened? Perhaps the Chairman of the Board can give me some direction on this? What happened, back in whenever, that we could not get gas from ConocoPhillips?

Ms KING: It is not something that we can definitively comment on, except to say that, first of all, the board had the securing of gas as a priority from about 2000 onwards, because we realised we were running out. There was a gas task force. It was a government-convened task force that looked, over a period of time, at all of the options. Power and Water was represented on that task force. It was not simply choosing Blacktip; it was looking at the possibilities and extensive negotiations with all the potential players who, for one reason or another, were prepared to come to the party or not. Ultimately, Blacktip was chosen, but it was not something that we …

Mr ELFERINK: In business there is an old maxim - money talks, bulldust walks. I am surprised that ConocoPhillips would have been reluctant with the right amount of money, but I will not pursue that any further.

Mr MACRIDES: The only answer I would make to that is, in any business transaction, you need a willing buyer and a willing seller. There was a willing buyer, there was not a willing seller. I recall my predecessor referring to ConocoPhillips at a public meeting as being un-Australian.

Mr ELFERINK: Well, that would be right, would it not, in some respects?

Mr MACRIDES: I cannot comment on it but, as I said, willing buyer, willing seller.

Mr ELFERINK: Yes, but this is the point, is it not, that …

Ms KING: I can only say, from the board's point of view, that I am aware that negotiations were tough and they were protracted, but Blacktip was the ultimate decision.

Mr ELFERINK: Remarkable outcome. But, anyway, there we go. Okay, more mundane matters. Spaghetti lines.

Mr WOOD: My favourite.

Mr ELFERINK: Okay. For the first time, I actually went and saw one – shemozzle is not a word strong enough to describe what I witnessed. What can we do for these folk? In the instance that I have spoken to a particular couple, their plastic poly pipe goes, on some occasions, that far under the road, across people's driveways, all sorts of things. If someone has to do any trenching work – anyway, I am sure you are aware it. Where are we at with them, and what can we do for these people?

Mr MACRIDES: I feel cheated that Mr Wood has not asked me this question. But …

Mr WOOD: … what he is talking about. I think they might have given up on me.

Mr MACRIDES: Okay. This is another one of those classic examples of developments. The rural area was developed a long time ago. It was developed …

Mr ELFERINK: And I suspect it comes back to the former government.

Mr MACRIDES: Well, I am making no comment about who is responsible for it. I am simply stating the facts. When the rural area was developed and subdivided, there was no provision for potable water supply pipes into the area. Essentially, what we have there is something in the order of 400 properties that are connected up by these banjo lines, these spaghetti lines. On our estimates, it would cost somewhere between $10 000 to $50 000 a property to actually connect them up to mains supply because of the infrastructure that is required. You are talking about an investment of $4m to $20m. It is not an investment that we have in our forward estimates of our capital program at all, because we have other priorities.

Mr ELFERINK: Yes, the problem is then – I suspect that Mr Wood has run into the same problem – the particular couple that I have spoken to bought their property with town water. If I buy property with town water, I have this really naïve mental picture about a little water meter, it runs under the block at the appropriate depth and all of those sorts of things. It never occurred to them that what they were getting was anything but town water and, then, all of a sudden, they have to incur all of these costs every time someone wants to dig up a driveway or do some trenching work. This is the stuff of legal actions eventually, when misrepresentations of these occur. It is probably not your immediate problem, but I imagine it will be an ongoing problem for Power and Water. Perhaps it is something that a future government can look at in terms of contracting Power and Water to fix it – a problem for

another day.

The perennial poo shooter: I have seen something where it looks like they are going to put the pipeline - what was it? $30m-worth or so – back along the base of Larrakeyah, Doctors Gully, and then under the CBD out at the golf course. Is that correct?

Mr MACRIDES: I am going to defer to one of my general managers, who is the expert in this particular field. Paul, would you like to come forward, please? Paul Heaton, king of water and sewerage.

Mr HEATON: Paul Heaton, Water Services Yes, your assumption is correct. There is a gravity sewer along Larrakeyah Terrace, down into Doctors Gully. There is an existing sewerage pump station in Doctors Gully which will be upgraded, a rising main coming up out of Doctors Gully, which is a pressure main, it will then join gravity sewers at the top end of Daly Street/Mitchell Street, and then will flow by gravity down to existing pump stations in the Frances Bay area.

Mr ELFERINK: Up to Daly Street - is that a tunnel under the CBD?

Mr HEATON: As part of the design, we looked at various options, and tunnelling was one of the options. There will be some directional drilling, we believe, but a tunnel, as such, is not currently the preferred option.

Mr ELFERINK: Some directional drilling - you will have to explain that to me.

Mr HEATON: Generally, directional drilling is, if you like, much smaller diameter and much smaller length. Tunnelling, typically, would have to be a meter diameter and you would have a large tunnelling machine that drills itself, it is self-propelled, through a hill side.

Mr ELFERINK: This is from the back of Doctors Gully, right up the back?

Mr HEATON: That is right.

Mr ELFERINK: There are heritage implications with that; I am sure you have taken those into account. Who have you spoken to about that?

Mr HEATON: We follow all the normal processes. We obtain Aboriginal Areas Protection Authority clearance. We have been negotiating very closely with the Darwin City Council; all the relevant authorities, including the Heritage Council.

Mr ELFERINK: I am glad, because that has the potential for problems if it is not done properly. Thank you, that is all I have on that.

Mr TOLLNER: Further to that, what are the plans to move the sewerage farm near Ludmilla?

Mr MACRIDES: Easy answer, none.

Mr TOLLNER: When will we cease pumping sewerage out from there?

Mr MACRIDES: That is an extremely difficult area, in the sense that there are something like 15 outfalls throughout the Territory, five in Darwin. Closing outfalls down and looking for an alternative as to what you do with that sewerage is hugely problematic

Mr TOLLNER: It is problematic if you have a sewerage farm at Ludmilla Creek, I would imagine?

Mr MACRIDES: The infrastructure has been there for a long time.

Mr TOLLNER: Can you outline what costs may be involved in moving that farm?

Mr MACRIDES: You would be talking about literally hundreds of millions of dollars.

Mr ELFERINK: Power lines in Alice Springs up to the Gap. There is some concern about Len Kittle Drive, back as far as the Blatherskite Range - are you still going to remain above ground on that?

Mr MACRIDES: There is no secret about the fact. I believe there was an article in the *Centralian Advocate* today that indicated that Power and Water has been asked by government on a number of options associated with the power line route for that power line in Alice Springs. That information has been provided to Power and Water's portfolio minister, the Minister for Essential Services, and we are awaiting information from the government as to what its preferred route might be and the cost arrangements associated with it.

Mr ELFERINK: The water infrastructure underneath the town of Alice Springs is aging. What are the plans to bring that up to speed? We have recently had a burst pipe there, haven't we?

Mr MACRIDES: Burst pipes are a fact of life anywhere. We had a burst water main in the mall. That section of pipe has either been replaced, or is in the process of being replaced now. We have frequent breaks of pipe along Ilparpa Road, and we are investing well over $1m in replacing pipe there at the moment. Water pipes are long life assets; a water pipe has 80 to 100 years' life in it. It is just a matter of ongoing maintenance of the pipes.

Mr ELFERINK: I will pick that up in your Statement of Corporate Intent – they actually have an asset life. One very quick one: I had cause to go running recently, on those rare occasions that I take my somewhat shambolic physique out. Across Rapid Creek, there is a sewerage pipe between two pumping stations, one on Lakeside Drive, one on Rapid Creek Road. I think there is a problem with that pipe. It is showing signs of some seepage in one area; around one of the seals, it has broken away. I just thought I would let you know.

Mr MACRIDES: I am sure my colleague, the General Manager of Water Services, has noted that.

Mr ELFERINK: One last hoary little chestnut that I wanted to get to. Underground power, and what is happening in Marlows Lagoon? Where is the Power and Water Corporation at with that issue? Clearly, the local residents are under-whelmed. Is Power and Water's position fixed, or is there something that can still be done?

Mr MACRIDES: Is Power and Water's position fixed? Power and Water's position is fixed in the sense that Power and Water has an 86 metre easement that runs at the back of a number of properties at Marlow's Lagoon, and Power and Water will be using that easement for this infrastructure. The power line itself is a 10 km power line, which is proposed to be above ground. We need to be very clear about what we are talking about by way of a power line here. We are not talking about low voltage infrastructure, 11/22 kV stuff; we are talking about high voltage 66 000 volt infrastructure.

I have heard various people asking why we cannot we bolt this infrastructure on to the existing 35 m lattice towers that are already out there. The easy answer is, no. Obviously, those towers, just like any house, have been constructed to take the power lines that are strung on each of those towers. You would have to basically re-brace the towers to put more infrastructure on it. That is one element of it. The second element is, the reason we are putting a third line into Palmerston is obviously to build redundancy into the system. If you lose one of the towers which, admittedly, is a low risk, but if you lose one of the towers and you have a second line strung on it, you basically have lost two-thirds of your redundancy in the system, which is why you want a parallel line going down there.

The easy answer is, there is a cost differential, quite clearly, between putting infrastructure

underground and above ground. Underground high voltage infrastructure is really difficult to service if faults occur. The cost differential is in the order of $3m to $13m for above ground versus underground – a $10m cost.

Mr ELFERINK: Over the length of the 10 km?

Mr MACRIDES: Yes, over the length of the 10 km.

Mr ELFERINK: The section that affects the land?

Mr MACRIDES: The section that affects the land, again, the difficulty is that you have existing infrastructure there. Stopping and starting projects, going above ground and going underground, there are costs associated with that. Our greatest concern is, of course, that the 66 kV infrastructure underground is a problem in terms, as I said, of fault recognition and finding.
We have given a commitment that we will consult the residents in Marlow's Lagoon prior to 30 June. At this stage, we have not done that because we are waiting for a pack of information we can take to them that we can ask and answer questions on. That pack of information includes the designated route; schematics of what the power line poles are going to look like that we are proposing to put there; at the moment there are 35 m lattice towers, we are proposing to use 20 m concrete pillars instead of these 35 m lattice towers, and we will have the discussion with residents.

Mr ELFERINK: Mr Chairman, I am aware that my colleague sitting next to me wants to ask a few questions in this area. I am happy to pass over to him right now. In fact, I do not think I have any further question at this stage, Mr Chairman.

Mr CHAIRMAN: Member for Drysdale.

Mr BOHLIN: Firstly, the area we are talking about is a 2 km stretch of residential land. That is out of your entire 10 km stretch. Could you indicate for us the additional cost per kilometre to go underground for a 66 kV or 66 000 volt line?

Mr MACRIDES: Sure. The cost differential is, give or take, and it depends on material and labour costs at the time, but generally about $300 000 per kilometre for above ground, and somewhere in the order of $1.3m per kilometre for below ground.

Mr BOHLIN: You talked about problems with it going underground and finding faults and the like. Surely, with a 2 km stretch which, essentially, all it has is, bar one or two road sections, a couple of fences in between it, there is no great obstacle to getting to repair that structure if there was a fault. Surely you would not be concerned for faults for some great length of time, especially with the newest quality of underground lines that are now available. Surely it cannot be that great a problem for a 2 km stretch that does not have pavements, buildings, or Leaning Towers of Pisa, or the like?

Mr MACRIDES: What is above the infrastructure is probably neither here nor there. The fact is, you have 2 km of cable buried which has multiple joints in it at points along the 2 km route. When you have a cable failure for an above ground cable, you have people, the lineys, who can actually walk the length of the cable and sight where infrastructure has failed. In a network that is underground, you may have to dig up 2 km of cable to find where the fault is. It is that issue and the cost differential that are problematic for me.

Mr BOHLIN: Okay. I still have a problem with understanding that it is overly difficult, especially with the new technology, that you are going to expect the line to explode as soon as you put it in the ground.

Mr MACRIDES: I did not actually give that impression.

Mr CHAIRMAN: A small point of procedure, member for Drysdale. I will allow the next question, but

as a matter of order of precedence for questions, it should have gone to members of the PAC first. The member for Nelson and the member for Fong Lim are both keen to ask questions. So one more question and then we can move to other members, thank you.

Mr BOHLIN: Thank you, I appreciate that. As recently as this Monday past, I discussed this scenario with a licensed and accredited property valuer who clearly stated that there would be a marked decline in property value directly upon the affected residents of Marlow, and Marlow as a whole, with property reductions of around $200 000 to $250 000 per property, with a nett combined value of over $5m on just the directly affected residents. Where does your company get the right to affect any Australian to that degree?

Mr MACRIDES: That really is an unfair comment, I would have thought, in the sense that I cannot …

Mr BOHLIN: It is not that unfair on the residents.

Mr WOOD: You have to check the planning. It has been passed by the Planning Authority.

Mr MACRIDES: There are a couple of issues associated with that. One, I have no idea how objective this particular valuer is that you have used.

Mr BOHLIN: They are licensed and accredited.

Mr MACRIDES: And indeed, they might well be, and they might well be a property owner there, but that is neither here nor there. The issue is that Power and Water has a registered easement. The purpose of a registered easement is for existing and future infrastructure. A property owner acquires a piece of land on the basis of having a whole series of checks done when they purchase a property. One of the checks that is done is whether or not there are easements on that property. I cannot give a guarantee, when I have an easement on the property, that I am not going to use that easement for future use. That is what it is there for, that is what it is reserved for.

I find it curious that a valuer would suggest that a third power line of 20 metres of concrete construction in an 86 metre easement that already has two 35 metre lattice towers in it is going to affect property values by that magnitude, if at all.

Mr BOHLIN: I find it difficult to see how you could not foresee how it could, when it is only 15 metres …

Mr CHAIRMAN: At that point, member for Drysdale, I need to open it to other members of the Public Accounts Committee.

Mr TOLLNER: I will be as quick as I can, Gerry. I know you are chafing at the bit to ask questions. Can you quickly explain the arrangement of power supply to McArthur River Mine?

Mr MACRIDES: How long do we have?

Mr ELFERINK: Perhaps you might need a briefing, rather than taking ...

Mr TOLLNER: Maybe you could take it on notice. I will give you a couple of questions you might take on notice, just for ease of purposes.

Mr MACRIDES: I can give you a very simple answer. There is a power station at McArthur River that Power and Water does not own; it is privately owned. Power and Water purchases the output from this power station. We provide gas to the power station via a pipeline that we do own. The power station is owned and operated by a private operator; maintained by a private operator. As I said, Power and Water buys the output of this operator and on-sells it to McArthur River Mine.

Mr TOLLNER: Can you outline the sequence of events that led up to the total failure of electricity supply at McArthur River Mine?

Mr MACRIDES: No, because they are a matter for the operator, not for Power and Water.

Mr TOLLNER: Does the Power and Water Corporation have an obligation to supply electricity to McArthur River Mine?

Mr MACRIDES: Power and Water's arrangement with McArthur River Mine is, like any other contract; that is, interruptible power supply.

Mr TOLLNER: So there is no real obligation?

Mr MACRIDES: No, and I honestly do not know what obligation McArthur River Mine and the independent power operator might have in respect of each other.

Mr TOLLNER: Yes, all right, I will leave that one. In the area of drains, when was the last time that stormwater drains have had a proper clean out in the Darwin area?

Mr MACRIDES: I do not know. We are not responsible for stormwater drains.

Mr TOLLNER: You are not, at all?

Mr MACRIDES: Not at all.

Mr Elferink: Phew!

Mr TOLLNER: Right, no worries. I was going to start asking, possibly, about the carbon trading scheme, but I will leave that one too.

Mr WOOD: You are doing work on Gunn Point Road at the moment. Is there an upgrade of the water main there?

Mr MACRIDES: I defer to my General Manager, Water Services, Mr Heaton again.

Mr WOOD: Now nobody knows.

Mr MACRIDES: No, it is a mystery to us. Can I take that on notice?

Mr WOOD: Yes, please.

Question on Notice No 11.2

Mr CHAIRMAN: For the purposes of *Hansard*, can you repeat that question?

Mr WOOD: Could Power and Water give us any details about an upgrade of the water pipe on Gunn Point Road?

Mr CHAIRMAN: Are you happy to take that question on notice?

Mr MACRIDES: More than happy, Mr Chairman.

Mr CHAIRMAN: That is question No 11.2, for *Hansard*.

Mr WOOD: I have been trying to find out a little more about this project advertised in last Saturday's paper. I was wondering whether Power and Water was facilitating any of this project. It is called the Clarence Strait Tidal Energy Project Northern Territory. I do not know whether you have heard of it. It is dealing with 456 marine turbines on the sea floor. They expect to run some lines to Glyde Point. They are looking at producing 1036 MW per hour, per year - is that correct? - which is roughly not much different to the energy generation from Channel Island Power Station. If this works, it sounds fantastic. Has Power and Water had anything to do with this? As this power will be coming onshore at Glyde Point, has there been any discussion on how we get the power from Glyde Point to Darwin?

Mr MACRIDES: We have had no involvement with this project other than there is a full environmental impact statement being carried out on the project at the moment, and we are one of the organisations that will comment on the project itself. As you said, if the project proceeds, it would be a great project. The project has a number of hurdles associated with it …

Mr WOOD: Fish fillets, if you are not careful.

Mr MACRIDES: All those things. One of the fundamental issues you have just referred to is the transmission line from the project back into the power distribution network. It is an interesting issue that is not covered in what the proponents have suggested to date.

Mr WOOD: Perhaps that industrial area might come to be up there now, because they will have power.

Ms KING: The corporation monitors and looks very carefully at the options for renewable energies, including tidal energy. In fact, we had a detailed paper and discussion at our board meeting this week when Mr Linton gave us a lot of detail on each of the areas, including the tidal possibilities. If you want, I am sure you will be able to get more information from him on that.

Mr WOOD: If a company like this came in and said: 'We can produce the same amount of power as Channel Island', and you have contracts for gas from Blacktip, what happens? Do you just tell them: 'Sorry, we have to use Blacktip gas'?

Mr MACRIDES: There are two answers to that question. One is the issue of whether Power and Water would enter into a power purchase agreement with that particular company, or whether, in a contestable marketplace, that company might want to seek out its own retail customers - which would not necessarily be a bad thing in the sense of competition. Would we be interested in purchasing some power from them? The answer would probably be yes. Would we be interested in putting in a transmission line? The answer would be no. All of that would have to be factored into the cost of the project and whatever they are prepared to sell the energy for.

Mr WOOD: Thank you. This is a question I have asked a few of the departments. There was a series of generic questions during this week, and it was all about how you reduce your carbon emissions. People were saying: 'We turn off all our photocopiers and we go to bed at 5 pm', and all these sorts of things. My difficulty with that is, that sounds good, but how can you relate the reduction of energy, say in a department, to a physical reduction in carbon emissions at Channel Island or Weddell Power Stations? Is there some way that can be actually proven?

Mr MACRIDES: You can do a simplistic calculation. For example, there are seven generators at Channel Island. The average generation size there is probably in the order of about 30 MW. You have to make some assumptions about how often you run that 30 MW generator, and for the purposes of this exercise – I just have a calculation here.

Mr WOOD: Yes, you might have heard it coming.

Mr MACRIDES: For the purpose of this exercise, if we say that a 30 MW machine runs for 8000 hours per annum, that equates to an output of about 240 gigawatt hours a year, which is about 15% of total energy consumption in the Darwin/Katherine interconnect system. The simple answer, and it is a very simplistic calculation, is that each and every person in the Darwin/Katherine interconnect system would have to reduce their energy consumption by 15% in order for us to shut down a 30 MW generator at Channel Island.

Mr WOOD: If you did not actually shut the generator down but reduced the load, would you necessarily reduce the amount of fuel to run that generator, or is it more or less the same whether it is under full load or half load, or another amount of load?

Mr MACRIDES: No, there are efficiencies associated with how a generator is run up. The most efficient generation plant is one that is called base load, which is plant that just keeps running continuously. When you then have to bring parts of plant online for peak loads, it is more expensive.

Mr WOOD: What I am saying is, we are asking people to save energy, turn your lights off, turn your airconditioners off. But really, if that was to be translated to making a factual change to carbon emissions in the Darwin region, you would have to knock off about 15% of the current consumption so that we would actually close down one generator.

Mr MACRIDES: Yes. As I said, a very simplistic equation.

Mr WOOD: That is right. But, in fact, that is what we should be telling people; that, as a combined, group it is possible that we can do it. It is a bit like the solar panels on the roof – by the time you have paid for the solar panel and the installation and the life of the solar panel, and the little money you get back from having it there, putting it back into the grid, it has probably done more because you feel good rather than the economics of it. All right. I would be interested to know how much equipment would have to be shut down to knock off that 15%, but that would be another question.

Mr MACRIDES: That would be an even more difficult calculation.

Mr WOOD: The LNG is coming from ConocoPhillips?

Mr MACRIDES: Yes.

Mr WOOD: How is it physically brought to Weddell, considering it is normally cold when it is transported? That pipeline that takes it to Weddell, is it cooled as it travels along that pipe?

Mr MACRIDES: There are actually two components to the pipeline. As I mentioned, one is a 2 km section within the LNG boundary; that component of the pipeline is a high pressure pipeline. The dimensions of that pipeline are about 10 inches by about 1.5 inches thick. When it gets outside of that 2 km area, it goes through a pressure reduction system. If you have driven out to Wickham Point, just out the front of Wickham Point gates on the left hand side is a pressure reduction system that has been put in place to reduce the pressure from out of the gas plant to get it into the 9 km section of pipe, which is actually low pressure pipe. So it is that pressure reduction system, a series of what they call ‘slug catchers’ in the gas world, which reduces the pressure that allows it to travel along the rest of the pipeline.

Mr WOOD: So it does not have to be cooled?

Mr MACRIDES: No.

Mr WOOD: You are doing a trial of biodiesel at Daly Waters. Can you explain what that is about?

Mr MACRIDES: Biofuel is a potential renewable energy source for us. We had run a trial of biofuel; one, to see whether we could acquire sufficient quantities of biofuel to use in our generation plant; and then two, what the effect of using biofuel would be on the efficiency and maintenance requirements for that generating plant. That trial has finished. We are in the process of doing a bit more work on assessment of what the trial has shown us …

Mr WOOD: Why Daly Waters?

Mr MACRIDES: It was simply because it was a reasonably good power station to use for biodiesel purposes.

Mr WOOD: Where did the biodiesel come from? And you could pick a place more or less in the middle of the Territory.

Mr MACRIDES: I might hand over to Ian or John. Do either of you know?

Mr LINTON: John Linton. The biodiesel for that trial actually came from the eastern states. It is reconstituted tallow or something like that. The issue with using more biodiesel is that there isn't any. it is very hard to actually source biodiesel that is accredited for use in renewable energy situations. Even though in the future we would like to use more biodiesel to displace actual mineral diesel, it depends on the supply situation.

Mr WOOD: Andrew, you mentioned in the annual report about the Alice Springs Water Re-use Project, which is for sewerage water, I think.

Mr MACRIDES: It is.

Mr WOOD: Is that up and running, and is that water actually being used in horticultural production?

Mr MACRIDES: It is up and running. It is producing a substantial amount of treated effluent. At the moment, it goes through some aquifer treatment ponds at the AZRI site. It is injected back into a hole in the ground, basically, an existing old aquifer that is there, and then it is ready to be pumped out at some stage. At this stage, there are not any potential purchasers for that water. I understand whichever NT government agency is responsible for agriculture is talking to some prospective horticulturalists.

Mr WOOD: Would that re-treated water be sold at full cost recovery?

Mr MACRIDES: In fact, we do not own the water. The water, basically, is owned by the Territory once we have re-injected it back into the ground. I am not sure what the arrangements …

Mr WOOD: Who pays you for doing that work?

Mr MACRIDES: No one at this stage. We have done it because we had a licence requirement to cease Dry Season discharge at Ilparpa Swamp, and this was the most cost effective and beneficial way of doing it. For us, the imperative was the licence condition to close down Dry Season discharge from the swamp, which is why we put this particular system in, but as a secondary benefit to the horticultural industry as a result of it.

Mr WOOD: One question regarding the spaghetti lines. If the government came up with the money, you would not have a problem with that money being spent on that?

Mr MACRIDES: Power and Water is always happy to receive funding …

Mr WOOD: And that is really the only way we are going to get a change at the present time?

Mr MACRIDES: In our capital program, as I have said, we have not made provision for it. We just have higher priorities for what capital we have.

Mr WOOD: I am just a little parochial, that is all.

Mr MACRIDES: As you should be, Mr Wood.

Mr WOOD: That is all.

Mr CHAIRMAN: Member for Port Darwin, do you have any questions?

Mr ELFERINK: I have a couple of quick ones. I am sort of acting on some information; you may or may not be able to fill me in. These tall buildings in Darwin, do they have their own generators in them, do you know, as a general rule?

Mr MACRIDES: As far as I am aware, the answer is no. Obviously it is up to each of the developers to decide.

Mr ELFERINK: From a Power and Water perspective, you would have an interest in these buildings having their own generators. If I go down the other end of Mitchell Street, there are all of these box girders up. I remember 25 December 1974. I was walking over those box girders in my street, in Wackett Street in Jingili. That is an awful lot of flights of stairs to go up and down should a cyclone do that to our power system. Whilst I appreciate that the power is not exposed in the CBD in the same fashion, how exposed is the Darwin CBD to such a calamity?

Mr MACRIDES: It is as exposed, I guess, as any other suburb is in terms of any of the above ground assets that exist, as well as zone substations.

Mr ELFERINK: Wrong question. Is it above ground power at some point outside the CBD, and then it goes under ground …

Mr MACRIDES: There is above ground power in the CBD as well. All the Larrakeyah area is above ground. Stuart Park might be above ground.

Mr ELFERINK: Yes, all right. What I am asking is that, somewhere, in terms of the power coming from the power station to the Darwin CBD, the cables are above ground and are susceptible to damage in cyclonic conditions?

Mr MACRIDES: The high voltage transmission system coming into the CBD is robust and is unlikely to sustain significant damages. Typically, it is the low voltage infrastructure that falls over in a cyclone because it is not that high off the ground, basically.

Mr ELFERINK: I am concerned. I know you cannot answer the question, but these tall buildings are actually without independent power generation?

Mr MACRIDES: That is my understanding.

Mr ELFERINK: That is a very surprising thing from my world view, but anyway, there you go, that is a quick one that I wanted to ask. That is pretty much me done.

Before we finish, I thank you very much. I appreciate you guys keeping the answers short and as

succinct as you can, it was a lot to get through. I actually had a whole raft of other questions as well but, clearly, two hours was never going to cover all of them. I thank you for being as succinct in the way that you have been succinct and straight to the point. I hope that I have not come across as being excessively rude trying to hurry you up, but we covered a lot of territory in the last two hours. I can only say that I wish some ministers were as forthright and straightforward as you guys have been here today. Thank you very much for your time.

Mr CHAIRMAN: Before I make my closing statement, the member for Johnston has something to say.

Dr BURNS: I have not asked a question during this whole Estimates, and what I have to say is not a question, but twofold. First, I commend the Power and Water Corporation for the Melaleuca Awards, and I am very happy that Millner Primary School has won this year. They have a great project, and they have future plans around renewable energy. It is great to see the school getting into that space. I know there are a lot of other schools that are looking very carefully at their hall and their passive cooling, and what they are going to do in terms of solar panels.

Mr MACRIDES: I have to say, another winner was Papunya School as well.

Dr BURNS: That is great. Lastly, I know it has been a very difficult time for Power and Water over the last year. All the rest aside, I know the staff of Power and Water do a fantastic job; it has been very difficult. As I look around this room, I know there are some very experienced people, and as far as the rest of the staff go, those people who work out in all sorts of weather do a fantastic job. Also the Board - I know it has been a difficult time but, at a very personal level, I commend the Board and the people of Power and Water for the great job they do. I know they are working through some very difficult issues. I am heartened by what I heard today as well.

Mr MACRIDES: Thank you, Dr Burns.

Mr WOOD: And the service you get when you ring up, I find excellent.

Mr MACRIDES: Thank you, Mr Wood.

Ms KING: That is wonderful to hear.

Mr CHAIRMAN: That now concludes the Government Owned Corporations Scrutiny Committee public hearing process. I take this opportunity to thank the members of the Public Accounts Committee, who formed the core membership of this committee, and for the overall manner in which these public hearings have been conducted. I place on the record a vote of appreciation from the committee to all other members who have participated in the public hearing process.

On behalf of the committee, I extend my thanks to the Corporation's Chair and its Managing Director for attending today, and to all others who have been involved in the process today. I commend them on their professionalism, and commend the team of people they have working with them.

The committee adjourned.
