The committee convened at 8.30 am.

POWER AND WATER CORPORATION

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

On 30 April 2015 the Assembly appointed this committee to examine and report on the activities, performance, practices and financial management of the Power and Water Corporation, Jacana Energy and Territory Generation with a reference to those corporation’s Statements of Corporate Intent 2015-16. As in previous years, membership of the Government Owned Corporations Scrutiny Committee is the same as that of the Public Accounts Committee. Other members of the Assembly may participate in the public hearings provided the composition of the committee never exceeds three government members, two opposition members and one Independent member, and a quorum of three committee members is maintained.

To assist Hansard I will advise the membership of the committee at the commencement of each session. For the record I will acknowledge when there is a change of membership of the committee throughout the hearings. As in past years, the committee asks that opening remarks are restricted to a maximum of five minutes. I will then invite members to ask questions on the opening statement. I will then invite policy questions regarding the corporation’s 2015-16 Statement of Corporate Intent.

In accordance with section 13 of the committee’s terms of reference, members are reminded that questions shall be directed to the board chair in the first instance. The board chair may refer the question to an officer who may then be directly questioned further on the same subject unless the board chair chooses to take the questions. I also note that in answering any questions, officers shall not be required to comment on policy matters or to give an opinion. Witnesses should be aware that evidence given to the committee is protected by parliamentary privilege; however, I remind witnesses that the giving of false or misleading evidence may constitute contempt of the Legislative Assembly. I also note that all the microphones on the tables are normally on although they do have an off switch if required, so red light means on.

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

Answers to questions taken on notice must be provided in writing to the first Clerk Assistant by 17 June 2015. The Assembly has given the last date for the publication of answers as 18 June 2015 and the committee cannot receive answers after this time.

As is the case with estimates hearings, questions taken on notice and the answers received will be published on the Assembly’s website. For the purpose of the efficient recording of the *Hansard*, I would request that the board chairs introduce the officials who are accompanying them at these hearings. Also, when a board chair refers a question to an officer the officer needs to clearly identify themselves each time for the *Hansard* record.

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

Good morning Mr Tregilgas, I welcome you as Chair of the Power and Water Corporation. Could you please introduce the representatives of the corporation accompanying you?

Mr TREGILGAS: Thank you Madam Chair, and good morning committee members. My name is Alan Tregilgas and I am here as the Chair of the Board of the Power and Water Corporation. I would like to introduce John Baskerville, the corporation’s Chief Executive Officer, Lisa Watson, Deputy Chief Executive, Djuna Pollard, Senior Executive Manager Strategy Economics and Regulation, and a new colleague, Dwight Graham, our Chief Financial Officer.

Madam CHAIR: Mr Tregilgas, would you like to make an opening statement on behalf of the Power and Water Corporation?

Mr TREGILGAS: I would, Madam Chair, thank you.

The primary purpose of our attendance this morning is to answer questions which committee members may have about the corporation's 2015-16 Statement of Corporate Intent, or SCI. The SCI sets out the corporation's performance undertakings agreed with the shareholding minister for the coming year and the following two years, and, most notably, the strategies to maintain and improve the corporation's financial performance, the corporation's capital investment plans, and the financial targets and other indicators by which the corporation's performance is to be judged.

My recent appointment as board chair comes at a pivotal time for the corporation. I join the board at a time when structural separation is complete, financial separation between the three government owned power corporations has been largely achieved, and the strategic investment in electricity and water infrastructure and maintenance is on track. A new procurement framework is in place aimed at ensuring better value for money for the corporation at the same time as improving the likelihood that local businesses are capable of winning significant contracts.

The work between the corporation, the system control business unit and Territory Generation, or T-Gen, to fine-tune generation and electricity network responses has now seen the Darwin/Katherine region free of under frequency load sheds for an unprecedented 187 days.

We also witnessed the remarkable response by Power and Water's remote operations team during Tropical Cyclones Lam and Nathan. Despite extensive damage to local electricity networks, water was back online very quickly and the power was restored to customers, where it was safe to do so, within days.

In remote communities we are also actively supporting water and energy education and savings initiatives, for example, in East Arnhem communities through the Low Income Energy Efficiency Project locally known as manymak.

Health, safety and environment have been lifted within the corporation, and the goal of zero harm to staff, visitors and the environment is strong on the corporation's agenda. All these achievements and successes, and those for the future, are only possible because the corporation's staff are on board and working hard. Without this commitment by staff, improvements across the corporation could not reach their full potential. To this end, developing our next enterprise agreement is a priority for Power and Water and its employees. This will ensure that we work together for future success.

I therefore acknowledge the corporation has come a long way in a short time. Many of the hard yards have been achieved by the board and management under the leadership of my predecessors as chair, but there is still some way to go. Many challenges remain; this is not the time to rest on our laurels.

Power and Water remains a complex multi-utility business. In fact, we are five businesses. First, we are a water and waste water business in the major centres. Second, we are a power network for poles and wire business in and around the major centres. Third, we provide power and water services to remote and Indigenous communities. Fourth, we undertake despatch and system control functions for the Territory's power market and, since late May, wholesale market pricing and settlement. Fifth, we on-supply gas to power generators and other industrial users off the back of gas purchase agreements we have with both onshore and offshore gas producers. In each of these activities we currently are the dominant provider, either because we are a monopoly or because we are assigned a whole-of-industry role by government.

The complexity associated with our multi-utility nature is often forgotten. It is the governance and management of all these businesses side by side that is the challenge and it is not for the faint-hearted. For this reason we may be the smallest state- and territory-wide power and water utility in the country, but because of our multi-utility nature -we are the last of this breed - we remain the most complex.

True structural separation has relieved us of two businesses that face significant competitive challenges, being power generation and power retail. The operation of these businesses had proved to be problematic for previous boards and management as long as the contestable businesses were being operated alongside monopoly businesses.

However, in some senses the challenges that Power and Water now face are greater following structural separation. The choices to be made are now more transparent and cannot be hidden or neglected behind the veil of what was vertical integration. All this is at a time when utility businesses across Australia and internationally are faced with challenges arising from technological change, climate change and resource scarcity and demographic and social change.

In turn, these trends are compounded by growing customer expectations, sophistication, competition and evolving government policy and regulation. While the extent and nature of these developments vary from market to market their intensity makes their impact transformational rather than incremental. Hence these trends, and the changes taking place in and around the utilities sector, together have profound implications for the strategies and future role of the corporation. They represent significant challenges for the corporation's board and its management and staff.

The board is focused on ensuring the corporation delivers a wide range of performance improvements on behalf of its owner and for Territorians. It must be remembered that we do so as a corporation, not as a department of government. As the *Government Owned Corporation Act* states in its objects clause, the corporation operates 'in a framework of greater autonomy combined with appropriate accountability'. Under the *Government Owned Corporations Act* the board is mandated by the owner to operate the corporation in a commercial manner. The board is responsible to the owner for the operation of the corporation. The board is accountable to the owner for the financial performance of the corporation. The board is subject to public interest directions by government and in return, where appropriate, for financial compensation including in the form of CSOs.

The primary role of the board is to govern, which we do both by setting the strategic direction of the corporation and providing broad oversight of the corporation to ensure that management and staff carry out their duties in the best interest of the corporation and its owner.

The corporation's responsibility to the owner is clearly stated in the *Government Owned Corporations Act* and they do not change with a government or with ministers. Our objectives are to operate efficiently and to maximise a long-run return on the significant taxpayer capital invested in our business.

As the committee may know, I have had a long involvement with the corporation - for over two decades - always from the outside and sometimes as a critic. I am very pleased to find myself in the role of board chair at this exciting junction of the corporation's history.

I take this opportunity to thank the board for its work to date, and to congratulate the corporation's management and staff on their dedication and commitment in rising to the many challenges they have faced over recent times.

Madam Chair, that ends my opening statement.

Madam CHAIR: Thank you very much. Are there any questions on the statement?

Ms MANISON: Thank you, Mr Tregilgas and all the staff who have put in a lot of work getting ready for today. Going through the estimates process is very important, as we know, so we can look at the operations and performance of our government-owned corporation, especially at a time where you have gone through such a huge change with the structural separation.

How is structural separation going? You mentioned it in your opening statement. Are we now fully separated from Territory Generation and Jacana Energy?

Mr TREGILGAS: The legal separation occurred on 1 July 2014. That is probably the easy bit. Financial separation was to be achieved about that time. We always knew there were some issues to be resolved. That aspect of separation has taken longer than we had hoped, although we now have financial separation in the sense we now have a system within Power and Water – a financial information system and related systems - that can recognise the different GOCs and produce reports in relation to those different organisations. We fully expect that by the end of the year financial separation will be finally achieved and the audit process can occur on that basis.

I note that there are some issues regarding organisational separation. It was decided when we did the structural separation that Power and Water would continue to provide some operational and organisational services to the new GOCs, and we are doing that under what we term transitional service agreements. By and large, those transitional service agreements, or TSAs, have gone well, though in a couple of areas we have had some challenges as the heightened expectations of our customers of the two new GOCs are wrestled with and we endeavour to achieve them given our existing systems and processes.

Those TSAs are only due to be in place for two years. Some of them will, in fact, fall away at the end of this year. These TSAs have been in place to try to minimise the cost of structural separation and reduce the extent to which duplication was necessary at an early and unconsidered stage.

Ms MANISON: Last year when we spoke with the government-owned corporations scrutiny committee full financial separation was set for January this year. You do not anticipate full financial separation until the end of this year? How has that impacted operations at Power and Water Corporation and with the new GOCs?

Mr TREGILGAS: It has been a challenge for the new GOCs who need financial information to manage their businesses. The challenge for us is that we have been working through the issues associated with financial separation and addressing the systems and process issues.

This issue preceded structural separation. A challenge the corporation has had for quite some time is the inability of our systems to fully reflect the multi-business nature of our business. Our financial system, by and large, did not recognise that and we were only really able to report information on a whole-of-business basis. The board and governments, for years, have been pushing the corporation to provide better business-by-business information. Prior to structural separation a significant investment had been put into trying to improve this aspect of the financial management systems of the corporation. Structural separation heightened and focused that issue, but it is a capacity essential for our work going forward as a five-business function so we can eventually produce accounts for those individual lines of business.

Ms MANISON: Effectively it means you still have finance staff working on structural separation at the moment?

Mr TREGILGAS: That is true and …

Ms MANISON: Yes.

Mr TREGILGAS: … it is quite a significant load the finance team is bearing. In some sense there was an underestimation on our part of the extent to which systems and processes needed to change. I am grateful for the effort of our finance people in what are sometimes difficult circumstances.

Ms MANISON: With systems that were shared post 1 July, what systems are you still sharing with Territory Generation and Jacana Energy?

Mr TREGILGAS: This year it has been the financial management system, the revenue management system and billing and the asset management system. These are all the big ones. There are a few other data information systems, but fundamentally it is the core financial and related information systems …

Ms MANISON: Asset management systems …

Mr TREGILGAS: … that are shared. An issue for us all is whether each of us has the systems we need in our own circumstances. That is a challenge the new GOCs will have to contemplate over time as they develop their own systems that match and meet their circumstances.

Ms MANISON: How many staff, when you look at financial services, asset management services and retail components, are still working with those shared service arrangements within the Power and Water Corporation?

Mr TREGILGAS: That is a good question. I do not have the precise number. You are interested in the total number working on the shared …

Ms MANISON: Which sections are they in, within the corporation, so we can get a good idea of where they are …

Mr TREGILGAS: Many areas of the corporate - the group area is performing functions both for the corporation and the new GOCs under these TSAs.

Ms MANISON: Madam Chair, can I put that notice in case we are unable to get it during the session?

Question on Notice No 10.1

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

Ms MANISON: How many staff within the Power and Water Corporation, by business unit section, are working in shared service arrangements with Territory Generation and Jacana Energy?

Madam CHAIR: Do you accept the question?

Mr TREGILGAS: Yes, I accept that question.

Madam CHAIR: That question will be number 10.1.

Ms MANISON: With structural separation still ongoing, the finance system still sharing the asset management system, dedicated staff still working with the different government-owned corporations it means costs are still ongoing for structural separation. A bit over a year ago we spoke - in a former role you had in the Department of the Chief Minister tasked to separate Power and Water Corporation - at length with Power and Water, the Department of the Chief Minister and Treasury about structural separation costs.

Last year at estimates we had a figure of around $2.1m for Power and Water Corporation's structural separation costs. That was separate to Treasury and also separate to the Department of the Chief Minister. To date, what structural separation costs have been incurred by the Power and Water Corporation?

Mr TREGILGAS: The final estimate for the once off establishment costs of structural separation is in the vicinity of $3.5m. It is $2.1m in 2013-14 and $1.3m in the nine months through to 31 March this year. That does not include some of the costs we are now expending on financial systems improvements.

Ms MANISON: And staff?

Mr TREGILGAS: Staff were there. It is not as though they were not there previously. The fact is our financial management improvement is a fundamental business improvement cost to the – which would have occurred even if we had stayed together. We need the financial transparency we have not had, and it has been forced by structural separation, at least for the two GOCs that have moved away from Power and Water. We still have five quite distinct businesses where we struggle to isolate the costs and the financial and commercial sustainability of each of those lines of business. We need that information. That is a business improvement cost not a structural separation cost.

Ms MANISON: The $3.1m you were talking about, does that include the costs of financial business improvement you just mentioned? Do you have any idea of the costs for that?

Mr TREGILGAS: Yes, it looks like our financial management systems reimplementation process might well cost up to $10m by the time it is completed. At the moment about $7m has been expended to 31 March, and at completion the program will cost $10.5m. These are big and ugly numbers.

Ms MANISON: That is a huge number, Mr Tregilgas. It is certainly a lot larger than the $3.1m we were talking about for structural separation.

Mr TREGILGAS: This is the business improvement that has been wanting within Power and Water for some time. It is a reflection that previous boards of management put in place financial systems that have failed to recognise the multi-business nature of the organisation, and in fact have put in place systems that have been relatively inflexible with much work around them and with manual procedures. That meant as we tried to improve the information available to management, the board, our owner and the parliament with regard to these businesses, we have had to invest amounts we might not to have to invest. Unfortunately, this is an essential part of our business improvement program.

Ms MANISON: Has that investment in your financial management systems improvement finished or is it ongoing? Will that continue and the cost increase?

Mr TREGILGAS: I am not sure if it includes stage two, Lisa?

Ms MANISON: What are the projected total costs of this financial system improvement?

Mr TREGILGAS: At this stage we intend to finish at what we call stage one, which is this ability to have separate ledgers for the three GOCs, and internally an ability to recognise and report along our various lines of business. We will pause at that point and consider which investment is necessary.

Ms MANISON: You cannot provide a total projected cost of what you have planned for this financial system improvement?

Mr TREGILGAS: No, I cannot give a cost beyond the 10.5 we are expecting at this stage. We have only spent about seven to date, so more will be spent in the last three months of the year.

Ms MANISON: Surely you would have estimates.

Mr TREGILGAS: I do not. John might have a view on that.

Mr BASKERVILLE: The program has provided a level of capability around reporting. Some further work is required to establish the processes and accounting to take advantage of the capability and anticipate some of the further reporting work required as the financial processes mature.

Ms MANISON: Do we have a total estimated cost for the project? Surely there is work done within a corporation to advise the total cost.

Mr TREGILGAS: $10.5m.

Ms MANISON: That includes stage two?

Mr TREGILGAS: No, because we are not yet committed to stage two.

Ms MANISON: There is potential for that to go beyond $10.5m?

Mr TREGILGAS: There is potential for constant improvement and investment in our systems, processes and people.

Ms MANISON: When will you determine if you will proceed to a second stage? When are you likely to make a decision on that as a board?

Mr TREGILGAS: This will be during the course of the coming financial year. As we, particularly at a board level, form of view as to how adequate and suitable the information we get out of a system to the stage one development – we do not intend to overspend in this area. We have invested significantly in these financial management systems, not always with the return that was hoped for by earlier management boards.

Ms MANISON: Have you, as chairman of the board, sought estimates from the corporation around what stage two will cost?

Mr TREGILGAS: I am still waiting to see profit and loss statements and balance sheets for our five lines of business which our financial management system, in its current state of development, is now capable of producing. We will form a view at that time. We have strategy considerations from the corporation, but the board will have its own view about the information it requires.

Ms LAWRIE: Has the board received any scoping information on the cost of stage two and what it contains so you are then in a position to make some decisions about whether you proceed to stage two and to what extent you proceed? Has the board received any scoping, any estimates on stage two?

Mr TREGILGAS: It precedes my time at the board. The board has only authorised and approved stage one. It is now a matter for us to judge the suitability and quality of information we are able to get out of the improved systems. We will then form a judgment as to whether we need to go much further. My hope is that we will not, and that we will have managed to achieve what is essential to recognise the different lines of business we have to govern and manage.

Ms LAWRIE: Would completing the work you are currently doing on the financial revenue and asset management systems to achieve separation - I am assuming that is stage one - also include for separation in the TSAs and the shared corporate services of staff?

Mr TREGILGAS: I am advised that stage one provides us with the capability to report by our various business units ...

Ms LAWRIE: It does not remove the shared corporate services logistics of staff?

Mr TREGILGAS: No, it is still a platform that will be used probably by Jacana for a year or two. You will have to ask them this question ...

Ms LAWRIE: Yes, sure.

Mr TREGILGAS: My understanding is that T-Gen is close to operating its own financial management system and can relieve us of the task of providing that back office service to them. I have answered your question.

Ms LAWRIE: We are trying to get a picture on the logistics and the stage structural separation is at - midway point, three-quarter point. You are close. It sounds like by the end of the year you will have achieved structural separation on financial revenue and asset management systems? Is that …

Mr TREGILGAS: Yes, that is all part of it.

Ms LAWRIE: Then what we are trying to get a handle on is the extent of existing transition service agreements, how many are in place, and the time lines for each of those to be extinguished or collapsed so that full structural separation can occur. That would obviously go to largely - if there are any other large areas let us know - the shared corporate services?

Mr TREGILGAS: Yes.

Ms LAWRIE: That is what we are trying to understand.

Mr TREGILGAS: Appropriately so. The TSA arrangements are generally for two years. There are provisions in those arrangements for consultation and consideration of early change and extension. What is interesting with the TSAs is they are not - we often talk about SLAs. SLAs are much more formalised contracts between purchasers and providers. The transitional service agreements are not quite as formalised at that; they do not quite give the purchaser the ability to dictate …

Ms LAWRIE: Do they have penalties, for example, like SLAs would have?

Mr TREGILGAS: No, no ...

Ms LAWRIE: I am trying to understand the level of difference between an SLA and a TSA in the financial relationships.

Mr TREGILGAS: Yes, the TSAs are not quite to the same level of formality as an SLA, which is partly reflecting the collegiate nature of the separation. It also reflects the fact that the payment arrangements are not by unit of service but often in a dollar amount, which is not the usual SLA. You price a unit of service and pay on the quantity. There are some aspects of that in our TSAs, but in some areas it was not possible or necessary to go to that level of detail. Understandably, the new corporations are anxious to move to firmer and more arm's-length arrangements. We will be anxious to do that, too because there is an advantage to firm arrangements, both from the purchaser and provider points of view. When you do not have the quality or standard of service tied down in an agreement, there will be a bit of bickering between the two as to whether they are delivering what is thought was to be delivered.

Ms MANISON: Would it be fair to say structural separation is still ongoing. Some aspects of it have taken longer than anticipated and have gone above cost.

Mr TREGILGAS: No, we always anticipated the operational separation would take the longest. We wanted to make sure we were minimising costs. Getting each of the new GOCs to set up their own financial management and billing systems straightaway would have been a very expensive process. I know that concerned you at the time.

This process gives the new corporations time to much more carefully consider their needs and requirements. Power and Water stands ready to continue to provide back office services. In time we can move to an SLA. There will be instances where those new corporations, in a year or two, will want to and be able to go to the new systems in in ways that might deliver them some savings and leave us with some issues. For example, our billing systems are quite complex. We have water, IES and networks all with different requirements so it is quite an elaborate and complicated process. Jacana and T-Gen have much simpler requirements and structural separation gives them time and some headroom to contemplate what they need to do for their business systems.

Ms LAWRIE: Is there a gantt chart that, for example, says by June we will have reached this stage, by September this stage and by December 2015 this stage of structural separation? Are the three corporations working to an agreed time line on aspects of structural separation so that …

Mr TREGILGAS: It is a bit less formal than that. There is no longer any oversight of that process as we might have had leading up to structural separation. It is now a matter of the corporations working together. We meet at management and CE levels to monitor progress, but each is now being driven by our own requirements and time lines.

Ms LAWRIE: When will it happen? When do you reach structural separation? Is there a date that you are working to?

Mr TREGILGAS: 1 July 2016.

Ms LAWRIE: You will have achieved full and final structural separation by 1 July 2016?

Mr TREGILGAS: That will not rule out there might be some ongoing SLAs, but those ongoing SLAs will be a normal commercial relationship between provider and purchaser corporations. It is really when we have shifted those TSAs which, by their nature, were convenient instruments to handle the transition.

Ms LAWRIE: We will not know the true cost of structural separation until after 1 July 2016? You will have estimates by the end of this year with decisions the three different corporation boards are making in degree of corporate services, management systems …

Mr TREGILGAS: That is true, although, again you will have to unpick those estimates and recognise that some of those costs are fundamentally business improvement costs. There was a lot of work to be done in improving the businesses of Power and Water. Shareholder and government expectations have always been that we would be on a path toward improvement. Structural separation has provided an incentive and a focus to do that in relation to the two contestable businesses. Power and Water still has a fair bit of work to do because we have – again, we are a complex multi-utility business and are working through our program of business improvement which involves investment but has returned a benefit. It is all about cost benefit analysis and things like that. It is a process, as a corporation, we take seriously.

Ms MANISON: We have spoken about the costs of structural separation, and at estimates I like to get things in writing or put on the public record. To date, could I please be provided with a breakdown of the costs of structural separation and any forward estimates you have with regard to structural separation costs to be paid for by the Power and Water Corporation?

Mr TREGILGAS: Was that a question on notice?

Madam CHAIR: That is completely up to you.

Ms MANISON: Are you able to provide information now? You mentioned the $3.1m figure.

Mr TREGILGAS: I am happy to give you the breakdown and details of the $3.1m we consider to be the cost of structural separation. That will not include the costs of a range of business improvements we are going through.

Ms MANISON: Given you anticipate structural separation will be achieved on 1 July 2016 do you have forward estimates? That is over a year away, and surely within a corporation your size you would do some forward planning around that.

Mr TREGILGAS: There will be some information although that is evolving and developing because it depends on the conversations we are having with our …

Ms MANISON: Can you give us a ballpark figure - an estimate?

Mr TREGILGAS: No, I am not able to do that at this point.

Ms MANISON: Are we talking millions of dollars?

Mr TREGILGAS: No. I think the pure structural separation costs are behind us. There are business improvement costs which are ongoing, and I think we will have a better hand on that in coming months.

Ms MANISON: You are not going to provide …

Mr TREGILGAS: Another set of costs you have not mentioned is what some people refer to as stranded or exit costs. Power and Water has financial information systems designed for a certain scale of activity. Part of the attraction was being able to use those systems to service the two new corporations as a way to recover the costs of those systems over time. As the new corporations opt, in some areas, to move to their own systems we have adopted systems, assets and people we have to manage as the scale of our activities is pulled back to our ongoing activities. We are hopeful the exit costs that will arise for us as the new corporations exit some of these TSAs will not be substantial or significant. They certainly will not be substantial on the people side because ….

Ms MANISON: When talking about stranded costs, can you outline what they are and how much they will be?

Mr TREGILGAS: It is where we have a system or process that has been designed for the old corporation as it was, and as the other corporations' activities have shrunk – we have only lost 120 staff, we have only transferred $200m or $300m in assets, so it is 10% to 20% reduction in size. Some of our systems are close to being written down.

Ms MANISON: When talking about stranded costs, are we talking about systems, people and assets? Can you outline specifically what they are and how much it is?

Mr TREGILGAS: It is mainly assets and systems. It has quite rightly been pointed out to me that this challenge will always be with us. We can partly deal with it by looking for efficiencies, but I think we will be in a better position in a year's time to answer these questions. I do not want to put any …

Ms MANISON: Can you give us an example?

Mr TREGILGAS: Territory Generation, as I understand it, on 1 July intends to move to its own financial management system and, presumably, its own asset management system. That is a cost to them, although they are paying a cost to us at the moment. Our revenue will drop as a consequence of them no longer requiring our service in that area. It will see the revenue generated …

Ms MANISON: The staff who work there?

Mr TREGILGAS: It might impact on workloads, but that we have yet to see. We will manage those things. The magnitude of these things we need to take in our stride and see how things develop. We do not anticipate this will be a huge issue, but it is part and parcel of structural separation. There are establishment costs, additional ongoing costs and business improvement costs which, by their nature, would have been confronted by an integrated corporation anyhow, and there are exit costs.

Ms MANISON: Are we talking about forced redundancies within Power and Water?

Mr TREGILGAS: No, and we have to be pretty emphatic about that.

Ms MANISON: Any voluntary redundancies?

Mr TREGILGAS: This issue is dealt with in our enterprise agreement bargaining processes, which are ongoing at the moment. How do we answer this question?

Mr BASKERVILLE: John Baskerville, Chief Executive. The planned reduction in service will result in a potential stranded cost, which our chair has been talking about, in the short to medium term, mainly due to contractual commitments with, for example, ICTT licences and property leases. That is where the stranded costs are centred.

Your question about staff redundancies – there is no suggestion of staff redundancies within Power and Water.

Ms MANISON: Clearly you can see where the future is going with regard to stranded assets, stranded contracts and stranded staff?

Mr TREGILGAS: We continue to be a big corporation.

Ms MANISON: Surely as a corporation you look at those costs and where you are headed. Do you have costs you can outline and how many staff this will impact within the corporation, because when we went down the …

Mr TREGILGAS: We still do not know whether it will impact any staff.

Ms MANISON: … path of structural separation we got a lot of commitments from the government around staff and jobs, but we are now hearing jobs are being impacted?

Mr TREGILGAS: Workloads.

Ms MANISON: Do we a dollar figure on what these stranded assets, systems, contracts and people will cost?

Mr TREGILGAS: No, because it is not at all clear whether these things are significant. The corporation fully intends to continue to provide services in some areas, and we expect to move to some SLAs. The conversations and negotiations are still to be held.

As John said, the true stranded costs are probably not people related. They are contracts we have entered into with providers of services on the basis - like our ICT contracts with our technology providers. We have said we will have so many licences, but it takes time to unwind the number of licences. There is an impact on the corporation which reflects the fact that we have probably overly entered into arrangements which are fixed cost in nature. We have to vary our costs a bit more. We will work on those issues as well.

It is an issue to follow. We will be providing information to our staff and our stakeholders as these issues become clearer. I do not want to overstate the magnitude of these things. This is just another issue that has to be managed …

Ms MANISON: Is it a consequence of structural separation?

Mr TREGILGAS: Because there has been investment previously in systems and processes that had not been well designed for our multi-business utility nature, and which have not been designed flexibly to be scaled up and down - any smart business needs to get into that space. We are paying a price for that. It is a price we would always have borne because we are not able to ….

Ms MANISON: Would you have borne that if it was not for the structural separation?

Mr TREGILGAS: It has been hidden.

Ms MANISON: Stranded assets people, ICT systems …

Mr TREGILGAS: No, what we are talking about is …

Ms MANISON: Are we talking about property leases too?

Mr TREGILGAS: … an ability to respond.

Ms MANISON: Property leases as well?

Mr TREGILGAS: Yes. These are short-term issues as opposed to forever and a day issues.

Ms MANISON: I have a lot of questions and we have not started going through the Statement of Corporate Intent. I do not want to miss the opportunity to put some questions on notice in relation to the structural separation costs. Madam Chair, would I be able to put that on notice?

Madam CHAIR: Yes, as long as it not a question Mr Tregilgas has answered.

Ms MANISON: It was agreed to before then we moved into stranded assets.
Madam CHAIR: He then answered the question. The answer to how much structural separation cost was $3m something …

Ms MANISON: We do not have the breakdown.

Mr TREGILGAS: We will give you a written answer to that question.

Question on Notice No 10.2

Madam CHAIR: Please restate the question for the record.

Ms MANISON: Can Power and Water Corporation provide a breakdown of the cost of structural separation to date and any forward estimates they are able to provide?

Madam CHAIR: Mr Tregilgas, do you accept the question?

Mr TREGILGAS: Happy to accept that question.

Madam CHAIR: That question is number 10.2.

Ms MANISON: Granted there is a lot of discussion about the consequences of structural separation and the fact you have additional costs which will result from stranded assets, contracts, people and services due to the structural separation, I would like some more detail on that. Granted you are unable to provide it at the moment, but I would like to put a question on notice with regard to that so I can give you more time to acquire the information and provide it to this Estimates Committee?

Mr TREGILGAS: I am happy to do that because it will enable us to clarify a few of the frameworks we were talking about and reassure you it is probably not as big an issue as you …

Ms MANISON: Thank you, Mr Tregilgas, I would like that reassurance.

Question on Notice No 10.3

Madam CHAIR: Could you restate that question for the record?

Ms MANISON: Can Power and Water Corporation provide the list of potential stranded costs with staff, property leases, assets, ICT systems, licences and any other costs?

Madam CHAIR: Mr Tregilgas, you accept the question?

Mr TREGILGAS: Yes.

Madam CHAIR: That question will be number 10.3.

Ms MANISON: I would like to turn to the financial performance outlined in your Statement of Corporate Intent. This being your first almost fully separated Statement of Corporate Intent, I want to turn to the net profit after tax. We have seen some pretty dramatic changes in the forecast net profit after tax to what really happened. Mr Tregilgas, can you advise the committee why we had an initial $47.7m net profit after tax yet it now appears in the negative to the tune of $63.6m. Can you please explain why?

Mr TREGILGAS: Yes, happy to explain it. The losses we are now forecasting in 201-15 are mainly the direct result of $100m in paper losses. These paper losses are on the write-down of some assets in the context of structural separation. These losses do not represent negative cash flow situations. These losses reflect what I call dumb accounting rules, but rules that mean we cannot offset paper losses with paper profits. We are, at the moment, writing down some assets and writing up others. It is only the written down assets, the consequences of which we are required to put through our P&L.

Paper profits are a multiple of paper losses but we cannot, under accounting rules, include the revenue equivalent of those paper profits. There are a number of reasons, and I think we have pointed out some of them in the SCI, but fundamentally it is write-down of assets. Because they are paper losses we have to regard them as extraordinary abnormal in nature. It is something we need to see through or discount rather than get too excited about.

Ms MANISON: You mentioned cash flow, but cash in the bank was projected to be at $20.1m but you are now negative $5.3m. I am trying to find the section where there is some discussion about an overdraft and having to get money to cover your cash issues. Can you talk me through that?

Mr TREGILGAS: Yes, we have a negative cash balance, which is probably not usual but is transitory. It reflects the fact there have been, fairly late in the day, some necessary adjustments to the allocation of financial assets between the three GOCs. We have not been able to, in the short time we have had, accommodate those changes in our forecasts.

The corporation will rebuild its cash balances now that financial separation is complete. It is important to note the corporation's liquidity position is not as indicated solely by its cash balances. It is generally agreed the corporation's liquidity position is also reflected by any liquid investments it has, any access to lines of credit or overdraft but, most importantly for our business, for the regularity and predictability of our revenue flows. When we take all these factors into account, even with a negative cash balance, it can be shown that we possess adequate equity even on the odd occasions we have negative cash balances. It is not a usual situation and we expect it to correct itself.

Ms MANISON: Page 16 of your Statement of Corporate Intent says:

> *Hence, we are expected to have a negative cash position (-$5.3 million) at the end of the 2014-15 financial year. We have requested an overdraft to cover this cash shortfall*.

How is that overdraft request going?

Mr TREGILGAS: I might ask the CFO to answer that question.

Mr GRAHAM: Dwight Graham, Chief Financial Officer, Power and Water Corporation. That overdraft has been approved and is in place at the moment.

Ms MANISON: You have the cash you needed?

Mr GRAHAM: Yes.

Ms MANISON: Granted there was meant to be a huge amount of planning around structural separation and a lot of work done to prepare for that, particularly when we went through parliament and this legislation last year, it is well and truly on the public record that I was deeply concerned about where we were at and that it was being rushed through. When you look at the dramatic change in your financial projections from what you estimated to what occurred, were we ready for structural separation at the time?

Mr TREGILGAS: I do not think you are every ready for structural separation. There are always challenges, but those challenges are always put into context against the benefit that one derives from that process. I am not at all excited or concerned about this negative cash position.

Mr DEPUTY CHAIR: Following that line of questioning, what are the benefits derived?

Ms MANISON: Mr Tregilgas spoke about the want for separation finances.

Mr DEPUTY CHAIR: If you are speaking about the, if you are going to …

Ms MANISON: It has been a bit muddled so far.

Ms LAWRIE: A point of order, Mr Deputy Chair! It is not still the shadow asking questions?

Mr TREGILGAS: I am sorry if I have left that impression …

Mr DEPUTY CHAIR: Yes, I am following the same line of questioning as is appropriate.

Ms LAWRIE: The shadow is still asking questions.

Mr TREGILGAS: It benefits – clearly we are moving – it is financial transparency we will slowly but surely achieve. That will be a benefit to everybody, including the parliament. It will see the board much more accountable for the business and management much more accountable to the board. Structural separation also enables a greater management and governance focus than has been possible by allowing boards to specialise. The challenges of competitive markets faced by our retail and power generation are quite different then the challenges facing monopoly businesses. It was always difficult for a board to spread itself thinly over those. I think we can see, in the two new corporations already, benefits from that governance management.

Mr DEPUTY CHAIR: Given that we have spoken specifically about the costs as they relate to financial costs of separation, are we expecting financial gains from the separation in regard to overall efficiency? If so, how much?

Mr TREGILGAS: Yes, we will see three government-owned corporations whose financial and commercial sustainability constantly improve as a consequence of this greater transparency, greater specialisation and the animal spirits that go with competition being facilitated in our power.

Mr DEPUTY CHAIR: Have the financial benefits overrun the costs incurred so far, or do you have a date when you think that balance will be tipped following on from the costs?

Ms MANISON: Mr Deputy Chair, with due respect, as shadow minister I have a lot questions and less than an hour to ask them.

Mr DEPUTY CHAIR: Given we are talking about the costs, it is important to have on record what the benefits are from a financial perspective.

Ms MANISON: I have a lot more questions around the …

Mr DEPUTY CHAIR: This is my last question.

Ms MANISON: Thank you, Mr Deputy Chair.

Mr DEPUTY CHAIR: In speaking about the costs incurred, as raised - and we have just spoken about what benefits have been derived - in regard to the financial cost benefit, at what point will we see this turn into a positive?

Mr TREGILGAS: It will be over the course of the coming year. I think it will be at about the two-year point in the process. That will be the bottom line; it will be the rate of return. Our financial sustainability will be improved as a consequence of this.

Mr DEPUTY CHAIR: Thank you. I will allow her to continue her line of questioning.

Ms MANISON: Going forward, granted we have seen a dramatic change this year in what you had budgeted for as your net profit after tax and your cash flow, do you have confidence in the figures in your SCI? Will we see this type of change in figures next financial year? You projected a net profit after tax of $9.8m next year. This year we had an almost $50m net profit after tax forecast. Do you feel you have stabilised the …

Mr TREGILGAS: We have chosen to take some hits this year. It is better to put them through the books earlier rather than later so we can get clean air and make very clear the fact we are making financial gains. As I said, we have written up our assets by some $700m and written some down by $100m, but the net profit dip is - because under accounting rules we always have to recognise the negative $100m but cannot recognise the plus $700m. As an economist that does not at all strike me as very sensible, but our accounting profession insists on that.

Ms MANISON: Turning to some of your capital investments in your SCI, we have seen a fair few changes there so can I turn to the power networks investment. I think we saw in the vicinity of $75m budgeted and spent this year. Next year we see that drop to $59m. What are the changes there? Are we coming off some major projects in upgrades?

Mr TREGILGAS: I might get either the CFO or our GM Networks to answer that question in detail, but generally I have to point out that our investments are necessarily lumpy so we will see, from time to time, bounces. I would argue that there is no obvious downward trend in our capital program. In fact, I think our capital program is about double where it was five or six years ago and that doubling will be sustained.

Ms MANISON: After the Mervyn Davies report a huge investment was injected into the decades of issues with Power and Water infrastructure. It went to those high levels because a lot of heavy lifting was done at that time by the previous government.

The networks drop off next year. This year we saw …

Mr TREGILGAS: Do you want that question answered as to why that was …

Ms MANISON: For the sake of time – in water we had projected a $42m investment, but it looks like that will come in at $33m. I want to find out why that is. With sewerage, for example, we had a projection of about $24m. It has come in above $29m and next year we see it drop off to $16m. Can we have an explanation around the changes in your capital works program?

Mr TREGILGAS: I will defer to the CFO to answer that.

Mr GRAHAM: The chair outlined really well that our capital program is built up of a number of projects, some of which are small – literally hundreds of projects – and some of which are very large, hence the program is quite lumpy.

Mr TREGILGAS: You could show that again but we will then try to drill down as well …

Ms MANISON: Yes. Do you want to go networks, water, sewerage – knock them off that way?

Mr TREGILGAS: Yes. Maybe the GMs and …

Ms MANISON: While we are there, Indigenous Essential Services as well. I am assuming other in the SCI - IES and corporate?

Mr TREGILGAS: Certainly corporate, yes.

Ms MANISON: Is that the finance system we are talking about?

Mr TREGILGAS: Among other things, yes. That is significant, yes.

Ms MANISON: Sorry, we have remote operations - we see it there.

Mr BASKERVILLE: That is separate.

Ms LAWRIE: Each of those business units.

Mr TREGILGAS: Yes, all right. If that is it, we should start with networks. John, could we?

Ms LAWRIE: For time, if there is anything you are happy to table rather than giving an explanation we would take that.

Mr TREGILGAS: Yes, all right.

Ms LAWRIE: It is up to you to make the decision.

Mr GREENWOOD: John Greenwood, General Manager Power Networks. A number of capital projects have been completed and the figures represent a slowdown in that program. We still have a number of significant projects under way and to be completed and those figures reflect that.

Ms MANISON: Basically we have less capital works programs because many capital works programs have …

Mr GREENWOOD: Have been completed.

Ms MANISON: … come to a conclusion at the moment.

Mr GREENWOOD: Yes.

Ms MANISON: Okay. Do we …

Mr GREENWOOD: Following the Mervyn Davies report a number of essential items were identified and they have now been completed. We still have a number of significant programs on the way which represent the significant amount of money within the capital program.

Ms MANISON: On notice, Mr Tregilgas, could I have a list of those capital works projects and what is forecast for the next financial year so we can get some detail on that?

Mr TREGILGAS: Happy to answer that question.

Ms LAWRIE: The list of completed and current …

Mr TREGILGAS: John has pointed out, quite rightly, that there was a backlog …

Ms MANISON: Yes, there was massive infrastructure …

Mr TREGILGAS: … and at some stage you would expect that, hopefully, we get past that backlog.

Ms MANISON: Yes.

Ms LAWRIE: It is good news. It is what you have already done on the backlog and what is still to go.

Mr TREGILGAS: We will try to illustrate that as well.

Ms MANISON: Yes.

Mr TREGILGAS: Equally, it has an impact on our R&M.

Ms MANISON: Absolutely.

Mr TREGILGAS: It is always high when you have a backlog. Once you renew and replace your assets, your R&M task settles back to something more normal.

Ms MANISON: Can I put that on notice?

Question on Notice No 10.4

Mr DEPUTY CHAIR: Please state your question for the purpose of Hansard.

Ms MANISON: Could Power and Water please provide, for the power network section, the capital works projects for the 2014-15 year and the 201-16 year?

Mr DEPUTY CHAIR: Do you accept the question?

Mr TREGILGAS: I accept the question, yes.

Mr DEPUTY CHAIR: The question will be allocated number 10.4.

Ms MANISON: For the sake of timeliness, I will go into water and then put the rest on notice because we are struggling for time. Good to see you, Mr Pudney. The forecast budget was $42.4m but it only came in at $33m. What is that difference?

Mr PUDNEY: John Pudney, General Manager Water Services. Member for Wanguri, we had a number of changes in some of our capital projects this year - delays, if you like - due to a range of traditional things such as environmental impact statements and the like. We have a major water tank facility being constructed at Palmerston. The elevated water tank was delayed so some of the capital expected this year is now into next year.

Another project was the Howard East Borefield project. That is going over two financial years, so the changes are all about cash flow. None of the projects have been stopped, but we have an adjustment between water and sewerage. They are up in sewerage and down in water projects.

Ms MANISON: Okay.

Mr PUDNEY: I should point out that the four-year SCI in total has not changed, but the projects have been moved around. As I said, we budgeted $7.5m this year to be spent for the Palmerston elevated tank and we now expect only about $0.5m. That is a fairly major change for that project.

Mr TREGILGAS: But that will …

Mr PUDNEY: For Howard East Borefield, $8.8m was budgeted and we will only spend $1.1m. Both those projects are well under way.

Ms MANISON: That is sufficient for me. Would I be able to put the remainder of my questions with regard to the capital works programs on notice, Mr Deputy Chair? They are in relation to the different sections and trying to get an outline of the 2014-15 projects and 2015-16 - what is projected for each section of the Power and Water Corporation?

Mr DEPUTY CHAIR: It is really up to the person answering the question. I will leave that to the discretion of the chair to answer that question. Are you happy to take the questions on notice?

Mr TREGILGAS: Sure, we are happy to provide that information.

Ms MANISON: Thank you, Mr Tregilgas.

Question on Notice No 10.5

Mr DEPUTY CHAIR: Will you please read out your question on notice.

Ms MANISON: Can the Power and Water Corporation please provide a full list of capital works projects for the 2014-15 year and the 2015-16 year by business unit?

Mr DEPUTY CHAIR: Are you happy to accept the question?

Mr TREGILGAS: Yes, happy to accept that. Against the general background I can assure the committee the board continues to focus on the capital program, both to ensure it is being delivered in a timely way and does not continue to slip, as it often can. It focuses on making sure we get value for money and to ensure that our investment in assets is sufficient to underpin continuing improvements in service quality and reliability.

Madam CHAIR: The question will be allocated number 10.5.

Ms MANISON: Mr Tregilgas, the SCI states:

> *Personnel numbers are budgeted to slightly reduce (4.5 percent) over the forward estimate period in line with reducing costs associated with providing reduced support services to Territory Generation and Jacana Energy, with direct personnel costs reducing from $121.9 million in 2015-16 to $116.4 million in 2018-19.*

That is directly in relation to the stranded assets systems and people we were referring to before. Is that correct?

Mr TREGILGAS: Yes, as some of our workload is taken over by those new corporations, any adjustment in staff numbers is a result of natural attrition.

Ms MANISON: Effectively we are talking about a few financial years down the road. Really, $121m down to $116m is worth a lot more than just that difference in real terms.

Mr TREGILGAS: The headline here is that we are managing to contain our costs. With our financial improvement, the financial benefits we are talking about will be driven in the main by us holding the growth of our costs below inflation.

Ms MANISON: We are seeing a reduction in staff at Power and Water Corporation?

Mr TREGILGAS: Yes, through natural attrition.

Ms MANISON: Okay.

Mr TREGILGAS: Ultimately that flows to benefits to Power and Water consumers.

Ms MANISON: Within your SCI you have projected staff will continue to reduce. Can you provide, Mr Tregilgas, a full breakdown of your staffing numbers for the Power and Water Corporation on FTE basis by work section or business unit? You mentioned before around 120 less staff. Have we seen a reduction in staff?

Mr TREGILGAS: Certainly, prior to structural separation our head count was 1050 or thereabouts.

Ms MANISON: Was that FTE?

Mr TREGILGAS: I would hope so. It should be the appropriate way to make these – I will ask John Baskerville to give us the detail, but we went down after structural separation to about 940. They are the numbers I have. I am not sure and …

Ms MANISON: Is that due to the generation and retail staff?

Mr TREGILGAS: That is right. It is not the loss of staff because the difference went over to both T-Gen and Jacana.

Ms MANISON: Yes, and the staffing figures today, Mr Tregilgas and Mr Baskerville?

Mr TREGILGAS: I will refer that to my CE if I can.

Ms MANISON: Thank you.

Mr BASKERVILLE: In the chief executive area there are two FTEs, in the gas supply unit there are six, in strategy economics and regulation there are 21.55, in power networks there are 335.76, water services 158.77, remote operations 101.7, retail 75.11, financial services 37.89, systems control 38.62 and governance and corporate services 158.79, making a total of 936.19.

Ms MANISON: Thank you, Mr Baskerville. Of those numbers, how many are executive contracts?

Mr TREGILGAS: That 937 is an increase on the 1 July 2014 number.

Ms MANISON: At last year's estimates we had a figure of 902 FTEs, so it has gone up.

Mr BASKERVILLE: The number of executive contracts is 34.42.

Ms MANISON: I have some questions with regard to staffing in the remote operations section. I put questions to the Local Government and Community Services minister about whether staff had been transferred over to that agency because we are hearing a few stories. What is happening to the remote operations staff section at the moment?

Mr TREGILGAS: They are working hard in Power and Water …

Ms MANISON: We know they always do.

Mr TREGILGAS: … and I and the board have not been consulted about any change.

Ms MANISON: No change? They are not moving departments? Is there any reassessment of their job positions or structure happening at the moment?

Mr TREGILGAS: Not from Power and Water's perspective.

Ms MANISON: There is no re-jessing, no looking at the work structures at all?

Mr TREGILGAS: No.

Ms MANISON: I wanted to clear that up so I appreciate that.

How is the EBA going at the moment?

Mr BASKERVILLE: From where I sit the EBA is going very well. We had a briefing yesterday from a meeting that took place yesterday afternoon, and by all accounts we are very close to reaching an agreement. We have gone through the union's log of claims and they have gone through the changes we want to see in the EBA. My advice was that probably the week after next we will have an agreement.

Ms MANISON: We are near finalisation so that is good. Going to the issue everybody who lives here faces with regard to power, water and sewerage bills, on 1 January everybody had another 5% increase and we certainly felt it. Last year you were able to provide me – it was put on notice, but I asked for a breakdown of what it ended up costing a small family, a large family and a small business. You had a projected figure for the 5% tariff increase. A chart was provided on notice which outlined the cost increases.

Mr TREGILGAS: This is where you might be able to save some time. In some sense Jacana, as the retailer, will have that.

Ms MANISON: They will have that.

Mr TREGILGAS: They will have that.

Ms MANISON: What about the sewerage and water costs, because there was a 5% increase for both those? I would also be interested to see the average customer costs of the tariff increase for people within the IES section - your remote customers.

Mr TREGILGAS: I do not have an IES number here, but the impact of a 5% increase on our water customers for a small family - I guess that is a couple - is about $41, and $38 annually on sewerage. For a large family of two adults and two children, the water increase was about $150 and sewerage increase was about $40 on an annual basis. For small business water was a $353 average increase in the bill and sewerage was a $507 increase, and so on. The residentials were in the $40 per year mark.

Ms MANISON: Are you able to provide that information for me and table the information you have? I would like to compare it to what was provided last year, where we saw a breakdown of the price increases based on a small family, a large family, and a small business.

Mr TREGILGAS: We would be happy to provide our part of that information for you. Based on what we provided last year, we will update that information.

Ms MANISON: That would be appreciated, thank you.

Mr DEPUTY CHAIR: Do you want to put that on notice?

Question on Notice No 10.6

Ms MANISON: Yes, can we please get a breakdown of the average cost to a small family, large family, and a small business of the additional 5% increase to water and sewerage.

Mr DEPUTY CHAIR: Do you accept the question, sir?

Mr TREGILGAS: I am happy to take that question on notice.

Mr DEPUTY CHAIR: That question will be number 10.6.

Ms MANISON: With regard to the additional revenue you have collected at Power and Water Corporation as a result of tariff increases, the last two financial reports outlined the detail around the additional revenue you were able to collect as a result of the tariff increases.

Going back to the 2013 annual report when you had electricity sales included, it states in the revenue that the corporation's electricity sales improved by $70.4m resulting from a 4.6% increase to kilowatts sold to franchise customers, a 2.8% tariff increase from 1 July 2012 followed by a further 20% increase from 1 January 2013. Also, it says your water sales for the corporation increased by $10.5m as a result of tariff increases and sewerage increased by $6.5m.

The following financial year the annual report showed we had improved electricity sales by $44.7m, water sales from $12.6m and sewerage from $7.3m as a result of the tariff increases. Can you tell me what your projections are for this financial year for sewerage and water revenue as a result of the tariff increases?

Mr TREGILGAS: Dwight, you can point out that table.

Mr GRAHAM: I refer you to page 17 of the SCI, where it has the forecast for the 2014-15 year. It has the total revenues for electricity network systems, control of water, gas and sewerage.

Ms MANISON: Can you break down the additional revenue from the additional 5% tariff increase on 1 January?

Mr TREGILGAS: That table does not provide that information ...

Ms MANISON: Put that on notice?

Mr TREGILGAS: We can take that on notice. We can identify the 5% increase in revenue directly due to the tariff. Of course, our revenue also changes because of the quantity of kW/h, kL and stuff like that. We will split that out so …

Ms MANISON: Can I put that on notice, Mr Deputy Chair?

Mr DEPUTY CHAIR: Sure.

Question on Notice No 10.7

Ms MANISON: Could Power and Water Corporation please provide the revenue for the 2014-15 year to date they have collected from water and sewerage as a direct result of the 5% tariff increase on 1 January 2015?

Mr DEPUTY CHAIR: Happy to accept the question?

Mr TREGILGAS: Happy to accept the question.

Mr DEPUTY CHAIR: The question will be number 10.7

Ms MANISON: I will also ask a question about Indigenous Essential Services. I understand you may not have information here about the additional revenue you have been able to collect as a result of the 5% tariff increase, but I would like to gain an insight into how much additional revenue was collected from the original 20% increase, the second increase of 5%, and the most recent increase of 5%. I would like the additional revenue collections each financial year for Indigenous Essential Services. Is that something I am …

Mr TREGILGAS: Are you focusing on IES?

Ms MANISON: IES, yes.

Mr TREGILGAS: Presumably in IES there is continuity because the business has been here. We will provide you with that information and are happy to do that.

Question on Notice No 10.8

Mr DEPUTY CHAIR: Do you want to read that question again for Hansard?

Ms MANISON: Can the Power and Water Corporation provide the additional revenue collected each financial year for Indigenous Essential Services as a result of the 20% tariff increase, the 5% tariff increase and the third tariff increase of 5%?

Mr DEPUTY CHAIR: That question will be number 10.8.

Ms MANISON: With regard to your network section, throughout the nation there has been much debate about privatisation. The New South Wales government went to an election on the poles and wires infrastructure and a privatisation agenda. They sought a mandate from the people of New South Wales with regard to the future of the poles and wires.

As a board, are you having any discussion with your shareholders around the power networks section - the poles and the wires - and any potential privatisation, or long-term leasing as the government likes to go into?

Mr TREGILGAS: There have been no such conversations. I am not aware of any plans in that regard. Ultimately, this is an issue for government not the board or chair to initiate. At this stage we are planning a future which sees networks staying an important part of the power and water business.

Ms MANISON: With regard to access to the networks, because you have the monopoly have you seen, since structural separation, any growth in other companies wanting to access the network?

Mr TREGILGAS: There are two levels of access because it is a question of are there more retailers and generators who want to run electricity through the poles and wires. I am not sure how we might answer that. I might see if Djuna can help. At this stage discussions are still going on about potential generators.

Ms MANISON: There are no additional companies accessing your network at this point?

Mr TREGILGAS: If you are talking about actual end users it is a different issue. The end users, Jacana can provide you with that.

Ms POLLARD: It has just been the licenced retailers.

Mr TREGILGAS: From our perspective of operating the network, - the access seekers are retailers and generators. I understand over the last year there have been a couple of additional applications for retail licences. If those businesses grow there will be further access agreements from that point.

When it comes to new generators - there are discussions and plans going on in that regard. I am not aware if there have been any generation licence applications. It is not our business. The Utilities Commission deals with that application. I am aware that one of the IPPs, the independent power producers, contracted currently with T-Gen is prepared to become a generator in its own right. I think T-Gen might be able to answer that question. Even though they will be talking about one of their own competitors, it is to do with a relationship and changing the nature of that.

Ms MANISON: Since October last year, post the 1 July commencement of structural separation or legal separation, we have not seen any additional generators or retailers accessing your network.

Mr TREGILGAS: Not yet. That is still coming.

Ms MANISON: I would like to turn to gas. There was some discussion through the structural separation process of pulling the gas section out and making that an independent government-owned corporation as well. Has that progressed at all?

Mr TREGILGAS: No, it has not progressed. It was in the structural separation blueprint document that consideration would be given to that, although my recollection was it would be ultimately a Cabinet decision. I recall the blueprint also talked about system control possibly at some stage to take up the functions of an independent market operator. I think the Utilities Commission or its advisers, in recommendations about the market, has argued the importance of having a demonstrably independent system control market operation function. At this stage, from a board management point of view, we are not planning for that separation.

Our intention is to develop the business as it is, to recognise we have these different businesses under our umbrella and to achieve the economies of scope we can. Also, we want to give consideration to what might be the benefits versus the costs of one or two of those units eventually separating. From my perspective it is not imminent. We have work to do and, given some of these functions, there are some synergies between the businesses which we might like to exploit further.

Ms MANISON: With the gas supplier you have, is your main customer Territory Generation?

Mr TREGILGAS: It is the main, as was PWC power generation before, so they have inherited that mantle. Of course, as new generators enter the market we are already in discussions with them. We are fortunate to have a gas contract that ensures a supply for electricity generation in the future, and it is in our interests to make sure that whoever the generators are they are using the gas contracted for that purpose.

Ms MANISON: Last year in our discussions we spoke about you having excess gas. Is that still the case?

Mr TREGILGAS: It certainly is the case.

Ms MANISON: How much excess gas are we talking about? Has it changed from last year?

Mr TREGILGAS: The excess gas is about 190 PJ. I am not sure if we have ever used that number before. It is a sizeable amount of surplus gas. It is surplus to the future requirements of our existing customers. What is challenging about that is we have take-or-pay obligations related to that surplus gas so if we are unable to sell that surplus gas we face a sizeable take-or-pay liability.

As a board, and as management pursuing opportunities to reduce this take-or-pay liability by seeking new gas sales opportunities with customers in the Territory, there are discussions going on with some potential developments with the idea to secure a significant reduction in the take-or-pay liability. Equally, the board has acknowledged that we need to pursue other opportunities. The corporation requested during the year that the government establish a gas sales process aimed at pursuing, on the corporation's behalf, the opportunity presented by the north east gas interconnector, NEGI, to sell gas to the eastern gas market.

At this very early stage in negotiations the business case is encouraging from our perspective, but that NEGI, if it can be pulled off, would be a value-creating decision for Power and Water.

Ms MANISON: Any more immediate type deals, negotiations …

Mr TREGILGAS: I cannot give you any specifics because those processes are currently well and truly under way.

Ms MANISON: Are there any potential buyers more locally based you could possibly sell the gas to at this point in time?

Mr TREGILGAS: There are potential local buyers, as well as significant interest from the eastern states in our surplus gas, but I cannot give you any more details than that because that would reveal some commercially sensitive information about the potential purchasers who can then flag things which we cannot at this stage detail.

Ms MANISON: Since October last year there have been no new customers you have managed to negotiate with to sell some of that excess gas to?

Mr TREGILGAS: At this stage there are lots of discussions and lots of negotiations.

Ms MANISON: You have not signed any deals?

Mr TREGILGAS: Not yet, no. That is in part because we have to coordinate and suitably scale the quantum that would be available domestically, and those which we would then be prepared to offer interstate.

Ms MANISON: How long is your arrangement for the sale of gas in place with Territory Generation?

Mr TREGILGAS: Like TSAs, we have just rolled forward the contract. We have not yet concluded our long-term contract with T-Gen, though both of us are expecting to execute that long-term contract by 30 June. About all I can reveal is that Territory Generation will continue to be a long-term customer for Power and Water gas.

Ms MANISON: I want to turn to the uptake of solar by home owners. Are you seeing an increase in uptake of home solar systems and what impact is that having on the network? Are you responsible for setting the feed-in tariff or is that responsibility passed on to Jacana Energy now?

Mr TREGILGAS: I will pass that to John.

Mr BASKERVILLE: The uptake in solar in the Darwin region is significant. The uptake in the minor centres like Alice Springs and Tennant Creek is smaller. The impact on the system is not all that great at the moment, but that will increase over time. As you know, you can have solar on your roof, but when the sun goes down and the clouds come over you need our infrastructure. That is what we are grappling with. There are a couple of areas in Alice Springs where this has caused an issue where we had some over-voltage that we have rectified. We do not have that same issue here.

The Darwin/Katherine installation numbers for 2013-14 – the number installed was 2425 and that was up from 1715 in 2012-13, so that is a fairly large increase. In Alice Springs in 2012-13 it was 573 and in 2013-14 it was 725, so that is a fairly moderate increase.

Ms MANISON: How is that impacting the power network - the poles and the wires? Are you finding it is putting more pressure on the power network at the moment?

Mr BASKERVILLE: Not at this stage, no. We are managing it.

Ms MANISON: Is it the Power and Water Corporation or Jacana Energy who has responsibility for setting the feed-in tariff.

Mr TREGILGAS: I will get Djuna to answer that question.

Ms POLLARD: In relation to the solar feed-in tariff policy, that was previously a Power and Water Corporation policy. There are a number of reasons for that, the primary one being that we were the sole electricity retailer and there was no government policy as such in relation to solar feed-in tariffs in the Territory, which was quite different to the arrangements in other jurisdictions.

Given structural separation, it is timely that we revisit the solar feed-in tariff arrangements, and discussions are taking place between Power and Water, Jacana and Treasury. In time it will also be through the Department of Mines and Energy in relation to feed-in tariff arrangements.

Ms MANISON: Does the ultimate responsibility of who sets and manages that feed-in tariff sit with Power and Water Corporation at the moment?

Ms POLLARD: No.

Ms MANISON: That sits with Jacana?

Ms POLLARD: Yes.

Ms MANISON: I will ask Jacana questions about the rate of feed-in tariff, but I think it used to be around 25.8?

Ms POLLARD: Yes, it is a one-for-one tariff arrangement. Whatever the regulated retail electricity tariff is is essentially the feed-in tariff rate.

Ms MANISON: Does Power and Water Corporation have any view on the feed-in tariff rate as it stands at the moment? Do you believe there should be change to that feed-in tariff rate given, as Mr Baskerville pointed out, a lot of people are taking up the option of investing thousands of dollars in their home to have solar power to reduce their power bills? Clearly, a feed-in tariff rate change could have quite an impact on some of those people. Does Power and Water have a particular view on the feed-in tariff at the moment?

Mr BASKERVILLE: Not a particular view, no. The rate is currently fairly attractive. It is the highest rate in Australia in fact. As a corporation we are reviewing that.

Ms MANISON: I have a question with regard to emerging technology. We have all seen excitement in the media - I have seen a lot on social media - regard to the emerging technology of home battery storage devices - I think it is Tesla. How does a corporation like Power and Water plan for the emergence of new technology and people trying to get off the grid?

Mr BASKERVILLE: I will get our expert, Mr Horman, to answer that.

Ms MANISON: Big question, Mr Horman, but one I know you are well qualified to answer.

Mr HORMAN: Trevor Horman, Manager Sustainable Energy. There was a flurry a couple of weeks ago with the announcement by Tesla. It is important to note it is not the only supplier in the world; there are lots of others.

Ms MANISON: They are doing their marketing well, are they not?

Mr HORMAN: Absolutely.

Ms MANISON: Seems like they are the only ones.

Mr HORMAN: Yes. That is a technology transformation the industry is facing. Others include electric vehicles, electric charging and a whole range of advances in load management of air conditioners, for instance. There is a lot of technological changes facing us and we need to deal with them. You probably noticed in the media last week that some southern utilities are getting on board and doing that themselves. We are monitoring what is going on and we are planning trials in some areas ourselves.

Ms MANISON: I would like to ask some questions about the renewable projects that Power and Water is currently working on. Are you looking to drive any further innovation in renewable energy? I understand you have some work happening within the remote operation section with ARENA. Can you talk us through that work? Are you looking at embarking on additional use and access to renewable energy and renewable technology?

Mr HORMAN: In our own portfolio we have eight solar power stations at the moment. We are in the middle of a large expansion of the Uterne solar power station in Alice Springs from 1 MW up to 4 MW. There will be close to 10% of energy generated in Alice Springs from solar at that stage. That is a major development which will be one of the largest solar power stations in Australia.

You mentioned the remote areas facilities. Yes, after four years of hard slog, a $55m project is now commencing where we will be deploying 10 MW of solar through 35 remote communities to offset diesel consumption in those places.

Ms MANISON: Are there any additional renewable projects beyond that?

Mr HORMAN: Yes, we have a number of examinations occurring. We are exploring tidal power in Clarence Strait. We have the landfill gas generation at Shoal Bay, a 1 MW generator that chugs away 24/7. We have been doing wind monitoring across the Barkly Tablelands for the last 10 years. The modest wind climate there dictates very low-start speed turbines, and they are not available on the market yet. We are looking at every option that comes before us.

Ms MANISON: Any further work happening on geothermal?

Mr HORMAN: Geothermal is the great white hope. A total of 17 exploration licences have been taken out. I do not believe any of them have brought a drilling rig to the Territory and there are only two in Australia.

Ms MANISON: Thank you, Mr Horman.

I have some questions on the Leanyer waste stabilisation ponds. I am keen to find out - given the huge growth in Muirhead, Muirhead north and Lee Point due to come online - to confirm there are no plans for further expansion or building of new ponds. Are there any plans to address the issues of population growth and higher flows going into that area, particularly around treatment and water quality going into Buffalo Creek?

Mr PUDNEY: Member for Wanguri, in regard to overall growth, the current ponds are able to take the hydraulic load of the new suburbs of Muirhead and Lyons. There are some additional plans for further north. We are working with government on the Defence land. That, in itself, is not likely to cause any expansion of ponds. We dropped the older proposals several years ago of duplicating the ponds set up at Leanyer/Sanderson.

We are considering improving the treatment within the ponds and higher technology treatments. Over the next three to four years we will continue some in-pond monitoring, and we have an improvement plan covering areas such as sheets and hydraulic changes to the way the ponds flow and algal sheets that help the treatment - aeration. These in-pond improvements are just to make a step change to optimise the current technology and ensure better outcomes for Buffalo Creek, which is the discharge site.

We are also continuing a significant monitoring program and other trials. We have just finished a time discharge trial in the creek. We are working with CDU examining that data to see if we can change the discharge methods and timing. We do not plan on any impact on land take. We are not duplicating ponds, as I said earlier. We are looking at expanding to a DAF treatment - dissolved air flotation - which reduces and takes out algal loads. That is a $40m to $50m investment. We have put that in year five or so, and that would strip out the algal load and some of the nutrients.

Ms MANISON: I am no water engineer but I have been through the ponds before. Sometimes you de-sludge the ponds, and Muirhead is right on the border of the ponds. In the past a sludge pile has built up – a bit of a mountain there. With future de-sludging activities, will the location you remove material to remain on the Muirhead border or will you locate that elsewhere?

Mr PUDNEY: A bit of both. During the de-sludging operation we will have a temporary storage. We are looking to reduce that and change the technology. Traditionally we would empty the ponds, bring in heavy earth-moving machinery, scour out the ponds, create a large pile and then let that dry out at the site. We are now looking at other technologies …

Ms MANISON: Quite a sight.

Mr PUDNEY: … such as in-pond dredges then taking that material away to our East Arm treatment plant which is in an industrial area. We currently have a storage facility at our East Arm treatment plant and we will probably make greater use of that. The sole reason is to reduce the impact on the surrounding suburbs.

Ms MANISON: I think that would be greatly appreciated. The Ludmilla upgrades, how are they going?

Mr PUDNEY: We have recently finished duplication of the rising main through East Point, which is stage four of the five stages. That pipeline now gives us significant additional capacity into the outfall and allows treated effluent to get out to the ocean outfall rather than in extreme circumstances during the Wet Season - if you have a major storm the treated effluent - we did not have the capacity to put it all out to East Point so some of it would have gone into Ludmilla Creek. We had significant improvement at Ludmilla itself, and the treatment plant has had a five times expansion in its hydraulic capacity so it can treat a lot more and pump a lot more out to East Point.

The final stage of the works is the extension of the outfall, quite an expensive exercise and probably in the order of $20m or $30m. We are currently developing an EIS, an environmental impact statement, and that information is on the EPA website, but we expect to go through that environmental work and have it finished in about 12 months' time. That will inform us of the best environmental impact and a cost point of view, and we will look at options. The primary option is a 700 m to 1.5 km extension into much deeper water.

Madam CHAIR: Thank you, Mr Pudney.

It is now 10.30 am. I would like to thank the Power and Water Corporation because we have run out of time. That concludes consideration of this output area. On behalf of the committee, I thank all of you for preparing and appearing today. We will have a few minutes break for the changeover.

The committee suspended

JACANA ENERGY

Madam CHAIR: Thank you everyone for joining us after the break. We are joined by Mr Noel Faulkner, the Chair of Jacana Energy. I welcome you, the Jacana Energy board and your officials. If you would like to introduce the people accompanying you today, Mr Faulkner.

Mr FAULKNER: Thank you very much, Madam Chair. We have Stuart Pearce, Chief Executive Officer. Next to Stuart is Danny Moore, Executive Manager Sales and Strategy, a new recruit since we were here last. I am not sure how long you have been with us now, Danny.

Mr MOORE: Eight months.

Mr FAULKER: Fernanda Camara is Chief Financial Officer.

Madam CHAIR: Would you like to make an opening statement on behalf of Jacana Energy?

Mr FAULKNER: Thanks very much. We have tabled a presentation, Madam Chair, so …

Madam CHAIR: Are you happy for it to be officially tabled?

Mr FAULKNER: Yes, please.

Madam CHAIR: Thank you.

Mr FAULKNER: With your agreement, Stuart and I will work through this. I will make a couple of introductory comments, the first three or four slides, and then hand over to Stuart.

Madam CHAIR: Yes. It is asked that statements are limited to five minutes. I am sure the member for Wanguri …

Ms MANISON: I am comfortable to go to about 10 minutes, Mr Faulkner. After that I will be keen to ask some questions because we only have until half past for this session.

Mr FAULKNER: That is fine, yes. Our strategy, of course, was to take up as much time as we could …

Madam CHAIR: Other people have employed that strategy this week.

Mr FAULKNER: Some of the key facts in relation to Jacana Energy - you will notice that some of this information has changed since last year as we have more accurate data in relation to the business. Our revenue is about $500m, the customer account is about $80 000. The SCI for 2014-15 indicated $90 000. As a result of that the cost (inaudible), which is a key metric for any retail business, was lower than it should have been given the customer numbers are the denominator.

We have issued about 400 000 bills and taken 140 000 calls at the call centre, which is operated by PWC under a TSA with Jacana Energy. We are particularly pleased that the grade of service for that call centre is now 69%, up from 25% when we went live, and the abandonment rate, at 2.6%, is about half or less of what it was previously. That is people hanging up because the calls are not being answered.

This is bit of an idea of the average bill size for small and large domestic and small and large commercial. It is interesting because we have another slide here which quite clearly indicates that while the price is very competitive with the other states in Australia, the bill is probably the highest because of high consumption figures. Stuart and Danny have been doing some work on what we can do to introduce products to help reduce that and help people control their demand.

This is a bit of a split-up of revenue. You can see our mass market is 62% of the revenue. The tariff associated with that market is set by government, of course. Where we have some control is over the contracted customers, which is only 22% of the revenue. Of course, that is subject to contestability, and we have at least two other retailers playing in the market, and probably a third dipping its toe in at the moment I think.

There is a fairly significant CSO component. What you see there is the combination of a direct CSO of 12%, and 3% which is pensioner concessions. Those two combined give us a total CSO of about $73m out of the $503m in our revenue.

The next slide is prices and consumption. These figures support the comment I made a little while ago. The average cents per kilowatt hour is 25.9 which is the third lowest in Australia, including Tasmania. The average medium usage of 9.13 MW/h is the highest. That is obviously driven by environmental factors.

I am skipping through this fairly quickly. If you have any questions as I go please interrupt.

The cost pie chart is an interesting one. Somebody flagged the other day that perhaps retail should be trying to reduce costs hence flow through to a reduced CSO. This pie chart clearly indicates how much control we have over the total cost that pass through to customers. So 58% of the cost on a customer's bill is generation, 35% is network costs. We have a small system control component. There is about 7% under Jacana's banner. Of that 7%, only 3% is under Jacana Energy's control.

So 3% for the RECs, the Renewal Energy Certificates, is linked to the consumption. We have no control over the market price of RECs. The 1% is for the feed-in tariff, which you will probably have some questions on as we progress.

Ms MANISON: Yes, I will.

Mr FAULKNER: Of that $490m, 3% is about $15m. Jacana has control over about $15m of the total energy costs. The key metric we use to measure how well we perform is the cost to serve. Benchmark rates we probably need to get to about $170, maybe a bit lower.

The next slide gives you an idea where we are at the moment compared to our SCI for 2014-15. The second line is the cost to serve. The $170 figure is based on incorrect customer numbers - the 90 000. When you back that down to 80 000, the correct number, the cost to serve in the 2014-15 SCI should have been $191. We are currently running at $181, and you will see in the SCI for 2015-16 we have a target of about $173. That compares to Origin Energy running at $170. If we are able to achieve $173 in 2015-16 we are doing exceptionally well because Origin Energy has a customer base of about four million compared to our 80 000.

Grade of service is 63% compared to a natural of 69%. There is abandonment rate in the SCI of less than 5% and we are running at 2.6%. You will see that in relation to our 2014-15 KPIs year to date at the end of April, we are reasonably comfortable with where we are sitting.

The next slide is an indication to the extent we are able to get accurate information of the split between wholesale, network and retail costs across the various jurisdictions in Australia. For retail costs we compare about average. We are on par with the other entities, but we have a very small retail margin of 1% whereas the others are achieving somewhere between 3% and 5%. There is an imbalance in wholesale energy and network costs in the Territory compared to other jurisdictions. There are some reasons for that.

I will hand over to Stuart now.

Mr PEARCE: Thank you, Noel. I will move through this section reasonably quickly, so if there are questions please ask.

We have highlighted some of our key achievements over the last 12 months and delivery of the January price increase is a key function we perform on behalf of the government. We introduced a domestic time of use tariff. Danny can talk about that if there are questions on how we are progressing with that.

We improved the performance of the call centre by providing additional resources into the call centre to achieve consistent grade of service and abandonment rate. We have been quite successful retaining and winning back some large commercial and industrial accounts. We have introduced some customer feedback techniques which allow us to act on immediate feedback we receive from our customers. Danny and his team have done some good work using the net promoter score methodology.

We are actively trying to promote our brand so people understand what our role in the industry is. We are in the process of establishing more commercial arrangements and contracts with our key suppliers. We are bringing functions in house so we are transitioning off the transitional services agreement. That was a two-year agreement with the 'T' transition meaning the activities come back into Jacana. We are progressing with that and have built quite a strong and capable energy retail leadership team. That has been the focus of activity for us for the past 12 months.

We have spent a lot of time talking about our strategic plan, direction and what we want this business to look like. I will not go through this in detail except to say we take our core values very seriously. We are in the process of rolling those values out with our staff. Behaviours and the way we do things are every bit as important as what we do. We are quite pleased with how we are progressing. An engaged workforce is critical for us.

Our strategic business objections we have developed in conjunction with the board and our team. They are quite straightforward. We wish to achieve financial sustainability as a business, deliver a superior customer service, develop a known and trusted brand, build a team of high-performing and engaged people and be a trusted partner with our key stakeholders. We are quite keen to get involved in industry development and industry debate, and to help out wherever we can in those discussions. That is a summary of our strategy and what we are trying to achieve.

On the following pages we have tried to spell out some of the key things we are doing under each of those strategic objectives, but I will not get into the detail of that unless there are specific questions. That is probably all I wanted to cover at this stage.

Perhaps I will talk about some of the key challenges we still face. Obviously, delivering a level and consistency of customer service in a cost-effective and efficient manner is one of the key business drivers for us. As Noel mentioned, the bit of the cost chain we have direct control over is quite limited so where we can exert some influence we are quite keen to do so, and that is obviously in the customer service area. Working with key stakeholders to understand the full economic cost of the CSO - as Noel mentioned, it is quite a big chunk of revenue that we receive and we are quite keen to pull that apart and understand what it is based on, how it works and what an appropriate level for that is.

The third dot point is a key one for us, facilitating wholesale competition while managing associated risks. Our largest single cost is generation, and we are quite keen to support the introduction of competition in the wholesale market. It is around 60% of our cost base, so anything we can do to exert some influence on that cost is a key driver for our business.

Continuing to find low cost ways to help Territorians manage their energy consumptions - as Noel mentioned, prices are quite competitive with other jurisdictions. The issue in the Territory is the level of consumption and that is largely tied to, as Noel mentioned, environmental factors. Obviously people use a lot of air conditioning and there is a cost associated with that. We are quite keen to introduce products, technology and services in a cost-effective manner which will put people in control of their energy usage.

Madam CHAIR: Thank you very much for that.

Ms MANISON: It is good to catch up again and chat about progress since we met in October last year. Clearly we were in the early days post structural separation, and I have just been asking Power and Water Corporation some questions about that process. Post structural separation last year you did not have a full financial picture of Jacana. Are you now at a level where you are comfortable that you have a full financial picture of Jacana Energy as a government-owned corporation?

Mr PEARCE: I would say it has improved. There are still some key pieces of information and some reconciliation we need to complete to get full confidence around the situation, but we are quite comfortable that the accuracy of the information we are receiving is helping us get a much better picture. We have plans in place with PWC to work on some of the outstanding financial issues which are tied in with reconciliations on the opening balance sheet.

Ms MANISON: Shared services and systems and staff you still have with Power and Water Corporation - can you take me through that? Where are those working relationships you still have with the Power and Water Corporation?

Mr PEARCE: From our perspective the three big areas of retail activity or functions that you would normally expect to see in an energy retailer are still provided under a TSA from Power and Water Corporation. Those areas are customer service, or what we call customer care, and billing and credit management. They are provided under a transitional services agreement and that TSA is due to expire mid-way through next year. We are currently working on our planning around how we wish to get that capability moving forward. We are looking at business cases and different models to consider the best and most cost-effective way of providing those services.

Ms MANISON: Do you still share IT systems with Power and Water Corporation? If so, which ones are they?

Mr PEARCE: The key system for us as a retailer – we share systems. The key system for us is the billing system - the revenue management system. That is where a lot of our data comes from. Obviously it is where our revenue comes from, but it is also where a lot of information comes into our business. It tells us how well we are performing as an energy retailer. That system still sits with PWC and the services are provided under that TSA.

Mr FAULKNER: That is one of the areas where we will be looking to potentially move away from the TSA with PWC. Their systems were not really designed to operate in a retail business in a contestable market, and there are a lot of off-the-shelf systems and service providers we can contract to to supply that service and even a better service than PWC currently provides. As part of that process PWC will be given the opportunity to tender to continue to provide that service if they so wish.

Ms MANISON: It sounds as though you have decided you will go to a new retail IT system when you are separated from Power and Water – when that eventually happens – for your financial management. When do you anticipate that will be?

Mr FAULKNER: We are working through a project plan at the moment to put some structure behind that particular strategy.

Ms MANISON: Do you have any estimates with regard to how much that will be?

Mr FAULKNER: The cost of the project itself or the ongoing costs of the system?

Ms MANISON: Project and ongoing.

Mr FAULKNER: The ongoing costs will be less than what we are currently paying for PWC otherwise we would not move off PWC systems. Also the problem with PWC is they probably need – and it is a question you might ask PWC if you have not already. I think in the not too distant future they will probably need a significant investment in some of their IT systems. We are not in a position to contribute capital, given our financial structure, to any IT system upgrades PWC might be considering.

Ms MANISON: You are certainly moving down the path of a new IT system and you will tender that out to get the best deal for Jacana?

Mr FAULKNER: An expression of interest in the billing system, yes.

Ms MANISON: Potentially partnering up with another private provider or retail service is an option on the table and I think we discussed this before.

Mr FAULKNER: In regard to partnering up, there are other retailers you could partner up with to provide those services, but there are other stand-alone entities which provide the service to retailers, particularly small retailers such as Jacana Energy. We have explored the options of partnering up with other retailers, a couple of the larger ones in particular - Origin and AGL - but I will let Stuart comment on that. They are not enthusiastic about doing anything with us given the size of Jacana Energy. We have a customer base of 80 000. As I indicated before, Origin is four million and AGL is about that as well. We would just be a distraction for them, to be quite honest. We would either be a distraction or we would have to align ourselves with everything they do, and that would not necessarily suit our strategies or suit the Territory's needs.

Mr PEARCE: I think that covers most of the key points. The other factor to consider is the level of risk associated with putting new core systems in. As part of the process we will go through, which is developing a full business case, we will look at the ongoing cost, the timing and the risks associated with the options we might consider. Options we might consider are a contract for the full service so we do not own the IT systems, or it could be that the best case scenario is we own the IT systems. That is part of the process we are going through at the moment.

Ms MANISON: I am probably mentioning the war a bit, but with regard to other jurisdictions and locally where you see IT upgrades or changes to systems, they can be fraught with danger and budget blowouts. I assume that will be part of your risk management assessment about whether or not it is more cost effective to go to your own system.

Mr PEARCE: Absolutely.

Mr FAULKNER: It is highly unlikely that we would move to our own system. I think it is more likely that we will contract with a service provider who has an off-the-shelf system. We will modify our processes to suit their system. Where you fall into the pit is where you either buy an off-the-shelf system and try to configure it to suit your own processes or go the full blown PWC path, which might be suitable for PWC but it really is not suitable for a small business like Jacana.

The other two key services we are working with PWC on at the moment in the transition are the credit management service and the call centre. We would like to have more direct control over the provision of those two services in enhancing the level of customer service we currently provide. In my experience, the business that is contestable needs to manage that service because a monopoly business does not have the same focus on customer service as a contestable business does. There is nothing like having a competitor take your customers for you to get a focus on customer service. That does not exist in a monopoly business.

Ms MANISON: You mentioned in the opening statement and in your SCI that you had been successful in winning back a big contestable commercial-type customer. There was one specifically referred to in the SCIs. Have you been able to win more business back, or have you seen any loss of customers since we last met in October? How has that gone with the big customers? I appreciate it sounds like you are operating off very tight margins.

Mr PEARCE: We have lost a couple of smaller commercial contract customers in Casuarina since last time. We have stepped up the capability in our commercial industrial scene to focus on retaining those big customers, bringing in a little more discipline to account management and servicing those customers and understanding their needs. We are quite well placed to be a competitive business in that area with the team we currently have.

Mr FAULKER: One of the threats we are facing at the moment - and this is the outcome of the structural separation process - is that a generator can also apply for a retail licence. A generator can bid for contestable customers, the same as us and any other retailers.

In the Territory at the moment we have an existing embedded generator of EDL that has about 28 MW of load, I think. That generator has now acquired a retail licence. That generator knows what the T-Gen price is and that we have to buy from T-Gen at the moment. They could essentially undercut that price by $1 or $2 and win major customers like Crocodile Gold and the Department of Defence - some of those really big customers - and probably a few of the only profitable customers we have.

Ms MANISON: One concern raised during the structural separation debate was ensuring the new government-owned corporations were not set up for failure - people wanted to see them succeed.

Going through your Statement of Corporate Intent and hearing the challenges you face with the Gen-tailers as you call them, it sounds like you are running off some slim margins. You are going into your first period of annual reporting. For your first legal year of structural separation, are you looking to run at a loss this year or a profit? How is it looking for Jacana Energy?

Mr FAULKER: We are reasonably comfortable with where we stand at the moment. We have had to look at some adjustments in our opening position as more information became available during the year. We had one legacy contract for Uluru I think it was - a significant loss making contract we were not getting any subsidy for, but that has been addressed.

The fact that we are running on a low margin is typical of retail businesses. There are always some huge challenges in retail businesses you do not get in monopoly entities. Our current position year to date is we look as though we will make a profit at the end of the financial year, and a profit in excess of what we anticipated in the 2014-15 SCI.

Ms MANISON: You also mentioned - it seems to be quite a regular theme in your Statement of Corporate Intent - getting a better understanding of the community service obligation. What do you mean by that and what are you hoping?

Mr FAULKNER: I will let Stuart comment in more detail, but our understanding at the moment is that the CSO was established eight or nine years ago. We are not sure how much rigour was behind the establishment of that CSO. The level of rigour was probably driven by the amount of information available to properly structure those CSOs. The indications are that the CSOs probably do not meet the true cost of supplying energy to those customer classes, let alone include an economic return for the business.

Mr PEARCE: I think that pretty much covers it. It means understanding whether or not they are cost-reflective. The world changes, the market changes. What was appropriate eight or nine years ago may not be appropriate given changes in the market. There are costs that come and go in this industry and if they have not been picked up in the original calculation of the CSO then the CSO will not be particularly cost-reflective. Things like some of the renewable energy certificate schemes were not around when the CSO was first set. It is a matter of pulling it apart and understanding what is behind the level of the CSO and how that is apportioned across the different customer types.

Mr FAULKNER: The CSO has been indexed by CPI since it was first established. There has not been any review to take into consideration the issues Stuart just raised.

Ms MANISON: Ideally you would like to see that CSO go up?

Mr FAULKNER: We would like to see the CSO at an appropriate level.

Ms MANISON: With your purchase of power, are you only dealing with one generator at this point in time? Territory Generation is solely where you purchase power from?

Mr FAULKNER: That is correct.

Ms MANISON: You are not looking to expand on that? You are keeping with Territory Generation as the generator you purchase your power from?

Mr FAULKNER: If you go back to the pie chart on one of the first slides, you will see about 60% of the wholesale cost is generating cost. The only way we will get some relief for Territorians in their energy consumption and costs is if we can source some more competitive generation. There are a number of generators interested in investing in the Territory at the moment, including one interested in a solar facility. We are currently talking to all potential generators.

Ms MANISON: The Territory has a very generous one-for-one scheme but the uptake of solar seems to be increasing as people try to lower their power bills. That is a really important element people take into consideration when it comes to investing in solar in their home. What are your views with regard to the feed-in tariff as it stands, and is it something you are seeking to change?

Mr FAULKNER: The feed-in tariff at the moment runs at about 26.8c and the avoided cost to generation is between 6c and 8c. There is a huge gap, and most other jurisdictions have backed off from those very high feed-in tariffs. My only comment before I pass over to Stuart is that if we moved away from that one of the considerations would have to be grandfathering the existing installations. If people have invested in the belief they will get that feed-in tariff, it would be a challenge to reduce that to what might be a more appropriate level.

Mr PEARCE: That probably covers the key points. It is about getting the tariff at the appropriate level. When that tariff was originally set it was to achieve a certain outcome. That outcome probably has been achieved now. It is time to take a look at what the appropriate level for a feed-in tariff is. In looking at what that appropriate level might be, one of the things we will be taking a very careful look at is how we would phase in any change to that tariff because we are very aware of the fact that households, our customers, make long-term investment decisions on the basis of the feed-in tariff. We would be very mindful of the impact the changes would have and we would ensure that is phased in over a period of time.

Mr BARRETT: To follow on from that, can you clarify that avoided cost and how it is arrived at?

Mr PEARCE: If consumers are producing their own energy at a particular point in time that means there is less requirement for the generator to provide that energy, and theoretically we can use that energy to provide to another customer. The theory of it is the benefit of solar PV is it results in a reduced cost of wholesale energy. The variable cost of wholesale energy is currently between 7c and 8c.

Mr FAULKNER: Danny has just provided some information. The increase in the cost of that feed-in tariff has risen significantly over the last couple of financial years. It was about $700 000 in 2013-14, in 2014-15 it jumped to …

Ms CAMARA: It was $800 000 in 2012-13, jumped to $1.5m in 2013-14, and to April 2015 we have seen year to date expenditure of $2.9m.

Mr FAULKNER: Pretty significant increases.

Ms MANISON: That has put it into a bit of context.

Mr FAULKNER: What is worthwhile mentioning is there is no CSO associated with that. The cost of that is being met by other consumers who cannot afford solar installation, and that is one of the drives other jurisdictions have moved from. The average mum and dad who cannot afford solar installation costs - the capital cost - are subsidising consumers who are able to fund the initial installation.

Ms MANISON: Looking internally at Jacana Energy, I would like to get a snapshot year by year so we can compare how things are going. Would you be able to provide a breakdown of your full-time equivalent staff levels and break down the staff by levels? I am happy if you want to table that information or read it out.

Mr FAULKNER: There is no problem in providing it. I think we just need to be mindful of the fact that part of the process this year - we have moved off some services that were provided by PWC at the start of the year, so some of the staff employed more recently are to take up those activities at a lower cost than what PWC were providing. If you want to compare like with like you would have to compare PWC TSA staff and Jacana staff combined year on year.

Ms MANISON: It is important that you outline those changes so we can put them into the right context.

Mr PEARCE: We currently have 19 staff. I believe we have six vacancies, seven male staff, 12 female staff, nine ECM and above. That is basically the leadership team. There are five band 4, three band 3 and two band 2.

Ms MANISON: Mr Faulkner, what is the size of the board at Jacana Energy?

Mr FAULKNER: There are only three board members, which is probably the lower end of what you would expect for a board. Normally five or six is the norm.

Ms MANISON: I noticed yesterday in the *Government Gazette* your customer contract. Do you want to talk us through that?

Mr MOORE: That is our customer contract. One of the key pieces of structural separation is to establish our own customer contract with our customers, and therefore a customer charter as well. Part of the relationship and building that brand – some regulatory changes needed to put in to enable that. As you will see from that document, that is the first step in being able to take our brand out and cement the relationship with our customers.

Ms MANISON: Going back to the structural separation, are there any ongoing costs that you are still footing to effectively finalise your financial and asset separations that you can quantify?

Ms CAMARA: No, we have not incurred any additional costs in relation to structural separation.

Mr FAULKNER: There are some project - the services I mentioned previously - costs associated with transitioning from PWC to potential alternative service providers, but not huge dollars. Tens of thousands - maybe in total sub $500 000.

Ms MANISON: Is there any way I could put that on notice to get a break down of costs?

Mr FAULKNER: Absolutely, to the extent we know what they are to date, we have established some budgets for each of those projects and are happy to make the budget figures available.

Question on Notice No 11.1

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

Ms MANISON: Can Jacana Energy please provide the costs of structural separation to date?

Madam CHAIR: Mr Faulkner, do you accept the question?

Mr FAULKNER: Yes.

Madam CHAIR: That question will be number 11.1

Ms MANISON: I want to ask about some of the innovations you have been driving regarding the cost of time usage and tariff changes where you were offering domestic customers different prices for time of use. How is that going and how has the uptake been?

Mr PEARCE: I might hand to Danny to give the update on the time of use tariff.

Mr MOORE: We mentioned in another forum we had a soft launch essentially – we put it out and enabled a few customers to test the processes. We are now working on a marketing campaign that will begin with the show circuit in Alice Springs, Tennant Creek, Katherine and Darwin through July where will be more heavily promoting that. In addition, we are working with Power and Water Networks on the metering side and how we can make some more visibility around what that means to customers.

Ms MANISON: How many customers have taken up the time of use tariff so far?

Mr MOORE: It is just a handful.

Ms MANISON: With metering – unfortunately I did not get an opportunity to ask Power and Water this, but given the challenges for many people is ensuring they have the correct meter installed – it has to be an interval smart meter – have you primarily targeted people in new residential locations with the new metering technology?

Mr MOORE: No, any customer can sign up for it and will need to go for a meter replacement if they do not have the correct meter in place. The cost of that is estimated to be around $240, which will obviously be a barrier to customers signing up. A solution we are working on is to offer a smoothing of that cost over a period of two years, in which case the customer will cover that through savings in their energy cost.

Ms MANISON: Are you capping the price of the meter replacement? Does that become your cost or does that become Power and Water's cost and they charge Jacana for it?

Mr MOORE: Yes, that is a passed through cost from Power and Water Networks

Ms MANISON: What is the difference for the time of use tariffs?

Mr MOORE: The peak rate, or the daytime rate, between 6 am and 6 pm is 31c. I have forgotten the decimals. The off-peak, or 6 pm until 6 am, is around 24c. It is about shifting the load, and we are also looking at reviewing the night time rate to make that more favourable to consumers. That was some of the feedback from our initial launch.

Ms MANISON: Turning to contractors engaged with Jacana Energy, are you able to provide a list of contractors Jacana Energy utilises?

Mr FAULKNER: Yes. We could take that on notice. I do not know if we have any. We might have one or two. Did you want contractors or consultants or both?

Ms MANISON: Consultants and contractors who provide a service - any work where people are brought in for advice or any service providers.

Mr FAULKNER: Can we take that on notice?

Question on Notice No 11.2

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

Ms MANISON: Can Jacana Energy please provide a full list of contractors providing service, advice or information to them?

Madam CHAIR: Mr Faulkner, you accept the question?

Mr FAULKNER: I do. Perhaps we could provide the duration of their time of engagement. If we look at the last 12 months for contractors/consultants and the period they were engaged.

Madam CHAIR: Yes.

Mr FAULKNER: If we added that it would provide more complete information.

Madam CHAIR: Thank you. That question will be number 11.2.

Ms MANISON: That would be fine, thank you. With regard to corporate travel - it is something we tend to ask about to get an understanding of how things are going. Would you be able to provide a full list of intrastate, interstate and overseas travel for Jacana Energy?

Mr FAULKNER: There has been no overseas travel. Interstate was $69 000 to 31 March 2015 and intrastate was $40 793.

Ms MANISON: Mr Faulkner, could I also get any costs associated with the board, including the board positions, travel and so forth?

Mr FAULKNER: I am not sure if we have that. Some of that interstate travel would be board members' travel. We can separate that out, if we have not already done so. Total amounts paid to 31 March is $210 000 for all board members.

Ms MANISON: Could I be provided with the cost for this financial year to date of any advertising and marketing-type expenses?

Mr FAULKNER: I am sure we have that.

Ms CAMARA: Advertising and marketing is $74 000 to 31 March.

Ms MANISON: Thank you.

Mr FAULKNER: Do we have some information on what that was for, Fernanda?

Ms CAMARA: That largely related to rebranding as part of the structural separation.

Mr FAULKNER: Would the 5% increase in January have been part of it?

Mr MOORE: Yes, that would have been some of the cost of collateral being printed for the shopfronts and so forth, but that was a very small component.

Ms MANISON: With regard to the premises you lease, has the cost increased since last year? Last year you had just moved to a stand-alone location. Are you still at the same location?

Mr FAULKNER: That is correct, yes.

Mr PEARCE: Yes we are, yes.

Ms MANISON: That has not changed since last year?

Mr PEARCE: No.

Ms MANISON: Whereabouts is that? That is at …

Mr FAULKNER: Smith Street.

Mr PEARCE: It is 66 Smith Street.

Ms MANISON: Not a problem. They are all the questions I have, Madam Chair.

Madam CHAIR: Are there any other questions for Jacana Energy? No?

Thank you all very much for coming. On behalf of the committee, I thank you for your efforts today and that of your staff, who I am sure have done a lot of work.

That will close our hearing into Jacana Energy. We will have a five-minute break and start with T-Gen at 11.30 am. Thank you very much.

Mr FAULKNER: Thank you.

Mr PEARCE: Thanks very much.

The committee suspended.

TERRITORY GENERATION

Madam CHAIR: Thank you to everyone for coming back. I welcome the Chair of the Territory Generation Board, Mr David De Silva. Mr De Silva, could you please introduce the representatives accompanying you today.

Mr De SILVA: Thank you, Chair. To my left is Mr Tim Duignan. Tim is the CEO of T-Gen and comes to us with 30 years' experience in the industry, having formerly been the CEO of a Queensland GOC, Enertrade. To my right is Mr Steve Bartlett. Steve is a chartered accountant and has worked extensively in the mining industry over the last 20 years and we are very happy to have him on board.

Behind me are key members of our executive leadership team, and to the far left is Mr Robert Ross, who may be known to some of you because he has been around for what seems forever. Robert is our Chief Operations Officer. Sitting next to him is Ms Rebecca Mills, a shining star in our organisation. Rebecca is Project Manager, Wholesale Market and Major Capital Projects. Next to her is Scott Piper, General Manager, People and Safety, and Hieu Nguyen is here. Hieu will be in and out and is General Manager, Business Services.

Madam CHAIR: Thank you. Would you like to make an opening statement today?

Mr De SILVA: Thank you. Firstly, a lot has happened since we last fronted this committee, not the least of which was losing my cold from last year, as the member for Wanguri reminded me. It is great to appear before the committee because we are very happy with the way matters have progressed at T-Gen over the last year. On behalf of the board, I would like to express my thanks to our executive and senior management team and all our employees across the Northern Territory.

An initiative we took upon ourselves when we started in business last year as a board was to get to the sites to see the conditions our people are working in and to talk to our people, and we have done that through the course of this year. It has been a great learning exercise for all of our board and we have taken our senior management along as well. We have engendered, we hope, into our staff this feeling of we are one, we are together, and we are moving forward to meet the challenges in front of us with the market being established and the incoming competition we are anticipating. To their credit, and I say this from personal experience, the efforts of the staff have to be admired and I applaud them. It has been sensational. The threat of competition coming on board has resulted in us being able to kick goals, and we have really moved forward significantly in a lot of respects and you will hear about that during the course of the next hour.

We are working hard to implement the landmark reforms the government has introduced. We recognise the importance of them and the need to progress them to drive down prices of electricity in the Northern Territory for the benefit of Territorians. We are embracing the establishment of the interim wholesale market, and we recognise the need for us to become more efficient in generation and we know that private competitors are coming into the market.

This introduction of competition is a challenge we are preparing to meet. For us to be cost-competitive in this open market we need to become more efficient through optimisation of plant and dispatch, as well as reducing our fixed costs. It is not rocket science but it has to be achieved. Our approach is reflected in our mission statement. We want to safely, efficiently and reliably generate electricity to contribute sustainably to the lifestyle and development of the Northern Territory.

Our people and their safety, and the safety of people coming onto our sites is pivotal and a priority for Territory Generation. We have 175 employees across the business and ensuring their safety and good health is a priority. From the time of separation until 31 March I am happy to say we had one lost-time injury which occurred on 11 July last year. Since that time we have not had a LTI recorded. The injury recorded was a sustained laceration to a hand while a Channel Island worker was repairing a metal louvre. We would like to have no injuries but, nonetheless, it was at the lower end of the scale. Otherwise we have had 10 reportable incidents in the last 10 months or so.

Those statistics demonstrate the great progress made in our business in regard to safety. We have learnt from past incidents and these lessons have been shared across the business. We remain committed to improving safety and implementing new safety systems and programs. I do not want to dwell on it, but it really is a critical issue we need to address. We are addressing it and are on top of it. We will not rest on our laurels; it is an issue that has to be constantly reviewed and worked on.

In ensuring a safe workplace environment, we are running education systems in respect of alcohol and drugs and their impact on the workplace. We are in the process and our papers are currently with the staff for a policy on alcohol and drug procedures. We have adopted an employee assistance program which offers short-term professional confidential counselling for employees with problems that may impact upon their personal lives and, importantly, on the workplace.

We are also aware of contractors and the need to protect contractors. Consequently, we have ensured they too are being catered for. The board has insisted on any injuries to contractors or incidents arising from contractors being brought to the board at each board meeting, and that is being done.

More on people, we also understand the need for us to develop a leadership group and develop leadership skills within our organisation. We have implemented a series of leadership programs. The first was in early May this year where leaders from across our business came to Darwin - and that includes Woods Street, which is our headquarters - Channel Island Power Station, Ron Goodin Power Station in Alice Springs and Yulara - all came to Darwin. We progressed their leadership abilities. We felt this was a great opportunity for them to sharpen their skills and share their experiences, allowing them to perform to the best of their ability.

I see we have lost the Chair, but we will continue.

Ms MANISON: She has given me permission to ask questions.

Mr De SILVA: Moving on, you no doubt want to hear about our strategic initiatives. Over the last 11 months we have been repositioning ourselves to ensure we can compete with the potential new entrants into the market.

We anticipate that when they come on board they will have modern, highly-efficient plant, their business models will be flexible, streamlined and efficient, and we have to gear up to meet that. We have looked at and identified, as forming part of our strategic initiatives, going back to safety and safety programs, making sure we can prevent workplace injury and illness insofar as it is possible, and reduce it to as low as possible, create frameworks for compliance and workforce engagement and develop a positive safety culture.

We are also implementing an integrated enterprise resource planning software system to ensure we are able to take on in-house all roles, functions and services that were initially provided by PWC under the TSA we had with them which expires at the end of this month. We are hoping that this will allow us to improve and will drive consistency in business processes, as well as consolidate and reduce the number of IT systems in our workplace. It will, we think, assist and simplify the processes, and we think that is a positive. As well, we are exploring a number of different models for delivery of operations and maintenance services for our power stations with the focus on efficiency and reliability.

We are using and have explored current industry best practice. At this stage - we are in the investigation stage - we are hoping to make some announcements about where we go to in the next few months. I fully expect that these projects will deliver efficiency improvements to our business and result in a reduction of our fixed costs.

Finally, I will talk about reliability and efficiency because that is a critical issue for our business. Working in conjunction with system control from Power and Water Corporation, we feel the reliability of electricity supply has improved dramatically. This puts downward pressure on the cost of generation of electricity.

In the past, as no doubt you would know, if there was a capacity loss for any reason the system would struggle to compensate for that dip in electricity supply, then in an effort to protect itself the system would shut down and there would be an under frequency load shed.

I am immensely proud of the fact that we have now set a new record for days without an under frequency load shed event in the Darwin/Katherine system. I think it is over 180 days, which has never happened in the Territory before. It is a remarkable improvement in our operations brought about by separation, frankly.

This will also give Territorians increased confidence in the electricity supply they all rely upon. We expect to see continued improvements in efficiencies as we continue to focus on developing the market mechanisms. That, again, will result in us being able to meet competition head on when it comes.

Thank you very much for the opportunity to make an opening statement.

Madam CHAIR: Member for Wanguri, do you have any questions on the opening statement?

Ms MANISON: Yes, thank you. Turning to the comment you made with regard to your TSAs with Power and Water Corporation which are fast approaching the end, it seems there will be a 1 July cut-off. Mr Tregilgas, from the Power and Water Corporation, mentioned during the Power and Water Corporation hearings today that you are intending to move to your own financial management system on 1 July. What shared service arrangements post 1 July do you anticipate you will still have with the Power and Water Corporation? What do you intend to commence as Territory Generation that you previously had with Power and Water Corporation?

Mr De SILVA: We are currently receiving services under the TSA for finance. That is being moved over to our system as of 1 July. Economics and regulation will be move across, and IT support and the systems administration part of that will come across to us. Risk management, human resources and employee relations, environment, learning and development, procurements, security and emergency, networks metering and SCADA and communications are all currently being supplied.

I might ask Mr Duignan if he could expand on that and give you an answer on what will remain with us post 1 July.

Mr DUIGNAN: A number of services will continue. Our transitional service level agreement is due to expire at the end of June this year. We are looking to extend around systems we have not yet replaced. The GRACE risk management and incident reporting system is one. We are reviewing that at the moment to see whether it is fit for us.

The TRIM document management system - currently we are sharing that with Power and Water Corporation. We are assessing whether there is a better alternative for us to move to the Northern Territory government system. There is a number of what I term secondary systems apart from our ERP, which we are commencing on 1 July.

Ms MANISON: What is ERP?

Mr DUIGNAN: Enterprise resource planning management system. That is our central core business system. We are moving to that on 1 July. There are a few systems we are looking to extend. We think we will be in a position to either continue with service level agreements on some of the services currently offered by Power and Water. We will make the decisions on those over the next three to six months beyond the end of this financial year.

The ones we see Power and Water providing the best service for we will continue with the service level agreement. We will put a new contract in for those specific services that Power and Water will be providing to us for the longer term. Otherwise, we believe we will have no further transitional agreements in place beyond the end of this year.

Ms MANISON: As of 1 July will you be adapting any new IT systems?

Mr DUIGNAN: From 1 July the central financial management and asset management system for Territory Generation will be going to a new system away from the Power and Water Corporation systems. We are moving over to Pronto, which is a fit for purpose system for Territory Generation.

Ms MANISON: Have you been working on the data migration and that type of information?

Mr DUIGNAN: We have. We intend to go parallel run with that system from next week and any invoices that need payment post 30 June will be entered into that system. We will be live on that system on 1 July.

Ms MANISON: How long do you anticipate you will run dual systems for?

Mr DUIGNAN: Two weeks.

Ms MANISON: With regard to staffing, it sounds like you will run your HR, some of your risk, environment and other sections within Territory Generation. Does that mean you will be recruiting additional staff to those positions or you have already?

Mr DUIGNAN: We have been building the capability in-house as we have been moving across the last 12 months. The transitional service level agreements were put in place to allow us that breathing space to assess whether it would be better to use Power and Water longer term for some services or build the capability inside. As you would expect from any commercial organisation, we are assessing the most commercially attractive outcome for us to take on that front. We have been building capability inside and growing the organisation where we saw that was the best fit for Territory Generation. Largely those people have come from the Power and Water Corporation - transferred across.

Ms MANISON: Can you give us a breakdown of your staffing levels within Territory Generation at the moment and break them down by level as well?

Mr De SILVA: Yes, I can do that. Would you like me to do a comparison with last year?

Ms MANISON: That would be great.

Mr De SILVA: As I mentioned in the opening, we have 175 staff. The breakdown comparatively over the two years - I will give you the levels with numbers. Executives last year was 11 and this year is 16, administrative and corporate services last year was 16 and this year is 34, professionals was 12.95 last year and dropped to 10.3 this year, operators was 40 last year and is 39.67 this year, technical senior technical coordinators last year was20 and this year is 21, trade technicals last year was 42.3 and this year is 45.9, technical senior technical specialists last year was five and this year is seven, we had one undergraduate last year and one this year. The totals are 148.25 for last year and 174.87 for this year.

Member for Wanguri, I might break down the employment status as well for your benefit. Permanent staff ongoing last year was 130.45 and this year it is 150.87, and temporary and fixed period contract employees was 17.8 last year and 24 this year. Location breakdowns from site to site are as follows: Alice Springs last year 33.8 and this year 53.77; Darwin 104.45 last year to 107.1 this year; Katherine two last year and five this year; Tennant Creek four last year and five this year; and Yulara has remained constant with four. The totals are 148.25 last year and 174.87 this year.

Mr DUIGNAN: To clarify, that is FTEs.

Mr De SILVA: Sorry, my apologies. I am coming to grips with government terminology.

Ms MANISON: With regard to reporting for this financial year, we have heard from Power and Water Corporation that it has taken longer than anticipated to fully financially separate from the two GOCs, including yourself, and they did not anticipate full financial separation would be until the end of this year. Do you anticipate full financial separation for Territory Generation by 1 July?

Also, last year it was a very difficult process for you at the Government Owned Corporations Scrutiny Committee because both governments owned corporations did not have a full picture of their financial state or their asset-based state. Do you now have your full financial picture and your asset-based picture?

Mr BARTLETT: Steve Bartlett, Chief Financial Officer, we achieved financial separation from the books of Power and Water on 23 April. That effectively means we are in control of our own ledger. We are still going through a process with Power and Water of reconciling all the details within that. We expect that those reconciliations will be fully complete by the end of June and our annual accounts will have all of our financials fully reconciled within those. As of 30 June we should have a very clear picture of exactly what our accounts look like. Until then we have been running with, effectively, draft accounts to ensure we have a reasonable picture.

Ms MANISON: This is probably a question for Mr Chair. We have the Statement of Corporate Intent but cannot see your financial information there. I am curious to see your performance for this financial year. Are you anticipating making a profit or a loss for your first year as a government-owned corporation?

Mr De SILVA: We are anticipating a profit, the extent of which I cannot give you the detail …

Mr BARTLETT: Again, because we do not have all those reconciliations, we do not have a clear picture. However, we are confident we will be in a profit situation. We will be able to reconcile all those over the course of the next four weeks. A lot of work has gone on since financial separation occurred …

Ms MANISON: Absolutely, yes.

Mr BARTLETT: … and we are probably 90% to 95% of the way there, but there are still a few things we need to finalise.

Ms MANISON: The development of your new IT systems can be quite a costly and fairly resource-intense exercise as well. How much to date, and how much do you anticipate it will cost you for new IT systems to transfer over?

Mr De SILVA: Our budget is around $1.82m and I think we have spent about $800 000 to date.

Ms MANISON: How many systems is that? That is for a new …

Mr De SILVA: That is for the Pronto system that …

Ms MANISON: That is for Pronto.

Mr DUIGNAN: That includes our new financial management system and our asset management system. It is now within one system delivered by Pronto.

Ms MANISON: So $800 000 is expended at the moment and you anticipate it will go up to …

Mr De SILVA: My apologies, member for Wanguri, it is about $709 000, but we are expecting it to go to $1.8m.

Ms MANISON: Okay. I have some questions in relation to gas supplies. One thing you made very clear in your Statement of Corporate Intent is that is a major cost.

Mr De SILVA: Sixty percent.

Ms MANISON: It seems to be the magic figure because generation was 60% for retail and 60% for gas for you guys. Are you exclusively purchasing your gas from Power and Water Corporation?

Mr De SILVA: Yes, we are.

Ms MANISON: Is this something you anticipate will continue? Is that something you are currently negotiating with Power and Water?

Mr De SILVA: We are currently in negotiations in respect of gas supply. We are on a short-term gas supply agreement. The negotiations are obviously commercial-in-confidence, but nonetheless they are progressing well.

Ms MANISON: When do you anticipate you will complete the negotiations about gas supply with Power and Water Corporation?

Mr DUIGNAN: I expect we will complete the negotiations over the coming two to three months to the point where we can have executed agreements.

Ms MANISON: Are you negotiating with any other suppliers aside from Power and Water Corporation?

Mr De SILVA: No.

Ms MANISON: I have some questions in relation to your customer base. At this point, are you selling through to Jacana Energy or do you have any other customers?

Mr De SILVA: No. I will hand over to Mr Duignan, but I think we are selling to Rimfire and QEnergy as well.

Ms MANISON: Are you looking to expand on that at the moment?

Mr DUIGNAN: We have five customers in the Northern Territory. They are the five currently registered retailers. Power and Water is still one of those registered retailers for the Indigenous Essential Services business. Power and Water still retails electricity to some communities so they are one of our customers. Jacana obviously, QEnergy, ERM Power and Rimfire Energy are our five currently registered retailers in the Northern Territory and we have interactions with all of them. There is renewed interest in the Northern Territory with the new wholesale market pricing we have in place and the pending move to a full transparent market process.

Ms MANISON: Yes.

Madam CHAIR: I welcome visitors to the gallery. Thank you for joining us. We are with Territory Generation so I hope you enjoy.

Ms MANISON: We are talking about electricity generation.

Moving on to your capital works and repairs and maintenance programs, would you be able to outline what your budget for capital works and repairs and maintenance was for the 2014-15 year? Can you please outline what it will be for the 2015-16 year?

Mr De SILVA: I will hand over to Mr Bartlett for that.

Mr BARTLETT: Member for Wanguri, for the 2014-15 year for capital expenditure we are expecting to spend $19m. Did you also ask for the 2015-16 year?

Ms MANISON: Yes, please.

Mr BARTLETT: For the 2015-16 year we are currently budgeting $39.2m. For repairs and maintenance for the 2014-15 year we are expecting to spend $18.1m, and for the 2015-16 year it will be $22.5m.

Ms MANISON: There is a $20m increase for capital works going into 2015-16. What is that for?

Mr DUIGNAN: Largely that is for renewal of the Ron Goodin Power Station, and the renewal of capacity at the Tennant Creek Power Station.

Ms MANISON: I have some questions about Ron Goodin Power Station and its future. It is clear in your Statement of Corporate Intent that it is a very old power station with some very old generators. I have to thank Mr Duignan for giving me access to Owen Springs and looking around Weddell and Channel Island as well. It has been very interesting to see.
What is the future of the Ron Goodin Power Station given you were talking about significant capital works expenditure there? You are developing Owen Springs next to Brewer Power Station. What will be happening with Ron Goodin Power Station in the future?

Mr De SILVA: Did you travel to Ron Goodin Power Station?

Ms MANISON: In my previous life working at Sadadeen Valley I went through the Ron Goodin Power Station a few times so I did not ask for a tour this time.

Mr De SILVA: You noted when you walked through the station it is old and …

Ms MANISON: Yes.

Mr De SILVA: … I think our number one engine is 50 years old. We are not getting parts supplied for it and no one will take any responsibility for it. We feel the time has come, particularly with the development of Alice Springs and the population growth with development of the golf course area and the noise problems caused by generating electricity, that there is a need, and the time is right, to give strong consideration to making the move to Owen Springs and basing ourselves there. We are very much in the planning stages at the moment to make a move and transition to Owen Springs. Mr Duignan is probably the better person to speak to about the detail, and I will hand it over to him.

Mr DUIGNAN: Yes, the plant and equipment at Ron Goodin Power Station, as David said, has come to the end of its commercial and physical life. Parts are becoming difficult to source and the noise issues have compounded. We face complaints from the residents who have built in and around the power station over the years.

Owen Springs is the ideal location for that. We currently have board approval to spend some development funding to further progress that project to a position where we can make a financial investment decision, hopefully by the end of this year or early next year. Until we get to that point, it is very uncertain. We have to make sure there are no fatal flaws in moving to Owen Springs, and that the capital costs are in line with what we originally looked at in our concept phase studies. Until we get final board approval and shareholder approval on that project - because of the scope and size of it - it is uncertain whether we will do that.

Ms MANISON: You are looking to decommission the station given you have quite a significant amount of money there? Is that the plan over the next few years?

Mr DUIGNAN: That is correct.

Ms MANISON: Do you have staff at Ron Goodin? You have maintenance staff and several operators who work with the sets. Owen Springs is vastly different to Ron Goodin in the manpower needed to operate those two facilities. What will this mean to staffing? Will there be job losses as a result of Ron Goodin Power Station coming to the end of its life?

Mr De SILVA: You have correctly identified there will be changes and we anticipate that. The extent of the changes and a drop in numbers is not known. We are working to the relocation. We believe we can achieve the correct numbers in relocating through natural attrition and relocation. At this stage we do not know what the numbers are. We have interfaced with our people in Alice Springs enormously. We have brought them in and they are aware changes are afoot. The feeling is very positive in the workplace in Alice Springs.

Ms MANISON: Could I please get a snapshot of how many staff work at Ron Goodin Power Station, what their levels are and what type of duties they perform?

Mr De SILVA: We have 53.77 as I mentioned earlier, member for Wanguri. The breakdown we will take on notice and provide to you.

Question on Notice No 12.1

Madam CHAIR: Please restate the question for the record.

Ms MANISON: Can Territory Generation please provide the number of staff working at Ron Goodin Power Station and separate them by their duties?

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

Mr De SILVA: We do.

Madam CHAIR: That question will be number 12.1.

Ms MANISON: Going through your Statement of Corporate Intent I can see there is aging infrastructure in Tennant Creek. Do you have any plans for Tennant Creek and its power station?

Mr DE SILVA: We have Tennant Creek well and truly in our plans. Once again, Mr Duigan, if you could elaborate on that.

Mr DUIGNAN: It might be good if I outline all the projects in our capital program.

Ms MANISON: That would be great, Mr Duigan.

Mr DUIGNAN: We have four main projects in what we call the capital works program we are looking at and investigating. One, as we discussed, is the Owen Springs Power Station upgrade. The second one is the Tennant Creek Power Station upgrade which will include three new 2 MW reciprocating generators and an additional 1.5 MW of diesel capacity and the retirement of the very old diesel Ruston engines at Tennant Creek. These are hard to get parts for and are at the end of their useful life. That will have significant improvement on the efficiencies and reliabilities of the Tennant Creek system.

The other project we are currently looking at is our existing Katherine Power Station project, and looking to do something around Katherine Power Station to improve the supply situation into the Katherine region. Katherine, as you know, sits on the end of the 132 kV line with our power station sitting effectively as an emergency supply. Should they lose that 132 kV line, which does happen through lightning strikes and the like - if our power station is not running then the system goes into shutdown until we get the power station online. The Katherine project is all about looking at improving the efficiencies there so we can keep that station online as a base load generator.

The fourth part of our capital projects program is the retirement and remediation of the Ron Goodin Power Station to bring it back to a state that is either useful for another purpose or back to bare earth.

Ms MANISON: Do you have any idea of what the future holds for the Ron Goodin Power Station site? What happens to power stations after they are retired, especially when they are in a location like that?

Mr De SILVA: We do not know what will happen to it. Flippantly, I could say it would make a great site for a museum, quite possibly a working museum, but given its location I imagine it would be a potential site for development. We do not know. We have no plans and I expect that we will hand it back to government when we finish our time there.

Mr DUIGNAN: If I can just clarify, the power station site sits on Power and Water land. We have a lease over our footprint on Power and Water-owned land.

Ms MANISON: Next to Power and Water operations as well.

Mr DUIGNAN: That is it. We will be taking it back to whatever state Power and Water determines they want it in, anything between walking out and giving them the keys through to natural ground. Whatever Power and Water determines is the appropriate condition they want it back from us in we will hand it back in that condition.

Ms MANISON: You mentioned other power stations there but not Channel Island. Is much work happening there at the moment or just standard operations, ongoing repairs and maintenance and keeping things running?

Mr DUIGNAN: We are in the process of doing a lot of life extension works at Channel Island so we continue down that process. It has been ongoing for the last number of years to increase the life of the existing old frame six industrial turbines there and the steam turbine for another 10 to15 years.

Ms MANISON: You purchase power through some private operators. Are you looking to extend those purchase agreements from private operators?

Mr DUIGNAN: Yes, we have power purchase agreements with a number of suppliers throughout the Northern Territory, both in Darwin and Alice Springs. They include the Pine Creek Power Station with EDL, the LMS landfill generator at the dump site in Darwin - the 1 MW generator there. We also have the Uterne solar farm in Alice Springs, which is on target to come online with an additional 3 MW of solar capacity to make it a 4.1 MW solar farm, which is the biggest in the Northern Territory.

Ms MANISON: Will you be purchasing that additional power?

Mr DUIGNAN: We take the full output from that site. The fourth one is Central Energy at Brewer Estate in Alice Springs. We have 8 MW of capacity under a power purchase agreement there. All those power purchase agreements are in various stages of life, and we review them on a financial basis as and when they are due for renewal as to whether we will extend them or not.

Ms MANISON: Mr De Silva, it is the vision of the board going forward, as infrastructure ages and you look to retirement, to increase your purchase of power generated from private providers or are you still keen to build your own infrastructure?

Mr De SILVA: I think our vision will be focused on purchasing our own infrastructure and largely developing our own power.

Ms MANISON: Is there any vision for major Territory Generation renewable projects in the future?

Mr De SILVA: Yes, we are very aware of the need to give strong consideration and develop our renewable energy opportunities currently. As Mr Duignan said, we have Uterne in Alice Springs and we also have some solar at Kings Canyon and the landfill at Shoal Bay. Our strategy is to look at the life cost basis. We are very much guided by the cost, but we certainly want to expand on opportunities in that area.

Ms MANISON: There are no in-house Territory Generation built renewable projects on the horizon? You have the purchasing agreements from other providers?.

Mr DUIGNAN: To elaborate on that, we are now investigating two opportunities in the Northern Territory for solar installations. We will assess those on the basis of whether it is better commercially for Territory Generation to have someone else do them and buy the output off them or to do them ourselves. It would be a commercial question that we will answer during our investigations, but we are looking at both Tennant Creek and Katherine as possible locations for significant solar installations for Territory Generation.

Ms MANISON: There is plenty of sunshine out there. I saw a huge project in Canberra, and if they can do it ...

Mr DUIGNAN: Yes, there is very good solar resource in the Northern Territory, particularly in Central Australia, which is why there is such a high solar penetration in Alice Springs.

Ms MANISON: Yes. It would be good to see the expansion of renewable technology, particularly solar, in the Territory. It is good to hear those possibilities are being investigated.

I want to put a question to Mr De Silva regarding Territory Generation. I posed this to the Power and Water Corporation, but with the emergence of more people putting solar power systems in their home and emerging technology around batteries and home systems so people are going off the grid - is there much thought or consideration around that? Is there much planning that Territory Generation does as part of its forward business planning?

Mr De SILVA: I will hand over to Tim on that one.

Mr DUIGNAN: Yes, as is the case for most electricity suppliers whether you are in networks, retail or generation, movement in technology in this field is happening very rapidly. Battery technology is rapidly improving, and the cost of that type of technology is decreasing. We have an eye on both the renewable and storage areas for future development within Territory Generation to ensure we put in equipment that will work with renewable technologies so it is capable of responding to the environmental impacts of renewables. We are also looking at things like storage technologies to improve our outcomes in the future, as far as the cost outcomes with spinning reserves and the like in the grid systems we operate.

Ms MANISON: I have some administrative questions for you in relation to staff travel and travel by the board. I am keen to get a breakdown of staff travel for Territory Generation by intrastate, interstate and overseas.

Mr De SILVA: We can provide that member for Wanguri, so we will take that on notice.

Ms MANISON: Thank you.

Question on Notice No 12.2

Madam CHAIR: Please restate the question for the record.

Ms MANISON: Can Territory Generation please provide the amount spent in the 2014-15 year for staff travel intrastate, interstate and overseas?

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

Mr De SILVA: Yes.

Madam CHAIR: That is question number 12.2.

Ms MANISON: Can I also have the cost provided for the board? The positions paid for the board and any travel costs associated with the board?

Mr De SILVA: Yes, that will be taken on notice as well.

Question on Notice No 12.3

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

Ms MANISON: Can Territory Generation please provide the expenditure for the board positions and any travel and associated costs for the board for the 2014-15 year?

Madam CHAIR: Do you accept the question?

Mr De SILVA: Yes.

Madam CHAIR: That is question number 12.3.

Question on Notice No 12.4

Ms MANISON: Could Territory Generation provide me with a list of tenders and consultancies they have engaged in for the financial year?

Mr De SILVA: Yes, we can. We will take that on notice.

Madam CHAIR: That is clear enough. That is question number 12.4.

Ms MANISON: They are all the questions I have for you, Mr De Silva.

Madam CHAIR: Thank you. Are there any other questions for Territory Generation?

Thank you all very much for coming. It is nice to see you all again. This concludes our session. On behalf of the committee, again I would like to thank you and all of your officials and everyone behind the scenes who have put together all the hard work.

That now concludes the Government Owned Corporations Scrutiny Committee public hearing process. I remind officers that all answers to questions taken on notice must be filed with the first Clerk Assistant by 17 June 2015. Late answers cannot be accepted.

On behalf of the committee, I again extend my thanks to Mr Alan Tregilgas, Mr David De Silva and Mr Noel Faulkner for attending today and all of the officers they had working with them. I also extend our thanks to all others who have helped with this hearing. I also thank the members of this committee and other members who participated in the hearings for the work they have put in and for the overall manner in which these public hearings have been conducted.

I now close the public hearing of the Government Owned Corporations Scrutiny Committee for 2015. Thank you very much everyone.

The committee concluded.
