

**EVIDENCE TAKEN BEFORE**

**STANDING COMMITTEE ON STATE DEVELOPMENT**

**INQUIRY INTO THE MERGER OF COUNTRY ENERGY DISTRIBUTORS**

---

**At Sydney on Monday, 9 April 2001**

---

**The Committee met at 9.30 a.m.**

---

**PRESENT**

The Hon. A. B. Kelly (Chair)  
The Hon. I. Cohen  
The Hon. J. R. Johnson  
The Hon. Dr B. P. V. Pezzutti  
The Hon. I. W. West

---

Transcript produced by  
C.A.T. Reporting Services Pty Limited

**CHAIR:** I welcome the media and members of the public to this hearing and advise that under Standing Order 252 of the Legislative Council evidence given before the Committee and any documents presented to the Committee that have not yet been tabled in Parliament may not, except with the permission of the Committee, be disclosed by any member of such Committee or by any other person. Copies of the guidelines covering broadcast of the proceedings are available to Committee members, staff and others at the back of the room.

**DONALD KEITH ANDERSON**, Consultant, 15 Morley Street, Chelmer, Queensland, sworn and examined:

**DAVID WINTON BRIGGS**, Economist, 102 Ashburn Grove, Ashburton, Victoria, affirmed and examined:

**CHAIR:** In what capacity are you appearing before the Committee?

**Dr ANDERSON:** I am appearing as the Director of the Market Implementation Group, New South Wales Treasury.

**CHAIR:** Are you conversant with the terms of reference of this inquiry?

**Dr ANDERSON:** I am.

**CHAIR:** In what capacity are you appearing before the Committee?

**Dr BRIGGS:** As a member of the Market Implementation Group.

**CHAIR:** Are you conversant with the terms of reference of this inquiry?

**Dr BRIGGS:** Yes, I am.

**CHAIR:** If you should consider at any stage during your evidence that, in the public interest, certain evidence or documents you may wish to present should be heard or seen only by members of the Committee, the Committee will be willing to accede to your request and resolve into confidential session. However, I would warn you that it is in the power of the Legislative Council to overturn our decision and make such information public—not that it has ever done that. Professor Anderson, if you would like to make a verbal submission, and then David, we will ask some questions.

**Dr ANDERSON:** Thank you, Chairman. What I would like to do is make a brief opening statement to provide some context for the set of merger arrangements announced by the Government. As you would be aware, on 1 March this year the Premier announced the New South Wales Government's intention to merge Advance Energy, Great Southern Energy and NorthPower to form Country Energy. There are two important business and policy motivations behind this announcement to form a new distribution entity. The first is that the merger is motivated to create a viable competitor in rural New South Wales and in the competitive electricity market and, secondly, the merger creates a stronger business and preserves jobs and services. It effectively puts the electricity business of rural New South Wales on the same footing as its city counterparts and provides a real choice for country consumers.

The central theme of the New South Wales reform policy is promotion of competitive outcomes to lower costs and improve quality of services in the distribution and generation of electricity. The key objective of the electricity industry policy is to expand economic activity, grow employment in New South Wales by merging in a competitive energy sector, thus recognising that electricity is a very important input to all businesses and for consumers. Competition brings substantial benefits to consumers in the form of lower prices and improved and more responsive services. So far, savings on electricity costs of about \$1.6 billion have been achieved in New South Wales. However, competition presents a challenge to government as the owner of these businesses to ensure they are ready for competition, that is, to ensure that the businesses are of sufficient size to participate effectively as a viable competitor in the market.

We have available a table, which I will now circulate to members of the Committee, that demonstrates the characteristics, or some pertinent characteristics, of these six businesses. You will notice that there is a real distinction between EnergyAustralia, Integral Energy and the next three. EnergyAustralia has an output of approximately 24,000 gigawatt hours, Integral Energy 13,000, and then there is a big step jump down to the next three—NorthPower, Great Southern Energy and Advance Energy—with Australian Inland Energy being different

again with a very much smaller output. There is also quite a distinction between the three groups in number of customers. EnergyAustralia has approximately 1.3 million or 1.4 million, Integral 770,000, then quite a step jump down to NorthPower, Great Southern Energy and Advance Energy, which have customer numbers of 370,000, 230,000 and 120,000 respectively.

**The Hon. Dr B. P. V. PEZZUTTI:** How much does that add up to altogether?

**Dr ANDERSON:** That is 720,000 for the merged entity.

**The Hon. Dr B. P. V. PEZZUTTI:** The same as Integral?

**Dr ANDERSON:** Roughly the same as Integral, that is right. The statistics below that are derivations, obviously, of the top output per employee, customers per employee. You will see also—and this will be relevant for our discussions later—that the total operating area of EnergyAustralia is relatively small at 22,000 square kilometres. Integral Energy has an operating area of 24,000 square kilometres. The other three—NorthPower, Great Southern and Advance—have very large operating areas of 230,000, 176,000 and 176,000 square kilometres. Employee numbers reflect both the large number of kilometres and the output of those businesses respectively.

**The Hon. I. COHEN:** How does Delta Energy fit in?

**Dr ANDERSON:** Delta Energy is a generator, not a distribution business, so it is not included within the ambit of this.

**The Hon. Dr B. P. V. PEZZUTTI:** There are very many more customers per employee for the large ones. Is that what you are trying to point out?

**Dr ANDERSON:** Yes, customers per employee are very much larger for the bigger ones.

**CHAIR:** Would that be a component of size of the distribution area?

**The Hon. Dr B. P. V. PEZZUTTI:** Because of the longer lines.

**Dr ANDERSON:** A function of output and size of the area.

**CHAIR:** Do you want these to form part of your submission?

**Dr ANDERSON:** Yes.

**(Documents tabled)**

**Dr ANDERSON:** The business case that will develop through the morning is that the three rural businesses are in a commercially vulnerable position. Their unit costs are high and they have fewer resources to compete successfully in an increasingly aggressive marketplace. To win and retain customers, Country Energy must be able to offer competitive electricity prices and high service standards. That is what is expected of distribution entities in this new market arrangement. Country Energy cannot maintain customers if it reduces service standards by cost cutting in service areas, so the central theme behind the business case is that we are endeavouring to establish a viable, competitive business in the electricity market. As you would appreciate, the businesses of EnergyAustralia, Integral, NorthPower, Great Southern and Advance consist of two component parts—first, what is known as the wires and poles business, or the distribution business, and, secondly, the retail business. The merger of NorthPower, Great Southern and Advance is motivated by economies that can be realised in the retail business. As you would appreciate, the merger activity that has taken place, particularly the last round from the distribution review, merged 25 businesses down into six, and that brought with it or realised economies of approximately \$8 million to \$10 million in the network business.

**The Hon. Dr B. P. V. PEZZUTTI:** That was the first tranche when NorthPower was generated?

**Dr ANDERSON:** That was when NorthPower was created.

**The Hon. Dr B. P. V. PEZZUTTI:** There was another thing that happened then too, was there not? There was a sudden ownership by the State Government of those assets taken from local communities. That should not be forgotten.

**Dr ANDERSON:** That was the case at that time, I believe.

**The Hon. Dr B. P. V. PEZZUTTI:** In other words, they used to be owned locally, like Peel, for example, or Northern Rivers. Suddenly they were owned by the New South Wales Treasurer. That was another important thing that happened at that time, which we should never forget.

**Dr ANDERSON:** That is correct. I understand that is the case.

**The Hon. Dr B. P. V. PEZZUTTI:** Thank you.

**Dr ANDERSON:** Those businesses at that time were merged and economies were realised through the network business. What we are talking about in this case is a merger motivated by economies that can be realised through the retail business. Retail competition requires efficiency in two key areas: firstly, energy purchasing and risk management; and, secondly, retailing and marketing. Both of those are integral activities to the retail function. Energy costs consist of about 60 per cent of a retailer's costs. As you would appreciate, in the competitive market wholesale prices are very volatile, whereas revenues, particularly for regulated customers, are generally stable. As a consequence, the retailers, the distribution retail businesses, must efficiently manage the risks associated with the purchase of electricity. At the present moment we have three—NorthPower, Great Southern and Advance—small businesses that have small loads and do not, as a result, achieve the economies of aggregation of those loads as do EnergyAustralia and Integral.

**The Hon. Dr B. P. V. PEZZUTTI:** That goes to the issue of whether or not a big organisation is good at risk management and looking after its margins too, like Integral. We will come to that later.

**CHAIR:** Dr Pezzutti, Professor Anderson is making a submission. You can ask him questions afterwards.

**Dr ANDERSON:** The point being that aggregation of small loads through mergers lowers the average hedging costs of these businesses. They are able to realise economies through their activities in the market as a result of having a large diversified load. The second aspect of retail competition is that of energy retailing. As you would realise, on 1 January 2002—next year—2.8 million customers potentially can come into the market. The trading, customer billing and support, research and development and marketing involve significant fixed costs for these businesses. We have anticipated in consultation with the business that \$12 million in development costs will be avoided as a result of having a common system for NorthPower, Great Southern and Advance Energy, so those systems costs will be a direct saving as a result of having to do it once instead of three times.

The implication of these features is that there are economies of scale in retail functions. The estimated efficient scale of businesses of the type that we have in New South Wales is somewhere between 500,000 and 750,000. Currently, when NorthPower, Great Southern and Advance are merged the size of that entity, as we indicated before, would be approximately 700,000 customers. We have a number of figures which have been circulated to you that demonstrate the size of Country Energy against its rivals, and you can see that it is 700,000. It is up there among the bigger competitors in the retail market. We already have witnessed in this State some competition for customers, who can now choose their supplier. Continuing this competition comes from the larger New South Wales businesses and from rivals from Victoria and Queensland. The table headed "Table 2" lists the retailers currently licensed in New South Wales. The importance of that table is not so much the list of who currently has a retail licence but to indicate that there are potentially 21 retailers operating in this State. It is not just a case of the government-owned retailers operating in New South Wales; 21 retailers are potentially available to compete for customers that will become contestable, and that is all customers after 1 January 2002.

The general overview or response that we would argue in terms of the questions in the terms of reference in relation to a motivation for the merger of these three entities is that the merger protects employment by providing a commercially viable business structure; maintenance levels and service standards will be maintained and/or improved as a consequence, again, of having a more viable business; regulated tariffs will not be affected by the merger, but there is scope for more vigorous competition to see tariffs offered by Country Energy fall to contestable customers below that which would have been available under the three rural businesses. Basically, our argument is that this policy emerges as a consequence of a need to establish a viable rural business that can have the potential to deliver to country customers on the same basis that the city businesses can deliver to city customers. We propose that David will very quickly explain the process by which Australian Consumer and Competition Commission [ACCC] approval in the broader sense is sought and the process by which that is delivered.

**Dr BRIGGS:** The ACCC process is obviously an important precursor to the establishment of Country Energy. The New South Wales Government has lodged with the ACCC a submission which it now has under active consideration. Prior to the formal lodging of the submission we met with the ACCC to explain the substance of the

Government's decision immediately after the announcement. At that initial meeting, the ACCC outlined their processes and their requirements for going forward. Firstly, it is an informal clearance process. There is not really a formal process under their legislation. They will undertake certain market inquiries to assure themselves that there is no anti-competitive detriment associated with the merger and they will be guided by submissions made by interested third parties and, indeed, the submission that we have made ourselves. There is no explicit time constraint on them, but they have indicated to us that it is likely to take in the order of anything from six to eight weeks for them to get back to us formally. I have tried to call them this morning to find out how they are progressing on that but, unfortunately, I was not able to get in touch with anyone this morning.

**The Hon. Dr B. P. V. PEZZUTTI:** The trouble is that they have no competition, have they?

**Dr BRIGGS:** That is right. If you would like to do something about that, it would be welcomed. We did emphasise with them, though, the time-critical nature of their decision-making, because the sooner this thing gets together, obviously, the better it is for this State. The question they have to ask is: does this merger lessen competition in the market? So the questions for them is: what is this market? Don has talked about the fact that the market extends really beyond the State borders with the development of the national market. Then they have to ask: what are the implications of the merger? The way they think about that is that they think about the future with and without the merger. In fact, that was the question that really motivated the Government as well as thinking about what the future would be if we did not go ahead with the merger of the smaller rural businesses. As Don has said, the concern of the Government was that, absent some structural change, the rural businesses would be weak competitors in the national market. So the substance of our argument to the ACCC was that you should not see a reduction from three to one as a lessening of competition; rather, it is the creation of a viable and strong rural distributor and retailer in New South Wales.

Whilst the ACCC process prevents us formally implementing the merger, we advised the ACCC that there are a number of time-critical processes that are already in place, particularly the development of the systems for full retail competition. In fact, it is the costs associated with those systems that really are one of the key motivations for doing this, so we advised them that whilst we will not formally implement the merger, we must continue to press the technical evaluation of those systems and development of the characteristics of those systems. We have working groups in place continuing that work, but we wanted to let them know that whilst we were observing the ACCC process there are certain technical things that must happen to avoid any delay in the Government's timetable for retail competition. I think that is pretty much where we stand on the ACCC process.

**Dr ANDERSON:** Dr Pezzutti asked me a question during my presentation about the point at which the nexus was broken between local government and the electricity retailers. I understand that that happened in legislation introduced in 1993, where the nexus between distribution and local government was broken in the Electricity Supply Act. The distributors became statutory authorities at that time, and, again, that was motivated by a desire to impose greater commercial standards on these businesses and increase their focus towards customer needs and, as we have seen since, to improve corporate performance.

**The Hon. Dr B. P. V. PEZZUTTI:** But they were still locally owned in 1993 until the creation of NorthPower. With the creation of NorthPower those three ceased to be corporations standalone. They became corporations owned by the State Government.

**CHAIR:** In 1993 is what he is saying.

**The Hon. Dr B. P. V. PEZZUTTI:** No, they became corporations.

**Dr ANDERSON:** They became state owned corporations.

**The Hon. Dr B. P. V. PEZZUTTI:** They became state owned corporations under the State Owned Corporations Act in 1993 but they were individuals sitting locally.

**Dr ANDERSON:** Prior to that, that is correct.

**CHAIR:** You have distributed a second piece of paper dealing with the licensed retailers in New South Wales. Do you want that to form part of your submission?

**Dr ANDERSON:** That is correct.

**(Document tabled)**

**CHAIR:** We will proceed to questions. Before we do, I just wanted to clarify a point. I wanted to declare that I was the former Deputy Chairman of Advance Energy just so that no-one has any mistaken knowledge about that. There is obviously no pecuniary interest or a conflict of interest there.

**The Hon. Dr B. P. V. PEZZUTTI:** Just clarify that you were not consulted in the negotiations.

**CHAIR:** No, I certainly was not consulted.

**The Hon. J. R. JOHNSON:** The Chairman has not been sworn to give evidence.

**CHAIR:** No. That is a good point, though. I am happy to answer that. I certainly was not consulted on this merger prior to it being announced. You have said that about \$12 million worth of systems costs are to be saved in preparation for contestability and you have also said that you have told the ACCC that there are some time constraints there. At what time does that become crucial? Obviously it is something that it takes a long while to prepare for so you need to have an answer from the ACCC within a certain time.

**Dr ANDERSON:** That is an excellent question. Let me just clarify exactly where our processes stand. As David indicated, we have lodged a submission. We have been told that there is—they have been imprecise—a six- to eight-week period before that process is completed. In the meantime, it is crucial for the activities of our businesses to put in place systems in order to be able to deal with full retail competition when it arrives. We have put in place for those three merged businesses a technical working group which has been established to prepare a functional specification for necessary systems should the ACCC sanction the merger. We have notified the ACCC that we have done that and that it is crucial so that that time delay is not impounded into that process. So, as a basic motivation the building of systems is crucial to deliver the timetable. We are anticipating that that process is not held up in any way by virtue of the merger, and the ACCC is aware of that.

**The Hon. Dr B. P. V. PEZZUTTI:** Can you give us some overall or even more directly some accurate figures on how you come to the \$12 million saving that you have mentioned?

**Dr BRIGGS:** We can talk about the sort of areas in which those savings are achieved. In preparing our submission to the ACCC we actually sought advice from all the businesses about where they were anticipating their expenditures in the developments of these systems and how they imagined the merger would produce savings for the new business. I have got a table, which we would be happy to provide after today, which outlines the key areas, the orders of magnitude and the sorts of functions and activities that are included, including trading systems and settlement systems; customer transfer systems, which are part of the new retail contestability, which track customers through in and out of your customer base; billing systems; meter reading and meter data management; and development of business communication systems. What the businesses are telling us is that basically they will make savings of roughly one-third to two-thirds on those sorts of costs from the merger.

**The Hon. Dr B. P. V. PEZZUTTI:** So they would have had planned expenditure.

**Dr BRIGGS:** That is right.

**Dr ANDERSON:** That is coming off a base of about \$30 million.

**CHAIR:** So what other savings do you see in the merger other than this saving in getting ready for contestability.

**Dr BRIGGS:** One of the savings which Don mentioned which is a bit abstract in concept is this idea that the businesses have quite idiosyncratic loads because they are relatively small and their portfolio of customers in some of the areas means that their load shape is quite unusual. When they try to hedge, they are hedging with generators that have, generally speaking, flat loads, so the costs of matching their idiosyncratic shaped load means that the hedging costs are quite high. When you actually amalgamate these loads you get a natural hedge because you are starting to flatten the shape of your curve because where one has a group of customers—maybe a mining group of customers—another business will have a different class of customer with different requirements for energy load, so you end up smoothing the load just simply by amalgamating them. That is one natural advantage which lowers the cost. But also once their shape is a lot flatter, then they can go to the market and buy cheaper contracts for hedging, so it is a sort of technical advantage that they get out of the merger but it is a very important one because, as Don said, 60 per cent of their costs relate to the purchasing of energy.

**CHAIR:** One of the terms of reference of this inquiry relates to employment levels. I think the Government has already given a commitment about employment levels. Obviously the employment levels are

probably most closely aligned to the wires business, to maintenance and service. We have to inquire into what the impact will be on existing and future employment levels. What sort of guarantees are there about employment levels?

**Dr ANDERSON:** Chairman, as you would be aware, both the Premier and Treasurer are both on record as clearly stating that the merger will not result in job losses. As I indicated to you, the merger through the business case is motivated by savings that will occur in the retail sector. As you can see from the details that we have handed out to you in those tables, the retail sector constitutes relatively a smaller part of those businesses. Already through the mergers that occurred in 1995 when the number of distributors was brought back from 25 to six, there were considerable economies to be realised in the merger of the wires businesses at that time. They have been realised, and those wires businesses have existed now for some time as stable entities. What will happen now is that the benefits of this merger will come about by virtue of cost savings, principally through systems and trading and, therefore, will not have any great impact on employment. The Premier's news release of 1 March 2001 said there will be no staff job losses as a result of the merger. There will be no redundancy program as there will be no need for one. We believe that is the case motivated by the business case.

**The Hon. I. COHEN:** When you say no job losses are you saying also no job moves?

**Dr ANDERSON:** I was just going to get to that.

**The Hon. I. COHEN:** And will that possibly create problems?

**Dr ANDERSON:** The Premier also reaffirmed the Government's no-redundancy policy at the opening of the new NorthPower offices at Port Macquarie this weekend, and there will be a no-forced-relocations policy. It is important to remember in this case that it will be quite possible that this new business will develop specialisations. For example, it may have its regulatory function located in Port Macquarie or in Bathurst or in Queanbeyan. There may be pockets of specialisation but there is just no driving force behind either redundancies or relocations because of the nature of the business case principally, and on top of that we have the assurances of the Government.

**CHAIR:** Another issue is the impact of the merger on existing and future access levels. My understanding is that that was put in the terms of reference because there are some country areas that still have difficulties with access—in fact, we have got one submission from a lady who is having some difficulty in getting power upgraded. She wants to put in a stove and the power supply is not sufficient for that.

**The Hon. Dr B. P. V. PEZZUTTI:** She wants to bake a chook.

**CHAIR:** Have you looked at that particular issue of access in more remote areas? There used to be a very good system instituted by Sir William McKell, back in 1945 I think it was, where the metropolitan areas used to donate about \$20 million a year to country electricity distributors to make sure that they had proper access, but that is no longer the case. Have you looked at that?

**Dr ANDERSON:** Chairman, the terms of reference that we have in front of us talk about the merger of NorthPower, Great Southern and Advance Energy. My response to issues of access, and it is a little bit hard to get a handle on exactly what is meant by access, but if it is that it is access to improved services—

**CHAIR:** In some cases even services.

**Dr ANDERSON:**—and roll out of network, for example, certainly nothing is diminished by the merger of NorthPower, Great Southern and Advance.

**The Hon. J. R. JOHNSON:** But will it be improved?

**Dr ANDERSON:** In fact, we would argue that it is greatly improved to the extent that you put in place a viable business. If we have three small businesses that are trying to deal with optimising capital expansion in rural areas, coping with large customer numbers that are coming on as a consequence of full retail competition and do not have great capacity to optimise their fixed costs across an efficient customer base, then you have businesses that are basically suboptimal. Suboptimal businesses lead to suboptimal outcomes for customers. Our view would be that as a result of the expected enhanced performance of this business, we would expect to see customers being made better off, including improved service quality.

**CHAIR:** There are about 700 tariffs, are there, currently in those or there were 700 originally? What is likely to occur with tariffs?

**Dr ANDERSON:** I would have to take the number of tariffs on notice.

**CHAIR:** Have you looked at the possible amalgamation or lessening of the number of different tariffs?

**Dr ANDERSON:** Within each distribution area there are a number of regional tariffs that reflect different transmission and distribution costs. These were put in place as a result of an Independent Pricing and Regulatory Tribunal [IPART] determination, and the merger would not alter that IPART determination. Country Energy would continue to offer the current basket of regulated tariffs that the three rural retailers are currently required to supply. We have met with IPART and had that clarified.

**The Hon. Dr B. P. V. PEZZUTTI:** Just to clarify your particular position, Professor Anderson, are you contracted directly to State Treasury or to State Treasury through Frontier Economics?

**Dr ANDERSON:** I am contracted to State Treasury through Frontier Economics.

**The Hon. Dr B. P. V. PEZZUTTI:** Are you or Frontier Economics working exclusively for the Market Implementation Group or do you have any other contracts running at the moment?

**Dr ANDERSON:** I would consider that question outside the scope of this inquiry.

**CHAIR:** It is a bit past the terms of reference.

**The Hon. Dr B. P. V. PEZZUTTI:** Only because it is of some interest to the cost of the setting up of the businesses and the background that has been rolling now since February of the year 2000, and the ongoing costs of the contract for Frontier Economics and whether or not the taxpayers are getting value for money for the workload of Frontier Economics in terms of your commitment and that of the team that you have got in it.

**CHAIR:** Our terms of reference, though, are not his job with whoever he is working for; our terms of reference are to do with this merger.

**The Hon. Dr B. P. V. PEZZUTTI:** Yes, but the merger itself has a cost. There are up-front costs of the merger, of which this is just one, and Frontier Economics is a major cost of the merger in terms of developing its feasibility and the ongoing implementation.

**Dr ANDERSON:** These are questions that have been canvassed in the House. The Treasurer has answered them. I would suggest that these are beyond the scope of this inquiry and that you refer the questions back to the Treasurer.

**CHAIR:** I think they are beyond the scope of the inquiry.

**The Hon. Dr B. P. V. PEZZUTTI:** Well, I do not think they are.

**CHAIR:** Have you got some specific ones about the terms of reference?

**The Hon. Dr B. P. V. PEZZUTTI:** Specifically, I want to know how much is Frontier Economics costing for the research that it has now completed and how much is it going to cost for the Market Implementation Group.

**Dr BRIGGS:** I am not sure that I would be able to answer that question specifically but let me say that in contemplating this merger we have relied heavily on work that has already been undertaken for the New South Wales Government.

**The Hon. Dr B. P. V. PEZZUTTI:** No, I asked you the cost.

**Dr BRIGGS:** I understand that, but I am telling you that to ensure that we did this cost effectively we relied heavily on the Distribution Boundary Review Committee that has already been undertaken for the New South Wales Government and its recommendations so, in a sense, if you are concerned about the cost, we have acted in a way to make best use of resources already available to the New South Wales Government.



**The Hon. Dr B. P. V. PEZZUTTI:** Do we have any idea of what the cost has been?

**CHAIR:** Dr Pezzutti, I am going to limit you to two questions. If you are going to waste them on things that you can ask in question time, then go ahead and do that and you will waste your questions. I will give you time to think of another question and go on to the Hon. I. Cohen in the meantime.

**The Hon. Dr B. P. V. PEZZUTTI:** Obviously it is a ticklish point.

**CHAIR:** It is not a ticklish point. We are not going to waste our time listening to that.

**The Hon. Dr B. P. V. PEZZUTTI:** It is not a waste of time. It is a cost of the whole project.

**The Hon. I. COHEN:** I am concerned about the no-forced-relocations policy. I do not quite understand how if you are going to set up, for example, in Port Macquarie and NorthPower has been centred in Lismore or Casino—

**Dr ANDERSON:** At Port Macquarie.

**The Hon. I. COHEN:** At Port Macquarie previously.

**Dr ANDERSON:** Yes.

**The Hon. Dr B. P. V. PEZZUTTI:** They moved the whole lot down to Port Macquarie.

**Dr ANDERSON:** Its current head office is at Port Macquarie.

**The Hon. I. COHEN:** So how do we guarantee that, or is there any guarantee? You have said that the Premier and Treasurer have announced that but is there anything in writing in terms of a new constitution for Country Energy that there will be no job losses? How does one guarantee that?

**Dr ANDERSON:** The guarantee, as I said, springs from two sources. One is that this is a business case, which would indicate that the jobs as currently provided through the retail function of those three entities would be required to be maintained in the new entity and, as I said, that is reinforced by the assurances that both the Treasurer and the Premier have given. Let me just refer to some characteristics of these three distributors so that you can get some feel for why a broad regional presence is required in order for this distributor to execute both its wires business functions and its retail functions efficiently. On one of the tables I circulated to you, you will get some feeling for the fact that the new Country Energy is geographically and physically quite different from both Integral and EnergyAustralia. Country Energy will have a distribution area that extends from the Victorian border to the Queensland border. It has a total operating area of 582,000 kilometres compared with EnergyAustralia's 22,000 and Integral's 24,000 square kilometres.

**The Hon. I. W. WEST:** Say that again.

**Dr ANDERSON:** Certainly. I will go a little slower. A total operating area of 582,000 kilometres for Country Energy. EnergyAustralia is 22,000 square kilometres and Integral is 24,000 square kilometres. Country Energy has 177,000 kilometres of wire compared to 52,000 for EnergyAustralia and 32,000 for Integral Energy. Now, what that tells you is that this is a broad-based, in a geographical sense, energy supplier. As David indicated, the characteristics across that entity are going to vary from place to place. There is going to be a requirement for people to be located at different parts of the geographical area and, as a consequence, there will be no requirement to put people all in one spot. The virtue of this business will be gained from the specific knowledge that individuals in different geographical locations can bring to the business.

**The Hon. I. COHEN:** How does that guarantee in marginal areas at the end of those lines that those services will be maintained? It is obviously not going to be economic for a lot of the end-of-line services in small country communities.

**Dr ANDERSON:** The argument, as I said in my opening remarks, that is motivating this case is the business case based around retailing. It is contemplated that the network system, the poles and wires business, will be largely untouched as a consequence of this merger. The Government still retains its commitment to improving service quality, and that will be emphasised to the board of this new entity, but at the end of the day what is

important here is that efficiency gains as they are realised will come through capital requirements, not employee requirements.

**The Hon. I. COHEN:** So is there any consumer commitment in writing from this new entity? Will there be a specific commitment to maintain level of service to what I see as non-economic consumers?

**Dr ANDERSON:** The new entity, as you would appreciate, has not been yet formed. What is important, though, is that the commitment of the Government to service quality will be emphasised to the board of the new entity when it is formed.

**The Hon. I. COHEN:** Will that be part of the charter?

**Dr ANDERSON:** As it is for the other businesses.

**The Hon. I. W. WEST:** What would be the position if the merger did not go ahead? Could you give us a crystal-ball outlook?

**Dr BRIGGS:** Everything that you have heard this morning would suggest that those businesses would be in a very vulnerable, commercial position. So the future without the merger would be one where we would likely see an erosion, a loss of market share as some of their customers are cherry picked by larger businesses, both from New South Wales, Integral and EnergyAustralia, and from the businesses that are eyeing off our customers from interstate. For example, from United Energy and Energex in Queensland. It is really a desire to give this business the best possible commercial chance that is motivating us in this merger.

**The Hon. I. COHEN:** How does this merger sit with potential privatisation?

**Dr BRIGGS:** I think it is completely irrelevant to the question of privatisation.

**The Hon. I. COHEN:** You do not think a more efficient structure will have any—

**Dr BRIGGS:** That is a policy decision of the Government. It is not motivating us.

**The Hon. I. COHEN:** Does it create a propensity towards that or protect against that?

**Dr BRIGGS:** I could not comment. It is a policy decision of the Government outside the scope of what we are thinking about.

**The Hon. J. R. JOHNSON:** Gentlemen, one of our terms of reference is (d), the impact of the merger on the rural and regional communities affected by the merger. Can you see any disadvantages to those people or those customers?

**Dr BRIGGS:** No, I do not. On the contrary, as we have explained, we see it as a very positive thing for rural New South Wales to have the creation of a business that they can identify with and which can provide services to them with the local knowledge. We see that as a very important initiative for New South Wales. So it is not only motivated by the competition issues we have spoken about but also for those who have a business in New South Wales to have a viable, credible representative provider in New South Wales rural areas. We see it very much as a positive.

**The Hon. J. R. JOHNSON:** Are licensed retailers in New South Wales, and you have been kind enough to provide us with a list, licensed in any of the other States?

**Dr BRIGGS:** Yes, indeed.

**The Hon. J. R. JOHNSON:** They are licensed in Victoria, South Australia and Queensland?

**Dr BRIGGS:** Yes, that is right. I am not sure about all of them. For example, I do not know whether Ferrier Hodgson Electricity is also licensed in other jurisdictions but the New South Wales distribution businesses hold licences in other States and some of these businesses have their home territory in other jurisdictions. For example, Yallourn Energy, United Energy, TXU Electricity, Powercor Australia, Energex Retail, CitiPower, AGL Electricity and Ergon Energy are all rivals from interstate and that is where their home is but they hold licences probably in all the national market jurisdictions.

**The Hon. J. R. JOHNSON:** If one had a contract with some of these new players in the field and they were to fail overnight, what happens? We have seen what has happened in California.

**Dr BRIGGS:** The Government is at the moment developing rules for the implementation of full retail contestability which provides for those sorts of assurances, that there will always be a supplier of last resort for customers, and that obligation at the moment sits with our businesses. So there will always be a provider in the event of any one of these businesses collapsing.

**The Hon. J. R. JOHNSON:** What is concerning me is if there is intervention by the courts and you have no access to the delivery.

**Dr BRIGGS:** I am not sure what you are anticipating.

**The Hon. J. R. JOHNSON:** If a company goes belly up and it has access to a business or a home, and there is involvement by the court to the extent that it prevents the use of any of that company's facilities by any other operator, what happens?

**Dr BRIGGS:** Perhaps that is a question to which we should give you a written and formal response back because it goes to the technical issues embodied in the customer codes. We would be happy to do that. I do not believe that would be a problem but I think we deserve to give you a complete response to that question.

**The Hon. Dr B. P. V. PEZZUTTI:** I am trying to get to the bottom of who is paying for the cost of it. Is the Government paying for the costs associated with this merger or are the merged companies paying for it?

**Dr ANDERSON:** It is paid for by the Government.

**The Hon. Dr B. P. V. PEZZUTTI:** So it is a cash cost by Treasury for the consultancies and also the implementation? Is that what I understand?

**Dr ANDERSON:** My understanding is that this is an amount that is paid for by Treasury. I am not certain about the mechanisms by which Treasury finances that activity.

**CHAIR:** There are probably two parts to that, though, is there not, Dr Pezzutti?

**The Hon. Dr B. P. V. PEZZUTTI:** The first part was, of course, the up-front approval, until you get approval, and then the implementation.

**CHAIR:** So obviously the companies themselves pay once Country Energy is amalgamated.

**Dr ANDERSON:** Yes. As is the case with most reforms initiated by government, they are done in co-operation with the business. But typically getting the policy and business cases together is the responsibility of the Government, in this case through Treasury. After Country Energy is formed, the costs of dealing with those arrangements will be the costs of Country Energy.

**The Hon. Dr B. P. V. PEZZUTTI:** So that the costs to Country Energy for the management and implementation group will be paid for by the new company. Is that correct?

**Dr ANDERSON:** After its formation, yes, I believe that is the case.

**The Hon. Dr B. P. V. PEZZUTTI:** Could you get back to me with the reality of whether or not that is the case and I really want to know how many people are in that group and what is the overall cost of operating it?

**Dr ANDERSON:** Yes, I will take that question on notice.

**The Hon. Dr B. P. V. PEZZUTTI:** There is no reason that government cannot do a capital injection into any of its businesses, is there? If the Government wished to improve the quality of the power lines around Armidale, Lismore or somewhere like that, it can inject capital into the wires and lines business?

**Dr ANDERSON:** The Government can inject capital into any of its businesses. However, as these businesses exist as state-owned corporations, one of the philosophies behind their establishment is that they will operate with realistic, commercial settings. In these cases, what would be hoped is that customers would be best

provided for by having a viable, commercial business underwriting their supply, and that is what is sought in this case.

**The Hon. Dr B. P. V. PEZZUTTI:** In the same way as government gave NorthPower about \$420 million worth of debt, if it became necessary to ensure that the business was equitable versus, say, Integral or EnergyAustralia, for the infrastructure have some boost rather than just being given debt, is government, being the owner, responsible for capital injections into these businesses to make them viable, efficient and not just get horizontal equity within the business but vertical equity in terms of all the other businesses that government owns?

**Dr ANDERSON:** It is possible for government to make equity injections.

**The Hon. Dr B. P. V. PEZZUTTI:** They could do an equity injection into Country Energy at any time without having to do the same thing to its other businesses like EnergyAustralia and Integral?

**Dr ANDERSON:** Government can make an equity injection, I understand, for any other purpose.

**The Hon. Dr B. P. V. PEZZUTTI:** Has there been an equity injection into any of the companies?

**Dr ANDERSON:** I will have to check and provide you with some details on how this would fit with IPART determinations on capital expenditure, et cetera.

**CHAIR:** They could do that in two ways also. I presume that is what you meant by the settings operating in a commercial area. Dr Pezzutti said that there was a debt given to North Power, so what they could do is rather than give capital, when they set those debt levels they could set them at a lower level.

**Dr ANDERSON:** Absolutely, yes.

**The Hon. Dr B. P. V. PEZZUTTI:** One of the submissions we received is from Integral, which argues that IPART should revisit the section that allows for the capital refurbishment of its own infrastructure. I am troubled by whether IPART would say, "Yes, you can increase the tariff or the rental fees or the toll" which is what the wires and poles part of the business is going to charge to retailers, is it not?

**Dr ANDERSON:** That is right.

**The Hon. Dr B. P. V. PEZZUTTI:** Is the profit from the retail arm or the toll that they charge going to pay for that or is the Government going to forego some of its profits or is it a mixture of all?

**Dr ANDERSON:** You are asking a couple of different things. As I understand in speaking to Integral, they are concerned about the issue of IPART opening up the determination in relation to tariffs, capital expenditure and other matters as a consequence of this merger. We have spoken to IPART and at this point it appears that that is not their intention to do that, which returns us to the other question. The Government as the owner of this business has the absolute prerogative to raise and lower debt levels and make capital injections into these businesses in order to execute what is a viable business outcome for those businesses.

**The Hon. Dr B. P. V. PEZZUTTI:** So Country Energy would be able to charge whatever it liked, whatever is commercially viable, obviously, for tolls for other people entering the market, say, for example, in Lismore where I live, for Energex to supply me with electricity?

**Dr BRIGGS:** No, it cannot charge whatever it likes because that network part of the business, as is transmission, is regulated and there are capped prices.

**The Hon. Dr B. P. V. PEZZUTTI:** That is under IPART. Integral's argument to us is that that needs to be reopened to allow for an adequate profitability to allow for the maintenance and expansion of their wires and poles.

**Dr BRIGGS:** I am sorry, is Integral concerned about their own or Country Energy?

**CHAIR:** They were only talking about Country Energy.

**The Hon. Dr B. P. V. PEZZUTTI:** I think they were concerned for Country Energy, that this was an issue for Country Energy.

**Dr ANDERSON:** We would have to take that question on notice and provide you with a detailed answer. We are not sure exactly what aspect of it—

**CHAIR:** The Hon. Johnson mentioned something about companies going belly-up. When you gave us that list of distributors, I thought it quite funny that one of them was a bankruptcy specialist.

**Dr BRIGGS:** It perhaps gives you confidence that they see this market as one where you can make money, I do not know.

**CHAIR:** I hope that is what it means.

**The Hon. Dr B. P. V. PEZZUTTI:** Their submission, which we have not got to yet, says, "Country Energy, as with other electricity distributors, will require a strategic approach to its capital and operating expenditure in order to meet reliability and maintenance standards over the long term. Integral's own analysis indicates that the current IPART determination does not provide sufficient scope to meet the capital expenditure requirements of our franchise supply area through until 2004." So Integral is concerned about its own position but raises the problem for Country Energy. Do you agree with that and, if you do, have you made suggestions to government about how to overcome that difficulty for Country Energy as perceived by Integral?

**CHAIR:** We might need to give you a copy of that submission.

**Dr ANDERSON:** We would certainly like to come back to you with a written reply in relation to that but we would need to have that submission.

**Motion agreed to:**

That the submission supplied by Integral Energy dated 30 March 2001 under the signature of Mr Richard Powis be made public.

**Dr ANDERSON:** I have only spoken to Integral staff, so I have no idea.

**Dr BRIGGS:** As a comment, it comes as no surprise that businesses always think they are hard done by by a regulator. In fact, that is the regulator's job, to try to contain—

**The Hon. Dr B. P. V. PEZZUTTI:** You think they are being a bit precious, do you?

**Dr BRIGGS:** I do not know until we have done the analysis, but I am not surprised that they would make a comment like that, looking for any opportunity to have their capped program reopened. It is part of the regulator's job to put the discipline on them, and I am not sure whether this is a real problem or in fact just opportunism.

**The Hon. Dr B. P. V. PEZZUTTI:** Say, for example, you were NorthPower, which I understand much better than anything else, and you had \$150 million worth of debt, you are given another \$320 million worth of debt, you are expected to make some sort of return on government equity and also pay off debts and you have a turnover of \$480 million, to try to keep your business operating, which depends upon power poles and wires, you would want to retain some of the money you make out of the retail arm to keep your business going. It is not just being precious. It is called survival.

**Dr BRIGGS:** Those incentives are always there in the businesses, but the role of regulation is to try to ensure that they do not use the profits from their retail arm to cross-subsidise the wires or vice versa. It is important that those things be kept separate so that we are not overcharging customers for retail services.

**The Hon. Dr B. P. V. PEZZUTTI:** I understand that. In other words, the cap set on the capital reinvestment part or the charge that they can make internally because NorthPower at the moment is wires plus retail. It is one big business. Once you set up this new business, it will have the retail arm at the top but the power poles still running as separate businesses, as I understand. Is that correct? You have the overarching retail as one company but the other three will be three separate—

**Dr ANDERSON:** No. The characteristics of these businesses will not change. They will be an integrated poles and wires business and retail business. So as we have EnergyAustralia now as a poles and wires business with a retail business, in other words there is a dichotomy, then that will be the case for EnergyAustralia, Integral and Country Energy.

**The Hon. Dr B. P. V. PEZZUTTI:** Was that proposal that you have now the only model that you looked at or is that the model you finally decided upon?

**CHAIR:** There was a proposal rumoured to do what Dr Pezzutti was suggesting a moment ago, to amalgamate the retail.

**Dr BRIGGS:** There is actually some work being done by IPART at the moment to contemplate more formal separation. At the moment there are ring fencing guidelines that allow the regulator insight into what is happening in the network and retail parts of the businesses. IPART has issued a discussion paper on further separation guidelines and has consulted with the businesses and is now in the process of considering their views under their obligations under the national electricity code or whether there ought to be a more formal process. The Government will have to respond to that some time in the future.

**The Hon. Dr B. P. V. PEZZUTTI:** Did you consider other models before this final model was adopted?

**Dr BRIGGS:** We looked at other models, but we took advice based on the work by the Distribution Boundary Review Committee where they basically said that it makes good sense if you are going to merge the retail parts of the business to also merge the network part of the business.

**The Hon. Dr B. P. V. PEZZUTTI:** You did consider those two options. This does not stop NorthPower or the son of NorthPower or the father of NorthPower, Country Energy, seeking to extend its business into EnergyAustralia's area around Newcastle and the Central Coast?

**Dr BRIGGS:** In terms of trying to win customers, no.

**The Hon. Dr B. P. V. PEZZUTTI:** That competition is still going to continue?

**Dr BRIGGS:** Absolutely.

**The Hon. Dr B. P. V. PEZZUTTI:** So NorthPower's investment into the Central Coast football stadium is a good one?

**Dr BRIGGS:** I could not comment on that. That is a commercial decision for the board.

**The Hon. Dr B. P. V. PEZZUTTI:** That competition will still go on, and they will try to win—

**Dr ANDERSON:** They do not have a poles and wires business in that area where the football stadium is but there is the opportunity to win contestable customers throughout New South Wales.

**The Hon. Dr B. P. V. PEZZUTTI:** And even from other States. You have New South Wales government businesses competing with one another.

**Dr BRIGGS:** Absolutely, and competing against Queensland.

**The Hon. Dr B. P. V. PEZZUTTI:** The whole 21 will get access to the market.

**Dr ANDERSON:** Those 21 retailers feasibly could all have customers in this State now because there are a number of contestable customers.

**The Hon. J. R. JOHNSON:** Only in New South Wales?

**Dr ANDERSON:** No, referring to your earlier question, they may have licences in other States and, therefore, customers in other States. In fact, companies like Energex and Ergon would feasibly have a large customer body in Queensland because they are Queensland based.

**Dr BRIGGS:** We are hoping our businesses will win customers in other States as well.

**CHAIR:** They do now, do they not?

**Dr BRIGGS:** Yes.

**CHAIR:** Most of them have offices in Melbourne so far as I am aware.

**Dr ANDERSON:** Absolutely.

**The Hon. Dr B. P. V. PEZZUTTI:** I am wondering whether Professor Anderson and Mr Briggs would be prepared to come back at a later stage in the inquiry as we find out more about what concerns people because they seem to be part of the management implementation group and they are going to have to overcome these problems.

**Dr ANDERSON:** We are part of the Market Implementation Group that was designed to put in place policy advice and a business case for this merger. The merger, the implementation through to the point where the ACCC consider the issues, will be a responsibility of the Market Implementation Group and, as I said before, after that when the new board is appointed, the board of Country Energy will be responsible for developing and running that business.

**The Hon. Dr B. P. V. PEZZUTTI:** As I understand, the board has been appointed.

**Dr ANDERSON:** The board has not been appointed.

**CHAIR:** No, the board has not been appointed. The Government has announced who is likely to be the chairperson and the chief executive officer. The board has not been announced yet because they have not got approval from the ACCC.

**Dr ANDERSON:** The Government has announced a chairman designate who is Barbara Ward, currently Chairman of NorthPower, and a CEO designate, Craig Murray, currently the CEO of Advance Energy.

**The Hon. Dr B. P. V. PEZZUTTI:** Did the group doing this consultancy have any say in or recommendations to the Government about the board? In other words, have you made recommendations along the lines of where they come from, is there going to be some sort of regional representation and so on?

**CHAIR:** Or do you have a view on it?

**Dr ANDERSON:** The Government sought our views on those two individuals, but at the end of the day, of course, this is a decision of the Government.

**The Hon. Dr B. P. V. PEZZUTTI:** Have you made recommendations about where the board members should come from?

**Dr ANDERSON:** The Government appoints directors, as you would appreciate, on the basis of their business and industry skills and their ability to oversee the type of business that is in place. This business, as we have explained, is very heavily rural oriented. It has peculiar geographical and physical characteristics. The type of business required or the type of business acumen to run it in the future will be very specialised, and I am absolutely sure that the Government will take those characteristics into account in appointing the new board.

**The Hon. Dr B. P. V. PEZZUTTI:** You have been given an assurance about that?

**Dr ANDERSON:** No, I have not been given an assurance but my view is—

**The Hon. J. R. JOHNSON:** In the proposed area of merging, there are a considerable number of geographical surveys going on. If some of them proved to be viable, is there sufficient infrastructure, et cetera, for them to have access to the necessary power to run their operations?

**Dr ANDERSON:** Could you just clarify it?

**The Hon. J. R. JOHNSON:** If they discover great mineral resources—not going along with picks and shovels.

**Dr ANDERSON:** Sure. The point that we have been making is that it is relatively difficult for very small businesses in rural areas to respond to sudden changes in the configuration of their customer base or any other circumstance. What we are attempting to do through the business case here is to build a business that is sufficiently geographically and physically diverse and financially secure so that it can respond to those types of phenomena. If the business is too small and there are large, fixed costs associated with its operation, and the sorts of things you are

suggesting would probably be associated with fixed costs, those small businesses have a great deal more difficulty responding to those circumstances than does a larger business.

**The Hon. J. R. JOHNSON:** When you have natural disasters like bush fires, floods in Nyngan and the recent floods on the north coast, the damage to the infrastructure is astronomical. Does it make any difference that those areas are declared natural disaster areas?

**Dr ANDERSON:** I would have to take that question on notice, I am sorry. We will get back to you to indicate exactly how that would be responded to.

**The Hon. J. R. JOHNSON:** Would that be a charge on the merged companies or is there some input from the State and Federal governments.

**Dr ANDERSON:** Certainly, I would still go back to my fundamental principle and that is that a natural disaster in, say, a NorthPower area, like the floods, is a big concern to NorthPower because it would wipe out so much of its infrastructure and affect so many of its customers. Having a portfolio, as this new business will have, will help to mitigate that effect somewhat. You do not expect three disasters at once in three different parts of the State but—

**The Hon. J. R. JOHNSON:** Thank you.

**The Hon. I. COHEN:** Given that the objects of the Electricity Supply Act 1985 is to promote efficient and environmentally responsible production, what environmental positives will accrue from this merger? We have seen negatives historically where you have localised electricity production where some hydro has been shut down with the growth of companies in regional areas. Can you give me environmental positives of this merger?

**Dr ANDERSON:** The Government recognises that, as do governments everywhere, greenhouse issues are a priority and there is certainly a long way to go in order to deliver a targeted greenhouse outcome. Again, we refer to the size of these small distributors that we have in place now and while they have taken some initiatives, they just do not have the size to take on an integrated set of greenhouse initiatives. But there are some. Advance Energy has been involved with the Burrendong hydro and Burrinjuck hydro. GSE has power purchase agreements from the Crookwell wind farm. NorthPower has the Nymboida hydro, and so the list goes on. Those initiatives have taken place in the presence of three small organisations. A larger organisation would have a greater capacity to be able to have an integrated approach to and implementation of policies to deliver greenhouse targets.

**CHAIR:** Are there any questions on notice?

**The Hon. Dr B. P. V. PEZZUTTI:** Yes, I have some questions on notice. I will table them to get the answers.

**CHAIR:** Thank you very much for coming along.

**(The witnesses withdrew)**

**(Short adjournment)**



**CLARE PETRE**, Energy and Water Ombudsman for New South Wales, Level 14, 323 Castlereagh Street, Sydney, affirmed and examined:

**CHAIR:** In what capacity are you appearing before the Committee?

**Ms PETRE:** I have responsibility for handling customer complaints for New South Wales electricity distributors, including the three distributors that are subject to today's inquiry.

**CHAIR:** Are you conversant with the terms of reference of this inquiry?

**Ms PETRE:** I am, thank you, Mr Chairman.

**CHAIR:** If you should consider at any stage during your evidence that, in the public interest, certain evidence or documents you may wish to present should be heard or seen only by the Committee, the Committee will be willing to accede to your request and resolve into confidential session, but I should warn you that the Parliament has the right to overturn that decision and make it public. If you would like to give us a brief overview of what you do first, then we will ask you some questions.

**Ms PETRE:** Yes, that is fine. I have given each of the Committee members a package of information including the brief notes that I will speak to. The Energy and Water Ombudsman scheme—EWON for short, if I may use an acronym—is an industry Ombudsman scheme that started operation in June of 1998. It was established voluntarily by the six New South Wales electricity distributors and Transgrid, the transmission company. Three of our members are Advance Energy, Great Southern Energy and NorthPower.

**Motion agreed to:**

That the documents supplied by Ms Petre be made public.

**The Hon. Dr B. P. V. PEZZUTTI:** You are in fact funded by those three organisations. Is that correct?

**Ms PETRE:** By all the members, yes, including those three organisations.

**The Hon. J. R. JOHNSON:** Are they all members?

**Ms PETRE:** The current New South Wales distributors, yes, they are all members. Basically, our function is to offer an independent dispute resolution mechanism for electricity customers in New South Wales and customers of AGL, which joined voluntarily last year, and Sydney Water, which also joined at the end of 1999 voluntarily. Hunter Water has indicated its intention to join the scheme and the list of independent retailers that I understand you have, if they retail to small electricity customers in New South Wales, will be required as a condition of licence to join EWON when they have small customers under the new consumer protection scheme, so our membership will extend quite significantly. The focus of EWON is on domestic and small business customers, for obvious reasons. The big ones can take care of themselves. We are meant to look after and help those people who, to use an overused pun, do not have as much power in relation to the businesses.

We are an independent body. We are not a consumer advocate or certainly not a representative of the members. We attempt to investigate each dispute and try to resolve it as far as possible. Under the constitution of the scheme I have determinative powers and so I am able to direct members to do certain things, to pay compensation and to take or not take certain actions. Since taking this job I have been surprised at the range of issues that there are in electricity particularly, but the main areas of our work are disconnections—people either facing disconnection or, in some cases, already having been disconnected. Disputed accounts are a large part of our work; the whole range of fees and charges, quality of supply and a range of customer service issues, particularly things like, "I was trying to sort out my high bills and they promised to get back to me and they have not," so there are a whole range of customer service issues that usually come with an original dispute.

I tried to turn this debate around by looking at it from the customer's point of view upwards, and I think it is fairly simple. I think the truth is that most people do not want to have to think about electricity; they just want it to be there. It is when they do not have it that is the problem. Basically, customers want regular and reasonable bills. They want a reliable supply. I do not think any customer that we have spoken to expects 100 per cent supply, but they want it to be fairly reliable to be able to get on with their domestic or business concerns. They want their provider to be accessible when they need it and to provide reasonable information. They also want their provider to have a reasonable approach if they are in dispute, if they are having trouble paying their bills. They do not want the

shutters to come down. They want a dialogue to be able to speak to their provider and not be put off. Some of the issues that we have identified for customers in the three years that we have been going is that there is a great deal of confusion about the status of electricity providers in New South Wales. It is only in fairly recent years that there was a whole amalgamation of local authority electricity providers down to the existing six big companies. Many of the customers who ring us already think their provider has been privatised, for example. The whole debate that has been going on has left people unsure about the status of their providers.

This is very understandable. There is clearly a confusion. Because the current distributors are both retailers and network operators, customers think that they are one and the same. We have had customers who have had a problem with their retailer say, for example, "I cannot wait for retail competition to come in. I am going to move to another retailer and my supply will be better." Unfortunately they do not understand that the network will stay the same. It is only their retailer who will change. We think there is potential for confusion for customers once retail competition comes in as is scheduled from January next year. We have argued that, and certainly the Government is aware, of the need for consumer protection measures and for a lot of information to be given to customers about what full retail competition means, who the players are, what their rights are, et cetera.

There are many of the terms of reference of the inquiry that are not within my purview to speak on. They are matters of government policy and that is not my position. But in terms of whatever happens, what principles might need to be taken into account, again from the customer's point of view, I think whatever the situation, whether it is a merged retailer, distributor or EnergyAustralia or Integral, the principle that we think is important is accessibility. Customers need to know where their provider is and to have easy access.

They want information about what is happening. They want to be consulted about any major changes and I think, again, the consumer protection measure of customer councils to all the electricity companies has been a good one. They want their companies to be responsive when they need them, to have a customer focus, to know that at the end of all those poles and wires there are customers and to have a reasonable approach when either customers are in difficulty or are trying to get information. If those principles run across any decisions, then that would be positive. That is probably all I need to say by way of introduction, Mr Chairman.

**The Hon. Dr B. P. V. PEZZUTTI:** Thank you very much for your annual report. The last one had EWON all over it but did not have the words energy and water ombudsman anywhere. I am pleased to note that, following my letter, you corrected that. In the Minister's statement, he said that you participated in assisting 3,600 people during that period. Can you give me an idea of the number of complaints in a year?

**Ms PETRE:** We would be running at about 5,000 this year.

**The Hon. Dr B. P. V. PEZZUTTI:** That is about the same number as the Health Care Complaints Commission receives.

**The Hon. I. COHEN:** Is that electricity or all?

**Ms PETRE:** All.

**The Hon. Dr B. P. V. PEZZUTTI:** I note that you are set up and funded by these organisations and it is now to become compulsory for them to belong. To what extent, since you are industry funded, can you be seen to be independent—not be independent, but be seen to be independent?

**Ms PETRE:** There is a board responsible for funding of the scheme and general governance. The council I report to is made up of half industry representatives and half consumer representatives. That is the group that really works to guarantee our independence. I think there are some perceptions that it is funded. In the end those are State instrumentalities so I suppose you could say it is government money that is funding it in the same way it is funding the New South Wales Ombudsman. We have to have a good working relationship with our members to make the scheme work, but I think if you asked our members, they would say that we are independent. We may make a lot of decisions that they do not like and I think that is a very healthy state, but it is really the council that is there to guarantee our independence.

**The Hon. Dr B. P. V. PEZZUTTI:** When companies get access to the private house, say it is Energex from Queensland, for example, do they have to belong to your scheme as well?

**Ms PETRE:** They do if they retail to small customers, below 160 megawatts a year.

**The Hon. Dr B. P. V. PEZZUTTI:** So you would be the central point for complaints?

**Ms PETRE:** Yes.

**The Hon. Dr B. P. V. PEZZUTTI:** Do you make submissions to IPART?

**Ms PETRE:** Yes. We do not have a say, for example, on the setting of prices, but if there is a customer issue that we are aware of, we will make that known. So we are really in a position to say that we hear from customers from across New South Wales, from across all the distributors and if we think we have some information that is of use to IPART or the Minister for Energy or anyone else, we will pass that on.

**The Hon. Dr B. P. V. PEZZUTTI:** But not on tariffs and costs?

**Ms PETRE:** No.

**CHAIR:** Integral Energy made a suggestion that perhaps IPART should review some of the costs of the wires business, that perhaps they were not getting enough money to maintain the system correctly. Is that the sort of thing you might get involved in?

**Ms PETRE:** I am pleased to say, Mr Chairman, no.

**The Hon. Dr B. P. V. PEZZUTTI:** One of the complaints I received recently was that NorthPower was charging this access fee, that the consumers were only using \$10 worth of electricity every two months but the access fee increase had bumped them up. I think they were paying \$40 for their electricity bill but using only \$10 worth of electricity. Is that the sort of vertical equity that you are looking for? If I am a householder and I have a \$150 electricity bill, then the \$30 is not nearly as much and yet everybody is paying the same amount for access. That sounds pretty reasonable. But since I am using the access more, is there not a reasonable argument in equity terms for the access fee to be a percentage or some sort of percentage for low users?

**Ms PETRE:** That is exactly our role, that we also get those sorts of complaints and we would pass that information on to IPART. Because IPART does not tend to take as many direct calls from customers as we do, we would put that information together and give it to IPART and say, "There are small customers, small users who say they have this problem and that is information for you in your next inquiry into the tariffs."

**The Hon. Dr B. P. V. PEZZUTTI:** One of the complaints is that NorthPower put a charge on every customer, local calls and so on. They then came back with a response when that caused a bit of a stir, although it may have been their strategy long term, I do not know, that they now give to a community hall, for example, a grant of \$200 which substantially pays for the access part. Would you have a role in negotiating that sort of broad deal rather than an individual?

**Ms PETRE:** Yes, we are approached by a range of small businesses, community groups, not-for-profit groups, educational institutions, the whole range of electricity users and I have to say I think our role is fairly broad. It is certainly broad under our constitution and if we feel we can be helpful to the customer, if the customer has a problem, we are not going to stand on black letter law and say we cannot help. We will help as far as we can and if it does require negotiation, we will try to do that as far as we can.

**The Hon. Dr B. P. V. PEZZUTTI:** So how do you get to, say, the Chief Executive of NorthPower on a general issue like the local halls: "Can you do something?" Then he makes a decision, "What do you think of that?", that sort of straight talk directly to the CEO?

**Ms PETRE:** Yes, all our investigation officers have particular contacts in all the companies for daily inquiries, "This person has asked for an extension of time to pay their bill, can we discuss payment arrangements", that sort of thing. But if it is a broader issue, if we feel that a company has perhaps misinterpreted an IPART determination, they will take that up with the CEO or senior staff.

**The Hon. Dr B. P. V. PEZZUTTI:** Would you have access to the Crown Solicitor or do you use private solicitors because you are a private company?

**Ms PETRE:** We use private solicitors.

**The Hon. J. R. JOHNSON:** Have the customers in the proposed three merger areas been more inclined to advance themselves to your office than to other areas?

**Ms PETRE:** No. I think we have had customers come to us from all around New South Wales. It is interesting that sometimes different companies have different personalities. The service access charge that Dr Pezzutti was talking about was an issue for NorthPower for a while and we were getting a lot of customers contacting us from the NorthPower area about that one particular issue. Another company had a particular problem with its new billing system. We had a lot of particular complaints about people not receiving bills or wrong bills and that sort of thing. They can differ by area and by time and by type of problem, but we get them from all over New South Wales, there is no doubt about it.

**The Hon. J. R. JOHNSON:** Whilst customers have the right to come to you with complaints or perceived complaints, do the suppliers ever go to you and ask you to have a yarn to customers?

**Ms PETRE:** The smart ones do. The ones who understand about the role of the Ombudsman do, and we have had some very successful approaches by our members who say, "Look, we have been dealing with this difficult case for some time. It is taking up enormous resources, both staff and financial. We feel we are right but we are not getting anywhere with the customer. If the customer agrees, would you be willing to come in, do an investigation, a mediation whatever and we will abide by your decision."

**The Hon. J. R. JOHNSON:** Do you get many of those?

**Ms PETRE:** Increasingly, yes. And it is a good use of us. We have had some good results on that.

**The Hon. Dr B. P. V. PEZZUTTI:** Do you have external mediators or do you use internal ones?

**Ms PETRE:** Both.

**The Hon. J. R. JOHNSON:** If a customer is accused of pillaging supply, do you buy in on that?

**Ms PETRE:** If it gets to the stage of a police matter, no. If there is a more appropriate body to deal with it we would not, but if it is at an early stage, we would investigate any matter until we decided that it is really not for us. Sometimes, for example, we get electricity matters but it turns out that it is really a problem for a tenant and a landlord and so for those cases we would help the customer to find their way to the Residential Tenancies Tribunal. So, if it were a suggestion of stealing electricity, if we felt at a certain stage that it has gone beyond our powers, we would have to decline to investigate further.

**The Hon. J. R. JOHNSON:** Would you be recommending from time to time the write off of debt?

**Ms PETRE:** That is a real issue in New South Wales. I do not think that is particularly my role. Given that they are government corporations, that is a government decision. But I think it is fair to say that one of the major issues for my office has been discovering the large numbers of low income people in New South Wales who are struggling to pay their bills and who are being disconnected as a result. I am sad to say that the number of unrequested disconnections has increased over the three years since we have been going. I would like to think at some stage they would start to decrease, but there is no doubt that a lot of people are struggling.

One of the things that we are working very closely with electricity companies is to get away from the old one-size-fits-all approach to bill payment—"I will send you a bill and you will have to pay me within a certain amount of time." There needs to be a whole range of approaches, flexible payment schemes, pay as you go schemes. We are even hosting a seminar soon to look at prepaid meters so that you put in a card full of \$20 worth of electricity, you run it and then go and fill it up at the petrol station. My view is that no payment scheme should be compulsory. It should always be optional, but electricity companies need to get closer to their customers who are falling behind and try to work with them to find the best way. Sometimes I think that does mean the company forgoing some money, but that is a commercial decision for them. It is not a decision for me.

**The Hon. J. R. JOHNSON:** In the nine months has there been an increase in that type of activity?

**Ms PETRE:** In trying to find flexible payment schemes?

**The Hon. J. R. JOHNSON:** No.

**Ms PETRE:** In disconnection?

**The Hon. J. R. JOHNSON:** No, in disconnections.

**Ms PETRE:** I think last financial year it was around 31,000. The year before it was about 28,000, so it is going up, and the year before that it was about 25,000, so it is going up in that order.

**The Hon. J. R. JOHNSON:** How often would you get those figures? Do you keep a running sheet?

**Ms PETRE:** No, they are annual. Each of the distributors has to report to, now, IPART a whole range of compliance issues, and unrequested disconnections is one of them. That figure has recently been published by IPART.

**The Hon. J. R. JOHNSON:** Has it increased?

**Ms PETRE:** It has, yes.

**The Hon. J. R. JOHNSON:** Maybe the GST was a causing cause.

**The Hon. I. COHEN:** You did mention that complaints were rising. Would you expect the nature of the complaints looking at, say, small communities, end of line, to rise with bigger entities or how are they going to resolve problems in small communities for individual consumers who are suffering from poor service, blackouts and such like?

**Ms PETRE:** There is no doubt that for rural communities reliability is probably the big issue. I have to say, to be fair, that it works both ways. I think the people who ring us are not unreasonable and customers are not unreasonable, they are not stupid and they are not greedy. Most of them say, as I said before, "We do not expect 100 per cent supply." People know that if they live on the end of a single line running hundreds of kilometres into rural areas that if something goes out, then it is out. They cannot switch to another line as they might in downtown Sydney. So the feedback we get is that they do not expect 100 per cent but they do expect when they ring up to report the power is out that they get a reasonable idea of when it is going to come back on. They need a sense that something is being done, and I think they also need a sense that there is a grand plan that something will be done over time. As I said, they are not unreasonable. People know how much the infrastructure costs but they want information and they do want to know that something is being done both in the short term and the longer term.

**The Hon. I. COHEN:** Would you expect these bigger entities to be more efficient in those small rural communities or are they going to somehow lose the local operator that knows the lay of the land, the physicality of lines travelling over properties, gates, hills, forests, the whole lot?

**Ms PETRE:** Again, if I can turn that around, that is certainly the feedback that we get from customers, that they are very concerned about that loss of local knowledge.

**The Hon. I. COHEN:** Is that a real concern, do you think, in your experience?

**Ms PETRE:** If I could make one disclaimer, the Ombudsman's office by definition sees only the complaints. There are millions and millions of transactions each year that we do not see that are successful. Most people, I think, like me—or how I used to be—do not think about electricity from one day to the next because it is there and you do not need to, and that is the way it should be. It is when you do not have it that problems arise. Where it is unreliable and where there have been problems it becomes a great concern to customers, and that is the sort of feedback we get. I am now aware that it is a fairly complicated issue. There are issues. People want trees and they want reliable power, and sometimes the two do not exactly match. There are lots of issues that need to be resolved by government and by the companies, but certainly from the customers' point of view they want and expect a reasonably reliable supply.

**The Hon. I. COHEN:** In small communities in isolated areas a lot of people are relying more on IT methods of communication. I come from the North Coast and there has been a real explosion of people working from home in IT industries. I am getting anecdotal complaints about costs to equipment from brownouts and burnouts on equipment. Is that something that is coming to you and can you translate that into how to deal with it with the new merged entities? Are they going to be resolve the brownouts or are they going to be able to somehow satisfy people who are moving to the country to operate businesses from home who are suffering great expense with their equipment?

**Ms PETRE:** Part of that, I must say, is about education and information. We do get many customers coming to us in exactly the way you have described. I have to say that I am surprised at times by people who run businesses from home who have not taken some precautions themselves. Where we sit in the middle of the providers and the customers, our view is that the providers must take all reasonable steps to have as reliable a supply

as possible. On the other hand, customers must take all reasonable steps to protect themselves and mitigate their own losses.

**The Hon. Dr B. P. V. PEZZUTTI:** Risk management.

**Ms PETRE:** I am very surprised sometimes that small IT businesses running from home do not have an uninterruptable power supply service or a surge protector and they say to us, "Well, we should not have to put those things in. We should just expect the supply to be okay." I cannot, frankly, find that that is reasonable. I think that there are some things that customers can do to help themselves, and if you are running a business, then it is part of your risk management. So it does work both ways, but I think that information needs to come both from the providers of the computers, to the electricity supplier, to the people who put in three phase.

**The Hon. Dr B. P. V. PEZZUTTI:** Have those matters ever been before the courts, and who has won?

**Ms PETRE:** There is a Federal Court case at the moment—in fact, sitting today. The Electricity Supply Association of Australia [ESAA] is taking the ACCC to court over issues to do with liability.

**The Hon. Dr B. P. V. PEZZUTTI:** That is right.

**Ms PETRE:** I am probably misquoting it slightly. The ESAA is saying that the Chairman of the ACCC, Alan Fels, has made statements saying that power companies are completely liable.

**The Hon. Dr B. P. V. PEZZUTTI:** That is right.

**Ms PETRE:** The ESAA is saying that that is obviously not the case. I cannot comment further on the case, I am not a party to it, but it is before the Federal Court at the moment.

**The Hon. Dr B. P. V. PEZZUTTI:** That might resolve the question that you asked.

**The Hon. I. COHEN:** Thank you. Has there also been an increase in inquiries, complaints, on environmental grounds? You mentioned trees and access and that is an ongoing debate that I have in my area, and also greenhouse and green energy options and just how real they are. I am wondering whether a bigger entity would be more, from your perspective, capable of looking at standalone options and sustainable options than the present smaller power companies or are we going to somehow lose those options as it grows?

**Ms PETRE:** It is probably not within my capacity to have an opinion on that. No, I do not think I can answer that, I am sorry.

**The Hon. I. W. WEST:** Will the amalgamation or the merger decrease the funding to EWON?

**Ms PETRE:** No. We will have two fewer members but the way the scheme operates is very simple. Each member pays an up-front small fee and then the rest of our funds are based on the number of customer complaints that they get, so the more complaints you get, the more you pay.

**CHAIR:** That is a good system.

**Ms PETRE:** It focuses the mind, I have to say.

**The Hon. Dr B. P. V. PEZZUTTI:** Say, for example, NorthPower received complaints of their own which they handled internally and did not refer them to you, surely they would be double dipping, would they not?

**Ms PETRE:** Their aim, of course, is to handle as many internally as they can and they are all hoping that their numbers will decrease over time, as I am, and that they deal with the majority internally and we deal with the hard ones that pop out at the sharp end.

**The Hon. Dr B. P. V. PEZZUTTI:** Therefore, if they had a rash of 50 complaints, you would never even know about them. Do they give you a report? Hospitals under the Health Care Complaints Commission have to expose their complaints in aggregate terms to the commission so that the commission knows what is happening in the system.

**Ms PETRE:** They do that to IPART.

**The Hon. Dr B. P. V. PEZZUTTI:** Not to you?

**Ms PETRE:** No.

**The Hon. Dr B. P. V. PEZZUTTI:** Have you thought of asking them for their history of complaints so that you can get a feel of what is not coming to you but might come to you in the future?

**Ms PETRE:** Our first question to customers who approach us is "Have you approached NorthPower" or whatever, because we are not looking to duplicate their work. So we only take it up when they have been through the internal process. We are aware of how they have been dealt with, why they have had to come to us and, again, we feed that back and a lot of the time it is, "Look, I have rung them six times, I have written two letters and I am still waiting to hear, I am fed up. Would you take it up" and that is where we come in.

**The Hon. I. W. WEST:** On 1 July, did AGL come on board?

**Ms PETRE:** Yes.

**The Hon. I. W. WEST:** In terms of advertising services provided, does that go on the bill or does it go out—

**Ms PETRE:** Our name does not appear on the bills because they are pretty crowded. By government regulation our name is on all overdue and disconnection notices and that is probably the most important place so that if people are struggling, they see our name and ring us. We get a lot of customers that way. AGL and Sydney Water also put a leaflet in with their bills about their own internal dispute resolution. The message is, "If you have got a problem come to us first and we will try to resolve it but if you cannot there is EWON. We are still not well enough known in New South Wales, there is no doubt about it, and that is partly why the customer numbers are increasing as people hear about us.

**The Hon. I. W. WEST:** How are elections for representatives on the board advertised?

**Ms PETRE:** The Minister for Fair Trading recommends the consumer representatives and the board recommends the industry representatives.

**CHAIR:** Following on from that, with all these new ones coming in, will that tilt it away from the consumers? You said you are fifty-fifty at the moment?

**Ms PETRE:** It will always stay fifty-fifty regardless.

**CHAIR:** From whom do you get most funding out of those three Country Energy suppliers?

**The Hon. Dr B. P. V. PEZZUTTI:** NorthPower is the biggest.

**Ms PETRE:** It is, absolutely.

**The Hon. J. R. JOHNSON:** Are third parties permitted to make representations to you or only the customer?

**Ms PETRE:** Third parties are. We have to make sure it is with the customer's authority but certainly we deal with everyone from members of Parliament, to community workers, to family members.

**The Hon. J. R. JOHNSON:** Probably one of the biggest payers of bills in the State is St Vincent De Paul.

**Ms PETRE:** We have a lot of contact with them because when customers say they cannot pay, we will often contact community agencies that administer the electricity voucher scheme and try to put customers in touch with them.

**The Hon. J. R. JOHNSON:** With those community voucher schemes, are they required to pay the total bill or if they are acting on behalf of an impecunious person, is that discounted?

**Ms PETRE:** That is a real issue for people in the country. In the city, if you are struggling to pay your bill, you can probably go to the Smith Family, St Vincent De Paul and a couple of other agencies. Some people are able

to negotiate a number of vouchers, sometimes several hundred dollars worth. If you are in the country, and we have had this very often, if you have one agency you are lucky. St Vincent De Paul tends to be staffed by volunteers. Some people are a long way out of town. They cannot even get into town. They have to wait a while to get an appointment.

**The Hon. J. R. JOHNSON:** And their phone has been cut off as well.

**Ms PETRE:** Or they can only ring in, not ring out. We have raised this issue of the distribution of vouchers throughout rural New South Wales with the Department of Community Services. The Smith Family has set up a telephone line where people can ring to negotiate them, but that is very small compared to the need.

**The Hon. J. R. JOHNSON:** St Vincent de Paul has a conference in every parish.

**Ms PETRE:** They tell us that their volunteers are shrinking and they are really very pressed.

**The Hon. Dr B. P. V. PEZZUTTI:** It is not correct to have different vouchers from different places. The vouchers are for \$50 or \$6 from memory.

**Ms PETRE:** It is \$30 each.

**The Hon. Dr B. P. V. PEZZUTTI:** I think the maximum is two that you can give someone and they usually come out somewhere round about now for winter or just after winter.

**Ms PETRE:** The Department of Community Services is reviewing the guidelines for those schemes. The Smith Family takes the view that if it is going to break the cycle for someone to be given \$200 rather than \$30 and continuing the cycle, then give them \$200 and break the cycle and get them back on their feet.

**The Hon. Dr B. P. V. PEZZUTTI:** The scheme itself only allows those agencies to hand out a packet. Where they get the rest of the money from, either their own funds, charitable fund raising or whatever, that is a different matter. The voucher is sacrosanct. You cannot give out more than two of them.

**Ms PETRE:** I think that is honoured in the breach, to be perfectly honest.

**The Hon. I. COHEN:** Does your organisation have any control of tariff levels in terms of a merger taking place? Do you have any input into that?

**Ms PETRE:** No, that is completely IPART. IPART knows what customers are saying to us, but we do not have any say on that.

**The Hon. J. R. JOHNSON:** Do you find that electricity deposits are a real difficulty?

**Ms PETRE:** Yes.

**The Hon. J. R. JOHNSON:** Are some of the deposits requested unreasonable?

**Ms PETRE:** We probably got most complaints about NorthPower's deposit when it was in the order of \$200. They have recently reduced that to the same level as EnergyAustralia and our complaints have fallen away completely. It is a real problem because it occurs at a time when people are moving anyway and incurring all those expenses, and so it is an extra impost. But where it is at a reasonable level, we get fewer complaints.

**The Hon. Dr B. P. V. PEZZUTTI:** Say that you have one energy power and wires thing that had been well set up and funded over a long period of time and the other one had not, when they are brought together as of one single power, pole and wire arrangement and they have to set a toll for using it, do you think that is fair to some communities versus others and do you get any complaints about that or is that a matter for IPART?

**Ms PETRE:** It is probably a matter for IPART but, yes, we do get complaints. Even though the mergers of the local electricity authorities are now some years old, there were hundreds of different tariffs, as I understand it, in New South Wales and the companies have been working to try to rationalise them across their area as far as they can. They have not even succeeded in that, as I understand it, to this point and so we get lots of complaints ranging from "I found out I am paying more than my neighbour" or "I am being charged a rural rate when I am on the outskirts of town", so there is already a lot of concern by customers about that. It is an equity argument in the end and it is also about information to customers of when changes occur why they are occurring and I think sometimes



the explanation does not happen. As I said, I do not think customers are unreasonable, but when they do not know why things are happening, they get pretty unhappy.

**CHAIR:** Thank you very much for that. It was very informative. If we have any more questions can we contact you?

**Ms PETRE:** Yes, thank you.

**(The witness withdrew)**

**GREGORY JOHN McLEAN**, Assistant National Secretary, Australian Services Union, 3 Appin Place, Engadine, sworn and examined:

**CHAIR:** In what capacity are you appearing before the Committee?

**Mr McLEAN:** I am appearing before the Committee representing my constituents in membership and, in turn, representing two branches of the union, being the Municipal Employees Union [MEU] Branch of New South Wales, and what is known as the Services Branch.

**CHAIR:** Are you conversant with the terms of reference of this inquiry?

**Mr McLEAN:** I am.

**CHAIR:** If you should consider at any stage during your evidence that in the public interest the evidence or documents you may wish to present should be seen or heard only by members of the Committee, then the Committee would be willing to accede to your request and resolve into private session. However, I have to warn you that Parliament may override that decision and make it public anyway. We have your submission that we will take as part of your sworn evidence. If you would like to give us a short, verbal submission, then we will ask you some questions.

**Mr McLEAN:** In commencing, I would just like to, for the record, table a fresh copy. I am uncertain. There were two copies floating around inside our union office, a draft and a subsequent one that was dispatched. There is little change in the document except that the second one is a little bit more polished.

**The Hon. J. R. JOHNSON:** But this supersedes the other submission?

**Mr McLEAN:** This would be the latest one, yes.

**The Hon. J. R. JOHNSON:** Is it that document that you wish to be part of the official record or the one that we have just received?

**Mr McLEAN:** This one here. The first one may have had some typographical errors. There is no change to substance nor omissions.

**Motion agreed to:**

That the submission be made public.

**The Hon. Dr B. P. V. PEZZUTTI:** Is there much difference between the two?

**Mr McLEAN:** No, none at all. One is simply a cleaned up copy. My union has been part of the electricity reform agenda in this country since it was first commenced and we first saw the outline put forward by Prime Minister Keating at the time. You will find that I have referred to that in the report. We have throughout that stage participated very closely in electricity reform throughout this State and also at a national level and we are fairly familiar with the terminologies of the industry, the direction that the industry is taking and the issues that we consider are important to be addressed for the consumer. We have also had an opportunity in the past to raise concerns in respect of energy reform when we thought it was going the wrong way, and on this occasion we do not see it as being in the strongest terms opposed by ourselves. In some ways we see some substantial benefit to the merger of the organisation and the creation of a new authority providing that it does not lose its way in addressing the needs of the citizens of this State, which it serves. To that point, we note that there is always a right way and a wrong way to go about reform, and we have seen, to our way of thinking, a movement by some governments in this country, most notably in Victoria and South Australia, not dealing effectively with the consumers' needs, moving towards privatisation and the Government not having a very firm control on the needs of the community. I think we are all aware of the electricity shortages that have occurred in Victoria, in South Australia, and, most notably, seen what has taken place in California.

**The Hon. Dr B. P. V. PEZZUTTI:** Brisbane, Queensland.

**Mr McLEAN:** Where there has been less of a plan to ensure that there is enough generation and distribution capacity in the system. That is why we welcome inquiries such as this one. We noticed that there are some substantial differences in the way that we approach electricity reform in New South Wales. If I may draw an

example, the relationship that exists between regional distributors and generators is one particular example where we have been, or are, in a position to be able to build a distribution network to harness green energy in the form of wind generation energy most recently in the southern part of New South Wales. A similar example in California in America, where there has not been a planned approach by government, has seen substantial amounts of green energy not being generated and, in fact, the company being paid not to do so simply because the owners of the system had not ensured that the distribution network was adequately maintained and expanded to take on board that additional layer of green energy. This is one of the reasons that we note there is a planned approach to this in New South Wales either by the distributors themselves taking on board some community concerns or the directions put forward by IPART.

In the main, the concerns held by my organisation are employment opportunities in regional New South Wales. We have seen, as outlined in our submission very briefly, steps being taken by at least one distributor, where we saw them close depots, close administrative centres, remove jobs from those regions, put padlocks on the gates and then, I understand, still find those buildings sitting there waiting for someone to purchase. We have seen others who have maintained an effective presence in regional New South Wales and have also expanded that presence. We know that that is very, very important to the way that this electricity system is maintained in New South Wales through such things as maintenance and the restoration of supply after storm codes, and we know that the establishment of a localised work force or small depots being maintained by a regional authority is very, very important. We also note that there have been some steps taken by one of the previous distributors to move into providing additional services in the community such as banking facilities. I note from the outline that I have of further speakers is that that organisation is before you this afternoon.

Our concern, as I have said, comes predominantly from our position of maintenance of employment opportunities, an opportunity for our industry to grow, an opportunity for the industry to service the needs of the community and ensuring that the staffing levels and the standards of service are maintained to ensure the best possible supply to the customers. We know, again, that this has not always been the case in our region, and we are reminded about the effects of not planning the electricity network correctly when we see accidents occur such as the accident that occurred in Auckland. We saw the devastating effect that that had to a particular region. I would also note for the record that I think EnergyAustralia was one of the suppliers that actually rebuilt and maintained the Auckland system and I understand there was a significant number of workers from EnergyAustralia there at the time, who I have no doubt were paid accordingly and New South Wales corporatised authorities were probably the beneficiaries of that.

Our concerns are ones that our members have been through substantial reform in the electricity industry already. We know that employees will perform best if they have a degree of certainty and a degree of good leadership in the organisation that they are working in. We believe that a commitment is necessary from the new authority, its chair, its directors and its senior officers that they will maintain services to the community, that they will maintain depots and that they will expand the organisational needs of their organisation to serve the needs of the community. I know that quite a number of these distributors have been spending money over the last few years on improving the network systems in regional New South Wales. I know that there has been in the past some concern about how those authorities have been managed and the standards and reliability that have been there.

We, as a union, watch with great interest the role taken by IPART in developing the costs associated with wheeling charges and also the costs associated with the use of those network charges. The costs and money coming back in that are necessary to expand that network service to ensure that it is maintained to a particular level. We at the moment have been around and met with our membership in a significant number of locations in New South Wales. We have not received a firm negative response from any of those meetings about the mergers. We are not, for the record, opposed to the merger. We do, however, raise the concerns that are outlined in our submission and, again, our issues are jobs, security of employment, ensuring that the new authority conducts itself in accordance with legislation—New South Wales industrial legislation, that is—and behaves as what we would call or we would think of as a reasonable employer.

This industry is one where employees are often required to give far more than 100 per cent service to the community. This is an industry where it is often required that employees to be cautious on their approach to what may have been traditionally called demarcation lines when they are dealing with the restoration of supply and service to the community. Employees in these organisations, whether they are clerical, administrative, supervisory or field workers, are often required to be on call and to be out in all sorts of weather and at all sorts of times. For them to have an organisation that they feel pride in serving and working with is very, very important, we believe, to ensuring not only job satisfaction but the maintenance of a low level of turnover in staff to ensure that we have quality there, people knowing how the system operates and, of course, local knowledge and a knowledge of history is very important in serving the community. They are probably the opening remarks that I wanted to make. Our submission

is fairly simple. We are looking for the maintenance of jobs, commitment to service the community, maintenance of those job locations and employment to be undertaken in a manner that complies with International Labour Organisation charters, builds upon the spirit of collective bargaining and observes the principles of the New South Wales industrial relations system.

**The Hon. J. R. JOHNSON:** Is there anything in the terms of reference that concerns you more than anything else?

**Mr McLEAN:** Yes. The most important thing for us is, as I have pointed out, employment, maintenance of jobs and maintenance of those depots and admin centres, and it is not just from a bloody-mindedness position of a union official.

**The Hon. J. R. JOHNSON:** Maintenance and expansion, I take it.

**Mr McLEAN:** Yes, of course. It is not just from a bloody-mindedness position of a union official thumping on a table and saying, "We are looking for jobs." We are a union that is very much in touch with the community. We have large membership in rural New South Wales in local government and also in the electricity sector, as some of you would know, and we have always tried to take a position that we are greatly concerned about the community. We see our interests here as our traditional union interests as being in harmony with the community's interests about the maintenance of service standards, about the maintenance of depots, about ensuring that there is a presence there for the community to be able to access, and we believe that when looking at that service in regional New South Wales it needs to be pointed out that we want to keep depots, we want to keep admin centres there. We are dealing with an electricity authority that is substantially different from a private sector authority that may want to have its head office in Melbourne, Brisbane or Sydney, but we are dealing with an organisation here that has got the great opportunity to be a very good powerhouse for employment in regional New South Wales, to concentrate on the main game of rural New South Wales, and we believe that having depots, admin centres and interface points for the community to visit in its area will assist greatly. There is also, obviously, the position of keeping jobs out there and having further job spin-off in the rural community by way of simply the presence of that depot or that admin centre.

**The Hon. J. R. JOHNSON:** Which section of the union would be dealing with Advance Energy, Great Southern Energy and NorthPower in the main—the MEU or the ASU?

**Mr McLEAN:** The major union from my point of view would be the Municipal Employees Union, simply because of its numbers.

**The Hon. J. R. JOHNSON:** What has the relationship been like with them?

**Mr McLEAN:** Going through the three, with Great Southern the relationship has not been terribly bad. We have secured reasonable salary increases. We have found that they have been going through the stage of some degree of change but we know that that authority probably did not have as much pressure put on it by way of reform. Just to give you an example, in what they referred to in the industry as the first trench of competition, the first competition trench, Great Southern did not have any of their customers up for grabs, so to speak.

**CHAIR:** So they had no big customers?

**Mr McLEAN:** They had no big customers.

**The Hon. Dr B. P. V. PEZZUTTI:** Is that spelt T-R-A-N-C-H-E or T-R-E-N-C-H.

**Mr McLEAN:** T-R-E-N-C-H. They did not have any large customers open for competition, whereas Advance Energy and NorthPower did principally because of their mining interests. We saw a slower approach to reform, but we did not have any real problems with Great Southern. Advance Energy perhaps was a bit more complex because it had, I think, five or seven regional authorities awards to merge and it took a great deal of work to bring that one together. My understanding in talking to officials and delegates firsthand and also my contact with that organisation had been one of wanting to get on with the job, wanting to make a culture change but wanting its people to come with them. They saw the union as someone that was an important player as a community group or a constituency, so they were quite happy to be one of consideration there and involved the staff and, in a de facto sense, our delegates in the reform process. So we did not have any problems there at all. In fact, the organisers I have dealt with have found the senior officers in that company to be fairly truthful—no, to be truthful, for the record—and to be honest and up-front in their dealings with the union.

In respect of NorthPower we have had substantial concern about depot closures, removal of services to the community and also some of the work practices that were being introduced there. We have pet concerns on contracting out, use of long-term casuals and ensuring the maintenance of the award system. As recently as just after the announcement was made I found myself visiting the Port Macquarie area and found a number of people there who I considered had been there for far too long as casual employment. I was also questioning how much of the common law or common rule award was being observed. We had had some concerns with different workplace reform with NorthPower, and also a number of our members had felt insecure about their futures if they were in regional locations. We have had the word put to us that, well, if you want a future or you want to go here, you are going to have to move to this location or to another location, whereas in dealing with Advance we know that there have been employees left and depots and admin centres left strategically in locations because the employees feel comfortable in working up and down telephone lines and using a lot more computers. So we saw a different approach, and we know that just in the feeling that our members come back with us on. There is small anecdotal-type evidence and general evidence that the working relationship that was held with the senior officers at Advance Energy was far superior to that of the other two.

**CHAIR:** At the end of the day, though, I think the salary levels are roughly the same, are they not?

**Mr McLEAN:** The salary levels are approximately the same across the industry.

**CHAIR:** Some did it with pain and some did it with co-operation.

**Mr McLEAN:** Basically that is it, yes. That is the way I understand it.

**The Hon. Dr B. P. V. PEZZUTTI:** Just to go back to what you said about power reliability, there was, of course, in Queensland a Californian situation during the whole of last summer and the summer before that, was there not, in Brisbane? That relates, of course, to the lack of generating capacity and not interconnectability, does it not?

**Mr McLEAN:** Yes. The south-east portion of Queensland is perhaps one of the biggest growing areas in Australia and it is an area that is built upon population increase, light industry and also massive amounts of airconditioning are going into that sector. I think Prime Minister Keating first realised the necessity to do something with connecting all of the electricity system together based upon the demands of the Queensland Government to build a few more coal-fired power stations and basically saying, "Hey, this is a national debt, not a State debt." The Queensland Government has continued to build coal-fired stations and to expand their base load. The New South Wales electricity system has surplus energy but, as you say, the interconnectors are not there. Queensland, I understand, has managed its electricity demands relatively well and I also understand that the linkages—

**The Hon. Dr B. P. V. PEZZUTTI:** I can quote you on that, of course, every time I go to Brisbane, can I not? I was actually up there last summer when they had hotels without electricity for the day.

**Mr McLEAN:** I understand they have managed theirs quite well compared with the difficulties they have faced in South Australia and also in Victoria.

**The Hon. Dr B. P. V. PEZZUTTI:** As I understand it, there is a fair bit of union disputation down there from the pain of negotiating salaries.

**Mr McLEAN:** In Victoria they are not quite as lucky as we are in New South Wales in respect to industrial relations systems.

**The Hon. Dr B. P. V. PEZZUTTI:** Exactly.

**Mr McLEAN:** They use the Federal industrial relations system, which is confrontational.

**The Hon. Dr B. P. V. PEZZUTTI:** I was only getting to the issue of the difference between the two. One is a confrontational situation both in South Australia and Victoria, where there is not a lack of power or a lack of poles and wires; it is a matter of people who work in the system. What the Hon. J. R. Johnson was getting was that as a result of this amalgamation there are not likely to be union problems, as I understand it.

**Mr McLEAN:** Just if I could say, fairly quickly, South Australia has for a number of years had a shortage of energy. There has been a lack of planning down there. The Government has privatised the system. We have all

talked about building linkages into South Australia to help them out. In Victoria, I think as recently as about three weeks ago, there was a major energy conference. The heads of the Singaporean companies that have now moved in and bought the network system in Victoria are now on record as saying that there is not a demand from the industry to build new generation facilities in Victoria. I think the people in Victoria who own the private generation facilities do have some questions about return on assets. They have obviously paid a lot for them. They have the Australian dollar dropping down. They have parent companies that are all overseas. They have some real problems. New South Wales does have an excess in generation capacity.

**The Hon. Dr B. P. V. PEZZUTTI:** My question was specifically about the issues to do with the making up of this, whether this thing works or not. Are there likely to be union problems, is the question.

**Mr McLEAN:** No, we are not expecting any at all.

**The Hon. Dr B. P. V. PEZZUTTI:** The issue in Queensland was a lack of supply.

**Mr McLEAN:** Yes.

**The Hon. Dr B. P. V. PEZZUTTI:** There is an interconnect, of course, going up the east coast. It is called Interlink, is it not? Eastlink has gone. There is one across the tablelands. There is a new one going in past Burringbar.

**Mr McLEAN:** The new one is the small one that I think has been financed by a Canadian company.

**The Hon. Dr B. P. V. PEZZUTTI:** And NorthPower.

**Mr McLEAN:** And NorthPower is involved in it, but I understand that it is principally a private sector construction.

**The Hon. Dr B. P. V. PEZZUTTI:** It is.

**Mr McLEAN:** Some in the industry refer to it not as a transmission line but as a generator—in other words, "We will let the energy through when the price is right."

**The Hon. Dr B. P. V. PEZZUTTI:** That is right. That NorthPower company will be folded into the new energy company?

**Mr McLEAN:** Yes.

**The Hon. Dr B. P. V. PEZZUTTI:** And I assumed that that privatised part of it will continue.

**Mr McLEAN:** I would think so, yes. There would be no reason for it to change.

**The Hon. Dr B. P. V. PEZZUTTI:** And your union has no problem with that?

**Mr McLEAN:** No.

**The Hon. Dr B. P. V. PEZZUTTI:** The other issue I have is Grafton. When Grafton lost 245 jobs with the creation of NorthPower I did not see the Australian Services Union very prominent in that fight because I was in Grafton the day after and I was able to tell the mayor that the building had been unoccupied for a week because she did not know. What consultations took place before that was closed?

**Mr McLEAN:** I am unaware. I cannot comment on that one specifically, but I do know at the time that in respect of the closure of a lot of depots and admin centres by NorthPower we were advised after the decision had been made and after action had been taken.

**The Hon. Dr B. P. V. PEZZUTTI:** That is right.

**Mr McLEAN:** And it was not one of consultation at all. I do know that at the time I was busily dealing with EnergyAustralia. Whilst we had some problems there, we had far more consultation take place with those companies. In respect of consultation and working through the issues, we could probably say NorthPower was on the bottom of the list.

**The Hon. Dr B. P. V. PEZZUTTI:** Again, looking at the information, on 18 February 2000, when this whole amalgamation was mooted, the Treasurer said it was completely wrong that there were any talks going on. On 30 November it is all pretty well full steam ahead and then the announcement was made on 1 March this year by the Premier. To what extent has the ASU been involved in the negotiations or consulted by the consultants headed up by Don Anderson?

**Mr McLEAN:** Going back probably now almost 12 months there was a series of submissions emerging from a number of the distributors who thought there should be change in the industry with full retail contestability coming in.

**The Hon. Dr B. P. V. PEZZUTTI:** That was all about boundaries.

**Mr McLEAN:** Boundaries changes; how they could go here.

**The Hon. Dr B. P. V. PEZZUTTI:** That was not an amalgamation.

**Mr McLEAN:** No, that is true. That has been going for some time. It would have been probably round about December or towards the end of the 1999 period. We were having our first round of discussions with Don Anderson's group about changes to the electricity industry and that was based, I think, around the time of Eraring and Pacific Power and those other changes taking place. If anything, I would suggest the changes to the generation sector probably occupied more of that organisation's time. However, during the time that those negotiations were on we would be in a meeting with Don Anderson and group re Pacific Power and other changes and saying, "Well, hang on a second. We are thinking about what might be necessary with respect to the distribution sector with full retail contestability coming on." It was necessary at that stage to remind Don and his team about the significant interest that our union had in areas such as call centres, the accounts side and the people who are behind the scenes. Predominantly, our concern was that if you did merge these three, depots and some of these other centres that were principally occupied by the Electrical Trades Union, the linesmen and such would be there and they would remain there, but we had some real concerns from the people represented from the Municipal Employees Union and the ASU Services Branch. We had some large-scale concerns if there was going to be a centralisation of administrative functions.

**The Hon. Dr B. P. V. PEZZUTTI:** I understand that but, again, you had an input into it at that stage.

**Mr McLEAN:** As issues would come up, we reminded them of our concerns. We would put forward these issues.

**The Hon. Dr B. P. V. PEZZUTTI:** But you were not proactively involved?

**Mr McLEAN:** We were consulted in so far as the consultation went but it was not as though there were large-scale inquiries. Our members were aware that there was a necessity to do something with the boundaries of the distributors. Principally, that was something with Advance's boundaries. Our members were quickly developing a hate list of certain officers—I should not say hate list; I will rephrase that. They were developing a concern about the way in which the management style in two of the distributors was heading.

**The Hon. Dr B. P. V. PEZZUTTI:** So you must have been very concerned when the head of NorthPower got the biggest bonus because 1,500 or more jobs went.

**Mr McLEAN:** Yes.

**The Hon. Dr B. P. V. PEZZUTTI:** But, hang on, going forward how is that going to effect it in the future? That is past history, and I know that he is probably going to get punished for his past history although the Treasurer thought he was good enough to give him the biggest bonus anybody in New South Wales got, probably the biggest income too apart from Don Anderson.

**CHAIR:** The Treasurer did not give it to him; it was his board.

**The Hon. Dr B. P. V. PEZZUTTI:** The Treasurer is a shareholder. He could have sacked him if he had wanted to.

**Mr McLEAN:** Perhaps maybe I will pre-empt what you are about to say.

**The Hon. Dr B. P. V. PEZZUTTI:** I just want to ask a question. Say you are in Grafton and there is an administrative officer there and it is decided by Country Energy that they are going to have a call centre at Grafton and they are going to maintain the numbers of people but there might be different jobs, which is again what you think about when you talk about IT and billing and the back office part of this business. Are you sure that there are going to be enough offers of retraining, if you like, so that people can keep their job in place? What the Premier said was not just that there was going to be the same number of people employed; it was that the same people were going to be employed. That is what he said. No redundancy packages or methods. So if somebody actually asked for redundancy and said, "I really do not want to train to be a telephone operator," when they have been a keyboard person, a billing person in the billing section and then they have to be a telephone operator, they are not going to have the option of taking a redundancy—that is not even an option—so they have ruled out one of the choices I think you would offer your members.

**Mr McLEAN:** I think if we think about what has taken place in the industry over the last few years there have been heaps and heaps of redundancies floating around this industry.

**The Hon. Dr B. P. V. PEZZUTTI:** There have?

**Mr McLEAN:** Oh, yes. I understand that NorthPower has in the past complained in some reports that they were overstaffed. Now, I have only heard this. I have not read anything. You may be more aware of it.

**The Hon. Dr B. P. V. PEZZUTTI:** Their action says that they keep dropping the number of employees so they must have felt they were overstaffed.

**Mr McLEAN:** But I do know that there have been substantial redundancies occur across this whole industry. The way we tend to think of it is that anybody who is still there wants to be there for the long term. I have seen a number of people make substantial changes in the work that they have executed on behalf of those companies.

**The Hon. Dr B. P. V. PEZZUTTI:** So you are comfortable because you know your members, and I do not.

**Mr McLEAN:** We are comfortable.

**The Hon. Dr B. P. V. PEZZUTTI:** If you want to stay in Grafton, then you are the sort of person who is likely to be retrainable because you have survived all the cuts to date and not only do you want to stay there but NorthPower want you, so they might think you are a good employee and a good person and that you can be retrained. They have substantially dropped the average age of employees, have they not?

**Mr McLEAN:** We have great confidence in any form of retraining and let us call them redeployment programs. We have worked through extensively with the distribution industry, be it EnergyAustralia, Advance Energy, Integral, whomever else, very, very closely with respect to job retraining, redeployment and redundancies, and we have never been—

**The Hon. Dr B. P. V. PEZZUTTI:** The reason I asked the question was that redundancy is not now part of the package you can go to the Government on.

**Mr McLEAN:** No, I am just saying that we have worked through these issues in the past and with that experience and knowledge that we have come across and we believe that the people who are still there in the electricity industry are there for the long-term and want to be there. They want to be there in that town, that city and doing what they are doing in the electricity industry and in the company. However, they are smart enough to understand that this industry is also changing and that if the company wants them to be there and they want to be there, there are going to have to be some changes in respect of retraining and redevelopment of those people.

**The Hon. Dr B. P. V. PEZZUTTI:** If you have employees in a call centre now and they suddenly move the call centre to another town, whether you be a relieving hand or sort of the foreman of the billing section, it is maintenance not just of their progression. People do not want to stay in the same job forever; they want to progress; they want something different.

**Mr McLEAN:** I do not believe that this authority could operate with one or two major call centres, for instance, because we need to ensure that local knowledge, security of supply of a telephone system and electricity



system are beneficial for the whole of this energy authority. For it to centralise its call centre I do not think would be very, very sensible at all.

**The Hon. Dr B. P. V. PEZZUTTI:** Well, the Ambulance Service did, for heaven's sake.

**Mr McLEAN:** I am only talking about the electricity sector and I am only familiar with the electricity sector to be able to comment on it. I do understand that call centres respond primarily to outages, and outages in the electricity industry for us are big stuff. Major storms pull down lines, cables and wires and they have to be restored. If you have an electricity system falling down around you, you could well lose a call centre taking out, let us say, seven-eighths of the State that is not affected by a storm simply because of your failure to establish that call centre in a good location. We also know that when dealing with call centre inquiries local knowledge is important.

**The Hon. Dr B. P. V. PEZZUTTI:** I understand what you are saying but your union equally covers the people who operate in the call centre and the Ambulance Service.

**Mr McLEAN:** No, we do not.

**The Hon. Dr B. P. V. PEZZUTTI:** Why not?

**Mr McLEAN:** Because that is not our area of coverage. We do not cover the ambulances.

**The Hon. Dr B. P. V. PEZZUTTI:** There is a call centre. Is not that part of the Australian Services Union?

**Mr McLEAN:** We are one of the many unions in this country that has members in the call centre sector. The call centres, for example, have grown out of the old customers' accounts or the old telephone inquiry services. When they introduced the first round of electricity reform to create the distributors in New South Wales, the 1996 version I think, they decided that there was a necessity for them to have a call centre that operated 24 hours a day for emergency services as well. Not all of those distributors had that. Those call centres came out of the old customers' accounts areas of those electricity authorities. Our area of coverage within the electricity industry is unique and tight to the electricity industry. We treat it as an industry. We may have membership in a call centre in a medical benefits club, for instance, simply because we have traditionally covered that medical benefits club.

**The Hon. Dr B. P. V. PEZZUTTI:** I understand that.

**Mr McLEAN:** The HREA or some other union covers that call centre.

**The Hon. Dr B. P. V. PEZZUTTI:** How would you be able to resist the argument, "Look, we have gone across the State for emergency services. We have got the call centre for the ambulance. Why can't we have a call centre for you blokes? What's so precious about you blokes?" You said outages in one area. For heaven's sake, that is like a bus crash.

**Mr McLEAN:** Yes.

**The Hon. Dr B. P. V. PEZZUTTI:** Probably a bus crash is more urgent than outages.

**Mr McLEAN:** The first point of call for a person ringing a call centre, as you may have done yourself, is ringing up and saying, "The street lights are out in my town, my city. A car has crashed into the light," or whatever, but usually the first thing the customer rings up with is, "The lights are not working in my house," and the first thing that is then said by the operator on the other end of the phone—which is at a call centre, not an emergency service operator—normally, is, "Have you checked the following?" There is a limited amount of technical knowledge handed out by a clerical administrative officer. They then further acquaint that to where the difficulties are, whether there is a possum that has got in amongst a line, a telegraph pole has been knocked down, whatever, so they need to ensure that they have the ability to relate to that customer. Local knowledge is important.

**CHAIR:** You are saying that it is a bit different from, "So and so has had a heart attack. Can I have an ambulance?" and they just dispatch one?

**Mr McLEAN:** Yes, because there are a series of questions. Before you even bother to send a line crew out or have someone go out to have a look at the accident or you dispatch the ambulance, let us say, there are a series of questions that the operator goes through to ensure that dispatch is warranted. That dispatcher might say, "Well,

madam, we have a storm going through your area at the moment. The storm is at such and such an intensity. Our people are sitting in the depots basically getting the trucks ready, getting the cables on board ready to go out and restore that supply." If you then have that storm effect where your call centre is, you are likely to take out your whole State's response. We believe there will be a necessity to establish a number of call centres. Even EnergyAustralia has two major call centres in Newcastle and Sydney and an emergency one located at Sydenham.

**The Hon. I. COHEN:** I am still a little confused in terms of redundancy, the transfer of workers in that slow attrition. It may not be that they are put off at the time of amalgamation and certain streamlining. However, there are other pressures. Do you have those concerns and do you have any guarantees from the Government that they will be avoided? I am talking about people who are moving to another town but they are locked into living family arrangements in other places.

**Mr McLEAN:** One of the issues we have learned to deal with in the electricity industry reform is coming from a position of being able in the traditional sense of unions to organise and deliver the resources as we need to our members. That has meant that we need to be prepared, if necessary, for industrial campaigns to raise issues of concern to our members, and we have done that in the past with the managers of these companies. However, from consultations we have had so far, discussions we have had with the acting CEO, and the experience we have in dealing with this sector of the industry, we are fairly comfortable about the reform we are going to see. However, we have said clearly that if people are going to use this as another opportunity to further close down services and remove them from rural New South Wales, we will be watching that with a great deal of concern. You can rest assured that if we are going to find ourselves going down a pathway of substantial redundancies being undertaken in a secretive way or some other coerced way, we will come and visit you, stand out in Macquarie Street and raise those concerns.

**The Hon. Dr B. P. V. PEZZUTTI:** You did not in Grafton last time when 240 people disappeared.

**Mr McLEAN:** I would like to be able to comment on that and I will, as a result of you raising that issue with me today, take that away, telephone the officials who dealt with that issue and attempt to provide you with some information on that prior to the closure.

**The Hon. I. COHEN:** Do you see the way things are being set up now with the amalgamation something that would facilitate privatisation or be a hedge against it?

**Mr McLEAN:** I have had that argument with people for a while. Some have said to me, "Greg, you might have a bit of support for the issue of corporatised entities," but that is the first step towards privatisation. I tend to think that the efficient running of these organisations in providing a service to the community and a return on assets to the owners, being the State, is the best way to avoid privatisation. Look at what has taken place in the United Kingdom or other countries where they have had electricity privatisation. The best way to do it is to run these authorities down, make sure they are operating inefficiently, ineffectively so there is public support for your privatisation agenda and look no closer than what Margaret Thatcher did in the United Kingdom for electricity and water.

My union and others campaigned against the possible privatisation of electricity authorities in New South Wales. I was heartened when I went to meetings, and I cannot think whether it was Grafton or Lismore, to find that less than 50 per cent of the 80 or 100 people attending a community meeting were our members. Harry Woods and I were having a good debate with the local community. I found that probably less than 48 per cent of the people there were our members. The rest were farmers, community shop keepers and others who were very much concerned about privatisation and what that might mean to their services. So we think the efficient running of these organisations, having them run properly, having them run economically, responsibly and providing services to the community is the best way to keep them in public sector ownership.

**The Hon. I. COHEN:** You mentioned before demarcation and the necessity that there is this flow over. Does your union look at the impact on worker safety in, say, Broadwater where there is a co-generation plant mooted? Does that involve you and is that all part of the continuing debate on environmental issues, green power and otherwise?

**Mr McLEAN:** I think the sorts of work practices that are developing today are challenging any traditional union official's view of demarcation lines. I think demarcation lines are becoming to a degree less important and are based solely upon issues such as safety and other issues. We have been one of a couple of unions that has participated quite strongly in reform of the electricity sector and have been quite adaptable. The reason is that where our members are going and our members are becoming adaptable to the change process. The example I gave earlier of demarcation lines is that traditionally in the electricity industry there may have been a person who worked in a

store who did this job and the storeman picked out this piece of equipment, then the driver did this and the clerk did that. If you walk into the depot in any electricity authority immediately after or during a storm, you will find a substantial degree of co-operation among these workers. The working relationship is one where the people work for the good of the outcome of the industry to get that electricity supply restored for Mrs Jones and Mrs Smith. They have a high regard for what they need to do. I see demarcation lines in the industry being challenged and reform taking place. But I also see a substantial amount of co-operation and goodwill on behalf of employees in the industry today.

**The Hon. I. COHEN:** How much of that co-operation do you think depends on the fact that it is local employees servicing the local area, that there is that local knowledge?

**Mr McLEAN:** I think if you go to a depot and talk to people who work in the electricity industry, you will find a great deal of pride in what they do and how they service that community. You are very right, that local fortress of the empire staffed with local people, local identity, in tune with what is going on in the local community is probably one of the great strengths of the electricity industry in this State. These people have a great deal of pride that they work for the company. If the company's name is up there and is held up good by the community, they are really proud and quite proud to be working in that company. You have hit on a very important part, local ownership of the local energy company. People in the bush, particularly in some of the energy companies such as Advance, have a great deal of pride in the fact that they own that energy company. People and members that I have had the chance to speak to are quite proud that someone has actually put in a model that has not had the city mentality associated with it. I think that is a great credit to whoever has been looking at this. Also, if you look at the list of issues that the Committee is considering, people out there would be quite proud of it because everything we are talking about here is giving a great deal of concern to the consumers, the customers and rural New South Wales. So I have not seen too many negatives.

**The Hon. I. COHEN:** Will that not be lost with amalgamation?

**Mr McLEAN:** I think the merger will depend upon whether you leave the depots there, whether you leave the admin centres there and whether the community has ownership. If you retreat and take them all back to the big towns and the big cities, yes, you are going to get it. But if you take a step where you go out there and you see them open a small depot in a town like Trundle, if you see an energy authority walk into Cobar the day that Westpac pulled three jobs out and say, "We are doubling our work force here, we are putting on three trainee linesmen", that is the stuff that is important.

**The Hon. I. COHEN:** Do you have that guarantee?

**Mr McLEAN:** I have seen that done so far by the acting CEO who has been appointed. In meetings that I have had with him and also meetings that my union officials have had with him, we have no intent to doubt that. As a matter of fact, we have used the same arguments with him. He has said, "Hang on a second, do not judge me by what I am going to tell you, just judge me by what I have done."

**CHAIR:** One of the models proposed was that you take slithers of the city, amalgamate some of the countries ones with perhaps part of Integral or one of the metropolitan energy authorities. This is a much better model from the point of view of what you are saying?

**Mr McLEAN:** I think it is. If I could give you a good example. Some say that if you privatise the electricity sector in New South Wales, the first one you look at or the big ones would be the big ones around the city. That seems attractive. But if I could just ask you to think very carefully that perhaps the most sought after energy company if you privatised would have been Great Southern because head office would have been Melbourne. This is not a case of take State borders and taking lines of State borders off the map when you think about the electricity sector.

**The Hon. I. W. WEST:** Perhaps you might be able to give us some advice or some ideas on how we address paragraph (i) of the terms of reference, given that there seem to be some highly paid people among the chief executive offices of the three companies. Even though they appear to be having slumps in their profits, they seem to be going up in their actual salaries. When the merger takes place, will that mean that the new chief executive officer will get three times what a chief executive officer is getting now?

**Mr McLEAN:** I hope not. It would make him the highest paid bureaucrat in the whole country.

**The Hon. Dr B. P. V. PEZZUTTI:** Not as much as Mr Anderson.

**Mr McLEAN:** I am not certain of his salary, so I cannot comment.

**The Hon. Dr B. P. V. PEZZUTTI:** It is well over a million.

**Mr McLEAN:** There are a couple of issues. Firstly, we are probably comfortable in not seeing bonuses. The reason is that our members often perceive that as catch and kill us to give yourself a salary increase. I do not think that sends the right cultural message to start with. So we would think that would be on the negative list. We also note that the New South Wales Government has wrestled with issues like the senior executive service and we see some established levels across the line for some of the other generators and some of the moneys that are paid to some bureaucrats. I think probably two levels might be the best way to think of it. So we would think they would have to be rewarded in line with what you would expect to get in the market place.

These senior officers and companies do compete against the private sector. If I could give you an example. I referred earlier to the first trench of electricity here. The first one, the big one that went was BHP. You, as a government, as an owner of an energy company should feel quite proud that one of your companies beat the best of the British, the best of the Americans and the best that the private sector could put in the market. You have some very good people working in these energy authorities who are very good at what they do, the traders, the dealers, the people who are out there understanding where the market is coming from and people who have to work in full retail contestability. You need to balance that off against working for the public sector and the dollars that these people are going to be paid compared to what they could get in the private sector, unfortunately. Employees who work in the electricity sector in general are governed by a common rule award. We believe that we would be supportive of a common rule award, common bargaining instrument such as compliance with the ILO charters.

**The Hon. Dr B. P. V. PEZZUTTI:** That applies both in the private as well as the government sectors?

**Mr McLEAN:** Yes. We believe in the principle of collective bargaining. We are pleased that the New South Wales Industrial Relations Act holds that quite sacred. Bearing in mind the proportion of Australian citizens who are employed under the New South Wales industrial relations system, I do not see all these multinationals running off to Victoria or some other State simply to use the Federal industrial relations system. It is a political issue, I am afraid. We do not believe employees should be treated as political issues and we are happy to support the New South Wales industrial relations system for a collective bargaining instrument.

Having said that, the new board will need to make a decision about what it considers appropriate to maintain a superior or high level staff. If you gain an understanding of what has been done in the New South Wales generation companies and distribution companies, I think you could feel pretty comfortable that you will not see a salary paid to the CEO three times of what the level is. I would have thought that people who want to be involved in this industry and are committed to it know what the market is worth, know what the price is worth and I think there is some common ground there.

**CHAIR:** Thank you.

**Mr McLEAN:** Thank you for having me before the Committee today. We were quite pleased to see the terms of reference because it does mean that a government is very seriously interested in maintenance of service standards and jobs in regional New South Wales. I thank you for your time.

**The Hon. Dr B. P. V. PEZZUTTI:** Could you take one question on notice for me, please, if you would not mind, and that is the position of the union representative on the board and that person's conflict of interest in terms of being on the negotiating team as they are at NorthPower. The person on the board of NorthPower is from the Electrical Trades Union and is part of the IR committee. In your view is that a conflict of interest?

**Mr McLEAN:** Mr Chair, it is appropriate that I should not leave the Committee without making a comment on that, if you do not mind. The Committee may or may not be aware that I am a past director of Advance Energy. Now, just in respect of that, I think people look very carefully at their responsibilities and at what they are required to do at law. They maintain transparencies in all things they do. That is an achievable position. I would for the record state that, at all times when I dealt with that organisation, I always did it on a rostered day off, an annual leave day and I maintained transparencies at all times in how I operated.

**The Hon. Dr B. P. V. PEZZUTTI:** You have to have Chinese walls within your own head, do you not?

**Mr McLEAN:** I think if you do not, you leave yourself open to criticism and you cannot take pride in what you do.

**CHAIR:** You actually never got involved in the negotiation of salaries because that was the management's job, not the board's?

**Mr McLEAN:** That is correct. If anything, that was dealt with by way of "That is an operational issue". I felt quite comfortable with that. I have worked with other organisations internationally in reform of energy issues. I have appeared before committees such as this, be it the Tasmanian Parliament or I have worked with unions in Lahore, Pakistan, on anti-privatisation, provided seminars to unions in Malaysia and most recently addressed seminars of island nations across the Pacific dealing with reforms of their utility sectors. Also I have studied what has taken place by visiting the Swedish system, having a look at how they have changed. I am familiar with the market changes in Europe and the opening up of all their markets.

**The Hon. Dr B. P. V. PEZZUTTI:** I understand, but the directors are there to look after the shareholders' interest. The shareholders happen to be Michael Egan and John Della Bosca. You also have to comply with the rules that the Minister, Kim Yeadon, sets out. You also have a responsibility to your own members. That is where there has to be Chinese walls through your head when you make strategic decisions and advise shareholders as a member of the board, which is completely from your own strategic position in terms of your membership. As long as the members understand you are operating in this area as a director when you could equally operate for St Vincent De Paul or in a private capacity for Clean Up Australia, you are allowed to do different things.

**Mr McLEAN:** I think it is important on this point, when you go through any form of reform, particularly electricity reform, there are two ways to go about it. There is what you might call the North American approach to industrial relations, extremely confrontational, or more a European model of working together. I feel comfortable with the model of working together and I feel comfortable with the model of the New South Wales Government of trying to get people to work together and again I refer you to your industrial legislation. I think it sometimes makes it easier for people if we are all working towards the same outcome.

**(The witness withdrew)**

**(Luncheon adjournment)**

**BERNARD MARTIN RIORDAN**, State Secretary, Electrical Trades Union of Australia, New South Wales Branch, 35 Castelnau Street, Caringbah, sworn and examined:

**CHAIR:** Are you conversant with the terms of reference of this inquiry?

**Mr RIORDAN:** I am.

**CHAIR:** You have made a submission. Would you like that to be incorporated as part of your evidence?

**Mr RIORDAN:** Yes.

**CHAIR:** If at any time you should consider that, in the public interest, your evidence contains words or documents that you would like to be seen or heard only by members of the Committee, the Committee will be willing to accede to your request and resolve into private session. However, I warn you that Parliament could overturn our decision and make it public. The normal process is that if you would like to make some opening comments, we will then ask you some questions.

**Mr RIORDAN:** Thank you, Mr Chairman. The formation of Country Energy poses the union with a number of difficult and complex issues that are basically impossible to resolve. I have had a number of members write to me in relation to the never ending and vexatious question about electricity privatisation and the question of whether or not if that agenda item was ever to be put before the public of New South Wales again, would it be easier or harder for the New South Wales electricity distribution industry to be privatised if Country Energy was in place or NorthPower, Great Southern Energy and Advance Energy remained in place. Obviously it is a matter that the union is very concerned about. However, on the basis that we believe that issue will never come back to the public domain because of its political ramifications, I think we have had to put that issue to one side. As I said, it is very difficult to answer that matter, anyway, but there are arguments both for and against the possibility and the effects that it would have.

Now, when dealing with issues pertaining to Country Energy, my union supported it basically due to the belief that it will actually create jobs in rural New South Wales. For the past 13 years I have had the benefit as a union official of travelling around rural New South Wales on a regular basis and it has been disappointing to see the dramatic downturn in employment in this industry, particularly since 1995. However, I am certain that the way that the industry has gone in the last five or six years would not be repeated under the formation of this new organisation. I see employment opportunities becoming available in rural New South Wales as the industry starts to see the ramifications of what has occurred over the last five years.

The contracting out and downsizing which has occurred is now leading to problems associated with the reliability of supply and the safety of the network. One only has to look at the recent history in NorthPower to understand that the massive cost cutting and downsizing of the work force resulted in NorthPower receiving a poor reputation in relation to supply reliability. Now, Country Energy, with the size and sheer magnitude of the organisation, will find it very difficult to manage the organisation on that basis. It will not be able to have numerous contractors or the high number of contractors currently running around NorthPower, for example, expanded throughout the rest of the State. It needs to get back in control of its work force and I think the only way to do that is to go back out and re-employ full-time people to perform those functions. By doing that, I think the organisation can then return to where it was back in the late 1980s and early 1990s. I know it was criticised by the inquiry into the distribution review group for having a gold plated maintained electricity service. But I think the general public would now prefer that system compared to the run-down, unreliable, basically sham system that they have at the moment where they do not know from day to day or from windstorm to windstorm whether or not they are going to have any electricity.

We see that benefit coming from this proposal. Also because of the size of the organisation and the depth of it, there will be a far greater capacity for economies of scale. You do not need three expensive information technology sections. We all know that information technology has resulted in enormous costs in this industry over the last three or four years as we go towards retail contestability. We will not need to duplicate those costs and we will not need those contractors to be employed or consultants to be employed at that level. This will have one consultant or one contracting company rather than three. I am a firm believer in the fact that there should be only one contractor or consultant used for IT across the entire industry on the basis that they are all government-owned enterprises and that they are all putting in place systems that should mirror one another in order to compete in the national electricity market. I see cost savings in relation to that, those types of expenses occurring. When you put in place the fact that there are cost savings for the Government and there is greater job security, the ETU is of the view that this is a good proposal. So long as the never-ending question or unanswerable question about electricity

privatisation is put to one side, then I have no hesitation and my union has no hesitation in supporting the proposition.

**The Hon. Dr B. P. V. PEZZUTTI:** If it is privatisation or not I think you can put it to one side because if it is successful then it means the State Government gets more money for it. If it is not successful, they have got to sell it in a fire sale. Either way, privatisation becomes a separate issue from survivability.

**Mr RIORDAN:** It does.

**The Hon. Dr B. P. V. PEZZUTTI:** I think you are right to put that aside. How many members in your union?

**Mr RIORDAN:** We would cover about 80 per cent of the proposed Country Energy as members of the union.

**The Hon. Dr B. P. V. PEZZUTTI:** How many is that?

**Mr RIORDAN:** I will think in the realms of about 1,600 or 1,700.

**The Hon. Dr B. P. V. PEZZUTTI:** That is in that part of the business, but overall in New South Wales?

**Mr RIORDAN:** In New South Wales there are about 26,000.

**The Hon. Dr B. P. V. PEZZUTTI:** So the Australian Services Union would be larger than yours?

**Mr RIORDAN:** The Australian Services Union?

**CHAIR:** Greg McLean's union.

**The Hon. Dr B. P. V. PEZZUTTI:** He said he had 30,000 members.

**The Hon. J. R. JOHNSON:** He might be combining the MEU and the ASU.

**CHAIR:** He might be combining all the local government councils as well.

**The Hon. Dr B. P. V. PEZZUTTI:** They are all the same sorts of people. So who covers IT?

**Mr RIORDAN:** IT is basically non-unionised at the present time in our industry. They are mainly contractors or subcontractors who come in and employed services. IT was formerly done in-house by, certainly, Integral Energy. They were big enough to have an IT department, which was outsourced a few years ago.

**The Hon. Dr B. P. V. PEZZUTTI:** That is more development and implementation rather than operation. Once the whole computer system is working, whether it be a call centre or a billing system, who covers those people?

**Mr RIORDAN:** It depends on how they are employed. If you are talking about communications people, then they would be covered by my union. If you are talking about technicians, they would be covered by my union. If you are talking about programmers, then the ASU would have coverage.

**The Hon. Dr B. P. V. PEZZUTTI:** So it is a bit all over. In terms of the NorthPower issue, the Treasurer, who is the premier stockholder, is obviously very pleased with the CEO of NorthPower in rewarding him not just with the highest salary but also with the highest bonus because the Treasurer's interest is return on investment. To what extent do you think the Treasurer has had a change of heart in wanting to see a return of service versus a return on investment?

**Mr RIORDAN:** I thought you were going to ask me about the salary of the CEO of NorthPower.

**The Hon. Dr B. P. V. PEZZUTTI:** I just have. I just told you that he had the highest salary plus the highest bonus.

**Mr RIORDAN:** In relation to the salary of the CEO of NorthPower or any of the CEOs in the industry I think they are highly inflated and unreasonable. It is an absolute disgrace that these salaries have gone up by about

400 per cent in the last probably five or six years. When Nick Greiner was Premier he introduced the SES system, which put the CEOs on about \$160,000 or \$180,000. When the departments became government trading enterprises or state owned corporations the boards and the CEOs took this as an opportunity for them to argue that they are nothing more than equivalent to the private sector and gave themselves inflated wage increases and not only that but unbelievable conditions of employment, so much so that whilst they argue about providing appropriate redundancy benefits, which even compare miserably with the private sector, they go out of their way to ensure that they not only receive redundancy benefits of some 12 months but sometimes it is two, three, and I understand in one circumstance it might be as high as four or five years. Now, that is a benefit which is far greater than any employee in any sector in New South Wales can achieve, and I think it is a disgrace and highly unethical that people who preside over an organisation and continue to berate employees with reasons why they cannot give them a wage increase have the gall and the audacity to turn around and award themselves enormous increases in their rates of pay, not to mention bonuses which are of six figures. It is just a disgrace.

How could a CEO, for example, of any organisation deserve to be paid more than the Premier of New South Wales or the Prime Minister of Australia or the Chief Justice of the High Court? It is just a disgrace. In relation to Dr Pezzutti's other comment in relation to the view of the Treasurer, my view is that even the Treasurer is now understanding the political realities which occur between economic rationalism, the striving for profits and the need to win elections. The electoral backlash which will flow if the electricity industry continues to provide poor service to rural New South Wales will be similar to that which occurred in Victoria, where rural seat after rural seat fell to the Labor Party, which campaigned on the poor performance of the privately owned electricity companies in Victoria.

**The Hon. Dr B. P. V. PEZZUTTI:** If I can go back to that, the important thing is about debt. The Treasurer has just loaded up NorthPower, for example, with \$320 million extra debt, so it is no longer a dividend payer but a debt payer. How will this arrangement of Country Energy, given that there are all those other substantial debts—NorthPower has now got a debt the same as its turnover of \$480 million or thereabouts—how will the aggregation of those debts into a bigger company, all of which are loaded up, improve their ability to save capital for themselves for reinvestment into what is basically an infrastructure that needs reinvestment?

**Mr RIORDAN:** There are a number of cost savings to be gained from the synergies of the business, and I do not think we need to probably go through them point by point. Really, just their purchasing power in relation to power poles or cables will be increased enormously. I have no doubt that they will get a discounted rate. Country Energy would probably have a far greater purchasing power in many instances now than EnergyAustralia, which has been able to determine or receive appropriate benefits because of its size and the amount of materials that it has used in the past. The IT cost savings will be substantial is another way of identifying what I believe would be a reasonable or realistic return for the Treasurer to take note of.

**The Hon. Dr B. P. V. PEZZUTTI:** Are you suggesting that the Treasurer should accept either slightly less in capital repayments or allow them to pay less of a dividend to the taxpayer?

**Mr RIORDAN:** When you talk about dividend my view is that the Treasurer has now loaded up the industry with so much debt that he is not necessarily looking for a return on an annual basis by way of dividend but by way of interest payment.

**The Hon. Dr B. P. V. PEZZUTTI:** You are saying the same thing.

**Mr RIORDAN:** On the basis that you are paying that money through to TCorp anyway because it is all smoke and mirrors; it is all money going into the Government coffers.

**The Hon. Dr B. P. V. PEZZUTTI:** It is the same thing effectively. How will this company, Country Energy, retain enough capital to improve the situation? For NorthPower it is basically an infrastructure that needs reinvestment.

**Mr RIORDAN:** I do not think that is right. I think there are some infrastructure problems in relation to rural New South Wales. I think EnergyAustralia probably has a greater infrastructure problem in relation to its own substations in the CBD and surrounding areas which would be far more costly to repair and renovate than what might be needed in Country Energy.

**The Hon. Dr B. P. V. PEZZUTTI:** But that is a \$170 million investment that, as I understand it, the Government is going to make into EnergyAustralia. In other words, it is a capital advance for EnergyAustralia to develop that new power line to the CBD. Is that your understanding as well?



**Mr RIORDAN:** I am not talking about the power line. I am talking about the zone substations.

**The Hon. Dr B. P. V. PEZZUTTI:** I am talking about the power line, the redevelopment of the new power line.

**Mr RIORDAN:** That is something different altogether.

**The Hon. Dr B. P. V. PEZZUTTI:** Well, NorthPower is going to have to put more power lines in to keep up with the pace of need for northern New South Wales. Should they be looking for a capital injection? The other alternative is for the Treasurer to ask for less return on investment money, whether it be for capital debt repayment or for company taxation equivalents. Do you think they need a capital injection of funds?

**Mr RIORDAN:** That is not for me to say. I am not across the needs of the North Coast in relation to new substations and power lines.

**The Hon. Dr B. P. V. PEZZUTTI:** EnergyAustralia has got a problem because it has the CBD and some infrastructure work, but for country Australia it really is those power lines that stretch on forever and a day and it is the pole and wire part of the business which is IPART controlled, and the toll is going to be IPART controlled. Integral Energy is already suggesting in its submission to us that that whole area of IPART's pricing structure should be re-explored. Do you agree with that?

**Mr RIORDAN:** Yes.

**The Hon. Dr B. P. V. PEZZUTTI:** You do?

**Mr RIORDAN:** Yes.

**The Hon. Dr B. P. V. PEZZUTTI:** The next issue we come to is that the reliability of those resources really depends very much on the people on the ground repairing them or maintaining them. You said that NorthPower has an awful lot of contractors. Do you believe that this promise by the Government about no forced redundancies applies to the contractors?

**Mr RIORDAN:** No.

**The Hon. Dr B. P. V. PEZZUTTI:** So we are only talking in terms of what Bob Carr said about those full-time employees or, as we heard earlier from the union representative, Mr McLean, some of those permanent part-time people?

**Mr RIORDAN:** I do not know how anyone could suggest under the employment law in Australia that a contractor could be paid a redundancy payment.

**The Hon. Dr B. P. V. PEZZUTTI:** No, the Premier has actually ruled out redundancy.

**Mr RIORDAN:** How there could possibly be a redundancy situation between an employer and a contractor I do not know. Redundancy is all about fundamentally altering the employment relationship between the employer and the employee.

**The Hon. Dr B. P. V. PEZZUTTI:** Sorry, redundancy is not in this conversation because the Premier has said that of all of the options available redundancy is not one of them, so if all of the jobs are going to be maintained—

**Mr RIORDAN:** My view is that if contractors are relieved of their contract, then they have a contractual arrangement with the Government, and that remedy needs to be overcome and dealt with by the appropriate people utilising the appropriate mechanism, which is their contract.

**The Hon. Dr B. P. V. PEZZUTTI:** But, say, for example, we are finished with your work, your contract is finished, there is no redundancy, but that is another job lost.

**CHAIR:** What you are asking is does the guarantee of no loss of jobs extend to contractors.

**The Hon. Dr B. P. V. PEZZUTTI:** Given that NorthPower has gone down the chain—as you said clearly in your evidence they have put on more contractors and got rid of 1,500 workers or a bit more than 1,500 actually; it is climbing towards 2,000—and some jobs were replaced with contractors and the Premier said that he is not going to lose any jobs, but he did not say we were going to gain any either, I wanted to find out from you whether you believe that those jobs which have been converted from full-time jobs to contract jobs by NorthPower, again with the approval of Mr Egan and so on, are not guaranteed.

**Mr RIORDAN:** Well, depending on what task they perform I do not believe that anyone in NorthPower, whether it be contract or full-time, at this point in time would be employed in a job which is not required to be undertaken.

**The Hon. Dr B. P. V. PEZZUTTI:** That is true. That is why I asked the question.

**The Hon. J. R. JOHNSON:** But are those contractors working full-time for NorthPower, et cetera or do they come in on call?

**Mr RIORDAN:** It varies. Some work full-time for NorthPower; others are preferred contractors of NorthPower and have a business arrangement with them.

**The Hon. Dr B. P. V. PEZZUTTI:** I want to make it clear that I am only talking of the ones who work full-time as contractors replacing what would otherwise be a permanent job. That is something I will take up with the Government, of course, but your understanding is that it is not at this stage?

**Mr RIORDAN:** What we will be pushing the new organisation to do is to re-employ those people as full-time employees.

**The Hon. J. R. JOHNSON:** Are they termed contractors, three months, six months, 12 months?

**Mr RIORDAN:** In the majority of cases they are.

**CHAIR:** But what you are saying is because you believe their job is crucial full-time and will continue they should be employees and not contractors?

**Mr RIORDAN:** That is right. If you look at the types of jobs that are being contracted out, they normally go to things like meter reading, which is essential for the collection of revenue; pole inspection, which is important for the continued safety of employees; line inspection, in some instances, which is important in relation to the reliability of supply. They are not jobs that can be simply done away with. Contracting out those jobs has decreased the frequency of inspections in many situations. Also, they have, I suppose, lowered the standard you sometimes get from direct employment compared with contract employment.

**The Hon. Dr B. P. V. PEZZUTTI:** Because you cannot use them for other purposes in times of need and other reasons. Has that type of employment gone across the other two new partners?

**Mr RIORDAN:** Certainly in Great Southern Energy in particular there are a large number of contractors involved in some line work, for example, down in the far south-west of the State. Unfortunately, Great Southern Energy has its own problems in relation to the age of its work force and the skill levels that were left after the redundancy situation. They allowed people to leave.

**The Hon. Dr B. P. V. PEZZUTTI:** Who had enormous skills.

**Mr RIORDAN:** Based on the fact that they were a good bloke and "we need to cut our numbers to meet the Egan timetable" or the financial position rather than looking at the long-term needs of the organisation. For example, there were depots down in south-western New South Wales which formerly had six linesmen employed, and Great Southern Energy allowed five of them to take redundancy. A linesman working on his own can do a number of jobs but he is very restricted. You normally need two to work on electricity in live situations.

**The Hon. Dr B. P. V. PEZZUTTI:** What sort of time frame is needed to train a linesman?

**Mr RIORDAN:** It has just changed to four years.

**The Hon. Dr B. P. V. PEZZUTTI:** It is a very, very highly trained job.

**Mr RIORDAN:** Yes.

**The Hon. Dr B. P. V. PEZZUTTI:** It has to be otherwise they do not stay alive, do they?

**Mr RIORDAN:** That is right.

**The Hon. Dr B. P. V. PEZZUTTI:** If you think there is a fair number of these jobs which are now contract jobs, we will have to try to find out from Mr Yeadon I suppose—would that be Mr Yeadon?

**Mr RIORDAN:** I think a lot of that would fall to the new CEO. Far be it from me to give him a wrap, but in Advance Energy—

**The Hon. Dr B. P. V. PEZZUTTI:** Far be it from you—I heard that, and he acknowledged it.

**Mr RIORDAN:** That would be right. But clearly the situation that he has in his time at Advance Energy actually re-employed people to fill those jobs—he has gone back and turned the wheel, I suppose, and contracted back in, if such a term is allowable under the English language, rather than contracting out—he has broken the trend.

**The Hon. Dr B. P. V. PEZZUTTI:** Are many of the people who are now contractors previous employees?

**Mr RIORDAN:** In Great Southern Energy, that is certainly the case. In Advance Energy formerly—I mean three or four years ago—that was certainly the case. In NorthPower, I am not sure.

**The Hon. Dr B. P. V. PEZZUTTI:** We might come back to that issue.

**The Hon. I. COHEN:** How are you seeing workplace safety on the ground from a union perspective? You mentioned lots of numbers there with the linesmen. Is this cutting across workplace safety in general across the board?

**Mr RIORDAN:** Well, it has, particularly in NorthPower. NorthPower currently participate in a practice which is very unsafe, and I have had WorkCover have a look at the practice. WorkCover has issued a guideline associated with it across all of industry, and I am hopeful that under the new occupational health and safety regulations that will be coming out later in the year what I consider to be the most unsafe practice in the industry will be outlawed.

**The Hon. I. COHEN:** How will that relate to the new Country Energy corporation? Will it be more capable of dealing with it or will it create more problems?

**Mr RIORDAN:** It is probably a bigger issue than just Country Energy. The entire industry will have to employ more people in order to work in their current manner, otherwise they need to come up with new work practices, but obviously Country Energy would have the ability to have far greater flexibility. One thing that always surprises me is the way that the boundaries were drawn. They were based on the old local government boundaries from many years ago. That is how the county council boundaries were established. For example, there is very little distance between some of the rural towns between, for example, Advance Energy and Great Southern Energy, yet they are in totally different organisations. You have to ask yourself why and what is the benefit in doing that. Clearly, working for the one organisation there is far greater flexibility if there is a major job on to be able to move people between the depots, which might only be half an hour's driving time apart, so there is that improved flexibility in that regard.

**The Hon. I. COHEN:** The contractor issue, which is of interest, I am sure, to all of us really throws a spanner in the works. How does that relate to people, even full-time employees, being moved from one place to another? There is the guarantee that there will be no forced redundancies, no forced removal, but in practice how do you see that working out given that changes will occur? Are we going to see people having to move from place to place to maintain their jobs?

**Mr RIORDAN:** I do not believe so, Mr Cohen, on the basis that the industry is not overstaffed. I do not believe there is anybody out there who is currently performing a function which is not required now and will not be in the future, so I do not believe there will be the need to move people vast distances. An organisation like

Transgrid, which is the State's sole transmitter of electricity, has only a handful of people working at depots, such as Wagga Wagga, Yass, Sydney West, Newcastle and Tamworth, yet they cover the entire transmission system that goes right across New South Wales. They maintain that system or build that system using crews which go out and work on a week-to-week basis. They might be away from home for three or four nights a week and come back on the weekend. If Country Energy requires an influx of people to Albury, for example, it might have to transfer some staff from Wellington or Dubbo on a short-term basis and pay them the appropriate remuneration. They will undertake the job or the function and then return home. I think it will give Country Energy that flexibility.

**The Hon. I. COHEN:** Do you see an increase in contractors, for example, in rural and bush areas line clearing and that type of work? At the moment is that undertaken by contractors.

**Mr RIORDAN:** Not in all circumstances. Certainly in some areas they have been on the basis that redundancy has occurred, and tree clearing I think is probably the best example of a job in the industry which is now contracted out but was formerly done by full-time staff, normally linesmen; it is now undertaken in many instances by untrained and unskilled labourers.

**The Hon. I. COHEN:** So you are saying in all rural areas?

**Mr RIORDAN:** It is not just rural New South Wales. It also applies in the metropolitan area in Sydney.

**The Hon. I. COHEN:** So they are contracting tree surgeons and tree loppers and that type of thing to do the job?

**Mr RIORDAN:** Yes.

**The Hon. I. COHEN:** Does that impact on work safety for your members or is it a separate issue altogether?

**Mr RIORDAN:** It has impacted on work safety, and there is currently an inquiry being undertaken by WorkCover in relation to it. Inquiry might be too strong a term. WorkCover is currently looking at the situation in relation to training of people who work as tree clearers or tree loppers because the problem is that they tend to work inside the appropriate clearances to the live electricity.

**The Hon. I. COHEN:** Inside as in physically, do you mean, operating in a dangerous operating circumstance?

**Mr RIORDAN:** Yes.

**The Hon. I. COHEN:** Rather than not actually clearing sufficient to allow an adequate period of time before the job has to be done again?

**Mr RIORDAN:** No, it is working inside the clearances to the live wires. I will get shouted down from behind me, I have no doubt, but I think it is a metre, if you have any part of your body inside a metre clearance from the live wires, and we have found examples where some of these contractors are working well inside the metre and the problem has been that they have not been properly trained and they have not called for it.

**The Hon. I. COHEN:** So they are dealing with branches of trees overhanging electricity wires in circumstances where they are within one metre of the wire?

**Mr RIORDAN:** Yes.

**The Hon. I. COHEN:** A very dangerous situation. Will the consolidation of the industry and creating Country Energy have any impact on other methods of dealing, say, with lines, bundled cables, underground lines, innovative activities? Will it give greater scope for that, from your perspective, or have limitations on it?

**Mr RIORDAN:** Well, I think what it will do is allow for a far greater debate between that organisation among hopefully like-minded and intelligent people as to what is the most appropriate way to service the rural customers of New South Wales, as to what is the most appropriate form of cable or pole or whatever to ensure greater reliability. I do not think the debate has gone to such an extent in this country where we have all the answers in relation to what is the most successful way to guarantee electricity supply.

**The Hon. I. W. WEST:** Paragraph (a) of the terms of reference relates to existing and future employment. I refer mainly to future employment in terms of natural attrition and non-replacement. Have there been any discussions about that, what the future levels of employment will be?

**Mr RIORDAN:** No, I have not had any discussion at all in relation to future employment. I know that there are some problems which this organisation is going to be faced with in the very near future, particularly in the south-west of the State, where the average age of some of the tradespeople is in excess of 50. There has been a severe reduction in training in this industry over the last eight or nine years and we are now reaping the ill rewards of that. One of the great challenges that Mr Murray will have when he becomes the CEO if the merger takes place will be to look at the manning levels or resource levels of the Great Southern Energy area, because the union certainly can identify a future problem and it is only a matter of years before that problem really hits home but I have certainly had no discussions with Mr Murray or anybody else from the proposed Country Energy in relation to employment levels now or in the future.

**The Hon. I. W. WEST:** But the union has ideas as to what the levels should be in saying that there are some difficulties?

**Mr RIORDAN:** There are some difficulties, yes. We are aware of what we believe are underresourced areas within the State and we think those areas should be looked at very closely. There cannot be any reason why the northern part of New South Wales has the number of blackouts it does compared with the southern part of New South Wales. There has to be an underlying cause, and my union's view is that that cause has been the lack of maintenance in the network. That lack of maintenance is caused by two things—one, the inability to undertake proper maintenance based on manning levels and, two, the drive by the organisation to return better than average or better than normal dividends to the Government.

**The Hon. J. R. JOHNSON:** Where do you see the advantages for customers, for your members and for the State coming from this proposal?

**Mr RIORDAN:** The benefit for the customers is that I believe that this proposed merger will improve reliability of service. I think there will not just be electricity; it will be add-ons as well, whether it be banking facilities or—

**The Hon. Dr B. P. V. PEZZUTTI:** NorthPower's Turbonet Internet provision.

**Mr RIORDAN:** I am not sure what the CEO designate's views are on that. There are all sorts of capacities out there in relation to billing, the problems with billing that need to be resolved, and I think it is fair to say that the levels of service that have applied in rural New South Wales have not been of the same standard as those that apply in the metropolitan area, put down mainly to size. There are not the economies of scale which you can have in relation to billing or anything else that goes with it, so I think there are benefits there for people in rural New South Wales. The primary concern for every consumer in New South Wales is that when they go home at night and flick the light switch, they want the light to come on, and you cannot always be that confident—

**The Hon. J. R. JOHNSON:** And to stay on.

**Mr RIORDAN:** —in the last few years in relation to that in certain parts of the State. In relation to my members, the benefits are that they will have a single award operating in rural New South Wales. Whilst we have not yet undertaken any discussions with anyone from the proposed Country Energy, I am absolutely certain that we will have a common rate of pay that applies right throughout that organisation so that people performing the same job in Tweed Heads are paid the same amount of money as the person doing that job in Wagga Wagga. It is important to have that uniformity as well, because it will overcome a myriad of industrial relations problems. The union has been beset with claims of rural people being disadvantaged depending whether they lived on the coast or lived inland. We have had the arguments thrown up about the Fire Brigades of New South Wales or the Ambulance Service or the Police Service, which have a common award which runs right across New South Wales. We will be almost there. We will have an award which goes across probably 80 per cent of New South Wales, so there is that advantage there for my members. Mr Johnson, your third point was?

**The Hon. J. R. JOHNSON:** The State.

**Mr RIORDAN:** I just think there will be increases in dividends for this State Government. I cannot see how the dividend share would get less. There will be cost savings, and the economies of scale are enormous in relation to IT. I am sure that Mr Murray would be very happy if he could return a dividend of some \$20 million, \$30

million or \$40 million greater than what the accumulated total was this year based on savings through IT expenditure savings or on just simple purchasing power savings.

**The Hon. Dr B. P. V. PEZZUTTI:** I bet he does not even try. I bet he cannot try. He has just had \$1 billion worth of debt loaded on to him, for heaven's sake. I was drawn to the comment by the Chairman of NorthPower in his annual report about this new link or company, NorthPower with Hydro Quebec, a new private company that has put a link between northern New South Wales and Queensland. To what extent does that sort of privatisation on the side for new infrastructure challenge the view about privatisation in the State and what impact does it have?

**Mr RIORDAN:** The DC line which was built has been besieged with problems. I am fairly confident that if the Government had its way again that line would not be built. That does not answer your question.

**The Hon. J. R. JOHNSON:** It runs from where to where?

**Mr RIORDAN:** My understanding is that it closely comes down the coast, goes through Murwillumbah, basically comes down from south-east Queensland down through Murwillumbah. It is just another feeder. NorthPower decided to try to pick up some technology from overseas, where they transmit their electricity in DC rather than high-voltage AC, and it may or may not be a success. It depends on who you talk to in the industry at the moment. NorthPower claims a huge success. Other players say that the jury is still out.

**The Hon. Dr B. P. V. PEZZUTTI:** Either way, it was a separate combined company not covered by the same audit processes as the rest of NorthPower, and I can see other new investments—you know, a power line here, a power line there—going the same way. How does this new arrangement stop that sort of thing happening or do you think it is a bad thing?

**Mr RIORDAN:** Well, in my view, I think the Government would be very silly if it ever got into a situation where it did not own the network. Any examination of the profitability of the system would identify that the real asset is the network and if you want to maintain control of the asset and want to maintain the profitability of the asset you must maintain control and maintain the asset in a manner which ensures that it is profitable.

**The Hon. Dr B. P. V. PEZZUTTI:** That goes back to the very first question I asked you: given that NorthPower is only expected to spend in capital investment for the year some \$89 million.

**Mr RIORDAN:** Well, I think that was due to problems with IPART. I would not place too much credence on any proposal from any of the organisations as to where they were going to spend their money because the problems that IPART has created for these organisations have been numerous. They are very careful to ensure that what they do in relation to spending on their network is done in a manner which does not leave them open to criticism when it comes to the pricing tribunal. It has got to a situation now that IPART is determining through an underhanded or backhanded way the number of people that an organisation will employ, the number of times that a piece of equipment will be maintained or have preventive maintenance performed on it and therefore determining the reliability of the network.

**The Hon. Dr B. P. V. PEZZUTTI:** The service, that is right.

**Mr RIORDAN:** I think that is far beyond the formal instructions or agenda that IPART was put in place to govern and that it has overstepped its mark by a long, long way.

**CHAIR:** They would not have technical experts to be able to say whether these things should be maintained in that way, would they?

**Mr RIORDAN:** No.

**The Hon. Dr B. P. V. PEZZUTTI:** But they were the price regulator put in place to assuage the community about the community's protection leading up to this contestability issue and for the small mug electricity user in their own home, so the smoke and mirrors inside IPART are just about as clear as the smoke and mirrors in terms of the Government's commitment to allowing these industries like Country Energy to have an appropriate capital base for expansion or repair of their services. One of the reasons for privatisation is that the privatised company can call for further capital by having share issues or calling for more venture capital. The Government can only do that with a government-owned thing by taking it out of government revenues or not getting a return on its investment. What certainty or assurances have you had that there will be adequate capital reinvestment in the pole and line part of the business to make sure that it is reliable?

**Mr RIORDAN:** I do not have any commitment on it from government or from anyone inside government. The simple fact is that the provision of electricity services to the people of New South Wales is an essential service and any government or any political party realises the political implications if they allow that essential service to be run down to such a state that there is not a great degree or fair degree of reliability.

**The Hon. Dr B. P. V. PEZZUTTI:** It is entirely user pays at the moment, is it not? Why is the Government not putting more money into it?

**Mr RIORDAN:** It is not quite entirely user pays at the moment. It is not far off it. There are a number of areas that these organisations can source money from or borrow money from, but at this point in time the Government does not allow these organisations to undertake that borrowing from those alternative areas.

**CHAIR:** Thank you very much for your time.

**Mr RIORDAN:** Thank you, Mr Chairman.

**(The witness withdrew)**

**CRAIG FRANKLIN MURRAY**, Manager, Hampton Park Road, Bathurst, sworn and examined:

**CHAIR:** In what capacity are you appearing before the Committee?

**Mr MURRAY:** As Managing Director of Advance Energy and Managing Director Designate of Country Energy.

**CHAIR:** Are you conversant with the terms of reference of this inquiry?

**Mr MURRAY:** Yes, I am.

**CHAIR:** If you should consider at any stage during your evidence that, in the public interest, certain evidence or documents you may wish to present should be heard or seen only by the Committee, the Committee will be willing to accede to your request and resolve into confidential session to allow you to do so. However, I have to warn you that Parliament can override our decision and make it public anyway. Perhaps you might like to make some comments first and then we will ask some questions.

**Mr MURRAY:** Thank you. If I could just talk to you a little bit first of all about Advance Energy and what we are about as an organisation and then, I guess, the reasons why we have for some time now supported the concept of a merger, Advance Energy is perhaps the smallest of the five main players, if you like, in the New South Wales industry. The only other one that is smaller is Australian Inland Energy. It is totally rurally based and covers an area west of Lithgow to west of Cobar, north of Coonabarabran to south of Cowra, some 20 per cent odd of the centre of the State. We are the only truly rurally based organisation that does not have an outlet to the sea, if you like, and what we did from day one was to try to turn that into a positive so far as distance is concerned. We have been very successful in the contestable market to date with the large end of the market and we have grown our business by some 50 per cent in total in that period of time. We are also the only organisation that has never shut a depot nor have we ever shut a customer centre. In fact, we have opened new ones and we have put a banking operation into a town called Trundle. We did not do these things because we are a charity; we did them because we believe they make good business sense, particularly as they relate to our stakeholders.

Some three years ago at least now we have been pursuing the concept of a merger because it became clear to us that as choice or contestability came down in the market we simply would not be viable. We have pursued a number of spirited options with the full support of the board and the management team, and I should say that that support has come with some risk in the sense that not everybody in any merged organisation was going to end up with the job that they may want. Indeed, in terms of the board, it may well, as it has just done, lost its role, if you like. However, the alternative to not pursuing a merger was simply that the organisation would not survive. We felt that Advance Energy, Great Southern Energy and NorthPower would all simply wither on the vine, if you like. We have 125,000 customers. Our major competitors, such as AGL, have 2.2 million. The cost of marketing, the cost of systems heading into full retail contestability, was simply going to be too great to allow us to survive and grow. Similarly, we felt that with a network of our size much the same dynamic would apply, that all of these areas become more involved with systems and as costs went up our business and the services that we deliver to our customers and the standards that we try to achieve would have fallen back. I think you ran the risk of having an impoverished rural rump out there with an ever-widening gap between the services they can expect and the services that are readily provided to the city.

I believe it has taken this period of time to get the concept of Country Energy up and running simply because of the fact that when you normally talk merger the first question is how much can you cut costs—for cutting costs read how many staff can you cut—and this has never been about that really; it has been about viability and growth into the future. We as a business have tried so often to introduce innovations into our business for our customers only to be told by major players, "Yes, it is a great idea but you are too small." I think that if Country Energy gets off the ground we will not be too small and for the first time there will be a large and viable business based in the bush that can compete one on one and deliver real services and standards to its customers. I think in particular one of the areas that has concerned me has been the ever-widening technogap, if you like, between the bush and the city. Unless that is addressed, five or 10 years down the track it will be almost impossible to do business anywhere out of Sydney, Newcastle or Wollongong. I think the services that are provided in the city now are ahead of those provided in the country and I think that simply has to be reversed. I think this business gives us the opportunity to do that. Similarly, it gives us the opportunity to really attract industry out into the bush of any sort because that is another way that we can guarantee growth and guarantee income for our poles and wires. That is really all I wanted to say to begin if I could just answer your questions.



**CHAIR:** I might just ask a couple to start with. I know it is very difficult to ask you too much about what might happen in your position as CEO designate because you obviously really do not know too much about what goes on in those other areas. But you heard probably some of the discussion before about full-time contractors, particularly in some of the other areas. Have you got any comment to make on those?

**Mr MURRAY:** Yes, I do. I really do not believe in full-time contractors. I do not see why full-time contractors have to be necessary. If you have to employ a contractor, it seems to me that as a manager you are simply not running the business well enough. Certainly, you need contractors at times for set periods to cover peaks and troughs or some new work but if you have a contractor year in and year out, and we have very, very few, then I simply think that the matter has to be addressed. If you need that role and it is full-time, then it should be carried out by an employee because I think with employees you do have a much greater control over standards and conditions and the rest of it. I would look at taking the same approach that we have taken, and that is to look at any functions that are out on full-time contract and look at bringing them back into the business.

**CHAIR:** Bernie Riordan suggested that this actually might be a process that creates jobs, that it is actually one area where it might create jobs, but are there others that you see?

**Mr MURRAY:** Yes, I think there are. For example, I think that the whole concept of business growth is something where we just have never had a chance because of size to get involved in. There are some obvious ones, like, for example, the setting up of call centres in the bush and those sorts of things, where you really have some opportunities, where labour is cheaper, rental is cheaper, and there is a great trend now for call centres to go offshore into Asia and wherever else from Australia. The actual call costs are a minuscule amount of the overall cost. Those sorts of things I think you can work hard to attract into the bush. I think that as the business grows within itself a couple of the areas that worry me at the moment are things like our energy trading area. Now, we have done well, but it is with a very, very small number of people. I would really like the opportunity to have some much greater degree of scenario planning and financial impact studies and those sorts of things, and I think those sorts of things can come out, or would come out, of a much larger business.

**The Hon. Dr B. P. V. PEZZUTTI:** You mean like Integral?

**Mr MURRAY:** No, I mean particularly unlike Integral. Integral, I think, has had its own particular set of issues.

**CHAIR:** For the Committee's benefit, Craig used to work for Integral.

**The Hon. Dr B. P. V. PEZZUTTI:** Did you?

**Mr MURRAY:** But left five years ago, I have to add.

**CHAIR:** He left there to go as the first CEO of Advance.

**The Hon. Dr B. P. V. PEZZUTTI:** Bigger like Integral is not necessarily better.

**Mr MURRAY:** No, it is not.

**CHAIR:** But also Craig is a country boy from Coonabarabran.

**The Hon. Dr B. P. V. PEZZUTTI:** I am quite happy that he is a country boy but when you talk about getting into the trading business it is a bit like Integral getting up there with the big boys.

**Mr MURRAY:** I think there are a couple of other examples you could use that would probably be closer to the model I have in mind. It does make sense, though, I think, when you are managing risk like that to have a much greater degree of evaluation and analysis of what you are doing. I think the risk profile you take is another subject altogether, but I think the understanding of that risk is very important for the business. Whilst, as I have said, we have done well, life with full competition does not get easier; it gets more complex.

**CHAIR:** You touched on call centres. I am aware that call centres in one particular area, the NorthPower area, have been a concern to people. You might like to comment on that, or you may not be able to at this early stage. I took your comment on call centres just then to mean not just call centres for your own business, for Country Energy's business, but that you might actually subcontract work in from outside.

**Mr MURRAY:** Absolutely. That is exactly what I meant, the idea of having remote call centres. That is just an example of the sorts of things you can do. Really, what people are looking for are volume and cost, and the costs associated with putting those sorts of operations into the country are really very good, particularly in towns, for example, like Grafton, where they actually have a TAFE course in call centre operation.

**The Hon. Dr B. P. V. PEZZUTTI:** They do.

**Mr MURRAY:** I think that sort of thing just makes a whole lot of sense. It is very much the same philosophy that we have taken in reverse, if you like, in a sense of never closing small depots. To my mind, I have never understood the reason why you would want to do it. There is no doubt that your main cost is the two or three people working there; there is no doubt that they are flat out because if you close what you do you pull them back to a large centre. So all that does to my mind is drop service standards because they have to travel further. It increases costs because you have to pay for the travel. You cannot sell the depot because you cannot give it away. You pull two or three more families out of town and you lose your two best salesmen in the pub on a Friday night. I have never understood the reason why you do it. I still do not.

**CHAIR:** The access charge is another one that we have a fair bit of comment about in submissions. It has only been talked about in the NorthPower area but what's the general situation? Is there an access charge or equivalent right across the State?

**Mr MURRAY:** There pretty much is.

**CHAIR:** Are they the same, roughly?

**Mr MURRAY:** Look, I do not know the quantum of NorthPower's. One of the problems we have had through this whole process is that while we are going through the ACCC process I am sort of expressly forbidden to look at any of the business utterings of the other two businesses because we are still in competition. Access charges or supply charges have really been around for a long, long time. Ours have only ever risen by CPI or less, and I understand, and it is only an understanding, that some of NorthPower's problems were caused by the way they were introduced and the speed of increase of them, if you like. There is that and a couple of other charges that I would like to have a look at and just understand what it is all about.

**CHAIR:** Before I hand over to somebody else to ask some questions, I have two questions that are close to my heart. What is likely to happen to Mighty Mouse—

**The Hon. J. R. JOHNSON:** Tell us what that is.

**CHAIR:** —and the Advance Energy logo? As you know, it is Mighty Mouse, but Advance Energy owns the rights to Mighty Mouse. You might explain.

**Mr MURRAY:** When we started to try to get a position we clearly could not do the elegant positioning of an EnergyAustralia or the slightly less elegant positioning of an Integral, if you like. We had to have something that symbolised what we wanted the company to be, and we chose Mighty Mouse—this smart little pugnacious, on the right side, pushing around, helping those in need sort of little mouse thing, and we used it as a marketing sort of shot, if you like. I do not know that it would be appropriate with this big organisation. You might have a sort of big rat instead perhaps. I really do not see it continuing. I think the Advance Energy logo would become redundant. I think it is important that you rebrand the entire business and I think it is important that it is a merger; it is not any form of takeover.

**The Hon. I. COHEN:** Mr Murray, you mentioned small depots and maintaining them and also you were very clear about contractors, so how does that work for you in terms of holding full-time employees in situ? Are you able to give a guarantee or an expectation of that?

**Mr MURRAY:** That they would remain where they are now?

**The Hon. I. COHEN:** Yes.

**Mr MURRAY:** In fact, I understand, and it is only an understanding, that a lot of people now travel to work for some distance from smaller towns.

**CHAIR:** Some travel five hours.

**Mr MURRAY:** We have never ever had forced relocations in our business at all. We have never ever had the need to have forced relocations. It was interesting earlier on. I heard Bernie Riordan talking about the ageing of the work force. Indeed, we have had that same issue. We have an extremely proactive and aggressive apprenticeship scheme running, and we currently have some 35 apprentices working in our organisation. I think six or seven were taken on last year. What we have found in these smaller places is that it is often difficult to keep staff there. What we now do is hire young people out of those towns whose families are there so, therefore, they are more likely to want to stay. I think if you have a choice of living in Condobolin or Ballina and you are 25 years old you may very well choose Ballina, so the concept is to try to get local people in these places who have family and long-term attachments there, and it has worked out really quite well for us.

**The Hon. I. COHEN:** We hear a lot about greenhouse targets and we are talking long distances with the projected Country Energy. Do you see a role there for standalone alternative technologies? Is there any brief that you will be undertaking in that area, and how does that look in terms of employment and environmental sustainability?

**Mr MURRAY:** We are pretty proud of our so-called green credentials. We are the only business of our type and one of only six or seven in Australia that takes 100 per cent green for all of its offices and all of its depots. We also sell a reasonable amount of green energy—not as much as we would like—and we have interests in wind farms and so on. One of the great challenges I think into the future is to have these remote power supplies available to customers as an alternative to being hooked up to this long stringy bit of wire, and one of the things that we have been looking at now for some time is to develop a business unit whereby we supply or lease the remote power supply to customers, but I think, importantly, that we also supply the service for it so that if they have a problem they phone and someone comes to assist them in much the same way as they do now when they are connected to the grid, and I think there is a great opportunity for that in the bush. It is always frustrating to me that the technology is always just about to happen to make the system perfect, but I think we can go further, and I think provided you give customers an alternative and in particular a back-up service—I think that is the bit that has been missing now for a long time.

**The Hon. I. COHEN:** In a similar vein, I asked earlier about the IT industries in decentralised areas particularly where I come from, and I am interested to hear what you say. I am wondering whether your ideas about standalone systems would apply to areas which are not as removed as, say, some areas out west but Mr Riordan before saw problems with power surges, blackouts, et cetera, a problem of maintenance. Do you agree with that?

**Mr MURRAY:** Not entirely. It is certainly partly maintenance—there is no question about that—but there are a number of things that you can use to minimise those problems, these uninterruptable power supply systems [UPS]. We have a scheme for our customers who are very badly affected. Sometimes without spending literally millions and millions of dollars you just cannot fix it. We do give these to our customers, and we do also have another scheme where we sell them to virtually everybody who wants to buy one at cost price, so that in fact eases the problem, but I think a standalone system can be placed anywhere. I can see no reason why it cannot, so there is that combination. I think you have to look at these things the whole time as a total package.

**The Hon. I. COHEN:** How do you assess a standalone system in certain circumstances where it is revenue neutral for you, or what sort of strategy would be undertaken?

**Mr MURRAY:** I think the major one is the level of customer satisfaction you can achieve, and I think it is important that you work closely with customers on it. The revenue neutrality is almost secondary, if you like, in the sense that costs of maintaining supply to customers who are having difficulty is so great that it is almost a lay down misere, I would have thought.

**The Hon. I. W. WEST:** Mr Murray, are you in a position at the moment to give us any indication as to future employment having regard to the talk about the ageing work force, the fact that quite a number of people will be leaving and the question of whether or not they will be replaced? I am trying to come to grips with the issue of future employment levels.

**Mr MURRAY:** Sure. Look, it is hard for me to be specific because I do not really understand what the challenges to the work forces are in the other two businesses, but I think one of the major reasons for this whole concept of Country Energy is the growth, the business growth, and therefore employment growth. Our numbers in Advance have gone up considerably in the last two to three years when we have picked up considerable chunks of business, for example, from Telstra, and there are all those sorts of things. I certainly do not see it as a cutting back

on employment levels, and I would be very disappointed if it was not growth. I think growth of the business drives employment growth.

**The Hon. I. W. WEST:** You indicated that Advance had grabbed, if you like, or improved its market share by something like 50 per cent.

**Mr MURRAY:** Yes.

**The Hon. I. W. WEST:** What was the increase in the work force?

**Mr MURRAY:** That was in terms of trading, so the increase in the work force relating to that was probably only four or five people in a marketing-trading sense. I think the other more interesting one was the growth in work we have done in terms of the network and Telstra. We have just put on a number—I think it is 10 or 11—of full-time staff to handle that. They were in fact people who were on a 12-month contract and we have now turned them into full-time employees. The 10 or 11 may not be right but it is in that quantum.

**CHAIR:** So what do they do for Telstra?

**Mr MURRAY:** We do a lot of work in new estates and we have contracts for a fair part of the State where we go out and bid, but we went out right across the board. When the contracts came up for renewal—and this is an example because Telstra has now changed the way it contracts in these huge grabs and our contract has another two to three years to run in some parts—we went out to bid for that. We were up against the Transfields and so on of this world and we simply did not have a chance whereas this new business in the future would have all of that.

**CHAIR:** So that is maintaining some of their systems?

**Mr MURRAY:** Yes, and particularly installing new work into new subdivisions.

**CHAIR:** Ian West was sort of alluding to the 50 per cent business and I think Bernie Riordan or one of the other witnesses said that BHP in Wollongong was one of the first.

**Mr MURRAY:** That was an interesting one in business dynamics in the sense, if you like, that BHP was the first contestable customer in New South Wales and we picked it up. Strategically, for us being so small it was tremendously important. We have still maintained most of this some four years on now, but from a strategic point of view the importance of it has lessened tremendously. The Sydney Opera House, for example, is one of our customers. But as you go down to the mums and dads it becomes more complex and more expensive to handle.

**The Hon. I. W. WEST:** Are you in a position to be able to enlighten us as to some of the issues surrounding the last point in the terms of reference, paragraph (i), the issue of salaries?

**Mr MURRAY:** Yes, I guess.

**CHAIR:** You probably want to rebut some of the comments made earlier.

**Mr MURRAY:** From the previous speaker. I can only tell you the way we do it as a business. Our salary levels are worked out on a point system given breadth and span to the Hay Group, a Melbourne-based company. They are at arms' length. Out of the system they use comes a salary band. My own salary, for the record, is \$280,000. I do not get a bonus, and I personally do not believe in bonuses for state owned corporations. Nobody in Advance Energy is paid a bonus at all. Whilst I understand that may be, according to Bernie Riordan, the equivalent of the Premier's salary—I really do not know what he earns—the fact is that in private industry you could earn much more but we are not in private industry. I am happy with my salary; I am happy with the fact that I do not get a bonus.

**The Hon. I. W. WEST:** Clearly Mighty Mouse, not church mouse.

**Mr MURRAY:** I think that is right.

**The Hon. Dr B. P. V. PEZZUTTI:** The politics of envy.

**Mr MURRAY:** I think there is a clear need, though, that everybody has set performance criteria, as I do. I have a performance assessment every year by the chairman, which is then discussed by the full board and any increase is then agreed.

**CHAIR:** That is likely to be the same process with the new organisation?

**Mr MURRAY:** I would assume so. Presumably the chair of the new board will have some ideas, but that would be my advice. I just do not believe—and it is a personal view, and there are different opinions—that bonuses should be paid to state owned corporation employees.

**The Hon. Dr B. P. V. PEZZUTTI:** The Treasurer has ruled them out anyway.

**Mr MURRAY:** Has he? I was not aware of that.

**The Hon. Dr B. P. V. PEZZUTTI:** The Treasurer has ruled them out anyway, so it is an academic argument.

**Mr MURRAY:** We have never had them.

**The Hon. Dr B. P. V. PEZZUTTI:** He has ruled them out for government employed people on the SES, and the Treasurer ruled them out for state owned corporations as well.

**Mr MURRAY:** I was not aware of have.

**CHAIR:** Nor was I.

**The Hon. Dr B. P. V. PEZZUTTI:** He did it in the House. The Premier said the same thing, because I asked those very questions in the House and he told me that they were going to apply to state owned corporations as well.

**Mr MURRAY:** I was not aware of that. Well, we have never had them, so it is not an issue.

**The Hon. J. R. JOHNSON:** Mr Murray, why do you consider AGL to be your major competitor?

**Mr MURRAY:** It is one of the major competitors. There are many more. I think, essentially, to be a privately owned monopoly would be a good situation to be in. It is a very large organisation, it is a very aggressive organisation and, as I said, it has some 2.2 million customers. It is an obvious one because of its profile. It has a very high profile in most of Australia. But there are some other interesting ones coming. There is one called Pulse, which is largely owned by the Shell Oil company, for example. That will be retailing electricity shortly. So AGL is a major one, but there are others.

**The Hon. J. R. JOHNSON:** What do you consider the major advantage for the State of the proposal for Country Energy?

**Mr MURRAY:** I think the major advantage is that you turn three small almost non-competitive businesses into one viable business for growth into the future. I think that is the major advantage for the business and, therefore, I think it is the major advantage for the State that you have three very small businesses at the moment that are finding it difficult to compete. You will have one much larger business that will be competitive and have a growth horizon.

**The Hon. J. R. JOHNSON:** Could you envisage that the headquarters of the new body would be shifted away from the current position?

**Mr MURRAY:** No, we have three corporate offices at the moment that the new business will have. That is exactly how it will stay. One of the things I am very keen to put into practice in this new business is the same sort of thing we have done in our current business, and that is to have a highly decentralised management team. I think the idea now that you have one large corporate office is simply a nonsense. It does not have to be that way, and it should not be that way. There is no reason to do it. I often think the head office of our business is the front seat of my car.

**The Hon. Dr B. P. V. PEZZUTTI:** You are going to close the brand new Port Macquarie offices, are you?

**Mr MURRAY:** Am I going to?

**The Hon. Dr B. P. V. PEZZUTTI:** The Premier just opened them.

**Mr MURRAY:** Yes, I was there.

**The Hon. Dr B. P. V. PEZZUTTI:** Are you going to close those down?

**Mr MURRAY:** Absolutely not. That is one of the three we already have—Queanbeyan, Bathurst and Port Macquarie.

**The Hon. J. R. JOHNSON:** Which of the terms of reference that we have been given to conduct this inquiry strikes you as the one that needs the most attention?

**Mr MURRAY:** I think that there are two, probably. The first one—the future employment levels and growth for employment in the country—I think is important, and also the concept of maintenance and reliability of supply and delivery of service to customers. I think they are the two major ones.

**The Hon. J. R. JOHNSON:** Do you have any real problem areas with the delivery of supply, say, on the far North Coast?

**Mr MURRAY:** Within our own area of Advance Energy life is certainly not perfect but we try hard. There are clearly some issues in parts of the north where it is very public. It is much less loud, if you like, from the south but, clearly, they would have to be looked at. But I also believe that in the north if you get the structure right, if you get some senior regional general managers out where their customers are, you get some small depots opened again, staff can respond quickly to customers' needs. I think there are some areas where there will be capital needed but I do not think it is only capital. I think a lot of it is communication and perception and responsiveness to customers.

**The Hon. J. R. JOHNSON:** What is the causing cause of the difficulties?

**Mr MURRAY:** I really do not know. It is very hard for me to comment on NorthPower because at the moment we are a competitor, but I think it is a number of things. I think it is perceived to be an organisation that has pulled back tremendously from where the county councils were. I do not know that they have put anything back in its place. I think there may have been a run down in some areas on expenditure on maintenance, but I really do not have any of the figures in front of me on any of that because, as I said, it is a competing organisation. I think it is a number of things. I think there is a practical problem there; I think there is a perception problem; I think both of those things need to be worked on.

**The Hon. J. R. JOHNSON:** Were many of the areas where you are currently involved affected by the recent floods?

**Mr MURRAY:** No, not at all really. We do have our own little weather opportunities, though, around Orange and Bathurst and Blayney and places in winter and there is no doubt that those sorts of storms do create havoc with reliability of supply, but I believe strongly that if customers can contact you, if they know you are trying to fix a problem if you communicate with them then that is about 80 per cent of the battle. When they have difficulty talking to you, when they feel isolated and they do not know what is happening, that is when I think you have a major problem.

**The Hon. J. R. JOHNSON:** Press button 1, press button 2, press button 3.

**Mr MURRAY:** I hate those things.

**The Hon. J. R. JOHNSON:** Then you have a jazz concert and you hate jazz.

**Mr MURRAY:** We do not have IDR on our call centre at all. It is answered by a person.

**The Hon. J. R. JOHNSON:** Do not get one.

**Mr MURRAY:** I personally do not like them. We do answer by a living human.

**The Hon. Dr B. P. V. PEZZUTTI:** In the annual report of NorthPower this year—and NorthPower is obviously the talking point since it is the biggest by a long way and has the most opportunities because of its position with the Central Coast and Newcastle.

**Mr MURRAY:** Growth areas.

**The Hon. Dr B. P. V. PEZZUTTI:** To be perfectly frank about this, NorthPower has a chance of growing but Advance Energy and Great Southern just simply do not come within a bull's roar, so if any of the three of you were going to survive it was going to be NorthPower in a contestable market. It was the only chance that any of you really had.

**Mr MURRAY:** Well, that is true but I think even standalone NorthPower is below.

**The Hon. Dr B. P. V. PEZZUTTI:** That is why our focus has been on what has happened at NorthPower because it is the hard edge.

**Mr MURRAY:** Sure.

**The Hon. Dr B. P. V. PEZZUTTI:** The proposed chairman of the new Country Energy, Barbara Ward, said in the annual report to the stakeholders, to the shareholders, namely, Michael Egan and John Della Bosca:

I am pleased to report a very successful year of consolidation and growth. All SCI targets have been exceeded, some by substantial margins. As well as sound financial outcomes NorthPower has made significant advances in occupational and public safety, environmental care, network reliability, product diversification, profitable market growth and customer service.

Now, there is absolutely nothing in that statement I would disagree with. I am from the North Coast and I know they have had outages and they have had problems but given the weather we have had the last year and the year before that even with the storms, I think there is a perception going round that there was a bigger problem. I have had this out with Tom Parkinson and with Mr Sheather, his public relations person. If you look at the things on paper they have done exceptionally well.

**Mr MURRAY:** I think that is right.

**The Hon. Dr B. P. V. PEZZUTTI:** And I think that is a proud report by Barbara Ward. I wrote to Mr Parkinson, having read his report in seven pages, with a large number of questions. Given that this is now going to be tied up with Country Energy, my ability to pursue those questions is now annexed because having written to Mr Parkinson he replied to me that he was more than happy to meet with me face to face. I have had meetings with him before and he has answered my questions, commercial in confidence. They might be answered in a slightly different way but I have got satisfaction. Now, I want to be pretty certain, given my agitation with the way in which all of these local assets were gobbled up and suddenly became a State asset, that maintenance of employment and quality will not just be in the poorer or smaller of the two sectors rather than the bigger of the two sectors where the growth is happening.

**Mr MURRAY:** It would make no business sense at all to do that. You put the resource where you have growth, where the business is growing, surely.

**The Hon. Dr B. P. V. PEZZUTTI:** If you want to do subdivisions I am sure it is much more likely you would do subdivisions on the North Coast than you would at Cobar, for example, or in Bathurst or Lithgow.

**Mr MURRAY:** Of course.

**The Hon. Dr B. P. V. PEZZUTTI:** But if you are going to go into that sort of business then the business is all on the North Coast.

**Mr MURRAY:** Sure.

**The Hon. Dr B. P. V. PEZZUTTI:** So when I look at the employment opportunities, is it the total number of employees that we have now that the Premier says he is going to keep. You have already answered the question with Ian Cohen whether they are going to remain local, but are we going to see the appropriate growth in employment?

**Mr MURRAY:** Yes, I think business growth drives employment growth. I made that point. I think you put resource where it is needed by the business, and I agree with you totally. I think the North Coast from the mid to the far North Coast is an extraordinary growth area.

**The Hon. Dr B. P. V. PEZZUTTI:** The reason I asked the question about capital before was that the Treasurer has ripped off huge amounts, millions and millions of dollars. Parkinson returned \$42 million over his target last year, for which he probably deserved to get \$100,000 as a bonus.

**Mr MURRAY:** Quite possibly.

**The Hon. Dr B. P. V. PEZZUTTI:** It was a cheap bonus for a huge return. That \$42 million could better have been spent on capital. What opportunities do you have now with the loading up of debt as a result of that last year—\$320 million for NorthPower alone—to have that sort of opportunity that Parkinson probably had last year?

**Mr MURRAY:** To invest in the network, you mean, and grow it?

**The Hon. Dr B. P. V. PEZZUTTI:** Yes.

**Mr MURRAY:** Well, there are two ways you can do that. You can raise capital through debt, which raises your level of debt but also raises the value of your asset so the debt ratio remains the same. You can do it that way, or you can simply go out and get an infusion of capital from the Government. There are two ways it can be done.

**The Hon. Dr B. P. V. PEZZUTTI:** In what ways can you do that? The Government is putting a big investment into Sydney with this new power line—\$117 million of capital investment into that power and pole operation. What chance do you have of getting the same sort of investment?

**Mr MURRAY:** I think probably a better chance. Electricity is a core product. A good standard of electricity has to be there for everybody in the State, and I think the Government recognises that. I think that is one of the reasons they have now gone down this track of Country Energy because I think without it you ran the risk that the three businesses really, but to a lesser extent NorthPower—I take your point on that—were not going to be able to withstand the forces of competition and standards into the future, so I think the Government has shown every indication that it intends to meet the needs of people in rural New South Wales.

**The Hon. Dr B. P. V. PEZZUTTI:** The reliability of the network for all three businesses, whether it be Country Energy, EnergyAustralia or Integral, as you said in your opening remarks, the base is the power in the poles. That is the basic asset. If all of the power in the poles was well maintained and there were no outages, the issue is whether you can charge a higher toll and pay less penalties for any competitor who is selling through your markets. If the State Government invested capital into any of the three companies and you got a better reliability, a higher quality, less maintenance requirements and so on by capital investment, then the toll that you collect from somebody from Victoria or something from Queensland selling electricity to somebody next door to me—

**Mr MURRAY:** The network charge, you mean?

**The Hon. Dr B. P. V. PEZZUTTI:** The network charge—can be a big money spinner for government.

**Mr MURRAY:** Yes.

**CHAIR:** Would IPART automatically allow you a higher toll, as Dr Pezzutti calls it?

**Mr MURRAY:** You can invest capital in the network and get a return on it for growth, certainly.

**The Hon. Dr B. P. V. PEZZUTTI:** Or avoid outgoings like maintenance.

**Mr MURRAY:** Yes. By spending more and having a better quality of network, you mean?

**The Hon. Dr B. P. V. PEZZUTTI:** Yes.

**Mr MURRAY:** Certainly. I think you get to a state where if your maintenance charges become too high it just becomes counter-productive. You are better off a thousand times just by investing back into the network and having a better network. Some of the areas, whether it is in NorthPower, and some of us do have some pockets of



growth, perhaps not of the same size, where there are issues is where you have had rapid growth over a period of time, very quick time. Around Orange, lots of vineyards are going in, for example. Where you before had a stringy sort of line just for a dairy farm, suddenly you have got a vineyard, which needs much more, so the lead time for that sort of thing is an issue, in terms of getting the quality of supply up to the level that new businesses and new growth need. But I do not see it as an issue in terms of the expenditure you could have. I think this new business would give you the economies of scale and the purchasing power to be able to do better. I think it would also give you a better basis on which to deal with government, frankly.

**The Hon. Dr B. P. V. PEZZUTTI:** Do these toll arrangements—I do not know much about this contestability stuff, I have to say—but say for example I am Energex in Brisbane and I am selling to BHP—you have got that contract?

**Mr MURRAY:** Someone in our area, sure.

**The Hon. Dr B. P. V. PEZZUTTI:** They would pay a toll on your network?

**Mr MURRAY:** Yes.

**The Hon. Dr B. P. V. PEZZUTTI:** If there is a breakdown do you pay a penalty for that toll?

**Mr MURRAY:** No. The issue is that it is a completely transparent charge. If we are bidding for one of our own customers, if you like, then we have to pay the same network charge. There is no default or drop off in terms of if it breaks down but of course if it stops operating you do not earn any charges out of it because the wires are not sending electricity through.

**The Hon. Dr B. P. V. PEZZUTTI:** So you simply lose the charges; you do not have to pay a penalty?

**Mr MURRAY:** No, but you lose the revenue pretty much.

**The Hon. Dr B. P. V. PEZZUTTI:** We have battled earlier in the day about the separation of retail and the network charges. Tom Parkinson tried to make that transparent by having an access charge across the board and then a charge for the electricity. Given that you have to maintain an access charge which you have to pay in supplying me, or Energex has got to pay—

**Mr MURRAY:** Part of the network charge, yes.

**The Hon. Dr B. P. V. PEZZUTTI:** —does it not create two slightly different businesses for you?

**Mr MURRAY:** Yes, it does, but it is exactly the same for everybody. You have to keep the retail part of your business ring fenced in terms of cost away from the network portion of the business.

**The Hon. Dr B. P. V. PEZZUTTI:** So why was just the retail part not made one and leave the three networks in place? Was there a reason for that?

**Mr MURRAY:** Yes, I think there is. That is one of the alternatives, or it is one of the things that can be looked at, but the problem you have got is simply the interface between them in terms of computer systems, IT systems. Whilst you ring fence the cost, you often have, for example, the one call centre for both; you have the one computer. So the economies of scale, the 500,000 to 700,000 customers for retail, are driven by IT cost. Similarly, the information technology expenditure that is now required on the wires business is becoming similar. For example, we have all just spent I think it is around \$5 million, or we are in the process of doing that, for a MAMS project, which is the management of the wires business, if you like. So one of those would have done across the three. Similarly, I think the purchasing power in terms of grunt in terms of the basics—wire, poles, and vehicles.

**The Hon. Dr B. P. V. PEZZUTTI:** The vehicle fleets are huge.

**Mr MURRAY:** Huge and expensive. Whilst I do not know that you will cut back on the numbers, I think your purchasing power would bring you up to the level of an Integral or an EnergyAustralia, which we do not have at the moment.

**The Hon. Dr B. P. V. PEZZUTTI:** Again, Ian was talking about being local and feeling local. People feel much more local about the power poles than they do about the electricity that comes from Newcastle.

**Mr MURRAY:** Absolutely.

**The Hon. Dr B. P. V. PEZZUTTI:** For anybody in my area all the power generation is in Newcastle. I know it is everywhere else as well but we all think that it is Newcastle. Nobody thinks about Queensland.

**Mr MURRAY:** I think you are right. I think people do see the emergency service, the trucks running around and the rest of it, as being the retail. I do not think the concept of retail and network has really got through to the majority of customers as yet.

**The Hon. Dr B. P. V. PEZZUTTI:** But, again, they feel more locally attached to the network and responsiveness. In other words, if I ring NorthPower I know its boundaries but if I ring you in Bathurst, you are west of the range—

**Mr MURRAY:** Which is not necessarily bad.

**The Hon. Dr B. P. V. PEZZUTTI:** No, but you have little in common with us people who like a temperate climate and nice on-the-beach-lay-back sort of style, but you are going to have to work very hard on making that synergy work.

**Mr MURRAY:** Very much, but that is why I think there should be a decentralised management structure. We are talking about having a series of seven or eight regional general managers positioned out and around, and they will have accountability for things like standards, interface with the community, maintenance, instruction, those sorts of things. In most areas they do not have now a very senior person to go to to talk about the business and work with the business community, importantly, in terms of growth and development as well. I think you are right. If you pull back to a very remote business that is a long, long way from anywhere, you will lose your customer base but, similarly, I think one of the successes we have had is the idea of keeping these small depots open. That has proved very valuable.

**The Hon. Dr B. P. V. PEZZUTTI:** Because somebody inside the business knows who to contact inside the business rather than somebody from outside.

**Mr MURRAY:** That is right, but I think if you are out and you are in a remote town and there is a two-man depot there, then the amount of problems that are fixed just over a conversation with a beer or walking down the main street are remarkable.

**The Hon. Dr B. P. V. PEZZUTTI:** That is true.

**CHAIR:** Brian was almost at the point I think earlier when he was talking about part of the problems in the NorthPower area of suggesting that it might be perception.

**Mr MURRAY:** I think that is right. I do not disagree with that at all but I think that is a position whereby you simply have to work with your stakeholders, work with your customers. I think a lot of issues in NorthPower are perception. I really cannot comment on the maintenance records, as I said, because I have not been closely involved. It is an interesting perception from the conversations I have had. The perception is that the local guys are good but somehow there is this sort of remoteness of management, and that is exactly what you have got to turn around.

**The Hon. Dr B. P. V. PEZZUTTI:** In terms of these contractors, which we have discussed before, you heard what Mr Riordan said about the Premier's comments relating to maintenance of the work force as we have it, and you do not have any option about redundancies. That is one option the Premier has closed off for you in rejigging your organisation. But would you take the view that the contractors of NorthPower are employees or not employees if they are doing, as you said, an important core role like meter reading?

**Mr MURRAY:** Full-time, whatever. I believe they should stay. I do not see any reason.

**The Hon. Dr B. P. V. PEZZUTTI:** Do you think that is included in the Premier's promise about employment?

**Mr MURRAY:** I think it was, by extension, yes. I think what he was saying was that people who have full-time employment under the current arrangements will continue with full-time employment under the new arrangements.

**The Hon. Dr B. P. V. PEZZUTTI:** I know you are not yet the general manager or the managing director, but is it possible for you to find out whether that is going to be one of your charges? This is going to be one of the ring fences around what you can and cannot do.

**Mr MURRAY:** From my point of view?

**The Hon. Dr B. P. V. PEZZUTTI:** No. The Premier has got to live with the promise, and he is going to exhibit that through his two shareholders.

**Mr MURRAY:** I read into what he said that the current levels of full-time employment would remain, as would those permanent part-timers. There would be no cut back in employment levels, period. He did not differentiate, to my mind, between full-time contractors and full-time employees.

**The Hon. Dr B. P. V. PEZZUTTI:** You have to understand in dealing with this Government, as I have now for five years, that you have to be very careful to get the dots crossed and I would suggest that you clarify that because that is going to be the charge that the two shareholders give your board to manage.

**CHAIR:** From your perspective.

**The Hon. Dr B. P. V. PEZZUTTI:** But you understand that to be part of the process.

**CHAIR:** From your management view of what you will have to do you would also believe that you would have to keep all those on, anyway?

**Mr MURRAY:** Absolutely. They are obviously doing full-time work, and I do not think any organisation has overemployment at the moment.

**The Hon. Dr B. P. V. PEZZUTTI:** And, again, once you get bigger, of course, most tasks like meter reading and the like and the technology that goes with that, if you are a bigger organisation you may well get it cheaper to have it in-house.

**Mr MURRAY:** That is right, and that is very much the approach we have taken in our business. I think the idea that you can put things out and do it cheaper really is a bit of a condemnation of the management rather than the workers.

**CHAIR:** Hear! Hear!

**Mr MURRAY:** I do not see why that applies. I just do not understand that. So the idea would be to look at bringing whatever jobs you could back into the organisation.

**The Hon. Dr B. P. V. PEZZUTTI:** I also notice that you have a couple of female managers.

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

**The Hon. Dr B. P. V. PEZZUTTI:** I am very impressed by that because you do not see that a lot in the big end of the hard edge of business. Are there more and more opportunities for women in electricity, do you think?

**Mr MURRAY:** I think there are.

**The Hon. Dr B. P. V. PEZZUTTI:** Around the world, not just here?

**Mr MURRAY:** I think one of the histories is that under the old county council structure you had this very engineering-accounting sort of dominated sort of thing, and it simply takes time. One of the things we have done is to bring a whole lot of bright young new people into the business and take a punt on people who were in the business and promote them through very quickly. I think that people should be employed and promoted on their merits.

**The Hon. Dr B. P. V. PEZZUTTI:** I accept that but I just noticed that the difference between your line up and Tom Parkinson's is that it was a group with a good range of age but they were all men except for the chairman. I have one other question relating to the issue that I raised with Tom Parkinson. I am going to have trouble now getting my head around Country Energy, which is massive. It is a lot easier with something I can see and know. One of the questions I had put to Tom Parkinson was this issue which we raised with Mr McLean, I think, which was the issue of the member of the trade union movement being on the board, which I daresay will be reflected in this board.

**Mr MURRAY:** That is in the legislation.

**The Hon. Dr B. P. V. PEZZUTTI:** The question I asked was:

The Assistant Secretary of the Electrical Trades Union of Australia is able to be part of the Environment, Safety and Quality Committee and the Audit Committee and be part of NorthPower's negotiations between the board and the union on significant proposals for working for wages and conditions settlements.

I know that people can have Chinese walls built in, but what is your view about the operation of a director of a major corporation like Country Energy and that almost instant conflict?

**Mr MURRAY:** It depends I think a little bit from what you read there on the view of the board in terms of the way the board operates. I do not have a problem with them. We have always had a director who is from the trade union movement, and it has always worked very, very well. Where there has been any conflict of interest, he has declared that and we have moved on. It very rarely happened. I certainly do not see a member of the board being involved in a discussion between the business and the union. I do not think that has a whole lot to do with the board, frankly. I think it has more to do with the management team, and I really think it is good to say that the board boards and the managers manage. I think there is a different role there. They certainly have to sign off on any agreement you make.

**The Hon. Dr B. P. V. PEZZUTTI:** But I am talking about the strategic direction in terms of the parameters which the management team is permitted, I suppose, or directed to work through the board now, whether or not the board makes the decision and can afford to have wage increases, et cetera.

**Mr MURRAY:** We have never ever had a conflict on our board.

**The Hon. Dr B. P. V. PEZZUTTI:** I did not say that NorthPower has.

**Mr MURRAY:** No, and I can only talk from my own experience. We have never ever had a conflict, and it has often worked as a good alternative view. I think you have to get balance the whole time.

**The Hon. Dr B. P. V. PEZZUTTI:** That is why it is good having them on the board.

**Mr MURRAY:** That is right, and it has worked well for us. We have never had a real issue with it. It has worked well. I do not see it as a major issue into the future. I really do not. I have a bit of a different view from some unions. I do not really view the unions being there to represent the staff. I see that pretty much as my role, and that would apply in this sort of environment as well.

**The Hon. Dr B. P. V. PEZZUTTI:** Just to continue that final bit, if you were to, as the NorthPower annual report did, indicate the wage and salary movements as part of its board meetings, would you be able to let us know what the benchmarks were for the establishment of those wage and salary movements because NorthPower's annual report does not indicate what the offsets were?

**Mr MURRAY:** In terms of productivity and so on?

**The Hon. Dr B. P. V. PEZZUTTI:** Which are hard-won bargaining positions and which the community wants to know about.

**Mr MURRAY:** I think that is right.

**The Hon. Dr B. P. V. PEZZUTTI:** What benchmarks have been set and how they are going to be policed and so on, because it is all aimed at getting a higher quality service for the customer I thought?

**Mr MURRAY:** I think that is right.

**The Hon. I. W. WEST:** It is not only a matter of quality of the product; it is a matter of the issue of the price of the product. I think paragraph (h) of the terms of reference goes to the issue of determining a common tariff structure for customers of Country Energy. What have you got in mind in that regard?

**Mr MURRAY:** The network charges for the three businesses now across the board are pretty much the same. The energy charge, of course, will be contestable. I do not know that it is always in the best interests of customers to have one across-the-board charge. I think you have got to look at individual situations. For example, at the moment we have a cross-subsidy, I guess, from our urban customers to our remote rurals, for example, and we are the only organisation ever to have argued that that should remain.

**CHAIR:** Argued to IPART?

**Mr MURRAY:** Yes, that it should remain in terms of the cross-subsidy because I do not think you can get to a point whereby you remove this group of customers, for example. You can use Dubbo as an example, which is a thriving city. I think the remote rurals that feed into Dubbo have a big impact on Dubbo so I think it makes sense to take that sort of approach to it. We have just recently ended up with some 200-and-something pricing tariffs under the old regime. We have pulled them back to 70-odd, and that was designed to make it clearer for customers when they come to choose their energy provider; they will have a better basis of understanding how it will work. It is a very complex area. I do not know that one common price across the board is necessarily the best way to go. They are all quite similar now, but I think you have a smaller number to recognise, different customer types. I think that is the way.

**The Hon. Dr B. P. V. PEZZUTTI:** Did you have an equal number of difficulties in terms of how you charge for the wires and the poles? In other words, if I were accessing you from Queensland, obviously some lines are easier to maintain and cheaper to operate and so on. Some of the more remote ones are extremely expensive.

**Mr MURRAY:** That is right, but the tariff, the wheeling charge, remains very much the same, and that is what I am saying. We have argued to keep that one charge out there and not to make it cost reflective.

**CHAIR:** In other words, subsidise?

**Mr MURRAY:** In other words, you take a more holistic approach to it.

**The Hon. Dr B. P. V. PEZZUTTI:** If somebody is sitting out at Wellington, obviously the cost of delivering power is more, so would you be charging more if somebody in Wellington did not choose Country Energy as their retailer?

**Mr MURRAY:** No, you cannot. It is regulated fees for the network portion of it. The only part that really varies greatly is the energy portion in terms of contestability.

**CHAIR:** So you would still carry that subsidy across?

**Mr MURRAY:** Oh, yes.

**The Hon. J. R. JOHNSON:** Mr Murray, your aside to Dr Pezzutti as I returned to my seat was that you did not see unions representing staff and that was your job.

**CHAIR:** The union representative on the board, he meant.

**Mr MURRAY:** Unions are certainly there to talk about things like awards and the rest of it but as a culture within the business I simply do not see a role for them and us. We are all there for the same reason. We all work for the same organisation, and I do view my role as representing the interests of the staff. I make no apology for that, and I really do not accept—

**The Hon. J. R. JOHNSON:** I have no quarrel with you whatsoever but you said you do not see the union representing the staff.

**Mr MURRAY:** Solely the staff. I believe that is my role. Certainly when you are talking about awards and things you deal with unions, and we get on very well with our unions but the idea that the unions are there to look

after individual staff members' welfare I think it is a breakdown in terms of our management team that that has to occur.

**The Hon. J. R. JOHNSON:** Could you envisage a town where you have got a very active Mr Gunnedah or a very active—I am thinking of Ray Warne—Mr Tamworth, Mr Treloar? It is synonymous with the town. Could you envisage them getting together and for a better deal from Country Energy coming up to you and saying, "Look, there's 4,856 customers: what can you give us?"

**Mr MURRAY:** Yes, I can in the future, sure. I think that is the sort of thing that may well develop. But that is where you need the buying power and the grunt of a Country Energy. At the moment he will not walk up and say, "Look, here's all these people from Tamworth," just to NorthPower; he will go and shop it around, so I think that is exactly the sort of market that you will need to get into and be very strong and be able to buy and provide service for. We have been doing a couple of little trials with a couple of our shire councils along the same lines to see how it works, and that has been on now for a time. It is not without problems in the sense that somebody has to guarantee the level of consumption and pricing and all that. It is not as simple as it sounds. But going into the future I think you will get those large buying groups 10 years down the track.

**CHAIR:** I know that that you did do that with most of the local government areas in a particular area and the councils themselves for their own electricity.

**The Hon. J. R. JOHNSON:** The councils made the decision but surely the individual customer could have opted out.

**CHAIR:** This was just for the councils' own business.

**Mr MURRAY:** We have also looked at the concept of councils becoming a buying group for their residents, if you like. It does get very complicated and very complex but I think in the future it is likely to develop.

**CHAIR:** Thank you very much for that. It was very enlightening.

**(The witness withdrew)**

**(The Committee adjourned at 3.35 p.m.)**