

Standing Committee on State Development

# **Merger of country energy distributors**

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## Terms of Reference

The following terms of reference were referred to the Committee by Resolution of the Legislative Council on 7 March 2001.<sup>1</sup>

1. That the Standing Committee on State Development inquire into and report on the proposed merger of Advance Energy, Great Southern Energy and NorthPower to form Country Energy and in particular:
  - (a) the impact of the merger on existing and future employment levels,
  - (b) the impact of the merger on existing and future access levels,
  - (c) the impact of the merger on existing and future maintenance and repair programs,
  - (d) the impact of the merger on the rural and regional communities affected by the merger,
  - (e) the impact of the merger on tariffs for rural and regional customers,
  - (f) the impact of the merger on financial returns to the Government from State owned corporations,
  - (g) methods to improve service and maintenance levels to rural and regional communities,
  - (h) methods to determine a common tariff structure for customers of Country Energy,
  - (i) examination of proposed salary levels and packages for the executive structure of Country Energy.
2. That the Committee report by Thursday 31 May 2001.

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<sup>1</sup> *Minutes of the Proceedings of the Legislative Council No 90, p 875.*

## Committee Membership

<b>The Hon Tony Kelly MLC</b>	Australian Labor Party	<i>Chair</i>
<b>The Hon Dr Brian Pezzutti RFD MLC</b>	Liberal Party	<i>Deputy Chair</i>
<b>The Hon Ian Cohen MLC</b>	The Greens	
<b>The Hon John Johnson MLC</b>	Australian Labor Party	
<b>The Hon Ian Macdonald MLC<sup>2</sup></b>	Australian Labor Party	
<b>The Hon Ian West MLC<sup>3</sup></b>	Australian Labor Party	

## Secretariat

Mr Steven Carr	<i>Director</i>
Mr Robert Stefanic	<i>Senior Project Officer</i>
Mr Stephen Fenn	<i>Research Assistant</i>
Ms Annie Marshall	<i>Committee Officer</i>

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<sup>2</sup> The Hon Ian Macdonald MLC was discharged from the committee on 27 March 2001 according to Resolution of the House, *Minutes of the Proceedings of the Legislative Council No 92*, p 892.

<sup>3</sup> The Hon Ian West MLC was appointed to the committee on 27 March 2001 according to Resolution of the House, *Minutes of the Proceedings of the Legislative Council No 92*, p 892.

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## Chair's Foreword

When the Hon Bob Carr MP, Premier, announced on 28 February 2001 the proposed merger of three rural electricity distributors, Advance Energy, Great Southern Energy and NorthPower he indicated that the Government intended to form a single rural electricity distributor that would provide the best deals for rural and regional customers with the "commercial muscle" to operate in a fully contestable retail market.

Reforms in the electricity industry over the past decade have seen vertical and horizontal separation of industry operations and an overall downsizing of industry employment. In 1995, New South Wales Distribution Network Service Providers were amalgamated reducing the number of distributors from 25 to 6 to achieve efficiencies in network business operations. In more recent times these same entities are being asked to provide cost effective service and financial returns to the people of New South Wales in an evolving market where full retail contestability, e-commerce and globalisation are the significant drivers.

After considering views from a wide range of stakeholders including citizens, community groups, unions, Advance Energy and NSW Treasury the committee considers that the formation of Country Energy provides the best opportunity to improve employment, skills and electricity services in rural and regional New South Wales. Rural and regional customers should see more competitive electricity prices and improved customer service from a stronger more viable distributor that is focussed on rural community needs.

Country Energy has the capacity to outperform individual entities of Advance Energy, Great Southern Energy and NorthPower in providing employment opportunities, competing with other participants in the national electricity market, providing cost efficient retail electricity services, reducing risk and improving financial returns to the NSW Government. The committee received broad stakeholder support for the appointment of Mr Craig Murray as CEO designate of Country Energy.

In supporting the formation of Country Energy, the committee recommends that the Legislative Council endorse the necessary regulatory amendments to facilitate the merger of the three DNSPs. The committee has also agreed to monitor the formation of Country Energy until 2005 as part of its ongoing commitment to the rural community, a recommendation that I am sure will be well supported by stakeholders.

I would like to take the opportunity to thank the committee secretariat for their assistance throughout the inquiry and in the preparation of this report. I particularly note the efforts of the Committee Director, Steven Carr, and Senior Project Officer, Robert Stefanic who advised on committee proceedings and shared the report drafting. Recognition should also go to Committee Officer, Annie Marshall and Research Assistant Stephen Fenn who provided invaluable research, analysis and administrative support.

**Hon Tony Kelly MLC**  
Committee Chair

## Executive Summary

On 7 March 2001 the Legislative Council referred an inquiry to the Standing Committee on State Development on the proposed merger of Advance Energy, Great Southern Energy and NorthPower to form Country Energy. In essence the terms of reference for the inquiry require the committee to examine the social and economic costs and benefits of a merger of rural energy distributors. The focal points during the inquiry were on the protection of employment in rural and regional communities and the reliability of electricity supply to rural and regional areas.

The committee heard evidence from several key stakeholders during the inquiry including, representatives from NSW Treasury, the Australian Services Union and the Electrical Trades Union. The committee also heard from the CEO Designate of Country Energy, Mr Craig Murray, in relation to his intended strategies with the proposed new entity.

Chapter 2 of the report provides an historical and conceptual review of reforms in the electricity industry that have contributed directly or indirectly to the proposed formation of Country Energy. National Competition Policy, the establishment of the National Electricity Market and the movement to full retail contestability in the New South Wales electricity industry are considered in depth.

The committee considered the impact of the proposed merger on tariffs faced by rural and regional customers [terms of reference (e)] along with methods to determine a common tariff structure [terms of reference (h)] in chapter 3. Like other states in the National Electricity Market, New South Wales is implementing a staged approach to full retail contestability with most customers expected to be able to choose their retail electricity supplier from 1 January 2002. Contestable retail electricity tariffs will be a function of market forces, therefore the retail businesses of “distribution network service providers” (DNSPs), which include the three distributors subject of the inquiry, may over time seek to introduce a variety of cost effective and innovative tariff structures to attract customers. Customers not in a position to engage in full retail contestability will have tariffs regulated by the Independent Pricing and Regulatory Tribunal (IPART) in accordance with its 2001-2004 determination. Country Energy will operate three regulated tariffs, applicable to each former DNSPs distribution area, at least until IPART’s next scheduled review in 2002. The committee has recommended that IPART consider whether this imposes any impediments on Country Energy and to act where appropriate.

Evidence received by the committee indicated that the merger will provide economies of scale that reduce costs and risks of operational and administrative activities including purchase of electricity. These attributes imply that Country Energy will provide rural and regional customers with cost effective tariffs and enable the NSW Government to gain improved financial returns [terms of reference (f)].

In chapter 4, the report examines employment related impacts of the proposed merger and the consequent implications for rural and regional communities [terms of reference (a) and (d)]. The reduction in employment levels and the resulting impact on rural communities from past mergers and industry rationalisation are considered along with community attitudes to the present proposal. More

than half the submissions received expressed qualified support, concern or opposition to the merger due to experiences from previous amalgamations. The report considers the assurances given to protect existing employment levels while exploring the possibility that the merger might be a process that creates future employment in rural communities. The report also focuses on various guarantees made to maintain employment levels and not require relocation of local employment after the merger. After considering all evidence the committee was satisfied with the various assurances and justifications that redundancies and job relocations will not result from the merger.

Chapter 4 also addresses the proposed salary arrangements and executive structure of Country Energy [terms of reference (i)]. At the time of printing this report, apart from the appointment of the CEO Designate and the Chair Designate of the Board of Country Energy, no additional appointments to the Executive have been announced. Similarly, no announcement regarding salary packaging has been made. Nevertheless the report examines methods that may be utilised to determine salary levels and outlines the views of the CEO Designate.

Finally the report considers, in chapter 5, the customer service related impacts of the proposed merger [terms of reference (b), (c) and (g)]. Evidence from hearings and submissions clearly demonstrated that the reliability of electricity supply is a major concern in the community. As with employment related issues, community attitudes to the present proposal reflect the impact past mergers and industry rationalisation have had on supply reliability. The committee examined access to electricity supply, reliability of supply, repair and maintenance programs, and methods to improve services to rural and regional communities. In general, it was considered that three smaller entities would not be viable with the introduction of full retail contestability. Overall, it was considered that the capital resources of a larger entity would present an opportunity to provide better access to services, improve existing services and reliability and promote innovation. The report investigates a number of initiatives to provide better customer services such as locally based workforces, decentralised management, network performance monitoring, customer communication, customer consultative committees and access to the NSW Energy and Water Ombudsman.

The report concludes that the ultimate success of a merged country energy supplier will rely on the philosophies and attitudes of the management driving the new entity. The report notes the support for the merger by the relevant unions and their support for the appointment of Mr Craig Murray as CEO Designate. A successful operation will require effective balancing of employment, community interests, consumer requirements and government financial returns. Mr Murray has clearly articulated his commitment to balancing these priorities. The committee accordingly supports the merger of Advance Energy, Great Southern Energy and NorthPower to form Country Energy.

To ensure that the integrity of assurances and justifications outlined in this report are maintained, the committee undertakes to maintain a watching brief over the progress of Country Energy. Accordingly, the report recommends that the Minister for Energy and the Treasurer provide the committee with annual reviews on the progress of the new entity for the next four years.

## Summary of Recommendations

### **Recommendation 1** *page 23*

The committee recommends that the Independent Pricing and Regulatory Tribunal continue to work with distribution network service providers to:

- establish ring fencing guidelines for network business, and
- facilitate effective ring fencing of distribution network service provider network businesses, to amongst other things, develop clearer network cost structures, accounting and performance measures.

### **Recommendation 2** *page 26*

The committee recommends that, if the merger proceeds, Independent Pricing and Regulatory Tribunal address any impediments arising from Country Energy operating three regulated tariff structures at its 2002 mid term review or earlier if Independent Pricing and Regulatory Tribunal deems these impediments to be significant.

### **Recommendation 3** *page 29*

The committee recommends that the Independent Pricing and Regulatory Tribunal give consideration to DNSPs recording any internal community service obligations or cross subsidy in annual reports and customer accounts arising from a commercial decision or necessitated by the Independent Pricing and Regulatory Tribunal's regulated pricing determination.

### **Recommendation 4** *page 38*

The committee recommends that NSW Treasury and the Independent Pricing and Regulatory Tribunal proactively ensure a smooth and rapid transition to the formation of Country Energy.

### **Recommendation 5** *page 50*

The committee recommends that, if the formation of Country Energy proceeds and in the event surplus labour requirements in some occupations are identified, a freeze on any terminations should be applied until a needs analysis of staff requirements is undertaken and that negotiations be initiated with relevant unions and relevant communities prior to implementation.

### **Recommendation 6** *page 51*

That the Minister for Energy initiate a public information campaign within the proposed Country Energy distribution area to inform the community of the proposed changes and their implications.

### **Recommendation 7** *page 62*

The committee recommends that if the proposed merger proceeds, that the Board of Country Energy review access levels for consumers in rural areas and implement measures to provide these consumers with improved access to supply of electricity whether by supply line or by energy alternatives, at reasonable cost.

**Recommendation 8** *page 63*

The committee recommends that an independent review be conducted of energy supply reliability considering among other things:

- the cost of upgrading infrastructure to ensure benchmark reliability,
- impacts of infrastructure maintenance on supply reliability, and
- methods to improve reliability of supply.

**Recommendation 9** *page 63*

The committee recommends that the Minister for Energy, the Treasurer and the Independent Pricing and Regulatory Tribunal:

- consider recommendations of the independent review of energy distribution infrastructure, and
- take proactive measures to ensure sufficient capital and maintenance expenditure is committed to ensure the reliability of energy supply by line or alternative means.

**Recommendation 10** *page 67*

The committee recommends that the Independent Pricing and Regulatory Tribunal consider imposing a commitment to service obligation as a performance requirement for distribution network service providers with respect to service connection and reliability.

**Recommendation 11** *page 69*

The Minister for Energy work with all distribution network service providers to ensure a robust customer response operation be implemented which should provide accurate and timely feedback to customers when calls are received reporting electricity supply interruptions.

**Recommendation 12** *page 71*

That if the proposed formation of Country Energy proceeds, the Board and management of Country Energy conduct a review of the effectiveness of the existing consumer consultative groups within the former Advance Energy, Great Southern Energy and NorthPower distribution areas. To promote community confidence, the review should give consideration to:

- whether or not geographical areas are adequately represented,
- retaining at least the current number of consultative groups in the Advance Energy, Great Southern Energy and NorthPower distribution areas,
- the establishment of rurally based consultative groups, and
- formalising board responses to consultative group reports.

**Recommendation 13** *page 71*

The committee recommends that distribution network service providers report the number of complaints received in aggregate terms to the Energy and Water Ombudsman NSW.

**Recommendation 14** *page 72*

That the Minister for Energy work with the Energy and Water Ombudsman NSW to produce a leaflet explaining the role and functions of the Ombudsman and that this leaflet be included with energy accounts and promotions to customers on a regular basis.

**Recommendation 15** *page 72*

The committee recommends that the Legislative Council supports the merger of Advance Energy, Great Southern Energy and NorthPower to form Country Energy.

**Recommendation 16** *page 73*

The committee recommends that regulations be made with respect to the *Energy Services Corporations Act 1995* and *Electricity Supply Act 1995* to legally constitute Country Energy.

**Recommendation 17** *page 73*

That the committee:

- monitor the establishment and progress of Country Energy for a four year period (until 31 May 2005),
- consider issues arising from the amalgamation of Advance Energy, Great Southern Energy and NorthPower,
- table any additional report in the Legislative Council from time to time, and
- consider feedback from consumers, local community groups, industry, unions and local government bodies.

**Recommendation 18** *page 73*

That the Minister for Energy and the Treasurer provide to the committee, annual reviews that identify the progress of Country Energy with respect to employment of staff, impact on rural and regional communities, repairs and maintenance, customer service, tariff structures and financial returns to the Government. The first review should commence from enactment of the regulations to the *Energy Service Corporations Act 1995*, until 30 June 2002. Reviews thereafter should be conducted annually up to and including 30 June 2005.

**Recommendation 19** *page 73*

That the Energy and Water Ombudsman NSW provide the committee, annual reviews of its activities with respect to Country Energy until 30 June 2005.

## Glossary

<b>ACCC</b>	Australian Competition and Consumer Commission
<b>ARRR</b>	Annual aggregate revenue requirements
<b>ASU</b>	Australian Services Union
<b>CEO</b>	Chief Executive Officer
<b>COAG</b>	Council of Australian Governments
<b>Code</b>	National Electricity Code
<b>CPI</b>	Consumer Price Index
<b>DNSP</b>	Distribution network service provider
<b>GSE</b>	Great Southern Energy
<b>GW</b>	GigaWatt - Unit of power equal to 1 billion watts
<b>GWh</b>	GigaWatt-hour – Equal to 1000 MegaWatt hours or 1 billion Watthours of electrical energy
<b>IPART</b>	Independent Pricing and Regulatory Tribunal
<b>kV</b>	KiloVolt – Equal to one thousand volts
<b>kWh</b>	KiloWatt hour - represents 1000 Watthours
<b>MWh</b>	MegaWatt hour – Equal to 1000 kiloWatt hours
<b>NCC</b>	National Competition Council
<b>NCP</b>	National Competition Policy
<b>NEC</b>	National Electricity Code
<b>NECA</b>	National Electricity Code Administrator
<b>NEM</b>	National Electricity Market
<b>NEMMCO</b>	National Electricity Market Management Company
<b>NSP</b>	Network Service Provider



<b>Ring fencing</b>	The clear separation of subsidiaries or divisions of a company that may have competitive advantages in dealing with each other. <sup>4</sup>
<b>SAIDI</b>	System average interruption duration index
<b>Tariff</b>	A fee for service. In this report a tariff is associated with the provision of electricity to a customer.
<b>WACC</b>	Weighted average cost of capital
<b>Watthour</b>	Consumption of a standard unit of energy of one watt over a period of one hour

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<sup>4</sup> IPART, *Pricing for Electricity Networks and Retail Supply*, Volume 1, June 1999, p xxvii.



# Chapter 1 Introduction

## Referral of the inquiry

**1.1** On 7 March 2001 the Legislative Council passed a resolution referring the following terms of reference to the Standing Committee on State Development:

1. That the Standing Committee on State Development inquire into and report on the proposed merger of Advance Energy, Great Southern Energy and NorthPower to form Country Energy and in particular:
  - (a) the impact of the merger on existing and future employment levels,
  - (b) the impact of the merger on existing and future access levels,
  - (c) the impact of the merger on existing and future maintenance and repair programs,
  - (d) the impact of the merger on the rural and regional communities affected by the merger,
  - (e) the impact of the merger on tariffs for rural and regional customers,
  - (f) the impact of the merger on financial returns to the Government from State owned corporations,
  - (g) methods to improve service and maintenance levels to rural and regional communities,
  - (h) methods to determine a common tariff structure for customers of Country Energy,
  - (i) examination of proposed salary levels and packages for the executive structure of Country Energy.
2. That the Committee report by Thursday 31 May 2001.<sup>5</sup>

**1.2** In introducing the above terms of reference for the Legislative Council's consideration, the Hon Duncan Gay MLC, made a number of supporting comments including:

With amalgamation we must ensure not only that jobs are protected but that the service does not simply remain the same; it is essential that the service improves. People in regional New South Wales are putting up with blackouts which last a minimum of 12 hours. In the past local power failures lasted only three hours. The recent brownouts have affected electronic equipment, and that is unacceptable.<sup>6</sup>

## Conduct of this inquiry

**1.3** In conducting this public inquiry the committee endeavoured to:

- facilitate broad and diverse public participation,

<sup>5</sup> *Minutes of the Proceedings of the Legislative Council*, No 90, 7 March 2001, Item No 5.

<sup>6</sup> NSWPD (Legislative Council) 7 March 2001, p 12276.

- generate public and stakeholder discussion, and
- achieve the above aims in a cost effective and timely manner.

**1.4** The committee applied four mechanisms to achieve these aims. Firstly, the committee agreed to advertise its terms of reference inviting public submissions in major regional print media delivering to areas serviced by Advance Energy, Great Southern Energy and NorthPower. Advertising was also placed in print media in the Sydney Metropolitan area.<sup>7</sup> A list of publications and locations of advertisements is presented as Table 1.1.

**Table 1.1 - Publications, position and date of advertising of committee's terms of reference**

Publication	Position	Insertion date	Estimated circulation <sup>8</sup>
<b>Metropolitan</b>			
The Sydney Morning Herald	Early General News (page 44)	Saturday 17 March 2001	385,000
<b>Non-metropolitan</b>			
Coffs Harbour Advocate	Early General News (page 23)	Saturday 17 March 2001	23,120
Country Leader	Early General News (page 3)	Monday 19 March 2001	29,500
Lismore Northern Star	Early General News (page 27)	Saturday 17 March 2001	20,883
North West Magazine	Early General News (page 4)	Monday 19 March 2001	47,800
Port Macquarie News	Early General News (page 8)	Friday 16 March 2001	5,719
Rural News	Early General News	Monday 19 March 2001	47,000
Manning-Great Lakes Extra	Early General News (page 14)	Thursday 15 March 2001	19,944
Town and Country Magazine	Early General News (page 4)	Monday 19 March 2001	45,000
Western Magazine	Early General News (page 15)	Monday 19 March 2001	59,350

**1.5** The combined print media circulation for the committee's terms of reference was 683,316 at a cost of \$6,860.<sup>9</sup>

**1.6** Secondly, the committee utilised the Parliament of New South Wales' web site <http://www.parliament.nsw.gov.au> to enable visitors to generate and forward electronic submissions to the committee.

<sup>7</sup> *Minutes of the Proceedings of the Standing Committee on State Development*, No 27, 8 March 2001, Item No 3.

<sup>8</sup> DPWS, Government Advertising Agency, *Media Rate List, July 2000 to June 2001*; AARDS, June 1999; Sydney Morning Herald pers comms 9 May 2001.

<sup>9</sup> Actual reach (or number of persons) who were exposed to the advertising would be less given duplication of readership.

- 1.7** The committee received 26 submissions. A list of submissions received appears in Appendix 2.<sup>10</sup>
- 1.8** Thirdly, the committee disseminated details of inquiry commencement, terms of reference and scheduling of its public hearing to numerous media outlets across New South Wales. As it is cost prohibitive for a committee to advertise in all print media within a relevant area the committee disseminated media releases to print, television and radio media in an effort to consult as widely as possible. As a result, the committee placed a high reliance on rural and regional media to provide exposure about the inquiry and was successful in generating considerable media response and public comment. The committee regrets that time constraints did not permit more extensive community consultation.
- 1.9** The committee conducted a public hearing on 9 April 2001 receiving evidence from 6 key witnesses over 5 hours. A statistical summary of evidence received is presented in Table 1.2 and Table 1.3 respectively. A list of witnesses who appeared before the Committee is detailed as Appendix 3.

**Table 1.2 - Number and percentage of submissions by organisation type**

<b>Organisation type</b>	<b>No. of submissions</b>	<b>Percentage of total</b>
Private citizen	11	42.3%
Private organisation / interest group	10	38.5%
Government agency / local Council	5	19.2%
TOTAL	26	100%

- 1.10** The committee notes that Great Southern Energy and NorthPower did not make submissions to the inquiry.

**Table 1.3 - Number and percentage of witnesses by organisation type**

<b>Organisation type</b>	<b>No. of witnesses</b>	<b>Percentage of total</b>
Private organisation / interest group	3	50.0%
Government agency / local Council	3	50.0%
TOTAL	6	100%

- 1.11** From the submissions received, the committee categorised the general views with respect to whether there was support or opposition to the merger. The record of these views appears below in Table 1.4. The reader should be mindful that this information is statistical only and that no conclusions should be extrapolated from this information.

<sup>10</sup> One supplementary submission was also received.

**Table 1.4 – Views expressed on the proposed merger of country energy distributors**

View expressed	No. of submissions	Percentage of total
General support for merger	7	26.9%
Qualified support or raised concern about merger	11	42.3%
Generally opposed to merger	5	19.2%
No view	3	11.5%
TOTAL	26	100%

- 1.12** The committee considered the Chair’s draft report at its meetings on 28 and 30 May 2001. The Minutes of the Proceedings of the committee, presented as Appendix 4, detail relevant resolutions and activities of the committee over the course of the inquiry including deliberations on the draft report.
- 1.13** The Legislative Council’s terms of reference for the inquiry required the committee to conduct its investigations within the timeframe 7 March – 31 May 2001. During this time the merger of Advance Energy, Great Southern Energy and NorthPower remained a NSW Government proposal. Enacting the proposal hinged partly on the findings of the ACCC which was considering the implications of the merger proposal as part of its function of administering the *Trade Practices Act 1974*. On 8 May 2001, the Hon Michael Egan MLC, Treasurer, Minister for State Development and Leader of the Government in the Legislative Council announced that clearance had been received from the ACCC to undertake the merger. The Treasurer advised that the scheduled commencement for Country Energy is to occur on 1 July 2001.<sup>11</sup>
- 1.14** The committee’s inquiry and its findings are based on its assessment of potential impacts of the merger as it was not possible to review actual performance. As a consequence the committee has considered historical data wherever possible and considered evidence from stakeholders on possible future implications of the merger. Evidence received from Mr Craig Murray, CEO designate of Country Energy, provided key information on proposed strategies for Country Energy and likely impacts arising from the merger.

## Structure of this report

- 1.15** Chapters 2 to 5 separate the report into two generic sections. Chapter 2 provides an historical and conceptual review of reforms in the electricity industry that have contributed directly or indirectly to the proposed formation of Country Energy. National Competition Policy, the establishment of the National Electricity Market and the move to full retail contestability in the New South Wales electricity supply industry are considered in depth.
- 1.16** The second section considers the terms of reference across chapters 3, 4 and 5 reflecting the views of various industry, government and community groups. Chapter 3 considers the terms of reference relating to tariffs and financial returns to the New South Wales Government. Parts of the committee’s terms of reference canvassed in Chapter 3 are as follows:

<sup>11</sup> The Hon Michael Egan MLC, Treasurer, Minister for State Development and Leader of the Government in the Legislative Council, Media Release, *Green Light for Country Energy*, 8 May 2001.

- (e) the impact of the merger on tariffs for rural and regional customers,
- (f) the impact of the merger on financial returns to the Government from State owned corporations, and
- (h) methods to determine a common tariff structure for customers of Country Energy.

**1.17** Chapters 4 and 5 address the remainder of the terms of reference. Chapter 4 discusses the following terms of reference:

- (a) the impact of the merger on existing and future employment levels,
- (d) the impact of the merger on rural and regional communities affected by the merger, and
- (i) examination of proposed salary levels and packages for the executive structure of Country Energy.

**1.18** These points are addressed within the same chapter as they are all invariably linked by employment based issues. In addressing terms of reference (a) and (d) the reader will note that comments or issues may overlap and apply to both points, however to avoid repetition they are addressed under one heading only.

**1.19** Chapter 5 discusses the following terms of reference:

- (b) the impact of the merger on existing future access levels,
- (c) the impact of the merger on existing and future maintenance and repair programs, and
- (g) methods to improve service and maintenance levels to rural and regional communities.

**1.20** These issues are also addressed within the same chapter as they are all linked to the issue of customer service. Points raised concerning one issue may apply to other issues.

**1.21** The committee makes 19 recommendations for the NSW Government to consider.

## Chapter 2 Recent reforms in the electricity industry

The electricity industry is a key contributor to economic development at state and national level. As an input to industry and a core service to the community, electricity supply needs to be reliable, cost effective, ecologically sustainable and socially responsible. Recent national and New South Wales reforms have sought to achieve significant micro-economic reform to achieve these objectives.

### Electricity as a source of energy

**2.1** In Australia, electricity is derived primarily through thermal generation, using black coal (57%), brown coal (33%), natural gas (9%) and oil (1%) as fuels for generation. At national level thermal sources comprise 89% of total electricity generated, with manufacturing (3%), and hydro (8%) sources making up the remainder. New South Wales has greater reliance on thermal (93%) and less on manufacturing (1%) and hydro (6%) sources.<sup>12</sup> The Australian Bureau of Agricultural and Resource Economics ('ABARE') forward estimates for 2014-2015 portray a continued dominance of thermal generation for Australia and New South Wales.<sup>13</sup>

**2.2** The committee is also aware of the increased interest and promotion of alternative energy such as wind, wave and solar power as well as biomass generation including methane and energy from waste generation. Concerns were however expressed in the committee about biomass generation sourced from native forests.

### The Australian electricity industry

**2.3** The Australian electricity industry is one of the key providers of energy, employment and gross domestic product to the Australian economy. As at 1997-98 the Australian electricity industry was estimated to have:<sup>14</sup>

- generated 194,383 GigaWatt hours (GWh),
- assets of \$74 billion,
- 8.36 million customers,
- directly contributed 1.4% to Gross Domestic Product, and
- 33,219 employees.

**2.4** Indicators for the performance of the Australian electricity industry reveal that the industry has responded to increases in demand while improving productivity levels. ABARE research revealed that electricity consumption has increased threefold in the 25 years to 1997-98 due primarily to expansion in demand in the commercial, transport, electricity generation and mining sectors. The manufacturing sector continues to be the largest user

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<sup>12</sup> All figures 1997-98 year.

<sup>13</sup> ABARE, *Profile of the Australian Electricity Industry*, Research report 2000.7, Canberra, pp 71, 74.

<sup>14</sup> ABARE, *Profile of the Australian Electricity Industry*, Research report 2000.7, Canberra, pp 11-12.



of electricity, accounting for around 34% of total consumption. During the period 1989-90 to 1997-98 the Australian electricity industry experienced a decline in employment from 67,090 to 33,219<sup>15</sup> which, combined with increased output, has generated labour productivity improvements of 156% (from 2.3 GWh per employee to 5.9 GWh per employee).<sup>16</sup>

## Reforms in the Australian electricity industry

- 2.5** In each state or territory prior to 1990, the electricity supply industry was dominated by a single vertically integrated State owned authority or a combination of State owned authorities responsible for the generation, transmission and distribution of electricity. State governments and their electricity authorities largely stimulated investment in new electricity generation. Electricity prices were set by state government regulation to cover the industry's costs plus any returns required by government as shareholders.<sup>17</sup>
- 2.6** The Australian electricity industry has undergone considerable micro-economic reform since the 1990s.

### Industry Commission

- 2.7** In 1991 the Industry Commission released its report *Energy Generation and Distribution* that highlighted the potential for an expansion of industry output by \$2.2 billion annually by overcoming administrative and structural inefficiencies.<sup>18</sup> Extracts of the Industry Commission's recommendations for electricity reforms are presented below:

- Increase competition in the electricity supply industry by, first, notionally separating (ie ring fencing) activities within two years and, second, fully separating activities as soon as possible thereafter...This would require government action in particular to:
  - separate ownership of generation, transmission and distribution functions,
  - break up existing publicly owned generating capacity to form a number of independent generating bodies,
  - form a public body to acquire and operate all transmission assets in New South Wales, Victoria, Queensland, South Australia and Tasmania,
  - create multiple distribution franchises in states where currently they do not exist,

<sup>15</sup> The extent to which a reduction in employee numbers is attributable to contracting out has not been quantified resulting in the potential for figures to be overestimated.

<sup>16</sup> ABARE, *Profile of the Australian Electricity Industry*, Research Report 2000.7, Canberra, pp 12-13, 16.

<sup>17</sup> [www.nemmco.com.au/publications/whitebook/background.htm](http://www.nemmco.com.au/publications/whitebook/background.htm), accessed 6 April 2001.

<sup>18</sup> NSW Parliamentary Library Service, *Electricity and Privatisation*, Briefing Paper No 17/97, pp 5-6.

- require all transmission and distribution bodies to provide open access.
- Corporatise, within twelve months, all public bodies engaged in electricity generation and the transmission and distribution of electricity and natural gas to place them on a commercial basis, at arm's length from government,
- Modify regulatory and other controls applying to private utilities,
- Progressively sell publicly owned electricity generation and electricity and gas distribution assets to the private sector,
- Implement several other initiatives to increase efficiency. These initiatives cover changes to pricing of electricity and gas, the Snowy Mountains Hydro-electric Scheme, new capacity for public utilities and load management and energy conservation measures,
- Initiate a review by an independent body – in three years time – of the progress made in implementing reforms and options for further improving efficiency.<sup>19</sup>

### **National Competition Policy and Council of Australian Governments**

- 2.8** The National Competition Policy ('NCP'), established in 1995 through the *Agreement to Implement the National Competition Policy and Related Reforms* committed all governments, on an ongoing basis, to remove restrictions on competition unless those restrictions could be shown to be in the public interest and of benefit to the community.<sup>20</sup>
- 2.9** Most states and territories did not commence reforms of the electricity industry until 1995 after being offered significant financial incentives attached to the Council of Australian Governments *Agreement to Implement the National Competition Policy and Related Reforms*. The National Competition Council ('NCC') advises the Commonwealth Treasurer and the public on the progress of reforms in each state.
- 2.10** In 1999, the NCC released its report *National Competition Policy: Some Impacts on Society and the Economy* making the following comments on NCP in the electricity industry:

The electricity reforms are amongst the most ambitious in the NCP package, and aim to develop a national electricity market ultimately covering NSW, Victoria, Queensland, South Australia, Tasmania and the ACT.

A competitive market is currently evolving, with NSW, Victoria, South Australia and the ACT commencing interstate trade from May 1997. Queensland has introduced a parallel competitive market in preparation for interconnecting its power grid with NSW – expected by 2001 – and Tasmania has also announced its intention to interconnect. As part of the reform package, a National Electricity Code has been developed, including access arrangements covering the natural monopoly transmission and distribution power grid. The ACCC granted approval of the code on October 1998, and the full operation of national market rules commenced in December 1998 in all south-eastern mainland jurisdictions.

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<sup>19</sup> Industry Commission, *Energy Generation and Distribution*, Volume 1, Canberra 1991, pp 23-24.

<sup>20</sup> National Competition Council, Press Release, *National Competition Policy Assessment*, 5 February 2001.

The reforms are creating a competitive wholesale market, in which generators bid for the right to supply the market, and customers compete for the right to buy. This has already occurred in the south-eastern mainland jurisdictions on an individual state basis.<sup>21</sup>

- 2.11** The NCC's third round assessment of state and territory reforms under NCP will commence in June 2001 and will assist in the determination of the Commonwealth Treasurer's 2001-2002 National Competition payments. Approximately \$3.8 billion has been allocated for state and territory governments under this third tranche to assist with a number of NCP reforms including those in the electricity industry.<sup>22</sup>

### **National Electricity Market and National Electricity Code**

- 2.12** The National Electricity Market ('NEM') is a concept based on state and territories being interconnected by electricity transmission lines permitting the supply of electricity to areas of greatest demand across state and territory boundaries. For example, South Australia has experienced difficulty in meeting peak customer demand and has been a net importer of electricity from Victoria and New South Wales over the last decade.<sup>23</sup> The NEM provides advantages for electricity generators and distributors by maximising any under utilised capacity and improving returns on capital. By relieving limitations on electricity supply, the NEM potentially removes impediments to economic development and lessens adverse social consequences from unreliable supply.

- 2.13** At present New South Wales, Australian Capital Territory, Victoria, Queensland and South Australia are members of the NEM. Tasmania will enter the NEM when a transmission interconnector to Victoria ('Basslink') is completed in 2003.<sup>24</sup>

- 2.14** Major features of the NEM include:

- a competitive wholesale market for the supply and purchase of electricity by market participants,
- an open access regime that provides for non-discriminatory access to electricity networks,
- a transparent and nationally consistent legal and regulatory framework, and
- non-discriminatory access to electricity networks, transparent regulation and the introduction of a single wholesale electricity market which will allow all types of generators, demand management options and electricity network augmentations to compete with each other and hence promote a more flexible, cost effective and efficient electricity industry.<sup>25</sup>

<sup>21</sup> National Competition Council, *National Competition Policy: Some Impacts Society and the Economy*, Melbourne, 1999, pp 29-30.

<sup>22</sup> National Competition Council, *National Competition Policy Assessment*, Press Release, 5 February 2001.

<sup>23</sup> ABARE, *Profile of the Australian Electricity Industry*, Research Report 2000.7, Canberra, 2000, p 31. South Australia was a net importer of around 4,000 GWh per annum in 1996-97 and 1997-98.

<sup>24</sup> ABARE, *Profile of the Australian Electricity Industry*, Research Report 2000.7, Canberra, 2000, p 39.

<sup>25</sup> [www.nemmco.com.au/publications/whitebook/background.htm](http://www.nemmco.com.au/publications/whitebook/background.htm), accessed 7 May 2001.

**2.15** The National Electricity Code Administrator (NECA) and the National Electricity Market Management Company (NEMMCO) were established on 9 May 1996 to oversee the administrative and regulatory functions associated with the NEM. NEMMCO describes its role and that of other bodies as follows:

NECA administer the Code, manage the Code change process and enforce the Code. As the market operator, NEMMCO is responsible for managing the wholesale electricity market according to the rules and procedures described in the Code. The aim of the National Electricity Market Management Company is to provide an effective infrastructure for the efficient operation of the wholesale national electricity market.<sup>26</sup>

...The access regime for electricity networks will be regulated by the Australian Competition and Consumer Commission (ACCC) and jurisdictional regulators.<sup>27</sup>

**2.16** The ACCC also monitors behaviour of market operators to ensure restrictive trade practices outlined under the *Trade Practices Act 1974* are avoided.

**2.17** In a recent significant speech to the electricity industry, the Hon Kim Yeadon MP, Minister for Energy, called for a ministerial forum to consider the governance framework for the NEM. With respect to the institutions operating the NEM, the Minister outlined three concerns:

There are three key problems with our institutions. Firstly, they do not do the job they were given very well. Secondly, they have been asked to jobs that they are ill-equipped to do or should not be doing, and thirdly there is an unclear allocation of responsibilities between the organisations.<sup>28</sup>

**2.18** The Minister later elaborated upon his concerns with respect to the role of NECA and NEMMCO:

In particular, NECA's lack of accountability for code compliance has manifested itself through NECA effectively making policy...

NECA is the code administrator and should not be engaged in policy development.

NEMMCO, too, has displayed problems that are a result of poor governance. For example, the annual determination of NEMMCO's participant fees has been inconsistent from year to year, leading to great uncertainty amongst market participants.<sup>29</sup>

### **National Electricity Law**

**2.19** The National Electricity Law is the legislative regime that enables the National Electricity Code, NECA and NEMMCO to operate. NEMMCO makes the following comments about the application of the National Electricity Law:

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<sup>26</sup> [www.nemmco.com.au/about/about.htm](http://www.nemmco.com.au/about/about.htm), accessed 7 May 2001.

<sup>27</sup> [www.nemmco.com.au/publications/whitebook/structure.htm](http://www.nemmco.com.au/publications/whitebook/structure.htm), accessed 7 May 2001.

<sup>28</sup> *Electricity Supply Magazine*, Electricity Supply Association of Australia, Sydney, May 2001, p 5.

<sup>29</sup> *Electricity Supply Magazine*, Electricity Supply Association of Australia, Sydney, May 2001, p 7.

The National Electricity Law is cooperative legislation which has been passed by the South Australian Parliament as the lead legislator. The National Electricity Law is then enacted by other participating jurisdictions. Changes to a jurisdiction's enabling legislation will require the unanimous approval of all participating jurisdictions. This will help to ensure regulatory consistency across the NEM.<sup>30</sup>

### Full retail contestability

**2.20** One of the overall objectives of the NEM is to enable customers the opportunity to select between retail electricity suppliers. A staged implementation of market contestability has been undertaken with larger customers obtaining initial access to contestable markets. The respective timetables for retail contestability by participant states and territory in the NEM are outlined below in Table 2.1.

**Table 2.1 – Proposed timetable for retail contestability by NEM participants**

Customer usage per annum	Victoria	New South Wales	Australian Capital Territory	Queensland	South Australia
<b>Above 5 MWh or 40 GWh</b>	December 1994 47 sites	October 1996 47 sites	October 1997 5 sites	March 1998 43 sites	<i>Not applicable</i>
<b>Above 1 MWh or 4 GWh</b>	July 1995 330 sites	April 1997 660 sites	March 1998 40 sites	October 1998 430 sites	December 1998 160 sites
<b>Above 750 MWh</b>	July 1996 1,500 sites	July 1997 3,500 sites	May 1998 250 sites	<i>Not classified</i>	July 1999 635 sites
<b>Above 160 MWh</b>	July 1998 5,000 sites	July 1998 10,800 sites	June 1998 1000 sites	July 1999 6,400 sites	January 2000 2,600 sites
<b>All customers</b>	January 2002 1,957,300 sites	January 2002 2,700,000 sites**	January 2002 125,000 sites*	January 2002 1,407,000 sites***	January 2003 720,000 sites

Source: NEMMCO, [www.nemmco.com.au/publications/whitebook/background.htm](http://www.nemmco.com.au/publications/whitebook/background.htm)  
[www.nemmco.com.au/publications/whitebook/background.htm](http://www.nemmco.com.au/publications/whitebook/background.htm)

Notes:

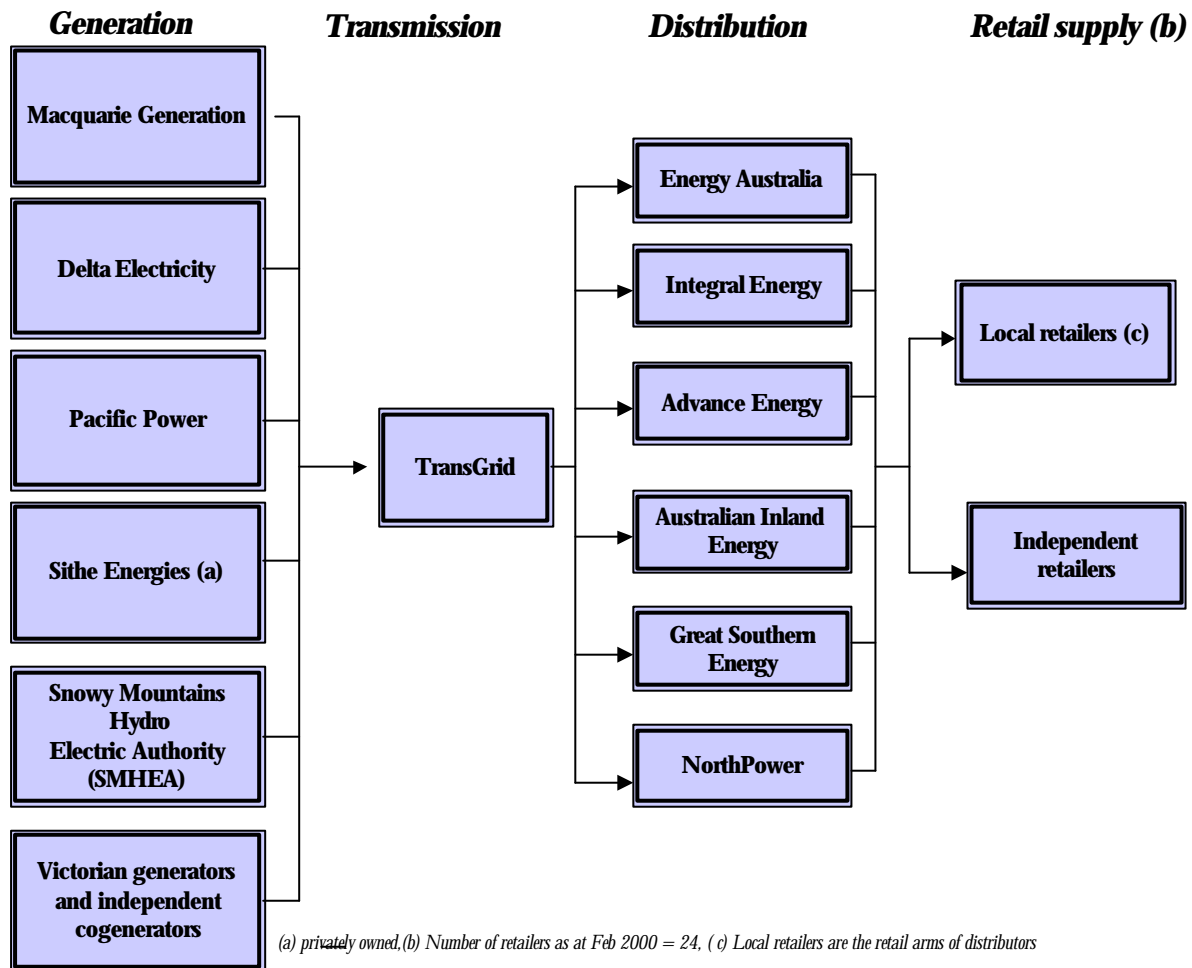
- \* Date shown is start of a transition process
- \*\* Aggregation for customers below 160MWh will be permitted from 1 July 1999 subject to certain criteria including a minimum site threshold of 100 MWh pa
- \*\*\* Subject to Queensland Government Review

## The New South Wales electricity industry

<sup>30</sup> [www.nemmco.com.au/publications/whitebook/regulation.htm](http://www.nemmco.com.au/publications/whitebook/regulation.htm), accessed 7 May 2001.

**2.21** Like other states, electricity reform in New South Wales consisted of modifications to the generator, distribution and retail industries. A diagrammatic representation of the structure of the New South Wales electricity industry is depicted in as Figure 2.1 below:

**Figure 2.1 - Structure of the New South Wales electricity industry**



Source: ABARE research report 2000.7 Australian electricity industry p 52

**2.22** New South Wales<sup>31</sup> electricity production is estimated to track slightly below that of electricity consumption from 1997-98 to 2014-2015 despite a number of electricity generators operating below full capacity. Total New South Wales electricity production for 1999-2000 was estimated to be 66,723 GWh and projected to expand to 80,223 GWh by 2014-2015. By contrast total electricity consumption for New South Wales in 1999-2000 was estimated to be 67,584 GWh and projected to increase to 81,501 GWh by 2014-2015.<sup>32</sup> ABARE reports that total capacity utilisation for the Australian electricity industry is

<sup>31</sup> Includes Australian Capital Territory.

<sup>32</sup> ABARE, *Profile of the Australian Electricity Industry*, Research Report 2000.7, Canberra, 2000, p 74.

around 50% although this figure varies between states, production technologies and fuel types.<sup>33</sup>

- 2.23** Manufacturing is the largest consumer of electricity in New South Wales followed by residential, commercial and electricity generation users.<sup>34</sup>

## Reforms in the New South Wales electricity industry

### Generators

- 2.24** From a distribution perspective, Pacific Power, the primary electricity generator in New South Wales was horizontally separated in March 1996 to establish three new government generator corporations, Pacific Power, Delta Electricity and Macquarie Generation.

### Distributors

- 2.25** In the past 50 years there has been a significant decline in the number of distributors of electricity supply in New South Wales as presented in Table 2.2.

**Table 2.2 – Number of New South Wales electricity distributors**

Year	1949	1960	1970	1980	1995
Number of distributors	157	65	44	25	6

Sources: NSW Parliamentary Library Research Service, *Electricity and Privatisation, Briefing Paper no 17/97, pp 2- 3*; Distribution Boundary Review Committee, Final Report, NSW Government, June 1998, p 9.

- 2.26** In 1949 there were 157 suppliers of whom 3 were state government departments, 121 were municipal, shire or county councils and 33 were private companies operating under franchise agreement with the local government authority.<sup>35</sup>
- 2.27** Legislative amendments introduced by the *Electricity Supply Act 1995* and the *Energy Services Corporations Act 1995* provided for the dissolution of former distributors and establishment of state government owned corporations to distribute electricity supply. The amendments resulted in a transfer of responsibility and ownership for electricity distribution from being largely local government to solely state government. During 1995-1996 electricity distributors were amalgamated to form six state government corporations. Details of the distributors involved in the amalgamation are identified in Table 2.3.

<sup>33</sup> ABARE, *Profile of the Australian Electricity Industry*, Research Report 2000.7, Canberra, 2000, p 11.

<sup>34</sup> ABARE, *Profile of the Australian Electricity Industry*, Research Report 2000.7, Canberra, 2000, p 74.

<sup>35</sup> NSW Parliamentary Library Research Service, *Electricity and Privatisation*, Briefing Paper No 17/97, pp 2-3.

**Table 2.3 – 1995-1996 amalgamation and corporatisation of New South Wales electricity distributors**

State government owned corporation	Amalgamated distributors
Energy Australia	Sydney Electricity, Orion Energy
Integral Energy	Prospect Electricity, Illawarra Electricity
NorthPower	Tenterfield Shire Council (electricity), Northern Rivers, Oxley, Namoi Valley, New England, Peel Cunningham, NorthWest
Advance Energy	Central West Electricity, Ophir Electricity, Southern Mitchell Electricity, Western Power
Australian Inland Energy	Broken Hill Electricity
Great Southern Energy	Monaro, Murray River, Murrumbidgee, Northern Riverina, Southern Riverina, Southern Tablelands, South-West Slopes, Tumut River

Source: NSW Parliamentary Library Research Service, *Electricity and Privatisation*, Briefing Paper no 17/97, p 17-18.

### Ring fencing

**2.28** The National Electricity Code requires that each jurisdictional regulator (the Independent Pricing and Regulatory Tribunal in New South Wales) develop and publish in consultation with the ACCC, “ring fencing” guidelines for the accounting and functional separation of prescribed distribution services according to distribution network service providers (DNSPs).<sup>36</sup> The intention of ring fencing is to separate the monopoly components of DNSPs, principally the operation and administration of infrastructure involved in the network (such as poles, wires and substations), from the contestable retail parts of the business (such as metering, billing, wiring and fault rectification in residential and commercial premises).

**2.29** The *Electricity Supply Act 1995* provide legislative standing for ring fencing of the monopoly components of the DNSPs as part of their licence conditions. In particular:

A condition requiring the affairs of the holder of the licence in relation to the operation of a distribution system to be kept separate, to the extent specified in the condition, from the affairs of the holder of the licence in relation to the supply of electricity.<sup>37</sup>

A condition referred to in subclause (2) (e) may require separate affairs to be conducted by separate divisions of the same legal entity or by separate legal entities.<sup>38</sup>

<sup>36</sup> IPART, *Pricing for Electricity Networks and Retail Supply*, Volume 1, June 1999, p 182.

<sup>37</sup> Schedule 2, clause 6,(2)(e), *Electricity Supply Act 1995*.

<sup>38</sup> Schedule 2, clause 6(3), *Electricity Supply Act 1995*.



**2.30** In its report *Pricing for Electricity Networks and Retail Supply*, IPART outlined its support for ring fencing of network business components of DNSPs:

The reason for ring fencing NSPs [Network Service Providers] is to limit the ability of an entity to extend its monopoly powers from a network business to the contestable parts of the industry. In particular, ring fencing ensures that the regulated activities do not cross subsidise non-regulated (or contestable) activities.<sup>39</sup>

**2.31** IPART emphasised the importance of limiting the flow of commercial information and prohibiting the manipulation of cost allocation and transfer pricing between monopoly and constable parts of DNSPs.<sup>40</sup> In accordance with National Electricity Code requirements, IPART released draft ring fencing guidelines for comment and expect to finalise these guidelines by mid 2001. IPART intends to review its current Code of Accounting Separation in 2001.<sup>41</sup>

### **Distribution Boundary Review Committee**

**2.32** The Distribution Boundary Review Committee report, released in 1998, has been a key policy document in facilitating Government consideration of merging electricity distributors. In particular the Distribution Boundary Review Committee noted:

- Substantial cost savings have been realised as a result of the 1995 amalgamations and further savings relating to reduced corporate overheads are available from potential merger combinations,<sup>42</sup>
- A minimum size of network businesses, referring to a UMS Group benchmarking report finding that the most efficient distributor size is between 500,000 and 750,000 customers,<sup>43</sup>
- Equalisation of distributor customer numbers or GWh sales through boundary changes would not necessarily provide effective competition. The varying network and retail characteristics of each distributor would still require adjustments to be made to undertake effective comparisons of performance,<sup>44</sup>
- Stronger arguments were found in merging rural distributors as compared with merging rural and urban distributors,<sup>45</sup>

<sup>39</sup> IPART, *Pricing for Electricity Networks and Retail Supply*, Volume 1, June 1999, p 181.

<sup>40</sup> IPART, *Pricing for Electricity Networks and Retail Supply*, Volume 1, June 1999, p 181.

<sup>41</sup> Ring fencing guidelines and accounting separation code: [www.ipart.nsw.gov.au](http://www.ipart.nsw.gov.au), accessed 6 April 2001.

<sup>42</sup> Distribution Boundary Review Committee, Final Report, NSW Government, June 1998, p 38.

<sup>43</sup> Note that Advance Energy, Great Southern Energy and NorthPower are all below 500,000 customers, *Distribution Boundary Review Committee*, Final report, NSW Government, June 1998, p 98.

<sup>44</sup> Distribution Boundary Review Committee, Final Report, NSW Government, June 1998, pp 39-40.

<sup>45</sup> Distribution Boundary Review Committee, Final Report, NSW Government, June 1998, p 43.

- A merger of Advance Energy and Great Southern Energy provided the greatest synergies in network logic derived from similarities in climate, terrain, geographical location, customer base and organisational structure while sharing a lengthy common distribution border that passes through major rural population centres.<sup>46</sup>

**2.33** The Distribution Boundary Review Committee, in its reporting its findings to the Minister for Energy, recommended, among other things:

- the merger of Advance Energy and Great Southern Energy. The merger would resolve efficiencies of scale for Advance Energy, strengthen the financial position of rural distributors and provide potential operating savings of between \$13 million and \$18 million and potential capital cost savings of \$8 million. The estimated cost of the merger would be around \$13 million or equivalent to the first year of operating cost savings,<sup>47</sup> and
- the remaining distributors retain their current boundaries.<sup>48</sup>

### **PriceWaterhouseCoopers review**

**2.34** Advance Energy sought independent advice from PriceWaterhouseCoopers ('PWC') on reforms in the energy industry (gas and electricity) as part of determining organisational strategy. In its review of economies of scale and scope in the energy industry, the report notes that a number of forces are influencing change in the energy market including:

- deregulation and the introduction of a competitive market,
- convergence,
- e-business, and
- globalisation.

**2.35** PWC comments on the ongoing rationalisation of organisations in the energy industry through acquisitions and mergers and refers to industry comment that eventually 4 or 5 retailers may serve the majority of the customer base. PWC makes the following comments on suitable levels of economies of scale and scope for energy retail businesses:

Given the changes occurring in the market and the increase in the number of large energy businesses, there are significant challenges for smaller retail businesses (less than 750,000 – 1,000,000 customers remaining competitive in the longer term. In Australia, indications are that long term survivors may in general need in excess of 1 million customers. We would stress that customer numbers alone are not sufficient to ensure viability, but the ability to capture economies of scale and scope is likely to be a minimum requirement on which to build a successful business. Notwithstanding, for completeness it is also important to note that the

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<sup>46</sup> Distribution Boundary Review Committee, Final Report, NSW Government, June 1998, pp 40-41.

<sup>47</sup> Distribution Boundary Review Committee, Final Report, NSW Government, June 1998, p 2.

<sup>48</sup> Distribution Boundary Review Committee, Final Report, NSW Government, June 1998, p i.

issue of scale may be less relevant for new entrants to the energy retail market, or niche segment specialists retailer, than it is for incumbent retailers.<sup>49</sup>

### Organisational statistics for distributors participating in the NEM

**2.36** A consolidated table of organisational statistics for all DNSPs participating in the NEM up to 1998 is illustrated in Appendix 1. These organisational statistics can be utilised to rank DNSPs party to the NEM, in order of size on various criteria such as sales volume and distribution areas. Table 5.1 outlines the rank according to criteria for Advance Energy, Great Southern Energy and NorthPower against other participants in the NEM. A merged Country Energy organisation is ranked among other participants in the NEM to provide a comparison of the proposed organisation's scale.

**Table 2.4 – Ranking of Advance Energy, Great Southern Energy, NorthPower and Country Energy compared to all 15<sup>50</sup> NEM participants (1 = largest, 15 = smallest)**

Organisational performance criteria	Advance Energy	Great Southern Energy	NorthPower	Country Energy (post merger)
Sales in \$ (out of 14) <sup>51</sup>	13	9	7	5
Sales in GWh	14	10	9	5
Assets in \$ (out of 13) <sup>52</sup>	12	9	7	7
Employees	12	10	6	3
Customers	13	11	8	5
Circuit kms	6	4	3	1
Area (km <sup>2</sup> )	4	3	2	1
Customer per km <sup>2</sup>	13	12	11	11
Customer per circuit km	14	12	10	11
MWh per circuit km	14	11	12	11

Source: Distribution Boundary Review Committee, Final Report, NSW Government, June 1998, p 98.

Note: 1998 Figures

**2.37** Based on 1998 organisational data, the merger would place Country Energy in the upper 50% of DNSP participants in the NEM for most of the above organisational performance criteria. Country Energy is likely to operate as a far more dominant participant in the NEM, with greater market power, than any of the three DNSPs could manage in isolation.

<sup>49</sup> Correspondence from Mr Craig Murray, Managing Director, Advance Energy to Director, Standing Committee on State Development, dated 11 May 2001, p 4.

<sup>50</sup> 15 participants have been ranked unless otherwise indicated.

<sup>51</sup> Only 14 DNSPs are ranked as there were no sales figure available for CitiPower.

<sup>52</sup> Only 13 DNSPs are ranked as there were no figures available for CitiPower and Powercor.

- 2.38** The committee notes that New South Wales DNSPs are well positioned in respect of the number of NEM customers required for long term viability as estimated by PriceWaterhouseCoopers. Since the release of the Distribution Boundary Review report<sup>53</sup> rapid convergence of DNSPs in other participating states within the NEM have created sizeable competitors. Trends occurring in other states reveal a strategy for DNSPs to become dual fuel providers servicing both gas and electricity customers.
- 2.39** AGL is a private company operating in all states and is the largest DNSP with around 1.9 million retail energy customers (1 million electricity and 870,000 gas). AGL recently acquired Melbourne based Solaris and South Australia's sole retailer ETSA.
- 2.40** In Queensland, Energex and Ergon operate as government owned corporations, with over 1 million customers (including 90,000 gas) and 560,000 customers respectively.
- 2.41** All Victorian DNSPs are privately owned. Origin is the largest Victorian based DNSP and second largest participant in the NEM with around 1.8 million electricity and gas customers derived in part from its acquisition of Victorian based Powercor. TXU<sup>54</sup> acquired Victorian distributor Eastern Energy and operates with just under 1 million customers (500,000 electricity and 432,000 gas) Other Victorian DNSPs are Untied Energy with around 1.1 million customers (565,000 electricity and 500,000 gas) and CitiPower, the smallest Victorian DNSP operating in Melbourne with 248,000 customers.<sup>55</sup>

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<sup>53</sup> Distribution Boundary Review Committee, Final Report, NSW Government, June 1998.

<sup>54</sup> Formerly Texas Utilities.

<sup>55</sup> Correspondence from Mr Peter Shields, Market Implementation Group, NSW Treasury, 29 May 2001, pp 1-9.

## Chapter 3 Tariffs and financial returns to the Government

The electricity industry reforms that resulted in the establishment of the National Electricity Market ('NEM') and retail contestability have partially removed the role for the State Government in setting retail electricity tariffs and charges. The Independent Pricing and Review Tribunal ('IPART') continues to set non-contestable electricity tariffs and charges and formulate expected revenue paths, cost paths and financial returns for distribution network service providers ('DNSPs').

### Tariff framework

#### The role of IPART

- 3.1** The IPART is established under the *Independent Pricing and Regulatory Tribunal Act 1992*. The Act confers responsibility on the Tribunal for conducting investigations, preparing reports and making price determinations for government monopoly services in New South Wales.
- 3.2** In particular s 11 of the Act provides IPART with a standing reference to develop and review pricing determinations for government monopoly services. In 1993 the following electricity services were gazetted under s 11:
- the supply and transmission of bulk electricity by a government agency to an electricity supply authority,
  - distribution of electricity,
  - services where an augmentation or capital contribution charge, or a connection or disconnection charge, an inspection charge, a meter reading charge or a similar charge is payable to an electricity distributor, and
  - market segments for which there are no other suppliers to provide competition in the part of the market concerned and for which there is no other contestable market by potential suppliers in the short term in that part of the market.<sup>56</sup>
- 3.3** All New South Wales DNSPs including Advance Energy, Great Southern Energy and NorthPower are included under IPART's standing reference.
- 3.4** The introduction of the National Electricity Law removed the DNSPs from this regulatory pricing framework on 31 December 2000. In accordance with its objective of promoting retail contestability, the National Electricity Code does not permit retail electricity prices to be regulated. IPART in its June 1999 industry report<sup>57</sup> *Pricing for Electricity Networks and Retail Supply*, sought NSW Government assistance to respond to this market reform:

<sup>56</sup> <http://www.ipart.nsw.gov.au>, *Government Pricing Tribunal (Electricity Services) Order 1993* (Gazette No 124, 12 November 1993, p 6795).

<sup>57</sup> Required under s 12A, *Independent Pricing and Regulatory Tribunal Act 1992*.

Until December 2000, IPART will continue to regulate retail prices under the IPART Act. Beyond 2000, the Tribunal does not have any legislative sanction to regulate retail prices. Yet it seems highly likely that there will be franchise customers after this date. *Importantly the Tribunal recommends that Government ensures that IPART remains the price regulator for customers who do not have a choice of retail supplier.*<sup>58</sup>

### **National Electricity Code**

**3.5** Under the National Electricity Code, IPART is the jurisdictional regulator for electricity transmission and distribution in New South Wales. The Code sets principles, rather than methodology which the jurisdictional regulator must follow.<sup>59</sup> In adhering to the Code, IPART has for each DNSP:

- set an aggregate average revenue requirement with a maximum allowable revenue increase related to Consumer Price Index (CPI),
- allocated revenue paths between urban and rural customers - revenue paths have been smoothed to provide a pure glide path across years,
- issued a five year pricing determination,
- required efficiency gains - a real reduction in operating and maintenance costs of 15% over 5 years for Advance Energy, Great Southern Energy and NorthPower respectively,
- required a fair and reasonable rate of return on efficient investment,
- allowed recovery of Commonwealth taxes and charges and State charges,
- made provision to fully pass on transmission charges in prices,<sup>60</sup> and
- set the value of assets in service and generally in existence as at 1 July 1999.<sup>61</sup>

### **Electricity Supply Amendment Act 2000**

**3.6** The *Electricity Supply Amendment Act 2000* was enacted primarily to accommodate alterations in the operation and administration of the New South Wales electricity industry as a consequence of the NEM and IPART requirements under the National Electricity Code.

**3.7** The *Electricity Supply Amendment Act 2000* addresses concerns regarding retail prices previously outlined by IPART<sup>62</sup> by inserting provisions under the *Electricity Supply Act 1995* for the Tribunal to regulate retail prices where there is no retail competition. In particular new provisions under s 43EB enable IPART to make a determination on regulated retail tariffs or regulated retail charges that may include specification of:

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<sup>58</sup> IPART, *Pricing for Electricity Networks and Retail Supply*, Volume 1, June 1999, p 4.

<sup>59</sup> IPART, *Pricing for Electricity Networks and Retail Supply*, Volume 1, June 1999, p 13.

<sup>60</sup> IPART, *Pricing for Electricity Networks and Retail Supply*, Volume 1, June 1999, pp 295-299.

<sup>61</sup> IPART, *Pricing for Electricity Networks and Retail Supply*, Volume 1, June 1999, p 47.

<sup>62</sup> IPART, *Pricing for Electricity Networks and Retail Supply*, Volume 1, June 1999, p 4.

- the tariff or charges, and
- the methodology for determining the tariffs or charges.<sup>63</sup>

**3.8** The determination may:

- apply generally or be limited in its application by reference to specified exceptions or factors, or
- apply differently according to different factors of a specified kind, or
- authorise any matter or thing to be from time to time determined, applied or regulated by any specified person or body.<sup>64</sup>

**3.9** The *Electricity Supply Amendment Act 2000* also amends certain sections of the *Independent Pricing and Regulatory Tribunal Act 1992* to enable IPART to make determinations on the proportion of costs that a DNSP may require new customers<sup>65</sup> to contribute to cover expenses incurred in:

- extending the distribution system,
- increasing the capacity of the distribution system, or
- providing equity between new and existing customers for contributions paid in the above two dot points.<sup>66</sup>

**3.10** The same provision also enables IPART to determine whether a DNSP should be required to repay any contributions to existing customers.<sup>67</sup>

**3.11** The *Electricity Supply Amendment Act 2000* also includes replacement of the term “electricity distributor” with “distribution network service provider” to distinguish between network distribution and retail businesses.

## Tariffs and charges for rural and regional customers

**3.12** Electricity tariffs faced by customers are a combination of the following cost components:

- generation,
- transmission,
- network distribution, and

<sup>63</sup> Schedule 1, [17], s 43EB (3), *Electricity Supply Amendment Act 2000*.

<sup>64</sup> Schedule 1, [17], s 43EB (4), *Electricity Supply Amendment Act 2000*.

<sup>65</sup> Under s.25(4), *Electricity Supply Act 1995*, a new customer means a customer requiring new or additional customer connection services.

<sup>66</sup> Schedule 2, 2.3[1](3), *Electricity Supply Amendment Act 2000*.

<sup>67</sup> This may apply in circumstances where DNSP costs have already been recovered or the costs were incurred more than 6 years prior to the new customer requesting services. Schedule 2, 2.3[1](3), *Electricity Supply Amendment Act 2000*.

- retail.

- 3.13** The retail businesses of DNSPs purchase electricity from either the electricity “pool” administered by NEMMCO at a “spot market rate” or through direct negotiation with electricity generators. The price that retailers pay for electricity on the “spot market” is dependent on market forces of supply from generator businesses and demand from other DNSP retail businesses. DNSPs also pay a transmission fee to TransGrid for distributing high voltage electricity (above 132 kV) from electricity generators to the DNSP network.
- 3.14** Whilst the NSW Government is the owner of three generator businesses, TransGrid and six DNSPs, it has divested itself from setting electricity tariffs. The contestable retail business of DNSPs (from 1 January 2002) and generator businesses set tariffs and charges as part of commercial decisions of operating in the NEM. Revenue requirements for high voltage transmission functions operated by TransGrid and Energy Australia are to be regulated by the ACCC from 1 July 1999.<sup>68</sup> IPART, as an independent NSW Government statutory authority, is charged with setting asset values, cost reduction targets, rates of return, regulated retail prices and regulated retail profit margins for DNSP network businesses and non contestable areas of DNSP retail businesses.
- 3.15** In December 2000 IPART acknowledged that network tariffs should be completely passed onto the customer but indicated the following difficulties precluded a determination of the tariff’s value:

There are a number of reasons why network tariffs can not be known with certainty at this time. The regulatory arrangements that apply to the DNSPs provide certainty of future network *revenues* (and of average network tariffs, given demand forecasts), but do not indicate the level and structure of future network *tariffs* for particular customer classes. Under current regulatory arrangements, actual network tariffs in any one year are not known until one month before they are put in place by the DNSP and payable by retail suppliers and customers. In addition, the outcome of the NECA review is still uncertain, providing further uncertainty about future transmission and price determination methodologies and structures.

If the Tribunal were to use inaccurate forecasts of network tariffs in setting regulated retail tariffs it could result in distorted market incentives.<sup>69</sup>

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<sup>68</sup> IPART, *Pricing for Electricity Networks and Retail Supply*, Volume 1, June 1999, p 14.

<sup>69</sup> IPART, *Regulated retail prices for electricity to 2004*, December 2000, p 37.



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### **Recommendation 1**

The committee recommends that the Independent Pricing and Regulatory Tribunal continue to work with distribution network service providers to:

- establish ring fencing guidelines for network business, and
  - facilitate effective ring fencing of distribution network service provider network businesses, to amongst other things, develop clearer network cost structures, accounting and performance measures.
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### **Regulated retail tariffs**

- 3.16** With the transition to full retail contestability in New South Wales, some larger consumers of electricity are already able to select their retail supplier. All customers are expected to be afforded similar opportunities as of 1 January 2002.
- 3.17** In accordance with powers for determining regulated retail tariffs conferred by the *Electricity Supply Amendment Act 2000*, IPART released its report *Regulated retail prices for electricity to 2004* in December 2000. The Tribunal identified a number of circumstances warranting the maintenance of regulated retail tariffs, including:
- for small customers not able to participate in a contestable market until 1 January 2002,
  - for customers to take time to make an informed decision on their choice of retailer,
  - where customers are not in demand by retailers - these may include customers using small amounts of electricity or with poor payment records, and
  - where a customer's retailer ceases to trade - the National Electricity Code makes provision for the jurisdictional regulator to allocate to customers a "retail supplier of last resort".<sup>70</sup>
- 3.18** Regulated retail tariffs provide a safety net for customers not able, or willing to, engage in a contestable retail market. IPART has indicated that the regulated tariffs and target levels for subsequent years are sufficient to enable the retailer to recover costs and earn an appropriate profit margin of 1.5 to 2.5%.<sup>71</sup>
- 3.19** Regulated retail tariffs set by IPART for each DNSP include the following components:
- energy purchases (including green energy purchases that are not regulated) - in estimating these costs the Tribunal used a long run marginal cost for energy purchases of \$36 to \$56 per MegaWatt hour,
  - NEM fees (set by NEMMCO),
  - retail operating costs and retail profit margins,

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<sup>70</sup> IPART, *Regulated retail prices for electricity to 2004*, December 2000, p 4.

<sup>71</sup> IPART, *Regulated retail prices for electricity to 2004*, December 2000, pp 5, 44.

- \$5 per customer per annum fee for costs incurred in competing within the NEM,<sup>72</sup> and
- energy losses through network distribution. IPART recognises that during transmission around 5-6% and 16-20% of electricity is lost in urban areas and rural areas respectively.<sup>73</sup>

**3.20** IPART's pricing regime for regulated retail tariffs combine a network tariff "N", a fixed retail cost "Fixed R" and variable retail cost "Variable R".<sup>74</sup> Tariffs for each DNSP are presented in Table 3.1 below:

**Table 3.1 – Regulated retail tariffs 2001 (network tariff, fixed retail tariff and variable retail tariff)**

		Urban		Rural	
		Standard	Controlled load <sup>75</sup>	Standard	Controlled load
<b>Variable retail tariff "Variable R" (c/kWh)</b>	Energy Australia	5.16	3.55	5.16	3.55
	Integral Energy	5.41	3.61	5.42	3.70
	NorthPower	5.78	3.76	6.08	4.00
	Great Southern Energy	5.53	3.64	6.04	3.96
	Advance Energy	5.82	3.74	6.07	3.88
	Australian Inland Energy	5.87	3.96	5.86	3.95
<b>Fixed retail tariff "Fixed R"</b>	\$37.50 per customer per annum				
<b>Network tariff "N"</b>	"N"				

Source: IPART, *Regulated retail prices for electricity to 2004*, December 2000, p 8.

**3.21** The variable and fixed retail components will be increased at the rate of CPI less the cumulative impact of GST under the IPART determination. DNSP retail businesses are required to modify (reduce or increase) their regulated retail tariffs to meet these targets as at June 2004. Retail businesses have been limited to increasing tariffs to a maximum of \$25 or CPI<sup>76</sup> whichever is the lesser amount for residential customers and a maximum of \$50 or CPI<sup>77</sup> + 5% whichever is the lesser amount for commercial customers.<sup>78</sup>

**3.22** The committee supports IPART's use of regulated retail tariffs to provide a safety net for the maximum amount that DNSPs may charge rural and urban customers.

<sup>72</sup> IPART, *Regulated retail prices for electricity to 2004*, December 2000, p 10.

<sup>73</sup> IPART, *Regulated retail prices for electricity to 2004*, December 2000, pp 37-38.

<sup>74</sup> IPART, *Regulated retail prices for electricity to 2004*, December 2000, p 10.

<sup>75</sup> Off peak consumption.

<sup>76</sup> CPI less cumulative impact of GST.

<sup>77</sup> CPI less cumulative impact of GST.

<sup>78</sup> IPART, *Regulated retail prices for electricity to 2004*, December 2000, p 12.

### Reassessment of IPART's regulated retail price determination

**3.23** Integral Energy was critical of the present IPART determination on regulated retail prices:

As with other electricity distributors, Country Energy will require a strategic approach to its capital and operating expenditures 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.<sup>79</sup>

**3.24** Integral Energy suggested that if the formation of Country Energy provided a timely opportunity for review of capital expenditure then the review should be conducted industry wide and not restricted to Country Energy.<sup>80</sup> Dr Don Anderson, Director, Market Implementation Group, NSW Treasury, noted Integral Energy's concerns in his comments:

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...<sup>81</sup>

**3.25** The proposed formation of Country Energy will result in an number of start up costs for the merged entity to achieve operational consistency and strategic direction. Areas that may need to be reviewed include:

- operational, maintenance and safety procedures,
- policies and strategies,
- organisational structure and lines of reporting,
- information technology systems, and
- interfacing or merging of operational and customer information databases.

**3.26** The committee notes the asset management review completed in February 1999 by the GHD, Worley International and Arthur Andersen consortium for NSW Treasury on NSW DNSPs. A common theme in the Consortium's reports on Advance Energy, Great Southern Energy and NorthPower was that the DNSPs had experienced difficulty in finalising asset databases some 4 years after the 1995 electricity distributor amalgamations. In regards to Great Southern Energy the Consortium stated:

GSE is still in the process of setting up asset databases. Similar to other rural distributors GSE was formed from the amalgamation of multiple (nine) former businesses which had asset databases of varying accuracy and in different forms from paper based to electronic systems.<sup>82</sup>

<sup>79</sup> Submission No 4, Mr Richard Powis, CEO, Integral Energy, p 2.

<sup>80</sup> Submission No 4, Mr Richard Powis, CEO, Integral Energy, pp 2-3.

<sup>81</sup> Evidence of Dr Don Anderson, Director, Market Implementation Group, NSW Treasury, 9 April 2001, p 11.

<sup>82</sup> *NSW Electricity Supply Industry ORDC Valuation of Network Assets, Report on Great Southern Energy*, Arthur Andersen, Worley International and Gutteridge Haskins & Davey, February 1999, p 10.

**3.27** The Consortium made the following comments on Advance Energy:

Advance Energy retains a number of separate databases for the business assets other than zone substations and their transformers...

The business has not yet brought the asset information together into a single asset register.

These retained registers are of varying quality, completeness and style including plan based records.<sup>83</sup>

**3.28** The committee notes that all three DNSPs appear to be operating, or in the process of entering asset data into different asset management software.<sup>84</sup> Merger of the DNSPs will require development of a single database that will take time and resources to interface or migrate asset information. Issues of compatibility are unlikely to be limited to asset management and may extend to a number of information technology systems that manage operation and data processes of the proposed Country Energy organisation.

**3.29** The proposed merger would potentially create an asset value for Country Energy that is somewhat different to the accumulated value of the three merged entities. Future financial analysis conducted by IPART will need to reconsider, among other things, the:

- cost reduction paths,
- customer profile,
- risk profile, and
- average revenue path.

**3.30** IPART intends to conduct a mid-term review of its regulated retail pricing determination in 2002.<sup>85</sup> The committee considers it important that IPART monitor any impediments to Country Energy that may arise from operating three regulated tariff structures.

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**Recommendation 2**

The committee recommends that, if the merger proceeds, Independent Pricing and Regulatory Tribunal address any impediments arising from Country Energy operating three regulated tariff structures at its 2002 mid term review or earlier if Independent Pricing and Regulatory Tribunal deems these impediments to be significant.

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**Common tariff structure**

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<sup>83</sup> *NSW Electricity Supply Industry ORDC Valuation of Network Assets, Report on Advance Energy*, Arthur Andersen, Worley International and Gutteridge Haskins & Davey, February 1999, p 7.

<sup>84</sup> For example Advance Energy is using "Maximo", NorthPower is using DAMS, Mainpac, an access database and Smallworld GIS, Great Southern Energy is using Cnet Powerview.

<sup>85</sup> IPART, *Regulated retail prices for electricity to 2004*, December 2000, Foreword.

**3.31** The proposed merger of Country Energy will consolidate around 350 different tariff structures, a majority of which pertains to non-residential customer classes. An extract of advice received by NSW Treasury concerning common tariff structures is outlined below:

IPART estimated that there were about 500 regulated retail tariffs in NSW as at 31 December 2000. Great Southern Energy, NorthPower and Advance Energy supplied approximately 350 of these tariffs.

The number of tariffs does not provide an accurate description of the distribution of tariffs across customer classes. As outlined below, the majority of customers are supplied under standard residential and business tariffs. Some of the tariffs relate to supply arrangements for only a few customers, generally relating to specific rural activities eg irrigation. *[sic]*

Great Southern Energy had about 200 regulated retail tariffs as at 1 January 2001. The bulk of residential customers are on one of about 5 tariffs. There were 8 tariffs for rural customers reflecting the previous distribution boundaries. Business customers are all on a single standard business tariff.

Advance Energy had 76 regulated retail tariffs as at 1 January 2001. Almost all of the residential customers were on one of 5 residential tariffs. The remainder of the tariffs are a mix of business, rural and irrigation tariffs.

NorthPower had about 80 regulated retail tariffs. All of its residential customers are supplied under a similar retail tariff that varies only slightly throughout the supply district. Almost all business customers are on a single general supply tariff. Other miscellaneous tariffs related to off peak rates, night use, heating tariffs and irrigation rates.<sup>86</sup>

**3.32** Customers of Advance Energy, Great Southern Energy and NorthPower who are not in a position to participate in a contestable retail market will be charged tariffs at a regulated retail price as determined by IPART (illustrated in Table 3.1).

**3.33** The committee investigated the impact of the proposed merger on the regulated prices offered by the three DNSPs. Dr Anderson indicated that consumers would see no difference in regulated prices under Country Energy:

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.<sup>87</sup>

**3.34** In percentage terms, there is minimal difference between the lowest and highest regulated retail prices of Advance Energy, Great Southern Energy and NorthPower. Urban

<sup>86</sup> Correspondence from Mr Peter Shields, NSW Treasury with Market Implementation Group, 18 May 2001, p 1.

<sup>87</sup> Evidence of Dr Don Anderson, Director, Market Implementation Group, NSW Treasury, 9 April 2001, p 7.

customers face greatest disparity, while disparity faced by rural customers is negligible. These are outlined as follows:

- For urban customers under standard load, NorthPower and Advance Energy customers will pay 4.5% and 5.2% respectively more than Great Southern Energy customers,
- For urban customers under controlled load, NorthPower and Advance Energy customers will pay 3.3% and 2.7% respectively more than Great Southern Energy customers,
- For rural customers under standard load, NorthPower and Advance Energy customers will pay 0.7% and 0.5% respectively more than Great Southern Energy customers, and
- For rural customers under controlled load, NorthPower and Great Southern Energy customers will pay 3.1% and 1% respectively more than Advance Energy customers.

**3.35** The committee supports equality in the rates of regulated tariffs to “like” customers. The committee considers that IPART’s mid-term review in 2002 would be a suitable time to consider common tariff structures for the proposed Country Energy entity. This will provide sufficient time for Country Energy to develop and present relevant financial and operational material for determination by the Tribunal.

**3.36** Tariffs for electricity purchased in a contestable retail market are not set by IPART but rather by the DNSP’s retail business. The rate of tariffs will be a commercial decision for the DNSP based on operational costs, market strategy, network costs and the market behaviour of other retailers. Competition may well create disparities in the tariff rates set for certain customers in a similar way that mobile telephone pricing structures have evolved. It is therefore possible that customers may receive lower electricity tariffs based on their location, electricity consumption or loyalty. The maximum tariff that a customer can face is the regulated tariff rate set by IPART.

**3.37** Advance Energy, in its submission to the committee pointed to its achievement in reducing the number of tariffs from 250 to 76 since being established in 1995 and stated its intention to reduce the number of tariffs even further.<sup>88</sup> Advance Energy’s Managing Director, and CEO Designate of Country Energy, Mr Craig Murray provided the committee with an important insight into the direction that Country Energy would take in respect of common tariff structures:

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.<sup>89</sup>

### **Cross subsidies for rural consumers**

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<sup>88</sup> Submission No 13, Mr Craig Murray, Managing Director, Advance Energy, p 9.

<sup>89</sup> Evidence of Mr Craig Murray, Managing Director, Advance Energy, 9 April 2001, p 60.

**3.38** Mr Murray outlined to the committee Advance's ideology and pricing strategy that provided rural customers with lower tariff rates as a result of cross-subsidies from urban customers:

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...

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.<sup>90</sup>

**3.39** The committee expects the proposed Country Energy entity would adopt a similar tariff strategy to the benefit of rural customers. Other evidence provided to the committee, also supported cross subsidies in certain instances provided that the level of subsidisation was transparent.<sup>91</sup>

**3.40** The cost of distributing electricity to rural and regional areas is often expensive on a per customer basis due to transmission losses, small population centres and geographical expanse of networks. The approach taken by IPART to this matter has been to permit DNSPs to apply a higher regulated tariff to rural customers. Mr Craig Murray indicated his preference for Country Energy to operate a cross subsidy to rural customers in a similar fashion as exists with Advance Energy.

**3.41** The committee believes that customers in rural and regional centres should not be disadvantaged by location and that additional costs of supply should be borne by the community as a whole through a community service obligation payment. Further, the payment should be transparent and identified in accounts to customers and in DNSP annual reports.

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### **Recommendation 3**

The committee recommends that the Independent Pricing and Regulatory Tribunal give consideration to DNSPs recording any internal community service obligations or cross subsidy in annual reports and customer accounts arising from a commercial decision or necessitated by the Independent Pricing and Regulatory Tribunal's regulated pricing determination.

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### **Regulated retail charges**

<sup>90</sup> Evidence of Mr Craig Murray, Managing Director, Advance Energy, 9 April 2001, p 60.

<sup>91</sup> Submission No 17, Mr Scott Macdonald, President, Liberal Party of Australia, New South Wales Electoral Division, Northern Tablelands Electorate Conference, p 2.

- 3.42** IPART has established maximum charges that DNSP retail businesses may impose on customers for miscellaneous transactions during the determination period 1 January 2001 to 30 June 2004. These charges are outlined in Table 3.2.

**Table 3.2 - Regulated retail charges – maximum charge**

Miscellaneous transaction	Maximum regulated retail charge
Fee for a dishonoured bank cheque	2 times the regular charge by the bank to which the cheque is presented
Late payment fee	\$5.00
Security deposit	1.5 times average quarterly electricity account or 1.75 times average 2-monthly electricity account, or 2.5 times the average monthly electricity account Interest may not be levied on a security deposit <sup>92</sup>

Source: IPART, *Regulated retail prices for electricity to 2004*, December 2000, p 9.

### Difficulties with paying tariffs and charges

- 3.43** The committee was advised that unrequested disconnections had increased over the last three years from around 25,000 to approximately 31,000.<sup>93</sup>
- 3.44** In highlighting this matter Ms Clare Petre, Energy and Water Ombudsman for New South Wales, outlined the approach the Ombudsman's office was taking to assist in arresting this trend:

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.<sup>94</sup>

<sup>92</sup> Security deposits may only be held for one year from date of first bill for residential customers and two years from the date of first bill for commercial customers. IPART *Regulated retail prices for electricity to 2004*, December 2000, p 14.

<sup>93</sup> Evidence of Ms Clare Petre, Energy and Water Ombudsman for New South Wales, 9 April 2001, p 19.

<sup>94</sup> Evidence of Ms Clare Petre, Energy and Water Ombudsman for New South Wales, 9 April 2001, p 19.



### **Security deposits on accounts**

- 3.45** Ms Petre also advised the committee that some customers have difficulty paying electricity deposits for accounts, particularly where some have been set at a high level:

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 Energy Australia 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.<sup>95</sup>

- 3.46** As presented in Table 3.2 above, IPART have set maximum regulated retail charges for security deposits as part of its 2001-2004 determination.

### **Tariff welfare – voucher payments**

- 3.47** The committee considered the options available to consumers who have difficulty paying electricity bills and recognised the invaluable assistance provided by welfare groups such as St Vincent De Paul and the Smith Family in offering voucher payments to needy members of the community. Ms Petre noted that people in rural communities tend to have greater difficulty in accessing welfare vouchers than those in city areas:

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...

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...<sup>96</sup>

- 3.48** In relation to the approach taken by welfare organisations in issuing vouchers, Ms Petre commented:

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.<sup>97</sup>

<sup>95</sup> Evidence of Ms Clare Petre, Energy and Water Ombudsman for New South Wales, 9 April 2001, p 23.

<sup>96</sup> Evidence of Ms Clare Petre, Energy and Water Ombudsman for New South Wales, 9 April 2001, p 23.

<sup>97</sup> Evidence of Ms Clare Petre, Energy and Water Ombudsman for New South Wales, 9 April 2001, p 23.

- 3.49** The committee also received evidence that NorthPower has introduced a welfare scheme that enables operators of facilities such as community halls to apply for a \$200 grant to assist with electricity costs.<sup>98</sup>

## **Financial returns to the NSW Government**

### **Financial returns from previous reforms**

- 3.50** Dr Anderson discussed the NSW Government's approach to reform in the electricity industry and the benefits so far achieved:

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.<sup>99</sup>

- 3.51** The committee received evidence quantifying the benefits attributable from the 1995 amalgamation of electricity distributors to form the present six DNSPs:

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.<sup>100</sup>

- 3.52** NSW Treasury noted that where the benefits of the 1995 amalgamation were largely derived from economies in the network business, the proposed formation of Country Energy generates benefits through the retail business.<sup>101</sup>

### **Revenue risks**

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<sup>98</sup> Submission No 17, Mr Scott Macdonald, President, Liberal Party of Australia, New South Wales Electoral Division, Northern Tablelands Electorate Conference, p 2.

<sup>99</sup> Evidence of Dr Don Anderson, Director, Market Implementation Group, NSW Treasury, 9 April 2001, p 1.

<sup>100</sup> Evidence of Dr Don Anderson, Director, Market Implementation Group, NSW Treasury, 9 April 2001, p 2.

<sup>101</sup> Evidence of Dr Don Anderson, Director, Market Implementation Group, NSW Treasury, 9 April 2001, pp 2-3.

**3.53** Advance Energy and Australian Inland Energy face greater risks to network revenue and cashflow due to their relative reliance on industrial customers for electricity sales. IPART identified that Advance Energy's industrial customer base accounted for 50% and residential customers 23% of total GWh sales respectively. With the exception of Australian Inland Energy, other DNSP industrial sales accounted for 10% or less of GWh sales while residential customers represented 44% or more.<sup>102</sup> IPART stated that:

The substantial concentration of revenue among a few large customers poses a risk for Advance Energy's and Australian Inland Energy's network business.<sup>103</sup>

**3.54** IPART in its report *Pricing for Electricity Networks and Retail Supply* refers to the National Electricity Code requirements to provide a fair and reasonable rate of return on efficient investment. The rate of return on capital is determined by the weighted average cost of capital which is defined as:

The weighted average cost of capital is a 'forward looking' weighted average cost of debt and equity for a commercial business entity. Accordingly, the network owner's weighted average cost of capital will represent the shadow price or social opportunity cost of capital as measured by the rate of return required by investors in a privately owned company with a risk profile similar to that of the network company.<sup>104</sup>

**3.55** In applying these requirements, IPART made the following determination in respect to rates of return for DNSPs:

...The Tribunal proposes that a real pre tax rate of return of 7.5 per cent should apply to TransGrid, Energy Australia, Integral Energy, NorthPower and Great Southern Energy. This conclusion is consistent with a nominal post tax return on equity of approximately 11-12 per cent.

The Tribunal proposes that a real pre tax rate of return of 7.75 per cent should apply to Advance Energy and Australian Inland Energy. This conclusion is also consistent with a nominal post tax return on equity of approximately 11-12 per cent.<sup>105</sup>

**3.56** Based on the risk assessment and a regulatory judgement of the risk, IPART added a loading to the rate of return required of 0.25% for the two DNSPs.<sup>106</sup>

**3.57** Under the proposed merger Country Energy would comprise the following customer profile:

**Table 3.3 – Customer profile for Advance Energy, Great Southern Energy and NorthPower**

<sup>102</sup> IPART, *Pricing for Electricity Networks and Retail Supply*, Volume 1, June 1999, p 119.

<sup>103</sup> IPART, *Pricing for Electricity Networks and Retail Supply*, Volume 1, June 1999, p 119.

<sup>104</sup> Schedule 6.1 p 63 of the National Electricity Code as presented in IPART, *Pricing for Electricity Networks and Retail Supply*, Volume 1, June 1999, p 106.

<sup>105</sup> IPART, *Pricing for Electricity Networks and Retail Supply*, Volume 1, June 1999, p 123.

<sup>106</sup> IPART, *Pricing for Electricity Networks and Retail Supply*, Volume 1, June 1999, p 119.

	<b>Residential</b>	<b>Commercial</b>	<b>Industrial</b>	<b>Other</b>
<b>Advance Energy</b>				
Customer	64%	14%	0.2%	22%
GWh sold	23%	15%	50%	12%
Revenue	28%	22%	32%	18%
<b>Great Southern Energy</b>				
Customer	85%	14%	1%	1%
GWh sold	66%	21%	10%	4%
Revenue	58%	29%	10%	3%
<b>NorthPower</b>				
Customer	72%	10%	2%	16%
GWh sold	44%	31%	10%	15%
Revenue	43%	31%	10%	16%

Source: IPART, *Pricing for electricity networks and retail supply*, June 1999, p 119.

**3.58** Table 3.3 reveals that the proposed formation of Country Energy will bring together organisations with differing customer profiles. Submissions received by the committee similarly commented that the merger would create a new entity that had a larger and more diversified customer base than the three separate DNSPs. The impact of this would be that the merged entity would have a lower risk profile than the individual DNSPs combined. The NSW Government, as shareholder, also faces a lower risk in receiving returns on investment. The submission from Mr Richard Powis, Chief Executive Officer, Integral Energy made the following observations:

Over recent years, Integral has consistently stated its view that the electricity and wider “energy” industry will be subject to ongoing rationalisation. This is largely a consequence of increased competition and the need for market participants to achieve scale in order to better manage business and trading risks.

Based on these issues, Integral views the Country Energy proposal as a positive development from a shareholder, customer and market perspective.

By most measures, Advance Energy, Great Southern Energy and NorthPower are small players within the NSW and national electricity market. The formation of Country Energy establishes a much more viable electricity business with more than 700,000 customers. With the introduction of Full Retail Contestability (FRC) from 2002 onwards, the formation of Country Energy also establishes an entity with the ability to better manage the costs associated with its retailing and back office systems across a larger customer base.

Furthermore, the increased customer base provides Country Energy with the opportunity to improve its buying power within the wholesale electricity market.

From a risk management perspective, this is a very important point as the wholesale electricity market is subject to volatile price movements. For these reasons, Country Energy’s ability to achieve lower operating costs and improved purchasing power, should result in reduced risk to the shareholder. These factors

should also have a positive impact on the financial returns to the NSW Government.<sup>107</sup>

- 3.59** Advance Energy considered that the proposed merger will reduce the financial, regulatory and market risks presently faced by the three DNSPs. In relation to financial risk faced by Country Energy's retail business, Advance Energy stated:

Country Energy will deliver a reduction in energy trading risk due to the integration of the retail load curves of Advance Energy, Great Southern Energy and NorthPower...

This provides a significant advantage for Country Energy, delivering a lower than average purchase price and lower risk exposure.<sup>108</sup>

- 3.60** Dr Anderson discussed the importance to the viability of DNSP retail businesses of reducing financial risks in purchasing electricity.

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 Energy Australia and Integral.<sup>109</sup>

- 3.61** Mr Briggs, Consultant to the Market Implementation Group, NSW Treasury, later expanded on Dr Anderson's comment on electricity loads:

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

<sup>107</sup> Submission No 4, Mr Richard Powis, CEO, Integral Energy, pp 1-2.

<sup>108</sup> Submission No 13, Mr Craig Murray, Managing Director, Advance Energy, p 11.

<sup>109</sup> Evidence of Dr Don Anderson, Director, Market Implementation Group, NSW Treasury, 9 April 2001, p 3.

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.<sup>110</sup>

**3.62** Advance Energy considered that the advantages from the merger of selecting and combining best practice procedures, policies and strategies from the three entities would reduce the financial and regulatory risks for both the retail and network businesses of Country Energy. Advance Energy contended that the proposed merger would reduce the market risk that the three separate organisations would have faced in retailing gas and electricity under full retail contestability by utilising specialist skills and knowledge from each entity. In particular, incorporation of gas industry knowledge from Great Southern Energy staff would be an important attribute to Country Energy and provide a significant market benefit over Integral Energy, Energy Australia and other interstate DNSPs.<sup>111</sup>

### **Revenue opportunities and cost savings**

**3.63** Advance Energy, as a party to the proposed merger, contends that the proposed formation of Country Energy will create a number of opportunities to improve financial returns to the NSW Government. With respect to increasing revenue and reducing cost Advance Energy stated:

The revenue opportunities include:

- Revenue/margin protection due to increased ability to compete in a competitive market.
- Increased ability to explore new products and services.
- The ability to successfully compete outside existing franchise boundaries and become a viable National Market Retailer.
- The ability to explore new opportunities that have synergies with existing Network operations.
- In addition, the organisation will have a more effective business development function and with a larger financial base will be able to invest in growth projects that will ensure the company is viable into the future.
- The new entity will have a strong presence in both gas and electricity, which will enable it to compete effectively in the national market against national and global dual fuel providers.

The cost savings include:

- Operating cost savings derived from rationalising duplicate boards, corporate services and IT.
- Capital expenditure savings derived from sharing IT systems and joint development for FRC.

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<sup>110</sup> Evidence of Mr David Briggs, Consultatnt, Market Implementation Group, NSW Treasury, 9 April 2001, p 5.

<sup>111</sup> Submission No 13, Mr Craig Murray, Managing Director, Advance Energy, pp 10-11.

- Reduced energy purchase costs derived from the reduced load volatility enjoyed by the merged entity.
- Reduced network asset management costs due to greater buying power, reduced overheads and improved inventory turnover.<sup>112</sup>

**3.64** NSW Treasury, as the NSW Government's lead agency in financial resource allocation, quantified some of the cost savings in information technology operating systems from the proposed merger to which Advance Energy previously referred:

The estimates of cost savings for the merger for IT-systems alone have been estimated to be in the order of \$12 million in up-front capital costs and \$5 million per year in operational expenses. These savings arise from the avoidance of unnecessary duplication of expensive and complex IT and retail infrastructure.<sup>113</sup>

### **Conclusion**

**3.65** The committee concludes that the proposed formation of Country Energy is likely to provide a financially more robust entity that would improve prospective financial returns to the NSW Government and service to rural and regional customers. Establishing Country Energy would, in comparison to retaining the three distinct DNSPs, create:

- internal improvements in managing financial, regulatory and market risks,
- a more competitive entity NEM focussed on the interests of rural and regional customers,
- potential for improved revenue generation, cost savings, profitability and lower tariff prices for customers through economies of scale, and
- greater likelihood in achieving (or exceeding) returns on capital for the NSW Government as shareholder and on behalf of the people of New South Wales.

**3.66** The committee recognises the importance to rural and regional New South Wales of a robust and viable DNSP (Country Energy). With the formation of Country Energy proposed to commence on 1 July 2001, the entity would have six months to readjust prior to full retail contestability. This task would be difficult to achieve. Based on previous amalgamations in the electricity industry and in the public sector, realignment of such entities would be likely to continue beyond 1 January 2002. It would be in the best interests of employees and customers of the three DNSPs and the NSW Government that, if the merger proceeds, Country Energy should be realigned into its optimum operating structure as quickly as possible. The committee is concerned that the proposed Country Energy does not lose retail market share after 1 January 2002 because of efforts spent on realignment. To this end the committee would urge NSW Treasury and IPART to provide every assistance in ensuring a smooth and rapid transition

<sup>112</sup> Submission No 13, Mr Craig Murray, Managing Director, Advance Energy, pp 10-11.

<sup>113</sup> Dr Don Anderson, Director, Market Implementation Group, NSW Treasury, correspondence dated 27 April 2001, response to questions on notice, p 6.

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**Recommendation 4**

The committee recommends that NSW Treasury and the Independent Pricing and Regulatory Tribunal proactively ensure a smooth and rapid transition to the formation of Country Energy.

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## Chapter 4 Employment and community implications

One of the important business and policy motivations behind the merged distribution entity was to create a stronger business that preserves jobs and services. It is intended to put the electricity business of rural New South Wales on the same footing as its city counterparts and provide a real choice for country consumers.<sup>114</sup> Employment and the consequent impacts on rural and regional communities of a merger of country energy distributors were not surprisingly two recurring issues during the inquiry.

As previously indicated in Chapter 1 (Table 1.4), of the 26 submissions received, five were completely opposed to the merger of country energy distributors and a further 11 submissions expressed either qualified support or raised concerns regarding a merger. Comments supportive of the merger of the three energy distributors generally look towards the opportunities available to the new larger business. Comments generally opposed or concerned by the merger tended to reflect on the impacts in some distribution areas that resulted from the 1995 reform process.

### Employment levels

**4.1** NorthPower, Great Southern Energy and Advance Energy operate within very large land areas as compared with other more metropolitan-based distributors. These are illustrated in the following Table 4.1.

**Table 4.1 - Employee numbers compared with service area**

	<b>North Power</b>	<b>Great Southern Energy</b>	<b>Advance Energy</b>	<b>Australian Inland</b>	<b>Energy Australia</b>	<b>Integral Energy</b>
<b>Employees</b>	1,094	706	590	107	3,282	1,668
<b>Total operating area (km<sup>2</sup>)</b>	230,000	176,000	176,000	155,000	22,275	24,000
<b>Total customers</b>	370,000	230,000	120,000	20,000	1,390,000	770,000
<b>Operating area (km<sup>2</sup>) per employee</b>	210	249	298	1,449	7	14
<b>Customers per employee</b>	333	323	208	175	428	422

*Source:* Document tabled in evidence by Dr Don Anderson, Director, Market Implementation Group, NSW Treasury, 9 April 2001.

**4.2** The table indicates that although there are fewer customers per employee for country energy distributors, each employee covers a far greater operating area than that of metropolitan-based distributors. The formation of Country Energy would create a customer base of 720,000 which is a comparable population size to that of Integral Energy

<sup>114</sup> Evidence of Dr Don Anderson, Director, Market Implementation Group, NSW Treasury, 9 April 2001, p 1.

but also create distribution area of approximately 586,000 square kilometres which is approximately 24 times the size of Integral Energy.

### **Impacts of previous reform measures**

**4.3** There is particular concern in the community about the past history of mergers and the negative impact they have had on employment, and as a result, a negative impact on rural and regional communities.<sup>115</sup> As an example, one submission outlined a number of specific impacts on communities within the NorthPower distribution area that resulted from the initial restructuring of the electricity industry in 1995:

240 positions lost in the Clarence Valley which coincided with a restructuring of the timber industry and a number of government instrumentalities, amplified the impact on the community

local businesses suffered through losses of activities such as transport, accounts processing, banking, postal services, health, printing and cleaning

local motor traders lost sales and trade-ins of energy distributor vehicles and

schools lost 100 pupils in one town, with a flow-on effect to staffing levels and associated economic benefits to the town.<sup>116</sup>

**4.4** These adverse experiences have in some cases translated into a negative perception of the potential consequences of a merger of country energy distributors. The submission from the Chairman of the NorthPower Customer Consultative Committee, Mr Bob Harper, echoed these concerns:

Subsequent to the 1995 mergers, there was and remains, a degree of scepticism regarding the perceived and real advantages delivered to rural and regional communities and resulting from that determination. This situation highlights the need for careful consideration on marketing the proposal now before us...We will now be dealing with an organisation, 'perceived as monolithic' and by its very nature, more remote.<sup>117</sup>

**4.5** Of the 26 submissions received by the committee, nine in particular expressed negative sentiments or experiences associated with NorthPower. These concerns included issues such as unreliable power supply, removal of services, depot closures and increased supply costs. Concerns with respect to NorthPower's performance also arose repeatedly from witnesses before the committee.

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<sup>115</sup> For example, one submission expressed observations made over the past 25 years: Submission No 1, Mr Barry Smith, p 1; Submission No 20, Mr Tony Windsor MP, Member for Tamworth, on behalf of concerned constituents; Submission No 26, Mr Laurie Marchant, Secretary, South Grafton Resident's Progress Association Inc, p 4.

<sup>116</sup> Submission No 26, Mr Laurie Marchant, Secretary, South Grafton Resident's Progress Association Inc, p 4.

<sup>117</sup> Submission No 8, Mr Bob Harper, Chairman, NorthPower Customer Consultative Committee, p 2.

- 4.6** The Australian Services Union (also on behalf of the Municipal Employees Union) was highly critical of the management approach to reform at NorthPower.

The Union has noted the reform undertaken by NSW by the...three distribution companies operating separately and has expressed “grave concern” at the approach to energy reform by the...CEO, Management Team and Board of Directors at NorthPower. With this authority being responsible for the removal of significant services to electricity industry consumers in regional NSW and its towns/cities throughout their...network coverage.<sup>118</sup>

- 4.7** During hearings on the inquiry, Mr Greg McLean, Assistant National Secretary of the Australian Services Union, related the following specific concerns about some of NorthPower’s reform measures:

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.<sup>119</sup>

- 4.8** By contrast, the submission from the Australian Services Union presented a positive appraisal of the efforts of Advance Energy and its management. The submission states:

...the open approach by the previous CEO, Chair, Board and Senior Management team at Advance Energy where re-building and equipping of services, along with no depot closures, no administrative or service centre closures, no forced redundancies, but re training, along with partnerships into the banking sector with its Region’s largest Credit Union.

These steps that have been introduced along with its opposition to, and claw back of contracting out have provided significant additional jobs, services and community commitment...<sup>120</sup>

- 4.9** Table 4.2 provides details of overall employee numbers for rural energy distributors from 1989 to 2000. Only totals for “rural” distributors are provided between 1989 and 1994 as consistent employment information could not be obtained across the 25 previous distributors.

<sup>118</sup> Submission No 9, Mr Greg McLean, Assistant National Secretary, Australian Services Union, p 2.

<sup>119</sup> Evidence of Mr Greg McLean, Assistant National Secretary, Australian Services Union, 9 April 2001, p 29.

<sup>120</sup> Submission No 9, Mr Greg McLean, Assistant National Secretary, Australian Services Union, p 2.

**Table 4.2 Employment numbers for rural electricity distributors from 1989 – 2000 (full-time equivalent)**

	Advance Energy		Great Southern Energy		NorthPower		Australian Inland Energy		Total rural electricity DNSPs	
	No of employ	% change from prev yr	No of employ	% change from prev yr	No of employ	% change from prev yr	No of employ	% change from prev yr	No of employ.	% change from prev yr
<b>1989-90</b>	-	-	-	-	-	-	-	-	4,336	
<b>1990-91</b>	-	-	-	-	-	-	-	-	4,223	- 2.6%
<b>1991-92</b>	-	-	-	-	-	-	-	-	4,146	- 1.8%
<b>1992-93</b>	-	-	-	-	-	-	-	-	3,914	- 5.6%
<b>1993-94</b>	-	-	-	-	-	-	-	-	3,770	- 3.7%
<b>1994-95</b>	-	-	1,070	-	-	-	-	-	3,790	- 0.5%
<b>1995-96</b>	549	-	901	-	1,536	-	94	54.1%	3,080	- 18.7%
<b>1996-97</b>	504	- 8.2%	776	- 8.9%	1,160	- 24.5%	98	4.3%	2,538	- 17.6%
<b>1997-98</b>	533	5.8%	720	- 5.4%	1,126	- 2.9%	105	7.1%	2,484	- 2.1%
<b>1998-99</b>	554	3.9%	717	- 3.8%	1,114	- 1.1%	107	1.9%	2,492	0.3%
<b>1999-00</b>	592	6.9%	706	- 6.4%	1,094	- 1.8%	108	0.9%	2,500	0.3%

Sources: NSW Treasury, *Performance of NSW Government Businesses*, 1999-00, pp 41, 45, 61, 89; NSW Treasury, *Performance of NSW Government Businesses*, 1995-96, p 110. Note: This table does not include contract labour.

**4.10** The committee will look at employment levels, including the number of contractors, full-time employees and the proportion of these labour categories in future deliberations.

## Impact of merger on employment

**4.11** When the Hon Bob Carr MP, Premier of New South Wales, announced the proposed merger of Advance Energy, Great Southern Energy and NorthPower, on 1 March 2001, he declared that no jobs would be lost from the merger.

**4.12** On 8 May 2001, in a media release announcing the ACCC's approval for the country energy merger to proceed, the NSW Treasurer and Minister for State Development, the Hon Michael Egan MLC, reiterated the Government's commitment that there will be "no staff job losses arising from the merger". The Treasurer further commented that:

Country Energy will be well placed to provide competitive energy prices to help stimulate industry, business and employment growth in country NSW

Services currently staffed by local people will continue to be staffed by locals, and service levels will be maintained or improved.<sup>121</sup>

<sup>121</sup> Treasurer of NSW, Media Release, *Green Light for Country Energy*, 8 May 2001.

- 4.13** Based on these assurances, the committee sought to obtain public reactions to what impacts and implications the merger would have on employment and the community.

### **Existing employment levels**

- 4.14** Most submissions and evidence received expressed strong arguments for the need to maintain employment in rural and regional communities. Mr Greg McLean, Assistant National Secretary, Australian Services Union, expressed concern that reforms should take account of employment opportunities:

In the main, the concerns held by my organisation are employment opportunities in regional New South Wales. We have seen...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.<sup>122</sup>

- 4.15** Dr Don Anderson, Director of the Market Implementation Group, NSW Treasury presented to the committee a series of justifications why employment would be protected with the amalgamation of the three distributors. These include:

- the merger of the three entities will create a commercially viable business structure that not only protects employment but will also maintain service standards and maintenance levels;<sup>123</sup>
- savings from the merger will occur in the retail sector rather than the network “poles and wires” business. The merger from 25 to 6 businesses that occurred in 1995 realised considerable economies from the merger of the wires businesses. The cost savings of the present merger will be realised principally through systems and trading and, therefore, will not have any great impact on employment. Efficiency gains would be realised through capital requirements, not employee requirements. There will be no redundancy program as there will be no need for one;<sup>124</sup>
- Country Energy would have 177,000 kilometres of wire compared to 52,000 for Energy Australia and 32,000 for Integral Energy, which indicates the business is a geographically widespread energy supplier. The characteristics across that entity will vary from place to place so there would be a requirement for people to be located at different parts of the geographical area. The virtue of this business will be gained from

<sup>122</sup> Evidence of Mr Greg McLean, Assistant National Secretary, Australian Services Union, 9 April 2001, p 27.

<sup>123</sup> Evidence of Dr Don Anderson, Director, Market Implementation Group, NSW Treasury, 9 April 2001, p 4.

<sup>124</sup> Evidence of Dr Don Anderson, Director, Market Implementation Group, NSW Treasury, 9 April 2001, p 7.

the specific knowledge that individuals in different geographical locations can bring to the business.<sup>125</sup>

- 4.16** The committee asked Mr McLean whether he anticipated any future redundancies. Mr McLean responded by stating that although in the last number of years there were a significant number of redundancies, the ASU is comfortable that no further redundancies would be required. Mr McLean however did concede that employees may nevertheless be required to undergo some training:

...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.<sup>126</sup>

### **Future employment levels**

- 4.17** The committee received a number of submissions which expressed a concern that, although incumbents may be protected in the short term, the replication of certain departments such as payroll and accounts payable would mean that in the long term these positions would not be available in at least one of the centres. Consequently youth looking to remain in their home town would have less employment opportunities.<sup>127</sup>
- 4.18** Mr Bernie Riordan, State Secretary of the NSW Electrical Trades Union, illustrated an issue facing the current Great Southern Energy area as a result of natural attrition and non-replacement.

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.<sup>128</sup>

- 4.19** By contrast, Advance Energy has actively sought to combat an ageing workforce and actively source employees from smaller towns. Mr Craig Murray, Managing Director of

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<sup>125</sup> Evidence of Dr Don Anderson, Director, Market Implementation Group, NSW Treasury, 9 April 2001, p 8.

<sup>126</sup> Evidence of Mr Greg McLean, Assistant National Secretary, Australian Services Union, 9 April 2001, p 31.

<sup>127</sup> For example, Submission No 2, name withheld, p 1.

<sup>128</sup> Evidence of Mr Bernie Riordan, State Secretary, Electrical Trades Union of Australia, NSW Branch, 9 April 2001, p 45.

Advance Energy and Chief Executive Officer (CEO) Designate of Country Energy, informed the committee about the apprenticeship scheme run by Advance Energy:

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.<sup>129</sup>

**4.20** The committee noted that the NSW Branch of the Electrical Trades Union expressed its support for the amalgamation based on an understanding that jobs will not only be preserved but also be created. Mr Riordan related the following to the committee:

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.<sup>130</sup>

**4.21** The committee referred Mr Murray to the statement by Mr Riordan that the merger might be a process that creates jobs and asked whether he saw other opportunities extending from the new entity. Mr Murray believed that there was and that business growth is something that Advance Energy has not had the opportunity to undertake because of its size. Mr Murray cited an example of a potential employment expansion area:

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

<sup>129</sup> Evidence of Mr Craig Murray, Managing Director of Advance Energy and Managing Director Designate of Country Energy, 9 April 2001, p 51.

<sup>130</sup> Evidence of Mr Bernie Riordan, State Secretary, Electrical Trades Union of Australia, NSW Branch, 9 April 2001, p 38.

think those sorts of things can come out, or would come out, of a much larger business.<sup>131</sup>

**4.22** Later in evidence Mr Murray reiterated his confidence about employment growth and stated:

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.<sup>132</sup>

### **Contractual employment**

**4.23** During the course of the inquiry, the committee became aware that during the previous reforms, some permanent jobs were replaced with contractors, particularly in NorthPower. The committee was concerned to find out whether the Premier's guarantee of no loss of jobs would apply to situations where full-time contractors replace what would otherwise be permanent jobs. This is distinguished from situations where preferred contractors have a business arrangement with the organisation.

**4.24** It was the view of the NSW Branch of the Electrical Trades Union that it would urge the new organisation to re-employ existing contractors as full-time employees. Mr Riordan cited examples where such a situation would occur:

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.<sup>133</sup>

**4.25** The committee was interested to find out from the CEO Designate of Country Energy, Mr Craig Murray, what were his own thoughts on utilisation of full-time contractors. Mr Murray unequivocally responded that full-time contractors are not necessary:

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

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<sup>131</sup> Evidence of Mr Craig Murray, Managing Director of Advance Energy and Managing Director Designate of Country Energy, 9 April 2001, p 49.

<sup>132</sup> Evidence of Mr Craig Murray, Managing Director of Advance Energy and Managing Director Designate of Country Energy, 9 April 2001, pp 50-51.

<sup>133</sup> Evidence of Mr Bernie Riordan, State Secretary, Electrical Trades Union of Australia, NSW Branch, 9 April 2001, p 42.



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.<sup>134</sup>

**4.26** Mr Murray later reiterated the responsibility of management in efficiently managing its labour force:

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.<sup>135</sup>

**4.27** The committee also referred Mr Murray to the Premier's promise on maintaining the workforce and asked whether he believed this included labour such as the meter reading, which is presently contracted-out at NorthPower. Mr Murray responded by stating that the contracted workers should stay and that there is no reason they should not be employed. Further he stated:

I read into what [the Premier] 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.<sup>136</sup>

### **Local employment and job relocations**

**4.28** The committee received a number of concerns that a loss of local employment in large and small country towns may occur to the benefit of a larger regional centre.<sup>137</sup> One submission from a private citizen explained that the previous amalgamations resulted in his own job relocation. It was pointed out that the "voluntary" relocation was necessary to maintain a standard of employment, as otherwise he would have been left without a meaningful job, one that would have been a considerable backward step and a target of voluntary redundancy.<sup>138</sup>

**4.29** Although job relocations would not technically be considered job losses, the committee wished to clarify that the guarantee of no job losses also extended to "no job relocations". The committee asked Dr Don Anderson from NSW Treasury whether the Government had implemented a "no forced relocations" policy. Dr Anderson responded by stating:

The Premier also reaffirmed the Government's no-redundancy policy at the opening of the new NorthPower offices at Port Macquarie this weekend, and

<sup>134</sup> Evidence of Mr Craig Murray, Managing Director of Advance Energy and Managing Director Designate of Country Energy, 9 April 2001, p 49.

<sup>135</sup> Evidence of Mr Craig Murray, Managing Director of Advance Energy and Managing Director Designate of Country Energy, 9 April 2001, p 59.

<sup>136</sup> Evidence of Mr Craig Murray, Managing Director of Advance Energy and Managing Director Designate of Country Energy, 9 April 2001, p 59.

<sup>137</sup> For example, Submission No 20, Mr Tony Windsor MP, Member for Tamworth, made representations on behalf of concerned constituents.

<sup>138</sup> Submission No 2, name withheld, p 1.

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.<sup>139</sup>

**4.30** The committee asked Mr Riordan whether he was confident that, despite the guarantee that there will be no forced redundancies and no forced relocation, whether or not in practice this could be ensured given that changes will occur. Mr Riordan responded:

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.<sup>140</sup>

**4.31** Mr McLean cited the geographical nature of the new business as a factor discouraging the relocation and consolidation of services such as call centres.

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.

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.<sup>141</sup>

**4.32** Energy Australia was pointed out as an example of a distributor (which covers a relatively small geographical area) that has two major call centres in Sydney and Newcastle but also has an additional emergency centre located in Sydneham.<sup>142</sup>

**4.33** During his evidence Mr McLean also cited the specialised knowledge of employees in local areas as another factor discouraging job relocation and retention of local employment. Mr McLean indicated that there is a substantial amount of cooperation and pride among

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<sup>139</sup> Evidence of Dr Don Anderson, Director, Market Implementation Group, NSW Treasury, 9 April 2001, p 7.

<sup>140</sup> Evidence of Mr Bernie Riordan, State Secretary, Electrical Trades Union of Australia, NSW Branch, 9 April 2001, p 43.

<sup>141</sup> Evidence of Mr Greg McLean, Assistant National Secretary, Australian Services Union, 9 April 2001, pp 32-33.

<sup>142</sup> Evidence of Mr Greg McLean, Assistant National Secretary, Australian Services Union, 9 April 2001, p 34.

electricity workers to restore power and provided an example of what occurs in a local area during or after a storm event. Mr McLean further stated:

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.<sup>143</sup>

**4.34** The committee then asked Mr McLean whether this pride and cooperation would be lost with amalgamation. Mr McLean responded:

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.<sup>144</sup>

**4.35** As CEO Designate of Country Energy, Mr Murray echoed Mr McLean's views and questioned the rationale for the closure of small depots in local areas. He stated:

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.<sup>145</sup>

**4.36** The committee is satisfied with the various assurances and justifications that have been given to the effect that no redundancies and no job relocations will result from the merger.

<sup>143</sup> Evidence of Mr Greg McLean, Assistant National Secretary, Australian Services Union, 9 April 2001, p 35.

<sup>144</sup> Evidence of Mr Greg McLean, Assistant National Secretary, Australian Services Union, 9 April 2001, p 35.

<sup>145</sup> Evidence of Mr Craig Murray, Managing Director of Advance Energy and Managing Director Designate of Country Energy, 9 April 2001, p 50.

Nevertheless unanticipated circumstances may arise from the proposed merger that cause a re-assessment of certain employment requirements. If such an event arises, the committee encourages Country Energy to work with the relevant unions and the community for an appropriate resolution.

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### **Recommendation 5**

The committee recommends that, if the formation of Country Energy proceeds and in the event surplus labour requirements in some occupations are identified, a freeze on any terminations should be applied until a needs analysis of staff requirements is undertaken and that negotiations be initiated with relevant unions and relevant communities prior to implementation.

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## **Impact on rural and regional communities**

**4.37** Although various issues discussed in previous sections address the direct impact employment levels would have on the electricity industry and hence rural and regional communities, the committee's terms of reference stipulate a focus on the actual impacts on rural and regional communities.

### **Concerns regarding the merger**

**4.38** The committee received a number of submissions that expressed concern that the merger would have direct impacts on rural and regional communities that would not be confined to those in the electricity industry. One submission in particular indicated that the energy distributors in towns such as Armidale, Inverell and Narrabri were major employers before the previous amalgamation and any further change would undoubtedly have the same detrimental impact. That submission outlined that the author was compelled to relocate his family so that he could retain a "meaningful job". As a result of the family's departure from the town, the children left the local school and a teacher was forced to relocate as the teaching numbers became too great for the number of students.<sup>146</sup>

**4.39** The Member for Northern Tablelands, Mr Richard Torbay MP, expressed concern that the announcement of the proposed formation of Country Energy did not include details that would enable the affected communities to scrutinise the process or likely impacts on their localities.<sup>147</sup> The committee acknowledges Mr Torbay's concerns as representative of community apprehension about further changes to energy distribution companies. It is the committee's intention, through its terms of reference and this report, to assist in providing much of the information in which concerned communities will be interested. The committee also intends to communicate to the relevant Ministers, agencies and energy corporations the concerns raised by the community in this report. As specific administrative details concerning the merger are now being compiled, the committee wishes the concerns raised in this report to be considered while preparing those details.

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<sup>146</sup> Submission No 2, name withheld, p 1.

<sup>147</sup> Submission No 6, Mr Richard Torbay MP, Member for Northern Tablelands.

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### **Recommendation 6**

That the Minister for Energy initiate a public information campaign within the proposed Country Energy distribution area to inform the community of the proposed changes and their implications.

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### **Opportunities from the merger**

**4.40** The NSW Treasury, the Australian Services Union, Integral Energy and Advance Energy all presented evidence that advocated significant opportunities for rural and regional NSW as a result of an amalgamated organisation.

**4.41** The committee asked NSW Treasury whether the merger would present any disadvantages to people in rural and regional communities. Mr David Briggs, an Economist for the Market Implementation Group, NSW Treasury did not draw attention to any disadvantages from the merger although he indicated the merger would be beneficial to those communities:

...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.<sup>148</sup>

**4.42** Mr Greg McLean tendered a view that the merger could present an excellent opportunity for development of rural and regional communities:

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.<sup>149</sup>

**4.43** It was the view of Integral Energy that the lower operating costs of a merged entity would benefit rural and regional communities through more competitive electricity prices.<sup>150</sup>

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<sup>148</sup> Evidence of Mr David Briggs, Economist, Market Implementation Group, NSW Treasury, 9 April 2001, p 10.

<sup>149</sup> Evidence of Mr Greg McLean, Assistant National Secretary, Australian Services Union, 9 April 2001, p 28.

<sup>150</sup> Submission No 4, Mr Richard Powis, Chief Executive Officer, Integral Energy, p 2.

- 4.44** The submission from Advance Energy outlined a number of initiatives that it presently uses and could be implemented with Country Energy to produce positive benefits for rural and regional communities. These initiatives include:
- Expansion of customer service delivery structures to rural areas where decisions are made locally based on local issues
  - Business development strategy such as encouraging interstate and metropolitan businesses to relocate to regional NSW. More jobs would be created for regional communities through investing in regionally based projects and developing strategic alliances with other business enterprises and
  - Community sponsorship through either financial support or donation of employee's time to provide assistance and expertise.
- 4.45** Advance Energy concludes on this issue by stating that the merger would provide the infrastructure and size to offer e-commerce service such as an Internet Service Provider access and payment of electricity accounts via the Internet and also Internet banking.<sup>151</sup>
- 4.46** Mr McLean expressed confidence that consultations on the country energy merger will result in a positive outcome for both the electricity industry and the community. Mr McLean did caution that the Union will be monitoring for any further rationalisation of services in future and would take appropriate industrial action if this occurred.

...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.<sup>152</sup>

## **Executive structure of a merged entity**

### **Appointment of the executives**

- 4.47** On 8 May 2001, the NSW Treasurer confirmed Ms Barbara Ward, the present Chair of NorthPower as the Chair designate and Mr Craig Murray, the present the Managing Director of Advance Energy as CEO designate. The Treasurer also announced that the

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<sup>151</sup> Submission No 13, Mr Craig Murray, Managing Director, Advance Energy, pp 7-8.

<sup>152</sup> Evidence of Mr Greg McLean, Assistant National Secretary, Australian Services Union, 9 April 2001, p 34.

remainder of the board would be appointed before Country Energy commences operation on or before 1 July 2001.<sup>153</sup>

**4.48** In his submission to the committee, Mr Tony Windsor MP, Member for Tamworth, urged that it is essential to the success of the organisation that there be people on the Board who have a strong grasp of the needs of country people and industry.<sup>154</sup>

**4.49** The committee asked NSW Treasury, what views they had with respect to appointment of the new executive structure. Dr Anderson indicated that this was a decision for the Government.

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.<sup>155</sup>

**4.50** At the time of reporting, the committee was not aware of any other designated appointments.

### **Proposed salary levels**

**4.51** As part of its terms of reference, the committee was requested to examine the proposed salary levels and packages for the executive structure of Country Energy. The committee did not receive any evidence during the inquiry that suggested that salary levels and packages have been determined. Nevertheless, the committee sought to obtain opinions on appropriate salary levels.

**4.52** The committee asked Mr McLean of the Australian Service Union, what views he would have in relation to salary levels and the executive structure of country energy. Mr McLean endorsed the concept of the executives being paid in line with market expectation. He substantiated his view with the following comments:

These senior officers and companies do compete against the private sector. If I could give you an example. I referred earlier to the first tranche of electricity here. The first one, the big one that went was BHP<sup>156</sup>. 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

<sup>153</sup> Treasurer of NSW, Media Release, *Green Light for Country Energy*, 8 May 2001.

<sup>154</sup> Submission No 21, Mr Tony Windsor MP, Member for Tamworth, p 1.

<sup>155</sup> Evidence of Dr Don Anderson, Director, Market Implementation Group, NSW Treasury, 9 April 2001, p 15.

<sup>156</sup> The first "tranche" refers to the initial opening of retail competition in electricity supply where large businesses were able to choose their own electricity supplier. Advance Energy won the contract to distribute power to BHP Port Kembla.

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.

...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.<sup>157</sup>

- 4.53** The CEO Designate of Country Energy, Mr Murray provided an explanation to the committee of the salary determination process at Advance Energy. He stated:

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...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...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.

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.<sup>158</sup>

- 4.54** The submission from Advance Energy also stipulated that this is an objective, market-oriented process that received a "very positive review" by the NSW Audit Office.<sup>159</sup> The committee asked Mr Murray whether this evaluation process is likely to be the same with the new organisation. Mr Murray assumed that this would be the case and that it would be his advice to the new board that this continues.<sup>160</sup>

### **The CEO Designate**

- 4.55** During progress of the inquiry it became apparent to the committee that the protection of local employment, community and customer service interests relied not only on State Government assurances, but also on the past performance and attitudes of its CEO Designate, Mr Craig Murray.

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<sup>157</sup> Evidence of Mr Greg McLean, Assistant National Secretary, Australian Services Union, 9 April 2001, p 36.

<sup>158</sup> Evidence of Mr Craig Murray, Managing Director of Advance Energy and Managing Director Designate of Country Energy, 9 April 2001, p 51

<sup>159</sup> Submission No 13, Mr Craig Murray, Managing Director, Advance Energy, p 15.

<sup>160</sup> Evidence of Mr Craig Murray, Managing Director of Advance Energy and Managing Director Designate of Country Energy, 9 April 2001, p 53.



**4.56** Mr Murray's stewardship and positive influence on the achievements of Advance Energy are reflected in his own words:

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.<sup>161</sup>

**4.57** During the committee's hearings, Mr Greg McLean was asked whether he had any guarantees that the amalgamation will maintain local depots and administration centres and community ownership. In response Mr McLean cited Mr Murray's track record.

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."<sup>162</sup>

**4.58** Mr Bernie Riordan also presented a positive endorsement of Mr Murray's attitude towards promoting employment:

...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.<sup>163</sup>

<sup>161</sup> Evidence of Mr Craig Murray, Managing Director of Advance Energy and Managing Director Designate of Country Energy, 9 April 2001, p 48.

<sup>162</sup> Evidence of Mr Greg McLean, Assistant National Secretary, Australian Services Union, 9 April 2001, p 35.

<sup>163</sup> Evidence of Mr Bernie Riordan, State Secretary, Electrical Trades Union of Australia, NSW Branch, 9 April 2001, p 43.

## Chapter 5 Customer service implications

Apart from employment related concerns resulting from an amalgamation of the three energy distributors, the other major issues raised during the inquiry relate to customer service implications. These issues include access to service, repairs and maintenance and reliability of supply. The Energy and Water Ombudsman of NSW, Ms Clare Petre, outlined the typical customers' expectations for electricity supply:

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.<sup>164</sup>

The following table outlines the performance of rural electricity distributors in delivering reliability of supply.

**Table 5.1 Reliability of Supply – Average minutes per customer per year without supply including planned and unplanned outages**

	Advance Energy	Great Southern Energy	NorthPower	Australian Inland Energy	Average for total rural DNSPs	% reliability change from prev yr
<b>1990-91</b>	-	-	-	-	288	12.5%
<b>1991-92</b>	-	-	-	-	240	16.7%
<b>1992-93</b>	-	-	-	-	270	-12.5%
<b>1993-94</b>	-	-	-	-	210	22.2%
<b>1994-95</b>	-	236	-	369	267	-27.1%
<b>1995-96</b>	285	186	264	161	224	16.1%
<b>1996-97</b>	219	135	186	382	231	-3.1%
<b>1997-98</b>	293	189	225	319	257	-11.3%
<b>1998-99</b>	168	214	257	221	215	16.3%
<b>1999-00</b>	196	221	236	212	216	0.5%

Sources: NSW Treasury, *Performance of NSW Government Businesses*, 1999-00, pp 41, 45, 61, 89; NSW Treasury, *Performance of NSW Government Businesses*, 1995-96, p 110.

Note: Information only available in aggregate for 1990-91 to 1993-94.

<sup>164</sup> Evidence of Ms Clare Petre, Energy and Water Ombudsman of New South Wales, 9 April 2001, p 17.

In some instances, storm activity may result in extreme variations to supply reliability. For example, the Great Southern Energy 1998-99 Annual Report and the Australian Inland Energy 1996-97 Annual Report attribute the abnormal increase in the reliability figure to storm activity and lightning strikes which caused short blackouts.<sup>165</sup> Generally, the reliability figures are consistent with international trends which indicate interruption times, for example, of 200-400 minutes in rural areas, 100-150 minutes in urban areas and around 70 or less minutes in underground CBD systems.<sup>166</sup> Overall there has been an increase in the reliability of supply of all the rural DNSPs with Advance Energy achieving a better than benchmark standard of less than 200 minutes for two consecutive years.

## Views on the merger

### Critical views

**5.1** Several submissions received by the committee presented an unequivocal opposition to an amalgamation of country energy distributors,<sup>167</sup> while others expressed concern for various customer service related reasons.

**5.2** Several submissions discussed the existing burden experienced from power outages and the difficulty in getting people on the job that know the local areas.<sup>168</sup> Concern was raised that the proposed merger may not rectify this problem.<sup>169</sup> Several submissions expressed that power distribution is already far too centralised.<sup>170</sup> For example, Mr John Tongue of Tenterfield stated:

Already, our power distribution is far too centralised, with customer service centres and employment bases being too distant, both physically and conceptually, from the customers to understand or care about what problems are being faced.

Few of the current problems existed when power distribution was managed by more local authorities which had an understanding of local matters.<sup>171</sup>

**5.3** A submission from Mrs T McCulloch of Duri (near Tamworth) indicated concern about the distance of centralised call centres from certain rural locations. The submission states:

When we have a problem now, our closest contact is Port Macquarie on the coast which is not satisfactory...<sup>172</sup>

<sup>165</sup> Great Southern Energy, 1998-99 Annual Report, p 18; Australian Inland Energy, 1996-97 Annual Report, p 19.

<sup>166</sup> Worley International Limited, *Report to the Independent Pricing And Regulatory Tribunal on capital expenditure review in NSW electricity distribution - final report*, October 1998, RP 10, Executive Summary p viii.

<sup>167</sup> For example, submission No 15, Mrs T McCulloch, private citizen.

<sup>168</sup> For example, submission No 3, Mrs Rhonda McPherson, Country Women's Association of NSW – Bellata Branch.

<sup>169</sup> Submission No 19, Mr Brian Wilkinson, General Manager, Crookwell Shire Council.

<sup>170</sup> For example, submission No 16, Mr Andrew Boog, President, Dubbo Chamber of Commerce and Industry Inc.

<sup>171</sup> Submission No 14, Mr John Tongue, private citizen.

**5.4** The Northern Tablelands, branch of the Liberal Party reported anecdotal problems about the proximity of call centres:

We would like the proposed authority to be mindful that the proximity of fault reporting centres does have an impact on its effectiveness. Anecdotal reports of the difficulties of the Grafton centre in resolving faults are extensive. Proposals to further centralise must be resisted. In fact a reversal of the trend should be considered.<sup>173</sup>

**5.5** One submission was concerned that operators at centralised call centres do not possess knowledge of localities within a service area:

In days gone whenever there was a problem, you could actually telephone a local number and someone would have knowledge of your locality etc. Now you call, someone in Queanbeyan answers and has no idea where you even live.<sup>174</sup>

**5.6** In concluding his submission, Mr Tongue stressed that more competitive electricity prices are not an acceptable substitute for service reduction:

I don't have the figures on power cost changes since the last round of amalgamations, but even if there have been slight reductions in the cost of power, when those reductions have been accompanied by reductions in service and reliability, then there is no net gain! Surely there can be no serious consideration of further amalgamations at least until current service and customer shortfalls have been addressed, at least to some extent<sup>175</sup>

### **Supportive views**

**5.7** Mr Greg McLean, Assistant National Secretary, Australian Services Union, was generally supportive of the merger however cautioned that reforms need to take account of community and consumer interests:

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,

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<sup>172</sup> Submission No 15, Mrs T McCulloch, private citizen.

<sup>173</sup> Submission No 17, Mr Scott MacDonald, President, Northern Tablelands State Electorate Conference, The Liberal Party of Australia, New South Wales Division, p 2.

<sup>174</sup> Submission No 18, name withheld, p 2.

<sup>175</sup> Submission No 14, Mr John Tongue, private citizen.

moving towards privatisation and the Government not having a very firm control on the needs of the community.<sup>176</sup>

- 5.8** Mr Craig Murray, Managing Director, Advance Energy advocated the advantages of a larger distributor over Advance Energy which has faced limitations in providing innovation to customers because of its size:

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.<sup>177</sup>

- 5.9** The committee asked Mr Bernie Riordan, State Secretary of the NSW Electrical Trades Union, whether he perceived advantages for customers, employees and the community from the proposed merger. Mr Riordan stated:

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 additions as well, [such as] banking facilities.<sup>178</sup>

## Access to services

- 5.10** During the course of the inquiry, “access” to services has been interpreted in various ways including:

- access to electricity,
- access to reliable supply, and
- access to customer service when problems in supply occur.

- 5.11** The committee considered the proposition that access levels may be lacking in some communities and whether they might deteriorate with a merger. The committee noted with concern, a submission from Ms Sandra Fittler, a resident of a small rural town of Enmore in the New England area, that stated she was not permitted to install both a smart electric

<sup>176</sup> Evidence of Mr Greg McLean, Assistant National Secretary, Australian Services Union, 9 April 2001, p 26.

<sup>177</sup> Evidence of Mr Craig Murray, Managing Director of Advance Energy and Managing Director Designate of Country Energy, 9 April 2001, p 48.

<sup>178</sup> Evidence of Mr Bernie Riordan, State Secretary, Electrical Trades Union of Australia, NSW Branch, 9 April 2001, p 45.

stove and an off-peak hot water system as the local transformer was of insufficient size. Even though other nearby residents had superior access to electricity, she indicated that:

The NorthPower technician from Port Macquarie<sup>179</sup> could not come up with any answers in regard to the improvement of our transformer size.<sup>180</sup>

- 5.12** The submission suggested that this lack of service was attributable to a distant centralised service provider. By contrast the submission from Advance Energy illustrated its success in providing customer access to its network through its decentralised structure:

The process to gain access to Advance Energy's network starts with the customer talking to a local design team. This ensures that the people advising the customers have local knowledge of the network, the operating environment as well as local community issues.<sup>181</sup>

### **Advantages of a merged distributor**

- 5.13** It is argued by Advance Energy that in a merged organisation a decentralised approach would ensure superior levels of service. Additionally, the submission indicates that a stronger resource base in a merged entity would provide scope to design energy alternatives for customers which will improve access standards.<sup>182</sup>

- 5.14** The committee asked Mr Murray whether he believed there was a role for standalone alternative technologies given the long distances involved in transmitting energy. Mr Murray explained his vision to the committee of the possibility of electricity supplies through remote area power schemes<sup>183</sup> available to people in rural areas.

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.<sup>184</sup>

- 5.15** The committee also asked Mr Murray whether standalone power systems would be of benefit to areas which are prone to power surges, blackouts or whether these are rather a problem of maintenance. Mr Murray was of the view that maintenance could assist in

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<sup>179</sup> The committee notes that Port Macquarie is a significant distance from Uralla which is the town nearest Enmore.

<sup>180</sup> Submission No 12, Sandra E Fittler, private citizen.

<sup>181</sup> Submission No 13, Mr Craig Murray, Managing Director, Advance Energy, pp 5-6.

<sup>182</sup> Submission No 13, Mr Craig Murray, Managing Director, Advance Energy, p 6.

<sup>183</sup> Otherwise known as RAPS, these power sources may be fuel generators, solar or wind generation.

<sup>184</sup> Evidence of Mr Craig Murray, Managing Director of Advance Energy and Managing Director Designate of Country Energy, 9 April 2001, p 51.

minimising problems but that there were other means of minimising power reliability problems available such as uninterruptible power supplies:

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.<sup>185</sup>

**5.16** During Dr Anderson's testimony, he indicated with respect to access to services, that "nothing is diminished by the merger" of NorthPower, Great Southern Energy and Advance Energy.<sup>186</sup> He argued that the proposed amalgamation 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.<sup>187</sup>

**5.17** The committee asked NSW Treasury whether there would be improvements to services resulting from the merger. Dr Anderson suggested that customer service should actually improve with the merger with a larger, more viable business. It is inferred that access levels would be improved with capital expansion. Dr Anderson stated:

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.<sup>188</sup>

**5.18** Based on the information presented during the inquiry, it is the committee's view that the capital resources available to a merged entity will enable it to expand into areas that have not been economically possible through smaller distributors. The committee is reassured by the comments of the CEO Designate, Mr Craig Murray, that he will implement his vision and initiatives to expand access wherever possible within the Country Energy distribution area.

<sup>185</sup> Evidence of Mr Craig Murray, Managing Director of Advance Energy and Managing Director Designate of Country Energy, 9 April 2001, p 51.

<sup>186</sup> Evidence of Dr Don Anderson, Director, Market Implementation Group, NSW Treasury, 9 April 2001, p 6.

<sup>187</sup> Evidence of Dr Don Anderson, Director, Market Implementation Group, NSW Treasury, 9 April 2001, p 3.

<sup>188</sup> Evidence of Dr Don Anderson, Director, Market Implementation Group, NSW Treasury, 9 April 2001, p 7.

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**Recommendation 7**

The committee recommends that if the proposed merger proceeds, that the Board of Country Energy review access levels for consumers in rural areas and implement measures to provide these consumers with improved access to supply of electricity whether by supply line or by energy alternatives, at reasonable cost.

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**Repair and maintenance****Concerns about repair and maintenance services**

- 5.19** A number of submissions received expressed concern that the merger would create greater concentration on the bottom line and that repair programs would be reduced accordingly.<sup>189</sup> One submission from an employee in the electricity industry for more than twenty years, indicated that the levels of maintenance and repair have suffered in recent years “as there is no short term economic gain”. The author states:

Unfortunately, such an approach will bite deeply in years to come as maintenance can only be ignored for a certain time and has already started to do so in some New South Wales areas... The electricity industry is one of high maintenance – don't ever lose sight of that fact.<sup>190</sup>

- 5.20** Mr Bernie Riordan raised concerns that certain areas of the state were under-resourced and their repair and maintenance programs require closer examination. He cited blackouts as an indicator of this:

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.<sup>191</sup>

- 5.21** Although the Association of Mining Related Councils expressed the view that generally the electricity distribution business “has maintained the level of service the public expect”, this view was qualified with respect to NorthPower:

Although, in certain areas of NorthPower's operations, this has not always been the case, with a lack of attention to maintenance and resultant disruption to power supply imposed on consumers.<sup>192</sup>

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<sup>189</sup> Submission No 1, Mr Barry Smith, private citizen, p 1.

<sup>190</sup> Submission No 2, name withheld, p 2.

<sup>191</sup> Evidence of Mr Bernie Riordan, State Secretary, Electrical Trades Union of Australia, NSW Branch, 9 April 2001, p 45.

<sup>192</sup> Submission No 5, Association of Mining Related Councils, p 2.



- 5.22** A submission from Integral Energy cautioned that, along with other electricity distributors, Country Energy would require a strategic approach to its capital and operating expenditures in order to meet reliability and maintenance standards over the long term. The submission further asserts that capital expenditure is a key determinant of supply reliability.<sup>193</sup>

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### **Recommendation 8**

The committee recommends that an independent review be conducted of energy supply reliability considering among other things:

- the cost of upgrading infrastructure to ensure benchmark reliability,
  - impacts of infrastructure maintenance on supply reliability, and
  - methods to improve reliability of supply.
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### **Recommendation 9**

The committee recommends that the Minister for Energy, the Treasurer and the Independent Pricing and Regulatory Tribunal:

- consider recommendations of the independent review of energy distribution infrastructure, and
  - take proactive measures to ensure sufficient capital and maintenance expenditure is committed to ensure the reliability of energy supply by line or alternative means.
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## **Methods to improve service and maintenance levels**

- 5.23** During the course of the inquiry, the committee noted various constructive initiatives that could be implemented to improve services if the proposed merger proceeds. These initiatives have generally arisen through either previous successful applications or lessons learned from past experiences.

### **Locally based workforce**

- 5.24** Various evidence received by the committee strongly suggested that employment issues were a significant factor in maintaining or restoring supply reliability.
- 5.25** In relation to base employment levels. Mr Bernie Riordan indicated that the previous rationalisation of the network has contributed to reliability problems, in particular, in

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<sup>193</sup> Submission No 4, Mr Richard Powis, Integral Energy, p 2.

relation to NorthPower. He expressed confidence that additional permanent employees would be important to improve maintenance levels in the merged entity. He stated:

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.<sup>194</sup>

**5.26** Another employment issue identified as impacting on reliability of supply is the locality of employees to the repair and maintenance tasks. A number of submissions contended that staffing should be de-centralised so that customers have reasonable access to services and to resolve problems that invariably arise. It was also advocated that there should be staff with sufficient experience and authority to efficiently manage their local areas rather than act as an office which forwards problems which can further delay the process.<sup>195</sup> The Energy and Water Ombudsman, Ms Petre indicated that feedback from customers suggested that they are very concerned about that loss of local knowledge.<sup>196</sup>

**5.27** Mr McLean argued that this industry was one in which employees were required to give far more than 100 per cent service to the community and that local knowledge and job satisfaction is crucial to a reliable supply. He stated:

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.<sup>197</sup>

**5.28** Mr McLean also suggested that certainty and stability of employment to electricity employees would motivate effective performance of duties:

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

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<sup>194</sup> Evidence of Mr Bernie Riordan, State Secretary, Electrical Trades Union of Australia, NSW Branch, 9 April 2001, p 38.

<sup>195</sup> For example, Submission No 26, Mr Laurie Marchant, Secretary, South Grafton Resident's Progress Association Inc., p 1.

<sup>196</sup> Evidence of Ms Clare Petre, Energy and Water Ombudsman of New South Wales, 9 April 2001, p 21.

<sup>197</sup> Evidence of Mr Greg McLean, Assistant National Secretary, Australian Services Union, 9 April 2001, p 27.

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.<sup>198</sup>

- 5.29** The submission from Advance Energy advocated that local field service centres provide effective customer service through faster response times:

Our 27 field service centres ranging from larger centres in Bathurst, Orange and Dubbo to smaller centres in Peak Hill, Cobar and Tottenham perform such tasks as design, construction and maintenance of the network. These centres provide jobs to local people who know the network and the customers, and can respond to customers needs quickly. Local customers served by people who work and live in their communities and understand local issues.<sup>199</sup>

- 5.30** Advance Energy also cited the “better than benchmark” reliability of its network performance as a direct benefit of maintaining depots throughout the area. When faults occur or outages occur, power is restored quickly with minimal travel time required. The submission further suggests that:

In a merged organisation with a stronger resource base, the best of the available network and load control systems, and emergency restoration of supply procedures will be utilised and would therefore be able to deliver best practice maintenance levels across the larger franchise area. The merger creates an ideal opportunity to review financing of network maintenance and construction programs and IT systems.<sup>200</sup>

- 5.31** The committee noted a number of comments that highlighted advantages Country Energy may possess over the existing distributor arrangements. Mr Riordan advocated that the Country Energy organisation could provide better services through greater flexibility in use of its workforce.

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.<sup>201</sup>

<sup>198</sup> Evidence of Mr Greg McLean, Assistant National Secretary, Australian Services Union, 9 April 2001, p 27.

<sup>199</sup> Submission No 13, Mr Craig Murray, Managing Director, Advance Energy, p 1.

<sup>200</sup> Submission No 13, Mr Craig Murray, Managing Director, Advance Energy, pp 6-7.

<sup>201</sup> Evidence of Mr Bernie Riordan, State Secretary, Electrical Trades Union of Australia, NSW Branch, 9 April 2001, p 42.

- 5.32** The submission from Advance Energy concluded on the issue of locally based employment by asserting that the commitment to local depots, flexibility in maintenance procedures combined with greater resource levels would enable Country Energy to at least achieve or better the results achieved by Advance Energy.<sup>202</sup>

### **Decentralised management structure**

- 5.33** The committee raised concerns that there are fears in the community that “local ownership”, that is people feeling attached to a local network, will be lost with a large centralised Country Energy organisation. Mr Craig Murray was of the view that his approach to a decentralised management structure would endeavour to maintain a community presence:

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.

...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.<sup>203</sup>

### **Network performance monitoring**

- 5.34** A number of initiatives were raised before the committee that supported the implementation of monitoring mechanisms to ensure reliability of supply.
- 5.35** Advance Energy indicated that monitoring performance levels is critical to reliability and security of supply. The feedback permits evaluation of whether or not policies and processes are effective. Monitoring through instruments such as “sentry” units, which are installed at customer premises, contact Advance Energy control rooms if there is interruption to supply.<sup>204</sup>
- 5.36** The South Grafton Resident’s Progress Association suggested that there should be formation of a monitoring organisation with powers to monitor operations and ensure standards of service and reliability are being met before network deterioration becomes apparent through reduced levels of reliability. More specifically, the submission suggests that the current indicator of reliability:

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<sup>202</sup> Submission No 13, Mr Craig Murray, Managing Director, Advance Energy, pp 6-7.

<sup>203</sup> Evidence of Mr Craig Murray, Managing Director of Advance Energy and Managing Director Designate of Country Energy, 9 April 2001, p 58.

<sup>204</sup> Submission No 13, Mr Craig Murray, Managing Director, Advance Energy, p 14.

...should be reviewed so that it in fact indicates reasonably accurate levels of performance in specific areas of the distribution system not over a huge all encompassing area. The current indicator becomes meaningless when applied to an area of say 5% of the distribution company's total network.<sup>205</sup>

- 5.37** The submission contends that a monitoring organisation would also ensure the government's and customers' interests were being protected by anticipating changes.
- 5.38** The Northern Tablelands State Electorate Conference of the Liberal Party suggested that this could be taken a step further and that restoring power should be measured in minutes with penalties in place for blackouts extending beyond defined time periods, except in natural disaster circumstances. The submission contends that statutory penalties should promote an effective maintenance program. As part of a wider policy, the submission urges for the adoption by Country Energy, of a "Community Service Obligation" with its core charter being minimum fault rectification standards.<sup>206</sup>
- 5.39** The committee recognises that with the future introduction of "full retail contestability", energy customers may wish to evaluate the performance of all energy distributors when choosing a retail distributor. While the IPART currently collects performance data for publication, IPART has itself expressed concern that information provided so far, has at times, been inconsistent and difficult to compare. This situation coupled with the concern raised that an overall indicator, as currently used, may not highlight problems in localised areas, it is suggested that a more reliable performance measurement regime should be implemented.

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### **Recommendation 10**

The committee recommends that the Independent Pricing and Regulatory Tribunal consider imposing a commitment to service obligation as a performance requirement for distribution network service providers with respect to service connection and reliability.

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### **Customer communication**

- 5.40** During the course of the inquiry, it became apparent that an essential aspect of improving customer service is for suppliers to present informed feedback to customers when supply interruptions occur. Ms Clare Petre, Energy and Water Ombudsman, illustrated this with particular reference to small communities at the end of a supply line.

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

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<sup>205</sup> Submission No 26, Mr Laurie Marchant, Secretary, South Grafton Resident's Progress Association Inc., p 3.

<sup>206</sup> Submission No 17, Mr Scott MacDonald, President, Northern Tablelands State Electorate Conference, The Liberal Party of Australia, New South Wales Division, p 1.

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.<sup>207</sup>

- 5.41** Ms Petre's comments were echoed in the submission by a private citizen who suggested that there was a need to for a locally based understanding of community needs:

It would be nice if the provider was to have an 'ear' in every community, so when there is a problem, the users have someone local to talk to. With the proposed mergers, and the ideals of today's business concept that you use call centres in major cities, and when one calls for a complaint, the person on the other end has no idea of the community or the environs.<sup>208</sup>

- 5.42** It was the view of Mr Murray that service levels could be improved in areas such as NorthPower by improving communication with consumers. He stated:

...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.<sup>209</sup>

- 5.43** Mr Murray particularly addressed the importance of communication where a storm or flood causes disruption to supply reliability:

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.<sup>210</sup>

- 5.44** Advance Energy contends that improvements in service and maintenance to rural and regional communities rely on understanding customer needs and expectations. This appreciation of needs and expectations may also be achieved by various means including formal surveys and accessibility of management to communities. Formal surveys in particular provide a better understanding of customer expectations in areas such as reliability and quality of supply, visual amenity and environment.<sup>211</sup>

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<sup>207</sup> Evidence of Ms Clare Petre, Energy and Water Ombudsman of New South Wales, 9 April 2001, p 21.

<sup>208</sup> Submission No 1, Mr Barry Smith, private citizen, p 2.

<sup>209</sup> Evidence of Mr Craig Murray, Managing Director of Advance Energy and Managing Director Designate of Country Energy, 9 April 2001, p 54.

<sup>210</sup> Evidence of Mr Craig Murray, Managing Director of Advance Energy and Managing Director Designate of Country Energy, 9 April 2001, p 53.

<sup>211</sup> Submission No 13, Mr Craig Murray, Managing Director, Advance Energy, p 13.

- 5.45** The committee concurs with evidence from submissions and hearings which indicate that local knowledge is an important factor in robust customer response to supply outages.

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### **Recommendation 11**

The Minister for Energy work with all distribution network service providers to ensure a robust customer response operation be implemented which should provide accurate and timely feedback to customers when calls are received reporting electricity supply interruptions.

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### **Customer Consultative Committees**

- 5.46** Along with facilitating reform of energy distributors in 1995, the *Electricity Supply Act 1995* provided for the formation of customer consultative groups. These consultative groups were established with the intention of providing a forum for consultation between the electricity distributor and its customer groups (ss 89-91). The sections of the community which must be represented on a group (under s 90) are:

- consumer groups,
- low-income households,
- persons living in rural and remote areas,
- domestic customers, and
- industrial and commercial customers.

- 5.47** The South Grafton Resident's Progress Association expressed concern that although there is currently provision for community consultative groups, they have very limited scope to input into the DNSPs board. The submission states:

In this area it is commonly considered that the present access is a complete waste of time. If and when the new Country Energy distributor is constituted any consultative group modelled on current practice will be even less effective when one considers the huge diversified physical area to be covered by that distributor.<sup>212</sup>

- 5.48** The NorthPower Customer Consultative Committee (NCCC) informed the committee that the NCCC is a group of dedicated participants to the consultation process that has worked effectively and coherently to advance the interests of NorthPower customers. The NCCC further informed the committee that it had resolved to support the future role of consultative committees in the event that Country Energy is established. More specifically, the NCCC resolved:

- That the NP [NorthPower] Customer Consultative Committee be retained in basically its current format.

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<sup>212</sup> Submission No 26, Mr Laurie Marchant, Secretary, South Grafton Resident's Progress Association Inc, pp 1-2.

- That Customer Consultative Committees be encouraged for each principal geographic region, represented in the proposed Country Energy area.
- That consideration be given to the introduction of a further Committee that draws its membership from the 'regional' communities. (This will provide a channel for effective dissemination of information on matters of mutual concern/interest and also maximise utilisation of the knowledge and expertise within the existing resource bases.)
- That these committees be adequately resourced to maximise their effectiveness.<sup>213</sup>

**5.49** Suggestions similar to these resolutions were also advanced by the South Grafton Resident's Progress Association, however it suggested that the range of influence of these committees should be reviewed.<sup>214</sup>

**5.50** In a supplementary submission, the NCCC further recommended that legislative amendments be made to provide for the appointment of a customer consultative representative member to the new Board of Management of Country Energy.<sup>215</sup> Alternatively, the South Grafton Resident's Progress Association suggested that, as part of the review of the range of influence of these committees, provisions should be included for reporting to the board of the DNSP.<sup>216</sup>

**5.51** These views appear to reflect the experiences within the NorthPower distributor. By contrast, Advance Energy has a customer consultative committee in addition to a "rural advisory group". Both of these groups provide regular feedback to Advance Energy on customer issues. Advance Energy is the only NSW DNSP to have formed a rural advisory group to focus on issues of rural customers.<sup>217</sup> It is evident to the committee that the effectiveness of customer consultative groups is dependent less on the legislative provisions constituting them than it is on the willingness of a DNSP's management to accept the group's feedback.

**5.52** If the proposed merger of Country Energy proceeds, no legislative amendments would be required to provide for a new customer consultative group as "at least one customer consultative group" is required under s 89(1) of the Act. Nevertheless, the committee recognises that the three existing groups would dissolve with removal of the distributors from the Act. It is however open within s 89 to create more than one group for each distributor (as Advance Energy had created) through guidelines established by order of the Minister. With the level of community concern regarding the merger, the committee is mindful of not only the need to re-establish customer confidence if the proposed merger proceeds, but to also recognise the fact that the proposed organisation would service customers over a large geographical area. The committee wishes to endorse measures that

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<sup>213</sup> Submission No 8, Mr Bob Harper, Chairman, NorthPower Customer Consultative Committee, p 2.

<sup>214</sup> Submission No 26, Mr Laurie Marchant, Secretary, South Grafton Resident's Progress Association Inc, p 2.

<sup>215</sup> Submission No 8a, Mr Bob Harper, Chairman, NorthPower Customer Consultative Committee.

<sup>216</sup> Submission No 26, Mr Laurie Marchant, Secretary, South Grafton Resident's Progress Association Inc., p 2.

<sup>217</sup> Submission No 13, Mr Craig Murray, Managing Director, Advance Energy, p 13.



would retain and enhance the representation in existing distribution areas and in particular rurally based customers.

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### **Recommendation 12**

That if the proposed formation of Country Energy proceeds, the Board and management of Country Energy conduct a review of the effectiveness of the existing consumer consultative groups within the former Advance Energy, Great Southern Energy and NorthPower distribution areas. To promote community confidence, the review should give consideration to:

- whether or not geographical areas are adequately represented,
  - retaining at least the current number of consultative groups in the Advance Energy, Great Southern Energy and NorthPower distribution areas,
  - the establishment of rurally based consultative groups, and
  - formalising board responses to consultative group reports.
- 

### **Consumer access to the Energy and Water Ombudsman**

**5.53** The Energy and Water Ombudsman of New South Wales ('EWON') is an independent body that is responsible for, among other things, handling customer complaints for NSW DNSPs. It was established voluntarily in June 1998 by the six New South Wales electricity distributors and the Transgrid electricity transmission company.

**5.54** The Energy and Water Ombudsman, Ms Clare Petre, indicated that the EWON has received approximately 5,000 complaints this year.<sup>218</sup> EWON responds to complaints only if they have been unsuccessfully unresolved between the customer and the distributors internal processes. The distributors are not obliged to expose their complaints in aggregate terms to the EWON although they are obliged to provide this information to IPART.<sup>219</sup>

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### **Recommendation 13**

The committee recommends that distribution network service providers report the number of complaints received in aggregate terms to the Energy and Water Ombudsman NSW.

**5.55** The committee asked Ms Petre whether EWON's services are advertised on bills or in some other way. Ms Petre indicated that regulations only require the EWON's name to appear on overdue and disconnection notices:

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<sup>218</sup> Evidence of Ms Clare Petre, Energy and Water Ombudsman of New South Wales, 9 April 2001, p 18.

<sup>219</sup> Evidence of Ms Clare Petre, Energy and Water Ombudsman of New South Wales, 9 April 2001, p 22.

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."<sup>220</sup>

**5.56** In evidence, Ms Petre indicated that the rate of disconnections by electricity distributors is increasing each year. Ms Petre stated:

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.<sup>221</sup>

**5.57** The committee is concerned that with the increasing number of electricity disconnections, electricity customers of NSW are insufficiently aware of their rights with respect to access to an independent arbiter for complaints. In particular customers should be aware of the Ombudsman's services before default in bill payments occurs and not after a problem manifests itself in the form of non-payment of bills.

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#### **Recommendation 14**

That the Minister for Energy work with the Energy and Water Ombudsman NSW to produce a leaflet explaining the role and functions of the Ombudsman and that this leaflet be included with energy accounts and promotions to customers on a regular basis.

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### **Conclusion**

**5.58** The ultimate success of a merged country energy supplier will rely on the philosophies and attitudes of the management driving the new entity. The committee has particularly noted the support for the merger by the relevant unions and their support for the appointment of Mr Craig Murray as CEO Designate of Country Energy. In the present situation, a successful operation will require effective balancing of employment, community interests, consumer requirements and government's need for a financial return. The committee makes the following recommendations.

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#### **Recommendation 15**

The committee recommends that the Legislative Council supports the merger of Advance Energy, Great Southern Energy and NorthPower to form Country Energy.

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<sup>220</sup> Evidence of Ms Clare Petre, Energy and Water Ombudsman of New South Wales, 9 April 2001, p 23.

<sup>221</sup> Evidence of Ms Clare Petre, Energy and Water Ombudsman of New South Wales, 9 April 2001, p 21.

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**Recommendation 16**

The committee recommends that regulations be made with respect to the *Energy Services Corporations Act 1995* and *Electricity Supply Act 1995* to legally constitute Country Energy.

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**Recommendation 17**

That the committee:

- monitor the establishment and progress of Country Energy for a four year period (until 31 May 2005),
  - consider issues arising from the amalgamation of Advance Energy, Great Southern Energy and NorthPower,
  - table any additional report in the Legislative Council from time to time, and
  - consider feedback from consumers, local community groups, industry, unions and local government bodies.
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**Recommendation 18**

That the Minister for Energy and the Treasurer provide to the committee, annual reviews that identify the progress of Country Energy with respect to employment of staff, impact on rural and regional communities, repairs and maintenance, customer service, tariff structures and financial returns to the Government. The first review should commence from enactment of the regulations to the *Energy Service Corporations Act 1995*, until 30 June 2002. Reviews thereafter should be conducted annually up to and including 30 June 2005.

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**Recommendation 19**

That the Energy and Water Ombudsman NSW provide the committee, annual reviews of its activities with respect to Country Energy until 30 June 2005.

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# **Appendix 1**

## **Consolidated organisational statistics**

## Consolidated Organisational Statistics<sup>222</sup>

Electricity Distributor	Sales \$m	Sales GWh	Assets \$m	Employees	Customers (000s)	Circuit Kms	Area Sq Kms	Customer/ Sq Km	Customer/ Circ Km	MWh/ Circ Km
<i>New South Wales</i>										
Advance Energy	192	2,145	341	520	116	46,201	167,272	0.7	2.5	46
Australian Inland Energy	32	386	53	103	20	9,415	155,100	0.1	2.1	41
Energy Australia	1,889	21,477	3,609	3,379	1,347	47,767	22,275	60.5	28.2	450
Great Southern Energy	300	3,380	579	776	220	53,191	176,240	1.2	4.1	64
Integral Energy	990	12,570	1,954	2,157	724	29,300	24,602	24.7	27.6	429
NorthPower	373	3,552	665	1,160	335	68,200	230,000	1.5	4.9	52
<i>Victoria</i>										
CitiPower	n/a	4,243	n/a	500	229	4,000	250	916	57.3	1,061
Eastern Energy	605	5,090	2,192	1,015	481	36,000	80,000	6	13.4	141
Powercor	628	6,500	n/a	1,200	537	125,000	145,000	3.7	4.3	52
Solaris Power	396	3,330	1,040	433	233	5,840	1,002	232.5	39.9	570
United Energy	684	6,074	1,755	1,110	522	18,167	1,514	344.8	28.7	334
<i>Australian Capital Territory</i>										
ACTEW	232	2,350	429	1,000	128	4,945	2,368	54.1	25.9	475
<i>Queensland</i>										
Energex	1,281	13,685	2,334	2,502	966	43,726	24,830	38.9	22.1	313
Capelec	290	3,017	539	530	91	32,800	432,000	0.2	2.8	92
<i>South Australia</i>										
ETSA	933	9,489	2,329	1,691	711	82,424	131,000	5.4	8.6	115

<sup>222</sup> Distribution Boundary Review Committee, Final Report, June 1998, Appendix 4, p 98.

## **Appendix 2**

### **Submissions to the inquiry**

## Submissions to the inquiry

<b>Number</b>	<b>Name and organisation</b>	<b>Date Received</b>
1	Mr Barry James Smith	30 March 2001
2	name withheld	30 March 2001
3	Mrs Rhonda McPherson (Country Women's Association of NSW - Bellata)	2 April 2001
4	Mr Richard Powis (Integral Energy)	2 April 2001
5	Mr Noel O'Brien (Association of Mining Related Councils)	2 April 2001
6	Mr Richard Torbay MP (NSW Legislative Assembly)	2 April 2001
7	Mr David Garner	2 April 2001
8	Mr R J Harper (NorthPower Customer Consultative Committee)	3 April 2001
8a	Mr R J Harper (NorthPower Customer Consultative Committee) - supplementary submission	6 April 2001
9	Mr Greg McLean (Australian Services Union)	3 April 2001
10	Mr Bernie Riordan (Electrical Trades Union of Australia, NSW Branch)	3 April 2001
11	Mr Brendan Mills	3 April 2001
12	Ms Sandra E Fittler	3 April 2001
13	Mr Peter Johnson (Advance Energy, Australia)	3 April 2001
14	Mr John Tongue	3 April 2001
15	Mrs T M McCulloch	3 April 2001
16	Mr Andrew Boog (Dubbo Chamber of Commerce & Industry Inc)	3 April 2001
17	Mr Scott Macdonald (Liberal Party of Australia, NSW Division, Northern Tablelands State Electorate Conference)	3 April 2001
18	name withheld	3 April 2001
19	Mr Brian Wilkinson (Crookwell Shire Council)	5 April 2001

20	Mr Byron Belt	5 April 2001
21	Mr Tony Windsor MP (NSW Legislative Assembly)	5 April 2001
22	Mr Denis Porter (NSW Minerals Council)	6 April 2001
23	Mr James C Tinslay (National Electrical and Communications Association – NSW Chapter)	6 April 2001
24	Mr W J Latona	10 April 2001
25	Mr S M Heywood	23 April 2001
26	Mr Laurie Marchant (South Grafton Resident's Progress Association Inc)	2 May 2001



## **Appendix 3**

### **Witnesses at hearings**

## Witnesses at hearings

<b>Date Of Appearance</b>	<b>Witness Name</b>	<b>Representing</b>
9 April 2001	Dr Don Anderson	Market Implementation Group, NSW Treasury
	Dr David Briggs	Market Implementation Group, NSW Treasury
	Mr Greg McLean	Australian Services Union
	Mr Craig Murray	Advance Energy
	Ms Clare Petre	Energy and Water Ombudsman NSW
	Mr Bernie Riordan	Electrical Trades Union of Australia, NSW Branch

## **Appendix 4**

### **Minutes of the proceedings of the committee**

## Minutes of the proceedings of the committee



LEGISLATIVE COUNCIL

STANDING COMMITTEE ON STATE DEVELOPMENT

### Minutes No. 27

Wednesday 8 March 2001

At Parliament House (Room 1136) at 1:30pm

#### 1. MEMBERS PRESENT

Mr Kelly (in the Chair)  
Mr Cohen  
Mr Johnson  
Dr Pezzutti

#### 2. CONFIRMATION OF MINUTES

Resolved, on motion of Mr Johnson: that the Minutes of meeting number 25 and 26 be confirmed.

#### 3. INQUIRY INTO MERGER OF COUNTRY ENERGY DISTRIBUTORS

Resolved, on motion of Dr Pezzutti: that a call for submissions advertising the terms of reference be advertised in the Sydney Morning Herald and also major regional media which cover NorthPower, Advance Energy and Great Southern Energy service areas.

The Committee deliberated.

Resolved, on motion of Mr Cohen: that the closing date for submissions be Monday 2 April 2001.

The Committee deliberated.

Resolved, on motion of Dr Pezzutti: that hearings into the merger of country energy distributors commence on Monday 9 April 2001.

#### 4. ADJOURNMENT

The Committee adjourned at 2:10 pm.

**Rob Stefanic**  
Senior Project Officer



LEGISLATIVE COUNCIL

**Minutes No. 28**

Tuesday 27 March 2001  
At Parliament House (Members' Lounge) at 2.20pm

**1. MEMBERS PRESENT**

Mr Kelly (in the Chair)  
Mr Cohen  
Dr Pezzutti

**2. APOLOGIES**

Mr Johnson

**3. CONFIRMATION OF MINUTES**

Resolved, on motion of Mr Cohen: that the Minutes of meeting number 27 be confirmed.

**4. TABLED DOCUMENTS**

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**4.2 CORRESPONDENCE SENT**

The Chair tabled the following items of correspondence sent:

Letter from Director to the Hon Kim Yeadon MP, Minister for Information Technology, Minister for Energy, Minister for Forestry and Minister for Western Sydney, dated 16 March 2001, advising of the commencement of the committee's inquiry into the merger of country energy distributors and requesting identification of a departmental contact officer (attached).

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**6. ADJOURNMENT**

The Committee adjourned at 2:30 pm.

**Rob Stefanic**  
Senior Project Officer



LEGISLATIVE COUNCIL

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STANDING COMMITTEE ON STATE DEVELOPMENT

### **Minutes No. 29**

Monday 9 April 2001

At Parliament House (Room 814/815) at 9:20pm

#### **1. MEMBERS PRESENT**

Mr Kelly (in the Chair)  
Dr Pezzutti  
Mr Cohen  
Mr Johnson  
Mr West

The committee noted that the Legislative Council resolved that: Mr Macdonald be discharged from the Standing Committee on State Development and that Mr West be appointed to the Committee.<sup>223</sup>

Members welcomed Mr West to the committee.

#### **2. CONFIRMATION OF MINUTES**

Resolved, on motion of Mr Cohen, that: the Minutes of meeting number 28 be confirmed.

#### **3. LEAVE OF ABSENCE**

The committee noted that the Legislative Council has granted leave to Dr Pezzutti to conduct military service for the period 17 April to 3 May 2001.<sup>224</sup>

#### **4. CORRESPONDENCE RECEIVED**

The Chair tabled two items of correspondence received:

Correspondence from Ms Leisl Baumgartner, Senior Adviser, Office of the Minister for Information Technology, Minister for Energy, Minister for Forestry and Minister for Western Sydney, to Director,

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<sup>223</sup> *Minutes of the Proceedings of the Legislative Council*, second session, 52<sup>nd</sup> Parliament, 27 March 2001, item no 4.

<sup>224</sup> *Minutes of the Proceedings of the Legislative Council*, second session, 52<sup>nd</sup> Parliament, 28 March 2001, item no 3.

received 26 March 2001, advising of contact officers for the inquiry into the merger of country energy distributors.

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## 5. CORRESPONDENCE SENT

The Chair tabled four items of correspondence sent:

Correspondence from Director to the Hon. Kim Yeadon, MP, Minister for Information Technology, Minister for Energy, Minister for Forestry and Minister for Western Sydney, dated 16 March 2001, requesting details of contact officers for the inquiry into the merger of country energy distributors.

Correspondence from Director to the Hon. Kim Yeadon, MP, Minister for Information Technology, Minister for Energy, Minister for Forestry and Minister for Western Sydney, dated 4 April 2001, advising of witnesses for the public hearing of 9 April 2001

Correspondence from Director to the Hon. Michael Egan, Treasurer, Minister for State Development, Vice President of the Executive Council and Leader of the Government in the Legislative Council, dated 4 April 2001, advising of witnesses for the public hearing of 9 April 2001.

## 6. TABLED DOCUMENTS

### 6.1 SUBMISSIONS

#### 6.1.1 INQUIRY INTO THE MERGER OF COUNTRY ENERGY DISTRIBUTORS

##### 6.1.1.1 SUBMISSIONS IDENTIFIED AS PUBLIC

The Chair tabled 20 submissions identified as public in relation to its inquiry into the merger of country energy distributors.

Submission 1 – Mr Barry Smith, private citizen, 30 March 2001.

Submission 3 – Mrs Rhonda McPherson, Branch Secretary, Country Women's Association of NSW – Bellata, dated 2 April 2001.

Submission 4 – Mr Richard Powis, Chief Executive Officer, Integral Energy, dated 2 April 2001.

Submission 5 – Mr Noel O'Brien, Chairman, Association of Mining Related Councils, dated 2 April 2001.

Submission 6 – Mr Richard Torbay, MP, Member for Northern Tablelands, dated 2 April 2001.

Submission 7 – Mr David Garner, private citizen, dated 2 April 2001.

Submission 8 – Mr Bob Harper, Chairman, NorthPower Customer Consultative Committee, dated 3 April 2001.

Submission 9 – Mr Greg McLean, Assistant National Secretary, Australian Services Union, dated 3 April 2001.

Submission 10 – Mr Bernie Riordan, Electrical Trades Union of Australia, NSW Branch, dated 3 April 2001.

Submission 11 – Mr Brendan Mills, private citizen, dated 3 April 2001.

Submission 12 – Ms Sandra Fittler, private citizen, dated 3 April 2001.

Submission 13 – Mr Peter Johnson, Manager Corporate Services, Advance Energy, Australia, dated 3 April 2001.

Submission 14 – Mr John Tongue, private citizen, dated 3 April 2001.

Submission 15 – Mrs T McCulloch, private citizen, dated 3 April 2001.

Submission 16 – Mr Andrew Boog, President, Dubbo Chamber of Commerce and Industry, dated 3 April 2001.

Submission 17 – Mr Scott Macdonald, President, Liberal party of Australia, NSW Division, Northern Tablelands State Electoral Conference, dated 3 April 2001.

Submission 19 – Mr Brian Wilkinson, General Manager, Crookwell Shire Council, 5 April 2001.

Submission 20 – Mr Byron Belt, private citizen, dated 5 April 2001.

Submission 21 – Mr Tony Windsor, MP, Member for Tamworth, dated 5 April 2001.

#### **6.1.1.2 SUBMISSIONS IDENTIFIED AS PRIVATE AND CONFIDENTIAL**

The Chair tabled two submissions where authors have requested that their names be withheld in relation to its inquiry into the merger of country energy distributors.

Submission 2 - Author, dated 30 March 2001.

Submission 18 – Author, private citizen, dated 3 April 2001.

## **7. MERGER OF COUNTRY ENERGY DISTRIBUTORS INQUIRY**

### **7.1 HEARING**

The Committee deliberated.

Resolved, on motion of Mr Cohen, that in accordance with the Resolution of the Legislative Council of 11 October 1994 the Committee authorises the sound broadcasting and television broadcasting of its public proceedings held today.

The public and media were admitted.

The Chairman welcomed the gallery and reminded the media of their obligation under Standing Order 252 of the Legislative Council in relation to evidence given before, and documents presented to, the Committee. The Chairman also distributed copies of the guidelines governing broadcast of proceedings.

Prof Don Anderson, Director Market Implementation Group NSW Treasury and Mr David Briggs Consultant, Frontier Economics were sworn and examined.

Prof Anderson tendered one document supporting his evidence.

Resolved, on motion of Dr Pezzutti, that: the committee accept the document. (Tabled document no 1).

Prof Anderson tendered one document supporting his evidence.

Resolved, on motion of Mr Johnson, that: the committee accept the document. (Tabled document no 2).

Resolved, on motion of Dr Pezzutti, that pursuant to the provisions of section 4 of the *Parliamentary Papers (Supplementary Provisions) Act 1975* and under the authority of Standing Order



252, the committee authorises the Clerk to the Committee to publish submission no 4 (Integral Energy).

Evidence concluded and the witnesses withdrew.

Ms Clare Petre, Ombudsman, Electrical and Water Industry Ombudsman was sworn and examined.

Ms Petre tendered one document supporting her evidence.

Resolved, on motion of Dr Pezzutti, that the committee accept the document (Tabled document no 3).

Evidence concluded and the witnesses withdrew.

Mr Greg McLean, Assistant National Secretary, Australian Services Union, was sworn and examined.

Mr McLean tendered a revised version of his original submission (submission no 9)

The committee deliberated.

Resolved, on motion of Mr Johnson, that: the revised version be accepted and replace the previously received submission.

Evidence concluded and the witnesses withdrew.

Mr Bernie Riordan, State Secretary, Electrical Trades Union NSW, was sworn and examined.

Evidence concluded and the witnesses withdrew.

Mr Craig Murray, Chief Executive Officer, Advance Energy and Chief Executive Officer designate, Country Energy, was sworn and examined.

Evidence concluded and the witnesses withdrew.

Public hearing concluded, the media and public withdrew.

## **8. NEXT MEETING**

The meeting adjourned at 3:30pm, *sine die*.

**Steven Carr**  
Director



LEGISLATIVE COUNCIL

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STANDING COMMITTEE ON STATE DEVELOPMENT

**Minutes No. 30**

Thursday 26 April 2001

At Bourke Shire Council Chambers at 2:00pm

**1. MEMBERS PRESENT**

Mr Kelly (in the Chair)  
Mr Cohen  
Mr Johnson

The committee noted that Dr Pezzutti has been granted leave of absence by the Legislative Council to conduct military service for the period 17 April to 3 May 2001.<sup>225</sup>

**2. APOLOGIES**

Mr West

**3. CONFIRMATION OF MINUTES**

Resolved, on motion of Mr Johnson, that: the Minutes of meeting number 29 be confirmed.

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**5. CORRESPONDENCE SENT**

The Chair tabled six items of correspondence sent:

Correspondence from Director to Prof Don Anderson, Director, Market Implementation Group, NSW Treasury, dated 11 April 2001, requesting written response to committee questions on notice from the Country Energy hearing of 9 April 2001.

Correspondence from Director to Mr David Briggs, Consultant, Market Implementation Group, NSW Treasury, dated 11 April 2001, requesting written response to committee questions on notice from the committee's Country Energy hearing of 9 April 2001.

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<sup>225</sup> *Minutes of the Proceedings of the Legislative Council, second session, 52<sup>nd</sup> Parliament, 28 March 2001, item no 3.*

## **6. TABLED DOCUMENTS**

### **6.1 SUBMISSIONS**

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

##### **6.1.1.1 SUBMISSIONS IDENTIFIED AS PUBLIC**

The Chair tabled four submissions and one supplementary submission identified as public in relation to its inquiry into the merger of country energy distributors.

Submission 22 – Mr Denis Porter, Executive Director, New South Wales Minerals Council, dated 6 April 2001.

Submission 23 – Mr James Tinslay, Chief Executive Officer, National Electrical and Communications Association, dated 6 April 2001.

Submission 24 – Mr W.J Latona, private citizen, dated 9 April 2001.

Submission 25 – Mr S.M Heywood, private citizen, dated 23 April 2001.

Supplementary submission 8 – Mr Bob Harper, Chairman, NorthPower Consultative Committee, dated 6 April 2001.

## **7. MERGER OF COUNTRY ENERGY DISTRIBUTORS INQUIRY**

The committee discussed progress of the inquiry.

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## **9. ADJOURNMENT**

The committee adjourned at 11:10pm, until 8:00am, Friday 27 April 2001, at the construction site of the Back o' Bourke Exhibition Centre.

**Steven Carr**  
Director



LEGISLATIVE COUNCIL

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STANDING COMMITTEE ON STATE DEVELOPMENT

**Minutes No. 32**

Thursday 3 May 2001  
At Parliament House, (Room 1136) at 2:30pm

**1. MEMBERS PRESENT**

Mr Kelly (in the Chair)  
Dr Pezzutti  
Mr Johnson  
Mr West

**2. APOLOGIES**

Mr Cohen

**3. CONFIRMATION OF MINUTES**

Resolved, on motion of Mr Johnson, that: the Minutes of meetings numbered 30 and 31 be confirmed.

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**5. TABLED DOCUMENTS**

**5.1 SUBMISSIONS**

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

**5.1.1.1 SUBMISSIONS IDENTIFIED AS PUBLIC**

The Chair tabled one submission identified as public in relation to its inquiry into the merger of country energy distributors.

Submission 26 – Mr Laurie Marchant, Secretary, South Grafton Resident's Progress Association, dated 2 May 2001.

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**7. ADJOURNMENT**

The committee adjourned at 3:10pm, *sine die*.

**Steven Carr**

Director

**10. ADJOURNMENT**

The committee adjourned at 11:10pm, until 8:00am, Friday 27 April 2001, at the construction site of the Back o' Bourke Exhibition Centre.

**Steven Carr**  
Director



LEGISLATIVE COUNCIL

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STANDING COMMITTEE ON STATE DEVELOPMENT

**Minutes No. 34**

Monday 28 May 2001

At Parliament House, (Room 1136) at 9:35am

**1. MEMBERS PRESENT**

Mr Kelly (in the Chair)  
Dr Pezzutti  
Mr Johnson  
Mr Cohen  
Mr West

**2. CONFIRMATION OF MINUTES**

Resolved, on motion of Dr Pezzutti: that the Minutes of meetings numbered 32 and 33 be confirmed.

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

**3.1 DRAFT REPORT VERSION 1**

The Chair submitted his draft report version 1 entitled "Merger of country energy distributors", which having been circulated to each member of the committee, was accepted as being read.

The committee proceeded to consider the draft report.

The committee deliberated.

Resolved, on motion of Dr Pezzutti: that Chapter 1, as amended be adopted.

The committee deliberated.

Resolved, on motion of Dr Pezzutti: that Chapter 2, as amended be adopted.

The committee deliberated.

Resolved, on motion of Dr Pezzutti: that Chapter 3, as amended be adopted.

The committee deliberated.

Resolved, on motion of Dr Pezzutti: that Chapter 4, as amended be adopted.

The committee deliberated.

Mr Cohen moved: that recommendation 14 be amended by inserting “, social and environmental impacts” after the words “That the Minister for Energy and the Treasurer provide to the committee annual reviews that identify the progress of Country Energy with respect to employment of staff, impact on rural and regional communities, repairs and maintenance, customer service, tariff structures”.

Debate ensued.

Question put.

Ayes: 1  
Mr Cohen

Nos: 4  
Mr Kelly  
Dr Pezzutti  
Mr Johnson  
Mr West

Question resolved in the negative.

The committee deliberated.

Resolved, on motion of Dr Pezzutti: that Chapter 5, as amended be adopted.

#### **4. ADJOURNMENT**

The committee adjourned at 4:12pm, until Wednesday 30 May 2001, at 8:45am.

**Steven Carr**  
Director



LEGISLATIVE COUNCIL

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STANDING COMMITTEE ON STATE DEVELOPMENT

### **Minutes No. 35**

Wednesday 30 May 2001

At Parliament House (Greenway Room) at 8:47am

#### **1. MEMBERS PRESENT**

Mr Kelly (in the Chair)  
Dr Pezzutti  
Mr Cohen  
Mr Johnson  
Mr West

#### **2. CONFIRMATION OF MINUTES**

Resolved, on motion of Mr West: that the Minutes of meeting number 34 be confirmed.

#### **3. TABLED DOCUMENTS**

##### **3.1 SUBMISSIONS**

The committee considered the following requests made by submission authors:

Submission 2 - Author, dated 30 March 2001: that their name be withheld.

The committee deliberated.

Resolved, on motion of Mr Cohen: that the committee withhold the author's name for submission 2.

Submission 18 – Author, private citizen, dated 3 April 2001: that their name be withheld.

The committee deliberated.

Resolved, on motion of Mr Cohen: that that the committee withhold the author's name for submission 18.

##### **3.2 CORRESPONDENCE RECEIVED**

###### **3.2.1 MERGER OF COUNTRY ENERGY DISTRIBUTORS**



The Chair tabled the following four items of correspondence received:

Correspondence from Prof Don Anderson, Director, Market Implementation Group, NSW Treasury, dated 27 April 2001, responding to committee questions on notice of 9 April 2001.

E-mail from Mr Peter Shields, Market Implementation Group, NSW Treasury, dated 18 May 2001, providing comment on regulated retail electricity tariffs in New South Wales.

E-mail from Mr Peter Shields, Market Implementation Group, NSW Treasury, dated 29 May 2001, providing details of interstate electricity distributors.

Correspondence from Mr Peter Johnson, Manager Corporate Services, Advance Energy, dated 11 May 2001, providing PriceWaterhouseCoopers advice on economies of scale and scope in energy businesses.

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#### **4. INQUIRY INTO THE MERGER OF COUNTRY ENERGY DISTRIBUTORS**

##### **4.1 DRAFT REPORT VERSION 1**

Resumption of previously adjourned deliberations on draft report version 1.

The committee deliberated.

Resolved, on motion of Dr Pezzutti: that the report, as amended, be adopted.

The committee deliberated.

Resolved, on motion of Dr Pezzutti: that the report be signed by the Chair and presented to the House in accordance with the resolution establishing the committee of 25 May 1999.

The committee deliberated.

Resolved, on motion of Mr Johnson: that pursuant to the provisions of section 4 of the *Parliamentary Papers (Supplementary Provisions) Act 1975* and under the authority of Standing Order 252, the Committee authorises the Clerk of the Committee to publish the report, submissions, corrected transcript, and related documents and material with the exception of documents identified as "private and confidential" or "not publicly available".

The committee deliberated.

Resolved, on motion of Mr West: that the report be printed on recycled paper.

#### **5. ADJOURNMENT**

The meeting adjourned at 9:13am, *sine die*.

**Steven Carr**  
Director

# **Appendix 5**

## **Previous Publications**

## Previous publications

<b>Item</b>	<b>Title</b>	<b>Date</b>
Discussion Paper 1	Public Sector Tendering & Contracting in New South Wales: A Survey	May 1989
Report 1	Public Sector Tendering & Contracting in New South Wales: Supply of Goods and Services	August 1989
Report 2	Public Sector Tendering & Contracting in New South Wales: Local Government Tendering & Contracting	October 1989
Discussion Paper 2	Coastal Development in New South Wales: Public Concerns & Government Processes	November 1989
Discussion Paper 3	Public Sector Tendering & Contracting in New South Wales: Capital Works Tendering & Contracting: Management Options	June 1990
Report 3	Public Sector Tendering & Contracting in New South Wales: Capital Works Tendering & Contracting. Volume A	April 1991
Report 4	Coastal Planning & Management in New South Wales: A Framework for the Future. Volume 1	September 1991
Supplement to 4	An Alternative Dispute Resolution Primer	September 1991
Report 5	Public Sector Tendering & Contracting in New South Wales: Capital Works Tendering & Contracting. Volume B	December 1991
Report 6	Payroll Tax Concessions for Country Industries. Volume I	December 1991
Report 7	Public Sector Tendering & Contracting in New South Wales: Supply of Goods and Services: Follow Up Report	June 1992
Report 8	Coastal Planning & Management in New South Wales: The Process for the Future. Volume II	October 1992
Report 9	Public Sector Tendering & Contracting in New South Wales: Local Government Tendering & Contracting: Follow Up Report	April 1993
Discussion Paper 4	Regional Business Development in New South Wales: Trends, Policies and Issues.	August 1993
Report 10	Regional Business Development in New South Wales: Achieving Sustainable Growth: Principles for Setting Policy. Volume I	May 1994
Report 11	Regional Business Development in New South Wales: Achieving Sustainable Growth: Initiatives for Setting Policy. Volume II	November 1994

Report 12	Rationales for Closing the Veterinary Laboratories At Armidale and Wagga Wagga and the Rydalmere Biological and Chemical Research Institute	August 1996
Report 13	Factors Influencing the Relocation of Regional Headquarters of Australian and Overseas Corporations to New South Wales	October 1996
Report 14	Interim Report on the Fisheries Management Amendment (Advisory Bodies) Act 1996	April 1997
Report 15	Waste Minimisation and Management	April 1997
Report 16	The Fisheries Management Amendment (Advisory Bodies) Act 1996	July 1997
Discussion Paper 5	Future Employment and Business Opportunities in the Hunter Region	October 1997
Report 17	Fisheries Management and Resource Allocation in New South Wales	November 1997
Report 18	Operations of the Sydney Market Authority (Dissolution) Bill from Commencement until 31 December 1997	March 1998
Discussion Paper 6	International Competitiveness of Agriculture in New South Wales	May 1998
Report 19	Future Employment and Business Opportunities in the Hunter Region; and The Downsizing of the Rack Rite Investment Proposal	July 1998
Report 20	Interim Report on the Provision and Operation of Rural and Regional Air Services in New South Wales	September 1998
Report 21A	The Use and Management of Pesticides in New South Wales Vol 1	September 1999
Report 21B	The Use and Management of Pesticides in New South Wales Vol 2: Transcripts of Evidence	September 1999
Report 22	Inquiry into Road Maintenance and Competitive Road Maintenance Tendering	November 2000