

Hydro Tasmania Submission to Parliamentary Inquiry into AI Data Centres in Tasmania

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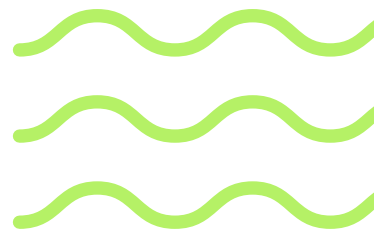
Hydro Tasmania Submission to
Parliamentary Inquiry into AI Data
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DATE

22 September 2023



Hydro
Tasmania

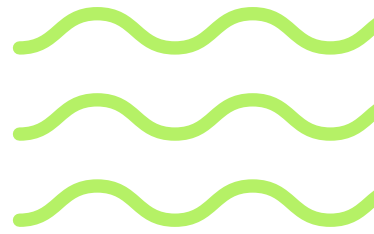


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Hydro Tasmania pays respect to the rich, long and ongoing history of the Traditional Owners and Custodians and their connections to land, sea and community.

The mountains, natural lakes and rivers that capture and channel water for hydropower are rich in Aboriginal history, culture and tradition. We acknowledge ongoing connection to culture and custodianship of the lands and waters of places we share. We pay our respect to Elders past and present and extend that respect to all Aboriginal and Torres Strait Islander peoples today.



1. Executive Summary

Hydro Tasmania welcomes the opportunity to contribute to the House of Assembly Government Administration Committee A's Inquiry into AI Data Centres in Tasmania. Hydro Tasmania recognises the significant interest in the potential growth of AI data centres in Tasmania and the implications for the State's energy system, economy and renewable energy objectives.

As Tasmania's largest electricity generator and a Government Business Enterprise, Hydro Tasmania plays an important role in entering energy contracts with existing customers and working with new industrial proponents to negotiate arrangements to support their supply.

Tasmania's energy system is unique within the National Electricity Market, reflecting its renewable generation profile, hydro storage capability and concentration of large industrial energy users. These characteristics create opportunities for future investment in new industries and economic growth but also mean decisions regarding major new loads require careful consideration.

This submission:

- outlines the legislative and energy security framework within which Hydro Tasmania operates and makes decisions regarding energy contracting arrangements;
- provides an overview of Hydro Tasmania's approach to energy contracting with large users; and
- details how Hydro Tasmania is approaching its ongoing assessment of Firmus' request for long-term energy arrangements for its AI infrastructure.

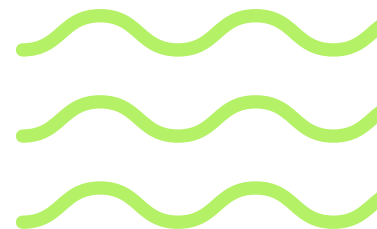
1.1 About Hydro Tasmania

Hydro Tasmania is Australia's largest generator of clean, renewable energy. Hydro Tasmania operates a unique hydropower system, comprising 30 hydropower stations and more than 50 major dams. Our hydro system has a total capacity of approximately 2500 megawatts (MW), as well as close to 400MW of capacity at our gas power station at Tamar Valley. Hydro Tasmania produces an around 9,000 gigawatt hours (GWh) of clean electricity annually. Tasmania also has four major wind farms.

Hydro Tasmania has invested in wind power developments across the state and is a partner in the Woolnorth Wind Farm Holding joint venture, with wind farms at Musselroe, Studland Bay and Bluff Point¹.

The Tamar Valley Power Station (TVPS) is 14% Hydro Tasmania's installed capacity but contributes approximately 2% of Tasmania's generation in average inflow conditions. Like hydropower, gas is a dispatchable source of generation, providing flexible capacity that can respond quickly when and where required, for example to support major maintenance programs and protect water storages during dry periods.

¹ Hydro Tasmania also owns and operates the Huxley Hill Wind Farm on King Island, and the Flinders Island Energy Hub (wind and solar).



Hydro Tasmania's group businesses also include Momentum Energy and Entura. Momentum Energy retails electricity and gas on the mainland and serves more than 200,000 customer sites across the National Electricity Market. Entura provides consulting services to water and energy businesses in Tasmania, nationally and internationally.

Hydro Tasmania trades within the National Electricity Market to maximise the value of its energy portfolio and manage risks associated with water availability, energy availability and price outcomes. Hydro Tasmania returns 90 per cent of its annual profits to the Tasmanian community through dividends to the State Government.

As the Tasmanian and Australian energy systems evolve, hydropower is playing an increasingly important role in supporting energy security, reliability and the integration of new renewable generation. Hydro Tasmania continues to invest in its existing assets, progress opportunities for additional dispatchable renewable generation through proposed developments at Tarraleah and Cethana and enable the growth of new wind and solar generation in Tasmania.

1.2 Hydro Tasmania's Role and Obligations

As a Government Business Enterprise, Tasmanians are Hydro Tasmania's ultimate owners.

Hydro Tasmania operates under a robust legislative and regulatory framework and is accountable to shareholder ministers through its Board of Directors.

Hydro Tasmania operates within a framework established by a range of instruments including:

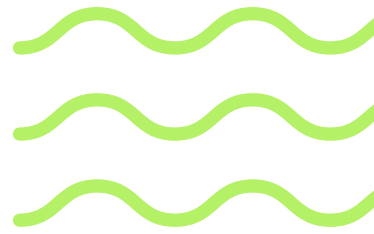
- *Government Business Enterprises Act 1995* (Tas);
- *Hydro-Electric Corporation Act 1995* (Tas);
- *Electricity Supply Industry Act 1995* (Tas);
- Treasurer's Instructions;
- Ministerial Charter 2024;
- National Electricity Law;
- National Electricity Rules; and
- *Competition and Consumer Act 2010* (Cth).

Section 7 of the *Government Business Enterprises Act 1995* sets out Hydro Tasmania's principal objectives, which include performing its functions and exercising its powers to be a successful business by:

- operating in accordance with sound commercial practice and as efficiently as possible; and
- achieving a sustainable commercial rate of return that maximises value for the State in accordance with its corporate plan while having regard for the State's economic and social objectives.

The *Hydro-Electric Corporation Act 1995* specifies the functions and powers of the Corporation which include:

- generating electricity;
- constructing, maintaining and operating infrastructure;
- trading electricity; and
- participating in the National Electricity Market.



The Ministerial Charter 2024 outlines the Government's broad policy expectations and requirements for Hydro Tasmania. The Charter notes a principal purpose of Hydro Tasmania performing its functions is to support the lowest possible power prices for Tasmanians and to enable economic growth and job creation in Tasmania.

Some of the key activities Hydro Tasmania undertakes to meet its legislative obligations and the expectations set out in the Charter include:

- ensuring the ongoing reliable operations of its generating fleet;
- brokering commercial arrangements with existing and new large load customers in Tasmania;
- facilitating the ongoing expansion of Tasmania's energy system to meet growing demand, both through the upgrade and augmentation of its own infrastructure, proposed new hydropower developments as well as through enabling new variable renewable generation in the State; and
- managing its business in a sustainable manner so that it continues to operate as one of the State's largest employers, with more than 1,100 employees based in Tasmania (out of a total of 1,458 FTE as of 31 June, 2026).

2. Tasmania's Energy System Context

Tasmania's electricity system is unique within the National Electricity Market. It is characterised by a high proportion of renewable generation, significant hydropower storage capacity, a relatively small population base, and a small number of major industrial customers that account for a substantial share of total electricity demand. Understanding the structure of Tasmania's electricity market is important when considering future energy supply, prospective large loads and broader energy security considerations.

2.1 Tasmania's Demand Profile

Demand in Tasmania has been broadly flat for a decade, with year-on-year variation no larger than approximately 4 per cent. The consumption is shared between residential and small business customers, commercial and industrial customers, and major industrial users.

Demand in Tasmania is currently comprised of approximately:

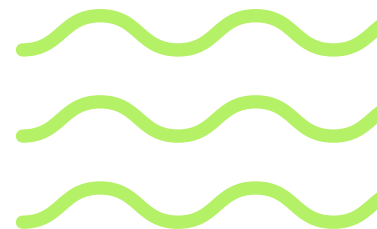
- 25 per cent residential demand;
- 29 per cent commercial and industrial demand; and
- 46 per cent major industrial demand.

Major industrial customers therefore account for almost half of Tasmania's total electricity consumption. This is a defining characteristic of the Tasmanian energy system and differs significantly from most other jurisdictions.

The Australian Energy Market Operator (AEMO) forecasts growth in energy demand in Australia and in Tasmania largely driven by electrification of businesses and expansion of energy intensive industries such as hydrogen and data centres. Its latest Electricity Statement of Opportunities (ESOO) published in August 2026, projects that the majority of growth in Tasmanian demand will come from larger industrial users.

2.2 Tasmania's Supply Profile

In a typical year, electricity generation in Tasmania, excluding Bass Strait islands, is comprised of:



- 80 per cent hydropower;
- 18 per cent wind generation; and
- 2 per cent gas-fired generation.

Hydro Tasmania's portfolio (including energy from power purchase agreements) generates energy equivalent to approximately 90 per cent.

Hydro Tasmania's diversified generation portfolio, together with Basslink interconnection, forms the foundation of Tasmania's current energy security position.

2.3 Supply-Demand Balance

Tasmania is currently at, or close to, annual energy balance. On-island generation of approximately 10,700 gigawatt hours per year broadly matches Tasmanian annual electricity consumption.

Future supply and demand outcomes will depend on a range of factors, including:

- growth in electricity consumption;
- expansion or contraction of existing industrial customers;
- development of new large load;
- timing of new renewable generation developments;
- hydrological conditions;
- network capability; and
- broader National Electricity Market developments.

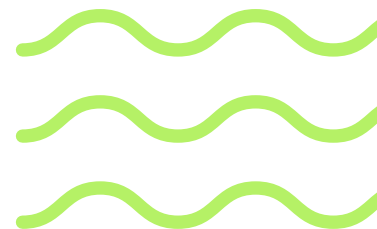
2.4 Energy Security Considerations

The *Electricity Supply Industry Act 1995* (Tas) establishes the overarching framework for Tasmania's electricity industry, promoting a safe, efficient and reliable electricity generation, transmission, distribution and supply system, while protecting consumers and regulating industry participants. It also establishes the Office of the Tasmanian Economic Regulator (OTTER) which has responsibilities relating to reliability, security of supply, licensing and industry oversight.

The principal operational mechanism for managing energy security risk is the Energy Security Risk Response Framework. The framework provides for independent monitoring of energy security, storage-based risk triggers, escalating response actions and government coordination mechanisms which are set out in the *Energy Co-ordination and Planning Act 1995* (Tas). This framework is overseen and administered by a range of government agencies responsible for maintaining the security, reliability and resilience of the State's energy system.

A key feature of the framework is the establishment of the High Reliability Level (HRL) and Prudent Storage Level (PSL), which guide Hydro Tasmania's storage management decisions. The framework recognises that while the Tasmanian Government retains ultimate responsibility for energy security, Hydro Tasmania has operational responsibility for the prudent management of its water storages.

The water storage system is complex and Hydro Tasmania has significant expertise in water management. Water storage levels, inflows and hydrological variability, generator availability, irrigation needs, environmental



considerations, Basslink operations and changes in demand all influence how Hydro Tasmania manages its storages.

The Regulator is the Tasmanian Energy Security Monitor and Assessor responsible for providing independent oversight and reporting on Tasmania's energy security status. The executive director of Renewables, Climate and Future Industries Tasmania (ReCFIT) performs the role of Energy Security Coordinator and has responsibility for managing electricity supply risks when required under the framework. This role ensures clear governance, decision making and coordination arrangements are in place across government and industry during potential energy security events.

The executive director of ReCFIT is also the Director of Energy Planning under the *Energy Co-ordination and Planning Act 1995*. Its responsibilities include assisting the Minister on energy planning and co-ordination matters, monitoring energy supply and demand, and advising on energy policy.

ReCFIT's officers undertake the statutory position of Tasmania's Jurisdictional System Security Coordinator. This coordinator works with AEMO in relation to load shedding arrangements so that AEMO is prepared to respond to energy shortfalls in Tasmania in case that should be necessary.

2.5 Future Growth and New Load Opportunities

Tasmania possesses significant competitive advantages through its renewable energy resources, hydro storage capability and access to fresh water. These attributes position Tasmania as an attractive location for energy-intensive industrial growth.

Hydro Tasmania actively engages with prospective new large loads while also progressing processes intended to encourage development of additional renewable generation, including wind and solar opportunities.

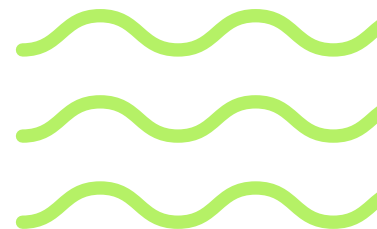
In 2025, Hydro Tasmania published its Market Engagement Approach, which sets out principles and processes for engaging with current and intending energy market participants in Tasmania. The approach seeks to:

- Support Tasmania's future energy needs: By enabling new energy supply that complements existing generation assets, and by supporting opportunities for enhanced interconnection where it strengthens system outcomes.
- Encourage economic growth: By exploring contracting opportunities with businesses seeking to grow or establish new energy-intensive industries within Tasmania, leading to increased economic activity.
- Promote affordability: By identifying and supporting the most cost-effective projects for contracting or partnering, helping to deliver the lowest possible energy costs for Tasmanian consumers.

A key challenge for Tasmania is ensuring that future demand growth is matched by timely investment in new generation capacity, energy storage and supporting infrastructure. This will support continued economic development while ensuring energy supply remains in balance and existing customers are protected.

2.6 Need for Additional Interconnection

As the energy market evolves, interconnection between Tasmania and the National Electricity Market becomes increasingly important. Marinus Link will increase interconnection between Tasmania and the mainland, with the first 750MW interconnector due to be completed in 2030.



Additional interconnection is important for:

- supporting future energy security;
- facilitating new industrial development;
- enabling greater levels of renewable generation investment;
- increasing access to National Electricity Market opportunities; and
- supporting Tasmania's ability to provide firming services to the broader market.

Additional interconnection will also help support development of new renewable energy projects by increasing access to export opportunities during periods of surplus generation. This becomes increasingly important as Tasmania seeks to grow its renewable energy sector and support future economic development. As both demand and generation grow in Tasmania, the utilisation of interconnection is expected to increase.

Tasmania has a unique opportunity to leverage its renewable energy resources and hydro storage capability to support both state and national energy objectives. Realising these opportunities will require continued investment in generation, storage and interconnection infrastructure.

3. How Hydro Tasmania Contracts Energy

3.1 Small and medium-sized customers

As Tasmania's largest generator, Hydro Tasmania sells wholesale electricity contracts to Tasmanian retailers to help manage exposures related to small (households) and medium (small and medium business) segment load profiles. Retailers purchase wholesale contracts to manage customer electricity price risk.

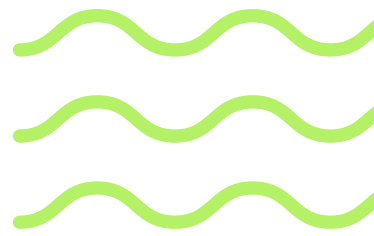
Hydro Tasmania is required to offer contracts to retailers through the Wholesale Contract Regulated Instrument (WCRI), under which pricing is based on a methodology determined by the Office of the Tasmanian Economic Regulator. That methodology uses Victorian energy futures prices as a starting point which are then adjusted for Tasmanian conditions.

3.2 Large energy users

Hydro Tasmania has extensive experience negotiating and managing complex long-term energy contracts with large energy users. Negotiating commercial agreements is a core capability and is supported by specialist expertise across strategy and commercial, finance, legal and risk.

Contractual arrangements with these customers are typically long-term agreements and are more complex than standard energy contracts. While contracts differ depending on the specific needs and circumstances of each customer, they often include different features which add value to Hydro Tasmania, such as volume flexibility or load tripping services, in exchange for lower prices.

There may also be circumstances when the arrangement incorporates features that may increase the energy price; for example provision of renewable energy certificates or a requirement to match demand with new renewable generation.



If a commercial agreement cannot be reached on price, it becomes a matter for the State or Australian Government to consider whether it will provide support to bridge the gap between the price that Hydro Tasmania can commercially offer and the price a customer is prepared to pay.

Hydro Tasmania currently has four contracts with large energy users (often referred to as our major industrial customers), three of which also involve a retailer.

3.3 Existing major industrial customers

Hydro Tasmania has historically had direct commercial relationships with Rio Tinto Aluminium Bell Bay, Boyer, Nyrstar and Liberty Bell Bay. These customers operate in industries that have evolved alongside Tasmania's renewable energy advantage and continue to be significant employers and contributors to the Tasmanian economy. Together, they have accounted for 55 - 60 per cent of Tasmania's energy consumption, although this has now dropped to just under 50 per cent with operations ceased at Liberty Bell Bay.

Hydro Tasmania's approach to all major industrial customers is guided by the same principles:

- maintaining long-term commercial relationships,
- supporting Tasmania's industrial base where commercially sustainable, and
- ensuring arrangements are consistent with Hydro Tasmania's statutory obligations and responsibilities as a Government Business Enterprise.

Recent public discussion has focussed on energy arrangements for Rio Tinto's Bell Bay aluminium smelter and Liberty Bell Bay.

In December 2025, Hydro Tasmania and Rio Tinto agreed a one-year extension to existing energy arrangements while negotiations on a longer-term agreement continue. The parties have continued to negotiate in good faith regarding future electricity supply arrangements for the smelter. Hydro Tasmania is continuing to work with Rio Tinto to put the lowest possible deal on the table.

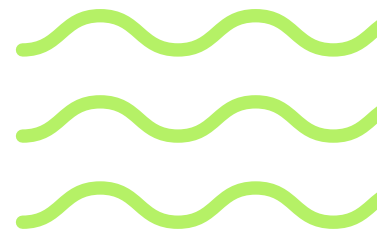
Hydro Tasmania and Liberty Bell Bay agreed a 10-year energy contract in December 2024. The smelter was placed into limited operations in May 2025 and eventually went into liquidation.

Hydro Tasmania also has ongoing discussions with Boyer and Nyrstar.

4. Proposed AI Infrastructure and Hydro Tasmania's Role

Hydro Tasmania is currently in discussions with Firmus in relation to a potential new long-term energy arrangement. Firmus has proposed approximately 444 MW of future demand associated with facilities at:

- St Leonards;
- Bell Bay; and
- Wesley Vale.



Firmus requires its demand to be matched with 2 MW of new renewable generation capacity for each 1 MW of demand and has requested Hydro Tasmania to contract with it on this basis.

Hydro Tasmania's role is to consider this request. Any agreement with Hydro Tasmania is only one element of a broader project development pathway for Firmus. This includes assessment through the Tasmanian Resource Management and Planning System (RMPS) which is designed to help make decisions about resource use in an equitable, sustainable way. This system involves every tier of government, various public authorities and regulatory bodies, and the community. Other agreements such as connection arrangements with TasNetworks would also need to be negotiated by Firmus to proceed.

Meeting Firmus' energy contracting requirements would require more generation to be built in the state, including through new wind and solar developments which would be owned and managed by third-party private businesses. Considering the request therefore involves careful assessment of both Firmus' requirements as well as potential agreements to buy energy from these renewable energy generators.

Hydro Tasmania's assessment of these matters is ongoing and it has not yet made any decisions. It expects to be in a position to finalise the assessment by the end of calendar year 2026.

4.1 Government Expectations for Data Centres

The Tasmanian Government recently released the [Draft Expectations for Data Centres and AI Infrastructure Developers: Tasmania](#), which outlines the Government's policy expectations for new data centres and AI infrastructure developments in the State. The Draft Statement of Expectations recognise Tasmania's competitive advantages, including its renewable energy resources, hydropower capability, temperate climate and established regulatory framework, while also emphasising the importance of ensuring new developments deliver enduring benefits for Tasmania.

The Draft Statement of Expectations identifies a number of expectations relevant to supporting Tasmania's energy system, including the expectation that projects:

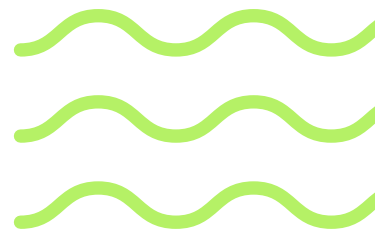
- support new renewable developments;
- consider demand management and back-up energy supply to support system reliability;
- not compromise Tasmanian energy security arrangements or adversely impact system reliability; and
- ensure infrastructure and related costs are appropriately borne by project proponents.

The Draft Statement of Expectations also provides that firming services provided by Hydro Tasmania should:

- occur on terms which provide an appropriate return and protect the interests of Tasmanians;
- maintain Tasmania's energy security and system reliability; and
- not reduce Hydro Tasmania's ability to pursue broader market opportunities.

Consistent with these principles, Hydro Tasmania is considering possible implications for energy security, new generation requirements, commercial sustainability and risk allocation as part of its assessment of Firmus' request for an energy contract.

As noted elsewhere in this submission, an energy arrangement with Hydro Tasmania is only one element of the broader development pathway for any proposed project. Project proponents are responsible for considering the other aspects of the Draft Statement of Expectations as well as obtaining all necessary planning,



environmental, regulatory and network approvals, as well as securing any required commercial arrangements with other parties.

Hydro Tasmania supports the Government's Draft Statement of Expectations which provides useful guidance for the assessment of emerging large-scale digital infrastructure opportunities in Tasmania.

4.2 Strategic Context

As Tasmania's electricity system is currently broadly in energy balance, an additional load of up to 444 MW would represent a material increase in demand. This increase in demand is proposed to be paired with additional generation being developed in Tasmania. Against this context, a potential long-term agreement with Firmus could:

- provide greater certainty around long-term revenue streams for Hydro Tasmania;
- support investment in new renewable generation in Tasmania;
- broaden Tasmania's large-customer base;
- increase the customer base across which fixed electricity system costs may be shared; and
- support economic activity associated with emerging digital industries.

These potential benefits need to be considered alongside the energy supply, commercial, delivery and counterparty risks associated with a new load of this scale.

Hydro Tasmania's assessment assumes Tasmania's existing major industrial customer load remains in the State and continue to require electricity supply under existing commercial arrangements. Hydro Tasmania would not enter into a new agreement that adversely affects energy availability to existing Tasmanian customers.

4.3 Assessment Framework

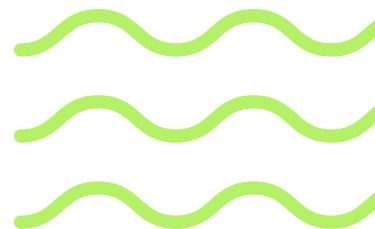
Hydro Tasmania is undertaking a detailed assessment of the Firmus request including reviewing energy system, supply, commercial and risk considerations. Hydro Tasmania's assessment is being guided by the following question:

- Can up to 444 MW of additional demand be supplied in a manner that does not impact reliability of supply to existing customers, delivers appropriate commercial value and positive returns, and appropriately manages risks?

4.4 Energy Considerations

Hydro Tasmania is considering:

- the ability of the Tasmanian energy system to support the proposed additional demand;
- the timing and availability of new generation required to support that demand;
- the implications of variable hydrological conditions;
- energy supply and reliability under a range of system conditions;
- the amount, timing and mix of new renewable generation required;
- the firming requirements needed to supplement variable renewable generation;
- the extent to which flexibility in Firmus' demand could assist in managing system conditions; and



- the implications of the proposed load and associated new generation for the broader development of Tasmania's electricity system.

Hydro Tasmania will consider both the overall energy required to support the proposed load and the ability to reliably meet demand during periods of lower renewable generation or more constrained system conditions. This assessment is critical in the pre-Marinus period. Once Marinus Link's first stage is commissioned, pressures on the system are materially reduced.

When considering such matters, Hydro Tasmania engages with relevant government and regulatory authorities including OTTER and ReCFIT.

4.5 Potential Contracting Models

There are two broad models through which Hydro Tasmania could meet Firmus' requirements:

- Firmus contracts directly with renewable generators, with Hydro Tasmania providing the firming required when renewable generation is insufficient to meet Firmus' demand; or
- Firmus contracts directly with Hydro Tasmania, with Hydro Tasmania procuring the new renewable generation required to support the arrangement and managing the interaction between that generation and Firmus' demand.

Under either model, meeting the long-term demand would require the development of additional renewable generation. Hydro Tasmania is assessing the amount, technology mix, timing and deliverability of new generation, as well as how the associated market and delivery risks would be allocated.

Both models involve trade-offs because:

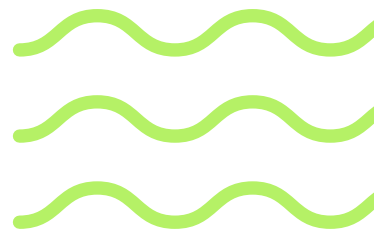
- under the first, Hydro Tasmania would avoid exposure to power purchase agreement (PPA) risk,
- under the second, Hydro Tasmania could integrate the new generation into its portfolio to optimise system outcomes, with the cost of PPA risk reflected in the commercial arrangements with Firmus.

4.6 Assessment Approach

Any arrangement would need to be commercially sustainable for Hydro Tasmania and appropriately reflect the costs and risks associated with contracting a load of this scale. Hydro Tasmania is assessing the proposal having regard to:

- the energy considerations noted above;
- customer and counterparty risk, including Firmus' financial capacity, the durability of the proposed demand and appropriate credit and contractual protections;
- commercial outcomes, including expected revenues, costs, risks, opportunities and overall risk-adjusted value to Hydro Tasmania; and
- strategic and legislative alignment, including consistency with Hydro Tasmania's statutory responsibilities and its obligations as a Government Business Enterprise.

As noted, no decision has been made regarding the proposal. Hydro Tasmania's assessment is ongoing and will determine whether a long-term agreement can be structured that delivers appropriate value while managing the risks associated with the proposed additional demand.



It is important to note that while a contract with Hydro Tasmania may be seen as an enabler to additional Firmus growth, it is not a requirement. Firmus must also separately ensure they have a connection agreement with TasNetworks and that they meet all other approval requirements. It is also possible that Firmus could look to a third party to provide a financial hedge contract and help with delivery of new generation, which is the approach Firmus has taken with Gunvor Group in South Australia. If this was to occur certain risk sharing clauses that Hydro Tasmania is exploring in relation to energy system implications are unlikely to be included.

5. Conclusion

Tasmania is well placed to benefit from growing demand for renewable energy and from new industries seeking access to clean, reliable electricity. Converting that opportunity into lasting economic value will require continued investment in generation, firming capacity and interconnection, supported by clear and consistent market signals.

Hydro Tasmania's role is not to determine which industries Tasmania should pursue, but to ensure that any energy supply arrangements it enters into create value consistent with Hydro Tasmania and the State's long-term interests. This requires a disciplined approach that appropriately balances risk, value, reliability and energy supply while maintaining confidence for investors, customers and the broader community.

As Tasmania's energy system evolves, Hydro Tasmania will continue to support opportunities that are commercially sustainable, technically deliverable and aligned with the long-term needs of the State consistent with the expectations in its Charter.