SUBMISSION TO THE GOVERNMENT ADMINISTRATION COMMITTEE A

Inquiry into AI Data Centres in Tasmania

The scarce resource in Tasmania's electricity system is not renewable generation. The scarce resource is Hydro Tasmania's stored energy, firming capability and dispatch flexibility.

Every proposal seeking access to that resource should be evaluated against its opportunity cost and its contribution to long-term public value.

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Executive Summary

This submission addresses ToR 1 and argues that the Committee's most important task is not to determine whether data centres are desirable or undesirable in principle. Rather, it is to determine whether allocating a substantial share of Tasmania's finite firm renewable-energy capability to large-scale data centres represents the highest and best use of a scarce public resource.

The public debate has largely proceeded on the assumption that Tasmania possesses an abundance of renewable energy and that additional demand will simply stimulate new renewable investment. This submission challenges that assumption.

The scarce resource in Tasmania's electricity system is not installed generating capacity. The scarce resource is Hydro Tasmania's finite stored energy, firming capability, dispatch flexibility, and drought resilience.

Hydro Tasmania's value derives from its ability to store water and strategically deploy generation when it creates the greatest value for Tasmania. This flexibility underpins:

- Tasmania's energy security;
- Hydro Tasmania's profitability;
- the State Budget;
- industrial development opportunities;
- export capability; and
- resilience during drought and low-inflow periods.

Large continuous loads place this flexibility under pressure.

The Government's recently released Statement of Expectations for data centres assumes that additional renewable generation can be developed and that Hydro Tasmania can provide firming services on commercial terms while continuing to pursue broader market opportunities. This submission concludes that these assumptions have not been demonstrated and may be fundamentally inconsistent.

Hydro Tasmania currently operates a highly complex 2,400 MW hydro system spread across approximately 30 power stations. Much of this capacity is run-of-river generation that has limited ability to support additional firming obligations. The system's flexibility is increasingly concentrated in a relatively small number of deep-storage assets. Recent low-inflow years have demonstrated that this flexibility is finite and cannot be assumed to be available indefinitely.

At the same time, Tasmania's fiscal strategy has become increasingly dependent on Hydro Tasmania generating substantially higher profits. Government projections envisage Hydro's underlying profit increasing from near break-even levels in 2024-25 to more than $500 million per annum by the end of the Forward Estimates. Because Hydro's profits flow to the State through tax-equivalent payments and dividends, every additional $100 million of Hydro profit contributes approximately one percentage point to Tasmania's own-source revenue ratio.

Hydro's profitability is therefore no longer merely a commercial matter. It has become a central element of the State's fiscal strategy.

This submission further argues that Tasmania should learn from two existing examples.

The first is Basslink. Basslink was promoted as a commercially attractive solution that would unlock value from Tasmania's hydro system while limiting public exposure. In practice, Hydro Tasmania carried most of the risk. The anticipated benefits largely failed to materialise, and Basslink is now a regulated asset whose costs are ultimately borne by electricity consumers.

The second is the ongoing Bell Bay Aluminium contract negotiation. Bell Bay demonstrates how even a single large continuous load can create severe tension between Hydro Tasmania's operating model and the electricity price industrial customers are willing to pay. Public discussion has focused on the reported pricing gap between the parties, while largely ignoring the broader operational and opportunity costs imposed on Hydro Tasmania.

Against this backdrop, the submission examines the consequences of adding an additional 500 MW continuous data-centre load.

Such a load would require approximately 4,380 GWh of additional annual energy, equivalent to around 45% of Tasmania's current electricity consumption. If supplied by wind generation, approximately 1,500 MW of installed wind capacity would be required to produce 500 MW on average.

The submission adopts a three-part analytical framework:

1. **Direct Supply Impact** – the immediate contractual and financial costs of supplying the new load.
2. **System Interaction Impact** – the consequences of large volumes of intermittent generation displacing Hydro Tasmania when renewable output is high.
3. **Firming and Reliability Impact** – the requirement for Hydro Tasmania to reserve storage, generation capacity and operational flexibility when renewable output is low.

A central conclusion of the submission is that Hydro Tasmania faces adverse outcomes in both operating states.

When wind generation is abundant, Hydro is displaced, loses dispatch opportunities, loses export opportunities, and experiences reduced revenue and profitability.

When wind generation is scarce, Hydro must provide the firming necessary to support continuous data-centre loads, reducing operational flexibility, increasing drought exposure and constraining other commercial opportunities.

Hydro therefore bears costs when wind is producing and different costs when wind is not producing.

This creates what may be described as Hydro Tasmania's fundamental dilemma.

Paradoxically, it is possible that increasing amounts of intermittent renewable generation may reduce rather than enhance the value of Hydro Tasmania's existing hydro system. The more renewable generation that enters the market, the greater the displacement of Hydro when the wind is blowing and the greater the firming burden placed upon Hydro when the wind is not. This runs directly counter to the widespread assumption that simply adding more renewable generation is, of itself, a path to increased prosperity.

The submission concludes that the Committee should not assess data-centre proposals solely on their direct economic benefits or on the assumption that additional demand will automatically stimulate beneficial renewable investment.

Instead, the Committee should assess:

- the opportunity cost of allocating Hydro Tasmania's finite firming capability;
- the impact on Hydro Tasmania's future profitability;
- the implications for the State Budget;
- the effect on existing customers;
- the consequences for future industrial development; and
- the long-term resilience of Tasmania's electricity system.

Most importantly, the Committee should recognise that no existing institution currently undertakes a comprehensive whole-of-State assessment of these competing demands on Tasmania's scarce firm renewable-energy capability.

Until such a framework exists, there is a significant risk that Tasmania will repeat the mistakes of Basslink and commit a finite strategic resource to projects whose long-term costs exceed their public benefits.

This submission is supported by an appendix examining a number of claims that regularly arise in public discussion of data-centre development. A recent published opinion piece has been used as a convenient vehicle because it assembles many of these arguments in one place. The appendix is not directed at the author or publisher. Its purpose is to test commonly asserted propositions against the evidence presented in this submission and against the operational, economic and fiscal realities of Tasmania's electricity system.

Section 1 — The Public Resource the Committee Is Being Asked to Protect

The Terms of Reference require the Committee to consider whether the construction and operation of large-scale data centres protects Tasmania's public resources and environment.

To answer that question, the Committee must first identify the resource being allocated.

The public debate frequently focuses on Tasmania's renewable energy credentials and often proceeds on the assumption that Tasmania possesses an abundance of renewable electricity waiting to be utilised by new industries. This submission contends that this framing is incomplete and potentially misleading.

The critical resource at issue is not renewable generation capacity in general.

The critical resource is Hydro Tasmania's finite ability to:

- store energy,
- provide firming services,
- manage drought risk,
- maintain system reliability,
- support industrial development,
- and deploy generation strategically when it creates the greatest value for Tasmania.

These capabilities are not unlimited.

They are scarce public assets accumulated over decades through public ownership of Tasmania's hydro-electric system.

The question before the Committee is therefore not simply whether data centres can be supplied with electricity.

The question is whether allocating large quantities of Hydro's scarce firming and dispatch capability to data centres represents the highest-value use of that resource.

Every additional commitment made by Hydro reduces its flexibility to respond to future needs.

Those future needs may include:

- retaining existing industry,
- supporting future industrial development,
- meeting electrification demand,
- enhancing energy security,
- responding to drought conditions,
- maintaining export capability,

- or generating returns needed by the State Budget.

The Committee should therefore view Hydro's stored energy, firming capability and dispatch flexibility as strategic public resources in their own right.

The central issue raised by large-scale data-centre development is not whether additional renewable generation can be built.

The central issue is whether Tasmania can commit increasing amounts of its finite firming capability to large continuous loads without compromising:

- Hydro Tasmania's operating model,
- Tasmania's energy security,
- future industrial opportunities,
- and the State's fiscal strategy.

This submission argues that the answer to that question is far from settled and requires considerably more scrutiny than has occurred to date.

Section 2 — Understanding Hydro Tasmania's Existing System

Before considering the impact of large-scale data-centre development, the Committee must first understand the nature of the system being asked to support it.

Much of the current public discussion assumes Hydro Tasmania can simply absorb and firm whatever additional load is imposed upon it. This assumption reflects a fundamental misunderstanding of how Tasmania's hydro system is configured and how it operates.

Hydro Tasmania's system comprises approximately **2,400 MW of installed generating capacity spread across around 30 power stations**. While it is often described as a giant battery, the reality is considerably more complex.

The hydro system is not a single reservoir capable of delivering its full installed capacity whenever required. It is a collection of interconnected assets with very different operating characteristics.

2.1 Not all hydro capacity is suited to firming

Not all hydro generation is equally capable of supporting additional continuous loads.

Approximately **660 MW**, or around **29 per cent of total installed capacity**, is located in the **Lower Derwent, Mersey-Forth and Trevallyn systems**. These are effectively run-of-river schemes. Their output is largely determined by prevailing river flows and operational constraints. They have limited storage and are therefore poorly suited to supporting large additional firming obligations.

Then comes 34 per cent with minimal amounts of short to medium term storage -- the **Upper Derwent, Pieman and King systems**. The deep-storage asset associated with **Lake Gordon** and **Great Lake**. account for approximately **826 MW of installed capacity**, or around **35 per cent of Hydro Tasmania's total generating capability**.

Installed capacity can overstate the firming capability actually available to the system. Currently with Hydro storages being 50 per cent full, 80 per cent of that is in the two deep storages with the rest in the short to medium term storages.

Installed capacity doesn’t mean all generating units are fully operational. In practice this is not always the case. Hydro Tasmania's ongoing refurbishment and maintenance program at Poatina demonstrates that significant portions of capacity can be unavailable for extended periods due to maintenance, refurbishment, upgrades or unforeseen outages.

Consequently, the capacity available to provide firming at any particular point in time may be materially lower than headline installed-capacity figures suggest.

2.2 Deep storage does not mean unlimited storage

The existence of large storage lakes does not mean Hydro Tasmania possesses unlimited energy reserves.

Hydro Tasmania currently rates its system as capable of producing approximately **8,700 GWh per annum** under long-term average inflow conditions.

Actual inflows, however, can vary dramatically between years.

Recent inflows illustrate this point:

Financial Year	Hydro Inflows
2023-24	~6,130 GWh
2024-25	~6,640 GWh
2025-26	~8,600 GWh

The two consecutive low-inflow years of 2023-24 and 2024-25 demonstrate how quickly conditions can diverge from long-term averages.

When inflows fall significantly below average, Hydro Tasmania cannot simply generate at will.

Every additional megawatt-hour supplied to customers must ultimately come from one or more of the following:

- reduced storage levels;
- increased imports from the mainland;
- reduced export opportunities;
- reduced drought resilience; or
- some combination of all four.

The recent sequence of low-inflow years should therefore be viewed as more than a temporary anomaly. It demonstrates that Tasmania's electricity system remains highly dependent on water availability and that firming capability can become a genuinely scarce resource during prolonged dry periods.

2.3 Installed capacity is not the scarce resource

The key lesson for the Committee is that the limiting factor in Tasmania's electricity system is not installed generating capacity.

The limiting factor is:

- stored energy;
- firming capability;
- dispatch flexibility; and
- drought resilience.

These are the resources that become scarce during periods of low inflow, high demand, constrained interconnection or extended renewable-generation shortfalls.

This distinction is critically important because much of the public debate focuses on the amount of renewable generation that can be built.

The more important question is:

Can Tasmania provide the firming, storage support and operational flexibility required to support large new continuous loads without compromising energy security, export capability, Hydro Tasmania's profitability and future industrial opportunities?

That question is rarely asked.

2.4 Hydro's dilemma

The challenge facing Hydro Tasmania is not whether it can occasionally supply an additional 500 MW of load.

The challenge is whether Hydro Tasmania can reliably support hundreds of megawatts of additional continuous demand through successive low-inflow years while simultaneously:

- maintaining storage security;
- preserving drought resilience;
- retaining export capability;
- supporting existing industry;
- supporting future industry;
- maintaining system reliability; and
- delivering the profits increasingly required by the State Budget.

The scarce resource in Tasmania's electricity system is therefore not hydro generation itself.

The scarce resource is stored energy and firming capability.

Every additional firming obligation consumes part of that resource.

That reality sits at the heart of Hydro Tasmania's dilemma and should underpin any assessment of large-scale data-centre development.

Competing Claims on Stored Water

An additional complication is that Hydro Tasmania's storages are no longer used solely for electricity generation.

Over recent decades, Tasmania has invested heavily in irrigation schemes, many of which depend directly or indirectly upon Hydro Tasmania's water infrastructure. At the same time, Hydro must also operate within environmental-flow requirements designed to protect river health and downstream ecosystems.

Consequently, stored water increasingly serves multiple public purposes simultaneously:

- electricity generation;
- irrigation;
- environmental flows;
- drought security;
- river management;
- recreational and community uses.

These multiple demands rarely come into conflict during wet years. However, during prolonged dry periods the situation becomes much more complex.

The critical question is no longer simply whether Hydro Tasmania has sufficient water to generate electricity.

The question becomes:

How should finite water resources be allocated when electricity generation, irrigation demand, environmental flows and energy security are all competing for the same resource?

Large additional continuous loads such as data centres increase the pressure on that resource. Every additional firming obligation potentially increases the volume of stored water that must be reserved for electricity generation, reducing Hydro Tasmania's flexibility to respond to other public-policy objectives.

Section 3 — Hydro Tasmania's Profitability and Tasmania's Fiscal Challenge

This submission is not intended to be a broader analysis of Tasmania's fiscal position. However, it is impossible to assess the implications of large-scale data-centre development without understanding the increasingly important role Hydro Tasmania is now expected to play in supporting the State's finances.

The debate about data centres is often framed purely as an energy policy issue. It is not. It is also a fiscal issue.

The Committee cannot properly assess the costs and benefits of allocating substantial amounts of Tasmania's scarce firming capability without understanding the significance of Hydro Tasmania's future profitability to the State Budget.

3.1 Tasmania's Fiscal Challenge

At the heart of Tasmania's fiscal challenge is a long-term decline in the proportion of government expenditure funded from its own revenue sources.

In the current Budget, own-source revenue funds only around **30% of operating expenditure**. The Government's fiscal strategy aims to increase this proportion to **37% by 2032**.

A seven-percentage-point improvement is significant. It requires hundreds of millions of dollars of additional recurring revenue every year.

Importantly, the Government has not identified large new taxation streams capable of delivering that improvement. Instead, a significant part of the strategy relies on increased returns from State-owned businesses.

The State-owned business expected to carry much of this burden is Hydro Tasmania.

3.2 Hydro Tasmania Has Been Assigned a Critical Fiscal Role

Over much of the last decade Hydro Tasmania operated in an environment where:

- storage security was prioritised;
- major capital programs absorbed cash flow;
- profitability fluctuated with hydrological conditions;
- returns to Government were relatively modest.

That position has now changed.

Government projections envisage Hydro Tasmania's underlying profit increasing from effectively break-even levels in 2024-25 to in excess of **$500 million per annum** by the end of the Forward Estimates.

Whether those projections ultimately prove achievable is not the point.

The point is that the State Budget is increasingly being built around the expectation that Hydro will generate substantially larger profits than it has in the recent past.

The implication is straightforward:

Hydro Tasmania is no longer merely an electricity business. It has become a cornerstone of the State's fiscal strategy.

3.3 The $100 Million Rule of Thumb

The Committee should understand how Hydro's profits flow to Government.

Hydro does not simply retain its earnings.

Its profits are transferred to Government in two stages:

1. Hydro pays income tax-equivalent payments (ITEs), equal to company tax, currently 30% of underlying profit.
2. The following year Hydro pays dividends, usually 90% of remaining after-tax earnings.

Consequently, for every $100 million of additional Hydro profit:

Item	Amount
Underlying Profit	$100 million
Tax Equivalent Payment	$30 million
Remaining Profit	$70 million
Dividend (90%)	$63 million
Total Return to Government	**$93 million**

In practical terms, **93% of every dollar of Hydro profit finds its way into the State Budget.**

Given a State Budget of roughly $10 billion, every additional $100 million of Hydro profit contributes approximately one percentage point towards Tasmania's own-source revenue target.

This gives rise to a useful rule of thumb:

Every additional $100 million of Hydro Tasmania profit increases Tasmania's own-source revenue ratio by approximately one percentage point.

The reverse is equally true:

Every $100 million reduction in Hydro Tasmania's profitability reduces Tasmania's own-source revenue ratio by approximately one percentage point.

The last year of the current Forward Estimates 2029/30 assumes Hydro's underlying profits will be just over $500 million adding 5 per cent to own source revenue when it flows into Government coffers. At which point Marinus will come online which the Government claims will further add an average of $470 million to coffers, boosting own source revenue by a further 4 to 5 per cent.

Never has Hydro's future earnings been of such critical importance.

More on how Hydro earns revenue

Hydro Tasmania's revenue is determined by the **Tasmanian Regional Reference Price (TRP)**, **not** by whether electricity is ultimately consumed in Tasmania or exported to the mainland.

This has several important consequences:

- Hydro receives the Tasmanian spot price for electricity generated within Tasmania.
- Electricity imported into Tasmania is also settled at the Tasmanian price.
- Hydro's profitability therefore depends heavily on Tasmanian price formation.
- Anything that reduces Hydro's dispatch volumes, export opportunities, or influence on Tasmanian prices can materially reduce Hydro's earnings.

This distinction is critical because many public discussions assume that additional electricity consumption automatically increases Hydro's revenue.

That assumption is often wrong.

A large new load may:

- increase imports,
- reduce Hydro dispatch,
- lower Hydro's export opportunities,
- reduce Hydro's ability to arbitrage high-price periods,
- and ultimately reduce Hydro's profitability.

The issue is therefore not simply how much electricity is consumed. The issue is how additional load changes the balance between local generation, imports, exports and Hydro's ability to influence Tasmanian price formation.

Hydro's profitability is heavily influenced by Tasmanian price formation. Under the National Electricity Market's dispatch arrangements, Hydro does not determine whether its generation is

ultimately consumed in Tasmania or exported to the mainland. Once electricity enters the market, dispatch is determined centrally by AEMO based on market bids, system constraints and network capability. As Basslink is now a regulated interconnector, and Marinus will operate on the same basis, **Hydro's role increasingly shifts from that of a strategic gatekeeper of exports to that of a market participant operating within a dispatch framework controlled by AEMO.** This makes Hydro's profitability increasingly dependent on market prices, dispatch outcomes and the availability of flexibility within its own portfolio.

Because Hydro's profits flow directly to the State through tax-equivalent payments and dividends, changes in Hydro's revenue are not merely a commercial matter. They are also a matter of public finance.

Hydro's profitability depends less on how much electricity Tasmania consumes and more on Hydro's ability to influence Tasmanian price formation through flexibility, storage and dispatch timing.

That's a very important idea for understanding the rest of the submission.

3.4 Why This Matters in the Context of Data Centres

Large-scale data-centre development is frequently presented as an economic opportunity. However, relatively little attention has been given to the effect such development may have on Hydro Tasmania's future earnings.

Throughout this submission, three structural impacts are identified:

1. **Direct Supply Impact** — the direct cost of supplying electricity to large continuous loads.
2. **System Interaction Impact** — the effect of large volumes of intermittent renewable generation on Hydro's ability to dispatch, export and set prices.
3. **Firming and Reliability Impact** — the requirement for Hydro to reserve storage and generating capability to support large continuous loads when renewable generation is unavailable.

Each of these impacts has the potential to reduce Hydro Tasmania's future profitability.

This creates a fundamental tension that lies at the heart of the current debate.

On one hand, the State's fiscal strategy increasingly depends on Hydro generating substantially higher profits.

On the other hand, many of the policies being promoted to facilitate large-scale data-centre development risk weakening the very operating model on which those profits depend.

Hydro's profitability relies upon:

- dispatch flexibility;
- storage optimisation;
- export opportunities;
- drought resilience;
- market timing; and
- the ability to deploy stored energy when it creates maximum value.

Large continuous loads consume precisely those capabilities.

3.5 Infrastructure Investment Does Not Automatically Create Hydro Profits

A recurring assumption throughout Tasmania's energy debate is that major energy investments will automatically translate into higher Hydro Tasmania profits and therefore increased returns to the State Budget.

This assumption deserves careful scrutiny.

The construction of an asset, the financing of an asset, and the profitability of an asset are three entirely different questions.

A wind farm can be built without being profitable.

An interconnector can be financed without increasing Hydro Tasmania's earnings.

A data centre can be connected without improving Hydro's commercial position.

Similarly, the decision by governments to facilitate or finance major infrastructure does not guarantee that Hydro Tasmania will benefit from the resulting market arrangements.

Hydro's profitability depends on maintaining the very capabilities that make the hydro system valuable:

- dispatch flexibility;
- storage optimisation;
- export opportunities;
- drought resilience;
- and favourable Tasmanian price formation.

If new infrastructure, new renewable generation, or new continuous loads weaken these capabilities, Hydro's profitability may fall rather than rise.

This distinction is particularly relevant to current public discussion surrounding Marinus Link, Whole of STate Business Case (WoSBC), and large-scale data-centre development. The Commonwealth's decision to support Marinus financing, and the agreement that Victorian and Tasmanian consumers will fund the regulated costs of the asset, determine how the asset will be built and paid for. They do not determine whether Hydro Tasmania's profitability will improve as a result.

Indeed, if expanded interconnection, additional renewable generation, or large new continuous loads reduce Hydro's dispatch flexibility, increase firming obligations, suppress Tasmanian prices, or increase import dependence, Hydro's profitability may be reduced rather than enhanced.

The Committee should therefore distinguish between:

- infrastructure being built;
- infrastructure being financed; and
- Hydro Tasmania earning higher profits.

These are related propositions, but they are not the same proposition.

This creates an important principle that underpins the remainder of this submission:

The question is not whether new infrastructure can be built. The question is whether the resulting market arrangements strengthen or weaken Hydro Tasmania's long-term earning capacity.

For a State increasingly reliant on Hydro's profitability to improve its fiscal position, that distinction is critical.

3.6 A Critical Question for the Committee

The Committee should therefore ask a question that has received little attention in the public debate:

If Hydro Tasmania is expected to generate more than $500 million per annum in underlying profit to support the State's fiscal strategy, what effect will large-scale data-centre development have on Hydro's ability to achieve that outcome?

At present, there appears to be no framework requiring that question to be answered.

Yet the answer matters enormously.

Every discussion about:

- Bell Bay Aluminium,
- Basslink,

- Marinus,
- renewable underwriting,
- firming obligations,
- storage management,
- export opportunities,
- and large-scale data centres,

is also a discussion about Tasmania's future fiscal capacity.

Before allocating substantial amounts of Hydro Tasmania's scarce firming capability to new continuous loads, the Committee should be satisfied that the proposal strengthens, rather than weakens, Hydro's long-term earnings capacity.

That issue sits at the centre of Hydro Tasmania's dilemma and should form part of any assessment of the public interest.

Section 4 — Hydro's Dilemma Is Not Theoretical

Much of the discussion surrounding data centres assumes that the challenges identified in this submission are hypothetical. They are not.

Tasmania has already experienced the consequences of committing scarce electricity resources to business models that appeared attractive in theory but transferred risk to Hydro Tasmania and ultimately to Tasmanian consumers.

The ongoing Bell Bay electricity negotiations demonstrate that these tensions remain unresolved.

Together, Basslink and Bell Bay provide important lessons for the Committee.

The first shows what can happen when Tasmania commits strategic electricity assets to an optimistic commercial vision without fully understanding who ultimately bears the risk.

The second shows how difficult it is for Hydro Tasmania to accommodate large continuous loads while simultaneously preserving the flexibility that underpins its profitability and supports the State Budget.

4.1 Basslink — The First Warning

Twenty-five years ago, Basslink was promoted as a transformational project.

The prevailing view at the time was that infrastructure should be held off Hydro's balance sheet wherever possible. A private owner would finance and own the cable, Hydro would retain access to its benefits through an exclusive commercial arrangement, and Tasmania would avoid carrying the debt directly.

The arrangement was sold on that basis.

Hydro would gain access to mainland markets. Tasmania could export surplus electricity and import electricity when required. The risks appeared manageable.

In reality, Hydro assumed much of the operational and market risk while paying a guaranteed fee designed to recover the cable owner's construction costs over an agreed period.

The commercial outcomes never matched the original vision.

After payment of Basslink's contractual charges, Hydro's remaining returns were often insufficient to compensate for the risks it carried. Hydro derived a net commercial benefit from Basslink in only one year — 2025 — the final year in which it controlled Basslink as an unregulated interconnector.

Today Basslink is a regulated asset.

Its costs are ultimately recovered from electricity consumers through regulated charges rather than through the commercial returns originally envisaged.

The lesson is not that Basslink was a bad project.

The lesson is that optimistic assumptions do not eliminate risk. They merely determine who ultimately carries it.

4.2 Marinus — A Familiar Argument

Marinus is being promoted using many of the same arguments that accompanied Basslink.

The central proposition is that additional transmission capacity will encourage renewable development, unlock investment, and create future opportunities.

At various points, the case for Marinus has effectively relied on the proposition that if transmission is built, renewable developers will come.

Yet despite years of planning and support, many prospective renewable developments remain dependent upon:

- underwriting;
- firming support;
- transmission access;
- government assistance; and
- Hydro Tasmania's balance sheet.

The issue is not whether Marinus has merit.

The issue is whether Tasmania is once again assuming that future demand and future investment will automatically justify present commitments.

That assumption deserves careful scrutiny.

The emergence of proposals for more than 1,000 MW of additional data-centre demand raises a further and more fundamental question.

The Marinus Link and Whole-of-State Business Case (WoSBC) were developed on the basis that Tasmania would increasingly export renewable energy to the mainland and that additional transmission capacity would stimulate a substantial wave of renewable investment. The strategic vision was one of renewable-energy exports supported by expanded interconnection.

The emergence of large on-island electricity loads suggests that the policy environment may already have shifted materially.

Tasmania now appears to be contemplating a future in which scarce firming capability is allocated to domestic consumption rather than export growth.

Those two futures are not necessarily incompatible. However, they are fundamentally different.

One is based on Tasmania becoming a major exporter of renewable energy.

The other is based on Tasmania becoming a major consumer of renewable energy through electricity-intensive industry and data-centre development.

The very existence of this Inquiry raises an obvious question:

If data centres and large on-island loads now represent a central plank of Tasmania's economic future, what remains of the assumptions that underpinned Marinus Link and the Whole-of-State Business Case?

The Committee should be cautious about assuming that business cases prepared for one future remain valid when the policy direction appears to be moving toward another.

Before committing Tasmania to additional transmission investment, additional renewable development, and substantial new firming obligations, it is reasonable to ask whether the assumptions that justified those earlier investments remain current, or whether they have already been overtaken by events.

4.3 Bell Bay — The Current Warning

The ongoing negotiation between Hydro Tasmania and Rio Tinto over the future supply arrangements for Bell Bay Aluminium provides perhaps the clearest contemporary example of Hydro's dilemma.

Unlike Basslink, Bell Bay is not a historical case study.

It is occurring now.

Recent RTI disclosures indicate that the maximum dispatch quantity being discussed is approximately **355 MW**, equivalent to roughly **3,110 GWh per year** if utilised continuously.

This is materially higher than the level commonly assumed in public discussion.

The significance of the Bell Bay negotiations extends beyond the contract itself.

The reported $60 million difference between the parties has attracted considerable public attention. However, the pricing dispute represents only one part of the broader challenge.

The deeper issue is that Hydro Tasmania must structure its operations around the possibility that the full contracted load may be required.

Even if Bell Bay never consumes the maximum amount contemplated under the agreement, Hydro must preserve the capability to supply it.

That means:

- reserving storage;
- maintaining generation availability;
- preserving dispatch flexibility; and
- foregoing other opportunities that might otherwise utilise those resources.

These costs rarely appear in commercial negotiations.

They nevertheless exist.

Bell Bay therefore illustrates a critical reality.

Large continuous loads do not merely consume electricity.

They consume flexibility -- Hydro Tasmania's most valuable asset.

4.4 Why These Lessons Matter

Basslink demonstrates how costs and risks can migrate over time despite optimistic assumptions.

Bell Bay demonstrates how a single large continuous load can place pressure on Hydro Tasmania's operating model even before questions of future data-centre demand are considered.

Together they reveal a common theme:

Hydro Tasmania's scarce resource is not generation capacity alone. It is the flexibility provided by its stored energy, dispatch capability and firming capacity.

Every new obligation placed upon Hydro consumes part of that flexibility.

The Committee should therefore approach proposals for large-scale data-centre development with an appreciation that Tasmania is not starting from a blank page.

The State enters this discussion with an existing set of commitments, an existing fiscal strategy, an existing hydro system, and important lessons from both Basslink and Bell Bay.

Those lessons should inform any assessment of future electricity-intensive developments.

Section 5 — Testing the Government's Assumptions

The Government's *Statement of Expectations for Data Centres and AI Infrastructure Developers* establishes the policy framework within which large-scale data-centre proposals are expected to proceed. Embedded throughout the document are a number of assumptions regarding renewable generation, firming, network costs, energy security and Hydro Tasmania's future role.

These assumptions are not necessarily unreasonable. However, neither are they self-evidently correct.

The Committee's task should not be to accept these assumptions at face value. The Committee's task should be to test them rigorously against the physical, operational and financial realities of Tasmania's electricity system.

The remainder of this submission does precisely that.

5.1 The Assumption That New Renewable Generation Will Simply Appear

A recurring theme in both Government policy and public commentary is that additional demand will stimulate additional renewable generation.

The logic appears simple:

- build new demand;
- renewable developers will respond;
- new generation will be constructed;
- Hydro will provide firming where required;
- Tasmania will obtain both economic growth and additional renewable capacity.

However, Tasmania's experience to date suggests the relationship is not nearly so straightforward.

New wind generation remains heavily dependent upon:

- underwriting;
- long-term contractual support;
- transmission access;
- firming arrangements; and
- confidence that project revenues will exceed project costs.

As discussed later in this submission, the economics of existing wind developments raise serious questions about whether new renewable generation can be delivered at the scale contemplated without significant support mechanisms.

The Committee should therefore treat with caution any proposition that demand alone will automatically deliver new supply.

5.2 The Assumption That Hydro Can Firm New Loads Without Consequence

The Statement of Expectations envisages a future in which Hydro Tasmania may provide firming services to large new loads "on commercial terms" while maintaining energy security and continuing to pursue broader market opportunities.

This assumption deserves careful scrutiny.

Firming is not a free by-product of Hydro's operations.

Firming consumes:

- stored energy;
- dispatch flexibility;
- drought resilience;
- export opportunities; and
- alternative commercial options.

Every additional firming obligation placed on Hydro reduces the volume of flexibility available for other purposes.

This raises a fundamental question:

Can Hydro simultaneously provide large-scale firming services for new data-centre loads while maintaining the flexibility, storage security and profitability that underpin its current operating model?

The remainder of this submission suggests that this question has not yet been adequately answered.

5.3 The Assumption That Existing Customers Will Be Protected

The Statement of Expectations repeatedly states that existing customers should not be disadvantaged by data-centre development.

This objective is entirely appropriate.

The difficulty lies in demonstrating how it will be achieved.

Large-scale electricity loads have consequences that extend beyond their direct electricity purchases.

They can influence:

- network investment;
- transmission utilisation;
- Hydro's storage management;
- import requirements;
- wholesale prices;
- firming obligations; and
- Hydro's future profitability.

Protecting existing customers therefore requires more than requiring proponents to pay connection costs or negotiate commercial agreements.

It requires a comprehensive understanding of system-wide impacts and the allocation of risks across all participants.

No such framework currently exists.

5.4 The Assumption That Hydro's Commercial Interests and Public Obligations Always Align

The Statement of Expectations assumes that commercial arrangements can be structured in ways that protect both Hydro Tasmania and the broader public interest.

In practice these interests can diverge.

Hydro is increasingly expected to:

- support major industrial customers;
- firm renewable development;
- maintain system security;
- support Government policy objectives;
- generate higher profits; and
- increase returns to the State Budget.

These objectives do not always align.

Bell Bay Aluminium provides a contemporary example.

Hydro may regard a particular electricity price as necessary to protect its commercial interests and maintain returns to the State. A large customer may regard the same price as commercially unacceptable.

The resulting tension is not an anomaly.

It is a structural feature of operating a publicly-owned business charged with both commercial and public-policy responsibilities.

The Committee should recognise that large-scale data-centre proposals have the potential to intensify these tensions.

5.5 The Assumption That Tasmania's Strategic Direction Has Not Changed

Perhaps the most important assumption underlying current policy is that the strategic direction embodied in Marinus Link, and the Whole-of-State Business Case remains unchanged.

That assumption deserves particular scrutiny.

Those strategies were developed around a vision in which Tasmania:

- expanded renewable generation;
- increased interconnection;
- exported renewable energy to the mainland; and
- used Hydro's storages to support National Electricity Market decarbonisation.

The emergence of more than 1,000 MW of proposed data-centre demand presents a materially different proposition.

Instead of exporting increasing quantities of energy, Tasmania may be asked to consume increasing quantities of energy domestically.

Instead of using Hydro's flexibility to support exports, it may be required to support large continuous on-island loads.

Those two futures are not necessarily incompatible.

However, they are fundamentally different.

The existence of this Inquiry itself raises an important governance question:

If large-scale domestic electricity consumption now forms part of Tasmania's economic development strategy, should the assumptions that underpinned Marinus Link and the Whole-of-State Business Case be revisited?

The Committee should be cautious about accepting business cases developed for one future while making decisions that appear to support another.

5.6 A Practical Test

Rather than debating these assumptions in the abstract, this submission proposes a practical test.

What would be the consequences of adding an additional **500 MW of continuous demand** to Tasmania's electricity system?

Answering that question provides a useful way to assess whether the assumptions embedded within current policy remain valid.

The following section therefore examines the implications of a 500 MW continuous load using a structured framework that considers:

1. **Direct Supply Impacts**;
2. **System Interaction Impacts**; and
3. **Firming and Reliability Impacts**.

Only by understanding all three can the Committee determine whether the expected benefits of large-scale data-centre development outweigh the costs.

Section 6 — What an Additional 500 MW of Continuous Load Actually Means

Much of the public discussion surrounding data centres proceeds as though the electricity requirement is simply another customer load that can be met by building additional renewable energy.

This framing is misleading.

The issue is not whether 500 MW of additional renewable generation can be built.

The issue is what happens to Tasmania's electricity system when a continuous 500 MW load is imposed upon it, and what consequences flow from the renewable generation and firming arrangements needed to support that load.

To assist the Committee, this submission adopts a three-part analytical framework:

1. **Direct Supply Impacts** – the immediate contractual and financial costs of supplying the load.
2. **System Interaction Impacts** – the effect of large volumes of intermittent renewable generation on Hydro Tasmania's existing operations.
3. **Firming and Reliability Impacts** – the consequences of Hydro Tasmania being required to support the load when renewable generation is unavailable.

This framework is used because public commentary tends to focus almost entirely on the first category while ignoring the latter two.

6.1 Defining the Scenario

For the purposes of analysis, this submission considers a single additional continuous load of **500 MW**.

A continuous 500 MW load requires approximately:

$$500 \times 24 \times 365$$

or approximately **4,380 GWh per annum**.

To place this in context:

- Tasmania consumed approximately **9,800 GWh** in 2025-26.
- A 500 MW data-centre load would increase annual demand by approximately **45%**.

- Average Tasmanian demand would increase from approximately **1,120 MW** to approximately **1,620 MW**.

This is not incremental growth.

It represents a structural change to the Tasmanian electricity system.

6.2 The Renewable Generation Requirement

Wind generation in Tasmania typically operates at an average capacity factor of approximately **35%**.

To produce an average output of 500 MW therefore requires:

$$500 \div 0.35$$

or approximately **1,430 MW of installed wind capacity**.

For simplicity, this submission adopts **1,500 MW of wind generation** as the benchmark scenario.

This immediately reveals an important distinction.

A 500 MW continuous load does not require 500 MW of wind generation.

It requires approximately **1,500 MW of installed wind generation** (almost 3 times current installed wind capacity) to produce 500 MW on average.

The difference between those two numbers lies at the heart of the issue.

The scale of investment required

Using contemporary capital-cost assumptions, this implies investment measured in billions of dollars. Recent CSIRO levelised-cost analysis suggests construction costs for onshore wind are of the order of $300 million per 100 MW of installed capacity. On that basis, 1,500 MW of new wind generation would require capital investment approaching **$4.5 billion**, before allowing for:

- transmission augmentation;
- network connections;
- system-strength assets;
- storage and firming requirements;
- financing costs;
- land acquisition;
- planning and environmental approvals.

The Committee should therefore recognise that a 500 MW continuous load is not a marginal addition to Tasmania's electricity system. It implies a capital program comparable in scale to the largest infrastructure investments ever undertaken in the State.

6.3 Government Policy Assumptions

The Government's Statement of Expectations makes clear that data-centre proponents will generally not be expected to construct their own firming capacity if Hydro Tasmania can provide those services.

The framework therefore assumes:

- renewable generation will be developed;
- Hydro Tasmania will provide firming;
- Hydro Tasmania will maintain energy security;
- Hydro Tasmania will continue pursuing broader market opportunities.

These assumptions are tested below.

6.4 Sequencing Risk — When Load Arrives Before Generation

This deserves far more prominence than it currently receives.

The Government's Statement of Expectations acknowledges the possibility that new loads may arrive before supporting generation is constructed. The document merely requires proponents to explain how the resulting energy shortfall will be managed.

This is a significant concern.

A 500 MW continuous load requires approximately 4,380 GWh of annual energy.

If generation is delayed but load proceeds, the shortfall cannot simply be wished away.

The energy must come from somewhere.

In practice this means:

- increased imports from Victoria;
- increased Hydro dispatch;
- reduced storage levels;
- reduced export opportunities;
- greater exposure to mainland price volatility.

None of these outcomes are consistent with the stated objective of protecting existing customers or preserving Hydro Tasmania's flexibility.

The sequencing risk is therefore not simply a construction issue.

It is a direct threat to energy security, Hydro profitability and the State Budget.

Before any large continuous load is approved, the Committee should require convincing evidence that firm supply will be available before the load commences operation.

6.5 Consequences for Households and Small Businesses

Much of the public discussion has focused on potential benefits to proponents and developers.

Considerably less attention has been paid to the consequences for ordinary Tasmanian consumers.

Large-scale data-centre development creates pathways through which risk can be transferred from proponents to households and small businesses.

These include:

- increased transmission investment;
- increased regulated asset bases;
- increased import reliance;
- increased exposure to mainland prices;
- reduced Hydro dividends;
- reduced fiscal flexibility.

Even where a proponent contributes towards connection costs, consumers ultimately remain responsible for:

- regulated returns;
- depreciation;
- operating costs;
- maintenance costs;
- future network augmentation.

The Committee should therefore be cautious of claims that new loads are cost-neutral to existing customers.

The direct costs paid by proponents are only one component of a much larger system-wide equation.

6.6 Woolnorth Wind Farm — A Practical Example of Direct Supply Impacts (Impact 1)

The economics of Woolnorth Wind Farm (WWF) [1]provide a useful illustration of Direct Supply Impacts.

WWF demonstrates that the challenge is not simply building turbines.

The challenge is creating a commercial structure capable of supporting those turbines.

WWF produces approximately 1,000 GWh of electricity and hence one million Large-scale Generation Certificates (LGCs) annually.

Hydro purchases those certificates at approximately $50 each under long-term contractual arrangements yet can currently realise only around $3.50 per certificate in the market.

The difference represents approximately:

$$1{,}000{,}000 \times (50 - 3.5)$$

or approximately **$46.5 million per annum**.

Importantly, this occurs before any electricity revenues are considered.

The implication is significant.

If subsidies such as LGC arrangements did not exist, the electricity price required to make the project commercially viable would need to be substantially higher.

WWF's audited accounts for the 2024 and 2025 years allow a calculation of earnings (electricity only) which when converted to a per100 MW facility basis reveals:

- electricity-only EBITDA per 100 MW: **$8–10 million**
- required EBITDA per 100 MW: **≈$45 million**
- structural shortfall: **≈$35–37 million per 100 MW per year**

New wind is loss-making without subsidies. The current shortfall is considerable.

WWF therefore illustrates an important principle: Renewable generation may appear inexpensive to customers because part of the cost is being borne elsewhere.

This is Impact 1 in practice.

[1] Tasfintalk: The Economics of Tasmanian Wind

The Committee should therefore be cautious about assuming that large quantities of new wind generation can be developed without significant underwriting, subsidy mechanisms or commercial support. As the Committee would know LGCs are not a relevant consideration for future RE project as they will be phased out by 2030 which only means that RE proponents will require higher electricity prices to repay loans. The higher the price needed the more likely a proponent will need support.

6.7 Two Supply Scenarios

The 500 MW case can arrive through two broadly different pathways.

Scenario A — 500 MW Supported Entirely by Local Renewable Generation

Under this scenario:

- approximately 1,500 MW of new wind generation is constructed;
- Hydro Tasmania provides the firming capability;
- Tasmania becomes increasingly dependent on Hydro's flexibility.

The consequences are primarily:

- Direct Supply Impacts;
- System Interaction Impacts;
- Firming and Reliability Impacts.

This is the scenario examined throughout the remainder of Section 6.

Scenario B — 250 MW Local Supply and 250 MW Imports

A second possibility is that only part of the additional energy requirement is supplied locally.

Under this approach:

- around 750 MW of wind generation is developed;
- approximately 250 MW of average demand is supplied by imports.

This changes the nature of the impacts.

While displacement effects on Hydro may be reduced, Tasmania becomes increasingly exposed to:

- mainland wholesale prices;

- Basslink and Marinus availability;
- mainland reliability events;
- Victorian supply conditions.

Hydro's profitability still comes under pressure because imports reduce Hydro dispatch and export opportunities.

The result is a different mix of risks rather than an elimination of risks.

In effect:

- the all-local scenario places greater pressure on Hydro's flexibility;
- the import-supported scenario places greater pressure on Tasmania's energy independence.

Neither option is cost-free.

6.8 Impact 1 — Direct Supply Impacts

The first impact concerns the direct economics of supplying electricity to the load.

This includes:

- Power Purchase Agreements;
- renewable underwriting;
- LGC arrangements; (until phase out in 2030)
- connection costs;
- transmission costs; and
- generator revenues.

These are the impacts that usually dominate public discussion.

The Woolnorth Wind Farm provides a useful example.

The economics of existing wind generation suggest that electricity-only revenues are often insufficient to justify development without some form of subsidy, underwriting, or certificate support.

This means that the construction of 1,500 MW of additional wind generation cannot simply be assumed.

Someone must carry the financial risk.

The practical question is:

Who ultimately absorbs the gap between what renewable generators require and what customers are willing to pay?

Experience suggests Hydro Tasmania frequently becomes that risk bearer, directly or indirectly.

However, Direct Supply Impacts are only part of the story.

6.9 Impact 2 — System Interaction Impacts

The second impact arises when the new renewable generation is actually producing.

If 1,500 MW of wind generation is operating while the data-centre load consumes only 500 MW, the system must absorb approximately 1,000 MW of additional generation.

That generation does not exist in isolation.

It competes with Hydro Tasmania's existing generation fleet.

The consequences include:

- reduced Hydro dispatch;
- reduced export opportunities;
- reduced arbitrage opportunities;
- lower electricity prices;
- lower Hydro revenue;
- lower State dividends.

This is the cost most analyses ignore.

Hydro's profitability depends upon flexibility and the ability to deploy energy strategically.

Large volumes of intermittent generation reduce that flexibility.

The result is that Hydro's operating model is weakened even when renewable generation is performing exactly as intended.

6.10 Impact 3 — Firming and Reliability Impacts

The third impact arises whenever the wind is not producing.

The data centre still requires 500 MW.

The customer will expect supply regardless of whether:

- wind output is low;
- inflows are low;
- mainland prices are high;

- Basslink is constrained; or
- storage levels are under pressure.

Someone must carry that obligation.

Under the Government's proposed framework, that responsibility falls largely upon Hydro Tasmania.

Hydro must therefore:

- reserve energy;
- reserve generation capacity;
- maintain higher storage levels;
- forego alternative opportunities;
- assume drought risk.

These are real costs.

They are not captured in Power Purchase Agreements.

They are not usually visible in project business cases.

Yet they are borne by Hydro Tasmania and ultimately by Tasmanians.

6.11 The Fundamental Dilemma

The consequence is a dilemma that appears repeatedly throughout this submission.

When renewable generation is producing:

- Hydro loses flexibility,
- Hydro loses dispatch,
- Hydro loses revenue.

When renewable generation is not producing:

- Hydro supplies the electricity,
- Hydro carries the risk,
- Hydro loses flexibility.

Hydro therefore faces adverse outcomes in both states of the world.

This is not a failure of renewable energy.

Nor is it an argument against renewable development.

It is simply a consequence of asking a finite hydro system to support large continuous loads while simultaneously preserving flexibility, drought resilience, exports, profitability and system security.

6.12 The Question for the Committee

The critical question is therefore not whether a 500 MW data centre can be connected.

It can.

The critical question is:

Can Tasmania support an additional 500 MW of continuous demand while maintaining Hydro Tasmania's flexibility, profitability, drought resilience, energy security and future development options?

The remainder of this submission examines why that question is far more difficult than current public discussion suggests.

Section 7 — Hydro's Impossible Position

The analysis in Section 6 identifies three different impacts arising from the addition of a 500 MW continuous load.

Individually, each impact is important.

Collectively, they reveal a deeper problem.

Hydro Tasmania faces adverse consequences regardless of whether the additional renewable generation performs well or poorly.

7.1 If the Wind Project Succeeds

Success is usually defined as:

- new wind generation is built;
- output is high;
- renewable targets are met;
- data centres receive electricity.

However, under this scenario Hydro faces substantial system interaction impacts.

When large volumes of wind generation are operating:

- Hydro dispatch falls;
- Hydro's ability to arbitrage prices is reduced;
- Hydro's export opportunities diminish;
- Hydro's influence on Tasmanian price formation declines;
- Hydro's revenues come under pressure.

In other words, the better the wind performs, the greater the displacement of Hydro's existing generation portfolio.

Hydro therefore does not necessarily benefit from success.

7.2 If the Wind Project Underperforms

When wind output falls:

- data centres still expect supply;
- system security must be maintained;
- contractual obligations remain.

Under the Government's Statement of Expectations, Hydro Tasmania becomes the provider of last resort.

Hydro must:

- provide firming;
- maintain storage reserves;
- absorb drought risk;
- preserve reliability.

This imposes costs regardless of whether those obligations are compensated through contracts.

Hydro's flexibility becomes tied to the operational requirements of the load rather than Hydro's preferred market strategy.

Again, Hydro does not necessarily benefit.

7.3 The Hidden Cost of Capacity Reservation

The Bell Bay negotiations illustrate another aspect of the problem.

Hydro must plan around maximum demand, not average demand.

A customer may utilise a lower load profile most of the time, but Hydro must retain sufficient capability to supply the contracted maximum.

This means:

- storage must be preserved;
- generating capacity must remain available;
- alternative opportunities cannot be fully committed.

The economic cost exists even if the maximum load is never called.

This principle would apply equally to major data-centre developments.

7.4 Hydro in a lose-lose situation

This is the central dilemma.

When wind generation is producing:

- Hydro loses flexibility,
- Hydro loses dispatch,
- Hydro loses revenue.

When wind generation is not producing:

- Hydro provides firming,
- Hydro carries risk,
- Hydro loses flexibility.

The mechanism differs.

The outcome is remarkably similar.

Hydro's operating model comes under pressure regardless of whether renewable generation is abundant or scarce.

This is not an argument against renewable energy.

Nor is it an argument against economic development.

It is an argument for recognising that Hydro's flexibility is a finite strategic asset.

7.5 The Emerging Competition for Hydro's Flexibility

Historically Hydro's dispatch flexibility has been used to support:

- Tasmania's existing industrial base;
- drought resilience;
- reliability and security;
- export opportunities;
- State revenues.

Increasingly that same flexibility is being sought by:

- Bell Bay Aluminium;
- new renewable developments;
- Marinus Link;
- prospective data centres;
- future electrification demand.

Each proposal may appear reasonable when considered individually.

The challenge arises when they are considered collectively.

Hydro's flexibility can be allocated many times on paper.

It can only be used once in practice.

7.6 The Question the Committee Must Answer

The core question is therefore not whether data centres can be supplied.

The core question is:

Should Tasmania allocate a substantial proportion of its scarce firming capability to data centres when that same capability underpins energy security, industrial development, Hydro profitability and the State's fiscal strategy?

That is not an engineering question.

It is not a planning question.

It is a strategic resource-allocation question.

And at present, no institution appears to be asking it.

Section 8 — The Governance Gap: Who Decides the Best Use of Tasmania's Scarce Firming Capability?

A recurring theme throughout this submission is that Tasmania's electricity system contains a finite strategic resource: Hydro Tasmania's stored energy, firming capability, dispatch flexibility and drought resilience.

Large-scale data-centre development does not simply require electricity. It requires access, directly or indirectly, to that scarce resource.

Yet no agency currently appears to evaluate whether allocating that resource to data centres represents its highest-value use.

This is the central governance issue raised by this Inquiry.

8.1 The Existing Framework Assesses Projects Individually

Tasmania's current regulatory and policy framework is designed to assess projects individually.

Planning authorities assess:

- land-use impacts;
- visual impacts;
- environmental impacts;
- local infrastructure impacts.

TasNetworks assesses:

- network capability;
- connection requirements;
- transmission augmentation needs.

Hydro Tasmania assesses:

- commercial viability;
- contractual arrangements;
- operational implications.

Renewable-energy developers assess:

- project economics;
- development risk;
- financing requirements.

Each organisation performs its designated role.

However, no organisation appears responsible for asking the broader strategic question:

Is allocating scarce firming capability to this project the best available use of that capability for Tasmania?

8.2 The Missing Question

This inquiry repeatedly returns to a question that current governance arrangements do not appear designed to answer.

Tasmania's finite firming capability could potentially be used to support:

- existing industrial customers;
- future industrial development;
- electrification of transport;
- electrification of industry;
- renewable exports;
- State revenue generation;
- energy security;
- drought resilience;
- data centres.

Each proposal can be justified individually.

However, the hydro system cannot simultaneously maximise all of them.

Every allocation of firming capability creates an opportunity cost.

At present there appears to be no institutional mechanism for evaluating those opportunity costs.

8.3 The Opportunity Cost Problem

Throughout the public debate there has been a tendency to focus on whether data centres can be supplied.

That is the wrong question.

The relevant question is:

What alternative opportunities will no longer be available if the same firming capability is allocated elsewhere?

For example, committing substantial firming capability to support data centres may reduce Tasmania's ability to:

- support future value-added manufacturing;
- retain existing major industrial customers;
- respond to future electrification demand;
- expand exports during favourable market conditions;
- maintain drought security;
- maximise Hydro Tasmania's profitability.

Those forgone opportunities represent real economic costs even though they may never appear in a project business case.

8.4 No Framework Exists for Measuring Public Value

The Government's Statement of Expectations requires proponents to demonstrate a range of benefits.

However, there is no equivalent framework requiring assessment of:

- the value of firming capability consumed;
- the value of Hydro's lost flexibility;
- the value of foregone industrial opportunities;
- the value of drought resilience;
- the value of alternative future uses of stored energy.

Consequently, decisions risk being made on the basis of project-level benefits without a corresponding assessment of system-level costs.

This creates a significant governance blind spot.

8.5 Hydro's Dual Role Creates Additional Complexity

The challenge is compounded by Hydro Tasmania's unique role.

Hydro is simultaneously expected to:

- operate commercially;
- support Government policy objectives;

- maintain system security;
- facilitate economic development;
- maximise returns to the State;
- provide firming services;
- support renewable integration.

These objectives can conflict.

What may be commercially attractive for a particular customer may not maximise Hydro's long-term profitability.

What may support one development opportunity may foreclose another.

What may appear beneficial in the short term may reduce system flexibility over the longer term.

Without a whole-of-state framework, these trade-offs remain largely invisible.

8.6 The Committee's Central Challenge

This Inquiry is not fundamentally about data centres.

Nor is it fundamentally about renewable energy.

It is about resource allocation.

The scarce resource is not renewable generation itself.

The scarce resource is Hydro Tasmania's stored energy and firming capability.

The Committee therefore faces a question that extends beyond any individual proposal:

How should Tasmania allocate a finite strategic resource in a way that maximises long-term public value?

At present, no agency appears to have responsibility for answering that question.

8.7 Recommended Principle

Before any large-scale continuous load is approved, Tasmania should establish a transparent whole-of-state resource-allocation framework capable of evaluating:

- energy-system impacts;

- firming requirements;
- impacts on Hydro Tasmania's profitability;
- impacts on the State Budget;
- opportunity costs;
- future industrial-development options;
- drought resilience;
- energy-security implications.

Until such a framework exists, there is a significant risk that decisions will continue to be made incrementally, project by project, without understanding their cumulative consequences.

Conclusion

The central finding of this submission is not that data centres should never be developed in Tasmania.

It is that Tasmania currently lacks a framework capable of determining whether allocating scarce firming capability to large-scale data centres represents the best use of that capability.

Hydro Tasmania's stored energy, dispatch flexibility and firming capability are strategic public assets.

Once committed, they cannot simultaneously be used elsewhere.

The question before the Committee is therefore not simply whether data centres can be supplied.

The question is whether doing so represents the highest and best use of a finite public resource.

At present, no institution appears to be asking that question.

The Committee should.

Appendix — Myth-buster: Responses to claims in a recent Mercury op-ed

This appendix is **not an attack** on the TCCI. It simply uses a recent op-ed (copy attached below) written by its CEO as a **basis** to expose the issues shaping the public debate about Tasmania's most scarce public resource: firm renewable electricity.

The op-ed is not malicious, and is used here only because it conveniently assembles many of the claims that now recur throughout the public debate. However, many of those claims are economically unsubstantiated, system-level incomplete, commercially optimistic, or inconsistent with the operational realities of Tasmania's electricity system.

Myth 1 — "Help develop a broader artificial intelligence industry in our state."

Reality: Hyperscale data centres globally create very few jobs and do not, by themselves, create local AI ecosystems. AI industries are built around research capability, universities, talent, data, venture capital and entrepreneurial ecosystems. Data centres are infrastructure assets, not innovation ecosystems. Just as the establishment of call centres in Tasmania did not create a broader communications industry, the presence of server farms alone is unlikely to create a significant AI sector.

Implication: This is economic wishful thinking, not evidence. Using data centres as a foundation for an AI industry misrepresents what is actually required.

Myth 2 — "Our cool climate reduces the energy required for cooling."

Reality: Cooling costs typically account for only a small proportion of total data-centre operating costs. Even if Tasmania enjoys a modest cooling advantage, the dominant constraint remains access to firm electricity. Hydro's finite firming capability is far more important than cooling efficiency.

Implication: Framing climate as a decisive advantage distracts from the real issue: Hydro's limited ability to firm large new continuous loads.

Myth 3 — "Our renewable energy is attractive to businesses seeking to reduce their emissions."

Reality: Data centres increase import reliance, often from fossil generation, when intermittent renewables are not producing. Firming intermittent RE requires Hydro dispatch, reducing storage resilience and increasing drought exposure.

Implication: At system level, large data-centre loads can worsen emissions outcomes, not improve them.

Myth 4 — "Economic contributions extend to power bills paid by Tasmanian households and businesses."

Reality: Large new loads require new transmission, firming, and system-strength assets. These costs are recovered from all customers through regulated charges. Imports rise, Hydro dispatch falls, Hydro revenue falls and Hydro dividends fall. The cost is not eliminated; it is transferred to households, businesses and ultimately the State Budget.

Implication: Data centres structurally increase, not decrease, pressure on household and small-business electricity bills.

Myth 5 — "Most Tasmanians understand the economic importance of major industrials… data centres are not insignificant."

Reality: Major industrials produce exports, wages, supply chains, and regional economies. Data centres produce some economic benefits, particularly during construction, but they do not generate exports, supply-chain effects, employment intensity or regional economic activity on anything like the scale of major industrial customers.. The one possibility is to use the generated heat downstream.

Implication: Equating data centres with major industrials is misleading and economically incorrect.

Myth 6 — "They pay substantial network charges and help carry the fixed costs of our transmission system."

Reality: Existing industrials do help carry fixed costs—but new large loads require new transmission and system-strength investment, which increases the regulated asset base. Those costs are then shared by all customers.

Implication: New data-centre loads add new costs; they do not simply "carry" existing ones. The relevant comparison is not between an existing industrial customer and a new data centre. It is between an existing network and the expanded network required to support that new load.

Myth 7 — "Their continued presence can help contain upward pressure on the network component of everyone else's power bills."

Reality: When large loads drive new transmission and firming requirements, the network component of bills rises. Imports and reduced Hydro dispatch further increase wholesale prices and fiscal risk.

Implication: The claim that large users contain upward pressure on bills ignores the cost and price effects of new infrastructure and firming obligations.

Myth 8 — "It has an agreement… to pay commercial rates for its electricity… That supports our state-owned energy businesses and the returns they provide to the state government."

Reality: "Commercial rates" for large users are negotiated and often below marginal cost. Hydro's revenue depends on Tasmanian price formation, not just bilateral contracts. Contracts do not change the spot price Hydro receives for its generation. Large continuous loads reduce Hydro's ability to set the price, reduce Hydro dispatch volumes, increase imports, and weaken Hydro's profit model — regardless of what contract price the data centre pays.

Implication: Far from strengthening returns, large data-centre loads can undermine Hydro's profit model and the State Budget's reliance on Hydro dividends. Hydro's profitability depends on preserving flexibility and influencing Tasmanian price formation. Large continuous loads consume flexibility regardless of the contract price ultimately paid.

Myth 9 — "Firmus has also committed to fund the transmission infrastructure required to connect its developments."

Reality: "Fund" typically means a capital contribution, not full cost recovery over the asset's life. Ongoing regulated returns—interest, depreciation, and operating costs—are recovered from all customers via network charges.

Implication: This is not full cost coverage; it is partial contribution. The long-term burden still falls on Tasmanian consumers. Capital contributions recover only part of the cost. The regulated asset base continues to attract interest, depreciation and operating costs for decades.

Myth 10 — "More large energy users… create the demand needed to bring forward renewable energy projects."

Reality: New wind in Tasmania is structurally loss-making without subsidies or underwriting. WWF's audited economics show a $35–$37 million per 100 MW annual shortfall. Demand alone does not fix uneconomic project economics. A 500 MW continuous load requires approximately 1,500 MW of installed wind generation. The critical question is not whether demand exists, but who underwrites the generation, who provides the firming, and who carries the risk when the wind is not blowing. In Tasmania, that burden ultimately falls on Hydro Tasmania and therefore on Tasmanians.

Implication: This repeats the Marinus assumption: build infrastructure and "they will come", but that relies on Hydro and consumers to carry the financial and operational burden.

Summary

Taken individually, each of these claims sounds plausible. Taken together, they reveal a common pattern: benefits are attributed to data centres, while costs, risks and firming obligations are assumed to be absorbed elsewhere. The central question raised throughout this submission is therefore not whether data centres produce benefits, but whether those benefits justify the consumption of Tasmania's scarce firming capability and the resulting impacts on Hydro Tasmania, electricity consumers and the State Budget.

Copy of Talking Point article in The Mercury 11th September 2026 (annotated version with each of the 10 myths highlighted)

DATA CENTRES CAN HELP PAY THE BILLS LARGE POWER USERS HELP CARRY THE COSTS OF OUR ENERGY SYSTEM, WRITES COLLEEN REARDON

The Tasmanian Chamber of Commerce and Industry (TCCI) has a clear approach to investment in Tasmania: if it will bring new jobs and economic growth, we'll back it.

Tasmania currently has an opportunity to accept significant private investment through data centres, and the supporting infrastructure required which **will help develop a broader artificial intelligence industry in our state. (Myth 1)**

We would be mad to waste it.

Investors have choices. They will invest where there are clear processes, and certainty. They won't invest where processes are unclear, and clouded by political uncertainty.

Welcoming this investment does not mean ignoring questions about energy and water use, noise, planning, local impacts or ongoing employment. Major developments must be properly assessed and Tasmanians should have clear information about their impacts.

But we should be informed, not misled. The discussion must be based on evidence and recognise the full economic contribution these developments can make.

Tasmania has natural advantages in attracting data centre investment. **Our cool climate reduces the energy required for cooling (Myth 2)**, while **our renewable energy is attractive to businesses seeking to reduce their emissions (Myth 3).**

The benefits begin before a data centre becomes operational. Construction creates work for Tasmanian contractors and suppliers, while the private capital being invested supports economic activity and confidence.

Sure, the data centres themselves don't employ as many people as one of our major industrials, but the numbers are not insignificant. Importantly, the construction of data centres also **provides the opportunity for us as a state to build a broader native AI industry around them (Myth 1)**.

For example, as part of their investment in Tasmania, Firmus is underwriting a new undersea fibre-optic cable (Bernacchi-1) linking Tasmania with the mainland, including directly to Sydney. It's a gamechanger for Tasmania's broader digital connectivity.

Data centres' economic contributions also extend to Tasmania's electricity system – and ultimately **to the power bills paid by Tasmanian households and businesses (Myth 4)**.

Most Tasmanians understand the economic importance of major industrials (Myth 5) such as Bell Bay Aluminium, Nyrstar and Boyer Mill. They support direct and indirect employment, regional activity, local suppliers, skills and export income.

What is less well understood is the role they play in Tasmania's power prices. As some of the state's largest electricity customers, they pay substantial network charges **and help carry the fixed costs of our transmission system (Myth 6).**

Tasmania's transmission network must be operated, maintained and upgraded regardless of how many customers use it.

While none of us wants it to happen, if a major industrial closes, those transmission costs do not disappear. There is simply one less major customer contributing to them, meaning a greater share may ultimately need to be recovered from other Tasmanian electricity customers – households and small businesses.

That is why the future of our major industrials matters beyond the jobs and economic activity they provide. **Their continued presence can also help contain upward pressure on the network component of everyone else's power bills (Myth 7)**

New data centres add more major customers to the system.

Take Firmus, for example. It has an agreement at its Launceston facility to pay commercial rates for its electricity (Myth 8), without a power subsidy, and will spend a significant amount purchasing power in Tasmania. That supports our state-owned energy businesses and the returns they provide to the state government.

Firmus has also committed to fund the transmission infrastructure required to connect its developments (Myth 9). As a major electricity user, it will contribute through ongoing network charges to the shared cost of Tasmania's transmission system.

Having more large customers sharing the fixed costs of the network can help contain upward pressure on the network component of bills.

That is an important benefit for every Tasmanian electricity customer – and one that has received too little attention.

The other part of the equation is increasing Tasmania's electricity supply.

More large energy users, like data centres, create the demand needed to bring forward renewable energy projects (Myth 10) and give developers greater confidence to invest.

Tasmania's objective should be clear: retain our existing major industrials, welcome the new private investment of data centres, and bring forward the renewable generation needed to support both.

This is an opportunity our state should not allow to go begging.