



PARLIAMENT OF TASMANIA  
Legislative Council

---

# **GOVERNMENT BUSINESSES SCRUTINY COMMITTEE 'A' 2019**

---

## **Report with Minutes of Proceedings**

### **Members of the Committee:**

Hon Ruth Forrest MLC (Chair)  
Hon Kerry Finch MLC  
Hon Mike Gaffney MLC (Deputy Chair)  
Hon Sarah Lovell MLC  
Hon Rob Valentine MLC  
Hon Meg Webb MLC

## **TABLE OF CONTENTS**

MINUTES .....	3
APPENDIX – TRANSCRIPTS OF PROCEEDINGS.....	7

# MINUTES

## **WEDNESDAY 4 DECEMBER 2019**

The Committee met at 1.00 pm in Committee Room No. 2, Parliament House, Hobart.

### **Present:**

Mr *Finch*

Ms *Forrest* (Chair)

Mr *Gaffney* (Deputy Chair)

Ms *Lovell*

Mr *Valentine*

Ms *Webb*

### **In Attendance:**

Ms Gabrielle Woods (Acting Secretary)

### **Confirmation of Minutes**

The Committee confirmed the Minutes of the Meeting on 29 November 2019 as a true and accurate record.

### **Inwards Correspondence**

The Committee received the incoming correspondence from stakeholders.

At 1.00pm the Committee commenced informal discussion with stakeholders.

The Committee suspended at 5.00 pm until 8.50 am on Thursday, 5 December 2019 in Committee Room No. 2.

## **THURSDAY 5 DECEMBER 2019**

The Committee resumed at 8.50 am in Committee Room No. 2, Parliament House, Hobart.

### **Present:**

Mr *Finch*

Ms *Forrest* (Chair)

Mr *Gaffney* (Deputy Chair)

Ms *Lovell*

Mr *Valentine*

Ms *Webb*

### **Apologies:**

Nil

### **In Attendance:**

Mrs Jenny Mannering (Secretary)

## **SUSTAINABLE TIMBER TASMANIA**

At 9.00 am the following witnesses appeared before the Committee:

**Hon Guy Barnett MP**, Minister for Resources

**Mr Rob de Fégely**, Chairman

**Mr Steve Whiteley**, Chief Executive Officer

**Mr Chris Brookwell**, General Manager, Corporate Services

The Minister provided a brief overview and the Committee proceeded to questions.

### **Question on Notice**

- Please provide the data for lost time incidents over the last 5 years.
- Why is there a need for Australian Standards and what are the differences?

The witnesses withdrew at 10.33 am

The Committee suspended at 10.33 am

The Committee resumed at 10.45 am

## **HYDRO TASMANIA**

At 10.48 am the following witnesses appeared before the Committee:

**Hon Guy Barnett MP**, Minister for Energy

**Mr Grant Every-Burns**, Chairman

**Stephen Davy**, CEO

**Ian Brooksbank**, Chief Financial Officer

*[Mr Finch left his seat at 11.42 am]*

*[Mr Finch resumed his seat at 11.47 am]*

*[Ms Webb left her seat at 12.36 am]*

*[Ms Webb resumed her seat at 12.38 am]*

### **Question on Notice**

- Please confirm the volume of special species timber being taken out and what is the return to Hydro related to the wood that is extracted.
- If the information is available, what is the value of the timber (the latter part of the question can be provided in camera if required).

The Minister provided a brief overview and the Committee proceeded to questions.

The witnesses withdrew at 1.09 pm.

The Committee suspended at 1.09 pm.

The Committee resumed at 2.05 pm.

## **TASNETWORKS PTY LTD**

At 2.05 pm the following witnesses appeared before the Committee:

**Hon Guy Barnett MP**, Minister for Energy

**Dr Dan Norton AO**, Chairman

**Mr Lance Balcombe**, Chief Executive Officer

**Ross Burridge**, General Manager Finance & Business Services

**Bess Clark**, General Manager Marinus Project

**Wayne Tucker**, Government Relations Manager

The Minister provided a brief overview and the Committee proceeded to questions.

### **Tabled Document:**

- Project Marinus, Business Case Assessment
- Project Marinus, Business Case Assessment Report

### **Question on Notice:**

- Please provide the business case documents for Bass Link.
- How does Project Marinus fit into the national competition framework as a regulated link?
- What specific regulations/rules would need to change to enable the use of existing power distribution networks to share energy across other electricity meters on a farm?

The Committee suspended at 3.31 pm

The Committee resumed at 3.44 pm

[Mr Gaffney left his seat at 4.06 pm]

[Mr Gaffney resumed his seat at 4.08 pm]

The witnesses withdrew at 5.05 pm.

### **Other Business**

Question on notice responses to be provided by COB Wednesday 11 December 2019.

The Chair (or southern based Member) is to present the report of the Committee to the President out of session during the week commencing 16 December 2019 (subject to the availability of the President) at a time to be confirmed.

### **Next Meeting**

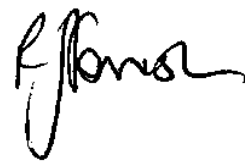
At 9 am Friday 13 December 2019 (CR2 and via teleconference).

### **Adjournment**

At 5.15 pm the Committee adjourned until 9 am Friday 13 December 2019.

**DATE: 13/12/19**

**CONFIRMED**

A handwritten signature in black ink, appearing to read 'F. Jones' or similar, written in a cursive style.

**CHAIR**

## APPENDIX – TRANSCRIPTS OF PROCEEDINGS

# UNCORRECTED PROOF ISSUE

**Thursday 5 December 2019 - Legislative Council - Government Businesses Scrutiny Committee A - Sustainable Timber Tasmania**

## LEGISLATIVE COUNCIL

### GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

**Thursday 5 December 2019**

#### MEMBERS

Mr Finch  
Ms Forrest (Chair)  
Mr Gaffney (Deputy Chair)  
Ms Lovell  
Mr Valentine  
Ms Webb

#### IN ATTENDANCE

**Hon. Guy Barnett MP**, Minister for Resources

#### Ministerial Office

**Mr Ashley Bastock**, Chief of Staff  
**Mr Ben Waining**, Senior Adviser

#### Sustainable Timber Tasmania

**Mr Rob de Fégely**, Chairman  
**Mr Steve Whiteley**, Chief Executive Officer  
**Mr Chris Brookwell**, General Manager, Corporate Services

**The Committee met at 9 a.m.**

**CHAIR** (Ms Forrest) - Welcome minister and your team.

Just by way of a few requests to start with. As you know this committee hearing is being broadcast and we will go from 9 a.m. to 10.45 a.m. with this session. I ask you to be conscious of using your microphones, which means leaning forward when you are speaking, not sitting back. It makes it difficult for Hansard and difficult for some of the members to hear. As with all committee processes, this is a public and open hearing. The transcript will be transcribed and published with



our report. If there is anything of a confidential nature that you believe requires confidentiality which you wish to discuss with the committee, you can make that request and explain your reasons for such a request and the committee will then close the room and consider that request. Otherwise it is all public. I just make those points at the outset.

Minister, we only have a fairly short time for the scrutiny of Sustainable Timber Tasmania. I invite you to make a brief opening statement if you wish and then we will go to questions.

**Mr BARNETT** - Thanks very much, Madam Chair, and thanks for the opportunity of presenting today regarding Sustainable Timber Tasmania. On my right is the Chair, Rob de Fégely; and on my left is Steve Whiteley, who is the CEO of Sustainable Timber Tasmania, and Chris Brookwell, who is its Chief Financial Officer.

It is a real pleasure and honour to be here as Minister for Resources and representing the forestry sector, which is certainly a resilient sector. I have said many times that wood is good - it is recyclable, it is sustainable and it is renewable. It is the ultimate renewable and I am proud of this industry. It is a natural advantage to Tasmania and working forests create jobs - 5700 direct and indirect jobs in the sector. In terms of confidence, there has been a rebuilding. Confidence is up, production is up and exports are up.

We are pleased with where we are at in terms of the financial performance. The last 12 months were very encouraging. It is the second time in 10 years that they have delivered a profit. We will hear more about that, no doubt, during the course of the discussions. Certainly, it is sustainable and we are pleased with the sustainable position of Sustainable Timber Tasmania. It has been hard-won, though; it has been a challenge and they have met the challenge.

In overall terms, we are leading the country in terms of many of our initiatives. We have the Tasmanian Wood Encouragement Policy, which we are very proud of. Tasmania is the first state in Australia to introduce that with a regional forest agreement which is a rolling 20-year agreement and, of course, the National Institute for Forest Products Innovation - NIFPI - grant which, in terms of research and development, is very encouraging and in which STT played a key role. It also played a key role in the network, which is an umbrella body representing all parts of the industry to promote better education and awareness and to promote the industry more generally.

A highlight has been the memorandum of understanding - MOU - in recent months with the Tasmanian Beekeepers' Association and the Australian Honey Bee Industry Council - AHBIC - at a national level. It is a nation-leading agreement between our Sustainable Timber Tasmania and those entities that provides ongoing protection and access to leatherwood trees on our public production forest land. I am pleased about that.

Finally, the bushfires. It was tough; the fires certainly had an impact. I am pleased to say that there was a huge effort and response by Sustainable Timber Tasmania. Again, it responded to that and put in a massive effort working with the Tasmania Parks and Wildlife Service. Our firefighting services worked to protect, preserve and support not just our working forests but all those in need in and around Tasmania from the bushfires in January and February earlier this year. A big thanks to them for that and, of course, it had an impact on our production forests as well and we can respond to any queries in that regard.

Thanks for the opportunity. I will pass to the Chair to make some opening remarks and leave it there.

**Mr de FÉGELY** - If I may make some opening remarks about our year which hopefully will be helpful for committee members, and discuss some of the highlights we have gone through. This may be useful for members' understanding of STT business - what we are challenged by, and where our opportunities are, and, hopefully, helpful for their questions as well.

The 2018-19 financial reporting period has been another successful year for Sustainable Timber Tasmania. We returned a profit and we are paying a \$15 million special dividend for that year, and the board has recommended a \$2 million dividend to the Government as a result of this year.

We have supplied 53 Tasmanian businesses with 1.5 million tons of wood despite the challenges of extensive bushfires earlier this year. This included more than 116 cubic metres of high-quality sawlogs delivered to Tasmanian processing companies and 9700 cubic metres of special species timber.

Our sales were \$150 million-worth of forest products, which is up \$5 million in comparison with the previous year and is due to improved pricing which has helped to deliver a profitable year for the business.

Our total comprehensive income was \$34.9 million with an underlying result of \$11.8 million, an improvement of \$5.8 million on the previous year. These results are a continuation of the profitable year we had in 2017-18 and a further step in the right direction towards financial sustainability.

To achieve this, despite the immense challenges of the bushfires earlier this year, I am really pleased to report on the robustness of our business, our staff and our contractors, which has been a fantastic effort by everyone involved.

As you are aware, in 2019 more than 200 000 hectares of the state was directly impacted by bushfires, including about 40 000 hectares of Permanent Timber Production Zone land - PTPZ. We contributed over 66 300 hours of firefighting activities, and I thank the entire team for their considerable and sustained effort in protecting our communities and assets. I cannot value their efforts highly enough; they did a fantastic job.

Our employees then did a fantastic job of getting our contractors who were impacted by the bushfires back to work within a fortnight and maintaining wood supply to our customers during the firefighting and fire recovery efforts. The business is committed to our staff and contractors going home safe and well every day. It is the highest priority on the board's agenda. The Safety Moments and the safety report are always our first report.

It is very pleasing that in 2018 we were independently recognised as an employer of choice and there was only one lost-time injury for the staff. Safety for our contractors continues to be a challenge and an area of focus for the board and the whole staff. Any injury is one too many and the safety of our operations and our people remains our highest priority.

All the native forest areas we harvest are regrown for the future. In 2018-19 we planned and established over 4700 hectares for regrowing and sowed 225 million seeds. We have also maintained over 4100 kilometres of roads for forest operations and provide access to PTPZ land for multiple use.

The business has continued its commitment to continuous improvement with its management systems and we have maintained our responsible wood forest management certification, safety and environmental system certification and our controlled wood Forest Stewardship Council - FSC - certification for our plantations.

In May 2019, we were audited against the new FSC National Forest Stewardship Standard of Australia. We have recently been presented with a draft report from the auditors that identifies nonconformances that will need to be addressed for Sustainable Timber Tasmania to obtain certification.

Once the report is finalised, we will consider all the findings closely, identify existing components within our forest management system that address the issues and how best to communicate them, identify any gaps within our forest management system and consider what changes may be required.

Finally, I acknowledge and thank the board, the management and all of STT's employees and contractors for their effort in delivering these results. I specifically thank Dr Christine Mucha for six-and-a-half years on the board. Christine made a fantastic contribution as a director. We will miss her input and her mentorship. She went above and beyond in many instances during her time on the board when the business was going through difficult times and she showed great leadership in that respect.

I would also like to thank Dr Lyndall Bull who also stepped off the board this year because she was appointed to a United Nations position at FIA in Rome. I would like to thank both those members in particular, and thank you, Madam Chair, for the opportunity to make these remarks.

**CHAIR** - I might lead with a question around the financial sustainability. One of the things that assisted in your position, which enabled you to pay the dividend - minister, this one is probably one for the chairman - is the revaluation of the forests of the biological asset of the forests, which saw a significant increase. I would like you to explain further how the revaluation occurred. I know it is a complex arrangement and that a significant number of trees were lost in the fires. I am interested to understand that. Also, the derecognition of the Tasmanian Community Forest Agreement - TCFA - grants - that is a paper entry, I understand that - but it also lifted the profit area. I would also be interested to know how much we received for the sale of the plantations used to pay off the debt.

**Mr BARNETT** - Thanks very much for the question. I think we have a few questions there. That is okay, no issues at all. If the Chairman would kick off and the CEO would like to respond as well.

**Mr de FÉGELY** - There are a couple around up there, in particular how the valuation is run. It is a natural asset so the value can change quite easily. We have an independent valuer who values our forests every year and that will relate to - because we work in the export market - their view of price, the discount rate and future value because they are looking on a perpetual basis - it can change. It is a function we have to manage.

**CHAIR** - It is a paper change; it doesn't actually increase the money in the bank or the ability to pay dividends. The question is about the financial sustainability and the future of Sustainable

Timber Tasmania on that basis. If we are relying on paper entries to fix the bottom line, it is not really a sustainable model. I am interested in how it works - I think you understand the question.

**Mr de FÉGELY** - You need to look at our underlying performance, and that is an important point I made earlier. I will hand over to the CEO and the CFO to provide some more details.

**Mr WHITELEY** - Let's start with the core question: really, we look at underlying earnings. You would have received the recent report about all the GBEs from the Auditor-General which provides the view of underlying earnings. We have two things that are non-cash which affect our statutory reporting: one is the valuation you have picked up, and the other is the defined benefits liability. Both of those changed as reported this year - the RBF liability was a negative and our liability increased. The net effect of the forest valuation increased. The valuers noted effectively an increase - there were two sides of the ledger. The increase was largely due to increased pricing, particularly in the international markets. That was significantly driven by the exchange rate, compared to what we had previously forecast.

As you mentioned, fires are certainly a negative impact, along with some increases in production costs, which were the main things that were offsetting, but overall there continued to be an increase in the value of the forest. As you pointed out, it is a non-cash oddity that doesn't help us pay a dividend. Really, that was reflected in the valuation but in fact we did better, as we reported within our statements. We have some targets that we look to meet each year with underlying profit and we exceeded those, principally because of a buoyant export market due to -

**CHAIR** - It is interesting - on the export market, minister, you commented that it has increased, but on page 39 of the annual report, when you look at types of goods and services, under the sale of forest products, there is nothing for other countries; Australia is where it all seemed to happen. I am interested in where the export is.

**Mr WHITELEY** - That is where it ultimately goes, but we sell the wood largely locally.

**CHAIR** - But there is nothing for other countries; it is a zero along the bottom there.

**Mr WHITELEY** - We don't sell direct. For example, we sell to companies like Artec, which then onsell it.

**CHAIR** - How do you get the benefit of the exchange rate then?

**Mr WHITELEY** - Because our pricing is linked to the international price. Our sawmilling customers have a pretty stable pricing mechanism that is guided more by Australian housing market and it doesn't vary much. Some of our contracts are linked to export prices rather than being a fixed stumpage price.

**CHAIR** - Minister, does that basically mean we are reliant on a good exchange rate for the underlying financial profitability of Sustainable Timber Tasmania?

**Mr BARNETT** - What it means is that we need to manage it carefully. It means that the exchange rate is important to the ongoing sustainability and profitability, but that is only one of many factors in ensuring it's sustainable. We went through a very challenging process a few years ago when we had the restructure. That work was undertaken and some difficult decisions were made. I am very grateful for the work that was done to get it into a sustainable position. As I say,

this is the second time in 10 years we have actually made a profit and that is really encouraging because we want it to be sustainable. Yes, an exchange rate was one of the factors that is very important and where we are at the moment. Steve and the team have taken advantage of that to deliver good results for STT.

Chairman, did you want to add to that?

**Mr de FÉGELY** - No, I think you summarised it quite well.

**Mr WHITELEY** - Perhaps if I can continue, it's a forward-looking question about sustainability. Really, the commentary is about what happened last year and that was what happened.

Really, our business strategy is to try to get further domestic processing. To the extent we can, we would like it to benefit the state, but also to reduce effectively the risk of fluctuation in the international markets at present, until we get further investments. There are various proponents looking at projects locally and we are very supportive of those.

**CHAIR** - We might come back to that in a short time if we can.

**Mr VALENTINE** - With respect to the revaluation, when the valuer does that task, do they take into account the desirability of the product? How much does the FSC certification, for instance, impact on the valuation of our forests?

**Mr BARNETT** - That is best answered by the CEO. It is a market-based mechanism. As the Chairman said, that valuation is assessed every year, but the CEO can outline the answer.

**Mr WHITELEY** - The valuer forms their own view about those things, but because we do an annual revaluation, those things wouldn't be anticipated, but the valuation would reflect them, should that occur.

**Mr VALENTINE** - So they don't look at acceptability of product when they do the valuation?

**Mr WHITELEY** - One of the things they do is apply a discount rate which looks at risk, so they consider all sorts of things in terms of the operating and marketing environments, those sorts of things.

Effectively the method they use is a discounted cashflow. The discount rate they use is quite important in the result we get each year.

**CHAIR** - A very small change can make a big difference.

**Mr WHITELEY** - It can, that's right. It's their interpretation of those things, Rob. Part of that is that they look at those things and they reflect the risk in the discount rate. Effectively their method is a discounted cashflow, which is based on actuals now, not anticipating future gains.

**Mr VALENTINE** - Thanks for that.

**CHAIR** - I'll just take us back. I was interested in the derecognition of revenue received in advance and how something like that can be derecognised. I would like you to explain that and whether Sustainable Timber Tasmania -

**Mr BARNETT** - What page is that?

**CHAIR** - That is in your statement of comprehensive income, page 31. I think there is a note somewhere. I'm interested in whether STT was required to complete its side of the bargain. This is the money that came from the TFA, as I understand it.

**Mr BARNETT** - Chris Brookwell is the financial officer; we might see if he can assist us.

**Mr BROOKWELL** - That derecognition occurred in the financial year 2018, not the financial year 2019. It was triggered by the plantation sale. Forestry Tasmania, as it was then, received money quite a long time ago to do a lot of things. The plantation sale essentially liquidated the residue of the estate, which meant we couldn't fulfil any more of the qualifying expenditure requirements under the grant, so we were able to derecognise it.

**CHAIR** - We had already received the money, though, in order to do things to value-add, but we sold the timber so we could no longer value-add. Is that what you are telling me?

**Mr BROOKWELL** - Correct.

**Mr VALENTINE** - Does the money go back?

**CHAIR** - Coming back to the question, Mike, you wanted to ask a question about what we actually got for the plantation, didn't you? What did we actually get for the plantations, and how much did it cost to establish and grow those plantations to the point before we sold them? We are looking at the total cost and the amount made. We got money to do stuff from the TFA, with these plantations, and then we sold them to pay off the debt. That's why we are in the position we are in now that's not so bad. It was pretty bad before.

**Mr BARNETT** - Yes. On the plantations, the chair has already made some comments. There was a 90-year forestry right. In late 2016, 29 000 hectares of hardwood was offered for sale. It was on the open market; it was nationally and internationally promoted; and the board did a lot of work and used consultants. Then Reliance Forest Fibre - RFF - and Global Forest Partners paid the \$60.7 million.

We were very pleased with the outcome in August 2017. Global Forest Partners and its international forest investment advisory firm - I am also advised they have another 150 000 hectares around Australia, so it is not a one-off for them - are very familiar with this sort of thing and Reliance Forest Fibre has established a locally based management and operations team. There are people on the ground in Tasmania to do the work.

I might leave it there and perhaps the chair could add to that.

**Mr de FÉGELY** - They also have an export facility at Bell Bay so it would appear they are here for the long term. It is a good thing for the state that we have new forest or Forico, Reliance and ourselves, so there are number of growers working in the state now. This has been a very positive outcome.

We have retained 26 000 hectares of our pruned and thinned estate for future sawlog production, which was the ultimate aim from what we wanted. The sale of the surplus plantations allowed us to improve our balance sheet and get us back into the trading position we are in today.

**CHAIR** - What were the costs of establishing and maintaining those plantations prior to the sale? Do we know that? You can say we received \$60.5 million, but how much did it cost to get to that point?

**Mr BARNETT** - It is best for the CEO to respond to this. It has obviously taken place over a long time. I will see if the CEO would like to address that.

**CHAIR** - What was the profit? We know how much we got for them, but that is not profit.

**Mr WHITELEY** - There is no simple answer because we had a mixed estate. The mixed estate was of areas where we had completed a pruning and thinning regime. When the TFA was put in place, the research had only just been done, so we are still trialling it. Within the budget an anticipated fall of around 40 per cent was factored into the program.

We plant 100 hectares; of that, we expect we would be able to successfully select suitable areas to prune and thin of about 60 hectares, so that is part of the mix. The other part was that we had a lease arrangement with Gunns, so some of the trees were established by another party on our land and a settlement was reached in lieu of money owed.

It is a quite complex mix about where we spent the money. The important thing is that the 26 000 hectares we retained is the core estate set up under the purpose of the TFA. That is what is delivering the solid wood regime. A lot of the other plantation sold was not treated in that way and therefore was not part of our core business.

Effectively a sale paid the debt, but effectively it was a forward sale of pulpwood in terms of our business.

**CHAIR** - You cannot tell the committee how much those plantations sold - not the Gunns-MIS ones - the ones that Forestry at the time owned, how much that cost. You cannot give us the profit margin on that sale - you can only give us the figure that we have?

**Mr WHITELEY** - It was quite variable. We had a program view at the time; some areas were on farmland and some were on converted native forest. They have quite a variable set of cost structures.

**Mr VALENTINE** - Plantations on private farmland?

**Mr WHITELEY** - We purchased the land at the time. We had a program; a target was set by the TFA and we were unable to establish plantations at the rates solely by harvesting native forest and putting plantation in. That was supplemented by some purchase of land.

It is quite a complex mix across that. That is a good question, but the important one is the estate we retained was the core estate set out under the purpose of the TFA.

**Mr BARNETT** - Chris Brookwell, would you like to add to that?

**CHAIR** - Yes, it looked like he wanted to say something, minister.

**Mr BROOKWELL** - Again in FY 18, we received \$60 million which was in the cash flow statement. In terms of the profit and loss accounts, the estate was valued at the end of the year and the estate we sold was essentially wrapped up in the movement. The revaluation in last year went up by \$26 million so we had reduced trees, but again improved pricing.

**CHAIR** - Because of the nature of the timber you still have?

**Mr BROOKWELL** - Yes, which is how the profitability was reflected.

**Mr GAFFNEY** - It says 40 000 hectares was lost in the fires. How do you go in and manage that now? You clear it; you replant. How long does it take for the trees to mature? Fire is a risk factor now; this is not going to be the only fire you will have over the next so many years. How do you as a sustainable timber industry manage the potential impact of fire as a risk factor on your product?

**Mr de FÉGELY** - Thank you. First, the fire is not even in its impact on the forests. Some parts of forests were heavily burnt, others mildly burnt, some unburnt, but they may still all be in the area regarded as impacted.

We then take some time to see how the forest responds to the fire itself. That is not an instant thing; it takes over about five to six months for us to work out whether it is going to respond - is the stocking up to a healthy level or do we have to intervene and stock? Some of the very younger areas - less than 10 years regeneration - which we believe was heavily burnt, we have resown with aerial seed. We have done some salvage harvesting with that and we have done some trials. Because the charcoal caused by the fire impacts it and becomes a contaminate in some of our products, we have to think about whether that will have an immediate impact. That charcoal will dissipate over time as the trees grow, rain washes it off and it reduces with time.

We do a mixture of treatments. Maybe I can ask the CEO to provide some background. He has brought some photographs for you to illustrate this, because it is quite hard to describe in words. Suffice to say there is a mixed impact. Generally speaking, we will be able to recover from it long-term, but we have to make some short-term arrangements in terms of supply.

**Mr GAFFNEY** - And risk mitigation for future?

**Mr de FÉGELY** - Very good question. I have taken the minister out and suggested a number of things we would like to do a mixture of both. Continue with our hazard reduction burning, but also some mechanical intervention, where we do some thinning. This is what I would refer as Crown Fire Free Zones, where we remove some of the understorey to ensure we do not have ladder fuels which create the crown fires. We create a break along various strategic regions like major roads where we think we may have to fight a fire in the future. We put in an area of low fuel so we can ensure we have a good break safe for firefighters to work from, but also if a fire is crowning further down in the forest, it will hit this break and drop to the ground and our firefighters can then attack it.

**Mr GAFFNEY** - He has not answered the first question.



**Mr BARNETT** - The other part of the question.

**Mr de FÉGELY** - Yes, it will show some photos on the various treatments for the burnt forest.

**Mr WHITELEY** - Coming back to your question, about 40 000 hectares of our land was impacted across three fires. As the chair said, the impact was quite variable. Huon was the major impact. About 12 3000 hectares were impacted.

**CHAIR** - The region of Huon as opposed to the timber?

**Mr WHITELEY** - No, not the species of Huon, the region of Huon. The production area south of Hobart was most impacted. The fire went through about 12 300 hectares. As the chair said, it is quite variable. I have some things which show that where the fire went through some of the larger trees have not been killed. They are reshooting. A lot of the forest there will recover. In terms of your question about what does it mean for sustainable supply, we think with some of these areas we might need to wait 10 or 15 years for them to recover. That is not a loss. Because there is charcoal there and we want the health of the forest to retain, we have to manage the forest product and carbon and biodiversity and water - a whole lot of things there. We have done some small trials within some Eucalyptus regnans areas where the trees were been killed by the fire.

The question about salvage is that we don't anticipate a significant salvage program. At the moment, we are looking at how we can protect soil and water values, so it really is an experiment as opposed to a program. We are also putting some of those logs into sawmills and into other processes so the customer can understand what we see on the outside, which is black bark, has affected the wood properties.

We know from other areas in the state, particularly the east coast and the north that have more frequent fires, that the forests recover. Our approach at the moment is that we need to keep on monitoring, but we expect that at the moment our default position will be that we simply need to leave much of the forest for 10 or 15 years. It will then be suitable, but the forest health is our primary concern at this stage.

As the Chair mentioned, there were some younger areas where there wasn't adequate seed, so we sowed that. That is quite different from what happens in the reserves where, because we've got seed stocks, we are able to actively manage those areas and make sure we've got healthy forest cover. Some other places, if it is in a more passively managed state, the area is left to recover by itself, whether it's got seed or not.

**Ms LOVELL** - Minister, you've spoken about the impact of the fires and the amount of forest that was damaged and we spoke about finances, broadly. Has there been an assessment of the cost impact of that damage specifically related to the bushfires?

**Mr BARNETT** - Thank you for the question; it is a good question. As the Chair indicated in his opening remarks, 40 000 hectares is a lot of land and it is about 5 per cent of the total hectares of production forest. As the Chair has indicated, it has impacted the forest in different ways and, as the CEO has indicated, they will regrow. This will happen. Some seeding has been dealt with and managed in different ways.

Yes, the forest is still there and, in terms of the harvesting plan, the CEO can outline how that will be changed to respond to the fires. Fires regularly happen in our forests, consistently every

summer, and we need to adjust to this. This was a significant fire, in January-February, and 40 000 hectares is a lot of Sustainable Timber Tasmania PTPZ land.

I emphasise the fantastic 66 000 hours of time that STT and its people put in to combat the fires. Congratulations and well done on protecting your land, Tasmania's land and our community. I will see if the CEO would like to add to the question about the viability of STT and the financial side of it.

**Mr WHITELEY** - Long term, it has been picked up and reflected by our independent valuer, so a long-term impact has been recognised. Practically, in the short term, we prepare a three-year wood production plan each year. The plan we have produced is to schedule around the burnt areas so, in terms of the current contractors and businesses, effectively it is business as usual in the short term. In the Huon, as we've indicated, there are burned areas that will probably take 10 or 15 years to recover. That will make scheduling difficult in the medium term until we allow that help. That is something we will need to have a look at.

Short term is okay. Around a quarter of the productive area in the Huon is impacted in some way by the fires and that may well lead to that not able to effectively contribute to the contracts up to 2027. That is something we need to look at. As we learn a little more, we will discuss that with our customers.

**Ms LOVELL** - Are you anticipating difficulty in fulfilling contracts in the medium term? I understand you managed to fulfil your obligations in the short term.

**Mr WHITELEY** - We have a broad view of where the resource is statewide. We calculate sustainable yields across the state and update that each five years. The last one was done in 2017. We will do another one in 2022 and that is where we will bring some of these things in together.

**Ms LOVELL** - Are you expecting there will be sufficient resource across the state to meet those obligations?

**Mr WHITELEY** - We are at this stage, yes, from what we can see.

**Mr BARNETT** - I will add that STT, TasNetworks and the Government did a lot to get Southwood back on track, which is Neville Smith Forest products and Ta Ann and, likewise, TasNetworks went above and beyond to reconnect the electricity infrastructure.

We can respond in terms of the Tahune Airwalk that was impacted in those bushfires. I went down there a few weeks ago with the Chair, CEO and the team and caught up with Ken Stronach. Recovery is taking place there and there is an expectation that Tahune will reopen by the end of January, and we are looking forward to that. We are doing everything we can to get that business back on track but it will be done in a rehabilitated and refreshed way, focusing on education and awareness and the way that forests can respond to bushfires. I alert the committee to the hard work that has been done, particularly on the Tahune Airwalk as well as more generally.

**CHAIR** - Is Ta Ann operating again in the south? What is the time frame for that?

**Mr BARNETT** - No, not yet. Ta Ann has some work to do. We met with them a few weeks ago. They have some plans in place and that is a matter for Ta Ann. We are doing everything we

can to assist them in reopening as soon as possible. I am not sure if the CEO would like to add to that.

**Mr WHITELEY** - Their boiler was damaged. They had residue from when they round up logs and they need to be able to dispose of that. One of the things they are working through is that in the absence of a boiler, they need some other mechanism to dispose of their green waste.

**Mr FINCH** - Minister, there was a call recently for a full-scale review of the dysfunctional structure governing bushfire protection management and control in Tasmania. Would you care to comment on that?

**Mr BARNETT** - Yes, absolutely, happy to. Mark Shelton, the responsible minister, is doing a great job in that regard. The Government's position is very clear because we have had the Australasian Fire and Emergency Service Authorities Council review, which you would be familiar with. The Government is very supportive of implementing those recommendations made in the AFAC review in collaboration with the Tasmania Fire Service, STT and the Parks and Wildlife Service; across government. Team Tasmania, as I like to call it. Those recommendations are being supported and implemented in the short term, medium term and in the longer term as well. We have the full support of our fire agencies and we thank them for the work they do. They are well trained, capable, well-resourced and ready to respond to the bushfire season we are facing.

**Mr FINCH** - Experienced with 66 000 hours under their belts.

**Mr BARNETT** - That is right, an amazing 66 000 hours under the belt for the last season, during those bushfires in January and February. It is a fantastic outcome, supporting production forests and our committee. Over 200 000 hectares were burnt in total across different parts of the state. I spent a lot of time in the Central Highlands, the Derwent Valley and down in the Huon as well. I visited with TasNetworks and helped progressed the work to get Southwood back on track with that transmission line that was damaged big time. TasNetworks spent quite a bit of money to get that back on track so that Southwood could restart and get those jobs going again in the Huon and in those regional areas.

**Mr VALENTINE** - The 200 000 you were talking about is total Tasmanian forest, that is not -

**Mr BARNETT** - Across the state. Those three main areas - Central Highlands, the Derwent Valley north of Modena and down the Huon; 210 000 hectares in those three main areas, and 40 000 hectares of production forests were impacted in different ways, as outlined by the Chair and the CEO.

**Ms LOVELL** - Minister, further to the AFAC review you mentioned and in relation to the management of the fires in the previous season, the AFAC review reported there was a perception that a meeting of minds around the prioritisation of different responses was required, specifically production timber compared to residential areas or Parks and Wildlife areas. It noted that at least a perception of that was a matter of concern. What steps have been taken to ensure that perception doesn't continue into the upcoming fire season, and that people can, particularly STT staff and people who are trained to respond, have confidence that the decisions will be made, or in how those decisions are made, around priority?

**Mr BARNETT** - Thank you for the question. I am not the minister for Police, Fire and Emergency Management and I have every confidence in Mark Shelton. I am the Minister for

## UNCORRECTED PROOF ISSUE

Resources and, with respect to STT, we've have had 90 staff and some 120 contractors involved in fighting those fires. They do work in cooperation with the Parks and Wildlife Service and the Tasmania Fire Service. Steve has, through his people, a very good, cooperative relationship. The capability and the resources are there and they are working together.

In terms of the AFAC review, the Government's position is that it has been received. It's taken on very positively and we have every intention of implementing the recommendations in collaboration with the fire service, in which we have confidence. Would the CEO like add to that?

**Mr WHITELEY** - I think your observations are correct, there have been concerns and they were picked up in submissions and in the review itself. One of the recommendations was to review in some respects the interagency protocol and I understand that Mr Shelton and the TFS will be providing an update on that shortly.

**Ms LOVELL** - How many STT staff are trained to fight fires now?

**Mr BARNETT** - As I said, 90 staff were involved in the recent fires and 120 contractors. I might see if the CEO would like to add to that.

**Mr WHITELEY** - Fire is very important to us. One of the things that we do as a corporate goal is to have at least 70 per cent of our staff trained and equipped to provide various roles in fires, including frontline firefighting. Coming into this fire season we have 90 people of our 150 establishments trained and ready and there are some more because we've got some new employees and people going through accreditation programs. At least another 10 will be signed off in the near future. We maintain a commitment to providing specific skills. We have particular skills in forest firefighting to complement some of the remote firefighting the Parks and Wildlife crews do, and some of the urban interface work the TFS does. Part of what we are looking to do is to make sure we have an integrated skill set across the agency.

We also use contractors for a lot of our work, so a lot of the restructure was to not have employees do some of the work, and contractors, so I have around another 100 employees of contractors that we look to provide diverse employment for and they contribute significantly to the fire effort as well.

**Mr BARNETT** - We are also sending and have sent our firefighters to New South Wales. I am not sure exactly how many but we have made a contribution there. Across all agencies, including STT.

**Ms LOVELL** - Further on that, how does that figure 90 out of 150 and the target of 70 per cent compare to the last five years?

**Mr WHITELEY** - It has certainly changed in terms of our numbers but we probably took the number of people we had for granted, previously. Now we have simply made a deliberate corporate decision. There is a corporate commitment across the whole organisation, rather than just in the field centres. We know there are good skills across all of our people and they can contribute to the fire effort, not just the front line, but some of the other planning that supports services as well. Part of the target we have set is to recognise what we are probably already doing but also to set a cultural target.

**Ms WEBB** - On that 70 per cent, when do you expect to have that achieved?

**Mr WHITELEY** - We have, as reported in the annual report.

**Ms WEBB** - Of your current staffing?

**Mr WHITELEY** - Yes. That was post-restructure. It was one of those things we were concerned about, to maintain our capability, so it is about maintaining the internal culture as well as supplementing that with skilled contractors.

**CHAIR** - You mentioned in the opening comments about safety being terribly important for the industry. We know it is an inherently dangerous industry. You said that staff had a very good safety record but I am hearing repeatedly that you use a lot of contractors. What is the safety record for the contractors that you use?

**Mr WHITELEY** - Within fire, very good. We put, again, because it is a hazardous environment, whether it is our staff or contractors and across the agencies as well, we have dedicated people with a focus on safety when people are firefighting but also patrolling and that sort of thing.

**CHAIR** - What about forestry operations?

**Mr WHITELEY** - The examples that the Chair referred to were our harvesting hubs and transport contractors, so that is the pool we are really quite concerned about. It is a different set of contractors, so the contractors we are referring to in firefighting tend to be our other people, what we call 'silvicultural contractors', who do a lot of our land management works.

**CHAIR** - What is the safety record for those people?

**Mr WHITELEY** - Very good.

**CHAIR** - What about the people harvesting and carting?

**Mr WHITELEY** - The people we are concerned about are in harvest and transport.

**CHAIR** - What is the safety record there? Do you have those figures?

**Mr WHITELEY** - We have reported those figures.

**Mr de FÉGELY** - Our long-time injury frequency, as we reported, is 29, which is too high.

**CHAIR** - Lost time?

**Mr de FÉGELY** - Yes, lost time injury. Sorry, did I say long time? My apologies. We hope not, and there is medical, which is MTIFR. This has been a real challenge. The board is very concerned about it and it is a combination of age, skills, equipment and the type of forest we are working in. We have had discussions with both our minister and the Treasurer about how we try to address this problem. We have changed the management within STT to give a direct report for the General Manager of Operations, Greg Hickey, who is looking after operations. He has had a lot of experience in training in safety. It is a nationwide thing that we are all looking to do.

We think the solution comes down to training and some re-equipping contractors with more modern equipment. I don't want to talk too much about the past but, essentially, this is probably a problem that has been around for a decade or more. Contractors haven't really had enough money or the industry hasn't been viable enough for them to upgrade the equipment as we would have liked. There is now new equipment in other states. They are working towards positions where there are no forestry workers working on the ground, they are all working in protective cabins. We still have manual falling in Tasmania. Whether we can move away from all of that is still a work in progress but we are looking to improve skills.

Recruiting people into the industry is not simple. There are other, more attractive jobs for people. We are trying to make it more attractive because of the complexity of managing this equipment. They are multi-million dollar machines. It takes upwards of a year to two years to train machine operators, whereas you can put somebody in the bush who is just working on the landing without a lot of training at all. This is a statewide approach we are taking. I am going to ask the CEO to add to this, because we have been working with the other sectors in the industry and the plantations as well to try to find what we think is a workable solution.

**CHAIR** - We have the figures. I am interested in the actual comparative figures of the lost-time injuries.

**Mr de FÉGELY** - Yes, the figure of 29.

**CHAIR** - There were 29 lost-time injuries in the last 12 months.

**Mr de FÉGELY** - That is the last 12 months.

**Mr WHITELEY** - No, that is a frequency rate - LTIFR, so that is per million manhours worked.

**CHAIR** - Are you able to provide it on notice?

**Mr WHITELEY** - I can give it to you now.

**CHAIR** - Over the last five years?

**Mr WHITELEY** - No, not last five years? Can I just give you the year we are reporting on? This is what is really concerning. In the last two years there has really been an increase. That is our concern. Before that, we were running staff and contractors comparably. They were not quite the same but there has been a significant increase in incidents related to harvest and transport the last couple of years, particularly. There were 16 lost-time incidents for our contractors, 13 of those occurred in forest harvesting and three related to transport. That is the mix. Ten involved chainsaw use.

**CHAIR** - Do they wear all the right gear?

**Mr WHITELEY** - Yes, these were various things but, again, this is very concerning to us. As the Chair indicated, part of that is to remove people from a risky environment to the extent that we can. We have different means. There is a lot of mechanical work. As we are moving towards plantation wood and younger forests, it provides opportunities to change the way our production systems work. That is a transition we are structurally in, but this is very concerning to us now.

Part of what we are doing is training but one of the things that we have done in recent months is a bit of a cultural reset. It is about awareness, looking at teams. You may have heard from other businesses there are various programs. The one that we and others use is SafetyCircle. We have had that for our staff for a long time now. We are looking to roll that out across our contractors and really personalise it for the guys in crews so they have the same attitude where they can have permission to call each other out, to talk to their boss about things that they see are unsafe.

**CHAIR** - Do you think that is changing the culture?

**Mr WHITELEY** - It has started to. We are getting good initial feedback. We are only in early days with that but the feedback we have had so far is very positive. In other words, they are getting engaged with it and we and their principals are listening.

If we have an ambition to get everybody home safe, we all need to live it and we need to do what we can across our contractors as well as our staff.

**CHAIR** - I will send you a note about providing the last five years figures on that.

**Mr VALENTINE** - I note on page 88 of your report you have 29.1; you were talking about 16 or something.

**Mr WHITELEY** - No, these are incidents: 16 is the number of incidents. That is a frequency rate. That is for per hour.

**Mr VALENTINE** - Yes, I remember you explaining before. Okay.

**Mr WHITELEY** - That is right, that is per million.

**Mr VALENTINE** - So, 3.69 as opposed to 29.1 is a pretty big difference, isn't it?

**Mr WHITELEY** - Yes, and that is awful. That is something that is completely unacceptable.

**Ms LOVELL** - This is probably a fairly brief question. If we could go back to Tahune. You were talking about Tahune opening by the end of January. It was just a couple of months ago in September, they were saying they expected to be open by the end of the year. Are you aware of the reason for the delay?

**Mr BARNETT** - I can provide an overview response. I went there a month or so ago with the Chair, the CEO and other members. We caught up with Ken Stronach. They are doing everything they can to be open as soon as possible, with the tourist season not so far away.

A lot of work has been done, I can assure you. I have had a good look and inspected it. You can see the massive amount of work done with support of not just STT but also a lot of contractors and other workers. The rehabilitation is happening. It is going to be refreshed. It will be provided in a different and new format. We are excited about that. I think it will be terrific and we are really looking forward to promoting it.

I think Steve might want to add to that.

**Mr WHITELEY** - Here is a recent image to get a feel for what the site looks like now.

**CHAIR** - A different experience to previously, isn't it?

**Mr WHITELEY** - Yes. We set in place a program with the ambition of opening by about the end of the year and clearly that is subject to the people working on the ground safely. That has been pushed back by a few weeks. We weren't sure about windy weather and those sorts of things.

The process they are using is having to put scaffolding on the airwalk and then effectively covering it and repainting it, and replacing, I think there are 9000 bolts they are replacing across the whole of the structure. They are replacing all the cables and those sorts of things.

We mapped out a program with the service providers and if we don't have delays, we will get it done by around mid-December. Clearly, there have been some delays with the windy weather.

We don't have a date other than to say we have made good progress other than the weather disruptions and we are looking to open as soon as possible.

**Mr FINCH** - A general question if you wouldn't mind, minister. I have had some concerns about the name change for quite some time. Forestry Tasmania implied a stress on forest management for more than commercial gain. Sustainable Timber Tasmania suggests that Tasmanian forests are only about producing timber. I am not entirely convinced about the sustainability element either.

Can you give me some idea about these reservations I have. First, are you managing Tasmanian forests as forests or as a commercial wood resource? Second, can you convince me about the sustainability element?

**Mr BARNETT** - Yes, thank you for the question. This was thought about very carefully a number of years ago prior to the restructure. That restructure was then announced and implemented over a period of time and there has been a lot of hard work. Certainly, a lot of work is to be done.

They continued with a lot of their work and reshaped and restructured in terms of governance arrangements and culture. We are talking about culture now around safety and how important that is so I want to stress likewise on behalf of the Government that safety is a top priority. I have been in close contact with the chair and the CEO about the work they are doing on that.

**CHAIR** - Can we focus back to the question?

**Mr BARNETT** - I wanted to put that on the record. Sustainability is absolutely a priority in terms of the financial but also the resource and the environment. Sustainable forest is very important as is sustainable timber.

For the second time in 10 years, on the financial side, it is a very good result. I am very pleased with that and we hope that the sustainability will continue going forward, in a financial sense. In terms of a resource sense, and in how we manage our forests, we talk about timber communities and timber workers -

**CHAIR** - Can we focus on the question? Kerry, can you please repeat the question?



**Mr FINCH** - Do you have that overall responsibility for Tasmania's forests or are you only looking at it as a timber resource, the way you deal with your mindset as far as the forest resource is concerned?

**Mr BARNETT** - Sustainable Timber Tasmania is responsible for some 800-odd thousand hectares of Tasmania. That is their responsibility. From STT and the board's point of view, and I am happy for the chair to respond, it is absolutely managing all those forests, every single tree, to ensure it is sustainable.

I have said wood is good. It needs to be sustainable and renewable, and we do that. Likewise, it is best practice, not only in Australia but in the world, and we have best practice forest management practices here in Tasmania, implemented by Sustainable Timber Tasmania.

We are very pleased with the name change and the feedback. You get different views from time to time, but we are pleased with the progress that has been made.

**Mr de FÉGELY** - Our focus is on all our forest estate, not only those production areas. Roughly speaking, about half is our productive estate and the other half we manage for other multiple uses, particularly conservation, which is very high on our agenda.

The work that STT has done in wedge-tailed eagles, for instance, has been first class and we are trying to use some modern technology to improve how we manage those. We have a MOU with the beekeepers, as the minister has mentioned, and we have an MOU in tourism and bikes from the Blue Derby. We were there the other day - fabulous integration of recreation and forest management, right beside a harvesting coupe. We can integrate all those things.

Our division with the restructure, with the name, is based around two divisions. One, we were given a very clear mandate to ensure that we were financially sustainable, so we keep our wood products division as a clear division within the business. Then we have a land management division, which is really around conservation and land management. All our stakeholder relationships are there as well.

Our whole certification process under responsible wood and Forest Stewardship Council relates to how we relate with the community in terms of conservation, all the other values of the forest as well as producing timber. Absolutely, we are very focused on the forest as a whole and take a holistic management approach to it.

**Mr FINCH** - If I might continue with some reduction in figures, comparing the 2017-18 and 2018-19 annual reports, there are reductions. For example, the amount of land prepared for regrowth, reduces from 6700 hectares to 4700 hectares so there is a reduction according to two reports in the amount of sawlog supply from 129 000 cubic metres to 116 000 cubic metres. I wouldn't mind having an idea of what is behind that reduction.

Similarly, a drop in the two financial years in the amount of specialty timbers supplied, from 10 000 to 9700 cubic metres. On that score, was there less demand for specialty timbers or is the resource under pressure?

**Mr de FÉGELY** - There was a demand factor driven, particularly for high-quality sawlogs and how we work with our customers. They are quite comfortable with that level we produce, so 116 000. The customers were under a bit of pressure and asked us to slow-up at one point, so we

did not take it any higher than that, but that was by agreement with them, particularly our sawlog customers.

**CHAIR** - Which customers were they?

**Mr de FÉGELY** - Our main high-quality sawlog customers, so Neville Smith and the fires. The fires did have an impact. In terms of special species, I will let the CEO talk about that. It is slightly more complex.

Our area that we regrow will vary depending on productivity of different coupes. We may get a higher volume and a higher yield so we will have less area to regenerate. I would expect that to vary year by year. It depends on what we see that the year we have got in hand as to how we can go about whether we can get to regenerate every coupe actually on time, but at this stage, as far as the board is concerned, we are quite comfortable that we are up to date.

**Mr FINCH** - Others may want to drill down on specialty timbers, but that 116 000 cubic metres of sawlogs supplied in 2018-19, what quantity was exported as sawlogs and not processed in Tasmania?

**Mr WHITELEY** - Zero.

**Mr de FÉGELY** - It was all delivered to our local customers.

**Mr WHITELEY** - If I can add to that - really the drop there was because of the bushfire in the Huon that affected the Neville Smith business. That was the principal concern in terms of our customer demand. They simply could not operate their mill.

**CHAIR** - On that point - I will come back to you shortly, Kerry - there are a couple of areas I want to go to. With the domestic peeler billets, Ta Ann were taken out of action and still is in the south.

**Mr BARNETT** - In the south, not the north.

**CHAIR** - No, I know they are still working there. There were 140 000 tonnes of peeler billets. and their contract is 150 000. Is this entirely the fact it was the bushfire? The Smithton plant in the north could not ramp up?

**Mr WHITELEY** - It is too costly to cart logs from the south so they used to cart some of the processed material to Smithton. It is very expensive to cart that quality of log all the way up to Smithton.

**CHAIR** - It is going to take a little while too, because if you are relying on southern trees to go to the southern Ta Ann facility, is that going to present ongoing challenges?

**Mr WHITELEY** - No, two parts to that question. In the interim we are continuing to segregate that grade of log. Currently it is being exported. That is principally around the contractors' business in terms of the segregation. The contractors are out there delivering sawlog. We want them to continue to deliver the other solid wood product, which is the tarn peeler billet. In the south those logs are currently being sold to log exporters. That is really to maintain supply chain continuity for

the contractors, but also to enable a rapid restart for Ta Ann when they are ready so, effectively the system.

**CHAIR** - You are keeping the contractors going.

**Mr WHITELEY** - Keeping the contractors rolling. We only have short-term arrangements with exporters so, as soon as Ta Ann tells us they can take the logs again, we can immediately and do not have to ramp up our production again. We have effectively scaled it down somewhat because we do not want to be exporting logs unnecessarily, but have maintained that capability for them to resume operations.

**CHAIR** - Are there any penalties on either side for not delivering or not taking the contracted volumes.

**Mr WHITELEY** - No, not under these circumstances.

**CHAIR** - I want to go to one other area and then come back to others again. It was mentioned by your minister in the opening comments around FSC certification. It might have been the CEO was talking about it. Someone was. The Chairman was.

You talked about there was nonconformities or there was noncompliance. Can you take us through where we are at, what those areas are and what you expect in terms of timeframes to deal with this?

**Mr de FÉGELY** - We have just had an update yesterday so I will ask the CEO.

**Mr WHITELEY** - We have had some questions recently and sought some advice from the auditor. We have published their response on our website in mid-October that outline what process they need to go through.

Because there is a new Australian Standard, it is one of the first audits under the new Australian FSC standard. Prior to that there wasn't an Australian Standard, so what they have said to us is they are taking some effort to make sure there is a particular interpretation of the new standard.

Where we are at now - as the Chair indicated - part of their process they indicated in this letter was to provide the document to us for fact checking. It is not a matter of negotiating anything, it is simply that they have not accurately recorded certain things.

By virtue of seeing the report in that stage, we understand there are some nonconformances to the standard which would mean until we close out those nonconformances we will not be certified. We now need to wait to receive the reports which indicates precisely what we need to close out so we are aware of the broad area.

**CHAIR** - In broad areas then what are these areas of nonconformance?

**Mr WHITELEY** - The broad areas remain around old growth and treatment species and their management. It is significantly improved from the last audit so, we have taken significant steps. Because there is a new standard, there are some matters in there that need to be interpreted so, again that is the broad categorisation. We are not certain yet exactly what we are required to do. Some things may be simply providing some more evidence of something we are doing.

**CHAIR** - The update you received yesterday?

**Mr WHITELEY** - No, we have had it for a few weeks.

**CHAIR** - Is that the one you've published on the website?

**Mr WHITELEY** - No. In October we had not received anything when we were being asked some questions, so we simply sought advice from the auditor as to what they expected their process to be and that is laid out. That is available on our website if anybody would like to refer to that.

The first step is to provide us with a report to make sure the facts are correct. Correctly quoting various things, not doing things.

**CHAIR** - You are saying the letter received it is not identifying the areas of noncompliance?

**Mr WHITELEY** - No, the letter is about process, what to expect. They have talked about the steps we need to go through and particularly making reference to a new standard which is also included; because it is a new standard, they are going to get some independent experts to review their report before they submit it to us.

**CHAIR** - Minister, can you provide us with a document that outlines in broad terms the areas of nonconformance?

**Mr WHITELEY** - Not at this stage.

**Mr BARNETT** - The CEO has responded to that. To clarify, you are expecting it in the not too distant future? When would you expect that?

**Mr WHITELEY** - As we have understood from this process, they simply need to run a process, which is what they are.

**Mr BARNETT** - They are looking to receiving that from the auditors and have had the audit earlier in the year, and we still do not have a final audit report. I will seek clarification and information from STT.

**Mr de FÉGELY** - If I can clarify what happens - the process the audit went through over the period of two weeks; they had a verbal debrief at the end and outlined a number of nonconformances, but they say you cannot rely on this verbal debrief. They outlined two main nonconformances around threatened species and old growth retention, as mentioned by the CEO.

We have been waiting to see in detail what those are. We do not have them as they have not been sent to us yet. We are continuing to work a little blindly around this to try to say 'Well, what do we think? What can we do?' We asked for some indication of timing and received a letter from the auditors to say they were working on it and would let us know in due course. The board at the moment has not had any formal advice around this. All we have is the verbal advice of the auditors post the audit.

**CHAIR** - The written advice outlining the nonconformance areas would be published and made public?

**Mr WHITELEY** - Well, last time, but we have not put it to the board yet. We have not received anything and they have not considered it.

**CHAIR** - No, no, but is there an intention to make that public about what areas with more detail around it, particularly the two areas you mentioned, Steve, but also there could be others. You said there are other minor areas potentially.

**Mr de FÉGELY** - There could be, who knows? We will not know until we actually see it. We are obviously trying to be proactive and manage for what we think is coming.

**CHAIR** - The question is: when you receive the advice will that be made public?

**Mr de FÉGELY** - I believe the board would have as very open position around it. I do not see why we would not, but I do not want to predict what the board will say because I am just one of a number. I am only the chair. It has not been put to us.

**Mr BARNETT** - Are we still on FSC because I would like to add something? Sustainable Timber Tasmania is operating in a best practice management and already has third party certification through the Australian Forestry Standard. In addition, they have what is called PEFC.

**CHAIR** - We understand that, minister.

**Mr BARNETT** - Well, no, it is important. I do not want a misconception. They are already certified through PEFC and through Australian Forestry Standard, it is a third party certification. PEFC is in fact the world's largest certification system. So that already occurs.

Second, and finally and very briefly, the Government supports their objectives to be FSC certified.

**CHAIR** - It has been a commitment of Government to seek FSC and why the question is around that. We know you have already got PEFC.

**Mr BARNETT** - No, I am just making it clear. They already have the third party certification. Regarding FSC, the Government supports the objectives of the board to obtain certification for FSC.

**CHAIR** - That is why we are asking about that. Thank you.

**Ms LOVELL** - Understanding you are waiting on that final report and are not clear on a time frame for that, but given that you have had some verbal advice around the areas of nonconformance, have you put any thought to or had any advice around how long you expect it will take to address those areas if that is all that comes out of the report?

**Mr de FÉGELY** - I would have to ask the CEO. Until we see it it is difficult. An obvious threatened species would be the swift parrot and there is a statewide process under parliament to address that. We are doing everything we can at the moment to work and ensure we look after the swift parrot in every way possible. How that will be treated by the auditors and FSC we don't know at the moment. We can go so far but after that we will have to wait until we are informed.

**Ms LOVELL** - Minister, are you expecting that the reopening of any of the 356 hectares of future potential production forest will impact obtaining FSC certification?

**Mr BARNETT** - I don't expect so.

**Mr FINCH** - Just one observation: if you go into Bunnings, there is wooden furniture from Vietnam with a brass plate saying their wood comes from Vietnamese forests that have Forest Stewardship Council certification. If the Vietnamese industry can obtain certification, I am just really frustrated that it is taking so long to prove this circumstance in Tasmania.

**Mr BARNETT** - Yes, very clearly, Sustainable Timber Tasmania already has FSC certification for its plantation estate for controlled wood; this is for the native forest estate. We have the two parts: you have the plantation controlled wood and then the native forest estate. The wood that you are referring to in Bunnings, I suspect is probably from plantation estates in Vietnam, if that were the case.

**Mr de FÉGELY** - Highly likely to come from plantations.

**Mr FINCH** - But then the report this year notes that 616 hectares of old growth forest was partially harvested and 51 hectares was clearfelled. I had the impression that clearfelling of old growth forest ended some years ago, but I am obviously wrong. That clearfelling is occurring. What will happen to the old growth forest area that has been clearfelled?

**Mr WHITELEY** - Again, through our processes, we no longer clearfell what we call coupes containing old growth, in other words, significant areas of old growth. Because our forests are quite diverse, we end up with small pockets of old growth within other areas that are otherwise regrowth. The sum of many small patches makes up 51 hectares across the 4000 or 5000 hectares that we harvest. These are very small areas in the context of the reservation of old growth across the state.

**Mr FINCH** - Victoria has been specific in ending old growth forest harvesting and we are continuing to harvest them.

**Mr BARNETT** - They have, but it was a disastrous decision for the forest industry in Victoria - an absolute nightmare putting hundreds and thousands of workers on the unemployment scrapheap using taxpayers' money.

**Mr FINCH** - Yes, and the Victorian Government's policy is to end native forest logging by 2030 so you would include that in the same disaster?

**Mr BARNETT** - Absolutely, which is what we don't do here because we manage it in a world-class, best-practice way. We have no intention of doing what Victoria is doing. In fact, they are kowtowing to the Greens and inner cities like Melbourne. The policy you are referring to of the Victorian Labor Government is exactly the policy of the Greens in Tasmania, which is to close our native forest harvesting industry in Tasmania. It would be a disaster; it would throw thousands of rural and regional Tasmanians out of work. This is exactly what happened under the former Labor-Greens government with the lock-ups and closing down of our forest industry where two out of three forestry jobs were lost. We went to the elections on two occasions; we got a mandate, we said 'No more lock-ups, rebuild the forest industry'. We have done that, we are delivering; there is a lot more work to do and we are on track.

## UNCORRECTED PROOF ISSUE

**Mr VALENTINE** - With regard to FSC and the Australian Standard that is coming into play, can you tell me what the difference is between the standard that used to exist and the Australian Standard? You have mentioned native forest harvesting - it might be around that. Is that because there are very few native forests in other areas of the world that have to be taken into account when it comes to getting FSC certification? Why do we have an Australian standard? Can you give me that explanation?

**Mr WHITELEY** - If you want a more complete answer, I will invite Suzette Weeding to come to the table if that's important to the committee.

**Mr VALENTINE** - I'd certainly like to understand it.

**CHAIR** - We have only 15 minutes so we might come back if we have time to get more details, or we can take that on notice perhaps to provide us with more detail on the Australian Standard and the differences.

**Mr WHITELEY** - I think that we can arrange way of providing that advice.

**Mr VALENTINE** - I would really like to understand why there is a need for an Australian standard and what the differences are between it and the general FSC standard?

**Mr GAFFNEY** - A quick question minister because I realise we need to get onto the special species and other assets.

You opened the door there for the question. The Environmental Defenders Office's Nicole Sommer, who is the principal lawyer and CEO of that office has said in one of their newsletters -

In 2020, Tasmania faces momentous challenges including the opening up of more than 350 000 hectares -

I think Sarah Lovell alluded to 356 000 hectares -

- of high conservation value old growth native forests to new logging with the end of the forest moratorium.

I am wondering if someone would like to make a comment about the accuracy of that statement and what will it mean. It worries me a little bit too, with the timing of the protest laws and the moratorium finishing in 2020, whether there is a connection between the laws that are being discussed and that moratorium finishing and managing that challenge.

**Mr BARNETT** - Absolutely, and I can respond to that question. I thank you for the question. It is inaccurate.

**Mr GAFFNEY** - The statement here?

**Mr BARNETT** - Yes, it is inaccurate, because it is consistent with the view of the Greens, which is inaccurate and they keep referring to the 356 000 hectares as conservation forest. It is not. It is a wood bank. It has been passed through parliament by our Government and we took it to the election.

The previous government, under the TFA, wanted to lock up that amount of land. The Tasmanian people accepted the view of the Hodgman Liberal Government not to lock it up and they said 'No more lock-ups'. We tore up the Tasmanian Forest Agreement, which caused massive job losses in the industry. We have put in place measures to rebuild the industry.

One of those measures is to ensure that 356 000 hectares was not locked up, but was in fact put into what is called 'a wood bank' - future potential production forest. That's exactly what it is. It's a wood bank, and it must be managed in best-practice management.

In due course, if a commercial forester wanted to put forward an application to do some timber harvesting in that area, it would have to go through all the due process in terms of being certified, getting a forest practices plan, a harvesting plan, meet the environmental requirements, meet the planning requirements, meet all the forestry requirements, jump through all those hoops that we do. We manage Tasmania's forests and our productive forests in a very best practice way.

I refute the views of EDO, which are consistent with the views of the Greens. This area is a wood bank. That is my summary, but I am happy to answer any other questions.

**Mr GAFFNEY** - No, that's fine. It says 'high conservation value old growth native forests'. Regardless of what colour anybody is, all Tasmanians have the right to an opinion regarding the management of the reserves and forests.

**Mr BARNETT** - They do have the right to share an opinion.

**Mr GAFFNEY** - They do, that is right.

**Mr BARNETT** - I have the right to respond to that and say that opinion is wrong because it has been through the parliament. The views of the Tasmanian people have been very well expressed that we don't want that area locked up. The Tasmanian people said 'No' to that, 'No more lock-ups'. That was attempted to be locked up under the previous Labor-Greens government.

We are a majority Liberal Government, we support jobs and support sustainable management of our timber industry.

**Mr GAFFNEY** - To the defence of Nicole Sommer, all she said is that it is opening up more than 350 000 hectares.

**CHAIR** - Potentially.

**Mr GAFFNEY** - Potentially, that is what she is saying, and that's a challenge to the organisation.

**Mr BARNETT** - She has characterised it as high-value conservation forest and we have characterised it as a wood bank. It has been through the parliament accordingly and the Tasmanian people support our position. They voted for us. They said no more lock-ups, they don't want that area locked up.

**Mr GAFFNEY** - I don't think she has mentioned lock-up at all.

**Mr BARNETT** - Well, she has characterised it accordingly.



**CHAIR** - What's the process then for making that timber available?

**Mr BARNETT** - It would be pursuant to the Forestry (Rebuilding the Forest Industry) Act 2014 and 8 April 2020 next year is the date on which an application would have to be made for having access to that timber and production forest. It would still have to be approved by both Houses of the Tasmanian Parliament. There is a process in place; all the rules are there. They have to go through due process, whether it is -

**CHAIR** - So the minister makes the application?

**Mr BARNETT** - No, it's like a regulation, so an order would be tabled in both Houses of parliament. It's like a disallowable instrument so it would have to seek the approval of both Houses of parliament before that proceeded. There are measures in place for special timber harvesting as well, in advance of that. Likewise, there are 'exchange provisions', with which you can exchange part of that area for other parts of Tasmania whether it be, for example, Bruny Island. Those applications need to come forward and they need to be considered in accordance with the terms and conditions and responded to accordingly.

**Mr FINCH** - On the subject of specialty timbers you referred to, why are the volumes of non-blackwood special species logs for milling so low for the 2018-19 year?

**Mr BARNETT** - Thank you for the question and I will get the CEO to respond. We are very supportive of the specialty timber sector. We have done a lot to help support and to develop it and we are rock solidly behind it. This beautiful table is specialty timber. It is absolutely fantastic. It is one of the things we do really well in Tasmania -

**CHAIR** - Why is it low, minister? We only have a few minutes left. Yes, we know what it is.

**Mr BARNETT** - Anybody watching may not be aware that this is Tasmanian specialty timber and we are proud of the sector. On the details, let's ask the CEO to respond.

**Mr WHITELEY** - In very broad terms, there is probably no significant difference. In answer to your question about distinction between blackwood and other special timbers, blackwood largely comes from blackwood swamps up in the north-west. It is an area that can be managed for sustainable blackwood production. Most of the other special timbers come from mature forests, old growth forests, if you like, which we are progressively phasing out of in terms of operations, consistent with your question earlier. To the extent that special timbers continue to be supplied, there will need to be a program of more active targeting of special timbers in mature forest areas.

We have forecast that in our currently published three-year plan. We have put a contingency in place; should there be market demand from our customers, we have means of pursuing that wood. As yet, the relatively stable production hasn't led to any specific requests.

**Mr FINCH** - Evidence that has come to our committee is that there is a shortfall of special species timber required by the industry. Is that a fair comment?

**Mr BARNETT** - I will ask the CEO to respond. This Government is working with Hydro Tasmania in terms of Hydrowood at Arthur-Pieman. The University of Tasmania has recently released a report on the opportunities there and we are very committed to pursuing these

opportunities and grasping that opportunity with both hands. Hydrowood is working, they go down, they harvest the timber underwater, pull it back up and that is specialty -

**CHAIR** - That is predominantly Huon pine.

**Mr BARNETT** - No, it is a mix. It can be Huon pine, blackwood, myrtle as well, but it can be Tasmanian oak, interestingly, because it has been submerged. They are getting good value for money in Melbourne and Sydney for that timber. You can talk to Andrew Morgan from Hydrowood at any stage. I am now working with Hydro Tasmania and we are looking at other lakes. I know Hydro are coming here later this morning, so you can talk to them about it. Those lakes, in terms of harvesting that specialty timber, that is another opportunity. It is what we do well in Tassie and we are trying to make the most of it.

**Mr GAFFNEY** - What quantities are they taking out of the dams?

**Mr BARNETT** - A good question. I do not have the specifics because that is a private company. I have been down there, I have been on the barge and they harvest underwater. They pull it back onto the barge and they sell it into Melbourne and Sydney. They are making a go of it and it has been happening for a number of years.

**Mr GAFFNEY** - That is fine. If you're looking at presenting specialty timbers throughout Tasmania, whether it comes from the forest or from a dam, shouldn't you know the quantities coming out? I hate to say it but you could flood the market with the wood that is coming from the dam. I would think that that would be something that you would know because it is part of your brief. Why wouldn't you understand the quality and quantity of the wood coming out of Tasmanian dams, which is another storage bank?

**Mr BARNETT** - That's a private sector company having a go, creating jobs and using our timber industry accordingly. I will see if the CEO would like to respond in terms of those figures.

**Mr GAFFNEY** - What royalties are the Tasmanian Government, or whoever it is, getting from that process? The wood is there -

**CHAIR** - I might add one question in terms of the response. How much is being paid in royalties and to whom? Is the wood that's taken out by Hydrowood, Andrew Morgan, counted in the quota or the amount of timber allocated for the special species timber sector?

**Mr WHITELEY** - The short answer is no. Just to distinguish, we've got terrestrial wood, they've got hydrowood. There are some different wood properties there, so they've looked to differentiate their product and put it into different markets. They sell a lot of their wood interstate, whereas we principally support the local domestic processing industry.

**CHAIR** - On that point, minister, Hydrowood is irrelevant to the questions Kerry has been asking about meeting the obligations to supply the special species timber sector in Tasmania and the question about the reduced supply. How much are they are paying in royalties, before we go to that?

**Mr BARNETT** - That's a matter for Hydro Tasmania.

**CHAIR** - I'll ask you then. Hydro gets the money, the royalties.

**Mr BARNETT** - They own the lake.

**Mr FINCH** - On the special species timber industry, you might need to take these questions on notice. What was the cost of STT's CSO obligation for special species in 2018-19 and can that be broken down into costs for -

- (a) identifying special species timber activities;
- (b) managing special species timber activities;
- (c) harvesting special species timber activities; and
- (d) the management of the Huon pine stockpile?

**Mr BARNETT** - I can answer the first part of your question, then I'll go to Steve. We have \$2 million for hazard reduction burns; \$2 million for bushfire preparation and, on top of that, the CSO, which has been \$12 million in the past and is now \$10 million this financial year. The \$12 million covers a range of things in terms of roads, tourism, multiple use assets and supporting -

**CHAIR** - The \$10 million or the \$12 million?

**Mr BARNETT** - It was \$12 million in the previous financial year and \$10 million this year. It covers community support, tourism, forest education activities and recreational activities, and the Chair talked about some of those before. As to the second part of your question, I will pass to the CEO.

**Mr WHITELEY** - The breakdown; at a high level, we receive \$12 million for the year. We spent \$13.6 million across the range of land management activities that we received some support from the Government for.

**CHAIR** - Some additional CSO funding, not out of your operating money?

**Mr WHITELEY** - In terms of the provision of the CSO, which is the \$12 million we are reporting on in the annual report that we're referring to so. We have the breakdown for that. We spent, within our business, within our land management division, \$13.6 million doing the range of things that we receive assistance from the Government to do. It was \$12 million, now dropping back to \$10 million. That's providing some context.

In terms of order of magnitude in your question, 7 per cent of the expenditure was related to special timbers management, including improving forest values and protecting the forest. Some of that relates to the Huon pine stockpile that you mentioned and those sorts of things. It doesn't relate to harvesting, so it's very clear, the Government's been very clear, we have a forest product division and there's no cross-subsidisation for forest production. The difference there is we're assisted to salvage and stockpile Huon pine, largely out of Macquarie Harbour. A flood will come down and we need to accumulate wood there, but when it comes to land management it is completely separate from our forest products division.

**CHAIR** - CSOs do not fund the harvesting of special species timber.

**Mr WHITELEY** - Correct.

**Mr FINCH** - I didn't get a positive sense from the special species timber people about what you're saying.

**Mr WHITELEY** - I think there's a misconception there that, prior to the current Government's policy, there was an implication that some of those funds, which were delivered differently, were for the that purpose. Under the current Government it has been very clear. Part of the policy position is that no subsidies are provided for forest products and that includes special timbers.

**Mr VALENTINE** - With respect to regeneration, where you've gone into native forest and you've harvested, are you regenerating with special species? Can you explain very briefly how much land is being regenerated into special species and what the path of that is going forward?

**Mr WHITELEY** - Each year when we prepare our three-year plan, we recognise particular parts of the forest as being mixed forest. They have a eucalypt overstorey and an understorey of the special species.

**Mr VALENTINE** - You have areas that don't have eucalypt that you are going into as well according to your - the cool temperate rainforest with no significant eucalypt or acacia species. There is something in the order of 62 hectares of PTPZ land and 19 hectares was in production.

**Mr WHITELEY** - It is a bit like the question we were asked before about old growth. There are small patches of these that accumulate in that way so it is not an area that we're targeting. It is simply because of the mosaic within the forest. That is how we operate.

Regarding your question about sustainability of various components, clearly there is an area that is not eucalypt-dominated and we have a series of special timbers management units that have been set up, again as a long-term resource. It is explained in the special timbers management plan that has been prepared across the whole of the state. It also makes reference to areas that are managed on Permanent Timber Production Zone land.

I have long-term areas for special timbers production and that includes the blackwood swamps, the Huon pine salvage as well as some rainforest areas up in the north-west. We don't currently operate those. Effectively we are relying at the moment, largely, on mixed forest.

Some of those areas were designated to be managed on a long rotation so we simply provide sufficient time for the range of species to recover. In other words, a 200-year rotation for those areas. If we harvest those now, there is normally natural seed. We have done some research around that. The species will come back. The management method there is to allow them to grow for a long period.

**Mr VALENTINE** - What species are you talking about there? Myrtle?

**Mr WHITELEY** - They tend to be myrtle, sassafras.

**Mr VALENTINE** - Blackwood but not Huon, obviously.

**Mr WHITELEY** - No, not Huon. That is purely salvaged. Myrtle and sassafras are the ones that 200 years is about right. Celery top pine, as we know, is slower grown - something between 200 and 400 years is more what the boat builders and others look to.

## UNCORRECTED PROOF ISSUE

**CHAIR** - We will wrap it up now. I am sure we could go on for much longer with a range of other questions. We thank you, minister, and your team from Sustainable Timber Tasmania. We will have a break and you will be back.

Thank you all.

**Committee suspended at 10.33 a.m.**

# UNCORRECTED PROOF ISSUE

**Thursday 5 December 2019 - Legislative Council - Government Businesses Scrutiny Committee A - Hydro Tasmania**

## LEGISLATIVE COUNCIL

## GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

**Thursday 5 December 2019**

### MEMBERS

Mr Finch  
Ms Forrest (Chair)  
Mr Gaffney (Deputy Chair)  
Ms Lovell  
Mr Valentine  
Ms Webb

### SUBSTITUTE MEMBERS

### IN ATTENDANCE

**Hon. Guy Barnett MP**, Minister for Energy

#### **Ministerial Office**

**Mr Ashley Bastock**, Chief of Staff

**Ms Vanessa Pinto**, Senior Adviser

#### **Hydro Tasmania**

**Mr Grant Every-Burns**, Chairman

**Mr Stephen Davy**, Chief Executive Officer

**Mr Tim Peters**, Head of Financial and Management Accounting

**Ms Eleanor Inglis**, Government Relations Manager

**Ms Cassandra Leigh**, External Communications Manager

The Committee resumed at 10.48 a.m.

**CHAIR** - Welcome back, minister. We now have Hydro until 1 p.m. Just by way of explanation again, this is a public hearing. It is being streamed -I am sure you are aware of that - and the *Hansard* of the session today will form part of our report that will be tabled in parliament.

I invite the minister to make some opening comments and the chair if he wishes to do so as well. If there is anything of a confidential nature, that questions relate to matters you would consider confidential, as with all committees you can request that information be received in confidence. You would need to make the case for that and the committee would then deliberate on that, otherwise it is all public. We ask that because we have limited time if this side tries to keep our questions succinct and the answers can be equally so. I just remind members on both sides of the table to use the microphones for the benefit of *Hansard* and all members and those in the gallery there. Thank you, minister.

**Mr BARNETT** - Thank you very much, Madam Chair, and thank you for the opportunity of being here today with the Legislative Council. I would like to introduce Grant Every-Burns, on my right, the Chair of Hydro Tasmania; Steve Davy, the CEO on my left; and Ian Brooksbank, Chief Financial Officer who has been in the role for nine days. A special welcome to Ian.

Thank you, Madam Chair, I will make a brief opening statement and then I will pass to the chair for an opening statement. The role of Hydro Tasmania is a key part of the Tasmania-First Energy Policy. We are pleased and proud of that. Delivering downward pressure on electricity prices and ensuring energy security it is a top priority for our government. Of course, the performance of the 12 months we are reviewing today is very good. The profit underlying result for 2018-19 was \$195 million, well above the budget, and a dividend of \$120 million be paid in that financial year.

Hydro continues to invest in its hydro assets and that is a significant investment, such as the \$22 million upgrade of the Devils Gate Power Station, marking 50 years of service. Hydro Tasmania has also comfortably exceeded its storage targets, we are very pleased to advise, with 40 per cent at the start of the summer and just over 34 per cent at the end of June. That again is a good result. As I say, energy security is a top priority and we have implemented all the task force report recommendations. The Tasmanian Economic Regulator's Annual Energy Security Review for 2018-19 indicates a good report.

Regarding the Battery of the Nation project, Hydro Tasmania is playing a key part in that, offering pumped hydro opportunities and expending \$30 million on the top priority projects such as Lake Cethana, Lake Rowallan and Tribute Power Station on the west coast. We are looking at those options very seriously now and Steve can provide more information to the committee in due course. That is the key part of our plan, to become the battery of the nation, based on the fact that we are the renewable energy powerhouse of Australia; we are very proud about that.

We are thankful for the Australian Government's backing for the 1500-megawatt capacity Marinus Link, that is the second interconnector across the Bass Strait. We thank it for the \$56 million to fast track the design and approval plans for Marinus Link. The underwriting of the pumped hydro opportunities in Tasmania is the Underwriting New Generation Investments - UNGI. Those discussions and negotiations with the federal government are very positive and we appreciate that, and that is progressing positively.

We are investigating the \$500 million upgrade or redevelopment of the Tarraleah Power Station. This is a very significant development and that work is ongoing. That would transform an

80-year-old scheme into one of the most modern state-of-the-art hydro power assets in Tasmanian history. It is perfectly suited to fit with the changing national electricity market and be part of our renewable energy assets here in Tasmania, of which we are very proud. As minister, I am particularly proud. There is a lot more to share but I would like to pass to the chair to share some opening remarks.

**Mr EVERY-BURNS** - I would like to echo the points made by the minister. It has been a very good year for Hydro, very strong financial results and we are in a very space in terms of storage, as well. So, it is a good start. The minister also highlighted our continued investment in the hydro power asset base to ensure it continues to provide the service we need, not just today but for the future need of Tasmania and the national market.

These assets are the ones that will underpin our contribution to the Battery of the Nation with the new build as well. Some of these generation assets, as well as major transmission assets, were severely threatened by bushfires in January this year. I will take this opportunity to acknowledge the extraordinary work that the emergency services personnel did at that time, as well as the people from our energy business and the other energy businesses.

I flew down at that point in time and spent some time with people on the ground and it was a very difficult time but it is the first time I have seen such good cooperation between all the services. We had one of our Hydro people actually effectively lived in for about seven days during that process, so every day.

**CHAIR** - Which assets were under threat?

**Mr EVERY-BURNS** - The transmission lines down the centre of the country and some of our generation assets.

**CHAIR** - Transmission is TasNetworks so what Hydro assets were at risk here?

**Mr EVERY-BURNS** - The power station and the transmission system were affected by a loss of transmission. The fire service actually had members of the energy groups with them and they had briefings every morning and sorted out where the priority should go. It was a very good process. Apart from that, a good year for Hydro. We hope that translates into being good for all Tasmanians.

We are proudly playing a part of being in the Tasmanian community for over a century. We are actively seeking ways we can grow our social licence and we have spent time this year supporting the Smith Family Learning Clubs and providing support to recreational activities, including kayaking and angling. We have supported sporting events that attract visitors to Tasmania's regional areas, such as the National Canoe Slalom Championships and currently the World Fly Fishing Championships, which I don't think Australia's doing perfectly in at this stage.

**CHAIR** - They are now apparently. We had an update from the minister.

**Mr BARNETT** - I can advise the committee and on the public record, Australia is now winning and Jonathon Staggs the lead individual fly fisher. Congratulations to Jonathon Stagg, a local Tasmanian and a fine angler. Thank you for the opportunity to share that important information.

**Mr EVERY-BURNS** - We are currently assisting young women who want to pursue a career in engineering. We have continued building our education program that helps young Tasmanians



learn about where their energy comes from and we are trying to inspire careers in science, technology, engineering and maths. We are provided funding for some grassroots projects that make a real difference to communities and we have done quite a bit of work to upgrade infrastructure to help people access the lakes and rivers.

While our home priority is Tasmania, our work has impacts much further afield. I want to acknowledge the contribution Momentum has and continues to make to the Hydro Tasmania group. It has been able to differentiate itself in a very competitive market and one of the offerings that puts it ahead of others is it is a decent company to deal with. The ethics of Hydro and Tasmania move into that area also.

Our consulting business, Entura, once again made an excellent contribution to the Hydro group and has been awarded future work in the pipeline valued at about \$50 million. That is exceptional work, but it is also going to provide vital support for Battery for the Nation, so we are very pleased about the announcements been made and see that as being extremely positive for us.

Final note, Entura is also doing a lot of work in places like Papua New Guinea where it is actually part of the rural electrification program. It is being supported by a number of governments. We are working the Cook Islands, Tonga, Vanuatu, and the Federated States of Micronesia and bringing forward the renewable technology showcasing what Tasmania can do.

Thank you again, for the opportunity to make those statements.

**CHAIR** - If I can go to the financials to start with. As you both alluded to, the headline profit before tax was \$195 million. After tax it was \$160 million. The other comprehensive income was a loss of \$329 million. This is on pages 20 and 21 of the annual report. When added to the profit after tax, the overall loss was \$169 million. The balance sheet shows total equity falling by \$249 million. The overall loss was \$169 million, less the dividend paid of \$80 million to equal \$249 million. That is just the background.

The profit figure, as both of you have described, describes a successful year so, but to what extent does the other comprehensive income loss of \$169 million indicate a less than successful year? Is it fair to characterise Hydro's balance sheet as going backwards despite the profits other liabilities increased and is this a concern? If not, why not?

**Mr BARNETT** - Thank you very much for the question. It is in two parts and the sustainable profitable Hydro Tasmania is the objective of our Government and what is being achieved with a good result this year. I will ask Steve to address those particular questions.

**Mr DAVY** - I wanted to echo the comments the chairman made about the tremendous effort our people have made throughout the year to deliver the result we have.

The result we focus on in terms of what we have done over the year is the result before fair value movements and revaluation, the \$195 million. This is effectively the cash contribution across the year, but as you point out there are other impacts we have brought into the annual report. We have diligently followed the accounting practice we are required to do, so we end up with a bunch of figures that come through the profit and loss and then other values that come through equity.

## UNCORRECTED PROOF ISSUE

The main thing that has affected the negative parts added to the profit to get the comprehensive income - which is a loss this year - is the revaluation of the assets, due to the change in the long-term forward curves.

Our Hydro generation assets are valued out to 100-years and our view of the very long-term value of electricity has dropped from one year to the next.

**CHAIR** - In terms of your return on those assets, is that what you are talking about?

**Mr DAVY** - No, we are required to value each year our derivative contracts and assets based on a view of the forward curve of electricity.

The observable forward curve for electricity only goes out about three years, so after that we are required to build a model, then auditors review that model and tell us whether that is the right model.

What has unfolded over the last year or two is that we have taken a different view about what the long-run price of electricity will be into the future decades and a lot of this is informed by the drops in capital costs of the technology being constructed.

**CHAIR** - So you are suggesting electricity will be cheaper over the longer term?

**Mr DAVY** - It will be cheaper than the curve we assumed a year ago.

**CHAIR** - I am not saying it will be cheaper than it is now, but it is not going to grow at the same rate?

**Mr DAVY** - Exactly right.

**CHAIR** - Or the price is not going to increase at the same rate maybe a better way of saying it.

**Mr VALENTINE** - That is set against asset life?

**Mr DAVY** - Yes. That is going all the way out to the long-run asset life over our assets. We followed a process of constructing the curve that takes into account the cost of constructing assets now and also the learning curve of how the cost of future assets - not our assets - but the assets that are built to supply the national market will likely fall as time goes on in coming decades.

**CHAIR** - Minister, those comments the CEO has made, do they fully explain the 10 per cent backward movement in the balance sheet?

**Mr BARNETT** - The CEO has explained it pretty well.

**CHAIR** - The question was, does that fully account for the 10 per cent backwards movement in the balance sheet? Ten per cent backwards movement in the balance sheet does require a little bit of commentary.

**Mr DAVY** - Yes, that is the explanation. We have changed the forward curve in light of the information that has come to bear about costs of building new generation. As when we talk about

the Battery of the Nation project later, the electricity sector in Australia, as it is globally, is in the beginning of a transition and part of the reason for that transition is the cost of these new assets has fallen in price. We are reflecting that fall in price of these new assets and expect a further fall of these new assets that will be built in Australia, in our forward view of electricity prices. That is what we are required to do to apply the accounting standards.

It has little to do with the actual money these assets will earn in Tasmania. They are entirely to do with the accounting methodology we are required to use to fair value these assets.

**Mr VALENTINE** - Because you have private assets coming into the generation space, do you take that into account, that you are actually not needing to provide a level of generation going forward or in perhaps 60, 70 or 80 years out and the life of the assets you currently have and the failure rate of those assets?

**Mr DAVY** - It is entirely to do with the need to create a long-run national market curve and value the assets on that national market. It does not go into that detail of the supply.

**Mr VALENTINE** - And who owns the assets?

**Mr DAVY** - No.

**Mr VALENTINE** - With regard to how you handle your asset life, is that something that's live, that every time you get an asset failure you update the life of similar existing assets? For instance, you have a dam which you might originally say has a 100-year life. If you get a dam failure at 80 years, do you reassess all your assets of similar type and then adjust their life back? How do you do that?

**CHAIR** - How was maintenance accounted for? Is that what you're asking?

**Mr VALENTINE** - No, how is the valuation of the asset handled? Back in my days of local government - and you were talking about pipes in the ground - if you get a failure of a sewerage line, or two or three in one year, you might revisit the whole value of the inground infrastructure and it's actively updated as you go.

I am interested to know how you handle that for assets like dams and generation equipment.

**Mr BARNETT** - It's a really good question. I'd like to respond to the previous question. You talked about the transition in the National Electricity Market. I will give you an example: a 12 000-megawatt increase in renewables over coming years and a 17 000-megawatt demand for storage, which is like pumped hydro, in the next 10 to 15 years. You can see that there is a massive transition taking place. I'm sure we will have more questions about that but I thought I'd clarify that.

Hydro Tasmania spends more than \$100 million a year on repairs and maintenance. As to the aspect of how that is rolled out, I was at the Repulse Dam, which has had a \$17 million upgrade and that's to increase the efficiency of the dam. You get that 5 or 10 per cent increase in efficiency. That will feed into the system and that repair and maintenance - that upgrade - is fantastic for Hydro and its capacity to provide low-cost reliable clean energy here in Tasmania.

On the management and valuation side and how that works, I will pass to the CEO.

**Mr DAVY** - With the Repulse Power Station refurbishment the minister was referring to, like all of our refurbishments, we take what measures we can to improve the efficiency of the assets by the new equipment we install.

Rather than change the life of our assets through our valuation techniques, we have set life times that are accounting standard lifetimes for the civil and power station assets. We don't change those very frequently at all. They are always under review, but I don't think they have changed from year to year recently.

What we do take into account is the level of capital investment. As well as having a depreciation schedule against the civil and power station assets, we also have a capital investment program. Our capital investment program for the year just past would be more than \$100 million and it's of that nature in the year that we are in now.

It's that future capital investment cashflow that is informed by the condition monitoring, as you say, and any evidence that we get about the amount of asset investment that we need to maintain those assets, which is really our strategy to make sure that all those assets are available for future generation.

Any information about failure rate would go into that asset management plan and our level of expenditure would go up and down as a result of the -

**Mr VALENTINE** - You would put further funds aside for depreciation in relation to that so that you are quite cashed up and ready to place money into those assets?

**Mr DAVY** - The depreciation doesn't affect them, the amount of cash available affects the state of results. It's making sure that we have the right amount of capital investment to keep the level of availability, reliability and safety on the assets for future generation.

To go to the point of what you were saying, any incident or condition assessment informs that future expenditure program rather than change our view of the value of that life of the asset.

**Mr VALENTINE** - It's not a real-time management, basically. As I say, you get an asset failure - it might be a rock-fill dam as opposed to a solid-wall dam - if that fails after 60 years and it had an original life of 80 or 100, you don't then go back and reassess all of those rock-fill dams to see whether or not -

**Mr DAVY** - We do. Any incident causes us to reassess every like asset, but we don't then automatically change its book value as a result of that assessment - which I think was the question you were asking.

**Mr VALENTINE** - That's fine, thank you; you've explained it.

**CHAIR** - I noticed the statement of comprehensive outcome there. The losses were mainly due to hedge losses - that is on page 21 - and when you go to page 67, there is further commentary on this.

I find this a very complicated area and I am sure most of us on this side of the table do, if not some of those on that side as well. Can you explain, minister, or someone who is able to, in simple layperson terms, why the electricity price cashflow hedges have moved like they did in 2018-19?

**Mr DAVY** - This is more detail of the answer that I was already giving. When you add it all together, the assets, the forward curve, as well as falling in terms of our long-run expectation in the front few years it has risen. We are required to use the mainland forward curve to revalue our Tasmanian contracts and our Tasmanian assets. Even though the price of electricity in Tasmania for customers isn't moving in the same way, when we fair-value our contracts we fair-value on the Victorian forward curve. The Victorian forward curve, between the end of the previous financial year and this financial year just finished, had moved up dramatically in the earlier few years. There was quite a big negative market-to-market change on a handful of cashflow hedges that we bring through the balance sheet.

**CHAIR** - Again, it's an area that I'm not overly familiar with, but given the fact that we have decoupled - for want of a better word - from the Victorian energy market in terms of costs, and this is going to other areas - not necessarily your area but Aurora and others - and the minister sets the wholesale energy price for retail customers, we are basically having to make our determinations and our judgments based on a price that we don't use for a lot of our customers. Is that right or am I misunderstanding what you are saying?

**Mr BARNETT** - A clarification of the delinking process: that is being undertaken by Treasury. I think we have discussed it in the past but that process is ongoing. There is a consultancy called EMCa; there was a public document seeking options and feedback on that. That process is ongoing in accordance with our plans to have the lowest regulated electricity prices in Australia for residential and business customers by 2022 and likewise to delink by 2022.

**CHAIR** - In the meantime, Treasury is still setting the price?

**Mr BARNETT** - That's right. We have the regulated CPI cap on our electricity prices because that is a top priority to keep the cost of living and the cost of doing business down.

On the other part of the question, I will ask the CEO to respond.

**Mr DAVY** - You are quite right. This is what we are required to do under accounting standards: to fair-value our Tasmanian derivative contracts at the Victorian forward curve. Once the Victorian forward curve that is observable is finished, we are required to model one ourselves and then our auditors and the government's auditors review those models for us and tell us whether we have gone about that the right way. Following that process diligently, those are the numbers that come out of that process.

The reason for that cashflow hedge change is the change in shape of the observable Victorian forward curve.

**CHAIR** - It may be a similar answer, but in looking at the cashflow statement on page 23 under investing activities this year, \$108 million cash was received, whereas last year \$202 million was paid out. On page 37, economic hedges covering energy prices posted a fair gain of \$141 million this year compared to \$175 million loss last year. Are the cashflow receipts and outflows related to fair-value gains and losses of the economic price derivative hedges? Can you explain the economic price derivative hedges? We were talking about the cashflow hedges earlier.

**Mr DAVY** - Yes.

**CHAIR** - Is it the same answer?

**Mr DAVY** - There is a process by which we are required to decide which hedges come through the profit and loss and which hedges go through equity. As it happens, with the move up and the forward curve, the hedges that go through profit and loss add a positive change and the hedges that go through equity have the negative change.

**Mr EVERY-BURNS** - This is not real money in the sense that people are worried about money being lost or gained. The issue is that we put hedges in place to reduce risk to the company, which means you fix the price into the future at something you are happy with, which means you fix it at a price you are making money out of. People then later come back and have a look at it and say, 'You know what? The electricity price is lower now', which means we have locked in a better price than we would have got otherwise. We appear to have lost an opportunity. The alternative is the other way around, where you say that you -

**CHAIR** - That is what hedges are.

**Mr EVERY-BURNS** - Yes, that is what they are. It is probably recorded through, as Steve says, the accounting standards to reflect that, if you or banks are doing something completely ridiculous, it will show up in a transparent way. If you are operating normally in the traded electricity world, all that happens is that some usually reflect losses because you might have done better had you waited but you cannot afford to wait, other times you would have done worse had you waited. You find year to year they bump up and down between positives and negatives and we generally take heed of it. As Steve says, we adhere absolutely to the accounting standards and the auditors hold us to that but it is a rear-view look at what has gone on. You can't actually drive the business that way.

**CHAIR** - I think the CEO was suggesting that there is an expectation that energy prices won't grow at the same rate and these will be reviewed regularly.

**Mr EVERY-BURNS** - They have to be.

**Mr BARNETT** - The answer is, yes, it is reviewed regularly and it is designed to ensure that the business remains sustainable and profitable.

**Mr EVERY-BURNS** - That is correct.

**CHAIR** - Going back to the cashflow statement, were the cash received and derivative sales used to reduce the TASCORP loans? There is money coming in; net proceeds from the financial derivatives, your cash inflows.

**Mr DAVY** - I think I know the answer to that question but rather than misstep, could I make sure I state it clearly before I give the answer?

**CHAIR** - Yes.

**Mr BARNETT** - The CEO is going to check with his financial adviser.

**Mr DAVY** - Can we go to another question and I will come back later with answer to that one?

**CHAIR** - Yes.

**Mr VALENTINE** - How often do you review modelling of storage targets? These days, there is a lot of talk about climate change and reduced rainfall. Some would say it's wetter in the west and drier in the east. Does that cause you to review your storage targets? Can you explain what you are doing with storage targets over time?

**Mr BARNETT** - Thanks very much for the question. Following the 2015-16 challenges we had in Tasmania, you might recall the Government appointed the Energy Security Taskforce. We received a report with recommendations. We have responded to that and implemented it and we have now legislated for it and those measures are now in place.

I can give you an update. The current levels are 47.2 per cent, which is very good for this time of year. That's some 16 points above the high reliability level and there's also what's called the prudent reliability level. We are tracking very well at the beginning of summer. Likewise, coming out of winter. We have the prudent reliability levels, high reliability levels and then the actual levels. I receive weekly reports on that. If you ever ask me, I can tell you what the levels of the dams are. I am pretty across it but it's very important for Hydro Tasmania to be monitoring and managing this.

We have the Energy Security Monitor and Assessor, an independent part of the government working on behalf of the public. It's not just Hydro Tasmania that's doing this in accordance with the way they wish to do it, but they are following standards and procedures. We have a government system in place now as a result of that legislation being passed through both Houses of parliament. The Government and I regularly receive those reports. As to how Hydro Tasmania manages it, I'll pass to the CEO to provide additional information.

**Mr DAVY** - As the minister was explaining, at the level of the parameters that Hydro manages its storages within, those are set and reviewed by the government's process. People from the Office of the Tasmanian Energy Regulator fill the role of ensuring that the storage minimum levels and target levels are assessed in light of any change information about the supply and demand balance in Tasmania. That's the main thing: does Tasmania have enough sources of supply to have reliable future supply? As those supply and demand issues vary there may be different views about what's the right level of water and storage to target but that's not our decision. That's the decision that's made through this government process.

**Mr VALENTINE** - How often do they review your storage level?

**Mr BARNETT** - It's an ongoing review. They review it regularly and consistently, ongoing.

**Mr VALENTINE** - Would it be 12 months or every two years?

**Mr BARNETT** - Oh no, they review it on an ongoing basis throughout the year.

**Mr DAVY** - If we are well above the prudent storage level that the minister was referring to, effectively, it's up to Hydro Tasmania's board and management to decide how to optimise the use of water and storage. As we approach the prudent storage levels, if it was very dry, approaching

the higher reliability line, the level of reporting and government and regulatory involvement in determining what the responses need to be grows and grows. Our task, which the Chairman reminds me of constantly, is to stay well above the prudent storage level so that we are making economic choices. That's what we aim to do through our management; - optimise the value of the water and storage by deciding when we generate and stay well above those.

**Mr BARNETT** - Energy security is a top priority. We've legislated for it now. It's in place. It's a top priority for our Government and it remains so.

**CHAIR** - Do you have your answer to the previous question? I might move onto the Basslink facility fee swap. The swap is a hedge, obviously too, so it is still in the area of hedges.

Note 17 sets out that \$77 million was the net revenue, which is a loss, for the year. Is this the net cost of Basslink for the year? Is it made up of the Basslink facility fee plus the amount in respect to the Basslink facility fee swap to Macquarie Bank less the revenue for the regional revenue provided by Basslink? Can you talk us through the \$77 million figure?

**Mr BARNETT** - Thank you for the question, Chair. I will pass to the CEO with regard to that. I will make it clear that in respect to Basslink, there is a dispute in place and an arbitration arrangement that is occurring. We are thwarted to some degree by legal processes to not reveal -

**CHAIR** - Not about this, minister. This is about the money.

**Mr BARNETT** - I know, but I am making it as a peremptory measure, responding to that question, to say that there are certain things we cannot reveal. I will pass to the CEO to address those parts of the question that he can respond to.

**CHAIR** - So, the \$77 million, the net cost for Basslink for the year.

**Mr DAVY** - Are you referring to page 53?

**CHAIR** - Note 17.

**Mr DAVY** - Page 53? Is the \$77 million you are referring to halfway down the page? It refers to net Basslink financial liability movement reconciliation and the line current year net revenue and operating expense?

**CHAIR** - Yes, that is the one.

**Mr DAVY** - What was the question?

**CHAIR** - Is this the net cost for Basslink for the year, and what is it made up of? There are a number of aspects to this fee.

**Mr DAVY** - Yes, it is a pretty straightforward question. Before I answer, I will confirm with the finance team whether that is the case.

**CHAIR** - While the finance team is working on that, I am assuming that the answer might be yes. Can you also provide a breakdown between the Basslink facility fee paid, the Basslink facility swap fee paid and the Basslink revenue received?



**Mr BARNETT** - Chair, I realise we are digging deep into the detail of the annual report and the finances.

**CHAIR** - That is what we are here for, minister.

**Mr BARNETT** - I am sure we will do our best to respond to your question in a timely manner. If you provide an opportunity for the CEO with his team to respond.

**CHAIR** - While the CEO is working on that with his team, you might like to ask that question on the Basslink cable, Sarah?

**Ms LOVELL** - Minister, and bearing in mind what you have said about the dispute and understanding that there may be some limitations, are you able to provide us with an update on that dispute and time lines around that legal case?

**Mr BARNETT** - Thank you the question. I can advise that the dispute is ongoing and it is progressing through the dispute resolution process. It is currently in arbitration. I am advised that the arbitration process may take some time to play out and that could be between 12 and 24 months. The Government considers that it is the most appropriate and prudent course of action to take to protect the interests of the state.

As it is part of a confidential arbitration process, it would be inappropriate to offer further details at this stage. I make it clear that energy security is a top priority for our Government and ensuring prudent storage levels are in place is clearly a priority. That is why we have the Tasmanian Economic Regulator responsible for monitoring our storage -

**CHAIR** - Minister, we are getting off the question of Basslink. I would like to go back to that and the challenges.

**Mr BARNETT** - It is related to Basslink. It is absolutely essential, energy security.

**CHAIR** - Is the amount in dispute \$30.8 million?

**Mr BARNETT** - I am not getting into that detail.

**Mr DAVY** - Where does that come from?

**CHAIR** - Keppel shareholders are told that in the annual report to Keppel, the owner of Basslink. That is the public domain; that is nothing secret about that.

**Mr BARNETT** - You are putting information on the public record?

**CHAIR** - It is already on the public record.

**Mr BARNETT** - We are not responding to that question.

**CHAIR** - In the Section 19 Report tabled in the parliament by the Government earlier this year, it says there was an extra action from the minister against Basslink that has cost \$3.3 million by

way of extra money required. That is a separate claim to the one that in in arbitration, is it? That is in the public domain, that is in the Section 19 Report.

**Mr BARNETT** - That's fine; the sum of \$3.356 million was spent on expert advice in that 2018-19 year and that is in relation to the state's dispute with Basslink as disclosed in that section 19.

**CHAIR** - The Section 19 Report said it was a dispute with the minister, not Hydro, which I understand the dispute that is being in arbitration is with Hydro.

**Mr BARNETT** - I will ask the Chair to respond to that part of it and I am happy to add.

**Mr EVERY-BURNS** - I understand they are reasonable questions. There is an arbitration going on at the moment and it does involve Hydro Tasmania and Basslink Propriety Limited in respect of the BSA, just the Basslink Services Agreement. There is a separate dispute going on that is a part of whole activity between the Government and Basslink Propriety Limited.

**CHAIR** - So there the two different ones?

**Mr EVERY-BURNS** - There are two things happening, and so it is a fair question but it is difficult for us to get into discussion on either of the detail of those things because you are either asking Hydro to talk about the Government's activity or the Government to talk about Hydro's activity. We are in a position where we ought not go into the detail of either because they are -

**CHAIR** - I am not asking for the detail, I am asking about the high level that is already in the public arena.

**Mr EVERY-BURNS** There are those two things going on so I think there was a number of \$30 million quoted -

**Mr BARNETT** - That was the figure that the Chair quoted. We are not quoting that figure.

**Ms LOVELL** - Minister, are you able to update us on the total legal costs incurred in both of these disputes to date?

**Mr BARNETT** - I can refer to the \$3.356 million as per the Section 19 returns spent on expert advice in the 2018-19 year. I can also talk about the state Government's position and it would be a matter for Hydro to talk about its position. In terms of the state Government, if that is the question, I can assist you there.

We have a sum of \$885 000 we have spent of expert advice in the quarter ending 30 June 2018 as disclosed in that Section 19 return, which I referred to earlier. As at 30 June 2019, a total of \$4.24 million has been spent on expert advice in relation to the state's dispute with Basslink.

**Mr FINCH** - Minister, I want to ask about this continuing uncertainty about the future of TEMCO and there is the issue of Rio Tinto's Bell Bay Aluminium. I am wondering what contingency plans are in place if all that electricity is no longer needed? Are you thinking through into the future if they don't need that electricity? Is this where the Marinus Link might play a part? Would that be fortuitous in that unfortunate likelihood that those two companies might get into difficulties staying in Tasmania?

**Mr BARNETT** - Thank you. There is a range of parts to that question, but let's address the TEMCO part of it upfront. On 17 October 2019 South32 provided an update to the stock exchange, all on public record. They made it clear that they are continuing to review the operations for their manganese alloy smelters across the country and in New Zealand, and that they would report again by March next year, the first quarter of 2020. They have also confirmed they are considering potential buyers for both their smelters, including TEMCO, which means there is more work to do to assess and analyse those options. It's working closely with the Government and we are engaging proactively and constructively with TEMCO. Those discussions and that relationship are ongoing. Until that decision is made, those plants and TEMCO at Bell Bay will continue to operate. I can confirm that the Government continues to engage positively and constructively. Their other smelters, are in New Zealand and South Africa.

In Tasmania we are very proactive and we are out there. We have been engaging with the local community and the council and the Bell Bay industrial zone organisation and we have had ongoing discussions. The Minister for State Growth, Michael Ferguson, has played a lead role in that regard.

**Mr FINCH** - Then, what is the latest on Bell Bay Aluminium, minister? Anything to report?

**Mr BARNETT** - That has been operating for more than half a century and engages about 500 employees and contractors. It's a very significant employer in northern Tasmania and it's the largest electricity user in Tasmania. It's very conscious of the cost of electricity at Bell Bay. That's understandable that they are conscious of that cost. The Government and Hydro remain highly engaged with Bell Bay Aluminium. There have been some concerns, I know, in a letter to the editor as recently as today. I'd like to assure the author of that letter, Brian Khan, and the readers of *The Examiner* and anyone else in northern Tasmania who is interested, that Tasmania's energy security is a top priority and it's secured by the monitor and assessor by legislation, as I have referred to recently, and that will remain so. The concerns expressed in that letter are unfounded. We are certainly a renewable energy state and one step away from reaching 100 per cent fully self-sufficient in renewables, among a handful of countries worldwide, whether that be Iceland or Norway or elsewhere. Our low-cost, reliable, clean energy is one of the great assets we have. That's something we have drawn to the attention of Bell Bay Aluminium and any other industrials and businesses in Tasmania, interstate and overseas. We are ready to receive your investment and support here because of that premium and acknowledgement that we are low-cost, reliable and clean.

**Mr FINCH** - Another question, going back to potential buyers of TEMCO. Is that to operate the plant or to scrap the plant?

**Mr BARNETT** - The review?

**Mr FINCH** - There were the potential buyers that you are dealing with for TEMCO, yes.

**Mr BARNETT** - That's obviously as matter for TEMCO. They have advised us that they are considering potential buyers as one of the options so that it would continue as an ongoing concern. That would be an outcome that would be welcome, but that's a matter for TEMCO. They are reviewing that, with report by the end of the first quarter of 2020 and we will get feedback on that. We are working cooperatively and closely with TEMCO and South32, but until that decision is made those plants, we are advised, will continue operating at TEMCO at Bell Bay and the other one in South Africa.

**Mr FINCH** - In the unfortunate situation that one or two of those big operations go, does this strengthen the case for the Marinus Link?

**Mr BARNETT** - The Marinus Link case is strengthened in any event with the release of the business case assessment today.

**CHAIR** - Can we deal with that later in TasNetworks? That is a TasNetworks question.

**Mr BARNETT** - There are two parts to that. The answer is we are very confident about Marinus Link going forward and there is a lot more work to do in that space, but we are very pleased.

Second, it highlights the importance of our Renewable Hydrogen Action Plan, which is very focused on Bell Bay and northern Tasmania. It is a draft for report and feedback by 10 January. We are excited about the opportunity.

Tasmania has an objective to be a producer of green hydrogen by 2025 and to be a global producer of green hydrogen for export by 2030. We have plans for Bell Bay to be a hydrogen manufacturing hub for Australia. That's another action that we are undertaking that will be very supportive of creating jobs, growth and opportunity in northern Tasmania which will benefit all of the state.

**Ms LOVELL** - Minister, I wanted to seek an update from you on the Momentum Energy jobs. I know that there was an election commitment made to relocate call-centre jobs from Victoria to Tasmania - I believe it was some 79 or 80 jobs - and I know that a site was identified about six months ago, and an expression of interest process was due to commence in March.

Can you update us on where that is at, how many people have expressed an interest and how many jobs have started to move to Tasmania?

**Mr BARNETT** - I would be delighted to update the committee on that and also to indicate that I was with the CEO at Momentum's offices in Melbourne not so long ago. I met with their local manager and many of their staff and was delighted to meet with those wonderful people.

**CHAIR** - Can you keep the answers focused, please, minister - we have a lot to get through. Thank you.

**Mr BARNETT** - I think it's directly relevant to the question but thank you very much, Madam Chair.

To make it very clear, Hydro Tasmania has identified Cambridge as the location to home these wonderful Momentum employees. The expanded Momentum Energy team with over 70 jobs moving to our state over the next three years was a commitment we gave prior to the election. We are now delivering on that commitment. Hydro Tasmania has responded to that and I think they are very exciting plans for a wide range of customer-facing jobs in the new Tasmanian team, which will be expanded.

As of 1 November, just a month or so ago, there were 20 full-time equivalent additional customer-facing staff located at the Momentum Energy's Cambridge office in Tasmania.

**Ms LOVELL** - Does that then mean there's been a reduction of 20 jobs? Are they direct transfers across from Victoria?

**Mr BARNETT** - That is a separate question. As I say, our policy commitment at the election was to identify a place and to have an extra 70 jobs moving to Tasmania. That's still the case. That will occur over the life of the Government, over the next three years, which we said would. We are delivering, that is happening.

**Ms LOVELL** - Sorry, minister, can I clarify that? The commitment was to relocate the 70 jobs. You said 'over 70' - how many jobs - that is the first question.

The second part of that question is the commitment was to relocate those jobs from Melbourne to Tasmania. In last year's GBE scrutiny committee, I believe there was a discussion about this and it was understood from that that those call centre jobs would not be in Melbourne any longer. There would be no more of those jobs - they would all be relocating to Tasmania.

The 20 new jobs in Cambridge, does that mean there are 20 fewer now in Victoria?

**Mr BARNETT** - Let's be very clear. I don't want to have the views of myself or Hydro or anybody else mischaracterised. What we made a commitment at the election is now being delivered and that's with over 70 jobs moving to our state and operating at Cambridge. Cambridge is the site and that's where it will be operating. They are already operating there with an extra 20 full-time equivalent additional staff. Regarding the specifics in and around Momentum more directly, I will ask the CEO to respond.

**CHAIR** - In terms of relocation of staff - that is what the question was.

**Mr BARNETT** - Can I make it clear what the promise was? It was the 70 jobs moving to our state over the next three years.

**Ms LOVELL** - Yes, moving from Victoria.

**Mr DAVY** - The commitment was to move more than 70 jobs by 2022. As the minister said, we selected Cambridge after assessing three other locations alongside Cambridge, which was the site of our existing smaller Momentum call centre team. Cambridge already had an existing team.

The progress we have made is that there are already, in the first six months of that transition, 20 new roles in Cambridge.

**CHAIR** - In addition to the jobs in Victoria.

**Mr DAVY** - Momentum is also a growing business in Victoria. I cannot tell you exactly what the total change in Momentum staff numbers has been over the last six months. I do not have that number right here, but I do not think it was zero. I do not think the additional number of people we have employed working for Momentum in Cambridge is exactly equal to an opposite change in Melbourne. I do not think that is the case.

**Ms LOVELL** - To clarify: I am reading this from the document the Liberal Government published before the election. It talks about a relocation. It talks about work with Hydro Tasmania to relocate call centre roles from Melbourne to Tasmania. Currently Momentum's major call centre

is based in Victoria. This includes approximately 79 call centre employees, so this is quite clear that it is about a relocation of that call centre.

Momentum will be expected to identify such and relocate their call centre to within the first year of government. This seems to have shifted somewhat. They are not relocating, are they? They still will be operating? Are these in addition to those jobs? That is what we are trying to get to?

**Mr BARNETT** - You should be pleased we are creating more jobs in Tasmania, Ms Lovell. That was the commitment. We are delivering on the commitment. We said we would identify a site and those people would be established in Cambridge over the three years through to 2022. It is happening with now 20 full-time equivalents at Cambridge and is well underway.

**Ms LOVELL** - By 2022 you would expect all the 79 call centre jobs, not necessarily those employees you have referenced in this document, will be relocated to Tasmania and employed here to be on track to deliver that commitment.

**Mr BARNETT** - What we are delivering is what we said we would be delivering.

**Ms LOVELL** - Which is 79 call centre employees.

**Mr BARNETT** - Yes, and we have said we would be doing that over the course of the term of the government. We have 20 full-time equivalents. What Steve has indicated as the CEO, is they have demands in Victoria and those demands continue. They have an operation in Victoria and exactly how that pans out in the months and years ahead is a matter for the CEO.

**Ms LOVELL** - Okay, so putting aside Victoria and what happens in Victoria, are you saying today you are confident that by 2022 there will be approximately 79 call centre employees at Cambridge?

**Mr BARNETT** - Correct.

**Ms LOVELL** - Thank you.

**Mr BARNETT** - I hope it is welcomed by all around the table and in Tasmania. It's more jobs in Tasmania. We are all about jobs, jobs and jobs.

**CHAIR** - Thank you, minister. Do you have the answers to those questions from previously?

While we are looking at the Basslink one. Minister, in terms of what is on the public record there is also a statement from Basslink to ASIC. It clearly outlines the figures. The other figure referred to is the dispute with the state in relation to the interconnector and the problems we had previously. Furthermore, the state alleged that it had suffered the various losses and Basslink must indemnify it for those losses, including alleged losses incurred by Hydro Tasmania rising from the incident amounting to over \$100 000 000, which is \$100 million.

**Mr BARNETT** - Where are you reading from?

**CHAIR** - A Basslink statement to ASIC. These figures are in the public arena. It is \$100 million, plus the other figure I referred to that came from the Keppel Report. That information is out there.

**Mr BARNETT** - Madam Chair, what is out there is one thing. What is the position of Hydro Tasmania and the Government is another thing in terms of confidentiality in and around a legal process.

**CHAIR** - I am not asking you to talk about legal process. We are just saying it -

**Mr BARNETT** - You are definitely inviting us to refer to the legal process and our views with respect to another party that is party to the legal process.

**CHAIR** - Do we have answers?

**Mr DAVY** - Yes.

**Mr BARNETT** - This is to the earlier questions. The answers to the earlier questions.

**CHAIR** - This is the Basslink one we are going to answer now? The cost - the \$77 million question.

**Mr BARNETT** - You had a number of questions. I think the CEO has answer to at least one or other of those questions. Would you like to receive those answers?

**Mr DAVY** - Minister, Chair, I believe there are two outstanding questions. One relating to the impact on debt of the derivative trading, or derivative settlement. In our futures accounts, the way futures contracts works, some derivative contracts are traded through the Australian Stock Exchange and the way those contracts work is as the market moves up or down, the margins paid and received come out of the operating cash. There has been a reduction in our net outstanding loan through TASCORP because the upward movement in Victorian prices has led to a net long futures position to end up in us receiving cash from the margin account, and that cash has gone to TASCORP to offset our loan.

**CHAIR** - That was the question.

**Mr DAVY** - It is a temporary feature and we expect that because there are sales transactions to customers on the other side of those futures transactions, over time that repayment of cash into TASCORP will be reversed. In the long run, the loan will go back to its -

**CHAIR** - You do not have any idea at what point that repayment is required?

**Mr DAVY** - As the period that those futures contracts cover passes, I do not know which way the market will go next, as much as I would like to - it would be handy. If the market does not move further, those payments would come out as we sell that electricity to customers.

In terms of the question relating to the Basslink numbers in the annual report, the \$77 million is the net settlement between the current asset and the current liabilities and we do not disclose the actual annual fee we pay. That is a commercial-in-confidence quantity.

**CHAIR** - You will not give us the cost of the Basslink facility fee under the swap fee broken down?

**Mr DAVY** - Those are transactions with counterparties and our dealings with those counterparties require us to keep that information confidential.

**Mr FINCH** - I want to go to labour costs, and within the report over the two fiscal years labour costs are up \$20 million. Given wage growth in Australia is virtually static, is there some explanation for this increase in wages?

**Mr BARNETT** - Are you referring to a particular aspect of the annual report, or more generally about labour costs?

**Mr FINCH** - Generally labour costs and the \$20 million that could be ascertained from looking through the report.

**Mr DAVY** - I want to make sure I give you an accurate answer related to the movement in employee numbers, so I will make sure we have that accurate for you as the meeting proceeds.

**Mr FINCH** - Is that a suggestion the wage increase is because of extra employees that might be employed by Hydro?

**Mr DAVY** - I think that is likely. I want to confirm that before I put it on the record.

**CHAIR** - One other question before we go to Mike.

It might have been the Chair's opening statement regarding their employment and what they are doing to try to attract women into the area. In the business overview at the end of the report, it talks about Hydro having 1200 employees and the Chair mentioned the actions of trying to encourage women into that work because, as I said, we have all these men at the table and the women are all sitting behind. I would like a breakdown of your employees in terms of age and gender. TasNetworks provided a very good breakdown in its annual report; you might like to have a look at that in terms of how it describes that.

I am interested to know the breakdown, particularly as you have two women on the front page of your annual report, but there is no indication that women are highly represented in the organisation, certainly not in the leadership positions.

**Mr DAVY** - It is a very good point, Chair. As it happens, the three senior representatives here are male. What I can report is that, of the five independent directors that Hydro Tasmania has, two are women, and of my 10 direct reporters, the 10 senior executives in the executive leadership team at Hydro Tasmania, four are women, and they fill four important roles, including the Managing Director of our retail business, Momentum Energy, and the Managing Director of our consulting business, Entura.

We are striving to do better than that in terms of female representation in our senior positions but that is the current state. Further across our business we are requiring internally that 100 per cent of our interview panels demonstrate gender diversity so that we do what we can to remove bias from the interview process.

**CHAIR** - In terms of who is doing the interviews or when you are considering the applications?

**Mr DAVY** - I will get to that as well. We require that we have diversity in the interview panel -



**CHAIR** - Diversity doesn't mean one female out of five.

**Mr DAVY** - Our panels generally comprised two or three people doing the interviews. We are also targeting that, on candidate longlists and shortlists, we have at least 40 per cent and 40 per cent women because there are plenty of roles in Hydro, as there are in lots of businesses, if you weren't aiming for diversity, you would have an overweighting of women for certain roles as well, which women have more often filled those roles in the past.

That is what we are striving to do but we by no means think that we have achieved what we want to achieve. We are very keen to encourage women into engineering studies, in particular, so we are running a STEM program through Tasmanian schools. We are trying to highlight the attraction of working in STEM to young people, including women. We are sponsoring, with Engineers Australia, a scholarship for women first-year engineering students. We increased that commitment to sponsor two this year. In total, Engineers Australia have four first-year engineering students they are sponsoring and we are sponsoring two of those. There are many things we need to do across our business in our graduate, apprentice and trainee intake. We are very consciously ensuring that we have increased female representation as well.

**CHAIR** - Are you are in a position to provide to us the breakdown by gender at different levels?

**Mr DAVY** - We certainly have those figures available. I don't have them in front of me but I can provide those by the end of the meeting.

**CHAIR** - That would be great, thank you.

**Mr GAFFNEY** - Minister, I am interested in the \$500 million for Tarraleah. Can you give us a quick snapshot of that?

**Mr BARNETT** - Yes, and I have been up there on a number of occasions and had a tour with Steve and the Hydro Tasmania team. It is terrific. They are looking at the feasibility of either a total redevelopment or an upgrade. That work is ongoing and, Steve, perhaps could outline a little bit more detail. It is a \$500 million prospective plan that, subject to that feasibility study being positive, would - like the Repulse Dam we had earlier, with the investment at a smaller level - upgrade and provide increased efficiencies and then opportunities to sell electricity into the market in Tasmania and potentially, in due course, any excess energy through to the mainland.

It is all about ensuring this facility at Tarraleah is fit for purpose. We are taking the opportunity to re-envision an older facility, about 80 years old, updating it and creating a whole new one. We have 100 years of hydro industrialisation we are very proud of it but it does need updating and upgrading, so this is an opportunity. I might ask Steve just to share more detail on the timing of the feasibility study and its progress.

**Mr DAVY** - Through funding from ARENA, we have committed \$2.5 million and the federal government has committed \$2.5 million as well, so we have been spending \$5 million over the last two or more years understanding exactly what the options are at Tarraleah. If we go for the full 220-megawatt redevelopment, it would be an expenditure of something like \$500 million over about three years. Whether that is the best answer, we are still working through the choices. We've got choices about what to do with the current power station, what to do with the current conveyancing systems and whether we build new conveyancing at a new power station.

There are many issues with the current power station. Some are just that it is old technology and, because of the distance from Butlers Gorge where the water is released to the Tarraleah Power Station, it is relatively inflexible in its operation. There are also problems with the future reliability of the station - we would have to spend some large amounts of money to make it reliable in the future. We would also want to be continually investing money in the canal infrastructure because that has been prone to slips in the past. We need to keep on monitoring the canals built 80 years ago with the technology available at the time; if we are to keep using those, we would need to have considerable reinvestment.

In parallel, we have designed a new conveyancing system and a new power station. The new power station, if it were to be built where we are currently considering it, would be across the river from the current Tungatinah Power Station. We are just getting ready to present all those different choices to the board and map out what the best investment strategy might be. That would also depend on the interaction of that investment with the investment in Marinus Link, because the value of the different options changes whether Marinus Link is built, the capability within the state and the capability within Hydro Tasmania depending on whether we are building a pumped hydro project at about the same time, which is another decision. We haven't yet decided what we are going to do but we are definitely narrowing down on the options.

**CHAIR** - In addition to the Tarraleah station, do you mean?

**Mr DAVY** - No, this is in relation to the timing and kind of investment we make at Tarraleah, and the timing of the investment has interactions with Marinus Link and any investments we might be making in pumped hydro. We haven't yet landed the plan of work, but -

**Mr GAFFNEY** - Can you inform the committee of your time line to decide?

**Mr DAVY** - Finalising all the options, we would expect that to be occurring within the next six months. If we just getting on with the Tarraleah task, we would expect that we would be, about a year later than that, coming to the board with an investment decision. Whether that is to do with refurbishment of the current assets or the new assets, we haven't decided, but we would expect that would need to come within about 18 months.

**Mr BARNETT** - We are talking about more than doubling the capacity. It is around 90 megawatts at the moment, up to about 220 megawatts.

**Mr DAVY** - That is correct. That is certainly one of the options.

**Mr BARNETT** - It's a significant upgrade and/or redevelopment, an opportunity which would increase our capacity in Tasmania by over 2 per cent if that were to occur.

**CHAIR** - Just in Tarraleah?

**Mr BARNETT** - Yes, if Tarraleah were upgraded, it would be about a 2 per cent increase on what we have at the moment.

**Mr VALENTINE** - Minister, I think it might have been in the Auditor-General's report. In response to a projected lower revenue environment for the energy industry in future years, Hydro Tasmania has commenced a business-wide program to target budget improvements and identify

operational efficiencies. Do you want to talk us through what's going on in that space and exactly what you are doing into the future in identifying those efficiencies and what you might have found already? Can you share that?

**Mr BARNETT** - Yes, absolutely. It's a very good question. It gets back to the fact that it needs to be a sustainable business going forward so that it can make money for and on behalf of the taxpayers of Tasmania, being a government business enterprise. It is really important.

This is ongoing and I have briefings from the board and likewise from the CEO and others on their work that to ensure a streamlined approach and efficiency are in place. They have an employee assistance program there that supports the staff. I think a lot of what you are asking is more operational and I might ask the CEO to respond to that and provide the committee with an update.

**Mr DAVY** - For more than a year now we have been running a program throughout Hydro Tasmania called Make it Happen. The aim of that program is to deliver sustained bottom-line improvements to our operating result of \$24 million a year. As an interim stage we have improved the budget result for the year we are in now, 2019-20, by \$15 million. Of the programs that were required to get that \$15 million improvement, \$11 million-worth of those programs of annualised improvement have already been introduced.

We have quite a pipeline of potential future projects to create these extra improvements. These improvements are revenue improvements, efficiency improvements and cost reductions. There is a variety of different programs that get the improvement in different ways. As the minister said, we always put it upon ourselves to be as efficient as possible. We decided, in consultation with the board, that it was time to run a specific program to drive a series of programs to create this improvement.

**Mr VALENTINE** - What sort of job losses are we talking about as a result of these projects or operational efficiencies? Are you outsourcing more? Are you bringing in more employees in certain areas? Can you just give us an understanding of that?

**Mr DAVY** - The \$15 million of improvement for the current year and \$24 million recurrent that we are aiming for is not all cost reduction, but there is an element of cost reduction there. We have been reviewing our operating model and looking at the roles that we don't need in the business anymore. As a result, as of today, I am told, 49 people have left the business and of those -

**Mr VALENTINE** - Are they targeted redundancies or are they people who no longer have a job and need to find one?

**Mr DAVY** - A number of those were voluntary redundancies and the balance were redundancies.

**Mr VALENTINE** - Do you have a number?

**Mr DAVY** - As of November, seven of the redundancies were voluntary, but I haven't got in front of me what that number is today.

**Mr VALENTINE** - Can you give us that?

**Mr BARNETT** - That says of November, doesn't it?

**Mr DAVY** - Yes.

**Mr BARNETT** - Well, that's the November figure.

**Mr DAVY** - I'm told the total number of redundancies as of today is 49, but how many of those are voluntary, I don't have that number.

**Mr VALENTINE** - I would be interested to know.

Are you able to give us some understanding as to the level of operations that are going to be outsourced as a result of these reviews?

**Mr DAVY** - We are not envisaging we will make economies across the business by outsourcing. The reason I wanted to pause on your question about employee expense is that we have been doing the reverse. We've been running our business more efficiently by bringing some of our outsourced contracts back internally. Some of the work we have been doing with contracts and contractors, we are now doing with the permanent employees.

**Mr VALENTINE** - Internal staff?

**Mr DAVY** - Yes.

**Mr BARNETT** - To confirm, the two other things are that, first, we are spending over \$100 million each year on repair and maintenance and, second, Hydro is responding to the transition in the National Electricity Market working on things like the pumped hydro. They have a whole team. I think you might have met Chris Gwynne, who is heading that team. He does a terrific job. They are doing work now, spending money now, authorised by the state Government, looking at those pumped hydro options, and that is progressing.

**Mr VALENTINE** - Are projects like pumped hydro going to be undertaken broadly by internal employees or are they going to be undertaken by companies that simply exist in Tasmania?

**Mr DAVY** - We would hope - one of the major reasons for wanting to have these investments take place in Tasmania is because of the economic impact that this activity will have in Tasmania. We will be certainly aiming to procure as many services as we can from Tasmanian companies to maximise the economic benefit to Tasmania.

**Mr VALENTINE** - With the knowledge of the sorts of roles needed, do you see yourself bringing in mainland companies to cope with this?

**Mr BARNETT** - I will take that question. To be very clear, the Australian Government has already invested \$17 million in energising our energy system in Tasmania to build the workforce of the future. To assist us in doing that, we do need people who have the jobs, have the skills and you have talked about engineering before, so you have mechanical, civil and electrical engineers, you have the whole range of civil contractors involved in building and constructing the pumped hydro project - a massive range of trades in that space. Then you have the administration, technical, computer-based support to provide for all of that work.

We got support from the federal government that has already committed \$17 million working with Skills Tasmania, our education system - and Jeremy Rockliff is well across that. We have to build the capacity here in Tasmania wherever possible, jobs in Tasmania - and we are talking about thousands of jobs, billions of dollars of investment subject to Marinus Link proceeding. We are very positive about it.

The business case is released today and we are looking forward to progressing that.

**Mr VALENTINE** - You are focused on employing Tasmanians rather than mainlanders?

**Mr BARNETT** - Absolutely. That's the type of priority of our Government.

**CHAIR** - There are a few project managers left over from the Royal apparently, according to the Auditor-General, that might be available.

**Mr FINCH** - That reference I made before about the labour costs for Hydro is on page 20 in the expenses section. Labour has gone up in 2018, \$140 million, 791; in 2019, \$160 million, 453. That's where that indication is that there was that rise in the labour costs. Do you want to deal with that later -

**CHAIR** - I thought you answered that. Didn't you answer that about the increase in employment costs?

**Mr DAVY** - No, we haven't answered that one yet. We have that one coming.

**Mr FINCH** - Yes, the detail of that. Minister, on the back of what you were talking about with Mr Valentine, an area that intrigued me in the report, tucked away nearly towards the back page - I'm not suggesting it was hidden, but the procurement summary is there on page 110. I suppose what has been suggested here, what you've just been talking about, is in respect of that expertise you need to draw on. I notice that it is widespread around Australia. We go outside of Tasmania financially, quite heavily, to draw on the expertise. I just want to it highlighted in our gathering here today - to perhaps get your opinion, suggestions - jobs, jobs, jobs - whether this outsourcing can be diminished in respect of employing Tasmanians or bringing these people to Tasmania? I think you touched on that before.

**Mr BARNETT** - Thank you very much, a great question. Thank you very much for it. Our plan and vision is to ensure we have the capacity and build the capacity here in Tasmania for Tasmanians, to create jobs in Tasmania for Tasmanians, so Tasmania first. That is our energy policy.

We're going to do that because we have a long-term plan. We're a government with a plan and in terms of energy, a long-term plan. If we build the capacity in Tasmania, this is not going to happen overnight - click your fingers and bingo, we've had a one-year project and bingo it's all gone and they're off again. It's not going to work like that.

What we're seeing over the next decade and the decade after that, and I hope the decade after that, is generational opportunity for young Tasmanians to build their trade, to build their professions and to work in this game. Renewable energy is one of the top priorities of our Government. We are the renewable energy powerhouse so all those trades, whether it be the engineers or the

mechanical-electrical, all the civil construction works, all the various trades, all the tradies - it's just a fantastic opportunity so we want to build that here.

We are now in discussions with the Australian Government designing these skills and training opportunities from that \$17 million commitment with Skills Tasmania and our education institutions. I've met with the University of Tasmania and Rufus Black, the Vice-Chancellor, and other members of the university. They have a future energy hub at the university. They are working with us and our Government on how we build the qualifications and the people we need to do this work in the years and decades ahead. We have a long-term plan. We're working to the plan, but it's a lot of work. It will take time.

Hydro is working with the Government, working with the university, working with Skills Tasmania across Tasmania, as I say it's 'Team Tasmania'.

**Mr FINCH** - If I might, Chair, in respect of those labour costs, can we get more of a breakdown of that? You can take that on notice.

**CHAIR** - Do we have it or are we still waiting? Okay, we'll move on.

**Mr FINCH** - I can take it on notice. A breakdown.

**CHAIR** - We might have it at the end of the day; we'll see how we going at the end of the session.

I would like to go to more about the Battery of the Nation or pumped hydro, as you seem to call it, minister. Just a few questions there. I assume, and correct me if I'm wrong, the plan is that Hydro would build it, so the question is who will provide the finance for that? Who will own and operate the systems? Will it all be Hydro or will some of these projects potentially be sold, or part sold, like Woolnorth - the wind farm was part-sold - and what does that mean for the future of those projects?

**Mr BARNETT** - Thanks for the question, and of course it's a really good question today when the business case assessment has been released for Marinus Link, which I know is directly relevant to TasNetworks.

**CHAIR** - We'll come to that later.

**Mr BARNETT** - I'm just outlining the relevance of the question, and thank you for the opportunity. Battery of the Nation, yes, we do have plans to be the Battery of the Nation. It links directly with Marinus Link because Marinus Link will open up and unlock those opportunities for renewable energy development, specifically pumped hydro and wind and solar.

All in all, we're talking about \$7.1 billion-worth of investment into the Tasmanian economy over the years. In terms of Marinus Link, the 1400 new jobs but those -

**CHAIR** - Who is going to build it? Who is going to fund it?

**Mr BARNETT** - I am just getting to that. I am just saying with respect to other renewable energy developments, including pumped hydro and wind, 2350 additional jobs during that construction period and going forward.

We have the feasibility study in terms of Lake Rowallan, Lake Cethana, Tribute Power Station, that's underway. We'll get a report back on that and we'll have the TOF project and again, subject to Marinus Link proceeding, that pumped hydro project can proceed. That is up to 600 000, 800 000 megawatts, many hundreds of jobs -

**CHAIR** - Who will build it? Who will finance it? Will it continue to be owned -

**Mr BARNETT** - It will be a Hydro Tasmania project and how that works, for and on behalf of Hydro Tasmania, I will pass to Steve. Obviously, it is a key part of our future in terms of battery of the nation.

Hydro Tasmania owns much of the assets in and around those lakes, and it is Hydro Tasmania asset. As a government, we would support that. We are very happy to have feedback from the board regarding exactly how that rolls out and how we can maximise the benefits for Tasmania, jobs for Tasmanians, and how we get a good outcome in terms of financial and other outcomes.

**CHAIR** - Maybe the CEO could address a couple of other questions I have had so we can cut to the chase of what I have asked. What are the costs to date and have these costs been capitalised or expense? Who owns it? Who builds it? I would like that all addressed in one, please.

**Mr EVERY-BURNS** - One of the questions is about the delivery model. The board has recently had a discussion so we know that management is considering the delivery options. Essentially, it comes down to - our current view is probably that we would provide the management expertise for that, and a lot of the construction would be done by contracting companies.

The model used in the past was one where the delivery was entirely by Hydro. Effectively, it employed its own day labour. We are reflecting at the moment what the delivery model might be.

**CHAIR** - Delivery to build the infrastructure?

**Mr EVERY-BURNS** - The delivery to build. The delivery model is how you do it. It would be unusual in this day and age to attempt to build a project of this size using day labour. That would be very unusual. What is most likely to emerge, I think, is that the delivery model will be project managed by people living, working and employed by us. The companies that are brought in to do the contracting, the proportion of those will be Tasmanian where it is possible, and a lot of it will be possible. We are already using them for civil works and engineering work.

We are far from having landed on what that delivery model would be but that is the current thinking about it.

**CHAIR** - Going to the cost, who is funding it? What has been spent to date? Has it been expensed or capitalised?

**Mr BARNETT** - Up to \$30 million has been authorised to spend on those three projects and that is expended by Hydro Tasmania, with the support of the state Government and it is based on an agreement we have with the Australian Government. There has been \$56 million plus in support of Marinus Link. We have an understanding, we have an agreement, with them. It was consummated in February this year and we have ongoing discussions and negotiations with them.

## UNCORRECTED PROOF ISSUE

A financial investment decision as to which project and how it will be funded is to be made in due course. As the chair said, we are way too early to be answering those questions. But as a government, be assured we will be focusing on jobs in Tasmania wherever possible.

**CHAIR** - In terms of the money allocated by the Australian Government, how much has been spent to date on this and has it been expensed or capitalised?

**Mr BARNETT** - With respect to pumped hydro, none. Up to \$30 million has been expended by Hydro Tasmania, but \$56 million relates to Marinus Link.

**CHAIR** - You said that \$30 million has been spent by Hydro -

**Mr BARNETT** - Up to \$30 million has been committed to be spent.

**CHAIR** - None has been spent, is that what you are saying?

**Mr BARNETT** - No, no. I am trying to answer -

**CHAIR** - I am just repeating back what you said.

**Mr BARNETT** - I have made it clear that up to \$30 million has been committed to progress the feasibility of those three projects with the support, obviously, of Hydro Tasmania, the board and the CEO. I am happy for the CEO or the chair to add to that if you would like.

**Mr EVERY-BURNS** - Steve will give you the detail, but it is a number of grants that have been given to us.

**CHAIR** - How much has been spent to date on Battery of the Nation? Not Marinus - Battery of the Nation, and has it been expensed or capitalised?

**Mr DAVY** - What was announced back in April 2017, was that the federal government would contribute up to \$5 million to a variety of Battery of the Nation studies, and it would contribute 50 per cent of those projects.

There were four separate projects that arena contributed: \$500 000 to the Tarraleah prefeasibility study, and a small unit at Gordon feasibility study; \$1 million to the pumped hydro concept and prefeasibility studies; \$1 million to future state and national market analysis; and \$2.5 million to Tarraleah feasibility studies.

That is the sum the federal government has contributed through International Renewable Energy Agency, and we have contributed the same.

**CHAIR** - You have matched the funding?

**Mr DAVY** - Yes. So, between the federal government and Hydro Tasmania, we have spent a total of \$10 million on those projects.

**CHAIR** - Has it been expensed or capitalised?



## UNCORRECTED PROOF ISSUE

**Mr DAVY** - We can only capitalise investigations to do with a capital asset. We would only be capitalising when we are actually designing a specific project, not looking into -

**CHAIR** - So, it has all been expensed?

**Mr DAVY** - I imagine we will decide to capitalise some of the work that relates to the actual projects we end up building, including the Tarraleah projects. At the moment, we will be looking closely at what to capitalise for the Tarraleah investment. As the minister said, we are also going further down the track at the moment, on taking the top three pumped hydro sites to make sure we have one of those ready for a financial investment decision, so it can be online when the 1500-megawatt Marinus is on line. That is the \$30 million project just commenced and underway.

**CHAIR** - These decisions have not been made, is that what you are saying?

**Mr DAVY** - The \$30 million the minister is referring to, \$10 million was spent up until the end of the ARENA projects and now we have commenced on a series of feasibility studies that relate directly to the three projects.

We will capitalise what is appropriate, depending on the likelihood of a project proceeding out of those three projects. We make those decisions each year, based on an assessment of how the accounting rules apply to the expenditure. I think I have answered the question in the level of detail you asked.

**Ms WEBB** - It is \$5 million of the \$30 is what you said so far, and the rest.

**Mr DAVY** - Sorry, the \$5 million we have contributed and the \$5 million ARENA has contributed to that initial \$10 million I was talking about is separate from the \$30 million. We have only recently commenced on the series of projects.

**Ms WEBB** - That is fine. I wanted to clarify the \$5 million we put in was separate to the \$30 million.

**Mr VALENTINE** - When this is finished, if indeed it goes ahead -

**Mr BARNETT** - We are very hopeful, Rob.

**Mr VALENTINE** - I am sure you are. Is it going to then belong to TasNetworks or is it going to be Hydro asset and is it going to remain in public hands?

**CHAIR** - Are you going to sell it? You haven't answered it near enough.

**Mr BARNETT** - Thank you for the question. It is a Hydro Tasmania project and the Chair has outlined how that might be rolled out, but they will need to get people - wherever possible, Tasmanians - in to actually do the work on the project. It is a Hydro Tasmania project in terms of the views of the board and future boards in how they characterise that and what they do with it. That is a matter for future boards, but as a government we will be monitoring and having a close relationship with the current and future boards, absolutely.

The other thing to note is that they have released a report on the capacity for pumped hydro in Tasmania, and it is an extra 3400 megawatts on top of our 2300 to 2400 current capacity, so more

than double. We have the opportunity not only to do one pumped hydro project, but many over a period of time, up to 3400 megawatts. This is more than double our current capacity. The opportunity for Tasmania is fantastic, which is why I am so positive about the future.

**Ms WEBB** - The decision about whether it stays in public hands or not: Would that be the Hydro Board's decision? Is that what I heard you just say?

**Mr BARNETT** - They would obviously be influenced by the government of Tasmania. I cannot expect what would happen in 10 or 20 years time. This is very long term, but it is clearly the Government's view that this is a matter for Hydro Tasmania, which is a government business enterprise owned by Tasmanians. I have every expectation they will do the project and do it very successfully.

**Ms WEBB** - That was not the question, Mr Barnett.

**Mr VALENTINE** - I am conscious a lot of generation activity is in windfarms at the moment and they are private. They are not public.

**Mr BARNETT** - Many of them are, absolutely, which we support. We think it is terrific there are so many private developers who want to build wind farms in Tasmania. Of course, they have to do it in accordance with the planning rules and development procedures.

**CHAIR** - The concern here is that if you sell, and I am not suggesting you are, a Battery of the Nation project, they are inherently linked to Hydro Tasmania's assets of dams and water. That would carry a whole new level of risk than, for example, perhaps selling off part of Woolnorth wind farm.

**Mr BARNETT** - That is right, absolutely. Our current thinking is to build pumped hydro and for Hydro Tasmania to build these pumped hydro projects. They own the assets. They own the current assets. They have to do it and it is done with the full support of the state Government.

**CHAIR** - The intention would be for Hydro to continue to own and operate them?

**Mr BARNETT** - That would be the current intention, but I cannot advise what a future board might say in 10 or 20 years. These are long term.

**CHAIR** - Or a future government.

**Mr VALENTINE** - What is the Government's policy position in terms of ownership of assets?

**Mr BARNETT** - The policy position is that we have no intention of selling Hydro Tasmania.

**CHAIR** - Or any part of it?

**Mr VALENTINE** - Or these pumped hydro projects once they are completed?

**Mr BARNETT** - Let us make it clear: our focus is on building the pumped hydro projects. They will need contractors, wherever possible Tasmanian contractors, to build them, and our expectation would be that they would remain in Hydro Tasmania ownership, which is a government business enterprise.

**Mr VALENTINE** - Thank you.

**Ms WEBB** - In terms of the new renewable generation coming on board and the fact some of it is private and some remains public, does the Government have a view as to what proportion in the future we would expect to see renewable generation through public and private companies?

**Mr BARNETT** - First of all, Hydro Tasmania is a government business enterprise owned by the taxpayers of Tasmania, and we support and have views on that.

With respect to the private sector building other projects - for example, wind farms or solar or indeed hydrogen facility in and around Bell Bay or elsewhere in Tasmania - that is a matter for the private sector. We strongly support the role of the private sector. We want it to be involved. We want private sector entities to come to Tasmania, invest in Tasmania and employ Tasmanians wherever possible. That is our policy and our plan; we are delivering on it and hope to see thousands of jobs created as a result of our plans for Marinus Link and the Battery of the Nation, with a host of new renewable energy developments on the drawing boards in future years.

This is part of our plan, that is a Tasmania First energy plan.

**Ms WEBB** - There is not a proportional mix you have as a current policy or looking ahead as a target?

**Mr BARNETT** - Correct. There is no particular mix we are looking for other than we are supporting 100 per cent Hydro Tasmania and the work they are doing. We are supporting TasNetworks and the work it is doing on Marinus Link, again another government business enterprise. We are very supportive of the private sector being active and coming to Tasmania, employing Tasmanians and building renewable energy projects that will deliver energy security, downward pressure on prices, create more jobs and billions of dollars of investment in Tasmania.

**CHAIR** - Going to an asset that was Hydro's, three-quarters of which was later sold to the Chinese - Woolnorth Wind Farm: it had a loss of \$41 million due to fair value losses of \$91 million and Hydro has a 25 per cent share of that. Can you explain that?

**Mr BARNETT** - Explain?

**CHAIR** - The loss. Woolnorth puts in its statements with ASIC and at its year end, 31 December 2018, it all looked fine, but in June 2019, this year, the end of this financial year, our reporting year, the fair value loss was picked up in Hydro's accounts. I am interested if you could explain that or someone at the table can if you cannot.

**Mr BARNETT** - Thank you very much for the question, Chair. I will pass to the CEO, it being an operational matter.

**Mr DAVY** - The audit advisers to Woolnorth Holdings Limited, which owns the Woolnorth Wind Farm, and as you say we are a 25 per cent shareholder, with China Energy Investment, the 75 per cent shareholder. They received advice they should change the way they account for derivatives. The wind farms were built by Hydro Tasmania, by Roaring Forties and then by Hydro Tasmania. They were project-financed and sold with offtake agreements, and those offtake agreements contained energy derivative components.

Woolnorth Holdings has had a change in the way it does its accounts. It is now fair-valuing those derivatives rather than a previous treatment. As that is how Woolnorth is now doing it, as shareholders, we have to take our share of that through our annual accounts. The actual cashflow and predicted cashflow returns from those projects aren't changed at all by this change. There would be an equal and opposite change in the value of the physical asset if you value in the same way, but that wouldn't go through the profit and loss so it hasn't been picked up.

**CHAIR** - In Note 25, Related party information, you have Woolnorth Wind Farm Holding with sales to related parties. This may partly explain your previous answer. When you look at Woolnorth's figures, there wasn't \$25 million-worth of purchases. What do the sales from Hydro of \$25.7 million relate to?

**Mr DAVY** - I will find out; it would be something to do with the derivative contracts we have with each other, but I will come back to you.

**Mr FINCH** - Going back over those procurement numbers, my colleague has worked out that, of the procurement spent on consultancies, \$18.25 million, only 11 per cent, was in Tasmania, according to these figures here. That 11 per cent is quite a low number. Here we are with Hydro, the longevity of the development, the involvement of Hydro in Tasmania and our expertise that we export, I would have thought we would have that expertise in Tasmania to handle a lot of that knowledge and intellectual property. Wouldn't that capacity be contained within a lot of people here in Tasmania?

**Mr BARNETT** - Thanks for the question. I appreciate that. It is important. Everyone around this table, of all colours and persuasions, wants as much spent in Tasmania as possible to build the capacity. We and Hydro Tasmania support the Buy Local policy and Tasmania First. My advice is 58 per cent of Hydro Tasmania spending went to Tasmanian suppliers, and that is equivalent to 58 per cent spent in the year 2018-19. The total spend on local suppliers in the financial year 2019 was \$125 million, an increase of \$9 million from the previous financial year. I would ask Steve to add to that.

**Mr DAVY** - That is exactly right. We very much focus on buying in Tasmania. As the minister said, we have maintained 58 per cent of local purchases across our total. That is quite an increase on the 2015-16 and 2016-17 years, when it was quite a bit lower. The local spend of \$125 million is the highest it has been for the last five years, by quite a considerable margin on some of those earlier years.

**Mr VALENTINE** - These are consultancies valued at more than \$50 000. There are 41 companies involved, 12 of those are Tasmanian, and that is about 11 per cent of the consultancies above \$50 000.

**Mr FINCH** - That was a separate circumstance.

**Mr VALENTINE** - I'm talking about the total.

**Ms LOVELL** - Minister, my question is about the dividends payable to government on page 98. We can see an increase in the dividends to be paid over the forward Estimates. What impact will increased dividends have on the future sustainability of the business and have there been any discussions with Government about any further increases to dividends?

**Mr BARNETT** - Thanks for the question. I am pleased with the profit result for the last 12 months and the after-tax return to the government. That was 32 per cent higher than the comparable figure the previous year so that's a good result.

The Treasurer has expressed a view and is trying to ensure that our government and our budget stays in surplus as a priority. It does mean that our returns to government this year will be greater than projected in the state budget, also due to that dividend being higher than budgeted. As far as the Government is concerned, that policy is in place to ensure we can pay for health, education and roads and those sorts of things, and keep our government and our budget in the black.

**Ms LOVELL** - Is there no concern about the future sustainability of Hydro as a business with any increase in dividends or any special dividends that might be sought from the Government?

**Mr BARNETT** - You're referring to hypothetical situations that may occur at some future year.

**Ms LOVELL** - Which all businesses, I imagine, plan for -

**Mr BARNETT** - The Government's policy position is well understood by Hydro Tasmania and it is a government business enterprise. We are very appreciative of the good work they've delivered in past years, particularly this last financial year. We have every confidence that they'll remain sustainable and profitable going forward.

**CHAIR** - I would like to hear what Hydro Tasmania sees as the key risks for the business, and there are a couple of aspects I would like to look at. One is what you think is a reasonable and manageable level of debt and the other is any other risks that Hydro is considering. When rain doesn't fall, that's always a risk, but you don't have much control over that one. The other is insurance.

I have raised this in the past, but I note that in Basslink's public comments they advised that payments from the insurers substantially covered the costs of repairing the interconnector when it broke some years ago, subsequently, as it does, and the loss of the income for the period the asset was out of service. Their insurance covered that. In terms of mitigating risk, what steps has Hydro Tasmania taken in terms of insurance against further outages and problems with that regard? I have a follow-up question regarding risks. I would like you to start with those if you could, minister.

**Mr EVERY-BURNS** - I will ask Steve to answer part of it. As to the question about debt, it's always an ongoing concern for the board to make sure that the sustainability of the debt equates to the sustainability of the company. We keep a very close eye on that. Currently, the debt has been running below \$700 million. The discussion today partly went to the cash benefit we had from derivatives that have managed to head off some of that. Each year, when we consider dividends, we consider our go-forward sustainability and discuss that with government. We do that actively every year. That continues.

**CHAIR** - In terms of managing your debt. You are not going to go into debt to pay dividends, is that what you're saying?

**Mr EVERY-BURNS** - We haven't, so far.

**CHAIR** - Others might have, but carry on.

**Mr EVERY-BURNS** - Yes, as I say, it depends. You have to have an ongoing discussion between the boards, the Treasurer and shareholder ministers, and we do that. They are active discussions because the company looks ahead to its sustainability. We completely understand the needs of the shareholder and I think it is fair to say that we are a large contributor to the economy.

The dividend we have declared this year is \$120 million. In answer to Ms Lovell's question, there was no special dividend involved in that. Again, we are trying to work our way through with the Government on what is the best way for the corporation to manage its affairs, year by year, and going forward so they are key issues for us.

**CHAIR** - And meet your capital expenditure requirements?

**Mr EVERY-BURNS** - Yes. The insurance question, I think, was more related to Basslink.

**CHAIR** - General insurance in terms of mitigating risk, what are your key risks? Some you can't insure against. As I said, you can't insure that the rain is going to fall but key risks and then the question of insurance directly related to outages from Basslink.

**Mr EVERY-BURNS** - The issue of insurance is that when you sit back and consider your key risks, the risks you can't manage ultimately are the ones you will insure if they are large enough risks.

Things to do with maximum probable loss of plants in case of natural events - say, natural disasters - they're not things we can manage. We manage what we can manage and we insure things that we cannot manage.

Each year in the risk committees, we review the insurance programs and we insure prudently. We look at the risks we carry, what we are prepared to carry, and we insure not just against industrial special risk, against plant loss, but against a whole range of things - the director's insurance, the normal functioning of the company - that all goes on. Year by year, we are reasonably satisfied we are doing that as effectively as we can.

I think you also asked a specific question relating to Basslink insurance?

**CHAIR** - Yes. Their insurance paid for the repair of the interconnector. Does Hydro take out any insurance to deal with loss of income or revenues as a result of an outage, particularly if it's a longer term outage?

**Mr EVERY-BURNS** - I'm in a difficult spot there. I might hand over to Steve. There is insurance in place that is required under the agreements, and it is in place year by year. Whether we do anything additional to that, I would need advice on that.

**Mr DAVY** - In relation to risks in general, we have a very thorough internal process for monitoring risks and we do risk assessments at the business level. We have a strategic risk register, we also have business area risk registers. Our business is split into 10 different business areas and we also have risk registers for specific activities and projects.

We could spend the entire hearing on how we -

**CHAIR** - I am talking about key risks.

**Mr DAVY** - The key ones we always come back to are safety, first of all - that is the one that we need to keep on top of mind, that we are properly managing down all of our safety risk -

**CHAIR** - In terms of people and plant?

**Mr DAVY** - I am talking about people. I am talking about the safety of our employees and also the safety of the general public - both very, very important. Yes, we do have a lot of work on understanding the risks across our physical assets and sometimes those two combine. There are some risks with the physical assets that cause human safety risks as well. Those are the most important physical risks we would look to manage - if the plant is not safe to operate or can't be operated in a way that keeps the public safe. That is the first thing we would always look to address. A very major risk we always have to look at is the risk of having the right people doing the right jobs, so managing our people that way.

Rainfall - even though we can't do much about how much it rains, there is a lot we can do to be ready for a variation. Storage management is the first place, but there is also the operation of the Tamar Valley Power Station. From time to time, we consider insurance products that help us financially with the risks that come from inflow variations - we will consider entering into those.

The other kinds of risks that are growing in our review are the cybersecurity risks, whether it's the protection of customer information, which is a big legal requirement, or, and also a big moral requirement for us, looking after our customer and employee data very carefully, increasingly making sure we are very secure internally.

In terms of Basslink affairs and how we mitigate that particularly, that is really something which is very much the source of the dispute between the state, Basslink and Hydro Tasmania, and I do not think it would be a good idea -

**CHAIR** - No, the question is: do you insure against loss of access and revenue? If Basslink is down for an extended period, do you have any insurance?

**Mr DAVY** - That is exactly what I mean; I do not think going into the details about how we manage those instances commercially is the right thing to talk about, while we are in these processes.

**CHAIR** - Okay. This is from Hydro Tasmania so this is public and directly out of Hydro Tasmania. Market update regarding Basslink bidding instructions - I would like to understand this a bit better. Just to read from this -

Hydro Tasmania has today commenced instructing Basslink to bid Basslink's capacity above certain levels at the market price cap.

And it goes through what the levels are -

Hydro Tasmania has a contractual right under the BSA to instruct BPL to apply a price to its bidding of Basslink capacity. Hydro Tasmania's bidding instructions must be consistent with the ministerial notice, dated 9 October 2014 -

And it talks about where that is issued -

The reason for Hydro issuing the bidding instruction discussed above is that Hydro Tasmania has received engineering analysis from its cable experts following a preliminary review of the recent survey of Bass Strait environmental properties which concluded that the Basslink cable may be at risk of exceeding its temperature design limits if operated continuously above these levels.

Hydro Tasmania has provided BPL, the asset owner, with the recommendations from its cable experts. These recommendations are subject to ongoing review and Hydro Tasmania will continue to review its position as new information comes to hand.

Hydro Tasmania is using its contractual right to issue these bidding instructions because there is a disagreement between Hydro and BPL about the risk that Hydro Tasmania is seeking to address.

Can you talk us through that?

**Mr BARNETT** - Thank you very much, Chair. I will kick it off by just saying that the Government supports Hydro Tasmania exercising its contractual rights in terms of transport bidding and any other contractual rights to support the prudent use of Basslink. Energy security is the top priority for our Government, and likewise for Hydro Tasmania, and that is why managing those storage levels is so important. I will ask the CEO to provide more information.

**CHAIR** - Maybe the CEO could also address whether there is likely to be any impact on Hydro Tasmania's finances or revenues as a result of what is going on here.

**Mr DAVY** - You summarised this situation very accurately, Chair, about -

**CHAIR** - I read from your statement.

**Mr DAVY** - You put that on the record, so that is fine. In terms of the long-term impact of these restrictions on us, that is part of the matter we are seeking to have settled through the settlement of our legal agreement. I do not want to go into the long-term financial impacts on Hydro Tasmania on what we see as the right restrictions to have in place.

**CHAIR** - When do you expect all this to be finished so we can actually have a proper conversation about this? Is it likely to be in the near future? Is this going to be ongoing for years still?

**Mr BARNETT** - It's potentially a long period of time. Obviously, it would be good if it was a shorter time, but there is an arbitration process; it is a legal proceeding. I am happy for the CEO to add to that, if possible and appropriate.

**Mr DAVY** - At the moment we have contracts or arrangements that cover the arbitration process that require us to keep the details of the process confidential, so that is about the limit of what I can say.



**CHAIR** - It is obviously 'how long is a piece of string?'

**Mr BARNETT** - I think the best we can say is that it is likely to go through at least until next year.

**CHAIR** - That is not very far away, minister.

**Mr BARNETT** - No, it will go into next year. The CEO has the answers to your earlier questions.

**Mr DAVY** - Would you like me to place those answers on the record now?

**CHAIR** - Which ones are these?

**Mr DAVY** - They are mostly to do with our people. There was a question to do with the voluntary redundancies versus redundancies. Of the 49 redundancies to date, nine are voluntary.

In terms of the diversity across our organisation, in total 69 per cent is male and 31 per cent is female. At the executive level, that number is 77 per cent male and 23 per cent female. As I said, we don't consider that to be acceptable, but that's the current state.

There was a question regarding labour costs. The labour cost of \$140 million for 2017-18 was for 1209 employees, and the labour cost of \$160 million for 2018-19 was for 1265 employees. Also, part of the gap between those two numbers is explained by the salary increases that took place from one year to the next. There is an increase in headcount and an increase in salaries as well.

**Mr FINCH** - Salaries that were quite static in other areas of Australia, and it's quite unusual for Hydro to have those increases.

**Mr DAVY** - Across our executive level, the average pay increase was 1.9 per cent. In our enterprise agreements the salary increases are 2 per cent. There is up to another 1 per cent available when enterprise agreement staff have been through training and increase their skills level.

**CHAIR** - Is that all of them, Steve, or do you have another one?

**Mr DAVY** - I think they were the three that were outstanding.

**Mr FINCH** - Minister, it is interesting going through the annual report: 1200 people are employed by Hydro, 800 people here in Tasmania, but there is scant reference to your employees. There is plenty of information here about the board, their training, how meetings are run and their remuneration, and all that sort of thing. We have some smiling faces of people -

**CHAIR** - You will have to put a question, please.

**Mr FINCH** - Okay, my question is: The report doesn't seem to contain references to your employees. Do they feel that Hydro is an employer of choice? No reference to that. I would have thought that with 800 employees, there would have been programs, initiatives, things that go on for employees, their betterment and their development - and apprentices - no reference to apprentices at all - that there might have been more reference to your workforce.

**Mr BARNETT** - An annual report has certain legal requirements to report on the financials, the audit report, statement of corporate intent, community service obligations and those things that are legally required. With respect to the other parts of your question, I will pass to the CEO.

**Mr DAVY** - I can see that this looks like an oversight from us, but the intent has definitely been to slim down the financial report so that we don't put excessive amounts of resources into producing a document that unfortunately we found = not many read or refer to, present company excepted. This is an important thing for you to consider. We did slim it down to the bare minimum to make sure we were only spending what was required to issue a financial report. It's a much less ambitious document in terms of describing our business than it has been in past years.

**CHAIR** - Your finances are much more complicated than most other GBEs.

**Mr DAVY** - Hopefully, we have done enough to do what we are required to do, to report the financials. In terms of what the programs are running internally to understand how our people feel about working in the business and to then make sure that they are properly given all the resources they need, that they understand the context of the business and the strategy that we're pursuing and the part we want them to play in that, and also that our leaders and managers have the right skills to make sure that all those things happen, there are many different programs across the business.

Importantly, what we do - and one of these is underway at the moment - every six months is survey our people so they can tell us exactly what they see as being important. The survey is a combination of answering questions on a scale - so we're trying to measure their opinions on lots of different items - and we also offer many opportunities through that survey for free text comments. Through those comments and through this feedback across the business but also in the different business areas, we modify our program so that we are doing what's necessary to improve how it feels to work at Hydro Tasmania. We see that as being very important.

**Mr FINCH** - You have a sense you're empowering the next generation of employees as well?

**Mr DAVY** - That's certainly what we're aiming to do, and the feedback we get from our people is that they really align themselves with that sentiment.

**Mr GAFFNEY** - In the Sustainable Timber Tasmania session I asked some questions about hydro wood. I want to understand the relationship between Hydro and Lake Pieman, and what involvement you have with the royalties or who gets some money from that. Also, the amount of cubic metres and the species, and who is monitoring what resource is taken out of the dam - if you could give me some information about that.

**Mr BARNETT** - The heads up was given during that short break, so I will pass to the CEO.

**Mr DAVY** - Before I answer that, there is one question I haven't answered yet. The \$25.7 million for the related party transactions is the net settlement of the power purchase agreements between Hydro Tasmania and the Woolnorth Holdings wind farms.

**CHAIR** - The net settlement?

**Mr DAVY** - Yes, the net settlement of those derivatives.

Hydrowood, under licence, currently accesses submerged specialty timbers within Lake Pieman. Hydrowood is the trading name for a local company by the name of Sustainable Forest Management. They have a contract with us which I wouldn't call a royalty, but it's a fee they pay, which has a fixed and variable component they pay to Hydro Tasmania for taking the timber out of Lake Pieman.

**Mr GAFFNEY** - Do you receive information about how much timber is taken out?

**Mr DAVY** - Yes.

**Mr GAFFNEY** - In the fee that you receive there's no - for any other resource in Tasmanian forests people pay for a certain amount I suppose and out of the dams, so they can just take as much as they can gather in a year or find?

**Mr DAVY** - Yes, it's my understanding that they have a contractual right to extract the timber from Lake Pieman. They would extract as much as they want to and they pay a fee to Hydro Tasmania that in part relates to the amount of wood they've extracted.

**CHAIR** - How much do they pay and where does it show up in your financials?

**Mr DAVY** - That's a commercial-in-confidence piece of information.

**CHAIR** - Can you provide to the committee the amount of timber that is being pulled out and what timbers they are?

**Mr DAVY** - I don't have that information to hand. Is that something you'd like me to -

**CHAIR** - I am not saying right now. We can write to you to get this. Are you able to tell us?

**Mr DAVY** - Is that something you would like us to take on notice?

**Mr GAFFNEY** - It's of interest to us because with special species, there's a lot of cubic metres in the agreements about special species that come out of Tasmania, albeit in a lake.

**Mr DAVY** - They are dead trees -

**CHAIR** - Yes, we know that, but we're just interested in the special species timber availability. There are some in the industry who say they can't get what they want, so we just want to know how much is being pulled out.

**Mr GAFFNEY** - It does reflect on the prices as well.

**Mr BARNETT** - We'll try to do what we can to respond to that question. I don't see any reason why not. The actual agreement is commercial-in-confidence, but it's a fair question. I see where you're coming from. We can take it on notice and get back to the committee.

**Mr VALENTINE** - Can we add to that about where those logs are destined? We've heard that they go to Melbourne and Sydney rather than Tasmania.

## UNCORRECTED PROOF ISSUE

**Mr BARNETT** - That is a matter for Hydrowood, which is a private company. We will definitely try to respond to the queries in terms of the timber and the type of timber to the best of our ability, as in Hydro Tasmania.

**CHAIR** - In acknowledging the amount you receive is a commercial figure, that can be provided to the committee in confidence and would not be distributed any further. Basically it is to inform the committee about what sort of value is coming out our lakes, in terms of return to the government. This is our timber. We all own it. It is a fair question, so we will put that to you in writing, in terms of what is coming out, the volumes and the cost.

**Mr GAFFNEY** - That makes sense for future. Lake Pieman will be finished and they may go to another lake for the same sort of resource. It is important for people to know how much is available.

**Mr BARNETT** - To your very point - and I am talking to Hydro Tasmania now - about other possible lakes because it has been working well and productively. Why not? As you say, in these lakes, it is a resource; let us make the most of it, and specialty timber. We are looking at this as we speak and is very encouraging.

**Mr VALENTINE** - Minister, if it is not coming to Tasmania, it is not doing any benefit to the artisans in this state. That is the reason I asked the question about how much of it actually comes back into the state.

You have a contract, and I can appreciate there might be some commercial-in-confidence, but we were told through Sustainable Timber Tasmania that a lot was going to Sydney and Melbourne. Can you give us an understanding as to what quantity of it might be coming to this state?

**Mr BARNETT** - In relation to the question, I understand where you are coming from. It is difficult to answer for and on behalf of Andrew Morgan at Hydrowood. I understand he is in China at the moment doing some good work. How much is used here in Tasmania compared to Melbourne, Sydney or overseas, I do not know the answer, but might be a question you could ask directly of Hydrowood at a convenient time. We will do the best we can from Hydro Tasmania's point of view to answer those questions.

**Mr VALENTINE** - So there are no strictures in the contract to say a certain percentage has to come to Tasmania?

**Mr BARNETT** - Not to my knowledge. That is a commercial-in-confidence matter between Hydro Tasmania and Hydrowood, but we will take your question on notice.

**Mr VALENTINE** - Tell us what you can, please.

**CHAIR** - We will put that in writing. We are over time, minister, but I want to raise one question to see if you can answer it quickly or not.

The Tamar Valley Power Station, on page 38 under Assumptions and Judgments, Site Rehabilitation Provision, the group has provided for the cost of removing the Bell Bay plant and removing the Tamar Valley Power Station at the end of its useful life. When is the end of its useful life? Do we know?

## UNCORRECTED PROOF ISSUE

**Mr BARNETT** - Tamar Valley Power Station is a 208 megawatt-combined cycle gas turbine

**CHAIR** - Yes, we know what it is; we want to know when the end of its useful life is likely to occur?

**Mr BARNETT** - I am not sure I am in a position to answer that question. It is a matter for Hydro Tasmania. I will check if the CEO would like to respond to that question.

**CHAIR** - We are happy to put it on notice if you need more time to look at that.

**Mr DAVY** - As far as the old Bell Bay Power Station, it has already gone.

**CHAIR** - That has already gone, we are talking about the Tamar Valley one.

**Mr DAVY** - It has not gone, it is there but it is not operating, so it is at the end of its useful life. It will be the accounting useful life we will be using there, so it will be 30 or 40 years, which is what you would expect is the operating life of a combined cycle unit.

It was commissioned in 2009, so it will be 30 or 40 years on from 2009.

**CHAIR** - We are not planning to shut it down, though?

**Mr DAVY** - No.

**CHAIR** - Only checking. Thank you, minister, we have gone a little over time, so we appreciate you doing that. We thank the Hydro people for appearing and the information they have provided. We will send a couple of those questions to you.

Thank you for getting back to us with the majority of answers very promptly. We appreciate that.

**The Committee suspended at 1.09 p.m.**

# UNCORRECTED PROOF ISSUE

**Thursday 5 December 2019 - Legislative Council - Government Businesses Scrutiny Committee A - Tasmanian Networks Pty Ltd**

## LEGISLATIVE COUNCIL

### GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

**Thursday 5 December 2019**

#### MEMBERS

Mr Finch  
Ms Forrest (Chair)  
Mr Gaffney (Deputy Chair)  
Ms Lovell  
Mr Valentine  
Ms Webb

#### IN ATTENDANCE

**Hon. Guy Barnett**, Minister for Energy

#### Ministerial Office

**Mr Ashley Bastock**, Chief of Staff  
**Ms Vanessa Pinto**, Senior Adviser

#### Tasmanian Networks Pty Ltd

**Dr Dan Norton**, Chairman  
**Mr Lance Balcombe**, Chief Executive Officer  
**Mr Ross Burridge**, General Manager Finance & Business Services  
**Mr Wayne Tucker**, General Manager Strategic Asset Management  
**Ms Bess Clark**, General Manager Mariner Project  
**Mr Josh Bradshaw**, Government Relations Manager

The Committee resumed at 2.05 p.m.

**CHAIR** - Thank you for coming back at 2.05 p.m. We want to get away on time as much as you do, I am sure.

Thank you again for appearing before our Government Business Scrutiny Committee. For the newer members of your team at the table, this is a public hearing, everything is on the public record.

## UNCORRECTED PROOF ISSUE

The transcript will be transcribed and form part of our report to parliament, which will be done before Christmas.

If any questions are asked that you believe require a confidential response, you can make that through the minister or make that request to the committee, and the committee would consider that request and determine how to proceed from there. Otherwise it is all on the public record.

Minister, for the purpose of Hansard, I will get you to introduce your team at the table and then invite you to make a brief opening comment. I know there is a lot to cover in TasNetworks. If the Chair wants to make further comment, that is fine as well.

**Mr BARNETT** - Thank you very much, Madam Chair, and thanks for the opportunity to present today to the Legislative Council.

On my right is Dr Dan Norton, Chair of TasNetworks; on my left is Lance Balcombe, the CEO of TasNetworks; Ross Burridge, General Manager, Finance and Business Services; Bess Clark, General Manager, Marinus Project; and Wayne Tucker, General Manager, Strategic Asset Management.

It has been a very significant year for TasNetworks in continuing its very good provision of network services across the State of Tasmania and also working very diligently on the Marinus Link second interconnector project.

TasNetworks delivered an after-tax profit of \$40.8 million, \$6.4 million above budget and above target dividend of \$43.1 million. Since forming in 2014, TasNetworks has been committed to lowering the network prices, with a substantial 20 per cent decrease in network tariffs to distribution customers in 2017-18 and a further decrease of around 2 per cent in 2018-19.

Supporting large Tasmanian businesses is a key priority and, on average, TasNetworks' annual transmission charges have fallen almost 36 per cent, or close to \$80 million, in the past six years.

TasNetworks continues to work with the Government on maintaining downward pressure on the cost of living and the cost of doing business, which is a top priority for the Hodgman Liberal Government.

In the June 2019 performance update, the Australian Energy Regulator - AER - ranked TasNetworks as a mid-to-high performing transmission network service provider and the overall performance of Tasmania's distribution network has also met or exceeded the regulator's standards.

The Government is also focused on its target of reaching 100 per cent self-sufficiency in renewables by 2022, and we are on track with the Cattle Hill Wind Farm and the Granville Harbour Wind Farm. Just a few weeks ago, I proudly visited the Granville Harbour Wind Farm and that is progressing.

Tomorrow I will be at the Cattle Hill Wind Farm for the official opening. I look forward to playing my part in that official opening tomorrow up in the Central Highlands. We will see if it is cold, windy and blowy.

**CHAIR** - Snowing, I reckon.

## UNCORRECTED PROOF ISSUE

**Mr BARNETT** - It may even be snowing; we are not sure about that. It is one of our three renewable energy zones in the Central Highlands, and it is being well-received and appreciated by the developers.

It is also diligently pursuing Project Marinus, as I have indicated. The business case assessments are being released today. It is a \$20 million project supported by the Australian Government through the Australian Renewable Energy Agency - ARENA - and the state Government through TasNetworks. We would be pleased to share with the committee more about that feasibility study and the positivity in and around the business case, and the flow-on benefits to Tasmania in terms of billions of dollars of investment and thousands of jobs going forward, including through other renewable energy projects.

It is confirmed a 1500-megawatt interconnector is technically feasible and commercially viable. It is confirmed that this is national infrastructure and it's deemed a priority project by Infrastructure Australia. It feeds into the Battery of the Nation plans that we had that we spoke about with Hydro Tasmania earlier today.

I thank the Australian Government for its cooperation and support, particularly with the \$56 million contribution to the design and approval process to progress that as quickly as possible. We have a good ongoing positive working relationship with our colleagues in Canberra.

Closer to home, keeping the lights on 24/7 is a top priority and I would like to pass on my thanks to TasNetworks and all its teams out and about in the field - night and day, rain, hail or shine - to keep the lights on. Likewise, with the bushfires earlier this year, it was a very challenging period and the work undertaken by TasNetworks was outstanding, again to keep the lights on, to work closely with our fire and emergency service personnel, particularly during the prolonged bushfire period in the Central Highlands. I visited with TasNetworks in the south in and around the Huon and again post the fire period. The reconnection to Southwood was a terrific effort and very much appreciated by the timber industry, and specifically Neville Smith forest products and Ta Ann.

A big thank you to the staff for the work they do and their deep sense of duty to their fellow Tasmanians. It is greatly appreciated. I will pass to the Chair for some other opening remarks and go from there.

**Dr NORTON** - Just a couple of brief comments, the two highlights of the year were, first, the AER approving our Forward Revenue. This, I think, has got the balance right between giving us the money we need to provide safe reliable power to customers and at the same time make sure that is done in an affordable manner as well. That was a major achievement and a lot of work was done in the business to interact with the AER to provide extremely detailed documentation to substantiate why we needed the revenue that it has approved.

The second area that has been a major focus, as the minister mentioned, is the Marinus Link project. This has taken a lot of time and effort from a broad range of people within our business and it has also involved interaction with other stakeholders, interaction in particular with the Department of State Growth and with Treasury, and, where appropriate, with Hydro. It is a Team Tasmania project so we are all in it together. However, producing the documentation for the business case and the project assessment draft report, which was part of the AER's requirement that we publish a draft report for public comment, that work and the responsibilities were with TasNetworks and the board for approving that.



As well as that, as the minister indicated, we have a lot of dedicated staff who put in hard yards especially when there is wind and rain and fires. I would echo the minister's comments congratulating our people who, ultimately, are the cornerstone of our business.

**CHAIR** - I would like to talk about the financial position initially: we know TasNetworks holds a lot of debt but is a very capital-intensive organisation. That is not unreasonable, but I remember being told some time ago that you should beware when companies have to borrow to pay dividends. What do you think about that proposition generally, minister?

**Mr BARNETT** - I am pleased with the sustainability and profit of TasNetworks. The last 12 months it has seen a terrific result - it is above-budget with a targeted dividend of \$43.1 million. As a government, we are very pleased with the efforts of TasNetworks. We say congratulations, well done. We are very pleased with the outcome. The Treasurer has a special focus on getting the balance right for our budget and that remains the case and that position hasn't changed.

**CHAIR** - Does it concern you that companies might have to borrow to pay dividends?

**Mr BARNETT** - I am not got to answer that question for and on behalf of the Treasurer. I can answer as a minister responsible for our energy businesses and indicate that it has delivered above budget. In terms of expectations going forward, we review that on a case-by-case basis in the years ahead. We need to remember that this is a government business enterprise. The taxpayers own this entity and at the end of the day, we need to provide funding support for our health, education infrastructure, police and so on and will continue to that.

**CHAIR** - As the shareholder minister, can I take you to page 68 of the annual report which is the cashflow statement. If you look at the cashflow from financing, I see an extra \$50.5 million was borrowed in 2019. The difference between the proceeds from borrowings and repayment of existing borrowings, if you look down a line or two from there, you will see \$43 million was the dividend paid. The additional borrowings look like TasNetworks had to borrow to pay the dividends. In the previous year, the borrowings went up by \$100 million and the dividend of \$75 million was paid last year.

The Government's dividend policy requires TasNetworks to pay out large dividends each year. I understand they are a government-owned business and they are there to help fund health, education, justice et cetera, but can you explain exactly what the policy is in terms of dividends here and what is the view about the business effectively having to borrow to pay the dividend?

**Mr BARNETT** - The Government's policy, as outlined by the Treasurer across government business enterprises all across government, not only the energy businesses, is that 90 per cent of the net profits after tax as a dividend go to government.

**CHAIR** - In terms of TasNetworks being required to borrow to fund the dividends, do you think that is a concerning situation to be in?

**Mr BARNETT** - It is a matter for the board in discussions with the CEO as to how exactly that is paid. The policy position of the Government is 90 per cent. That has been the case. It is a policy position, so, if you get 90 per cent of the net profits after tax, the dividend goes to government and it is managed accordingly. We have every confidence in the sustainability, viability and profitability of TasNetworks, but I have asked the CEO to add to that.

**Mr BALCOMBE** - One of the things we do as a business is look at our capital structure in the short term and the long term. One of the things inherent in a regulated business such as TasNetworks is that they are generally fairly highly geared. We are probably not as highly geared as some of our counterpart businesses on mainland Australia. Businesses such as ours can have a high level of gearing because our revenues are predictable. They are not volatile; we are not market-facing, and what happens generally is that if we recover more revenue than we are due, we hand it back to customers and vice versa. Our gearing level has been hovering around 68 per cent. I suppose one of the challenges is, yes, when you have a large amount of debt on your balance sheet, you are not holding cash. Ostensibly, you are churning part of your debt portfolio in order to pay dividends, so it is as much a working capital matter as actually physically borrowing to pay it.

Our focus is perhaps more on the long-term sustainability of the business, ensuring that we have adequate capital in cash and borrowings available to meet the ongoing capital requirements of the business. As the Chairman indicated, earlier this year, we signed off our revenue proposals for both distribution and transmission. That has achieved a good balance between prices to customers, but it also ensures we have access to adequate amounts of capital to ensure that we can maintain the appropriate level of the reliability of our assets. Our customers have told us they want to see more reliability. They want to see the level of reliability maintained because, if we spend more money on the assets to increase reliability, prices will go up. We have done some projections of our levels of debt and we are pretty content with that. We are focused on maintaining an A credit rating over the longer term for our business and our forecasts indicate we should be set to achieve that.

**CHAIR** - I appreciate the tension between customers not wanting to pay too much, but also wanting a reliable service, and needing that contingency to deal with things like bushfires and other natural disasters and events that are outside your control.

There is a section on borrowings on page 84. It says that as the borrowing limit's adjusted, extra's borrowed. I appreciate the gearing ratio you operate under is comparable and less than some similar businesses in other jurisdictions. What would happen if your borrowing limits reduce? What do you do then?

**Mr BALCOMBE** - At a high level, we'd cut our cloth accordingly. We do work closely with TASCORP. We share our corporate plan and our financial projections, and one area in which we have been borrowing more money this year is in regard to a new business that we've established, which is building the non-regulated components of transmission. For instance, with the Granville Harbour wind farm, which the minister and I visited a few weeks ago, we visited the day after we'd commissioned the transmission line to connect that. We commissioned that and it runs between the wind farm and the Reece Power Station, so that's new infrastructure. It's non-regulated. It's a specific asset built to connect that wind farm, and under normal circumstances, it would be owned by the wind farm operator. Where we have an advantage is that we are a transmission business. It's core business for us, so we have built, owned and will operate that transmission line. I am not at liberty to share the cost of that because it's commercial-in-confidence.

**CHAIR** - The cost of building it or the cost of operating it?

**Mr BALCOMBE** - The cost of building it, but it's all embedded in a long-term contract. We've borrowed to put, effectively, the first tenement of that business on our balance sheet. We intend to grow that. We think there's opportunity to have a business approaching \$300 million by 2025.

**CHAIR** - Does that include the transmission line related to Marinus in the same business unit?

**Mr BALCOMBE** - With regard to the transmission line and Marinus, we have to be cognisant that there'll be regulated and non-regulated components of that. I'm talking about elements of transmission that don't fall within the regulated boundaries of our assets. Essentially, what happens is that you could build, and I don't mean to jump ahead to Marinus - the southern corridor that we are consulting on at the moment and that we are going to build for UPC; that is, ostensibly, we will build own and operate that.

**CHAIR** - As an unregulated -

**Mr BALCOMBE** - As an unregulated asset at the first instance and then we will charge UPC for that. Should we get more customers that want to connect into that part of the network, that will become qualified as part of the shared network and could form into a regulated asset. There are other reasons why we are borrowing money. We are building a new business.

**CHAIR** - What's the name of that business?

**Mr BALCOMBE** - At the moment it has the lovely name of Large-scale Renewables Pty Ltd. We didn't have someone quite as inventive as the person who thought up Marinus. That's a work in progress and it's in its formative stages, but we think it represents a great opportunity for the business. There, where we would have separate conversations with TASCORP about potentially partitioning the net debt [inaudible], they want to make sure that the revenue flows that attach to that are secure, but it is core business. It's good business for us.

**CHAIR** - Will that be separately reported and will we have segment reporting related to this, whatever it ends up being called, business?

**Mr BALCOMBE** - Correct. It's incorporated as a subsidiary and we'll be looking to populate that.

**CHAIR** - We can expect to see segment reporting in the annual report.

**Mr BALCOMBE** - Yes.

**Dr NORTON** - I think the Chair made the pertinent comment a little while ago that the gearing ratio for this business is not aggressive by any means. It sits within the sort of gearing ratio of an infrastructure business with regulator revenue, as we have. The board's always mindful about our debt agreement. We have close interactions with our bank, TASCORP. They look at our long-term corporate plan and make sure from their perspective that the borrowings we have are secure. It is something that takes the attention of the board and management, and we have every confidence that we'll continue to get the support of TASCORP into the future.

**CHAIR** - Lance was referring to the future as well. In terms of what the forward budgets look like for the next three years, can you give us an idea of the estimated depreciation, estimated capex and cash dividends and movements in borrowing over the next three years?

**Mr BURRIDGE** - I am looking for the estimates now.

**CHAIR** - While your CFO is looking for that, minister, could we have a little more information on the capex going forward in terms of what's intended, and to what extent does it relate to catering for new infrastructure to meet the demands of renewable energy into the grid? I know you have just spoken about the Granville Harbour line and made some reference to the UPC one and the one for Marinus, potentially. There is obviously more than that in the capital investments required. I know that even the transmission line around the west coast is pretty much at capacity in parts around Rosebery and other areas. I am interested in the capital expenditure program.

**Mr BALCOMBE** - If it's okay, it is a specific area for Wayne Tucker, from a perspective of understanding our asset strategies with regard to transmission in particular and where we have areas of focus with regard to where we have capacity constraints and things like that.

**Mr TUCKER** - The majority of our capital expenditure on transmission is more around replacement assets. The augmentation of the network isn't really a huge driver apart from the transmission to support project Marinus, which is part of the Marinus project incorporated in the business case.

We have, on average, some fairly aged assets; we do our best to sustain those through their life and manage those as best we can.

**CHAIR** - Do you have a particular capital expenditure plan for upgrading and replacing assets around the state, other than the new ones we are speaking about?

**Mr TUCKER** - Absolutely, we have comprehensive plans for all our assets.

**CHAIR** - Are you able to provide those to the committee?

**Mr BARNETT** - I think Wayne could add to his answer and just outline those plans.

**Dr NORTON** - Before Wayne answers the specifics, when we go to get that revenue determination from the AER, we have to provide all this information to them so they scrutinise the adequacy of our capital expenditure plan. It is on the public record.

**Mr TUCKER** - Also, our annual planning report contains a lot of information about the major projects we are undertaking and programs of work as well.

**Mr BARNETT** - An annual planning report is put on the public record, which I think Wayne spoke to. Maybe the CEO could speak to that report, how it works and what is in that report.

**Mr BALCOMBE** - It is a requirement that we produce the annual planning report. We publish that around June each year. That covers issues, Madam Chair, that you raised. It looks at the condition of the network, at both transmission and distribution level. It identifies specific projects because it is a consultation document. Generally, when we are spending money on the network, it means that money goes in the regulated asset base and it puts upward pressure on prices.

We have had discussions with specific customers in the past about augmentations that might impact on their reliability in a positive sense, but it also drives prices up. Part of that consultation around the planning report says we have been able to perhaps come up with less expensive options or not execute the option at all where customers have then been prepared to accept lower reliability on the basis that they won't see any upward pressure on the transmission component of prices.

It's a key document. It looks at the network transformation, what we are doing on the existing network from a point of view of if we have any shortages of available services. It looks at any network performance impacts that might result from new connections, such as new wind farms coming on. They are asynchronous generation so they are not as predictable; they don't have as much inertia. Does that mean we need to provide more services to firm that up, with voltage service and the like?

We also looked at demand forecasts. The demand forecasts have been pretty flat over the last few years. Also, understanding what is happening with our larger customers - are they looking to invest, take greater loads or things like that?

We then amalgamate all those findings. We publish those specifically identified projects that we wish to consult on as part of that planning report. As the Chairman indicated, we then incorporate those projects into our revenue proposals. It's an entry process, but we have an obligation every year to publish that annual planning report.

**CHAIR** - Additional renewable energy resources like wind and other things are coming on line; obviously they are not built in a day, I appreciate that, a lot of work goes on before that. Some concerns have been raised about the capacity of the grid, not just here, but also on the mainland, about this massive increase in renewables getting into the grid. Is that an issue here and would it require massive capital expenditure to enable more wind to come online, wherever it might be around the state?

**Mr BALCOMBE** - I will answer first but might throw to Wayne, because he can deal with the technical aspects.

First, it will not require a massive amount of money. We actually see the flip-side as a huge opportunity for our business. The more generators we have connected into the network, the better as far as we can see, provided we can manage the impacts of connecting more of the asynchronous generation into the network, but I will throw to Wayne, if that is okay.

**Mr TUCKER** - We work closely with the Australian Energy Market Operator. We have developed renewable energy zones in consultation with that. They are in the integrated system plan and one of the purposes is to encourage developers to locate wind farms where there is reasonable network and capacity available, and, if we do need to augment the network, to try to do it in an efficient way that is best in the long term for all connecting parties.

**CHAIR** - So, a new wind farm would not be approved where there is no capacity in the current network to feed it in?

**Mr BARNETT** - Maybe in response to that, the CEO can respond.

**Mr BALCOMBE** - It is not that they would not be approved; it is what is in their best interests. It is their best interest to be in those renewable energy zones wherever possible because we have a transmission system already built and working.

I will give a bigger picture: we have 30 power stations in Tasmania, 50 dams, a transmission system built up over 100-odd years, and we are building on it each year and making it more effective

and relevant. It is not that they cannot - they can - but they then, like Granville Harbour, need to have an arrangement to get to the transmission system so they can use the wind farm to benefit their shareholders and the country. They would have to have some arrangement with the transmission system as in TasNetworks.

**CHAIR** - There is spare capacity in that new line you put up to Reece Dam.

**Mr BALCOMBE** - There was certainly available capacity there. It may well be they choose to connect to a weak part of the network. They might ask us to strengthen it and they would have to pay for that.

Let us say that they have a really good wind farm site and generally, this is a challenge with wind. If you think about it, it is coastal and often resides a long way from transmission, so generally they have to pay, but it could be they are close to transmission, but it is a weak part of the transmission. We could upgrade the shared network in order to connect them and give available capacity, but they would have to pay for that.

**CHAIR** - For the upgrade?

**Mr BALCOMBE** - Yes, that is right. You might have seen in areas such as Queensland and other areas where wind farms are connecting, but they are only available for about 50 per cent of the time because the network is so weak; there are significant system strength issues right across the country. Not so much in Tasmania, but it is something we will continue to monitor.

**Mr VALENTINE** - As an adjunct to that, the level of demand that might exist in the area where the wind farm is: does that ever come into the equation? You might have a major industry and you have the opportunity to choose between various sites. Do you encourage them to place these facilities where demand is reasonably high and therefore transmission is less?

**Mr BARNETT** - The system has been built up over a long time - Bell Bay, TEMCO, Bell Bay Aluminium or whatever - so it gets upgraded from time to time to support those particular customers.

**Mr VALENTINE** - Like Granville, which they were talking about?

**Mr BARNETT** - Yes, Granville - obviously a different case - had an arrangement put in place thanks to TasNetworks, which kicked in literally a few weeks ago and is now connected, which is terrific. That is a private arrangement between TasNetworks and the developer. I will pass to the Chair to make an additional comment.

**Dr NORTON** - As well as physically connecting to the network, wind farms also have to satisfy AEMO requirements and connection standards. Perhaps Wayne can elaborate on that.

**CHAIR** - They have agreement too, don't they?

**Mr BARNETT** - In Tasmania, the jurisdictional planner is TasNetworks, but you have the Australian Energy Market Organisation - Wayne might outline the AEMO role and how TasNetworks interacts with AEMO

## UNCORRECTED PROOF ISSUE

**Mr TUCKER** - AEMO is the national planner and energy market operator and we are the jurisdictional planner and a network service provider under the National Electricity Rules - NER.

If, for example, a proponent wants to build a wind farm to connect to the network, we work closely with the proponent to understand the technical characteristics of the wind farm and the connection. There is a huge raft of obligations in the NER we need to assess the wind farm capability against, and, once it meets those requirements, we then make a recommendation to AEMO which undertakes some assessments and checks. If AEMO is satisfied, it allows the wind farm to connect and generate.

**CHAIR** - We might go to the CEO to pick up on that information we asked earlier, then other members might have questions.

**Mr BURRIDGE** - To clarify the loss, I will give you the next three years.

**CHAIR** - Yes, that would be great, thank you.

**Mr BURRIDGE** - The depreciation for 2019-20 in round numbers is \$182 million; in 2020-21, it is \$192 million; and in 2021-22, it goes to \$205 million.

You asked about borrowings. The borrowings - I had to add current and non-current - for the end of next year will just be shy of \$2 billion - just over \$2 million - bearing in mind our limit with TASCORP is \$2.1 billion, so we are under our limit.

The following year it is about \$2 billion and \$50 million, and then the following year, which is 2021-22, we are just short of \$2.1 billion to the end of \$90 million.

**CHAIR** - So you are over the limit in 2020-21?

**Mr BURRIDGE** - No, \$2.1 billion, so it is \$2.090 billion. I have the capex numbers if you want those.

**CHAIR** - Yes, please.

**Mr BURRIDGE** - In 2019-20 in round numbers it is \$230 million; in 2020-21, it is \$214 million; and in 2021-22, it is \$241 million. They are all in line with our regulatory determination.

**CHAIR** - Do you have dividends too?

**Mr BURRIDGE** - Yes, dividends next year - and remember they are lagged - next year, 2019-20, it is 12, 15 and then 7.

**Mr FINCH** - We received a letter from the Tasmanian Minerals Manufacturing and Energy Council which has a lot of detail about Hydro and TasNetworks. The summary by Ramos Ogle was quite interesting. It is drawing a bit of long bow, minister, that it is something which you might care to embrace -

TMMEC believes Tasmania has all the elements to see its renewable energy resources harnessed to the betterment of Tasmania for decades to come, a golden future for generations of Tasmanians. The assets are state-owned and therefore

accountability rests here in Tasmania. The infrastructure is well-designed and largely fully depreciated and there are some wonderfully talented people employed in the respective organisations.

The element which TMMEC believes is not as obvious is the urgency and criticality being applied by key decision-makers across government and within GBEs to ensure the Tasmanian energy sector is globally competitive.

Would you like to comment?

**Mr BARNETT** - Yes, it is a very welcome observation by TMMEC, because we must do everything we can in Tasmania not just to be competitive in Australia, but globally competitive. It is a good objective to have, absolutely, and we would support that objective as a government. That is why we are very pleased with the fact we have low-cost, reliable clean energy in our target by 2022.

We hope to have the lowest regulated electricity prices in Australia for residential and business customers by 2022. We have a plan to do that. That plan is working. We are delivering on that plan, likewise to be 100 per cent fully self-sufficient in clean energy by 2022.

We are way ahead of the rest of the country in this regard. We are way ahead of most other countries in the world. I met with Professor Alan Finkel about two months ago, and he said if we were a country, we would be in the top three in the world in terms of clean energy.

This is something that is part of the Tasmania brand. It's natural and clean, and we can be proud of it. I am proud of it as the Energy minister, our Tassie first energy policy, and the Premier and everybody else in our Government is proud of it, absolutely.

Being globally competitive gives us this opportunity not only to progress with the Marinus Link, with Battery of the Nation and new renewable energy projects like pumped hydro and wind, but also renewable hydrogen. The National Hydrogen Strategy has just been released; the federal government is backing it with \$370 million. Tasmania has a real opportunity to lead the country when it comes to green hydrogen or renewable hydrogen. We are going to grab the opportunity to pursue that with both hands.

**Mr FINCH** - Another point Ray made about TasNetworks -

TMEC is asking for TasNetworks to continue to find business efficiency gains with the operational costs to ensure it offsets potential future increases in interest rates to keep transmission costs down.

**Mr BARNETT** - Yes, that's a good objective as well. That's a discussion I have with the board and the CEO reasonably regularly as to how to remain efficient and lean, sustainable and profitable. I might ask the Chairman or the CEO to respond further to that question.

**Dr NORTON** - It's a continual focus of management to ensure we find ways of doing what we do better and more effectively. You will recall that we had a major initiative several years ago in introducing a new software system to underpin our business. That project was a large project, over \$50 million, which came in on time and on budget. We are harnessing the benefits of that every



day in the business. In our business, one of things that drives efficiency is having accurate data and having those data available to the workforce.

What we have been able to do is develop - and we are still developing - systems that enable people right down to the crews that go out in the trucks to deal with outages, to do maintenance and so on, to have much more accurate information on assets than they used to have. This is driving significant efficiencies, and I'd have to say it's revolutionising the way we work.

We have introduced a system whereby management and the workforce meet pretty much every day to analyse the work being done to analysis what lessons learnt from yesterday and to plan future work, and also to monitor the efficiency with which they are operating. We have crews all around the state and, for instance, on the number of poles that might be inspected and the number of meters might be read, we now have that information so they can compare how they are going versus other parts of the business.

I have been to these meetings myself and they are revolutionising the way we operate; they empower people and they also give people in the workforce direct feedback on their suggestions. This has been enabled by the software systems we have put in. We have put in a SAP system. It provides -

**Mr VALENTINE** - SAP system meaning?

**Mr BURRIDGE** - It's a German integrated enterprise resource planning system.

**Mr VALENTINE** - Thank you, that's enough.

**Dr NORTON** - Because we have now this system in place and we have the data and we have the capability of getting accurate data to our people, we are finding significant efficiencies in the way we work. This particular program was planned to deliver efficiencies. Ross Burridge was in charge of the project. If the minister is happy, I might ask Ross to speak to the savings we have achieved to date.

**Mr BURRIDGE** - The project cost about \$58.2 million, and it was delivered on time and on budget. Savings made over the 10-year horizon were \$69 million. It's accumulative savings so each year we build that savings target into the budget and when we achieve those annual savings, the saving builds up by \$3 million to \$4 million a year. It goes into the targets and the business meets those targets. That's how we realise the savings. There are a lot of other tangible benefits too; the Chairman has talked about the access to data and things like that which we didn't have in past.

**Mr FINCH** - If I might, Chair, one more point about TasNetworks from Ray Mostogl -

TMEC is waiting to see the business case of Project Marinus to understand how the cost recovery of the investment is intended to be recouped. TMEC strongly makes the case to ensure that Project Marinus investment and ongoing sustaining costs are islanded from the current cost base of supplying energy to all Tasmanians.

**Mr BARNETT** - Thanks for the question; it is a good question, and a fair one, coming from the major industrials and any business operator in Tasmania, and just to make it -

**CHAIR** - All of us who pay networking charges too.

**Mr BARNETT** - That's right - it is not just business. It applies across the board and it gets down to the cost of our electricity, whether it is at home, residential or business, so it is a very important question.

As a government, our policy position is very clear. We should not pay more than our fair share. I put it to the COAG Energy Council, which was agreed to by the COAG Energy Council, that the Energy Security Board, the experts in the National Electricity Market, would come back to the COAG Energy Council by 30 June next year with a model, a cost-benefit analysis and a fair pricing model for Marinus Link and other interconnectors. Marinus Link is a key interconnector for Tasmania and Victoria going to the mainland, and other interconnectors have been discussed, promoted and proposed all around Australia.

There is certainly a view that progress of the rollout of more interconnection definitely integrates and gets the system working better and more effectively so that we can keep downward pressure on prices, provide reliability and provide that clean energy.

That work will come back to the COAG Energy Council on 30 June, and based on that work and assessment, it will go to the COAG Energy ministers for consideration.

That assessment cost-benefit analysis is looking at the fair pricing allocation. At the end of the day, the Government's position is that we should not pay more than our fair share. What we are doing with Marinus Link will provide terrific benefits for those, not just in Tasmania, but across the nation, with downward pressure on prices, energy security, and in Tasmania, billions of [dollars'] investment and thousands of jobs.

**CHAIR** - Just on that point of a fair pricing system, one could look at a fair pricing system as being Tasmania at one end and Victoria at the other, so half the cost goes to Tasmania and half to Victoria. Well, the population is a little bit less than Victoria and the rest of Australia, which is connected to the NEM, except Western Australia and Northern Territory. On what basis do you consider a fair pricing system to be in terms of being fair to Tasmanians?

**Mr BARNETT** - A very good question. That is why it was raised at the COAG Energy Council. That is why, on behalf of Tasmania and with support across the COAG Energy Council, we got a decision which would say, 'Let us look at the cost-benefit analysis of further interconnection across the country, including Marinus Link, and make that assessment.' We will get the experts to do that assessment because they will look at the cost-benefit analysis and then at a fair pricing allocation. That work will be done; it will come back to the Energy ministers mid-year and we will review that. At every step, I will be acting on behalf of Tasmania's best interests to ensure we get the best outcomes possible for Tasmania. That is absolutely a commitment. The current system is a little bit as you described, what is called the RIT-T process, the revenue investment test, and that is really an antiquated or an outdated system that needs to be updated. I think there is a general agreement around Australia, around the country, that it needs to be updated. We need a new approach and we look forward to the experts' feedback to us on 30 June, and we will review it then and there.

**CHAIR** - Will that be made public?

**Mr BARNETT** - Absolutely.

**CHAIR** - Minister, has the business case been made public?

**Mr BARNETT** - Yes.

**CHAIR** - I have not had a chance to look. It was only yesterday.

**Mr BARNETT** - It was very early this morning.

**CHAIR** - We have been busy. I know it's available publicly, but can you provide a copy to the committee for the committee's records?

**Mr BARNETT** - Yes, I would be delighted to, and I was hoping to have the opportunity to do so. I would gladly like to table the business case assessment report and also the business case assessment summary document for the committee.

**CHAIR** - If I might just finish this. In terms of this business case, we have never actually seen the business case for Basslink in terms of the benefit, cost and all that sort of stuff. Is there any reason they cannot also be provided publicly? I think it would be an important comparator in terms of - I notice in the media this morning that there is an expected cost of \$3.5 billion. Basslink projected cost was from memory \$450 million to \$500 million, which blew out to \$760 million-odd. If this was similar, it would end up being \$7 billion. I am not saying that is going to happen. I am just saying I think it would be helpful. Can you also provide a copy of the business case from Basslink?

**Mr BARNETT** - It is probably not my ability to provide that. It is a matter between Hydro Tasmania and the proponent at the time. It obviously goes back to 2006 or thereabouts and, indeed, prior to that time. The question is for Hydro Tasmania, more so than TasNetworks, which has nothing to do with or is not associated with that agreement. It was an agreement between those two entities.

**CHAIR** - As minister for both, would you be able to check that with Hydro?

**Mr BARNETT** - It is a confidential agreement, commercial-in-confidence.

**CHAIR** - No, no, I am talking about the business case. I am not talking about the agreement with Basslink. We dealt with that at the last hearing.

**Mr BARNETT** - Going back to 2006 is a long time. That is what you are asking me to do? Is that what you are seeking me to do?

**CHAIR** - I just want the business case. We will write to you, minister, on that.

**Mr BARNETT** - Why don't you write to me and I will respond.

**CHAIR** - The committee will write to you.

**Mr FINCH** - I was not sure whether your answer, minister, to the Chair's question before was in respect of the question I am going to ask now, or the statement I am going to make on behalf of

the Tasmanian Minerals, Manufacturing and Energy Council. It remains concerned with the apparent stalling of the Treasury department's review of the election proposal to consider delinking the current electricity price from Victoria. TMEC provided a submission in January 2019 and has seen no progress since then. Hydro, did you suggest, it is?

**Mr BARNETT** - It is a fair question for the Hydro but just to indicate that Treasury is undertaking that work. It is ongoing. There is no stalling as far as I am aware. A report was released mid-year. EMCO, which is a consultant, did some work. It was made public. It had feedback from various stakeholders all around Tasmania. That feedback has been taken into account and more work will be done, and is required to be done, on that delinking.

It is an important policy of our Government to have the lowest regulated residential prices in Australia by 2022 and, likewise, regulated business prices by 2022. It is an important amount of work. It is quite complex and that work is ongoing.

It is a matter for the Treasurer, the Treasury and Hydro Tasmania specifically.

**Mr VALENTINE** - With respect to the eventual ownership of Marinus: what is the Government's intention? That it will stay in government hands or that it be privately run? Can you indicate the Government's position on that? Obviously, given what is happening with Basslink and some of the issues and problems it has had in the past, many people would be interested to know how you are intending to go forward on that.

**CHAIR** - Can I just add to that question. You asked who will own it.

**Mr VALENTINE** - How it is going to be funded as well?

**CHAIR** - Who will operate it as well as who will own it and, again, how the funding is likely to work?

**Mr BARNETT** - Thank you for the question. We have a few questions there but thank you for the question; it is a fair question and an important one.

A lot of those answers, unfortunately, cannot be provided as yet. There is much more work to do in working with the Australian Government. It has been identified as national infrastructure and a priority project. Likewise, it is deemed a priority project for the AEMO, the organisation which will release the integrated system plan in the middle of next year. A draft will be made available prior to Christmas this year so you will see its views on the importance of Marinus Link and where it fits in the time line and rollout in terms of how it services the NEM.

Questions around ownership and who pays are good questions, but we cannot answer those at the moment because the work I referred to earlier by the Energy Security Board has to come back to the COAG Energy Council by mid next year. This is long term. This is no quick fix. This is generational change, decades ahead, but the business case assessment says that it can be put forward and built by 2027. That's in the report and our Government supports that. We believe this provides opportunity for Tasmania in terms of billions [of dollars] of investment and thousands of jobs, but there's a lot more work to do and TasNetworks will be doing that. We'll be working with our federal colleagues and interacting with Victoria and other mainland colleagues. I communicated with Victoria, New South Wales, Queensland and South Australia earlier today, advising them of the business case assessment and I have given them a copy of that report.

**Mr VALENTINE** - You can't tell us what the funding mix is likely to be?

**Mr BARNETT** - I can refer you to the CEO. It's recommended to be a regulated asset, which means there's a regulated return in terms of income that goes to whoever owns that asset.

**CHAIR** - That makes ownership really important.

**Mr BARNETT** - It identifies whether it's regulated or unregulated. The view of the business case assessment is there's merit in it being a regulated asset so that fair assessment of the income is distributed accordingly. I'll pass to the CEO, who can outline the importance of that.

**Mr BALCOMBE** - In the Marinus Link asset being regulated, we're also talking in regard to the on-island transmission upgrades that are required because you can't have one without the other. In regard to regulated assets, as the minister indicated, they are subject to scrutiny. That ensures that customers aren't paying too much for those assets, assuming there is some understanding that the framework for how it is paid for has to be established through this COAG process.

From a point of view of ownership, they provide a regulated, stable return. There's no end of owners available who have appetite to own regulated assets such as these. The fact that the asset is regulated also makes it a good proposition for debt providers to provide debt to the project, so we could probably be providing about 70 per cent of the debt over the life of the asset.

We're about to embark on the next stage of the project, which is what we are calling the design and approval stage, and that's broken into two components. There's a phase up until about March 2021, during which we'll do detailed design on the project. We'll progress the environmental approvals process. We're doing more subsea surveys. We'll do a lot of stakeholder engagement in regard to on the both subsea components and the terrestrial components in Victoria and Tasmania. We have a hold point around that March 2021 date, which will have a technical specification developed for, in particular, the converter stations and the cable itself. That represents an important hold point because we want to make sure that the business case remains viable and robust before we go to tender. Then we're planning, should we proceed - and we're very confident we will proceed - to take the project through to financial close around the end of calendar year 2023.

By that time we hope to understand what the ownership structure is, certainly what the operating structure is, and who the operator is. TasNetworks could be the operator, but we have to understand what it means to be the operator, because there's a commercial perspective on that. It depends on the appetite of the owner as to who the operator is. We don't have skills in that sort of infrastructure. We do in the transmission infrastructure, and that would most likely form part of our regulated asset base in any case. From a perspective of the high voltage direct current - HVDC - components, the cable and the converter stations, we don't have those skills at the moment, but we could acquire those as part of the process. The next phase will establish a lot of these elements.

How we fund it, how we finance it - a critical path item is how it's paid for, environmental approvals et cetera - these things will be developed over the course of the next three years.

**CHAIR** - Does the Government have a preference? I am not trying to put you in a box here, but a preference to the ownership and operator model at this stage, or not?

## UNCORRECTED PROOF ISSUE

**Mr BARNETT** - It is a fair question. As Lance has outlined, with some of the key initiatives, there is a lot of work to do between now and the financial investment decision in and around the end of 2023. At the moment, we are going through the design and approval process.

We are not in a position to advise the public and/or others, other than to be aware of the very many options. We can see, as consistent with the business case assessment, the merit of it being a regulated asset, which would at least provide some confidence and security for an owner and operator in terms of getting a guaranteed income flowing. It is a regulated asset as opposed to an unregulated asset.

**Ms WEBB** - Can I follow up on that? You have to know ahead of 2023 what is the timeline back you are likely to be putting something firm in place on the owner and operator model?

**Mr BARNETT** - It is fair to say we will be working with TasNetworks and it will be working with the Government. We will be working with the Australian Government and liaising weekly with mainland governments, particularly Victoria, on the design and approval process, looking at the options with ownership and operation of the asset. It is way too early to tell in terms of exactly the model.

**Ms WEBB** - I am not asking you about the model. I am asking you about the timeline: 2023 is when the project is completed. I imagine you will know something at a certain distance back from that. What is the timeline? When are you likely to know? Is it going to be before 2023?

**Mr BARNETT** - Yes. Lance has outlined a stage gate in mid-2021. The financial investment decision is in 2023, so we have about three years for the design and approval process before it is then full bore building through to having it in place by 2027. That is in the Business Case Assessment Report, the stage gate in 2021.

**Mr BALCOMBE** - Ideally, we should have a pretty good idea of the ownership structure by the time we take the project to tender, which is around that mid-2021 date. Suppliers will be keen to understand who the owners are.

**Dr NORTON** - They would want to know who the principal is, who they are dealing with.

**Mr BARNETT** - It is fair to say probably late-2020-21 for that mid-stage gate decision. We will be in a very good position to have the answer.

**Ms LOVELL** - Minister, the state Government has received \$76 million in funding from the federal government for the Marinus business case. Can you give us a breakdown on how much and how that money has been spent to date?

**Mr BARNETT** - Yes, it was a sum of \$56 million, which was agreed around February this year between the state Government and the Australian Government. The breakdown of the spending of that \$56 million and the work TasNetworks has undertaken, I will pass to the CEO to respond.

**Mr BALCOMBE** - I might also mention, minister, we received \$10 million for Marinus.

**Mr BARNETT** - To do the business case assessment.

**Mr BALCOMBE** - That is part of the feasibility and business case assessment.

**Mr BARNETT** - I will jump in. We have also received \$17 million for energising the workforce - that is \$17 million to prepare the workforce for the future - from the Australian Government.

**CHAIR** - As an addition to the \$56 million? These are all additional?

**Ms LOVELL** - Is that specific to Marinus?

**Mr BARNETT** - Specific to Marinus, yes, and the Battery of the Nation plans we have in Tasmania. That funding is being worked through with the Tasmanian Government, minister for Education and Skills Tasmania, for building the capacity in our workforce for the future. That commitment has already been made, for which we are very grateful.

The \$56 million Lance can outline to you is to progress, as soon as possible, the design and approval process - which is what we are in at the moment - with respect to progressing Marinus Link.

**Mr BALCOMBE** - Thank you, minister. We are in the ramp-up stages for that design and approval phase. I will pass to Bess to give a bit more detail. Our focus has been on completing the business case assessment and feasibility study. That was really a stage gate to take us to the next stage for the design and approval stage, albeit we have had some preliminary spending against that money. I might have Bess give us a bit of detail.

**Ms CLARK** - The long lead-time items to get us to the financial close or the final investment decision. Ultimately, you need to have your planning and environment approvals, and to have those approvals you need to also have a sense of what are you building and where is it going. The work we are doing is supported by that Commonwealth funding and is really to help us progress the route selection work and gain access to the route to be able to do all the necessary sampling surveys, plus all the community and landowner engagement so we have the information needed ultimately to lodge environment and planning approvals and to progress those through the process. In parallel with that, we will have all the technical data we will need for the approvals process as well to understand how big these cables are, how wide any required easement might be et cetera. What impacts will there be?

Basically, the funding allows us to keep that work going, because it is long lead-time work and we need to keep that going to be able to meet the 2027 in service state.

**Ms LOVELL** - Can you give us a breakdown of how much has been utilised so far and on what?

**MS CLARK** - Yes, to date we have spent in the order of \$3 million and, with the confidence of it, have commitments: for example, we are going to tender for further marine survey work and that will be undertaken over the coming months. Marine surveys are quite expensive items. They are important items, obviously, if you are building undersea cables. We are continuing all the landowner engagement we started in the north-west, with more to come. Basically, we kick off next January and February and then we will do the survey work and geotechnical surveys.

## UNCORRECTED PROOF ISSUE

Our intention with that funding, is we will have a program that will see us get to around the third quarter of next year.

**Ms LOVELL** - Are you anticipating needing to seek any more funds to finalise the business case or throughout that process?

**Mr BARNETT** - Thank you for the question; it is a good question. To clarify, the \$17 million is from the Australian Government to the Tasmanian Government. It is not going through TasNetworks, and that is where Skills Tasmania's, the Education department's and Jeremy Rockliff's responsibility is to build that capacity of our future workforce.

The answer is yes, we will require further funding to progress the design and approval process.

**CHAIR** - In addition to the \$56 million?

**Mr BARNETT** - In addition to the \$56 million, because it does take some time. Bess can outline the sorts of things that need to be done in the design and approval process. We are in ongoing discussions with the Australian Government. We have appreciated the \$56 million. We are having further discussions with it on further funding support for the remainder of the design and approval process.

**CHAIR** - Before you go back to that, Bess, you said you had spent \$3 million of the \$56 million to date. The Treasurer's annual financial report indicated \$6 million had been spent.

**Ms CLARK** - We had ARENA funding. I am sorry; I would have to take that on notice.

**Mr BARNETT** - I think that refers to the government scheme.

**CHAIR** - It does not refer to that \$56 million?

**Mr BARNETT** - Yes, that is part of the \$56 million.

**Mr BALCOMBE** - My understanding is the Government also has to gear up to support this project.

**CHAIR** - In Treasury?

**Mr BALCOMBE** - Certainly, I would think more Department of State Growth. They have brought on some more personnel to support the work from the Government's perspective. We will see \$50 million of that \$56 million. We had some deliverables we had to meet as a business to qualify for that money. We are in the process of having that signed off and should see it over the next month or two. At the moment, we have been funding this out of our own resources, but given the project, the next stage has not geared up that far; it has been quite affordable within our existing cashflows.

**Ms LOVELL** - Minister, I know the business case was released this morning. When was that received by you or your office?

**Mr BARNETT** - We have obviously been in touch with the board of TasNetworks and received feedback from TasNetworks' board from time to time. It has a draft report and has just



concluded its final report. I am looking at the Chairman to indicate whether he can respond in a moment. We have to receive that final report and then consider it carefully; then we want to release that, which we have done with TasNetworks to date.

**Dr NORTON** - The board of TasNetworks approved a package of papers at its board meeting on 28 November. We had the business case assessment report and an overview report, and also some documents relating to what we call the PADR, which is the project assessment draft report, which we need to publicly release as a part of the AER approval process. We approved this package of papers on Thursday 28 November and I think we forwarded them to the Government on 29 November.

**Mr BARNETT** - On behalf of the Government, I can clarify that is correct - I am sure it is. We then have to go through our normal processes and through Cabinet. That would indicate to you that this has to occur to review the report, consider it in Cabinet and then respond accordingly.

**Ms LOVELL** - We spoke before about work being done at the COAG level on the cost analysis of the pricing of the power once the link is up and running.

**Mr BARNETT** - I will clarify that it's not just for Marinus Link, it's for interconnectors across Australia.

**Ms LOVELL** - My question now is about the \$3.5 billion for funding the link itself. What conversations have been had with other states around who will fund the link, and what proportion of that cost is the Government anticipating or expecting other states to cover?

**Mr BARNETT** - That's a good question. That's exactly what is being reviewed and assessed in a cost-benefit analysis and fair pricing allocation between now and 30 June new year. The Energy Security Board has been asked by the COAG Energy Council to do that work. They are the experts; they will no doubt consider how it works now, and the restrictions and adverse impact about that now, and then roll out and provide some options to consider or a report and recommendations on 30 June next year.

**Ms LOVELL** - That is part of that work being done?

**Mr BARNETT** - All that will be part of the work.

**CHAIR** - Minister, to clarify what Sarah Lovell has been asking: in your view, how much, if any, should Tasmania pay for the \$3.5 billion estimated cost of the Marinus interconnector should all the ducks line up and approvals be received?

**Mr BARNETT** - There are two things: the work being done with respect to the allocation and pricing allocation. That's very important work to come back on 30 June to the COAG Energy Council. With respect to the \$3.5 billion and who pays, that will be decided in advance of and by the financial investment decision in 2023, quite probably before that. Those discussion will take place between us and the Australian Government, and no doubt other governments, but it is very important. There is much more work to do before an answer to that question can be provided.

**CHAIR** - You don't have any view on whether Tasmania should pay anything or nothing?

**Mr BARNETT** - I have indicated on behalf of the Government on a number of occasions and I'll say it again now: we in Tasmania would only pay our fair share and no more.

**CHAIR** - Of the construction or the operation?

**Mr BARNETT** - Of the cost of the cable, the interconnection.

**CHAIR** - The cost to build and install and hook it up?

**Mr BARNETT** - The cost of the interconnection.

**Mr BALCOME** - There are two elements here. What happens is the asset gets built as a regulated asset -

**CHAIR** - Assuming it is a regulated asset.

**Mr BALCOME** - That's right, the plan is that it will be a regulated asset. The regulator signs off on that. There is a process we go through with the regulator to get it approved as a regulated asset. Two things happen with that: it gets capitalised so someone owns it, and then it gets funded from a point of view of debt. That is the ownership model, but then there is a price recovery model. Following the regulator approving that, it is a regulated asset, and they then make a pricing decision on it, which is how the revenue with regard to the asset is recovered. That is effectively the cashflow that provides a net return and funds the debt and pays all the operating costs.

It's that pricing mechanism that the Energy Security Board has been tasked with by the COAG Energy Council to go and examine. Pardon me, but there was a bit of a mixing of funding and how it's paid for. There is a discrete process -

**CHAIR** - There is a cost recovery-type process whatever owns it and operates it.

**Mr BALCOMBE** - Correct. It is how it earns its revenue and who pays that revenue, and that is going to be determined through this process.

**Ms LOVELL** - To clarify, because this is not an area that I am particularly familiar with, \$3.5 billion is the estimated cost for establishing, building, construction, setting it up and having it up and running. That will be paid for by somebody, presumably the owner, whoever that is determined to be. The work that is being done at COAG which is due back around 30 June is to do with the cost analysis of the pricing, which will incorporate some sort of cost recovery for that construction cost. Is that correct?

**Mr BALCOMBE** - Correct. Basically, the owner has made an investment so it's a \$3.5 billion investment albeit - I don't want to complicate it - some of that will be owned by TasNetworks, the on-island component, but extensively what we need to do is to clarify -

**Ms LOVELL** - How that will be recovered?

**Mr BALCOMBE** - It needs to fund that investment. It needs to get a return on the investment and fund the operating costs annually.

**Ms LOVELL** - At this stage we don't know. I guess my question is, and what I am trying to get to the bottom of: how much is it expected that the State of Tasmania will be responsible for out of that \$3.5 billion?

**Mr BARNETT** - Thank you for the question. I think Kerry's earlier question and your question are linked together. You are thinking of the business. The Chair was talking about other customers and you are talking about customers.

The answer to that is that that work will be done between now and 30 June in terms of a fair pricing model for consumers. Our position, as the Government, is that we should not pay more than our fair share, knowing that we have a plan for energy security in keeping downward pressure on prices. Having said that, the Chair has been keen to make a contribution.

**Dr NORTON** - What these national transmission infrastructure projects do is impose a cost because somebody has to invest in them and you have to get revenue recovery. But at the same time, the whole aim is to deliver energy at a lower price than it would otherwise be delivered.

As far as the customers are concerned, there are two things: they have to pay a bit more in transmission charges, but they get a more than commensurate reduction in energy costs.

**CHAIR** - Like generation costs?

**Dr NORTON** - The energy component of their bill. If that didn't happen, you wouldn't get these investments being ticked in the first place. The work we have done shows that when you look at the Marinus Link, the benefits in terms of downward pressure on energy costs more than offsets whatever costs are incurred from a transmission perspective.

The work the minister has referred to is really looking at where those benefits from lower energy costs occur across different jurisdictions. It is a complicated issue - a lot of modelling is required - but those two things work and the reduction in energy costs from these national transmission projects, like the Marinus Link, should more than offset whatever transmission cost is incurred by having to return an investment on the new transmission.

**Ms LOVELL** - I suppose the question for most people is how will that play out for Tasmanians in terms of the investment the state is putting in and the benefit Tasmanians will receive from that?

**Mr BARNETT** - Absolutely, and a good question, a fair question, no problem, understand and we're all over it.

The business case assessment released today indicated that the benefits for the National Electricity Market was between \$600 million and a bit over \$3 billion. Picking up on the Chair's point, that means there's benefit for the NEM in downward pressure on prices. It is no good doing all this if it's not going to benefit the NEM. Why would you do it? We're doing it because we can see there is a benefit in it. We've done the business case assessment. It has been released today and it says there is benefit for the NEM and there'll be downward pressure on prices, and that's a good thing.

To make it very clear, we can't answer these questions until we get closer to the financial investment decision. That will take time. There is a lot more work to do and we're working furiously behind the scenes, I can assure you, and in the time ahead there's much work to do.

**Ms LOVELL** - The unanswered bit is who will own it and who will operate it, and that's where we'll understand that.

**CHAIR** - We'll go to Kerry. We're going to have a short break at 3.30 p.m. for a cup of tea and so you can plug your phone in and stuff.

**Mr FINCH** - Thanks, Chair. A couple of things I wanted to touch on. First, it's just something that Mr Balcombe was saying before about outsourcing and going to tender for something. We had some evidence given to us as a committee that TasNetworks has a big outsourcing program and things that used to be done in-house have now changed with the ring-fencing and competitive fencing, and so things have to go out to tender.

I am wondering, minister, whether in that process as we talked about before with Hydro - jobs, job, jobs - how diligent are we being in ensuring that Tasmanians have a crack, have an opportunity? Maybe in some ways, they should be advantaged to a certain extent, to try to either make sure Tasmanians get the job or that when we do outsource it, it means that jobs are coming to Tasmania.

**Mr BARNETT** - Thanks for the question. Absolutely it's very important for all Tasmanians, and there are two things. As a government, we support local jobs wherever possible. We have a local jobs policy across government. Second, we can't breach section 92 of the Constitution which is that trade and commerce between the states must be free so there is a constitutional issue there. But we are absolutely pro-Tasmania and pro-Tasmanian jobs wherever possible, and Lance will indicate how that rolls out through TasNetworks.

**Mr BALCOMBE** - Thanks, minister, I'm not sure we have a large outsourcing program. Certainly, from a point -

**Mr FINCH** - Sorry, I might explain. That's the evidence that has come to us. I'm giving you the opportunity to refute that.

**Mr BALCOME** - Certainly, we use contractors; there's no doubt about that. However, we have a long-established and stable field workforce right across the state. We use contractors where we want to flex up or where we have specific programs of work where we don't want those contractors to be interrupted by normal day-to-day interruptions, which we can often get in our business, such as the weather over the last couple of days where we have to pull them off jobs and that creates inefficiencies.

Page 54 of our annual report shows that of our total percentage of purchases, 72.1 per cent were in Tasmania. I am cognisant of the fact that as a network business, there are components that simply aren't made or sourced in Tasmania. I'll give an example: we use transformers. You've seen many pole-top transformers in the network; we install hundreds of those per annum. We would source quite a few of those from the mainland and some overseas. We obviously can't do that.

We certainly have a procurement process where there is a weighting - I'm looking at Ross here because he oversees procurement in his area - for Tasmanian content. We're very much focused on that and where possible we also use contractors that have a Tasmanian presence. I will give you an example of that. Zinfra, we use for quite a lot of our overhead work. We use them for that flex work. They have a Tasmanian presence. They have a depot in Launceston and they have a depot in Cambridge very approximate to our Cambridge depot.

The other comment you made, Mr Finch, was with regard to ring-fencing. Ring-fencing was brought in as part of a new set of electricity rules that commenced in December 2017. Basically, that meant we could no longer perform certain parts of work we had traditionally done. That was generally work performed what we would call 'behind the meter', and other contestable work, such as the telecommunication services and data centres.

The Australian Energy Regulator and the rule maker, the Australian Energy Market Commission, in their 'wisdom' suggested that customers would benefit through competition. If businesses were to occur within a distribution business, they would be ring-fenced and made competitive. We have created a business called 42-24, which generates revenue from telcos, data centres and telecommunications' backhaul. We have done some interesting work on the west coast in association with the NBN and Telstra. We have built a new feeder to Mount Read, which has helped supply the west coast. It also operates our component of the microwave system that supports the Tasmanian government radio network.

Basically, we had a rule which meant we had to go and partition that business. We had to put in a new management structure. At the moment, it can still operate on our premises but if we go into another layer of service, which is called energy services, where there are some revenue opportunities, we have to go and relocate the business, take it off premises and set it up with its own systems. The ring-fencing is more about our structural arrangement and how we can earn certain suites of revenue streams. It's not so much about the work we are conducting.

**Mr FINCH** - Would that have been the reason why street lighting maintenance was outsourced to a Queensland company? Work done by Tasmanians for 90 years has been outsourced to a Queensland company. Is that correct?

**Mr BALCOMBE** - I would have to take that on notice. I am not sure of the Queensland company you are referring to.

**Mr FINCH** - Please do, because that was evidence that came to us. It means that Tasmanian employees, your 1005 employees, some of them are sitting around while that work is being done by a Queensland company.

**Mr BALCOMBE** - I am very comfortable that our Tasmanian employees aren't sitting around. One of the challenges for street lighting work is that it is dispersed. As the Chairman said, we are doing a lot of work on increasing the efficiency of how we undertake our work. You might have a street light out in Sandy Bay and one in North Hobart, it is not particularly efficient and it interrupts the normal flow of our program of work. It is probably amendable to being outsourced.

One of the things we are very focused on is making sure that our workforce is fully utilised and we are targeting about 85 per cent. I can assure you that we don't have people sitting around while contractors are doing work. If that is the question, I refute that, respectfully.

**Mr BARNETT** - To add to Lance's answer, I raised this in terms of the importance of local jobs, Tasmanians doing the work from time to time, with the board, and Lance and they will tell you that. I was able to launch the apprenticeship program, taking on linesmen, electricians and apprentices. It is a very successful program taking on younger Tasmanians -

**CHAIR** - We might come back to the workforce questions after the break.

**Mr GAFFNEY** - The environmental consultation group, Coffey: what is their role, when were they engaged and who engaged them?

**Ms CLARK** - Coffey was selected through a competitive tender process that we ran for services to manage our environment and energies planning process, and to help us with our route selection work and the approvals framework in Tasmanian, Victorian and Commonwealth waters. We went to a competitive tender process for a professional services firm. Like many large professional services firms, they brought together a consortium of expertise. Coffey themselves have expertise but they also have a high range of service providers.

They have also worked with companies like Entura. They have a consortium of companies, including Tasmanian companies. They have been doing work with us for the last 12 months or so. I can check the exact engagement.

**Mr GAFFNEY** - That would be helpful. When was a connection agreement received by TasNetworks from UPC, and have any other connection agreements been made by proponents in the north-west?

**CHAIR** - We might go into those after the break because we are going into a slightly different area. There are a few more questions, Mike, if you are happy to do that.

**The Committee suspended from 3.31 p.m. to 3.45 p.m.**

**Mr GAFFNEY** - Minister, a couple of questions regarding some of the work being done on the north-west coast between Hampshire and Staverton, but some other ones would be good to have. The involvement of UPC Renewables: when did they become involved and what is their role?

**Mr BARNETT** - Thanks very much for the question. I will pass to Bess to respond to those operational matters. UPC is obviously a separate entity from TasNetworks. TasNetworks is the jurisdictional planner for Tasmania which has overarching responsibility in that regard. Obviously, in matters relevant to UPC, it, as a private company, has some things we can share but we cannot go too far representing their interests. Having said that, I pass to Bess Clark.

**Ms CLARK** - Yes, and this is an example of what we talked before about AEMO identifying renewable energy zones and us having a role as TasNetworks as Tasmania's jurisdictional planner in planning the transmission network. In looking at the work for the Marinus Link, we knew there was a renewable energy zone in north-west Tasmania. We knew we also have existing and potential resources in central Tasmania. Wayne's team looked at how we could both connect Marinus into the Tasmanian network and do that in an efficient way that also moved those wind, hydro and pumped hydro resources we have and expect to have over the coming years.

As a result, we developed a supporting transmission plan in north-west Tasmania. This includes a corridor from Hampshire to Staverton, which is on the way to Sheffield. That is expected to start life as a connection asset for UPC, because it will facilitate the connection for them where they will build a private line from Hampshire through to Circular Head. However, we are also running a regulatory investment test, because we see that line could provide benefits for many customers in moving energy around our network efficiently.

**CHAIR** - From Hampshire to Circular Head? That line.

**Ms CLARK** - No, just from Hampshire to Staverton. It is just a ring. Burnie is where we are coming into Tasmania and south to Hampshire. I think you have a map there. South to Hampshire, across to Staverton using existing transmission lines to Sheffield and then back up to Burnie. It is basically a ring that allows us to connect west coast wind and potential new wind. It allows us to connect Hydro and potential and pumped hydro in the Mersey, Forth or west coast areas. It allows us also move energy from and to the south of the state, where we also have wind and existing and potential hydro. It is a ring that allows us to move energy efficiently around the state.

**Mr GAFFNEY** - It says in one of your releases that TasNetworks explored a number of potential corridors to host new electricity between Hampshire and Staverton. How many is 'a number' and where is that process up to at the moment?

**Ms CLARK** - That is some of the work Coffey has assisted us with, working closely with Wayne's team and other teams in TasNetworks. We start saying our planning identifies we need to get from Hampshire to Staverton. You start with a straight line and say if you could do that, that is what you do. You can almost never do that, so you would start to identify the constraints there, whether they be mountains, rivers, scenic reserves, all manner of things. We basically looked at lots of works and data, then short-listed three of what we called 'feasible corridors', one that went north - one that went through the middle and one that went to the far south. We have done further work and have narrowed it down to what we call our southern, as opposed to far south, essential corridor. No corridor is without constraints, so we are trying to find the corridor with the least constraints. The work we have done is based on all those data we have access to at the moment and suggests the corridor that we have identified is the favourable one.

Now we need to get onto the land - work with the community, understand the local considerations, do the sampling, make sure we can build on the land, make sure there aren't threatened species, for example, that we haven't identified. While we have identified a preferred corridor for now, we are starting that engagement now.

**Mr GAFFNEY** - Can you explain the upgrades mentioned in the newsletter, from 110 kV to 220 kV? What does that mean to the layperson when you say an upgrade? I want to get it on the record. It is quite a reasonable size difference. Can you explain to the committee what that means?

**Ms CLARK** - This particular corridor has a whole section of new transmission - there is no existing transmission. It also has a section that will run alongside the existing 110 000-volt network that goes from Burnie down to the west coast. It's a significantly higher structure because it's carrying higher voltage electricity and it requires a wider easement. It is an increase in scale.

**Mr GAFFNEY** - Do you know how many metres?

**Ms CLARK** - I have a diagram somewhere. The new ones are in the order of up to 60 metres; they can be between 48 and 60 metres.

**Mr GAFFNEY** - Do you know what the distance you have to have between each of the poles or the towers for the transmission?

**Ms CLARK** - We are proposing a corridor for a 220 000-volt line, which is 60 metres. It's prudent to secure a bigger corridor to futureproof the network so we are actually looking at having a 90-metre corridor that could facilitate future investment, should it be required.

**Mr GAFFNEY** - Some concerns have been raised; as you and I appreciate, there will be concerns wherever you are going to put the line, but with the Leven Canyon and Bluff and a lot of the areas around there, because the topography is quite steep and there are canyons and ravines, to put a 60- or 62-metre tower on top of one of those and have a 90-metre-wide easement and clearing under the transmission lines is going to be quite an impact visually.

That's what some of the people have come to see me about: the visual impact in that area. A lot of people own land through the easement. It is private land compared to somewhere further south, where there might only be one or two landowners.

**CHAIR** - If you could identify more clearly where that line is, how much private land there is and who owns that private land, this might allay some of the fears.

**Ms CLARK** - This is a very high level indication - that's just a version of what you have here. We have identified this corridor on the basis that it has quite a large section of existing managed forestry on the easement, on more than half of that corridor. We are running public workshops at the moment - we had two last week in the north-west and we have two this weekend - to explain the process we have undertaken to select the corridor, the things we have taken into account, and also to hear from landowners in that community about what other things they value, and the options they see we should consider. That is all taken on board in our feedback so that we can consider a route that can be approved and will minimise things like visual impact.

**CHAIR** - Hampshire to Staverton - can you outline how many private landowners there are in that area?

**Ms CLARKE** - There are some private commercial forestry owners, they are the largest owners there; then there are in the order of a dozen owners in total. There are some in the Staverton area and there are some around the Loongana Valley area. We have contacted each of those. On top of that, in that broader community there are people who are potentially adjacent to the corridor who are clearly very interested in the project. As we continue our engagement, we will bring more detailed maps and more information - like tower-siting heights and visual overlays - but, as we are starting this process, we also don't want to mislead the community by saying this is all sorted or that we know exactly where it's going. We want this to have a degree of iteration with the community as we get feedback and take that into account as we move our plans forward.

**Mr GAFFNEY** - Is UPC underwriting the proposed Hampshire to Staverton line? What guidelines and constraints has UPC given to TasNetworks, Marinus or Coffey? Do you have time lines and a dollar value? Can you explain some of those?

**Ms CLARK** - As I outlined, that is part of this work we've done, in effect, to unlock the renewable energy zone for a range of potential developments in existing assets and to support the flows to and from the Marinus Link. As part of the Marinus Link business case assessment, that ring also includes the tail off down to near Cressy to join our southern network. That is all considered as part of the overall \$3.5 billion investment we're talking about.

That is why we talk about the Marinus Link and supporting transmission. There is this supporting transmission in Tasmania to be able to unlock energy to move to and from the link and underpin the value of the link. UPC has a proposal and, even independent of the Marinus Link, they wish to connect to our network. We have basically said, 'Here's our plan and here's an



opportunity that you could connect, initially, potentially into Staverton, and in the longer-term at Hampshire, as that becomes part of the shared network.' Over time the charges they would pay would be expected to change as other customers start to use that network.

**Mr GAFFNEY** - It was suggested to me that the link may have been better if it was further south.

**CHAIR** - Further south than the one they're talking about now?

**Mr GAFFNEY** - Yes, further south than the one we're talking about. It was to go behind Black Bluff and not cut between the Leven Canyon and Black Bluff, which is what it seems to be doing. The Leven Canyon is a very big tourism attraction for the north-west coast. Will this be seen from the Leven Canyon when people go to see Tasmanian wilderness? People are worried about that kind of impact on the clean, green image we are giving. Then, there's a transmission tower 62 metres high and 90 metres wide straight through this pristine area.

**CHAIR** - A scar on the landscape.

**Mr GAFFNEY** - Yes, it will be.

**Ms CLARK** - Yes, we've taken it on board. There was a previous proposal being considered that wasn't being considered by TasNetworks that had potentially more impact on the Leven Canyon. We recognise and we have very strong feedback from the community, including the council, that Leven Canyon was very important to that region. We have proposed our line as such that, basically, you have to be at the upper lookout at the Leven Canyon and looking in a particular direction to just see the top of the tower. If you stand at that lookout, you can also see timber and forestry operations and other things. We have designed the line in a way that we think has acceptable visual impact but that's a process we're still working through.

**Mr GAFFNEY** - Thank you. You did say you are going to find out when you signed Coffey on, so if you could get back to us about that -

**Ms CLARK** - I did. We signed that contract in October 2018.

**Mr GAFFNEY** - Okay. Thank you.

**CHAIR** - You've made it pretty clear that Marinus Link would be a regulated link.

**Mr BARNETT** - We haven't said that. The business case assessment has recommended or at least highlighted the benefit of Marinus Link being a regulated link and we take that on board; we think there's merit in that, but we aren't finally fixed on that. There may be other views put. As a government, we have to take on board all of that and we can see the merit of a regulated link.

**CHAIR** - This is addressed to you, minister, because it intersects with Basslink, which is a Hydro concern and not with TasNetworks. Given the existence of Basslink, which is a privately owned and unregulated facility, doesn't this automatically impose constraints on Marinus via National Competition Policy? I ask you, as minister, what exactly are the constraints? How can another link subsidised by government operate in the same market as the existing Basslink and what could happen in 2031?

We are looking to the future here, but this is a long-term asset we are talking about. If Hydro perhaps did not renew the Basslink service agreement and could become a regulated link that competes directly with Marinus Link, how would that work? I cannot imagine Basslink and Keppel ignoring this happening.

**Mr BARNETT** - That is a matter for Basslink, Keppel and Hydro Tasmania. They have contractual arrangements in place, as you have referred to, and what they decide to do in 2032 is clearly a matter for them.

We have released, through TasNetworks, the business case assessment today and that highlights the merit of the regulator link, the Marinus Link.

**CHAIR** - Are there any constraints by National Competition Policy in terms of a regulated link being the recommended approach taken in the business case in terms of Basslink in its existing capacity?

**Mr BARNETT** - I am happy to pass to the CEO, but I am not aware of any constraints you are referring to. I might be misunderstanding the question.

**Mr BALCOMBE** - I am not aware of any constraints from the competition perspective. One of the things we have examined was how Marinus Link would operate as a regulated interconnector alongside Basslink as effectively a merchant link. For all intents and purposes, Basslink has an operating profile similar to how a regulated link would work anyway.

From an operational perspective, we do not see any perspectives on that.

**CHAIR** - You do not see any conflict with National Competition Policy in that regard for Marinus?

**Mr BALCOMBE** - I am not aware of any. I am happy to take the question on notice if you would like us to examine that, but I certainly am not aware of any. There have not been many merchant interconnectors and generally, when they have been merchant interconnectors, they have generally reverted to regulated interconnectors.

When they have been merchant interconnectors, they happily operated alongside other regulated assets. South Australia to Victoria - there was one merchant interconnector, but there were other regulators. The Haywood interconnector is a regulated one. I am unsure; I would have to take the question on notice, but I am not aware of anything.

**CHAIR** - Would you take that on notice? It is important in the overall assessment. We already have an interconnector operating. This is a second interconnector that is being proposed which has now been shown through the business case to be commercially feasible, which is great news for Tasmania, as long as we do not have to pay for it ourselves as taxpayers of Tasmania, and we are here to represent them, as you are also. If you would do that, we would appreciate any feedback you could provide.

**Mr BARNETT** - I emphasise again: with respect to Basslink, that is a matter for Hydro Tasmania and Basslink

**CHAIR** - I am talking about Marinus now.

**Mr BARNETT** - If it is related to Marinus, absolutely happy to get back to you, but I am saying I cannot interfere with the Hydro Tasmania and Basslink agreement. It is a private matter.

**CHAIR** - I am not asking you to do that. This is about Marinus and how it fits into the picture in any competition issues that may arise as a regulated link.

**Mr BARNETT** - Happy to respond. I will go to one other question and then come back to some staffing arrangements.

**CHAIR** - You may wish to declare an interest in this, minister, and I accept because of a family connection, but I am representing farmers here, talking about the opportunities for them under the emPOWERing Farms project, which would facilitate farmers being able to use the energy generated on their property across a number of metered sites. You all understand on that side of the table what I am talking about here.

In our stakeholder engagement meetings, we talked to the AER about the barriers to doing this and understand it is a national regulatory issue. If I could ask the minister, through you and possibly to the CEO, what exact regulations would preclude a farmer sharing their own generated power across the network when they generate it on their own land and can feed it into the grid at a particular rate, which is quite low. But then if they have to buy it back, on the same farm, for a different meter for other purposes such as irrigation or other, they have to buy it in at the top rate.

I understand all the networking issues with that but if someone could address me about the regulatory barriers to that and what the emPOWERing Farms trial might be.

**Mr BARNETT** - Thank you very much for the question. I will declare an interest in terms of a perception. The conflict of interest is that my brother, Mark, is involved in a business called Xenergy, which I think you will know; it is on the public record so I am declaring that.

**CHAIR** - Yes, that's why I made the point.

**Mr BARNETT** - Thank you for sharing that and I am responding to indicate that he is involved in that. I am not involved in any way, shape or form with that business, Xenergy.

**CHAIR** - No, and I'm representing the farmers who may benefit from this.

**Mr BARNETT** - That is right. Having said that, likewise I have had representations from a range of farmers on this. There appears to be a trading concept - Agri-Energy Alliance, Sustainable Tasmania Energy Cooperative, and indeed other farmers. That is also noted.

I think you have raised some good questions. I will pass to the CEO to respond but just to indicate that at the COAG Energy Council, I put forward the recommendation to COAG Energy Council to look at what is called regulatory sandboxing and to provide opportunity for peer-to-peer trading. That was supported by the COAG Energy Council, and that work is to be done by the third quarter of 2020. When I say work 'to be done', for that option and possibility to be pursued.

**CHAIR** - The sandbox trial?

**Mr BARNETT** - Yes, that's right.

**CHAIR** - Is that playing nicely in the sandpit?

**Mr BARNETT** - It's a bit like playing nicely in the sandpit where they can do those trials and do that work, do the peer to peer; and it was supported by COAG. I did that for and on behalf of the farmers and the representations I have had.

Having said that, I think it is best for the CEO to explain the NEM and the rules around empowering farms.

**CHAIR** - The questions are then, what regulations prohibit this and a time line for the emPOWERing farms trial, which is the sandboxing trials, and how will the participants be chosen in terms of that trial?

**Mr BALCOMBE** - Thank you for the question, through you minister. One of the challenges, as you have indicated, Chair, is that if I'm a farmer and I have excess energy through solar generation on one part of my farm and it's on a separate meter to another source of supply on my farm, at the moment I'm unable to offset the excess usage on one meter. It flows back into the network and I get a feed-in tariff as opposed to offsetting my electricity consumption on the other meter.

I'm not sure of the specific rule. We can let you know but the rules don't allow that offset at the moment.

**CHAIR** - Could we get that one, the specific rule?

**Mr BALCOMBE** - I'm not sure whether Wayne has that handy.

**Mr TUCKER** - It's really about the pricing structures and the way the pricing is undertaken for the network charges.

**Mr BALCOMBE** - We can give you some more detail on that.

One of the things we are doing is we are running an emPOWERing Farms trial. I suppose there are a couple of opportunities around an emPOWERing Farms trial. One is to understand the technology that we need to do to incorporate to allow that sharing and offsetting, also to understand what the rules requirements might be and the minister - thank you for that - that sandbox trial is similar.

We have a good history of trials in this business. We just recently ran two. We ran our Bruny Island trial, which was very successful. We also ran our emPOWERing You Trial which was with regard to understanding advanced meters and how that might change customer behaviours with respect to how they use their electricity.

At the moment, we are running an engagement process where we are seeking expressions of interest about what people would like us to consider as part of the trial. This sharing and offsetting of electricity is but one component of that. We have been talking to the TFGA, dairy farmers, irrigators and Tasmanian Irrigation. We are going to get a few of those together in February of next year, to co-create and work out what we can do to identify solutions they would like trialled, or any

issues we want to incorporate into that trial. Our expectation is we would like to have that up and running by the middle of next year.

The challenge is going to be the rules process, which is a clunky process. It takes some years to implement a rule change, because it has to go to the Australian Energy Markets Commission and it will then seek input regarding the rule change -

**CHAIR** - From all of the ministers - I suspect our minister may be a champion for Tasmania in this?

**Mr BARNETT** - Absolutely. He has been and had success at the COAG Energy Council just a few Fridays ago on that, plus the other matter regarding pricing allocation. So we are going all right, kicking goals for Tassie and we will continue to do so.

**Mr BALCOMBE** - Notwithstanding that, it is a good opportunity to explore because it is something that can be taken more broadly as we are starting to look at more opportunities to distribute energy and whether there are peer-to-peer opportunities in their neighbourhood.

**CHAIR** - I know and I declare an interest here with our properties that have battery storage in grid.

**Mr BALCOMBE** - Thank you. It could be the forerunner of lots of opportunities, so in its formative stages and we are in the consultation process. Probably one of the challenges will be that there will be lots of things people would like us to consider as part of this trial, but we think you have alluded to key element of the matter.

**CHAIR** - Is funding for the trial a state Government commitment? Would there be funds from the budget or from TasNetworks?

**Mr BALCOMBE** - TasNetworks would fund this trial. We have a good history of sourcing ARENA funding, particularly with regard to renewables developments and things like that. It could trigger more on-farm renewables, so we would probably structure up a trial and put up a funding application and see if we can source some ARENA funding. Normally, that is about 50:50.

**CHAIR** - With the Bruny Island trial, was this partly funded through the Australian Renewable Energy Agency?

**Mr BALCOMBE** - It was.

**CHAIR** - It would be a similar sort of model to that. So we do not need to go to the government for funding?

**Mr BARNETT** - No. TasNetworks has been funding it through ARENA. That would be a good outcome. The university was also involved in the Bruny Island trial.

**Dr NORTON** - We have focus in our business on innovation, research and development and see it is a requirement for us to continue to look at how the network is going to evolve over the future and to be ready when that happens. We do put a small, modest amount of money into trials, as part of our innovation project, and this would fit in with that. As Lance indicated, if we are going

to do that, we will try to leverage any investment we make with other funds that might be available from ARENA or whoever else.

**CHAIR** - The plan is to get a trial up and going next year, though?

**Dr NORTON** - Yes.

**CHAIR** - How will you select the participants in that?

**Mr BALCOMBE** - We are currently consulting with a broad range of stakeholders. It will run those workshops and then there will be a selection process. It is actually going to be run out of Wayne's team.

**CHAIR** - Through an expression of interest?

**Mr BALCOMBE** - Yes, we are seeking expressions of interest.

**CHAIR** - Minister, will you be championing a change of regulations if the trial is successful and shows benefits in terms of renewal of investment?

**Mr BARNETT** - Yes, well, we already have a track record of supporting renewable energy on farms. In fact, we have more \$6 million in our budget to support on-farm -

**CHAIR** - This would require a regulatory change you would need to action?

**Mr BARNETT** - ... based and consistent with our track record of delivering for farmers low as possible electricity prices. That answer is yes.

We have a charter for working on farms and is really important. I launched that many months ago now, a charter for working on private land and to do with what is actually done by TasNetworks and on-farm, protecting biosecurity and supporting farmers. We have worked with the Tasmanian Farmers and Graziers Association on this. We have done a lot of consultation and feedback, and that was worked and launched many months ago.

**CHAIR** - We have a number of farmers interested and there was also a story on *ABC Landline* yesterday for the Meadowbank Farm, talking about the opportunities for them. If you have not heard that, you might like to have a listen.

**Mr FINCH** - You might remember earlier today, minister, we talked about Hydro Tasmania and their lack of reference to their employee cohort; only a scant touching upon their employees. Not so much their board; their board was very well covered.

In TasNetworks, there is more coverage, discussion and reference to the 1005 employees. My colleagues might want to comment and we did have evidence that - while you talk about your people scorecard, and I would like to know more about employee engagement - your target was 58 per cent but your result was 53 per cent. Does that mean that 47 per cent are not as engaged as you would like them to be? That is on page 22.

Minister, you referred earlier to the apprentices who have been taken on. It is very pleasing to see there is that consideration and that reference to the apprentices who might be developed and

have a future in the industry with TasNetworks. I would like to know more about the section, Our People Scorecard, on page 22, how that figure is suggested and why only 53 per cent was reached in that target?

**Mr BARNETT** - Thanks for the question. I understand where you are coming from. The annual reports have some legislative requirements as to what is required to be in it - financial and auditors' reports and so on. It is a little more fleshed than perhaps others but I will let the Chair and the CEO respond to that. This is important to the Government in terms of culture and engagement with the staff and the community. You mentioned the apprenticeship program.

They did a survey in 2014 and, in terms of the improvement from 2014 to 2019, it certainly has improved in terms of it being a positive shift in the two constructive styles of achievement and gaining some outcomes on culture and engagement. The advice I have is there has been a shift; engagement for the businesses continued in an upward trend with an engagement for 62 per cent, up from 53 per cent since March last year. Lance might speak on culture and engagement.

**Mr BALCOMBE** - Certainly. Something we have been focused on since we established the business is culture and engagement. The life of a network business has changed. Network business used to be very predictable. There were not things such as solar, so your function was keeping the lights on. What we are seeing now is that customers are demanding more in response times to customers; we are seeing more requirements of social media and pushing information out to customers, and that means our business is also changing. One of the things we needed to understand was what the cultural capacity of our business to change. We employed a tool called the Organisational Culture Inventory and we have been measuring using that since the day we started. The minister referred to that; over time, we have some gradual improvement in that.

One of the things we have been trying to do is to build the constructive styles of our business about achievement, self-actualising and having a more affiliative culture because they are the sorts of cultures that foster a greater element of collaboration. They are focused on more positive outcomes for customers and, from a point of view of the way we do our work, our business is a very big value chain. There is a lot of hand-off. From a perspective of having a constructive culture, it is a great thing to have, but it is a journey to get there.

Our primary style in our business is avoidance. That is one where people avoid tough conversations, are resistant to change; they are saying yes to you but they are thinking, 'No, I don't like that idea'. One of the things we have been doing is running a lot of programs in our business to encourage leaders, particularly, who have a big influence on culture. Constructive leadership styles filter down through the business. Certainly, that is what we've found. We are very fortunate to work with a very constructive leadership team and those constructive styles are washing down to the next level of management, our level 3 managers, and we are starting to see that fostered down. That constructive engagement of constructive styles can also have an influence on engagement but there are lots of other things that can influence engagement as well. We took a pulse check on engagement around this time last year, and it fell to 39 per cent.

One of the important things is getting the score, but what is the data? You need the data and you need the comments and other things that are feeding into that. One of the things we found is that many people were struggling with the changes we had implemented as part of a new software system. We had a very good implementation, but a lot of our workers are at the longer end of their career, like me, were challenged by some of the technology.

We got some very good data about how we could improve that. That pulse check was quite low but it triggered a pretty positive response in the business to where we saw that score jump up to 53 and then jump up to 63, as the minister has just mentioned.

The point is, is the balance of those employees disengaged? Generally, not. Some clearly are but some are sitting on the fence and saying, 'Well, I am not sure where I am'. Our commitment is to continue to work with our people because we see a very strong link between positive engagement and very good business and mental health outcomes and things like that. We will continue to work on that. The data you get with these scores is as important as the score itself.

**Mr FINCH** - One of the things I appreciated was the fact that in your young cohort, 18 to 24 years, you have 50 per cent representation of female to male, and that will have a good influence on the future of TasNetworks.

We did not have a very good scorecard for you being an employer of choice. We did get a sense that industrial relations are bad. It is not a good place to work, low morale -

**Mr BALCOMBE** - Have you got some data on that?

**Mr FINCH** - We had that feedback coming back to us.

**CHAIR** - Not data; it was anecdotal.

**Mr FINCH** - Anecdotally, yes.

**Mr BALCOMBE** - With regard to being an employer of choice, TasNetworks has qualified as an employer of choice. We achieved that qualification in December 2017.

**Mr VALENTINE** - Through who?

**Mr BALCOMBE** - The agency that does it. There is a set of criteria you need to achieve in order to qualify as an employer of choice. We have that accreditation.

**Mr FINCH** - From what you have said and from the people's scorecard, do you have a sense that you have still have a fair way to go?

**Mr BALCOMBE** - There is always opportunity. Building engagement and building culturally in a business is a journey. The other element we have is that we are in a very dynamic industry that is changing and we need to equip our people to cope and compensate to those changes over time. Building those constructive styles and continuing to work on employee engagement are paramount.

**Mr FINCH** - So people can be assured that is going to be front of mind for TasNetworks?

**Mr BALCOMBE** - It is a key tenet of our business.

**Ms WEBB** - To follow up on a couple of those things, I appreciate you have given the gender breakdowns of your workforce across age brackets. What I do not see there is the breakdown of your workforce across those age brackets. You mentioned some of your workforce are in an older age bracket. Given that you have ramped up your apprentice intake to 11, I take it that it has been



fewer than that in recent years. What is the trajectory for your workforce in terms of ageing out and the replacement plans in place around that?

**Mr BALCOMBE** - Certainly, we have two very good programs going right now. We have our apprenticeship program. We have had an intake in the middle of this year, an intake last year and we will have another intake early next year, so we should be up close to 50 by the time we have all those, given we already had some existing -

**CHAIR** - Fifty apprentices?

**Mr BALCOMBE** - Fifty apprentices.

**CHAIR** - Gender breakdown. Are you looking for half-and-half, or what are you looking for?

**Mr BALCOMBE** - We have a gender mix in among that and that's something we certainly target.

**Ms WEBB** - Can I just pick up on that? Fifty is about 5 per cent of your workforce by the look of it, then. In terms of the percentage of workforce that would be relevant to apprenticeships being undertaken, what does that 50 represent?

**Mr BALCOMBE** - It's probably about half that. It's about 10 per cent of the workforce.

**Ms WEBB** - It's about a 10 per cent cohort in your apprenticeship phase for that part of your workforce. Is that deemed to be a sustainable trajectory, given the age profile of that cohort?

**Mr BALCOMBE** - I'll perhaps talk about a few other initiatives we have too. With regard to that workforce itself, we're certainly looking at it from a perspective of the capacity of that workforce. We realise we have a challenge where our workforce is getting older so from a perspective of managing those employees there is - they may transition to retirement is one thing but certainly ensuring they have the appropriate skills coming through.

We are regularly going to market and recruiting where we see opportunities as well as, because we are also seen as a pretty attractive employer. I've met some new employees who've come from Queensland and South Australia and Victoria, linesmen and electrical people. They like Tasmania is the other thing about that, so that does assist us.

From a point of view of understanding what our future workforce requirements are, we're doing a program of work about understanding what our skills mix needs to be and that's not only at the trades level area it's also in our office skills and things like that. The other program we are running is our graduate program and we take about a dozen graduates per annum that's across a set of disciplines - engineering, finance, IT, HR, legal.

I'm very pleased to say that program has been recognised nationally. In the last couple of years, we've been recognised as in the top-ranking graduate programs across the country because we run it as a program. We rotate our graduates through various facets of the business so they get a good industry understanding. We're looking at the throughput and the skills mix, and ensuring that we have new people coming in, our future leaders of the business coming in and well qualified tradespeople coming in. We are conscious of the other end of that spectrum and we continue to build on ensuring that we have the right level of capabilities and skills right through the workforce.

**Dr NORTON** - Referring to Mr Finch's comment, I said in my opening comments that our people are our key resource so knowing how they feel, getting an understanding of where there are problems and in dealing with it is important.

Last year we had some feedback in relation to a number of things that was disappointing. As Lance says, this is a continuous journey. If I take the question, 'I would recommend TasNetworks as a great place to work', in our March survey this year we had 59 per cent who said TasNetworks is a great place to work. In the recent survey in September we had 71 per cent, so we are seeing some evidence of improved engagement and improved attitudes, and I think that reflects the work that's been done by Lance and his management team to try to deal with some of the issues that were concerning people.

**Ms LOVELL** - Apologies if I missed this, just going back to the apprenticeship program. Within that program or within your KPIs for the business, do you have a target around apprenticeships per year that you intend to take on, given what we've said about the demographic of the workforce?

**Mr BALCOMBE** - I think it's about eight to 10. There's a couple of issues around that. Because we are regionally based, we have to ensure a balance between the north, the north-west and the south. We took a higher number in the north-west because of the opportunities that were required up there. I suggest it would probably be in that eight to 10 per annum.

**Ms LOVELL** - As new appointments? You mentioned in the annual report that you have had 11 new appointments during the last financial year. I have two questions on that. It says you have ramped up your apprentice intake. What was the intake in the previous financial year if it has ramped up to 11?

**Mr BALCOMBE** - Pardon me, I don't know, but it certainly has been ramped up. I do know part of the apprentice strategy we had was upskilling existing employees. One of the things we did is that if we had an electrician, we would what we call dual-trade them. We would give them a linesman's qualification or give a linesman an electrician's qualification because if they get upskilled, they have greater utility.

**Ms LOVELL** - That was going to be my second question: how many of your existing workforce would be in the process of undertaking an apprenticeship, in addition to those 11 new ones?

**Mr BALCOMBE** - I don't have those figures to hand, but I am happy to take them on notice.

**Ms LOVELL** - Maybe further to that, with the apprentice program and the targets you are setting around 10 to 12, is that specifically for new apprentices or would you include an existing employee undertaking an adult apprenticeship in that target?

**Mr BALCOMBE** - It could. We actually have quite a few adult apprentices. I'll give you a case in point. When the new power of choice rules came in at the end of 2017, we no longer had a business that operated [inaudible] meters because that became a contestable service that went to Aurora, so one of the things we did was retrain and reskill a lot of the people working in the service connections area as linesmen and gave them other trades so that we retained that knowledge in the business.

**Mr VALENTINE** - I have a number of areas that I would like to go to. You touched on the new business 42-24 earlier, and you also mentioned Large-scale Renewables Limited. Can you explain a bit further why this business was created, what its intended growth is, its breadth or customer base, whether it's going to be serving customers interstate as well as within this state, and how you are positioning it in the market?

**Mr BALCOMBE** - Perhaps I should premise, first of all, that our letter of expectation says we only operate in Tasmania. We do have a slight dispensation for that in regards our activities for Marinus in Victoria, but other than that we are restricted to operating in Tasmania. We have two companies: 42-24 and then the Large-scale Renewables. We see a significant opportunity in Large-scale Renewables because it's on the back of potential renewable activity that is going to occur in Tasmania. From a point of view of building transmission connections, we see some opportunity there; we have a 2025 target of around \$300 million of capital invested in that business and throwing out a good rate of return against that.

**Mr VALENTINE** - Is it going to be fully reported in years to come so it's transparent?

**Mr BALCOMBE** Absolutely, it's a subsidiary company so it will be separately reported.

**Mr VALENTINE** - You are not selling it off or anything like that?

**Mr BALCOMBE** - We have no intention to; it's a nice earner.

With respect to 42-24, we initially set that up to maintain the revenue it has because it's made up of lots of streams of fairly low-level revenue. Our initial ambition is to get the brand set up and established and then retain that revenue. Once it's better established and has a market presence, we'll look for opportunities to grow that. As I indicated previously, it may well be that to grow it we may need to move into the energy services area, which will then trigger some additional ring-fencing obligations. They could actually trigger additional costs so we need to understand - I know Ross Burridge has some jurisdiction over that, so you may wish to comment as well in regard to that.

**Mr BURRIDGE** - As Lance said, the business has been going for 12 months now. 42-24 actually stands for 42 degrees south, 24 hours a day, just in case you were wondering. We are working our way through what options there are to grow it. It's heavily dependent on telecommunications revenue and data sales revenue. To diversify the risk in that business, other income streams would be good to find. We haven't landed anything yet. We have a few ideas in the area of things we may do, but, yes, it is based in Tasmania.

**Mr VALENTINE** - Is it using microwave technology? I think I heard you say something about microwave technology. Is it using the current poles and wires as well?

**Mr BURRIDGE** - The telecommunications business in TasNetworks sits within the business itself. We are now a technology performance business and 42-24 buys the service from the regulator business and sells it to customers so it's just a reseller, really, at this point in time. That just takes the margin on top of that.

**Mr VALENTINE** - It's not the first time it's been done, is it? Years ago they commenced something over the network in terms of digital services; is that totally different?

**Mr BURRIDGE** - That was internal [inaudible] power lines which I think Aurora trialled and couldn't take us further. 42-24 has been formed because of changes in regulation and ring-fencing of distribution services. It is something we will be required to do and all businesses around Australia like us have done that.

Another thing is, we are participating in a transmission ring-fencing guideline coming our way as well, which will then mean the lend itself to why we have created Large-scale Renewables.

**Mr VALENTINE** - Minister, last time we were across the table from each other we talked about electric vehicles and we talked about the issue of loads that might put on the system. Has anything further been done with regard to any homework on those sorts of loads that might be expected and how you are going to cope with that as the market ramps up? How is the network going to cope? Not the minister - he might get an electric car.

**Mr BARNETT** - I think the last time we were talking, I had just driven down in one of my colleague's or friend's electric vehicles, down and back. I have done that a few times now, which was a pleasant experience.

I am not the minister for the Environment so I'm not responsible for the rollout of electric vehicles but I am very supportive of the work being undertaken on that. We do have incentives in place for electric cars and the recharging of those electric cars. As for the network reliability, which I think is part of your question about that, I think it is best that Lance -

**Mr VALENTINE** - It is about capacity to deal with that heavy surge at the end of the day when people get home and plug their car in.

**Mr BARNETT** - That's right and we are heading that way so of course this is important. It is a good question. It is certainly visionary - it is down the track - it is not happening right now in terms of the impact, but I will pass to Lance to talk about network reliability.

**Mr BALCOMBE** - I might make a few comments and then perhaps throw to Wayne from a technical perspective. We have had an electric vehicle strategy but we are in the process of refreshing that.

Part of that is we have had some engagement with other businesses that have been installing fast chargers across the country. One of the things to consider is that electric vehicles can be considered a disruptor, from a point of view of new technology, from fuel sales and things like that.

What's also been disrupted is how cars are being utilised, so in the larger cities what we are starting to see is pooling of vehicles. It is a bit like the pushbikes you see parked around.

**CHAIR** - GoGet vehicles in Melbourne. They are everywhere.

**Mr BALCOMBE** - Yes, that's right. Basically you can grab a vehicle.

**Mr VALENTINE** - You don't have to own a vehicle, you just get into a group.

**Mr BALCOMBE** - That's right. Often that means that the charging patterns change. They are actually charging more and more during the day as opposed to domestic units that are plugging

in overnight. One of the things we are starting to think about is getting some more data about understanding how usage patterns of vehicles are going to change.

Certainly, from a perspective of: if every car was going to plug in when they got home, it would be a challenge but there are also some technology opportunities in that, particularly with the advent of smart metering, remote devices, making sure that you can have some control mechanisms. You might plug the car in but it mightn't start charging until 2 a.m. in the morning.

There are all sorts of opportunities about how you might manage that. Certainly, it's an adverse outcome if we have to upgrade the network in order to deal with the demand that may result from increased electric vehicle usage.

The other thing to think about is whether there are going to specific tariffs as regards electric vehicles, which again would incentivise electric vehicle owners to perhaps get an advantageous tariff through off-peak times.

I might ask Wayne to talk more about what we are doing with regard to the strategy.

**Mr TUCKER** - Certainly, if there were a large penetration of electric vehicles and it was uncontrolled, it would have a significant impact on the network, particularly the low voltage network and to some extent the high voltage distribution network. This would require us to spend quite a few dollars augmenting the network. This is if we did nothing.

Our strategy is really around understanding what it would mean and how we might be able to provide incentives or encouragement or facilitate the different times of use, tariff structures or different charging arrangements, whether for electric vehicles or batteries behind the meter or other forms of technology, including solar. It is really complex and complicated to understand how it all might interact. There is certainly a primary of our focus with electric vehicles being one of the key components of the strategy.

**Mr BARNETT** - As a government, we have an electric vehicle working group. TasNetworks is on that working group to ensure that reliability remains a priority.

**Mr VALENTINE** - The Australian Electric Vehicle Association is also part of it. I understand that. It could change -let us say, it could change within four years. An influx of electric vehicles, their range increases so therefore in more regional areas, vehicles are being taken home and plugged in. Yes, there might be smart metering, but I am interested to know whether you are ahead of the game in terms of preparing for this.

**Mr BARNETT** - Thank you for the question. It is a really good question. Tasmania has been recognised at a national level with this electric vehicle working group. This is a nation-leading effort, of which TasNetworks is part. I can let you know the inaugural Kennedy Award for 2019, so just this year, the Prime Minister's Award for excellence in public sector management, the inaugural Kennedy Award -

**Mr VALENTINE** - Kennedy? Who was Kennedy?

**Mr BARNETT** - I am just saying this particular working group has been seen as innovative, upfront, having a go and has been recognised nationally through that Prime Minister's award.

**Mr VALENTINE** - The other area was with respect to solar. As TasNetworks is responsible for network security and you negotiate the size of the solar system, one might want to put in that do not constrain the energy that system produces. Have you encountered any installations where you have found the need to ask the customer to scale back this intended development because of the problems and issues?

**Mr BARNETT** - I will pass to the CEO. I was pleased to be able to announce the largest solar panel installation at SRT Logistics in Launceston more than 12 months ago. Lance, we were there together. Had a bit of a tour.

**Mr BALCOMBE** - No, I was not there, minister.

**Mr BARNETT** - You were not there. Well, TasNetworks was represented and SRT also has a facility in Devonport. It was a really substantial input and congratulations to SRT on that effort. I will pass to the CEO.

**Mr BALCOMBE** - I might ask Wayne to come in on that one.

**Mr TUCKER** - I am not sure of the exact numbers of those that have been constrained, but we work with the large solar installations on a one-to-one basis with customers to optimise and ensure that whatever is installed can in fact be utilised.

**Mr VALENTINE** - You do not have figures on knock-backs or adjustments?

**Mr TUCKER** - No, at hand, no.

**CHAIR** - Minister, I just wanted to go to two areas. One, and this was touched on, your employee numbers. There are just over 1000 employees and it was mentioned you might have 50:50 gender mix in the very young age group. Thankfully, we have Bess at the table. Better than Hydro. Anyway, we have a couple of men at the back, which is always good. The board is 50:50, that is good, but how are we going across the ranks? This tells the age profile; it does not tell the levels. When we talk about the very real gender pay gap, this is a male-dominated area obviously, so how are we going with getting some gender equality and addressing the gender pay gap?

**Mr BALCOMBE** - Thank you for the question. Until early last year our leadership team was 50:50, then we did a refresh and one female member left. I think we have 40 per cent female at the leadership level; we do have some statistics, I am unsure whether they are in the annual report, but gender mix is something that we are focused on.

We are dealing with a largely blue-collar workforce that we inherited, which has inherently been male-dominated. We don't have many female fieldworkers, albeit we took on a couple of female electricians during the latest apprentice intake. From a point of view of office-based staff, the board is working on this and the Chairman could comment on diversity across the board.

**Mr BURRIDGE** - My team of at least 70 people is at about 50:50 and probably errs a bit more to the female side.

**CHAIR** - In terms of the gender pay gap and seniority -

**Mr BALCOMBE** - I can talk about the gender pay gap. We have done some work as regards gender pay gap, and it is about 2 per cent on average. We need to, from the point of view of females being paid less than males - in some parts of the business the gender pay gap is the other way. In Ross' part of the business, because he has more higher ranking females, the gap is the other way around.

One of the things we need to understand is to pick into that data a bit more as regards the gender pay gap, but we have many level 3 leaders who are females. We are looking to encourage an appropriate gender mix in the uptake of our graduate program. It is certainly something we are focused on.

**CHAIR** - I acknowledge that it has been a male-dominated area and will continue to be for some time, particularly in the fieldwork.

I also want to look at the safety and wellbeing component. You have had a pretty bad year. When we look at some of the reportable incidents, they must have been horrifying for the Chair and the CEO, and I assume the minister was informed of those. Do you want to talk about what you are doing to address this because this part of your report is pretty damning?

**Ms WEBB** - Way over target.

**CHAIR** - Way over target. If your target is fewer than eight significant incidents, I imagine you would want zero, ideally.

**Mr BARNETT** - Zero harm is absolutely the goal -

**CHAIR** - I acknowledge this is a highly dangerous work environment at times, too.

**Mr BARNETT** - Yes, and minimising the impact on the environment is also a goal. Zero-harm performance measures are important, they are ambitious targets but that is what we are aiming for. I will ask the Chair to add to that.

**Dr NORTON** - I will make an introductory comment and hand over to Lance. Certainly, in that financial year, we weren't happy with our performance in the previous year. There was an incident that occurred in about October 2018. Lance basically stopped the workforce from doing anything. They had a shutdown, and said, 'Look, we have to reinvigorate our efforts'. It wasn't that the organisation hadn't been putting in an effort but the effort we were putting in wasn't as effective as it needed to be.

Lance can talk about what we have done since then. I can assure you that, certainly from the board and management's perspective, we are now seeing a much better level of safety performance than we were previously so we are seeing a reward for the additional efforts that have been put in. It is an area you can never sit back and be comfortable with. It is not only because we deal with electricity, we also have a lot of people on the road, driving and so on. In a multifaceted business with a thousand employees; it is a prime focus of attention.

The first thing the board deals with on its agenda at every meeting, after we get rid of the minutes and that sort of thing, is a safety report. At the board level, we get information on all of the significant incidents. Some of them need to be further researched and we get the research results as well. I can report that we are seeing some significant progress, but Lance can -

**Mr BARNETT** - Before Lance does, I strongly support that. I get monthly reports from the board; I have meetings with the board and the CEO. Safety is always on that agenda so I thought I would let you know that it is a priority.

**Mr BALCOMBE** - Thank you, minister. You are dead right. One of the challenges is how you set targets. We had a lost-time injury frequency target of zero last year and we achieved 5.2. The challenge about target-setting is aspiration versus what is achievable. To get to zero, means you need for a 12-month period to have not one lost-time injury, which is challenging, but notwithstanding that -

**CHAIR** - It has to be your aim.

**Mr BALCOMBE** - It has to be your aim. I suppose perhaps this year we have adopted a slightly more realistic target in setting a glidepath about how we get to zero as opposed to just let's get to zero.

Importantly, one of the things is that after we had that intervention in October last year, we wanted to understand what the culture of the workforce was and its attitude to safety. We had Ernst & Young - EY - come in and talk to our people, and in talking to our people also talk to them about what creates poor safety behaviours. Habits do. It's a bit like people who get used to using their mobile phone while driving in a car; they get away with it so they keep doing it. That's what happens when you take risks where you work -, 'I got away with it last time' and then it becomes habit-forming.

One of the things we need to do is to understand what motivates people's behaviours as regards to safety. We had Ernst & Young in, and we understood our safety culture and our safety culture was at a score between non-existent and exemplary. We were at the developing stage so that's the second lowest stage and to go between stages takes about two years.

In line with that, we had a lot of feedback about what we could do to improve safety so there were cultural and system aspects. Alongside that, we've also refreshed our entire safety team. We had people who were running safety who weren't safety specialists so we've now onboarded safety specialists and with the findings of the EY work, we now have a safety plan and a page. We report to the board on that every month and that probably has about 20 actions on it. They're all progressing very well.

We have seen an improvement in safety. We've not had a significant incident since March this year. I always touch wood when I say that. A significant incident is one where you have the potential to significantly injure or to kill a person, and the other one -

**CHAIR** - Or environmental consequence, isn't it?

**Mr BALCOMBE** - Yes, that's right and the other element about that is also that significant incidents also count for members of the public, so that can also include members of public.

With regard to the members of the public we are upping our education campaigns dealing with electricity safely, dealing with electrical contractors. We had a very significant incident where a roofing contractor took a short cut and managed to electrify the roof while they were doing it so that counts. The more we do to get out across the trade bodies, the better, particularly when



encouraging them to keep away from electricity as much as anything, but also to get them to understand when they need to get in contact with us how we can help them do their work.

**CHAIR** - These figures include just your staff and workforce or is it the contractors as well?

**Mr BALCOMBE** - They include the public. They include what we call our level 1 contractors so any contractors of scale, yes.

**Mr BARNETT** - Chair, I think Lance has an answer to a question from Ms Lovell.

**Mr BALCOMBE** - Have I? It's a live feed, so thank you. We took on four in 2017; six in 2018 and they are all existing employees; 15 in 2019; 10 in 2020, and the existing workforce undertaking a second trade is nine.

**Mr BARNETT** - Chair, I can also advise Mike Gaffney asked a question of Bess Clark and we have an answer to that question.

**CHAIR** - Mike was going to reiterate the question.

**Mr GAFFNEY** - Thank you. The question is: the transition upgrades community engagement is now beginning. When will TasNetworks consider that process to be complete? Will TasNetworks present an open forum again? There are some community questions at the first Ulverstone forum that people believe were not answered.

One of the concerns they seemed to have, and it needs to be cleared up, is that UPC may have given some guidelines, guidance or constraints to TasNetworks and Coffey, and whether those guidelines may limit TasNetworks looking at appropriate options. For example, they might say, 'You have to this done because there is \$60 million and you have to find a line between [inaudible] that comes in under budget.'

Those are some of the questions they need to answer -

- are there future forums planned, and
- can those sort of questions be cleared up?

**Ms CLARK** - As I indicated, our community engagement is only now beginning. We held that first forum after the first public release of the route. We did get lots of feedback from the community; they are hungry for more information. We understand and have taken on board their questions. We have quite a comprehensive list of questions and follow-ups.

The forums this weekend will be informed by that feedback. We have also undertaken to go back to those who participated in the first workshop to give them a level of detail we are able to give them.

The point is that this is only a start. We need to lodge referrals to approval agencies and they will tell us what we need to do to be able to get approvals, what we need to look at. So all through the process of preparing our documentation, we will continue to engage with the community and through the approvals process itself, as a whole engagement process conducted by the approving entities.

The community engagement process is really only starting and we absolutely will take on board the feedback we get from those forums and consider it in our work.

**Mr GAFFNEY** - As a supplementary, when UPC said they will be the major sponsor, for want of a better word, do they then say 'This is our expectations', or do they put some limitations or guidance?

**Ms CLARK** - Wayne's team in particular has put out that annual planning report as identified, looking at how we have a north-west strategic transmission plan. In that, we are proposing a corridor that will not only serve UPC, but also other developments in the region.

We are certainly working with UPC as a customer. We understand what it is they are proposing to connect and those sorts of things; however, we are considering this as a project that will serve, not only UPC but other customers as well, as part of that strategic plan for the region.

**Mr GAFFNEY** - That is good and will be really helpful for the follow-up forums with the community to actually go through that process again. Thank you for that.

**Mr BARNETT** - In addition, I agree exactly with that response. As a government minister, I have talked to TasNetworks about the importance of community engagement being a top priority and Bess Clark has responded to that.

Likewise, I have also communicated with wind farm components and advise as far as the government is concerned, that is also a priority in terms of community engagement.

**Mr FINCH** - TasNetworks is currently investigating a possible legacy herbicide exposure attributable to former Hydro Electric Commission employees spraying vegetation under transmission lines, dating back to the 1960s and 1970s.

Investigations are in a discovery phase and no liability is shown in these financial statements we have had this year.

My question is: are any herbicides used these days in controlling vegetation under transmission lines?

**Mr BARNETT** - Thank you for the question. I will pass to the CEO to respond. TasNetworks is and tries to be a very good corporate citizen; it has been proactive in terms of investigating that historical exposure to herbicides, as part of those work practices in the 1960s and 1970s, including working with former employees

I would appreciate if the CEO could at least put that on the record to make sure it is clear TasNetworks is really reaching out and doing everything it can in that regard, including undertaking health screening. The results will become available in the not too distant future. Once those results are known, my advice is TasNetworks will continue to support any impacted current or former employees as required. Perhaps Lance could deal with that and the second part of your question.

**Mr BALCOMBE** - This is a legacy issue but it is certainly something that TasNetworks owns. We want to ensure we run this process thoroughly. We have been very careful with it and part of

that is, as the minister indicated, that we have cast the net far and wide to ensure that anyone who may be impacted by this issue has been contacted and encouraged to participate in the process.

We are working through it. Quite a few of those people who have contacted us have met with Dr Drew, who is the toxicologist who has explained the potential impacts of exposure to these herbicides. Forty of those people have been referred to an independent healthcare company called Sonic for medicals, and 16 have elected to see their own GP. Three people have opted out. It is something we report to the board on regularly and it is a process we are going to be very careful with.

With regard to your former question, we are certainly not using these herbicides. We do use spraying but, where we do, we would certainly be using something that is non-toxic. We would be taking much more precaution with regard to appropriate protective clothing and PPE where we do use that.

**Mr FINCH** - What was the herbicide that caused the problems?

**Mr BALCOMBE** - It was 245T (2,4,5-Trichlorophenoxyacetic acid).

**Mr BURRIDGE** - We don't hold that herbicide on any of our sites.

**Mr VALENTINE** - Do you have any outage figures? I can't see it in your annual report but it might be there. Do you have any figures on outages that you could put down to equipment failure as opposed to acts of god? Poor god, he or she always gets blamed.

**Mr BALCOMBE** - It is a good question. I might also ask Wayne to help me out with this one. One of the challenges with outages is there is often no cause. We can't find the symptom because the line trips, we go and inspect it and there is no damage. It could be vegetation, bark or something like that causing it. Wayne is probably better qualified than I to speak to this.

**Mr TUCKER** - Certainly on our distribution network, the key causes of outages are vegetation outside the clearance zone. We have a large proportion of outages due to windborne debris, trees or limbs. We were looking at some information this morning from the performance of the feeders around the west coast. What we see is there are quite a few connection issues such as service fuses blown or issues with services, which is another predominant cause. Then, somewhat more varied are equipment failures like insulator failures or conductor failures and such, but they are relatively low in proportion compared to vegetation issues and some of the connection issues we have.

**Mr VALENTINE** - In overall terms, the health of the network is pretty good. Is that fair? Between one and 10, where would you put it?

**Mr BALCOMBE** - We would never put it as a 10 because you would be paying far too much money to maintain it at a 10. We have to maintain this balance between cost, reliability and the clear feedback we have from customers - we want the reliability maintained at the current levels and 'Get more efficient, get your costs down'; that is our focus.

**Dr NORTON** - Yes, with one embellishment on that. It also depends where in the state we are, especially with our distribution infrastructure. If you are in the middle of Hobart, you are going to have a much better set of distribution assets, but if you are on a long stringy distribution line out in the bush, you are probably going to have more issues. It does vary in terms of location.

## UNCORRECTED PROOF ISSUE

**CHAIR** - Thank you, minister. We will leave it at that. It has been a long day for all. Thank you to your TasNetwork team. We appreciate their time and there are a couple of things we will send through for your response.

**The Committee adjourned at 5.05 p.m.**