

UNCORRECTED PROOF ISSUE

Thursday 4 December 2014 - House of Assembly - Government Businesses Scrutiny Committee - Hydro Tasmania

HOUSE OF ASSEMBLY

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE

Thursday 4 December 2014

MEMBERS

Mr Brooks
Mr Green
Mr Llewellyn
Mr McKim
Mrs Rylah
Mr Shelton (Chair)

SUBSTITUTE MEMBERS

Mr Barnett
Mr Booth

IN ATTENDANCE

Hon. Matthew Groom MP, Minister for Energy

Ministerial Office

Sean Terry, Deputy Chief of Staff

Hydro Tasmania

Mr Grant Every-Burns, Chairman
Mr Stephen Davy, Chief Executive Officer
Mr Miles Smith, Chief Financial Officer
Ms Rachel Steven, Government Relations Manager

The committee met at 9 a.m.

CHAIR (Mr Shelton) - Ladies and gentlemen, welcome to this GBE hearing.

UNCORRECTED PROOF ISSUE

Mr GROOM - I want to introduce Grant Every-Burns, the new chairman of Hydro Tasmania. The Government is very pleased to have made the appointment of someone with Grant's experience. He has more than 40 years experience in the energy sector and a couple of years on the board prior to his appointment as chair. I also want to take the opportunity to acknowledge the service of David Crean, the former chair. He made a significant contribution over a long time.

From the Government's perspective energy is a very important sector for the Tasmanian economy. We believe it is critical to underpin economic development and create the right circumstances for investment attraction and creating jobs. It is for that reason the Government has embarked on the preparation of a whole-of-state energy strategy. I am very pleased to say we are track to deliver that draft into the public domain for public consultation before the end of the year. I think that will be important for laying the foundation for restoring energy as an advantage for Tasmania. Historically it has been an advantage and we are very keen as a Government to make sure that energy is once again working for the people of Tasmania.

In that context, obviously power prices have been a very significant issue in recent years. The Government is very pleased that on 1 July we saw a decrease in power prices at the household and small business levels of 7.8 per cent, providing very important relief to Tasmanian households and small businesses, but we recognise there is a lot more that needs to be done. They are some of the issues that we will be addressing in the energy strategy.

We do recognise that Hydro Tasmania faces some difficult circumstances at present. It is a period of consolidation for the company and we are very pleased that Grant, as the incoming chair, has made a strong commitment to prudent cost management. I think that is a very important part of ensuring that Hydro has a positive, sustainable future. The Government is very keen to work with the company, with Grant in particular and Steve Davy and other members of the senior executive team, to ensure that Hydro is engaged in prudent cost management.

There are significant issues that the company faces. Obviously it has been lumbered with the Tamar Valley Power Station, an asset that has created some financial difficulty for Hydro, including of course the associated debts. That is a matter of concern to the Government that we are looking at. Obviously there has been a fall in demand in energy nationally and as a consequence lower wholesale prices. That is the issue that Hydro is having to manage.

Then, of course, there is the ongoing uncertainty in relation to the renewable energy target and, again, the Government is working closely with Hydro in advocating for a pro-Tasmanian position in relation to the renewable energy target. We do believe it is important in the context of that debate that Tasmania's significant investment in renewable energy is protected. We believe it is important that there is an appropriate recognition of Hydro. I have made the point many times and I am sure we would all agree that Hydro is in many respects the generation system of the twenty-first century. As we reflect on the 100 years of the Hydro the fact that the backbone of the Hydro system was built in the period immediately following the Great Depression in Tasmania, the fact that it represents a form of generation that is relevant in the twenty-first century I think is an extraordinary statement of the vision that existed at that time. That is one of the reasons why we have a great faith in the future of the Hydro.

Mr BOOTH - Chair, could we ask some questions because really we are here to ask questions not to listen to a lecture about -

CHAIR - We are still in the opening statement.

Mr GREEN - We do not need a history lesson.

Mr GROOM - I have great faith in the future of the Hydro.

Mr BOOTH - I am sure you do.

Mr GREEN - You didn't used to before.

CHAIR - Order.

Mr GROOM - It is one of the reasons why we believe that it is appropriate in the debate that is currently going on in relation to the renewable energy target that there is an appropriate recognition of Hydro in that outcome.

We also believe it is important, Chair, that in the outcome of the renewable energy target that we ensure we are protecting Tasmanian jobs. That is why the Government has advocated the position for a full exemption for the major industrial. I do note that Labor, through Bryan Green, just confirmed then, continue to argue against that.

Mr GREEN - No, I was not arguing against that.

Mr GROOM - Another issue, of course, is addressing Hydro's debt concerns. That is something that we are continuing to work with the company on. In addition to that there are some issues associated with the Tamar Valley Power Station. Again, the Government recognises that there are some difficult decisions that may need to be -

Mr BOOTH - I suppose you wish you hadn't supported buying it then.

CHAIR - Order. There will be time for questions. The minister is still finishing his statement.

Mr BOOTH - This is confession, is it?

CHAIR - Order. The minister is in his opening statement. The question can be put when the minister has finished.

Mr BOOTH - Well, if he ever does.

Mr GROOM - We can have a discussion about this. We have got three hours. I am very happy to once again repeat the concerns that I have expressed many times in relation to the decisions, which you know well.

There is doubt at all that it represents a significant challenge and there are questions that need to be faced in relation to the Tamar Valley Power Station. One of the questions that has been proposed is whether it is appropriate for there to be consideration for a sale of the Tamar Valley Power Station combined-cycle unit. That is a matter which the Government, in consultation with Hydro, is giving consideration to. It is a very serious issue, a complex issue, one which the Government will consider very carefully. We will make sure we make a decision in the best interest of Tasmania.

UNCORRECTED PROOF ISSUE

I would like to acknowledge the ongoing work of all the employees of Hydro Tasmania, Entura and also Momentum. They play a very important role in managing important assets in a very important sector for Tasmania and they do a great job on behalf of the Tasmanian community. I would like to take the opportunity to thank Grant, Stephen and the other members of the senior management team and all the employees for their ongoing work.

Mr GREEN - In the annual report you claim external factors have conspired against Hydro Tasmania to reduce profitability. We heard a couple of those a moment ago but can you outline to the Parliament exactly what has conspired against Hydro with respect to its profitability?

Mr EVERY-BURNS - Chair, I was seeking the opportunity to make a short statement to the committee, being the first time I have been here, if that was possible.

CHAIR - The Chair can answer it how he wishes and if he wishes to make a short statement in answering that question, I will allow that.

Mr EVERY-BURNS - I have done some preparation, so I would like to make a short statement to the committee.

I am very positive about Hydro. I think it is a wonderful corporation, and thank you, minister, for your introduction. I am new to this position. I am open about that. I have been the chair of this corporation for six weeks but I have sat on the board for two years. My appointment coincided with 100 years of Hydro Tasmania, which the minister has mentioned, a very important celebration for us and recognising the employment of some 30 000 people through the corporation. It is clear that almost everyone in Tasmania feels they have some ownership in Hydro and I see that reflected everywhere.

Mr BOOTH - Sorry, Grant, and apologies Chair. I have a process point. This is a scrutiny where we are supposed to be asking questions, with the greatest respect to Grant, not listening to a lecture or an advertorial about Hydro. We have already had one off the minister and now we are going to get one off the chair. I would like us to have this time -

Mr GROOM - Let us afford a bit of respect for the incoming chair and hear a few words.

Mr GREEN - It has been your attitude, traditionally, that is making us act the way we are. It comes back at you - the one who used to put on tantrums at every opportunity. We want to ask questions and not put up with the fluff, that is all.

Mr GROOM - You can be personal all you like. We have three hours and we can go through your record of mismanagement.

CHAIR - I am not going to allow this to go on for three hours. I can close the committee.

Mr LLEWELLYN - Point of order, Chair. I think is appropriate that the chair makes some sort of statement, given the circumstances. He is the new chairman in the job and I ask the committee to settle down a little bit.

CHAIR - I concur wholeheartedly, Mr Llewellyn and I agree with you.

UNCORRECTED PROOF ISSUE

Mr EVERY-BURNS - I will go to last year's performance. In my view, Hydro Tasmania is a nationally significant electricity business. It is the largest renewable electricity generator in Australia. Our revenues last year exceeded \$2 000 million. The underlying profit exceeded \$240 million before tax. Our power exported over Basslink exceeded 3 000 gigawatt hours, which was the most ever, with a trivial import.

Mr BOOTH - That is because the dams are empty now, down to 23 per cent.

[9.15 a.m.]

Mr EVERY-BURNS - Our retailer, Momentum Energy, has almost 100 000 customers outside Tasmania and it is also the retailer for the Bass Strait islands.

Returns to the Tasmanian Government over the last five years have been in the order of \$750 million and the dividend on account of last year's performance will be in the order of \$118 million. Money spent in the Tasmanian economy on goods and services in the past year was \$75 million and the wages and salaries of the corporation is around \$115 million.

The corporation, being in the electricity game, carries apparent risks but that is not to say that they are bad risks but they require astute management. From the time I have been with the corporation I observed good management within the corporation. I note nationally and globally there is a significant shift in electricity and supply dynamics and that is something of great interest to an electricity corporation. The effect of solar distributed generation, wind power and energy efficiency are causing a disruptive change in the industry. It is something we have to be aware of and consider. The minister referred to an unprecedented and sustained drop in demand, which is truly unknown in the electricity industry and yet that is what we face.

The corporation is impacted by the well understood uncertainty around carbon pricing, renewable targets and rainfall variability. We are able to predict with certainty that the Hydro will be impacted for some years into the future and we will go to those questions and discussions.

Currently, we have a sharp focus on revenue creation, efficient internal processes, reliable equipment, targeted cost reductions and we have undertaken a corporate restructure and putting customers first. There has been about a 9 per cent reduction in staff numbers during the past 12 months.

We continue to see a place for renewables but much of the stimulus depends on targets and targets coming, I would hope, from a stable bipartisan position. That is the only way we will get the investment certainty that we need.

It is our intention to continue to work with the Government of Tasmania for the benefit of the people of Tasmania with job creation and investment.

CHAIR - Thank you. I will remind members that questions may be put to the minister or the Chair and they can redirect that question to other officers at the table if they wish.

Mr GREEN - Can you give more detail with respect to the external impacts on Hydro's profitability?

Mr EVERY-BURNS - Falling demand is one of the very clear external influences and this is not just on Hydro it is for electricity corporations everywhere. It is reflected widely in the press, it

is reflected globally and that goes to solar, for example. It relates, in some cases, to a fall in cost of the panels which has driven the uptake with a greater speed than expected. It has also been caused by government promotion. I do not mean this Government but various governments have promoted the uptake of solar.

There has been an uptake of wind in the national market because that has been promoted as well. At a time of generally falling demand all new generation continues to promote the problem. At the moment you have a situation where carbon pricing has obviously changed. It has changed the dynamic of coal-fired generators being firstly pushed out of the grid to some extent and then change the dynamic again where a coal-fired generator is encouraged back onto the grid. These are all totally external issues for a power generation company so one has to try to get that wider understanding of what is happening.

Mr GREEN - A follow up question, Chair. Somebody once said the carbon price was both inevitable and necessary and that Tasmania would have a real environmental advantage in the NEM by the virtues of our ability to produce significant amounts of carbon for energy. It was your minister here in his maiden speech -

Mr GROOM - I stand by that, too, just for the record.

Mr GREEN - Of course, he stood against the great wave and supported the axing of the carbon price. What will the axing of the carbon price cost Hydro Tasmania over the next 10 years?

Mr GROOM - You are making an assumption -

Mr GREEN - I am asking the Chair, not you.

Mr GROOM - The Labor Party abandoned the carbon price, Bryan Green. They took it to the floor.

Mr GREEN - What will it cost Hydro Tasmania over the next 10 years?

Mr EVERY-BURNS - The axing of the carbon tax initially in one year would probably have a \$70 million grid price but that was based on a carbon price being set at \$25 a tonne of carbon. In that particular world that carbon tax was not linked to international pricing. It was a price that was set outside the marketplace. The question is genuinely very difficult to answer because had carbon been set in a marketplace the price would have been determined based on supply and demand of the carbon. It may or may not have been linked to the international price so without being rude it is impossible to answer it. There is no doubt that the carbon price, in any form, recognises the value of renewable energy and would undoubtedly be of benefit to the state of Tasmania because we are the largest renewable producer. In one view the international carbon price is running at a few dollars a tonne so whatever number you came up with it could be 10 times worse than you might have imagined.

Mr GROOM - We can continue to benefit from our clean energy under the renewable energy target. It is why we are strongly advocating for a pro Tasmanian outcome recognising the importance of our renewable energy in the national market.

Mr GREEN - Chair, the budget papers indicated Hydro Tasmania will pay a \$75 million dividend to the Tasmanian Government in 2017-18. Can you provide the Parliament with the advice

UNCORRECTED PROOF ISSUE

you have given to government as to how that figure was arrived at given the uncertainties associated with the external factors and the fact the carbon price does not exist anymore? What have you provided the Government to allow them to indicate you have promised them \$75 million?

Mr EVERY-BURNS - Budget projections in our corporate planning process have taken account of our current knowledge of the carbon pricing. Our current knowledge of carbon pricing is that it does not exist from this point on and by 2017 our view is that it will still not exist. It is a clear underlying premise we had to make. It does not mean we do not figure that somewhere in the future there will be a price on carbon. We figured it is not going to happen in that short period of time.

Mr GREEN - There is a clear statement in the budget papers that says Hydro Tasmania will not be able to provide any dividend over the next three years but in 2017-18 it will provide \$75 million.

Mr GROOM - We will work with the company to make sure that -

Mr GREEN - We saw the work for the company business but there is a clear statement of \$75 million. Can you provide advice to the Parliament of Tasmania about how that figure was arrived at and why it would go into the budget papers? It is a certain figure but you are uncertain as to how.

Mr EVERY-BURNS - There are many elements that go into making it up. At the end of the day that is a target the corporation has as we sit here today that would be difficult -

Mr GREEN - You can say we are not going to pay any dividends for a period but they have it in their projections that \$75 million will be paid.

Mr GROOM - That is the Government's expectation and we will work with the company to make sure that it is delivered.

Mr GREEN - So you have advice from the Hydro?

Mr GROOM - I can go through it if you want. You interrupted me when I was talking about it before. We recognise that there are broad implications that the company has an ability -

Mr GREEN - So you made it up? It is a made up figure then?

Mr GROOM - One of them is the fact they are not going to have a carbon tax revenue but there is another side to that ledger. Households and small businesses paid \$100 million as a consequence of the carbon tax. We all recognise that the carbon tax represented a revenue stream to Hydro. Under Labor that policy was going to go to the floor. This notion that there were rivers of gold into the future is misleading, you are deliberately misleading people. The other side of the ledger is households and small businesses in Tasmania paid \$100 million as a consequence of the carbon tax on carbon-free power. That was your policy. As a consequence of the carbon tax having been abolished Tasmanians pay 7.8 per cent lower in their power prices, so you are effectively arguing for a power price hike right now, Bryan Green.

Mr GREEN - No, that is not true; people were compensated. You were going to say where the \$75 million is going to come from.

Mr GROOM - It is the Government's expectation that Hydro Tasmania delivers appropriate returns. We are continuing to work with the company and that is our expectation. We made the point that the Tasmanian people are entitled to have fair returns on their assets. Hydro Tasmania represents a very significant asset base for the people of Tasmania. What we are going to do, unlike you, we are going to work with -

Mr GREEN - This is very important, Chair, can the minister therefore table the advice Hydro Tasmania has provided him that allows him to understand that \$75 million will be paid as a dividend in 2017-18?

Mr GROOM - If I am allowed to answer the question. We have an expectation that the company can deliver their returns.

Mr GREEN - Based on what?

Mr GROOM - That is an expectation of the Tasmanian people, Bryan Green. You might think that we have no positive future, but we do not agree with you.

Mr BROOKS - Point of order, Chair. The minister has been asked a question and is not given the opportunity to respond. I would ask that the minister -

CHAIR - The minister is answering.

Mr GROOM - We have made it very clear that it is our expectation that the company delivers reasonable returns on its assets. That is why we have worked with the company to identify a pathway back to fair returns. It is in that context that we have proposed that there be a return to government in 2017-18 of \$78 million. We will be working with the company in relation to these challenges.

One of the challenges that I have identified already is the Tamar Valley Power Station and the debt associated with that asset. This is an important point to make because not only was the former government responsible for households and small businesses paying \$100 million on a carbon tax on carbon-free power, they were also responsible for paying \$160 million for the Tamar Valley Power Station more than it was worth. They sat on a valuation of \$200 million and paid \$360 million for that asset. As a consequence, Tasmanian households and small businesses paid more for their power.

That asset has now been lumbered on the Hydro. It is part of the difficult circumstances that they confront and what the Government is doing is working with Hydro to deal with that issue. As I indicated, one of the potential options is the sale of the Tamar Valley Power Station combined-cycle unit. That is one of the potential options. That is a very complex issue. It is one that we are giving consideration to, but we will make sure that we act responsibly. We will make sure that we act in the best interests of Tasmania.

There are issues that we need to consider in that context. For example, we will be seeking further advice in relation to energy security issues. We need to be satisfied that any sale of the Tamar Valley Power Station combined-cycle unit does not present an unacceptable risk from an energy security perspective. There are other issues that we need to consider. These are the types

UNCORRECTED PROOF ISSUE

of issues that we are working through with the company in order to ensure it is in a position to be able to deliver fair returns to the Tasmanian people on its assets.

Mr BOOTH - Minister, you must be feeling a bit embarrassed about advocating the purchase of that lemon, the Tamar Valley Power Station.

Mr GROOM - I certainly did not advocate the purchase of it and I have been long on the record, as you well know, Kim, for criticising the former government for paying \$160 million more for that asset than it was worth.

Mr BOOTH - You are well on the record wanting that power station to be purchased, but are you only going to sell the combined-cycle unit out of it?

Mr GROOM - We have made no final decision.

Mr BOOTH - You just said that you were going to sell the combined-cycle unit.

Mr GROOM - No, I didn't say that.

Mr BOOTH - Yes, you did. Are you going to sell the whole station or just the combine-cycle unit?

Mr GROOM - One of the issues we need to consider is the potential sale of the Tamar Valley Power Station combined-cycle unit.

Mr BOOTH - Okay, so just that part.

Mr GROOM - Yes. That is something that the Government will consider. It is a very complex issue. We will make sure that we are well informed.

Mr BOOTH - The question I am asking -

[9.30 a.m.]

CHAIR - Order. Mr Booth, please. Once you ask a question, can you please allow this side of the table to answer it before you either interject or try to put another question. The question has been put and the minister is answering it, so please do not interject.

Mr GROOM - It is a very complex question and the Government needs to be satisfied that a sale of the Tamar Valley power station combined-cycle unit does not present an unacceptable energy security risk. We are seeking advice in relation to that and the broader implications that may have for energy in Tasmania. These are some of the issues that need to be addressed that were failed to be addressed by the former government, including your government, Mr Booth, that we will deal with. We will deal with them in the best interests of Tasmania.

Mr BOOTH - I will take it that you are intending to cherry-pick bits out of the Tamar Valley Power Station and sell some of it off.

From your planning documents, forward planning from 2014-19 over the forward six years, you have a price curve from \$38-\$45 dollars per megawatt hour for power, but you are showing the carbon price, which you drop off after 2014, but in 2014 your planning document shows carbon

UNCORRECTED PROOF ISSUE

priced in at \$23 per megawatt hour. That effectively is about 50 per cent of the price curve at that point in time, so would it be fair to say that because your planning document says it was \$23 per megawatt hour value for the carbon price?

Mr EVERY-BURNS - When we put the early planning documents together there was a period of uncertainty about whether the carbon tax would be removed.

Mr BOOTH - But you have factored that in; you have taken that carbon price out after 2014. Your planning document shows that price in 2014 - the January 2014 planning document. I have it here -

Mr GROOM - It is unhelpful to ask a question about a document we cannot see.

Mr BOOTH - It is your six-year forward planning document, 2014-19.

Mr GROOM - I do not know what you are referring to, Kim.

Mr BOOTH - I think you probably do.

Mr GROOM - I can talk to the carbon tax, if you want me to. I am very happy to.

Mr BOOTH - I have asked a question about that planning document and I have asked the chair.

Mr EVERY-BURNS - I cannot ask your question because I am not in possession of the document. Companies, our company included, produce documents in succession as you learn more history.

Mr BOOTH - Is there something more current from January that changes that \$23 that was factored in?

Mr EVERY-BURNS - Yes, there is the reality that the carbon tax was removed.

Mr BOOTH - That is right, to nothing, but it was \$23 in 2014 and your own price curve changed from \$38 to \$45 a megawatt hour over that period.

Mr DAVY - I am happy to speak to the question. If a document was made available to you that was prepared on 14 January, I believe we would have been anticipating that the Federal Government's policy of repealing the carbon price from 1 July would have been factored into that document, the carbon price being removed from 14 July. Our five years forward planning, including this year, does not have the return of the carbon price, but we do have a forward curve projection in there. It is possible that back in January we prepared a document that had a forward curve going from \$38 to \$45 over a five-year period.

Mr BOOTH - So the price of \$23 per megawatt hour value of carbon pricing is what you factored in, so presumably that is right?

Mr DAVY - What we would have done with our forward projections was try to calculate the impact of whatever the carbon price was on the overall level of prices in the national market.

UNCORRECTED PROOF ISSUE

Mr BOOTH - To make it clear, your price curve was \$38-\$45 per megawatt hour. The carbon price was factored in at \$23 per megawatt hour in that planning document in 2014. That is about 50 per cent of the wholesale price at that point in time.

Mr DAVY - Without having the document in front of me I am not quite sure whether the \$38-\$45 applies to the same period as the \$23 per megawatt hour of carbon price.

Mr BOOTH - That is over the forward six years.

Mr GROOM - It is a bit difficult to answer if you do not have the document.

Mr BOOTH - It is a simple thing. You should know the price for the value of the carbon price, which is what we are getting at.

CHAIR - Order. Mr Booth, it would make it very easy for the committee if you had the document there that you showed to the gentlemen. They could verify that or have some context to the question.

Mr BOOTH - The gentlemen know which document I am referring to. There is not doubt about that.

Mr GROOM - They have indicated that they don't.

Mr BOOTH - From the same document then, perhaps we could talk about the Bairnsdale operations. What is the Bairnsdale operation?

CHAIR - We will go to Mr Booth's question at this point and then to Mr Brooks straight after that.

Mr BOOTH - Bairnsdale operation - just to make it clear for you, Chair, so you understand. Your own planning document shows losses from Bairnsdale operation in 2014 of \$7 418 788, 2015 \$7 519 921 and year 2016 \$7 540 738, year 2017 \$7 344 455, year 2018 \$8 232 963, year 2019 \$6 575 752 losses. What is that operation and what are the losses caused by?

Mr GROOM - The first point I would make is that it was entered into under the former government but maybe if I hand over to Steve to provide some further details on that.

Mr DAVY - I can explain what Bairnsdale is. Bairnsdale is a small, peaking, gas-fired generator at Bairnsdale in Victoria. The contractual arrangement that Hydro Tasmania has is that we have a tolling arrangement with the owner of Bairnsdale which is Alinta Energy. A tolling arrangement means that we provide the power station with the gas under a contractual arrangement. The owners of the power station run it. We have got the right to have it operated on our behalf for a number of hours a year. The electricity that is generated is sold on the spot market and Hydro Tasmania receives the receipts for that.

Mr BOOTH - So you are factoring in a loss of about \$45 million over six years?

Mr DAVY - I am getting to that. Because the arrangements were set a while ago, they were set on the basis of the construction costs of the gas-fired power station like that. They were internal arrangements from one Alinta group company to another when they were originally entered into.

UNCORRECTED PROOF ISSUE

The market for the output of such power stations is now worth a lot less than when those power stations were built. So, on an annual basis, they are loss-making at the moment.

Mr BOOTH - The Hydro loses?

Mr DAVY - That is our projection.

Mr BOOTH - You are anticipating Hydro will lose that \$45 million.

Mr DAVY - We will get less value from the output than we are paying for the annual fee.

Mr BOOTH - Is that a power purchase agreement you have entered into with them?

Mr DAVY - It is a kind of power purchase agreement but because it is the exchange of gas for the electricity receipts, it is called a tolling agreement. But, yes, it is a kind of power purchase agreement. This Bairnsdale arrangement was part of the suite of contracts that was transferred to Hydro Tasmania when the AETV business, which includes the Tamar Valley Power Station, was transferred to Hydro Tasmania in June 2013.

Mr BOOTH - Minister, do you realise that is about 70 nurses per year?

Mr GROOM - I fully acknowledge that there have been issues associated with the Tamar Valley Power Station. They are issues that were very much a consequence of mismanagement by the former government. That is absolutely the truth.

Mr BROOKS - Minister, I would be interested if you could inform the committee of what impact the removal of the carbon tax has had on the price Tasmanians pay for their power.

Mr GROOM - I appreciate the opportunity to answer the question. I think it is important that we put squarely on the record the full truth when it comes to the carbon tax. Everyone acknowledges that the carbon tax represented a revenue stream for Hydro, but the other side of the ledger is that it represented a burden for households and small businesses.

Mr BOOTH - They received compensation.

CHAIR - Order. Mr Booth, I am not going to put up with the constant interjections and comments from you. I have the Standing Order to adhere to and you are not sitting member of this committee, so I can ask you to withdraw if the interjections continue.

Mr BOOTH - I appreciate that, Chair and I apologise, but it would be nice if he would tell the truth and answer the questions. That would be lovely.

CHAIR - I know it is tough for you prevent yourself from interjecting, but please try.

Mr GROOM - Households and small businesses in Tasmania paid \$100 million for a carbon tax on carbon-free power. That did not make any sense. The government was never able to explain to Tasmanians why they should pay \$100 million on a carbon tax on carbon-free power. As a consequence of that, it was an unsustainable policy position. We recognise the circumstance for Hydro but as a consequence of the abolition of the carbon tax, Tasmanians now pay 7.8 per cent less for their power.

When you hear Bryan Green continuing to argue for a full carbon tax, what he is really saying is that he believes Tasmanians should pay 7.8 per cent more for their power. We will never agree with that. We will always stand up for households and small businesses. We will always do what we can to put downward pressure on power prices. That is why we adopted the position that we took.

I absolutely agree that Tasmania's clean energy ought to be valued in the national market. I believe it can be valued in the national market and that is why we are arguing -

Mr GREEN - You are a joke. You argue one thing one way and then go completely the other way.

Mr GROOM - Chair, if I could be afforded the opportunity to finish the point.

CHAIR - I have a point of order from Mr Booth, so I need to deal with that.

Mr BOOTH - Point of order, Chair. This is with regard to not misleading the committee, which the member has just done. The minister has clearly misled the committee, saying that the 7 per cent drop in power prices was due to carbon pricing. He knows the Economic Regulator made that determination based on the transmission costs and it had nothing to do with the carbon pricing. He should tell the truth.

CHAIR - Points of order are not to make a statement either.

Mr GROOM - Kim Booth is absolutely wrong in what he said. The consequence of the abolition of the carbon tax was higher than 7.8 per cent. It was in excess of 9 per cent. When adjusted for additional charges from the network, it amounted to a net reduction of 7.8 per cent.

Going back to Tasmania's clean energy. We genuinely believe that our clean energy has an important role to play in the national market. That is why we have advocated strongly for a pro-Tasmanian position in relation to the Renewable Energy Target. We believe it is critical that the outcome of the renewable energy target supports Tasmania's historical investment in renewable energy. We believe it is critical that the renewable energy target appropriately recognises our Hydro generation. Hydro generation is the generation of the twenty-first century and any policy that underpins the transition, nationally, to renewable energy must recognise Hydro appropriately.

We also believe it is important that the RET outcome protects Tasmanian jobs. It would be a perverse outcome if the policy that is said to underpin a transition to renewable energy nationally would have a negative impact on the state of Tasmania, when we are almost 100 per cent renewable-based. This is the mistake the previous government made in relation to the carbon tax. They did not stick up for households and small businesses. This Government will always advocate for a pro-Tasmanian position.

What we need is bipartisanship; that is what we need to provide certainty into the future so we can see value in Tasmania's renewable energy nationally. I again call on Bryan Green and the Labor Party and, frankly, the Greens, to work with us to secure a bipartisan outcome that can see Tasmania's renewable energy appropriately recognised under the Renewable Energy Target.

UNCORRECTED PROOF ISSUE

Mr BROOKS - Minister, you mentioned it previously but I wanted to get a little more information, if possible, around the Tamar Valley Power Station. You mentioned the history of it where it went from Aurora to Hydro. It has placed significant financial burden on both of those companies. Can you provide an update on the current status?

[9.45 a.m.]

Mr GROOM - The Tamar Valley Power Station has a very unfortunate history. The previous government spent \$160 million more than it was worth when it acquired that and as a consequence it put upward pressure on power prices. Tasmanian households and small businesses paid more for their power unnecessarily because of a poor decision by the previous government.

A decision was made by the former government that the asset would be better managed by Hydro than Aurora. We agree. The truth is that as a consequence of poor decisions made when that was acquired it continues to be a burden in the hands of Hydro. The Hydro are doing the best they can in managing that asset to mitigate those negative impacts but there are genuine questions that need to be answered.

We have lowering demand, which is having a depressing impact on wholesale prices nationally. We also have a potential projection in terms of gas prices that is very significant and as a consequence hard decisions need to be made. One of those questions is whether the Government should approve the sale of the Tamar Valley Power Station's combined cycle unit. That is a question the Government will consider. The Government recognises it is a very complex issue and we will make sure -

Mr GREEN - Yes, you have said it three times. We will see how tough you are.

CHAIR - Order. The question has been put and I will allow the minister to finish his answer.

Mr GROOM - We will make sure that any decision is in the context of protecting energy security in Tasmania and the best interests of the Tasmanian people. I might hand over to Grant to provide some further detail in relation to it.

Mr GREEN - No, we are satisfied.

CHAIR - That time is not up and so I will ask the chairman of the Hydro to make some comments along these lines.

Mr EVERY-BURNS - Our view of assets such as the Tamar Valley is probably taken from a slightly different perspective. Where I look at things in business is that the history of how we got the asset is probably less important than where we find ourselves today. The reality is that decisions were made at points in time that probably made sense at the time they were done.

Mr GREEN - Hear, hear. Thank goodness, there is some degree of commonsense when all levels were at 18 per cent.

Mr EVERY-BURNS - I try to reflect perhaps the way a businessman has to look at this and from my point of view there were reasons for it. There is now a gas contract that goes with that. There are some hard assets that go with it and the hard assets, of course, are open gas turbines in two different varieties. The combined cycle plant and there are the contracts and you asked the question before about Bairnsdale and Steiner. When the corporation reflects on that you really have

to say where do we find ourselves today? Is it in a difficult place because electricity demand has changed? It is fundamentally uneconomic to run the combined cycle plant in large amounts of output as was previously planned. We simply lose more money doing it so the challenge for Hydro has been what do we do with the contracts we have? What do we do with the quantity of gas that we have? How do we somehow use that to best advantage? The decision to move the Tamar Valley assets into Hydro from the whole-of-state point of view was probably a reasonable place to go. With that comes some hard decisions because that is what we face today as a business. The statements that there is loss making in those contracts is simply correct. The challenge for us is how we address those issues. It is not simple. You know that some of the contracts run for years and years into the future so we have to ask ourselves the question, how do we economically use the resources we have? We have improved the situation because Hydro is in a position to improve on what was there, simply because we do not have to operate the gas turbine all of the time.

Initially there was a belief that it would be very hard not to operate it all the time because it is expensive plant. It is the sort of the plant that likes to run. We have done substantial engineering on it and we are quite clear that it can be parked, and it is being parked. We think the risk to the plant and the system is minimal and the opportunity to decrease the losses has been quite reasonable. That is where we are going at the moment. The board then faces the decisions about what can you do with the gas contract, which again is public knowledge that there is take or pay elements to that. What do you do with the plant if it is generally not required? They are deep considerations for us. They are not things that we can do in a heartbeat.

Mr LLEWELLYN - What requests has the Government made to Hydro Tasmania to assess future strategic arrangements? The minister mentioned the whole-of-state energy strategy in Tasmania or the national energy markets or with other Tasmanian market participants. If so, who is paying for that strategic assessment and how is that payment being structured?

Mr EVERY-BURNS - One that comes to mind is we are doing some work on the potential for a second interconnector into Tasmania.

Mr GREEN - You have already done that one.

Mr GROOM - No, it is ongoing.

Mr EVERY-BURNS - It is ongoing. I will just continue. If Tasmania can achieve a second inter-connector it would be clearly of national significance.

Mr BOOTH - Especially when you bankrupt Hydro by doing it, that would be nationally significant wouldn't it?

CHAIR - Mr Booth.

Mr EVERY-BURNS - Well, again, there are different points of view. I look at it as a businessman and say there are downsides, but there is probably a substantial upside. If -

Mr BOOTH - Yes, but the risk is more on the public purse and that is the problem, it is not your money.

CHAIR - Mr Booth, please stop interjecting.

Mr EVERY-BURNS - In answer to the question there is work ongoing on the second Bass Link interconnector. It is not straightforward because you do not simply put a string on a piece of paper and figure out you will go from point A to point B. You have to try to figure out what is the least cost to doing it.

Mr LLEWELLYN - I think you might have misunderstood my question. The question really was what were the requests the Government made of Hydro, in a strategic way, to look at not only Hydro's arrangements, but TasNetworks, Aurora and so on, the best interests of the state? What is happening about that strategic discussion? I drew your attention to the whole-of-state and who is funding that work? Is it being done internally within Hydro or is the Government providing -

Mr GROOM - Hydro have been assisting the Government in relation to development of the whole-of-state energy strategy, as have all of the Government businesses and other interested parties. We established an energy working group, which represented people across the spectrum, but in addition we sought active engagement by the businesses. I have been very pleased that Hydro has shown a strong interest.

Mr LLEWELLYN - Who is actually paying for that?

Mr DAVY - As far as I can tell the work is being paid for as internal resources within Government that are facilitating the work that is involved with the Government's energy strategy. We have seconded one of our people into the Department of State Growth to assist. That is the sum total of our contribution outside of Hydro Tasmania, except that we have been given numerous opportunities to comment and provide input into various versions and parts of the strategy document.

Mr GREEN - You have a Hydro person providing policy advice in State Growth?

Mr EVERY-BURNS - I wouldn't say they're giving policy advice; they're helping the department's officers understand how some of the national market arrangements work and understanding -

Mr GREEN - We've got policy advisers for that.

Mr DAVY - We were asked the question and that is the sum total of our contribution to the Government's -

Mr GROOM - I find it a very curious interjection. I don't see any reason why we wouldn't be utilising the broad skill base of energy.

Mr GREEN - Go over to State Growth and see they're getting the sack - one in four. Anyway, go on.

Mr GROOM - I think we should utilise our full skill set.

Mr BOOTH - You are talking about potentially seeking interconnection which I pointed out will be of national significance when you bankrupt the Hydro by doing it. What are the NEM costs currently per unit you are factoring?

Mr GROOM - That's just nonsense. Do you have the financial numbers there, Miles?

Mr BOOTH - I can read them out to you if you like.

Mr GROOM - Yes.

Mr BOOTH - Out of your planning document, the cost of the NEM and link costs -

Mr GROOM - Chair, I think the idea is that Mr Booth ask the question and I take the opportunity to answer the question.

Mr BOOTH - In 2014 you factored in \$90 903 984 for NEM link costs; and \$89 617 653 in 2015.

Mr GROOM - If Mr Booth asks the question then we can afford the opportunity for Hydro to answer it.

CHAIR - So we can verify that cost? If you had the costs there, Mr Booth, you might have mentioned them in your initial question. You have asked many questions -

Mr DAVY - I am happy to give at a very high level the makeup of those numbers. Those would have been projections. It is the case that we are consistently making projections -

Mr BOOTH - It's about \$90 million a year, isn't it?

Mr DAVY - Can I finish, please?

Mr BOOTH - Sure.

Mr DAVY - It is of course of concern to me personally that from time to time internal projections from within Hydro Tasmania make it into the hands of people outside the company. It is not normal business practice to disseminate email -

Mr BOOTH - It is useful if you are a member of parliament; it is actually quite important.

Mr DAVY - Nonetheless, our annual report contains similar historical information, but projecting the facility fee requires one to also project some market prices so there is no way of knowing whether or not those projections of our link and other NEM costs turn out to be what they are.

Mr BOOTH - So it could be more?

Mr DAVY - It could be more, it could be less. If a projection of about \$90 million was made about \$10 million of that would have been NEM costs to do with transmission and market fees and of the order of \$70 million to \$80 million would have been for a facility fee and associated hedging costs.

Mr BOOTH - So it is true that the NEM is costing around \$90 million plus per year and link costs?

UNCORRECTED PROOF ISSUE

Mr DAVY - No, I said the NEM costs, including the link costs. If they are \$90 million about \$10 million of that is other costs and the remainder is the direct fee to Basslink Proprietary Limited and other associated hedging costs.

Mr BOOTH - You wouldn't have those NEM fees if you didn't have the link so the combined package is \$90 million.

Mr DAVY - You would still have the NEM fees of around \$10 million.

Mr BOOTH - Not if we did not have an interconnection because we wouldn't be part of the NEM.

Mr DAVY - There would still be those costs to pay for of running whatever the market operations were and the transmission. Some of those fees are transmission fees.

Mr BOOTH - I'm not sure it would be quite that much but anyway, thank you, that is fine. That is what I wanted to find out and it is confirmed that the NEM costs a lot of money.

Mr DAVY - It is in the annual report.

Mr GREEN - Chairman, it is important from my point of view that I get an answer in respect to the matter of the \$75 million that appears in the Budget that you have effectively committed to pay. Leading up to the election Will Hodgman made a lot of bold statements with respect to Hydro Tasmania, carbon pricing et cetera when the Opposition was advocating that the price on carbon be abolished.

Mr GROOM - The election is over.

Mr GREEN - Is it? Will the real Government stand up, then?

Mr GROOM - You lost.

Mr GREEN - He said any claim that if the carbon tax goes Hydro Tasmania would not continue to be a profitable business is frankly ludicrous. Do you still believe that is the case, that with the carbon price going it is ludicrous to say that Hydro Tasmania is not going to be profitable? It is important because the budget documents put forward are effectively the forecasts on surplus and a whole range of other predictions the Government is making. What advice has the CEO provided to government in preparation of the Budget to allow them to understand you would be able to provide a dividend of \$75 million in the out-years?

[10 a.m.]

Mr EVERY-BURNS - As I said before, we have provided our corporate plan documents, which we do irrespective of who is in government.

Mr GREEN - Sorry to interrupt, but I also asked you about the certainty going forward with Hydro's profitability, particularly when it comes to falling demand and the fact the carbon price has been abolished et cetera. This is a very firm figure in the document.

Mr EVERY-BURNS - We can plan for, and we are planning for, profit. If you continue to run the business in a business-as-usual sense, you could not plan for a profit. We already have those

UNCORRECTED PROOF ISSUE

numbers on the table. That happens to businesses throughout the land and when it happens you have to respond. One way you respond is looking at the gas contracts and another way is looking at the numbers of people, your transmissions costs - anything you can get into.

Mr GREEN - It is fair enough that you say that, and I would expect the business to say that, because you cannot tell what your profit is going to be, but the Government has told you that you are going to be paying \$75 million through the budget papers - otherwise their budget paper is a lie.

Mr EVERY-BURNS - We have put to the Government on one plan that we would have particularly poor outcomes for a number of years but over a period of time our results would pick up, based on a number of assumptions.

Mr GREEN - It is a significant jump from nothing to \$75 million, though, that's the point.

Mr BOOTH - Ask him to table the advice.

Mr GREEN - I have asked, but they are not going to table it.

Mr EVERY-BURNS - At the moment we are well aware, and are discussing with government, how we go from where we were in the last year, which was a very successful year, where we will be this year, which is reasonably predictable for us because we are in it right now -

Mr GREEN - Even though the minister says it was a complete bungle.

CHAIR - Order.

Mr EVERY-BURNS - and where we move to in the out-years.

Mr GREEN - Massive profits, but it was no good.

CHAIR - Order.

Mr GROOM - Be a bit more positive, Bryan. We can have a good future for the Hydro.

Mr GREEN - Hello? You're the bloke who talked the joint down forever.

CHAIR - Order.

Mr GROOM - Don't talk the place down. We're going to have a great future for the Hydro.

CHAIR - Order, the chairman is trying to answer this question. He is not a politician -

Mr GREEN - It is in your budget paper, \$75 million, and you can't explain; you've got no idea.

Mr GROOM - Show respect for the Chair.

CHAIR - Order. The chairman is attempting to answer the question. He is not a politician and is not used to this interchange, so I would ask members to be aware that we have visitors here and the chairman needs some respect when he answers questions.

Mr EVERY-BURNS - I am fine with the interchange, I understand how it works.

Mr GREEN - You gave a fantastic answer on the Bell Bay Power Station despite what the minister had said. Your explanation was exactly right and it is about time we got some truth out of this whole issue.

Mr EVERY-BURNS - Hydro faces those challenges. We are sitting down at the moment seriously addressing, as we would in any case, how we can get returns of the order you are talking about. That poses some serious issues for us but it also poses a set of correct questions. No business is going to continue to put forward profit estimates of zero; you are always going to try to work your way out of it. It is important to do that because there should be a return on an asset base as large as Hydro's. The people who work here need to see a profitable corporation. It is important for morale -

Mr GREEN - It is hard when demand is falling, though, isn't it? It is hard to predict on that basis.

Mr EVERY-BURNS - Yes, it is, but demand falling means you have to find your place in the market, and Hydro will find its place in the market. It is a low-cost producer; it is water so its marginal cost of production is exceedingly low. The question relating to Basslink is simply that there is a high cost to get to market, that is a fact. It is simply there and as a businessman you look at that and say, 'Yes, it's information that is expensive but where does it take me?' We have the link, it is never going to go away. The costs of operating it are not going to change in the immediate future so we have got to do the best we can with those sets of constraints, and that is exactly what we will do.

Mrs RYLAH - Chair, given the recent concerns about executive remuneration and termination payments in Government-owned businesses, could the minister please provide the company with an update on what action the Government has taken to ensure that such arrangements are in line with community expectations?

Mr GROOM - I thank the member for her question. This is an area of concern for the Government, as I probably alluded to. I am very pleased with the strong commitment shown by Grant and the senior management team of the Hydro in terms of prudent cost management. This is a challenge that we have got right across the GBE portfolio.

Mr GREEN - Have you given them a target of savings?

Mr GROOM - No, not a specific one but we are very keen to work with the company to make sure that they engage in prudent cost management. It is a very strong point of emphasis from Grant as the incoming chair and I think that is to be commended.

Remuneration arrangements do need to be prudent and defensible. The Government has made that very clear. We have put in place new guidelines and we are continuing to review them to ensure that we can be satisfied that outcomes are prudent and defensible, and also that there are appropriate accountability and transparency arrangements.

We have done a number of other things in relation to ensuring that we get good outcomes here. We have frozen board fees for one year. We are reviewing sizing statements for a number of boards. We are satisfied with Hydro's position in that regard, which is across the portfolio. We are doing

that. We have written to the businesses advising the Government's expectation that they adopt a prudent approach to expenditure, and we have ensured that the remuneration policy is consistent with the directors and executive remuneration guidelines. We have written to the businesses noting the Government's concern with excessive termination benefits and requesting that no further such arrangements are entered into without shareholders' approval while the review of the remuneration guidelines is being progressed.

What did happen in relation to Aurora cannot happen again under our new arrangements, but these are important points. I think it is very important for a company like Hydro, as it deals with the difficult circumstances it is confronting, that it is acting prudently. That is a very strong flavour or Grant's leadership and a strong commitment from the company. We will be working with Hydro and with all of the Government businesses to ensure that we get prudent outcomes when it comes to costs.

Mr LLEWELLYN - Can I follow up on that question and ask what changes have been made since the new Government came into operation? What changes have been made with respect to your charter of business operations and how has that affected your corporate plan arrangements into the future?

Mr EVERY-BURNS - I can quite honestly say there has been no change to our charter of operations. I respect the desire or direction of Government, but much of it aligns with prudent business.

Mr LLEWELLYN - That is fine if there have not been any changes.

Mr GREEN - We had to go through the embarrassment yesterday with Mr Willis in the chair explaining exactly what the CEO's payment was and the reasons for it, weighed against the politics being played. I did feel for the chair. It was pathetic, really.

Mr GROOM - I need to respond to that because the Government considered what happened in that circumstance to be unacceptable. We made that clear to Aurora. There is no equivalent circumstance at Hydro. But what the Government has emphasised is that we expect there to be prudent cost management within the business. The point that I am making, and I think the point the chairman is making, is that that is a strong commitment that he has committed to as the incoming chair. It is a strong commitment that the corporation is committed to and we will continue to work with Government to get those outcomes.

Mr LLEWELLYN - The answer is, then, that the shareholders have made no changes to the charter of operations.

Mr GROOM - No, we have issued -

Mr GREEN - The chairman said 'no'.

Mr GROOM - No, he was talking about the charter. If you go and look at the charter, it talks about getting good outcomes for the people of Tasmania.

Mr GREEN - Yes, of course.

Mr GROOM - That is right, so the chairman was talking about the charter but the Government has written to the businesses. We have issued guidelines in relation to buy local, remuneration and other procurement arrangements. We have continued to emphasise the importance of prudent cost management, but the point I am making is that that is a strong ethos that exists already with the chair. He has made that very clear coming into his role and I commend him for it.

Mr GREEN - On a similar subject given that you are being so prudent, documents that we have received show that the organisation has spent \$111 000 since April on training courses. One individual in your organisation travelled to Fontainebleau in France between 29 April and 9 May this year on a course which is named in the document as Financial Management for Executives. I note that the person paid their own airfares and incidentals for the course, but the course cost was 11 900 euros or about \$17 375. In addition there were accommodation expenses of \$2 129 that were all funded effectively by the taxpayer. Can you explain why and how this expense was justified?

Mr GROOM - The first point that I would make in relation to this is the rank hypocrisy of Bryan Green in relation to this question. It just beggars belief, frankly. A Hydro executive attended the exact same French residential course last year under your watch. What the Government have said to Hydro and to all of the businesses is that we expect international travel or any expenditure to be prudent and defensible. I have been through a number of specific measures that the Government has implemented consistent with that. We have made it very clear in the context of new international travel guidelines that they need to be justified, prudent and defensible. There are new reporting requirements. Any international travel that happens from any senior executive member of the Hydro must be approved specifically by the board. There are reporting requirements on a regular basis back to the Government.

I will make this point that consistent with this new era, consistent with a period of consolidation, international travel since 1 July at Hydro is 33 per cent lower than it was last year. That is indicative of the new phase we are in and it is indicative of the leadership that has been shown on prudent cost management.

Mr GREEN - There has been no change to the ministerial charter but obviously there are letters coming forward.

Mr GROOM - There are new guidelines.

Mr GREEN - I am wondering whether the corporation is running as a corporation - that is, that you are actually running it or is the minister directing you how to run Hydro Tasmania?

Mr EVERY-BURNS - In answer to the original question whether the charter had changed I was not trying to be totally technical in that sense but I took it to mean that the wider charter had not changed. In terms of specific guidelines for requirements, yes there are some coming through. The travel one has come through in the more recent time frame. I do not feel, again as a businessman, that the Government is putting its hands in places that it ought not be. I think it is right to point out to the business that at the moment these particular issues are causing grief. The Government itself is tight for money, the corporation is tight for money, so this is common sense in a way. It has brought about a review of our travel arrangements and the company is respecting that.

UNCORRECTED PROOF ISSUE

Mr GREEN - So a business like Entura that requires work overseas to a fair degree to maintain its business, under these directions by the Government will not effectively be able to send executives to other parts of the world to generate business.

Mr EVERY-BURNS - No, that is not correct. You decimate the business by doing that, but the reality is -

Mr GREEN - But a third of the travel has stopped, so effectively a third of the travel was just a waste in the past, because that is what the minister is suggesting.

[10.15 a.m.]

Mr EVERY-BURNS - You can always find savings. People are travelling more frequently in economy class and that makes business more difficult in a way. It is hard to work on an aircraft when you are shoulder to shoulder with everybody else. I am doing it myself at the moment. You work around. At times, when money is tight in corporations, you do things that are a little bit unusual. They are inconvenient for people but you do it. You try not to restrict the business essential travel but you try to do it in ways that are cheaper, you try to spend less time if you can do it.

Mr GREEN - Can you confirm the 33 per cent cut that is being put forward by the CFO has come about as a result of the minister's direction?

Mr EVERY-BURNS - No. It has come about partly as a result of the Government's requirements, but it has partly come across because we are trying to cut costs, full stop. It is an aligned requirement for us. The board's requirements are in line with what the Government would like to see.

Mr GREEN - You signed off on the French course?

Mr GROOM - No, I did not. Your rank hypocrisy, when the exact same course was attended last year -

Mr GREEN - You did not sign off and you did not know anything about it?

Mr GROOM - No. The exact same course -

Mr GREEN - Why would I have?

Mr GROOM - I am making the point. You are asking the question, we are reining in the costs.

Mr GREEN - No. I think it might be you that is being a hypocrite.

CHAIR - Order, Mr Green. You brought up the subject, the minister is answering it.

Mr BOOTH - Chair, I have great sympathy for the position you find yourself in. You have talked long and loud about the costs of the AETV purchase, which I said was a rusting lemon and should never have been purchased. You can go back in history and blame previous energy ministers for interference in Hydro, making political decisions that then forced the GBE into a very difficult business case. We have talked about the cost of Basslink, nearly \$100 million a year you have to

pay the AETV. You have talked about the cost burden to you and the difficulty of trying to decide what to do with it.

I would like to talk about the wind farm power purchase agreements because your forward planning document shows a staggering loss of \$97 687 737 over the next six years on power purchase agreements. They are direct losses in your balance sheet, your planning document. They are staggering losses. That is the equivalent of 160 nurses per year that the wind farm power purchase agreements are inflicting on Hydro's bottom line. Are you in a position to be able to say to the minister, given they are micro managing you at the moment with regard to travel, that you are not going to cop it? Hydro is not going to be directed to make really stupid, political decisions in terms of infrastructure development, including things like the second Basslink, given what you have said with falling revenues, falling demand et cetera?

Mr EVERY-BURNS - We have had a lot of history. The world changes and prices change. At the moment it would be difficult for us to be pushed into an uneconomic investment decision. It would be genuinely difficult because the board would not swallow it. Equally, if we want to make investment decisions, depending on the size, we have to get cooperation from government anyway. There is a discipline in process.

Mr BOOTH - Musselroe is very good example and you said that the board would not swallow it anymore. But Musselroe alone, power purchase agreement losses on that, 2014, \$5 895 958; 2015, \$9 837 455; 2016, \$9 349 584 losses, and \$8 million losses in 2017.

Mr GROOM - It is a bit hard when we do not know what you are quoting from.

Mr BOOTH - It is not hard because you have the planning documents and Mr Davy can provide you -

Mr GROOM - You will not show the documents that you are apparently quoting from.

Mr BOOTH - It is in here and we can go into camera if you want to see it. The point is, you have not ruled out those losses. If you have a look at Musselroe then the losses from the power purchase agreements add up to \$97 687 737 over the next six years, so how are you going to factor them into your business case?

Mr EVERY-BURNS - I am asked the question of how we would factor in what are purported to be a series of known losses. The reality is you factor in anything you know about.

Mr BOOTH - That is why you factored them in to your forward projections?

Mr EVERY-BURNS - Exactly. They are factored in because it is a series of known losses if what you are quoting is correct. Again, I do not think anyone knew that there would be a set of changes or circumstances to do with carbon renewable energy demand in the market that would change the investment climate. How could you know that?

Mr BOOTH - Chair, just for clarification. That is correct, at that point in time there was a carbon price. The losses of \$5 895 958 for 2014 factored in the carbon price at that point of time. The later losses, which actually increased, do not factor it in in your spreadsheet.

Mr EVERY-BURNS - All I can say is even in 2014, which is very recent history for me and I remember very well, the price of large scale generation certificates had already started to fall. The market was already factoring in what it knew was coming. The market factored in the carbon, renewable energy certificates, large generation certificates and it factored in medium-small schemes. It was all factored in. As well as that the price that the wind farms require is energy as well as carbon price and the energy price is falling. If you look at what the Australian Energy Market Operator predicted only a short time ago it was constant and relentless growth in electricity. It is only this year that they have just put out predictions that said, 'Gee it's level. Gee, it's falling.' We are responding to that.

Mr BOOTH - This document is January this year.

Mr EVERY-BURNS - You have given me historical data, stuff that is reality.

Mr BOOTH - Those projections have only just come through now. This is January.

Mr EVERY-BURNS - I have what I have. Therefore when you know -

Mr BOOTH - This is a six-year projection from January.

Mr EVERY-BURNS - Yes, but you have simply got what you have. The company can only take decisions on what it knows. That is something that we know about. Should the price of large scale generation certificates turn around, which they may, depending entirely on what happens in the next six months. It may be that large-scale generation certificates go up to \$60 a tonne. I do not now what they are going to go to, but that could completely reverse the situation you talk about. I just do not know what is going to happen.

Mr BOOTH - Have you had a look at the methodology and the underpinning financials that made the Government pursue constructing Musselroe and then selling it to Shenhua and those power purchase agreements that locked in a loss for the Crown into the future? That was a deal sweetener, wasn't it, the power purchase agreement, which was never disclosed until I have disclosed it now.

Mr EVERY-BURNS - The situation I find today is exactly what we have. Trying to ignore what is there or put reasons behind it does not help me at all. I simply have to decide how we address the issues that we face.

Mr BOOTH - You have this history of political decisions causing Hydro to get into a position where you are in a serious loss making situation on the wind farms, on Bass Link and on the gas station.

Mr EVERY-BURNS - I am honestly not aware of political decisions. I am not aware of how it came about. I am not aware of it. But today I am not being influenced by political input to the business. I have had a good run and we are having an opportunity to just do what we need to do.

Mr BOOTH - I am very concerned about the energy strategy and the direction that a lot of people behind the scenes, who are going to make some money out of this if the Government goes in a certain direction - pushing for a second inter-connector, further wind farms, et cetera. The point I am making is will you exercise due diligence with regard to any proposal for, for example, a

UNCORRECTED PROOF ISSUE

second interconnector or more wind farms or something like that. In fact, more power in Tasmania that the panel has said we do not need any more generation to 2027?

Mr EVERY-BURNS - I am asked about -

CHAIR - Order. Order. I am having trouble hearing with everybody interjecting so please one at a time.

Mr EVERY-BURNS - I am asked, I believe, about whether the board would exercise substantial due diligence in new investment proposals and the answer is yes, we will. My own management and my own board has already seen that happen. I am particularly focused on how much it costs to make investments, how much the cash flow from those investments is, and what is the benefit to whom. If you do not have a customer, you do not have a project. So they are the questions we ask first of all. What is the customer? What is the benefit? What is the cost? What is the long range outcome?

Mr LLEWELLYN - What ongoing discussions have been had with Basslink Proprietary Limited in regard to renewing their contract such that the contract is a regulated linked contract rather than an unregulated linked contract? Secondly, with the feasibility study into Basslink too, can you comment on your discussions for your work there and whether it is upon the basis of a regulated link that you would be looking at installing it?

Mr EVERY-BURNS - Your question is good. The concept of regulation is not widely understood. You clearly understand the issue. A link like Basslink that is currently a market-operated link is unusual nowadays in Australia. As a result of that, the proponents have to pay for it. In the alternative world of regulation, one would like customers to put in the payment according to the benefit they get.

Mr GREEN - We would love Victoria.

Mr EVERY-BURNS - Yes, I think we all understand around this table that the beneficiaries are probably well and truly customers on the other side. There is a substantial process to go through in order to get to the regulated outcome. My understand of it is that even if we get to the regulated outcome, whilst it is beneficial to Hydro and Tasmania, it is not an all-or-nothing situation. It does not change it from being the cost Mr Booth has mentioned to anything like zero. But from our point of view it is something we are genuinely interested in. It is something we have had presentations on recently as the board itself begins to understand the issues. As I say, they are complex issues, it is not something you can imagine it will be easy to do. The market regulator we will be particularly interested in it and they will do the transmission test on it. I agree with you; if there was any discussion of a second link, you would want both links regulated, in my view. So it will be progressive staging through it. It could take a decade or more, in my view, to achieve it.

Mr LLEWELLYN - So you are actively pursuing that particular phase?

Mr EVERY-BURNS - We are genuinely interested in it, I think, for the same reason the Government and the Opposition would be interested in it. It may even be that the owners themselves may see that as a low-risk alternative.

Mr LLEWELLYN - Exactly.

Mr EVERY-BURNS - It probably was not available again at the time it was done but it may be available in the future. We certainly have our eye on that ball.

Mrs RYLAH - Minister, this year Hydro celebrates its centenary year. Many Tasmanians have had a lot of association with Hydro Tasmania. I am interested to know how this year has been recognised.

Mr GROOM - I might hand over to Grant to provide some of the detail but I would like to briefly acknowledge the importance of celebrating the centenary of the Hydro. It represents a very important part of the Tasmanian story, a big part of Tasmania's industrialisation and it is also a big part of our migration story, particular post-second World War. There have been a number of events which have been held and I have attended a few of them. I think it has been well- received. One of the statistics that I heard which was pretty extraordinary is 30 000 Tasmanians have worked for the Hydro - an incredible statistic. That is probably part of the reason why people feel such a strong cultural connection to the company and it is very appropriate to celebrate it. Grant would you like to say something on the centenary?

Mr EVERY-BURNS - Yes. It has focussed on what Hydro brought to Tasmania under very difficult conditions. We have done a number of events this year which probably span a six-month period. Some of them had public involvement; we invited people to put their stories onto their website. That brought out many stories we did not know about. They were people who had migrated here, in particular - part of the great migration story. There was a 27-minute documentary produced on it. It is quite heart-rending when you see what people are saying about Hydro and how it changed their lives and the opportunities it gave them. That has been very successful. It taught me about Hydro.

[10.30 a.m.]

Mr DAVY - I can go through some of the highlights of the program of activities. We started with the sponsorship of the articulated intersect light show above Hobart as part of the Dark MOFO. If you recall the searchlights that were above Hobart - we were a sponsor of that. We have had a mobile exhibition that has travelled to Launceston, Queenstown and Hobart. It is now permanently at Tarraleah, at least for the next year. We had a terrific day at Waddamana, which was the closest day to the centenary. Waddamana was the power station the state took over the construction of in 1914. Waddamana opened in 1916, so I guess we will celebrate the centenary of that as well. There was a wonderful TSO concert at Tarraleah and a number of power station open days. Because we wanted to look forward as well, we ran a competition for school children to put forward innovative renewable energy ideas. We have had approximately 6 000 people visit the exhibition; 500 people have attended various screenings of the documentary, and we have sold 300 copies of the DVD. Almost 3 000 people visited the power stations; 100 personal stories were uploaded to the website, and there was a lot of great coverage in the Tasmanian newspapers and on the ABC of various events. We think we have done what we can to thank the Tasmanian community and to acknowledge what has happened over the last 100 years because of Hydro power development.

The committee suspended from 10.32 a.m. to 10.43 a.m.

Mr LLEWELLYN - Minister, in your negotiations with the Commonwealth Government I would like to know what action you have taken with the Federal Government and their action on renewable energy targets. Since I could not get this answer from you in question time, will you

confirm that you have been pushing very hard for the maintenance of the 41 000 gigawatt hour aspect of the renewable targets as we see it; in other words, no change in the existing RET arrangements?

Mr GROOM - I know you have a strong interest in the renewable energy target. I think the question you were posing in question time was arguing for a target in excess of 41 000 if I remember correctly, which surprised me a little.

Mr LLEWELLYN - No, I made the point that there had been some changes in the European targets announced very recently and asked if we were moving towards an increase. The point I was making was that I didn't want to see you arguing a case for a reduction in the existing arrangements.

Mr GROOM - Our position on this has been very clear and consistent, and that is that we are advocating a pro-Tasmanian outcome and bipartisan support.

Mr BOOTH - Don't you want tripartisan?

Mr GROOM - That probably will involve some level of compromise, to be honest, but I think bipartisan support is absolutely critical in order to have -

Mr BOOTH - Tripartisan support, you mean.

Mr GROOM - Tripartisan support if possible, in order to have certainty into the future. I believe that has undermined the RET policy for too long. We are very strong in our advocacy for a bipartisan outcome.

[10.45 a.m.]

I have had discussions on an ongoing basis over a very long time with the Commonwealth Government senior ministers, in particular ministers Hunt and Macfarlane, but other senior ministers. I have also had some discussions with Labor Party representatives about this issue at the federal level. I have also written to Jacqui Lambie to make very clear our position on this. We are after an outcome that is bipartisan, that supports Tasmania's historical investment in renewable energy, that appropriately recognises Hydro, and one which projects Tasmanian jobs.

It is for that reason we have advocated for full exemption for the major industrials. As I have said many times, the major industrials are very important to Tasmania's economy. They contribute approximately \$2.5 billion annually in economic activity and represent approximately 10 000 direct and indirect jobs. If we were to lose a major industrial it would have a very significant impact on the Tasmanian economy, not just on jobs and economic activity directly but also from upward pressure on power prices. It is very important in seeking to get good outcomes on power prices for households and small businesses that we are acting responsibly with major industrials, which is why we have advocated for a full exemption.

It has been a matter of disappointment that at the state level Labor has not supported that position. As I understand it, at the federal level they have indicated a willingness to go there but at the state level I have not heard that support. They are all the elements and we have advocated that consistently, but I think the key to it is a bipartisan outcome.

Mr LLEWELLYN - With respect, minister, you didn't answer the question, which was: will you stick to the 41 000 gigawatt hours?

Mr GROOM - I did actually answer the question but I will address that point specifically. Federal Labor has indicated it would be willing to pursue a level of the target below 41 000 gigawatt hours, but there still remains a gap between where the Coalition and Federal Labor are.

Mr LLEWELLYN - That is not my understanding. Federal Labor moved away from that negotiation.

Mr GROOM - It is very consistent with the internal feedback I've been getting.

Mr GREEN - In other words, you are misleading again.

Mr GROOM - No, I am not misleading. The key to this is a bipartisan or ideally tripartisan outcome. We are advocating that the parties get around the table and secure an outcome for the RET that can provide certainty and support renewable energy into the future but also protects our historical investment in renewable energy and appropriately recognises the Hydro and protects Tasmanian jobs.

Mr LLEWELLYN - So you are suggesting that the participants here in Tasmania get around the table with you and discuss this matter further?

Mr GROOM - I would like that we all present the same position, which is pro-Tasmania.

Mr LLEWELLYN - Sure, I would too, but the 41 000 gigawatt hours is an important component of that and we don't know what your position is on it.

Mr GROOM - The most important thing is certainty.

Mr GREEN - I think it is important we get to what the change to the renewable energy target for Hydro Tasmania means, so I have a couple of specific questions around that. It is very interesting that the minister is looking for bipartisanship from the Labor Party, and tripartite support from the Greens, to take on the Liberal Government in Canberra. Obviously you have little or no influence if you require the Labor Party to help you.

Mr GROOM - I am talking about at the federal level, Bryan. We need to get a bipartisan outcome at the federal level.

Mr GREEN - Hydro Tasmania in 2014 reveals a return of \$235.4 million in dividends on page 15. The Government guarantee fees and tax equivalents have practically doubled compared to 2013. What was the main driver for the increase in revenue and returns to shareholders? In the context of that, what additional revenue does the RET deliver to Tasmania? What would it mean if the RET disappeared to the extent that the Commonwealth is now talking about? Can you quantify the actual figures associated with the advantage to Tasmania?

Mr EVERY-BURNS - I am going to have difficulty doing that off the top of my head. So if you do not mind, I will refer it.

Mr GREEN - Sure.

Mr EVERY-BURNS - The driver of that substantial outcome was quite clearly related to carbon tax. Even though the renewable energy certificates or the LGCs were not running at the value we would have liked, nevertheless, there is still a lot of return there. Part of the return in that year was because we generated above-average levels of output. That is public knowledge.

Mr GREEN - Yes, you drove the system harder.

Mr EVERY-BURNS - We used a lot of water that was in storage to deliberately get those returns. I think that was a reasonable business outcome.

In terms of your question about the specific detriment to the company, I will have to refer that. I cannot give it to you off the top of my head. Steve, do you want to answer that?

Mr DAVY - There are two separate questions there. There is the question about what drove the performance and then a question about how much of our revenue comes from the Renewable Energy Target. We had a very conscious strategy that while the carbon price was going through the high fixed price period, our production needed to be as high as possible, given the risks that we needed to manage. So a couple of years before the carbon price started, we forwent generation and revenue so that we could earn more when the carbon price was in place. We then went through the two years when the fixed price was in place. We generated as much as we could and we ended the financial year that has just passed towards the lower end of our operating range but certainly not at the bottom.

Mr BOOTH - 27 per cent.

Mr DAVY - Approximately 28 per cent, from memory. The majority of those super-profits over those two years was because of that strategy and the higher price during that period. If you recall, five years ago we had a result of \$70 million per year and then the following two years \$100 million per year. Those two profits had a little bit of carbon premium in them because of the impact the earlier CPRS scheme that was mooted had on forward prices. So we were able to lock in some good forward prices on the national market. That is the explanation of the two years. The last year we generated 3 000 gigawatt hours more than normal and exported that across Basslink. As you can see, increasing our production by about 30 per cent in a year does cause a dramatic increase in revenue.

The production of renewable energy certificates of large scale certificates from Hydro production has averaged above 600 000 certificates per year since the start of the Renewable Energy Target. The price of certificates at the moment is in the low \$30s. So at \$30 per certificate and 600 000 certificates per year, that is about \$18 million per year.

Mr BOOTH - This is a question going back to the wind farms, particularly Musselroe's methodology and the business case with regard to the power purchase agreement.

Mr GROOM - Sorry, if you could direct the questions either to myself or the Chair.

Mr BOOTH - This goes to the power purchase agreements with Musselroe.

CHAIR - So the question is to the Chairman?

UNCORRECTED PROOF ISSUE

Mr BOOTH - Yes, through the Chair to Mr Davy because Mr Davy will probably have to answer this question.

Mr GROOM - No, the question has to be to myself or the Chairman. The Chairman can then decide.

Mr BOOTH - Okay, you may decide to refer this to Mr Davy because it particularly goes to the methodology and the business case before the power purchase agreements for Musselroe were signed up for. Mr Davy is reported as saying before signing the PPA for Musselroe that you will be lucky to break even on Musselroe. Do you have documentation with regard to the business case for Musselroe when Hydro signed up the power purchase agreement? Can you give us the documentation regarding that?

Mr GROOM - I think the question is to the Chairman and I will let him answer but these are very long-term investments. I think the Chairman has already made clear that he is dealing with the circumstances that the company is currently confronting. Anyway, I will hand over to the Chairman.

Mr EVERY-BURNS - I am not aware of the statement you have attributed to Mr Davy.

Mr BOOTH - But he is next to you and he might not be able to answer you. Could you refer that to Mr Davy, please, Chair?

Mr EVERY-BURNS - I possibly could but I still reflect that we have what we have.

Mr BOOTH - But you are not denying it, then, that at the time when the power purchase agreements were signed, people in Hydro, including Mr Davy, were very well aware -

Mr GROOM - You cannot verbal people, Mr Booth.

Mr BOOTH - I am asking the question. I am saying that you are not denying that that was a reality that within Hydro at the time when the power purchase agreement was signed for Musselroe, which collectively is losing \$100 million over six years with the other two wind farms. It was known to Hydro that there was no business case to justify it at the time and you would be lucky to break even?

Mr EVERY-BURNS - It is not a matter of denying it. Nothing has been put to me that I can deny or otherwise. Steve is welcome to comment on the state but again I do not really know what is achieved by trawling back in history too far.

Mr BOOTH - It is not that long ago, but thank you.

Mr DAVY - I do not recall saying to you that we would be lucky to break even.

Mr BOOTH - I did not say you said it to me, I said it has been reported.

Mr DAVY - Who are you saying that I said it to?

Mr BOOTH - It has been reported that that is what you said.

UNCORRECTED PROOF ISSUE

Mr GROOM - Chair, I think is getting to the ridiculous, to be honest.

Mr BOOTH - No, sorry, Chair. It is not actually up to the minister to decide whether a question about this is ridiculous or not. It is a fair question and it goes to the business case - whether there ever was one that would justify the power purchase agreement which we now know between the three farms is losing \$100 million over six years. That is 1 000 public servant jobs.

Mr DAVY - The power purchase agreement that was entered into between Hydro Tasmania. At the time it was a subsidiary within Hydro Tasmania that was project-financed.

Mr BOOTH - Which was selling it off to Shenhua.

Mr DAVY - That was a subsequent transaction.

Mr BOOTH - Yes.

Mr DAVY - The power purchase agreement was struck at a level that reflected the market price for electricity and the certificates at the time and it was sufficient to construct and finance the wind farm at Musselroe.

Mr BOOTH - Why would sign that if you thought you were lucky to break even?

Mr DAVY - I think that is the answer to the question.

CHAIR - Any further questions should be put through the minister or the Chair.

Mr BOOTH - Thank you for that. The question then is to the minister or the Chair with regard to this. Will you table the business case that in fact persuaded Hydro to sign the power purchase agreement which we now know is losing that much money? Will you table a business case or did you not have one? Was it a direction from Government that you should do this or you did do it of your own volition?

Mr EVERY-BURNS - I cannot answer it and I will not; I was not there. I still respect that the business decisions were made for the right reasons.

Mr BOOTH - So you would expect there would be a business case there. Have you had a look at it as chairman?

Mr EVERY-BURNS - It predates my -

CHAIR - Again, can I make the comment that the reason we enter into these Government Business Enterprise committee meetings is to scrutinise the business over the last 12 months, particularly when we have a chair who has only been there for six months.

Mr BOOTH - He was on the board at the time.

CHAIR - That is all right, but we are here to scrutinise the business that is performed over the last 12 months. We know that there was a previous government there prior to that. So it is appropriate that this committee look at the performance of the Hydro over the last 12 months.

UNCORRECTED PROOF ISSUE

Questions that go beyond - either forward, as we have been talking about this morning, or in reverse of that, is outside the scope.

Mr GREEN - It is not, actually. It is a load of rubbish. You are being political.

CHAIR - That is what it is set up for and so I make that point -

Mr GREEN - Chair, he is talking about a previous government.

CHAIR - No, I said it is inappropriate -

[11 a.m.]

Mr GREEN - This is a government business enterprise that isn't supposed to be influenced by government.

CHAIR - I made the comment that it was inappropriate to ask questions outside that 12-month period because there was another government in place before that.

Mr GREEN - No, it has nothing to do with the Government. A GBE is to run independently from government. That is the law.

CHAIR - I understand that but I make the point again: this committee is supposed to be scrutinising the last 12-month performance of this GBE, Hydro Tasmania.

Mr BOOTH - Chair, I make the point that it is impossible to scrutinise Hydro without being able to trawl either backwards or forwards because we are looking at business plans that, as these figures from this leaked document show, go forward six years. We need to be able to scrutinise this. The question I asked directly to the chair about Musselroe in fact is about the last 12 months and you were on the board at the time when the PPA was signed.

Mr EVERY-BURNS - The transaction with Shenhua was in the period you're talking about.

Mr BOOTH - That's right.

Mr EVERY-BURNS - Musselroe predated that by years.

Mr BOOTH - Yes, but you were on the board at the time, I understand, and anyway, as chair now I am asking you to exercise your mind about business decisions that were made previously. Whether you were on the board or not, you are now the chair and you have to wear the losses, and the losses this year from Musselroe alone are \$5 895 958, which fits in with the period you are talking about. Do you have a business case you can refer to or show the committee that justified that power purchase agreement, or was it as Mr Davy has reported to have said at the time, that you will be lucky to break even at Musselroe?

Mr EVERY-BURNS - I don't know that he said that and, no, I don't have a business case.

Mr BOOTH - Does it concern you that you are producing forward projections to keep losing \$5 million, \$9 million, \$9 million, 8 million, \$7 million, and \$6 million over the next six years on one wind farm alone that you are responsible for as the chair and you have a power purchase

UNCORRECTED PROOF ISSUE

agreement in place that is losing this money? Wouldn't you go back and look at it and say, 'How did that happen?'?

Mr EVERY-BURNS - Of course any issues like that are concerning, but the greater concern is how you address it. It is possible that we could be sitting here in a couple of years' time with fortunes completely changed.

Mr BOOTH - Do you have any advice that indicates that? I mean, it's possible that there might be a pink nanny goat on the other side of the moon too, but you don't have advice about that, do you?

Mr EVERY-BURNS - I have a view that it may change.

Mr BOOTH - So it's a personal view that the board discussed?

Mr GROOM - Just afford some respect to the chairman, please.

Mr BOOTH - I expect answers here. This is ridiculous.

Mr GROOM - He has answered the question.

Mr BROOKS - Point of order. Mr Booth, as usual, is disregarding the direction you have set. I would ask you to ask him to keep himself under control. I know he is used to being unruly with his Greenie mates but I would ask you to at least keep him in line with the Standing Orders.

CHAIR - Thank you, Mr Brooks, and I will do that by going to the next question, which is from Mrs Rylah.

Mrs RYLAH - Minister, the expert panel identified that the decision to acquire the Tamar Valley Power Station and then compel initially Aurora and then Hydro Tasmania -

Mr GREEN - Is this in the last 12 months? How far back does this go? Aren't you going to rule it out of order?

CHAIR - I will listen to the question before I go there.

Mrs RYLAH - to operate the power station has placed significant financial burden on both those companies. Can you provide an update on the current status of the Tamar Valley Power Station?

Mr GREEN - He already answered that.

Mr BOOTH - Weren't you listening?

Mr GROOM - We have spoken about this a few times but I am very happy to reaffirm that the Government is concerned about the burden that the Tamar Valley Power Station -

Mr GREEN - So you are going to allow the question?

CHAIR - It is about the current situation.

Mr GREEN - But it has been asked already.

Members interjecting.

Mr BROOKS - Members are allowed to ask whatever they want.

Mr GROOM - Chair, I will be brief.

CHAIR - If you could, minister.

Mr GROOM - The member is entitled to ask the question. The Government has -

Mr BOOTH - Chair, this goes against the Standing Orders. It is just repetition of the same thing. You are wasting Parliament's time.

Mr GROOM - The member has asked the question. I am trying to answer it.

Mr BOOTH - Yes, and you have answered it three times already. You have been asked that question twice.

Mr GROOM - I am just trying to answer the question, Mr Booth.

CHAIR - I have allowed the question. The minister has said he will be brief.

Mr GROOM - As I have indicated, the Government is concerned about the burden this is placing on Hydro Tasmania. We are very concerned about ensuring that Hydro Tasmania is in a position to have a good, positive and sustainable future and that is why we are working with the corporation to identify the best way forward, both with respect to Tamar Valley Power Station itself and also its associated debt. These are ongoing discussions and one of the things we are considered in that context is the potential sale of the combined cycle unit.

Mr BROOKS - I was wondering, minister, if you could outline how Hydro has supported business start-up on the west coast?

Mr GROOM - Is this the King River rafting?

Mr BROOKS - Yes, you might like to elaborate to the community about rafting on the King River.

Mr GROOM - The King River proposal was offering rafting trips on the King River. It is a new business initiative and I know Hydro worked constructively with King River Rafting in relation to this issue. I think it is very important that Hydro are in a position to work through these issues to make sure we maintain safety. That is obviously a very important factor. I will hand over to Steve for some further detail but I would like to make the point more broadly that the state Government is very supportive of new initiatives that provide new tourism opportunities. That is why we engaged in the expressions of interest process in relation to our national parks and World Heritage areas and we are very pleased with the response we have had from that process. I think Tasmania will have the benefit of some really new and exciting tourism opportunities as a

consequence of that EOI process. In the context of this particular initiative, it is important that Hydro carefully consider safety issues so in relation to any further detail I will hand over to Steve.

Mr DAVY - The rafting proposed for the King River is below the John Butters Power Station, so any recreational activity that takes place on the river needs to be coordinated with the operation of the power station, which creates economic and safety considerations for Hydro Tasmania, so we are talking to the proponent of that now to help coordinate the proponent's activities with ours. As the minister said, we are very keen to support where we can recreational activities on the facilities we affect and to help tourism in different parts of Tasmania.

Mr GREEN - Minister, you talked about the amount of people who are losing their jobs from Hydro and the chairman indicated it was 9 per cent in his opening statement. Can you allow the committee to understand whether these people are being made redundant, what the process is, where the people are coming from, how many went in the last financial year and how many will go in the next financial year?

Mr GROOM - I will afford the chairman the opportunity to expand on this but it is very important that we ensure Hydro is in a position to have a sustainable future. As a consequence, the company is going through a period of consolidation. In addition to that, Entura has faced difficult circumstances with a significant downturn in the national consulting market - which I am sure you would be well aware of - and as a consequence there has been a requirement to consolidate that business also. That is an ongoing challenge for the company. What I can say from my perspective is that we absolutely respect the need for Hydro to make prudent decisions to ensure the business is put on a sustainable footing, but we also recognise that this has very significant impact on individuals and their families. That is a matter of regret, but it is important that we make prudent decisions that ensure Hydro and all the assets it is responsible for are delivering appropriate returns to the Tasmanian people and it is necessary from time to time to make these sorts of decisions. I will hand over to Grant to expand on that.

Mr EVERY-BURNS - A substantial number of the positions have come out of the engineering administrative activity of Entura. They are high-quality, well-trained people but we simply do not have a market for the activities they are capable to perform. That has been a particularly difficult decision. They are decisions that you do not like taking lightly but the alternative is not good for the company and the people because they would be underutilised if it continued. There has also been a restructuring by the chief executive of the corporation with about 30 people involved in that restructure.

Mr GREEN - The minister said there would be 100 people.

Mr DAVY - I can go to the details of that.

Mr GREEN - What I neglected to ask was the cost of redundancy payouts to the business, which I am prepared to take on notice.

Mr EVERY-BURNS - We can probably go through that. I think the 100 is about the right number.

Mr GREEN - The numbers are about 100. How many have gone from this financial year and what is the expectation in the next financial year and what are the costs associated?

UNCORRECTED PROOF ISSUE

Mr DAVY - I will take the numbers in three parts. While this has been a year of great pride in terms of the centenary, it has been a very sad year in terms of reducing the number of people at Hydro Tasmania. Most of the people who work at Hydro have been there a long time -

Mr GREEN - No-one would have predicted demand would have fallen in the country so significantly which meant -

Mr DAVY - There are two aspects to it. The demand has affected the economics of the power generation through the sales business. But the bulk of the departures have been because of the downturn in the engineering consultancy business. The slow down in construction of distribution and transmission networks throughout Australia has meant there is much less work. That has coincided with the end of the mining construction period.

There was also a spike in water infrastructure after the drought of the last decade throughout Australia. There was a lot of water infrastructure construction that consulting businesses, including Entura, were involved in and that has slowed down dramatically. Entura has gone from about 300 staff to about 200 staff over the last 18 months. Of that drop of 100, approximately 65 were redundancies.

Mr GREEN - The expectation is that they will not be replaced?

Mr DAVY - Unless that business recovers and starts winning additional work. We have sized the business to the amount of work we are getting now and we think we will get in the future. That is Entura.

We have restructured the Hydro business as well and there were 84 redundancies in the recent program of which 48 were Hydro and 36 were Entura. In that total of 100, 36 were Entura. At the time we wrote these notes, of those 84 people who were made redundant, seven were still working within the business and 77 had left. Many people who were made redundant in the first instance were redeployed into other positions within Hydro.

Mr GREEN - Sorry, they were made redundant?

Mr DAVY - There were 107 positions made redundant in the recent restructure and of those, 35 were redeployed into new positions. In total, Hydro Tasmania employed about 1 150 people in October 2013 and now we employ about 1 050. The total change in head count is about 100. There are lots of numbers there but between those, I have answered the question you posed.

Mr GREEN - We will get the payout figure at some stage?

Mr DAVY - Yes, we can provide that. The sum of all the redundancy payouts; I do not have that figure to hand.

Mr SMITH - We made a provision for it on 30 June of \$12 million, which is in our annual report. As these costs come through we were allocating it to that provision. We have not exceeded that provision as yet.

[11.15 a.m.]

Mr GREEN - As to executive remuneration, how many of the management team earn more than \$300 000 a year?

Mr EVERY-BURNS - I think it is most.

Mr DAVY - In the annual report for the year just passed we stated there were nine employees in the bands \$300 000-\$450 000 and \$450 000-\$600 000.

Mr GREEN - You have 11 on the executive team worth approximately \$4.4 million, according to the annual report.

Mr DAVY - Yes, \$4.3 million.

Mr GREEN - On the basis of what the minister has had to say on separations, would it be possible for you to provide to the Parliament the separation arrangements that exist now? I do not expect that to be with names attached, but I believe the Parliament is entitled to understand that if there is material change to the way contracts have been established with the senior executive, particularly upon separation, that we get an understanding of what the base is for separation arrangements for senior executives. Is it possible for you to provide that sort of information to the committee?

Mr DAVY - I am not sure you should be asking me.

Mr EVERY-BURNS - I am somewhat troubled by that, given your particular question earlier was whether the Government was intervening in the operation of the corporation. This goes a step well beyond that.

Mr GREEN - Does it? I am only asking a question, and the question is very specific. People are making a lot of a separation payment that somebody received and sometimes there is history associated with the reason those payouts are made. Even the amount of money I have talked about, people on excess of \$300 000, sounds like a lot of money to Tasmanians who are struggling on a basic wage. I am trying to establish whether there is going to be any material change to the separation arrangements that are already in existing contracts with senior executives as a result of what the Government is saying.

Mr EVERY-BURNS - Firstly, I am not aware of any substantial termination arrangements. I am sensitive to it, and in particular whether there are going to be any changes to it. If you mean are there going to be any changes in the upward direction, not under my watch.

Mr GREEN - No, it is obviously in a downward direction.

Mr EVERY-BURNS - If they are contractual arrangements that exist at the moment, I am not sure I would strip that back.

Mr GREEN - So you would have to honour them?

Mr EVERY-BURNS - It is a contractual arrangement. I have no reason to suspect there are untenable, unreasonable arrangements.

Mr GREEN - It is on the *Hansard* and we will take it that your answer is accurate that you will not be changing any contracts.

Mr EVERY-BURNS - I am not quite sure what I am being verballed for.

Mr GROOM - I think Mr Green is slightly at cross-purposes here.

Mr GREEN - Why is that?

Mr GROOM - What I have previously said about executive remuneration related to specific circumstances that existed at Aurora.

Mr GREEN - So it does not count for Hydro?

Mr GROOM - No, our remuneration guidelines apply across the portfolio.

Mr GREEN - You dragged a man's name through the mud for political purposes.

CHAIR - Order.

Mr BROOKS - Point of order, Chair. Mr Green is out of control again and I would ask he abide by Standing Orders.

Mr GREEN - On the point of order, Chair, the member suggests I am not showing appropriate deference to your rulings and the fact I am speaking over the top of you. The minister has just been completely untrue and I am entitled to defend myself in that regard. The minister was prepared to drag an ex-CEO's name through the mud for political purposes. I am asking what direction he has given the board to change existing contracts.

CHAIR - The minister was making comment along those lines. Where you were out of order was the fact I had already mentioned that for *Hansard* purposes that we must not speak over the top of each other. When the minister has finished, if you need to ask another question, I would allow that to clarify some issue within the answer.

Mr GROOM - We were responding to a specific circumstance that existed at Aurora. The Government has made clear that the arrangements that were put in place in the context of Aurora cannot happen again. In addition to that we are undertaking an ongoing review of the executive remuneration guidelines to make sure that outcomes are prudent and defensible. We all recognise that senior executives have very difficult jobs to do and that we operate in a national market, but it is important that decisions made in relation to executive remuneration are prudent and defensible and have regard to the broader circumstances we are dealing with as a state. That is the commitment that has been made by the company and is consistent with the Government's guidelines. We were dealing specifically with a circumstance that existed at Aurora.

Mr GREEN - Have there been any percentage increases to CEO salaries in the last year? In the annual report it states there was a payment of \$425 000 made to an executive that was not recorded. Can you explain why?

Mr EVERY-BURNS - In answer to your first question as to whether there have been any pay rises afforded to the CEO in the last year -

Mr GREEN - And the executive management salaries and bonuses. That is another question.

UNCORRECTED PROOF ISSUE

Mr EVERY-BURNS - There has been a decrease in bonuses paid because we have gone back and changed the bonus arrangements. The bonus arrangements previously were quite generous from what we understood to be the current view both in industry and government. There has been a trend in industry to reduce the bonuses, even in the most competitive industries. The most competitive industries, by the way, pay far more than a government would. So we have in fact done that, which has been difficult, because people have been on arrangements that had a contractual basis but nevertheless -

Mr GREEN - What seems like a lot of money in the energy business here is less than what people would be paid in equivalent energy businesses in the private sector - is what you're saying?

Mr EVERY-BURNS - Yes, substantially so.

Mr GREEN - Is that right?

Mr EVERY-BURNS - I think so, and substantially less than they were being paid, to my personal knowledge -

Mr GREEN - So we're lucky to have people of such talent working for us in that regard.

Mr EVERY-BURNS - I would say so. To my personal knowledge the salaries paid here are probably less than they would -

Mr GREEN - Therefore they don't deserve to have their name dragged through the mud.

Mr EVERY-BURNS - enjoy in some of the other states where you could argue the industry is slightly bigger. In some cases it is not bigger. Particularly in Hydro's case I think there is a genuine understanding that people are in a competitive industry and need to be well paid for us to attract the proper talent, but at the same time there is a community limit to what we can do -

Mr GREEN - Have the CEOs and executives received any increase in salaries?

Mr EVERY-BURNS - Yes, they have but, make no mistake, the bonus arrangements have been reduced and there was consideration given to that whole range.

Mr GREEN - There was a figure of \$425 000 I need to have explained.

Mr BOOTH - What was that for?

Mr EVERY-BURNS - That is written in the annual report as a termination payment for a member of the executive and I honestly think that's all I can easily say.

Mr LLEWELLYN - Minister, you have previously stated that the previous Federal Labor Government should have funded a second cable, saying this is not a matter of Tasmania seeking another handout, this is about Tasmania sticking up for itself, showing some resolve and claiming our right to be a full participant in the NEM. I agree with that sentiment. When do you expect the Federal Liberal Government will provide that funding and what have you done to try to secure it?

Mr GROOM - I am assuming that was a quote of mine? Is that right?

Mr LLEWELLYN - Yes.

Mr GROOM - I think you misunderstood what I was saying.

Mr GREEN - Well, explain to us now what you were saying.

Mr GROOM - I would like to. It is my view and the view of the Government that Tasmania has a special contribution to make when it comes to contributing renewable energy into the national market, and if you stand right back from it it makes sense from a national perspective that Tasmania be afforded an opportunity to maximise that contribution.

We must have the right circumstances but just as the energy sector has shifted dramatically over the course of the last even five years it could dramatically change again into the future, so these are long lead-in times. It is important that we are investigating these opportunities, that is the Government's policy and what we are working with Hydro Tasmania on. The term nationally funded could mean all sorts of things, but at the time there was a bucket of funds available under the previous Labor government that the previous Labor state government had not sought and I encouraged the previous Labor government to pursue that opportunity but they failed to do so.

However it can mean other things, for example, that it is a regulated link. As we have already alluded to, that is another way where it can be nationally funded. A second interconnector, as the chairman has indicated, would be of national significance. It is part of the national infrastructure and would be servicing the national market so it would be appropriate in those circumstances that it be a regulated link. In that sense the market that was utilising that - for example, Victoria -

Mr LLEWELLYN - With respect, I don't think that is what you were referring to.

Mr GROOM - It is exactly what I was referring to, Mr Llewellyn, and I strongly maintain that view because I think it is a piece of national infrastructure.

Mr BOOTH - Minister, the chair referred a moment ago to a \$425 000 termination payment. Was that for Mr Adair?

Mr EVERY-BURNS - I made the comment but can't go any further with the questioning.

Mr BOOTH - Why can't you go any further? It is a reasonable question to ask. Was that \$425 000 of public money a termination payment for Mr Adair?

Mr EVERY-BURNS - The annual report says it was a termination payment and I won't make any further statements on it.

Mr BOOTH - So was Mr Adair terminated, then?

Mr EVERY-BURNS - I'm not making any statements.

Mr BOOTH - So you're not denying he was terminated?

Mr GROOM - The chairman is indicating that he is not in a position to be able to go into any further detail in this forum in relation to that.

UNCORRECTED PROOF ISSUE

Mr BOOTH - No, he has indicated that he is not going to answer the question, not that he is not in a position to do so.

Mr GROOM - I think he has indicated that.

Mr BOOTH - Minister, then why did Mr Adair leave? What were the circumstances around that?

Mr GROOM - I am not in a position to answer that question. The former minister is in a position to answer that question.

Mr BOOTH - He is not under scrutiny. As minister, I would presume you would have asked that question.

Mr GROOM - Obviously the chairman is indicating that he is not in a position to go into further details here and -

Mr GREEN - It is in the annual report.

Mr GROOM - How is it described?

Mr GREEN - It is not accountable.

Mr BOOTH - But that's the point.

Mr GROOM - Mr Booth, I just want to make sure that the chairman is not put in a position where he is saying something he is not in a position to say.

Mr BOOTH - In that case, minister, can you rule out that the \$425 000 was a termination payment to Mr Adair?

Mr GROOM - I am not in a position to go into further detail in relation to it.

Mr BROOKS - I have a question, Chair.

Mr BOOTH - Hang on a minute, I am trying to get an answer to one question.

Mr BROOKS - You have just had six, Mr Booth.

CHAIR - No, it was actually two - one to the chair and one to the minister. If you would like to move on to a different line of questioning I will allow that.

Mr BOOTH - Was the termination of Mr Adair anything to do with the King Island wind farm proposal?

Mr GROOM - I am not in a position to provide any further detail in relation to -

Mr BOOTH - So you can't rule that out either?

UNCORRECTED PROOF ISSUE

Mr GROOM - I make the point that this circumstance existed before we came into government and I am not in a position from my own knowledge to provide any further information. All I can do is hand over to the chairman in relation to this but I will just make the point that it may well be that there are constraints in terms of what he can say and I think that should be respected.

CHAIR - That will be the case if the chairman answers it that way.

Mr EVERY-BURNS - You have drawn an assumption that I won't even comment on it and

[11.30 a.m.]

Mr EVERY-BURNS - You have drawn an assumption that I will not even comment on and I am not in a position to make any further answers on.

CHAIR - Mr Brooks.

Mr BOOTH - I think you said I had another question.

CHAIR - As long as it was not in that line of questioning. You have asked another question so now we move on to give other committee members -

Mr BOOTH - It is about King Island, if I can just ask a question in regards to the business case, just that question while he is on that subject.

CHAIR - I am sure Mr Brooks will allow that. Last question.

Mr BOOTH - Perhaps you could table the business case for the King Island wind farm, whether it was a business case. Perhaps you can rule out that there was never a business case to justify it. It was a stunt before the last GBE Estimates when it was announced you were going to go ahead with the feasibility study. Miles Smith crunched the numbers and confirmed they did not stack up for the King Island wind farm; is that correct?

Mr GROOM - Again -

Mr BOOTH - Mr Smith looks happy to answer.

Mr GROOM - No, no, sorry, with great respect, Chair, I just have to say this. Mr Booth is verballing people in a way which is quite inappropriate.

Mr BOOTH - All you have to do is answer the question.

Mr LLEWELLYN - I do not think we will ever have a tripartisan view on energy, by the sound of it.

Mr GROOM - Just to go back to your earlier ruling, it is not the purpose of this scrutiny hearing to go back over old ground. I know this is a hobbyhorse for Mr Booth.

Mr BOOTH - That is rubbish. That is not acceptable.

Mr GROOM - I think it is important that if Mr Booth -

UNCORRECTED PROOF ISSUE

Mr BOOTH - You are just trying to avoid scrutiny. It is ridiculous to suggest that you can only ask questions about this year.

Mr GROOM - is going to be asking questions about the performance of the company through the course of the last year. I think he is out of order.

Mr BOOTH - The question is: did Mr Smith crunch numbers and confirm -

CHAIR - Again, we have been down that line of questioning. I would have allowed a general line of questioning around the King Island wind farm, but not specifically to that same point about a specific gentleman.

Mr BOOTH - On a point of order and I thank you for your tolerance. I find you quite fair as a chair, so I am not criticising you for that. It is up to the people who are scrutinising to ask a question. You cannot allow or disallow a question because you or the minister does not like it. It is not out of order. This is part of scrutiny. I have asked a very fair question whether Mr Smith confirmed that the numbers did not stack up for Musselroe and that project was subsequently abandoned. Mr Adair is apparently -

Mr GREEN - Musselroe?

Mr BOOTH - Sorry, King Island. I think it is a fair question. I do not think you can rule that out of order. The minister can choose not to answer it. He has Mr Smith next to him.

CHAIR - In a general statement there has been a question put. I will allow a brief answer from either the minister or the chairman and I will move on.

Mr GROOM - I think Mr Booth has to stop verballing people. In relation to King Island I am sure the chairman or Steve could provide further detail in relation to that issue.

Mr EVERY-BURNS - I am not sure what the question on King Island is? There has been a lot of discussion back and forth.

Mr GREEN - Business case and feasibility study, I think.

Mr BOOTH - Whether Mr Smith had crunched the numbers and advised the business case did not stand up.

Mr GROOM - We had not reached that point, I do not think.

Mr DAVY - To update the status of the TasWind project, which is the 600 megawatt, 200 turbine King Island concept that we initially did a pre-feasibility. We ran a process on the island to gauge support for the residents and as a result we continued our feasibility work. The feasibility is work that helps you get to the point where you would decide whether you could make a business case for really investing large sums of money. The business case would then lead to a financial decision to proceed in some way. At not the most recent board meeting, but the one before that in October, as a result of the investigations the board concluded that it was very unlikely that the King Island wind farm would prove to be an economic proposition, compared to the other alternatives for constructing wind farms throughout Australia.

There are a number of reasons, but the board reached the conclusion that it was not a good idea to spend more money at the feasibility stage to advance towards making a decision to get approvals and the financial close of that project. We had not got to the point in that feasibility study of really deciding on the financial structure, including the ownership. Whether the project was economic and a good idea for Tasmania was another question as to whether Hydro Tasmania should have been the major investor in that project. We had not got to the point where the ownership of a project like that was defined. Calculations are made along the way about whether a project like that could be competitive, given the renewable energy target and the other policy settings. We concluded in October that it was not worth pursuing that project any further.

Mr BOOTH - That is not withstanding carbon pricing too, as I think you said at the time. Is that correct? Setting aside the carbon price.

Mr DAVY - No, the future of the carbon price was known a little bit earlier than that. The thing that we said that it was not dependent on was the review of the renewable energy target by the Federal Government. The uncertainty was not the thing that led us to stop the feasibility study. It was how that project stacked up in relation to other projects that could meet the renewable energy target.

Mr BROOKS - It is an important one and it is around the recent visit of the Chinese President to Tasmania. We all agree it was a great success. Could the minister provide the committee with some details about how we are seeking to further the renewable energy opportunities with China?

Mr GROOM - It was a great further example of an ongoing partnership that Tasmania has with China and, in particular, I think you are referring to the MOU that was signed with Shenhua group. I was very, very pleased to have the opportunity to catch up with Dr Zhang, the chairman of the Shenhua group. It was a great honour to have Dr Zhang in Tasmania as part of the presidential visit. Through the course of that week an MOU was signed with Hydro Tasmania in relation to the development of a testing wind farm in Tasmania. It is a great example of the further partnership between Hydro Tasmania and Shenhua in relation to wind development. It can represent an ongoing opportunity for Tasmania to work closely with Shenhua and China more broadly in relation to these forms of renewable energy. It is a great example of us utilising what is the heritage expertise but with a key trading partner. It is a very exciting opportunity.

Mr EVERY-BURNS - Dr Zhang is a very impressive gentleman. Shenhua is also an impressive company. That gentleman in particular presides over very large wind installations. They are involved in substantial activities outside and inside China. When we are talking about the comparisons between our people in Tasmania and their people it is sobering to think that we are sitting on about 2 000 megawatts of hydro capacity and that gentleman alone has 60 000 megawatts of new plant installed in the last couple of years.

Mr BOOTH - It makes the minister's boast about them coming over here because of our expertise a bit silly, doesn't it?

Mr GROOM - I think we have great expertise.

Mr BOOTH - I don't think they are coming over here for that though.

Mr GROOM - I disagree.

Mr EVERY-BURNS - I found the people were very informed. They are peers and possibly talking on the basis of some similar sort of understanding. That was very interesting. The other thing that is clearly in their interests, which is also in our interests, is the installation of Chinese wind turbines, which we may be very hard pressed to purchase in anything other than a MOU of this nature. If we had to go out and try to make a case right now to purchase and construct new equipment, it would be very difficult. If, through an MOU, these partners to showcase some technology, it can do nothing but benefit us, in my view. This is an interesting aspect of the MOU. I look forward to where it will move.

Mr GREEN - Where does the MOU go to? It is about construction or use of technologies, is that what you are saying?

Mr EVERY-BURNS - It is about the introduction of between 10 and 30 megawatts of showcase technology. To make that work, you still have to have a market that wants the off-take and a market that will work. But try to have a MOU in place that says, 'We are interested in doing these things' but it has be de-risked, from our point of view.

Mr BOOTH - At the moment no construction is planned at this stage; there is just an MOU?

Mr EVERY-BURNS - That is what MOUs are all about. An MOU is a willingness to talk and a willingness to engage.

Mr LLEWELLYN - So that is three to six turbines?

Mr EVERY-BURNS - Yes, 10 to 30 megawatts.

Mr DAVY - The MOU that has been executed between ourselves and Shenhua is for 10 to 30 megawatts. At the moment, the most common-sized turbine is a three megawatt turbine, so that is four to 10 turbines. The proposal we are investigating is that this would be most likely a small site close to one of the current operations, either at Woolnorth or Musselroe to leverage off the operational activities there. It would be, exactly as the chairman says, to establish that cheaper Chinese turbines could be made to operate in the Australian market context, and to get the consents and compliance activities sorted out.

You may recall there was an earlier, broader alliance agreement signed between Hydro Tasmania and Shenhua to investigate the development of up to 700 megawatts of wind power in Australia. This is a further step within that broader alliance. Going to the expertise that Shenhua have in renewable energy, it is worth noting that this relationship goes back almost a decade with some joint ventures that started between Hydro Tasmania's Roaring Forties subsidiary and Shenhua in China. We first worked together building some of the earliest wind farms in China. Shenhua have learnt from Hydro Tasmania's expertise at the start of their renewable energy as well.

Mr GREEN - Mr Booth might accuse me of being repetitive but, chairman, this is to you. It is very important from the point of view of the budget papers because this year they indicate that in 2017-18 Hydro Tasmania will provide a dividend of \$75 million to the Government. What advice specifically have you given the Government to allow them to make that announcement?

Mr GROOM - How many times are you going to ask this?

Mr GREEN - I am asking a very specific question and I want an answer to it.

Mr GROOM - It has been answered.

Mr GREEN - It has not been answered. Has Hydro Tasmania provided any information to the Government that would allow them to hope to print in their budget papers that you will provide a dividend of \$75 million?

Mr GROOM - Chair, I specifically recall this.

CHAIR - As previously asked of me, from a question from Mrs Rylah about answering the same question, I have heard this question before today. I would allow a brief response to it and then we will move to another question.

Mr GREEN - Any information at all - what have you have provided the Government?

Mr EVERY-BURNS - We have provided the corporate plans.

Mr GREEN - Which show \$75 million.

Mr EVERY-BURNS - They showed diminishing profits in this period, which I have already said. They showed increasing profits there out on a basis of a number of assumptions, none of which will probably ever come to pass. At the moment, we are planning to meet those expectations. We are doing everything we can to meet the expectations, irrespective of who is in government. Frankly, that is what the board would try to do.

Mr GREEN - It is not about who is in government; it is about whether or not the budget papers stand up.

Mr GROOM - Chair, I think Mr Green has run out of questions. I know it is embarrassing for him, but this is repetitive.

[11.45 a.m.]

Mr GREEN - They put a figure in the document that the Tasmanian people now take will be a given. As a result of that, a surplus was provided to the state. It is important that the Budget is factual. So the information you provide to the Government needs to back up what they are saying.

CHAIR - The Chair has answered that. I am not going to allow him to be put under pressure. Unless there are any further comments around the answer, I will move on to another question.

Mr BROOKS - I have a question on asset management, Chair. As we know, Hydro has some ageing plant and equipment. Some of it is still in every good order and we have been to some refurbished plant previously. The question is about the strategy you have used in the previous 12 months to update your plant and equipment and your asset management strategy, and also into the future, given that the cost of maintenance and management can sometimes outweigh the benefit. I would be interested if you can tell the committee what strategies you have looked at and how that is going.

Mr EVERY-BURNS - I sit on the risk management committee of the corporation. The maintenance programs here, in my view, are quite sophisticated. It is what I would call deeply thought through, and it is pleasing to see that. The programs we operate to are 10-year maintenance

programs, which for assets like these are required. It is possible to maintain them on shorter timeframes. You can do it on one-year timeframes if you want; it is just a matter of what a board or a management believes is prudent. I particularly like the idea of having 10-year plans. In the previous business I ran we operated on 20-year windows, so you would look ahead for 20 years. That allowed you to look over life cycles and work out how to budget. That is what has been done here. It has a particular flavour of risk management, as it ought, and a particular flavour about cost containment.

A lot of the upgrades have a capital component to them, so it is quite important that the capital be spent in an effective way when you have to raise capital. It has a number of aspects to it in the 10-year maintenance program. One is the dam asset maintenance, another is the turbine generator maintenance, and another is the civil maintenance, which is something I have not experienced on this scale before. These are not concentrated assets; they are assets that are spread across the state of Tasmania. It means we not only have multiple dams, weirs, rivers, plumes and everything you can imagine. There are roadworks, et cetera, that fall to our responsibility. I have driven along some of those roads and it is a substantial responsibility. The program is risk-based and encompasses a very wide span of activity.

As to the generators themselves, you are correct. The fleet is an ageing fleet but we still require high reliability and safety from it. From what I can see, those aspects are properly taken care of. It grades down from the aspects that are most important from the risk management point of view, which goes to dams and so on. We use guidelines that are formed external to the corporation to do the dam management. You then work your way through turbines, generators and so on, right down to roads and grass cutting and a million other things. The risk involved in some of that is very low level and the risk at the other end is mitigating what would otherwise be potentially high level risks. It is done on a very mature basis. The spend is significant - \$70 million a year. As to what I see benchmarked elsewhere, it is about right; commonsense tells me it is also about right. At the moment, we intend to operate all these assets well into the future, so the program was based on that assumption. That does not mean you have the right to believe they will operate forever. That is not necessarily the case but there are break points where you consider what the future of the asset is should you have to spend a lot of money on it, and that is the process that is worked through.

Mr LLEWELLYN - This is a question to the chairman but may have to be referred to Mr Davy.

Mr EVERY-BURNS - Sounds ominous.

Mr LLEWELLYN - In respect to Momentum Energy, there were some comments by Mr Booth about the loss aspects of some of the generating plant that came with the arrangements with Momentum, however in the last financial year the company made a profit of some \$21 million which to some extent offsets that other aspect, and you might want to comment on that. As well as that, how much money did Momentum spend on sponsorship in 2013-14 and can you detail that sponsorship? Would the Government ever consider selling Momentum and has the abolition of the carbon price reduced Momentum's competitive advantage?

Mr EVERY-BURNS - There are a lot of questions there.

Mr LLEWELLYN - We're running out of time and we have a lot of questions.

Mr EVERY-BURNS - I will try to work through the questions; there were about half a dozen. One of them related to loss-making assets and another related to Momentum. I am not aware that Momentum came with loss-making assets. I am aware of the transfer of AETV Proprietary Limited which brought the loss of the assets in recent history.

Mr LLEWELLYN - That's what I was referring to, the potential sale of gas through Momentum.

Mr EVERY-BURNS - Momentum is a separate company that was acquired as a Corporations Act entity -

Mr LLEWELLYN - Yes, but it does put Mr Booth's comments into context.

Mr BOOTH - It makes it worse.

Mr GROOM - Will you afford the chairman the opportunity to answer, please?

Mr EVERY-BURNS - Momentum operated in the previous year with \$20 million profit which is something to be proud of - that is a lot of money. It is operating in the National Electricity Market and essentially selling to Victorian customers because it is barred from dealing in Tasmania for what are commonsense reasons to some extent. You cannot try to reform an industry while you have a competitor there. That doesn't mean there isn't a debate to be had in the future about what Momentum could do for us but it is operating in Tasmania. It consequently made a \$20 million profit -

Mr BOOTH - In Victoria. You said Tasmania.

Mr EVERY-BURNS - I am sorry, it is clearly Victoria but it operates in the entity of the national market. In order to secure sales of power under those markets it has been dealing with very substantially with small to medium enterprises and has been very successful in that space. As Steve has acknowledged, it is holding about 15 per cent of that available market.

Mr BOOTH - It did that by giving away the carbon price initially.

Mr EVERY-BURNS - Be that as it may, it is showing a \$20 million profit and I'm not sure what you're alluding to there.

There was a direct question about the cost of sponsorship by Momentum. The answer to that is in the order of \$2 million a year and, to an extent, that is the cost of doing business. It is not possible for a national retailer to try to promote its sales of energy into another place without a brand name. Momentum's brand name is being promoted by what in its view is targeted sponsorship and advertising. I am not a marketing expert but I can say the campaigns have been successful over a period of years because they have brought with them about 100 000 customers.

Mr GREEN - You obviously haven't listened to some of the questions that have been asked in Parliament in the past.

Mr EVERY-BURNS - Momentum is in that space. Mind you, my management might tell me I have the wrong number but that is my understanding of it. I have seen commentary about whether that should be the case? Earning a \$20 million profit should be the case. That is something we

should be proud of, it is something that is very much in the interests of this state and if it costs money to do it that is the cost of doing business and that is what you do.

Mr LLEWELLYN - Has the abolition of the carbon pricing reduced Momentum's competitive advantage?

Mr DAVY - The main product Momentum Energy was selling to customers on the mainland was a product called SmilePower. It was initially started as a product that leveraged on the clean energy advantage from selling energy from Tasmania. SmilePower is and was a renewable energy-backed product and that was part of the marketing and value proposition for consumers on the mainland. The product was sold on the basis that because it was renewable energy it did not have a carbon price built into it but it was still a competitively priced product in the market environment it was sold into. The customer proposition was different. The regular product available to consumers on the mainland had the carbon price as an additional price you pay on top. Because we were selling a product backed by renewable energy we were pricing it differently. It was not that there was some carbon price advantage being conferred, it was more that it was a different proposition for customers.

Mr LLEWELLYN - Would the Government ever consider selling Momentum?

Mr GREEN - Is Hydro Tasmania considering any other propositions with respect to privatisation of any part of its business?

Mr GROOM - I will say specifically in the context of Momentum that the Government is satisfied that Momentum plays an important part of the risk-mitigation strategy. It is on a profitable path and we are supportive of it.

Mr BOOTH - Chairman, I know you just mentioned that you were looking at 'de-risking' the profile for investments in Hydro and I congratulate you on that. I think that is obviously a very appropriate strategy. Given the power purchase agreement losses through the current wind farms then through the Chinese Shenhua proposal to trial some turbines, 30 megawatts, are you clearly saying at this stage it is just a proposal until you see the business case stack up, and that would mean a better business case presumably than Musselroe, and that you simply won't proceed unless it is commercially viable and doesn't generate the same sort of losses as others?

Mr EVERY-BURNS - The member has put words in my mouth that are probably closer to what I would have said myself this time. We don't have a business proposal as such and I don't think a business proposal would be put to us by the other side. I think this will be something that will be developed between us because the normal way to do business is that we would work out what their offer really amounts to, we would have a very hard look at what our business case is -

Mr GREEN - Did you negotiate the MOU?

Mr EVERY-BURNS - We were all involved in that. This particular one cannot just land here. It does not land here with a business case that is given, we have to create a business case and usually the business case that one party sees is slightly different from the one the other party sees. They will get approval from their own boards from a given point of view, but in this case this was one that has to pass our tests.

Mr BOOTH - It would have to stack up, not like the Musselroe one, for example.

Mr DAVY - The investment by Hydro Tasmania in Musselroe clearly passed our business case test at the time it was done.

Mr BOOTH - Yes, but then it was resold.

Mr DAVY - The PPA was at market when the business case was done. I would expect that, once the renewable energy target is affirmed as something that supports the construction of additional wind farms or other renewable energy facilities in Australia, that would mean there is a recovery of prices in the significant market. It would mean that PPAs like the one we had with Musselroe would return to be profitable.

[12 p.m.]

Mr BOOTH - If you are talking about another 30 megawatts, and it is quite clear that any additional kit that you put into generation in Tasmania when you are facing an oversupply, a falling market, falling market demand on the NEM in facing photovoltaics increasingly being proliferated around the place, battery storage and so forth, why would you even contemplate putting more generation in Tasmania under those circumstances? It seems inconceivable that you could place another kit in the system unless you see an increase in demand and justify it financially? Can you think of a circumstance and could you name it? Against falling demand you can think of a circumstance where you would need more generation?

Mr EVERY-BURNS - I do not know what the business case is in the first place.

Mr BOOTH - You said you could think of one so what is it?

Mr EVERY-BURNS - It depends how keen people are to promote products. It depends on what they want to do. It depends how easily we can get power to the national market. It depends what the recovery price of the national market is.

Mr BOOTH - But under the current circumstances the question is pretty simple, why would you put in extra generation?

Mr EVERY-BURNS - We are not doing it today.

Mr BOOTH - Have you done some modelling with regard to the effect of the people who value the Hydro as a result of photovoltaics and battery storage being able to feed back into the grid?

Mr EVERY-BURNS - Modelling is probably too strong a term. Have we considered the issue of it? Very much so and we are considering it now. Battery storage is of great interest to the future but it will not be just for Hydro Tasmania. It will affect the whole of the distribution network of the nation.

CHAIR - As the time for this deliberation has now concluded I will allow the minister to thank the people.

Mr GROOM - I would like to take the opportunity to thank Grant, Steve and Miles and the entire Hydro team here and in fact all of the staff at Hydro, Entura and Momentum for their ongoing work on behalf of the Tasmanian community.

The committee suspended at 12.02 p.m.