

Public Accounts Committee

Hydro Tasmania provides the following response to the questions taken on notice following the Public Account Committee hearing held on 1 September 2016.

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Question 1

Provide details of whether there was a meeting of the Hydro Tasmania Board between the Board meeting at which it was approved that Hydro Tasmania would disclose zero dividend returns to Government for 2017-18 (in the 2014-15 Corporate Plan) and issue of the Hydro Tasmania letter of 28 August 2014 to the Treasurer.

Hydro Tasmania's Board approved its Statement of Corporate Intent on 30 July 2014. The Board meetings between this date and the issue of the Hydro Tasmania letter on 28 August 2014 to the Treasurer with Hydro Tasmania's final Statement of Corporate Intent are outlined below:

Board meetings from July to August 2014
Wednesday 30 July
Thursday 14 August
Wednesday 27 August

Question 2

When the decision was taken to restart the CCGT at the Tamar Valley Power Station:

- a. **How many staff were employed and what was their employment status;**
- b. **How many were prior employees?**

In November 2015 a commercial decision was made to reactivate the CCGT. At this time there were 18 staff employed at Tamar Valley Power Station. Two of these employees had been given notice that their positions were redundant however they had chosen to continue to work for Hydro Tasmania on the old Bell Bay Station demolition project. These two redundancies have been since been withdrawn by mutual agreement following the Basslink outage.

A total of 30 full time staff are required to operate the CCGT and following the decision to reactivate the CCGT, an additional 12 employees were required on a full time basis to complement the existing Tamar Valley Power Station workforce. Of these 12 employees one was a prior employee.

Other contractors were engaged as the station required.

In addition, while new employees were being trained and the CCGT being returned to service, two of the original workforce were temporarily seconded back from TasWater to operate the open cycle FT8's.

Question 3

Provide a summary of the current and prior accounting treatment for RECs and detail of when the change took effect. Additionally, provide a table which details prior year reconciliations to show the retrospective impact of the new accounting treatment to prior years.

The following information provides a summary of the current and prior accounting treatment for LGC valuation.

A. Fair value methodology - June 2010

The methodology for measurement of fair value that was adopted at 30 June 2010;

- LGC's that are matched to sale contracts within the next 12 months are to be valued at the contract rate
- LGC's that are matched to sale contracts settling beyond 12 months are to be valued at the contract rate discounted to today's dollars
- LGC's held in excess of forward sale contract volumes are to be valued at the spot rate on balance date (i.e. the last day of the month).

B. Fair value methodology June 2011 – June 2014

EEP inventory is to be valued first by reference to forward contracts out to 28 February and then, to the extent that these contracts do not cover inventory, at month end spot price.

C. Fair value methodology from 2015 onwards

To the outstanding LGC bank at the valuation date, the following valuation methodology is applied as at 30 June:

- If the position is net sold, the weighted average contract price is applied to the LGC bank up to the net sold volume;
- Any excess LGCs in the bank are valued at spot;
- If the position is a net purchased position, the LGC bank is valued at the spot price.

The table below (row 3) shows how much pre-tax profit would have decreased if the current valuation methodology was applied retrospectively. For example, in 2012, had the current methodology been used the pre-tax profit that year would have been over \$2.8 million lower.

The LGC balance used in the below calculation is the sum of the LGC bank as at 30 June plus the future creations identified as at that date.

	\$'000	2016	2015	2014	2013	2012	2011	2010
1	LGC Valuation as at 30 June	63,502	36,326	48,089	36,481	28,323	53,510	52,606
2	Value using the 2015 Accounting Method	63,502	36,326	36,685	33,063	25,463	46,992	48,356
3	Difference (pre-tax profit)	-	-	11,404	3,418	2,860	6,518	4,250

Question 4

Provide detail of the duration of each of the contracts for purchases of LGCs.

LGC contract	Duration
Musselroe	17.5 years
Waterloo	10
Studland Bay	6
Bluff Point	7.5
Hydro Tasmania has one other LGC offtake contract however the counterparty has asked for the contract to remain confidential.	

Question 5

Provide further information to assist and inform the Committee about the tables presented on page 5 of the private and confidential response to the QON arising from the hearing of 15 August 2016 dealing with RECs/LGC's.

This information has been provided to the PAC.

Question 6

Confirm which Corporate Plan and Statement of Corporate Intent Hydro Tasmania is currently working to, and when it was formally approved by the Shareholding Ministers.

Hydro Tasmania is currently operating under its 2015 Corporate Plan (FY2016 to FY2020). It was submitted to Government in May 2015 and received approval in October 2015.

Question 7

Provide a projection for the next five years of Hydro Tasmania's LGCs obligation for the Momentum liability and Hydro's own generation of RECs.

As a retailer, Momentum Energy has an LGC liability. Hydro Tasmania is in a position to cover Momentum Energy's LGC liability in the foreseeable future.

Question 8

When was Hydro Tasmania provided with the \$75 million valuation of the CCGT?

On 22 July 2015 Hydro Tasmania was provided with a valuation range from BPS Advisory. Based on the view of management and auditors, Hydro Tasmania used the lower value of \$75 million as the most reasonable view of the asset value. Hydro Tasmania would like to clarify that this valuation was provided to Hydro Tasmania by BPS Advisory, not by HATCH as stated at the PAC hearing on 1 September 2016.

Question 9

The Report of Auditor-General No. 5 of 2015/16 provides an 'Other' revenue figure of \$154.962 million. Provide a breakdown of the revenue items which fall within this total.

The following table is Hydro Tasmania's best effort to understand how the Auditor General has calculated this figure as Hydro Tasmania does not report its revenue in this way. For additional questions, it is recommended the PAC liaise directly with the Auditor General.

Description	Amount \$'000
Swaps, Supply Agreements and Derivative income	81,748
Inter-regional revenues	29,786
Wholesale gas revenue	17,635
Consulting services	17,919
Bass Strait Islands	3,741
Other	4,134
TOTAL	154,962

Question 10

Provide the written down value of the CCGT.

The written down value of the CCGT as at 30 June 2016 was \$16.7 million.

Date	Total AETV asset value	CCGT value
FY2013	\$100.3m	\$98.8m
FY2014	\$97.5m	\$96.1m
FY2015	\$76.3m	\$75m
FY2016	\$35.3m	\$16.7m