

## **Submission by Mervin C Reed FAID FCHFP regarding the State-owned energy companies and their loss of focus**

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This submission is provided to the Committee and principally focuses on my concerns that the energy companies are being used as tax collectors, without regard to their maintenance of assets and capacity to replace assets at end-of-life, and therefore their long-term system viability.

### **Capital Neglect**

The continuing borrowing by the TasNetworks and Hydro Electric Corporation (Hydro) energy companies to fund dividends to government, where such operating dividends do not exist, compounds the stress on the balance sheets, and guarantees that the operating account for the companies achieves little, or no growth.

Whenever growth occurs it is simply a function of the prevailing prices in the national energy market.

Government Ministers, especially the Treasurer, who is the shareholder minister, continually provide inappropriate directions to the state-owned companies without disclosing these directions to the Parliament.

I reflect here on a previous Energy Minister who directed the Hydro to empty the dams to take advantage of high national prices, (tax collection windfall as he saw it) and then hit the wall of pain when the rains failed, resulting in some \$160 million of expenditure on stop-gap diesel generators. The risk that this did not sink the Tasmanian economy was a very close-run thing.

To better understand the intent of these ministerial directions, the Committee should ask these to be provided to it, along with any advice, directions, or letters from both the Minister and the Department of Treasury and Finance to the Hydro Electric Corporation.

When you have the Hydro borrowing \$78 million in 2021 in order to pay dividends to the government, on top of its operating profit, then you're headed for real trouble, and you're running down the assets of a rate greater than the funding that you're allowing the company to apply to their maintenance and generation.

In my view, the Government would have had to direct that this outcome as an independent board could not have countenanced this decision.

This “kick the can down the road” approach by the previous Liberal Governments, and continued by the current Liberal Minority Government, does huge damage to the Hydro infrastructure, to the point where assets simply stop and are taken off-line, due to lack of maintenance.

In 2020, there was a proposal by Hydro for the replacement of the Tarraaleah Power Station which was refused by the then Liberal Government, as they wanted the Liberal Federal Government to pay for the \$950 million price tag. The business case was a no brainer with full offset of capex in less than 10 years.

To proceed with the Tarraaleah Power Station construction project would have removed the capacity of the Hydro to pay dividends at previous levels, or borrow money, for phantom dividend payments.

The return-on-investment from the significantly upgraded power station of an additional 140 MW of baseload power from the same water resource would have returned an additional \$160 million in revenue and allowed industrial transformation from fossil fuels to electrical energy to be supported.

We are now facing in Tasmania a shortage of energy entirely due to the decision of the previous Energy Minister, who decided to kick the can down the road. It was his decision that has now got the state to a perilous position with no available energy to support the national energy transition.

Lack of ministerial responsibility to continue to force the Hydro to pay dividends, rather than repair and upgrade assets, ultimately has as an end result of actually depreciation and degrading the assets at a faster rate.

The limited amount of capital expenditure begrudgingly contained in their spending plans by the Minister being the Treasurer is seen by the tax collecting Government as being something that they do not agree with.

For example, in 2022 the underlying profit for the Hydro was reported at \$148 million, with the total dividend paid to government being \$159 million. It seems \$11m was taken from the asset repair program.

Limited capital works of \$80 million over two years were reported. The depreciation for the 2022 fiscal year was \$122 million and in 2023 \$132m totaling \$254 million over the same two year period. This resulted in the Hydro asset base being run-down by \$174 million.

Again in 2023, with the instructions from the shareholder minister being the Treasurer, that is to be no spending on repairs above an emergency level saw the Hydro's Strategic Asset Management Plan requiring significant funding for maintenance, but without any hope of funding approval by the Minister.

The depreciation this fiscal year was \$132 million and the dividend paid to government with \$107 million. The annual profit rose to \$168 million in the 2023 year, but capital expenditure did not accelerate, because this would have impacted distributions to government in 2024.

As the Committee can see, there is a continuing pattern of underfunding the repair, replacement and rehabilitation and of key Hydro generation assets.

It is much simpler and expedient for the Minority Liberal Government to consider the energy companies as a source of "soft" tax collectors and impose what ultimately will be constraints that will see some assets being decommissioned with the loss of the revenue that they currently generate.

The days of the Tasmanian Government of any persuasion continuing to constrain capital expenditure on maintenance, repair, rehabilitation, and of course end-of-life replacement, means that the Hydro's total asset is being run down deliberately. The Liberal Government Ministers are deliberately doing this without regard for the outcomes and with little or no public debate about the consequences for all Tasmanians.

The diversion of capital funds by both the Portfolio Minister for Energy and the Treasurer as Shareholder Minister away from Hydro capital projects has been a complete failure of decision making on behalf of the Tasmanian community.

### **Management of our Energy System**

I now asked the Committee to consider how lucky Tasmania was when the Basslink cable failed, and we had several seasons of high rainfall.

At the present time, we have low rainfall, and the Hydro is burning fossil fuels at the Tamar Valley Power Station at substantial cost generating some 207 MW 24 hours per day, to hold up the generation volumes, and to manage low water levels in the dams in the middle of winter. Inevitably, this will chew a large hole in any forecast dividend to the Government.

We are at least three years away from any additional wind farm generation assets, and as the Tarraleah Power Station rebuild construction has been stopped on the orders of the Energy Minister, there is nowhere to go and no spare power.

The Committee should ask for all the papers from the Minister and the relevant Departments in respect to the decision to abandon the Tarraleah project.

I note for the Committee's understanding, that Tasnetworks Pty Ltd who had also been borrowing to pay dividends to the Government, **recorded an operating loss in 2023.**

The Committee may care to ask the question.

## **Energy Pricing in Tasmania**

It is abundantly clear to the average Tasmanian energy user that they are being ripped off by the energy companies to generate dividends returns to this government, rather than moderating price increases to users based on the actual generation and network supply costs.

Given the very large debt levels being carried by especially TasNetworks, the average user is paying for the clandestine tax collection by this government via the energy companies.

The other factor that affects the energy prices in Tasmania is the nonsensical idea that there is some competition in the marketplace. This is a piece of propaganda.

It was used to justify the breakup of the Hydro that used to generate, distribute, and bill all energy in Tasmania. Now we have three boards, three lots of CEOs and all the attendant staff, and the result is higher energy prices.

It can all rolled back together under the Hydro Tasmania banner just as the multitude of businesses are part of the Snowy Hydro banner. A fairly simple solution to save \$100 million per annum.

The Committee may care to ask the question.

### **Expansion of the state-owned energy companies**

The Minority Liberal Government seems to not want to allow the Hydro to expand. There is no capacity for other generators in Tasmania to operate without doing a deal with the Hydro, for support across the network with harmonics, as well as being the primary user of generation from others.

The Committee should consider whether Hydro should have the discretion to be a shareholder in other forms of large-scale generation such as large wind farms, solar farms and renewable energy as part of the evolving national energy market.

The Committee may care to ask the question.

### **Energy security considerations**

At present, Tasmania has no additional generation available for normal baseload consumption baseload must be imported from 'dirty' energy sourced interstate across Basslink.

If anything goes wrong and Basslink were to fail again, or a Hydro station fails, or extra high voltage transmission transformers fail, then there will be blackouts across Tasmania.

If the wind doesn't blow and there is no Basslink, with storage dams hovering around the statutory 30% level, then there is very little upside available to anyone apart from the shutdown of major industry again with thousands of jobs lost.

Therefore, the Committee should be concerned **that we do not have any energy security at the present time.**

The only way to regain this to restart urgently the Tarraaleah Power Station build.

The Committee may care to ask the question.

### **Private energy generators**

Private energy generators are welcomed by the Tasmanian government reflecting minimal capital works allocated for the stressed out the balance sheets of the energy companies, by continually demanding dividends that were not created by profit.

Private sector capital is reasonably readily available for renewable energy projects, as there are considerable tax advantages and, growing demand.

Tasmania fiddles around with capital expenditure on energy projects because this Government and this Cabinet do not understand what is happening.

Currently, given the fact that there is a myriad of ministerial and departmental fingers in the pie.

For example, the Department of State Growth has an energy and a renewables unit. One of their senior staff told me two years ago that there was ample private capital available for energy projects in Tasmania. The actual experience has been that there has not been one dollar of capital committed in the past 36 months, and Tasmania is the only state to have this honour entirely the fault of bumbling people who claim expertise, but have none.

Confidence is paramount in financial markets.

Offshore financial organisations have no confidence when they examine the operating arrangements and financial reports of the state-owned energy companies. These arrangements should change if we are to see investment in the state.

The Committee may care to ask the question.

### **Expansion of state-owned energy generation and the community benefits**

The proposed Marinus Project about which I have a very detailed understanding, is not simply underwater high voltage DC transmission cables, but rather a whole connected series of projects including pumped Hydro and new high voltage interconnectors.

It is the key to future prosperity in Tasmania to become the “battery of the nation, albeit that the project is now majority owned by the Federal and Victorian Governments.

Most criticism comes from people thinking that all that is going to happen is that the cables will facilitate some future Liberal Minister wanting to drain the dams yet again.

This cannot occur, because the main attraction of Marinus is its capacity to soak up the excess wind generation in Tasmania and in Victoria, and store the excess energy in the Hydro lakes.

This is the community benefit, where the energy security of Tasmania is absolutely guaranteed, with the need to impose a minimum water level of 50% in the major storage Lakes as a security foundation.

The likely beneficiaries for all intents and purposes will be the people of Tasmania, having ownership of the battery of the nation.

It does not matter who owns the interconnectors across Bass Strait, because they will become statutory energy highways with price controls, from the national energy regulator.

The problem with the Marinus Project is that it had no real support from the Liberal Government, who vacillated and kicked the can down the road several times.

They wasted \$89 million of funds until the Federal Government stopped the project in its current form. The end result of these inept decisions is that the Federal Government will not fund the Tarraleah Power Station and the state government is well aware of this and has not made the consequences evident to the Tasmanian community.

The Committee may care to ask the question.

### **The cost of the do-nothing approach**

The cost of the inaction and Government's do-nothing approach is already upon us. We have no spare energy, and it appears that other priorities and continual demands for dividend tax returns from the energy companies have contributed run-down of our energy security and energy future.

The next part of the do-nothing approach will be the cost to the Tasmanian economy when Hydro stations cease to be able to function, Basslink fails for extended period, and the price of gas makes the generation expense at the Tamar Valley Power Station exceed \$250 per megawatt-hour.

This Government ineptitude will ultimately flow into everyone's power bills across Tasmania.

The Committee may care to ask the question.

## **Conclusion**

We have had any number of assurances, public relations statements that things were great and being well managed.

This came to a head when the previous Premier Mr Gutwein was advised that the Hydro had no spare energy for green hydrogen at Bell Bay.

That statement cost the then Chief Executive Officer of the Hydro, his job.

The Government thought he was not telling the truth.

Green hydrogen projects in Australia have now being deferred due to lack of green energy.

Things are also not great with be state owned energy companies losing their core band of engineers.

This is now accelerating as the salaries being paid are 40% below their interstate counter-parts.

In fact, recently Victoria is targeting and actively poaching engineers from both companies at about double the salary they are paid here.

This is the critical losses of these senior engineers cannot be made up in the marketplace, as engineers are now in very short supply.

The lack of capital expenditure on the Hydro assets is of serious concern, and no amount of public relations nonsense, driven by government cover-up will change the fact that they're not spending anywhere near enough annually on maintaining Tasmania's energy systems.

The conclusion is therefore that the Minister for Energy and the Treasurer as Shareholder Minister have both failed in their duty of care to the people of Tasmania, seeing only tax dividends and collections as their primary focus and concern.

This is being done at the expense of the Tasmanian community and the assets of the State-owned energy companies.

I welcome the Committee's interest in these matters and look forward to it exploring the questions and issues posed in my submission.

Mervin C Reed

Mervin C Reed is a former Senior Executive Service Officer, Principal Adviser and is a practicing Chartered Financial Adviser licensed by ASIC.

Mervin Reed would like to provide additional comment to the Committee at any hearing, that they may arrange.