

PUBLIC

THE PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART ON 20 JUNE 2016.

INQUIRY INTO THE FINANCIAL POSITION AND PERFORMANCE OF GOVERNMENT-OWNED ENERGY ENTITIES

Dr DAN NORTON AO, CHAIR; **Mr LANCE BALCOMBE**, CHIEF EXECUTIVE OFFICER; **Ms BESS CLARK**, GENERAL MANAGER, STRATEGY AND STAKEHOLDER RELATIONS; AND **Mr ROSS BURRIDGE**, GENERAL MANAGER, FINANCE AND BUSINESS SERVICES, TASNETWORKS, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Mr Dean) - Welcome to the committee. This is a public hearing into the financial position and performance of government-owned entities. All the evidence taken is protected by parliamentary privilege whilst you are in this room speaking to us. Once you leave here, parliamentary privilege no longer applies. The evidence you present is being recorded by Hansard and will be made publicly available. These proceedings are being streamed live as well. I will now give you an opportunity to speak to your submission.

Dr NORTON - Firstly, I would like to thank the committee for changing the time we were due to appear. The original time caused us, and me in particular, some problems, and I appreciate you were flexible in that regard. We welcome the opportunity to be here.

TasNetworks is a relatively new organisation. We have been operating for a couple of years. In that time we achieved the target savings that were established by the previous government and decided to merge the businesses; we have made substantial further savings. We are willing to provide any information should you wish to discuss that with us.

Cost savings are very important in terms of pricing. We have had a transmission determination recently and we in the process of having a distribution determination. The transmission determination sees downward pressure on network prices and our proposal on distribution will also see downward pressure on network prices. That is a focus of the business.

Regarding, the energy security emergency we have had over the last six months or so, we have liaised very closely and worked closely with the Hydro and with AEMO. We have connection arrangements and we assisted the gas assets of the Hydro to be connected and a lot the diesel assets. We had excellent cooperation from all parties during the process. There was no friction at all. Everybody was focused on the outcome and a lot of our people, along with the Hydro people, went above and beyond the call the duty to do that. I acknowledge the efforts of the TasNetworks team and the cooperation we had with the Hydro during pretty challenging times.

Ms FORREST - TasNetworks is often not seen as the key player in the energy crisis, with most of the focus being Hydro, appropriately. There would have been some impact on your financial performance with less revenues coming in. Can you give us some indication of what you think the outage of Basslink and the low storages over an extended period have resulted in with your forward estimates?

PUBLIC

Mr BALCOMBE - Overall there has been minimal negative impact. We have a fairly substantial program of work. We had to divert a lot of our resources from doing what we would determine to be our normal program of work, which is upgrades, maintenance and things like that and developing programs. We have had to take them away from developing those programs and get them onto the energy security arrangements. That is within our strategic asset management team because they are the team that is ultimately responsible for ensuring anything we connect to the network is reliable and it is done safely with no impacts on network security. That was a very big focus.

In the lead-up to the diesel genset, as the Chairman referred to, the first step was that we had to assist Hydro in reconnecting the Tamar Valley Power Station. The Tamar Valley Power Station is about up to three -

Ms FORREST - You say 'reconnecting', Lance. Had it been completely disconnected?

Mr BALCOMBE - No, it had not. From the point of view of getting it ready for operation it had not been physically disconnected; out of network presumed operations because it had been mothballed. It comes out of the system from a network perspective because that asset, whilst physically connected from a regulatory and an AEMO perspective, is not an asset we could rely on to be there. We had to go through connecting it.

Mr BACON - When was that mothballed? When the Government says 'dry lay-up', is that the same?

Mr BALCOMBE - Yes, that is how I would determine it. That advice would have been, I presume, in August last year. I would have to get exact dates on that. It was not an asset that you would expect to operate. One of the things that is important about that is that when you have large assets such as the Tamar Valley Power Station - it is a couple of hundred megawatts with the Trent turbine sitting behind it - is you have to make sure that you have sufficient contingency on the network. So should that machine trip, you can take a corresponding load off the network, or get more generation on. One of the things that we had to do was work up a new contingency scheme to deal with that. Likewise we did not have to have a contingency scheme for the event of Basslink tripping because Basslink was no longer operable.

There was a fair amount of work done in early January to get that back on when Hydro announced that they were going to start operating the Tamar Valley Power Station again.

CHAIR - What costs were incurred in reconnecting that and getting it back on?

Mr BALCOMBE - I couldn't tell you. It is generally management time. From the point of view of a connections framework, under the regulatory process we recover any direct costs. If you jump forward -

Ms FORREST - From the customer, being Hydro in this case?

Mr BALCOMBE - From the customer, which is Hydro Tasmania. No doubt you will ask about these gensets and we have some information on that.

PUBLIC

In the lead-up we had to get the Tamar Valley Power Station and work with AEMO and then get the contingency scheme set up. There was a fair amount thought and analysis that goes into that. Back in Transend times there was a fair amount of familiarity with that asset, albeit in certain circumstances because that asset had always operated alongside the Basslink operation.

There was a fair amount of work done to do that. Then we moved into getting the diesel gensets set up and again one of the priorities we worked with was creating Hydro with plenty of options. One of the things we knew was there would be issues with things such as noise, emissions, in particular, and probably maybe one of visual amenity as well. We prepared Hydro a list of options as to where, out of the many sites around Tasmania, we could put on these diesel gen sets. In the early days there were options that were being considered and they were cancelled off the list because of environment or noise issues and things such as that. We kept working through those options.

Ms FORREST - Just on that Port Latta site, because gas runs right to that, was consideration ever given - and maybe it's not your call; it might have been Hydro's call - as to whether a gas generator could have been put there rather than diesel?

Mr BALCOMBE - I don't know.

Ms FORREST - It's a question for Hydro.

Mr BALCOMBE - It probably is. What we did was identify where there was capacity to connect generation assets to the network. Bell Bay was clearly one of those. It is close to gas, but we have to be careful about fault levels. Bell Bay did not lend itself to small-scale generators; it was amenable to the large-scale generators, which is why those 25-megawatt machines were connected at Bell Bay.

That created some distraction in our business from our normal program of work. That meant some of our capital program was delayed. From the point of view of our revenues what actually happened is that on the transmission side of our business we made greater revenues. One of the outcomes is that we have a floating amount in our revenues, for want of a better term, which is called intra-regional TUOS - Transmission Use Of System.

Ms FORREST - We need to spell our acronyms, if you do not mind.

Mr BALCOMBE - In essence, that is the balancing item where the Australian Energy Market Operator allocates money. It is recovered, but there is no direct relationship with the customer where they can refund it. What happens is that money comes to TasNetworks in the form of additional transmission revenue.

Ms FORREST - This is like the inter-regional revenues that Hydro can claim?

Mr BALCOMBE - No, it is something different. I will try to explain it and then I will come back to it to explain the revenue outcome. Over the time of the Basslink outage we will have recovered, by the end of June, an additional \$15 million in this intra-regional TUOS. That means we have over-recovered on our transmission side of our business. So businesses out there and the distribution side of the business and transmission customers have paid more. Because that is an over-recovery - we operate under a revenue cap, under the regulatory determinations that we have

PUBLIC

on both distribution and transmission - we have to hand that back to customers and that will be handed back in the 2017-18 financial year.

Ms FORREST - The more revenue in, you have to hand some of it back?

Mr BALCOMBE - Yes, we have to hand it back. We operate under a revenue cap, so if we under-recover we can get that back the following year and if we over-recover we have to hand that back. In essence, it is the net outcome for our customers will be nil.

Mrs RYLAH - To whom do you hand it back, and how do you determine that? You have those industrials and retail customers, so how do you divide that?

Mr BALCOMBE - We do not actually have retail customers. We have two customer groups. We have our large direct connect customers, our major industrial customers, and then we bill ourselves as the distributor; we operate the distribution system. A portion of our transmission revenue goes direct to our transmission customers; another portion of that goes to our distribution customers and that is billed to the retailers. That would be Aurora in the majority and ERM is the other operating retailer of Tasmania.

Every year we go through a pricing process with the Australian Energy Regulator. It has oversight of that to make sure that the prices are set properly and that is done in about April of each year. It looks at how much you have recovered, what your revenue determination is, what your assumptions are regarding consumption and that is turned into a price. If we have over-recovered, that gets fed into that process and then it gets allocated between the transmission customers and the distribution customers.

Mrs RYLAH - It does not reflect the period of time in which the over-recovered amount was made; it reflects the future.

Mr NORTON - It is not a rebate; it is a reduction in future charges.

Ms CLARK - There is very detailed national electricity rules that say how transmission pricing is done. These over- and under-recoveries are the norm. You do not get it perfectly right every year so it is a very detailed guideline that we must follow and get approved that sets out how that is returned and it NPV neutral so we have to give an interest cost if we over-recover on it.

CHAIR - I take it that is worked out on the percentage of payment that your customers have made on their use of energy, and the return to them is calculated on a percentage. Is that the way it is done?

Ms CLARK - It is far more complicated. There are four elements; some are about demand and some about energy consumption. There is a whole range of different parameters but it is basically returned on the same basis it is set.

CHAIR - It is the big seven who are your customers - Bell Bay Aluminium and others? They reduced their production and use of energy during the crisis period. Obviously, that is all taken into account as well in assessing the refund or return that they will get.

PUBLIC

Ms CLARK - It is a function of all sorts of things, including their contract demand and usage. So there is a range of things that go into it. Their consumption would be part of the total equation.

Mrs RYLAH - To add the Chair's question, could I clarify that? Specifically does it take into account the voluntary reduction by the MIs for their loss of power generation during that period?

Ms CLARK - It depends on the actual contract they have with us. Every customer can have a slightly different contract but it will take into account the contract.

CHAIR - It is somewhat complex in this area, I have to say.

Dr NORTON - On top of that, there are the costs that we have invoiced the Hydro for the direct work that we have done as a result of installing the diesel generation. We have invoiced them \$2.46 million so far.

Ms FORREST - To clarify that amount - is that for the installation and connection of the diesel generators and Tamar Valley Power Station?

Mr BALCOMBE - I will have to take the Tamar Power Station on notice. It may well be in that. From the point of view of the diesel gensets there is the issue of these new physical connections. With those new physical connections we have to do analysis and there is a regulatory framework around how we recover those costs. Effectively Hydro has borne all the cost of that.

CHAIR - Just on the issue of taking it on notice, we will write to you from this committee to remind you of that.

Ms FORREST - Are there other customers besides Hydro who have had to bear any of the costs of the connection of the generators or the reconnection of the Tamar Valley Power Station?

Dr NORTON - Not to my knowledge.

Ms FORREST - It is only Hydro who have paid that?

Dr NORTON - Yes.

Ms FORREST - I will go a little bit down into the contract with the major industries. I am not asking for specific details about specific contracts. Do any of those contracts make it more difficult for you to maintain that revenue stream in that when they do voluntarily load-shed, you are not going to get the revenue you would have? Are the restrictions at TasNetworks and decisions you may need to make about it at times?

Mr BALCOMBE - Within most of the large industrial contracts there are prescribed levels of consumption -

Ms CLARK - Contract demand. A lot of those customers have quite flat demand, so it is the flat demand that we are meeting.

PUBLIC

Mr BALCOMBE - There is an obligation on those customers to take that level of demand.

CHAIR - I take it that none of the big farmers fit into your clients. They are all all right.

Mr BALCOMBE - They are retail customers.

Ms FORREST - Going back to the issue with the contracts, the ones who have more flexibility in their - was it base demand?

Dr NORTON - Contract demand.

Ms FORREST - Does that create challenges at a time like this when there is load-shedding and things like that going on?

Mr BALCOMBE - Certainly, it opened discussions about some of these customers and their demand but there is an obligation on those customers to assume that demand.

Ms FORREST - There is also an obligation on TasNetworks to deliver it?

Mr BALCOMBE - Correct.

Ms FORREST - Generally in that regard Basslink is not an issue for you because you are constrained within the state?

Mr BALCOMBE - Basslink is a customer of ours. Just to complicate the issue, we have a connection agreement with Basslink so they are another customer. Other customers are the wind farms too.

Ms FORREST - As far as Basslink being a customer, what did that mean for you then in terms of the extended outage?

Mr BALCOMBE - Nothing, because they do not pay us anything. We have a connection agreement with them. We have obligations in regard to that connection agreement and so do they.

Ms FORREST - So it is a connection rather than a transmission agreement you have with them?

Ms CLARK - They are what is called a 'market network service provider' in the national electricity rules. They do not pay for the use of the system; they just pay for their connection

Ms FORREST - This needs to be on the record because people do not understand it.

Mr BACON - There was a deal for Bell Bay Aluminium to get additional energy before the crisis, wasn't there? Has this had any effect on that?

Mr BALCOMBE - The only understanding I have is that they were in a ramp-up mode. That ramp-up mode ceased. I assume that when they get back to their normal load, the ramp-up will continue.

PUBLIC

Mr BACON - That deal effectively is off the table and then once we get back to normal storage, it is -

Mr BALCOMBE - I have no indication that it is off the table.

Mr BACON - It is a question for Hydro?

Dr NORTON - Yes, it is a question for Hydro.

Mr BALCOMBE - We also have an arrangement with them about how they are going to take that demand. It has a date on it - and that is in the public domain - which is about 2017. We have had no indication that that is not going to continue.

Mr BACON - So that shouldn't be pushed out because it has been on hold while the crisis exists?

Mr BALCOMBE - I have had no indication it's going to be pushed out.

Mr BACON - Were there discussions through the crisis about residential load shedding as a strategy to deal with the energy crisis?

Mr BALCOMBE - We have an obligation as the system operator in Tasmania. There are two roles within Tasmania that are pertinent to that. There is the JSSC, the jurisdictional system security coordinator, which is a role within State Growth, and we have a statutory role, which is the responsible officer role. One of the things we need to do during times of system security is to do evaluations of whether load shedding will be required and, if we were to do that, how it would be considered. We work through several scenarios on that. It is something we would do anyway in the normal course of operations. That considers many options but it's not simply restricted to residential; it is part of an overall consideration.

Mr BACON - So was it considered as part of the industry supply plan, or putting the plan together?

Mr BALCOMBE - No, I wouldn't say it was part of that; it was something we continued to examine over the time. It would be something that we would do without if the energy system security issue weren't here.

Mr BACON - So there was no change made since Basslink went down? There was nothing done in addition to what is normally done?

Mr BALCOMBE - No. Admittedly, we had to run some additional scenarios in the event that it continued not to rain, but that was early in the process.

Dr NORTON - Or we lost gas.

Mr BACON - So that was another scenario: that if we lost gas there was potential for residential load shedding?

Mr BALCOMBE - Potential to consider load shedding.

PUBLIC

Mr BACON - In response to the crisis when Basslink went down, there were additional scenarios modelled by TasNetworks or State Growth?

Mr BALCOMBE - I think they'd be done between the jurisdictional coordinator, ourselves and AEMO. They would have had some input into that process as well.

Mr BACON - In terms of those additional scenarios, can you give a time frame of when they were modelled?

Mr BALCOMBE - I don't have that available. I could say it was over the last two or three months, but I can't be much more specific than that.

Mr BACON - The Opposition has received an RTI around load shedding for residential and non-commercial customers. Is there a reason those documents can't be provided to the committee?

Mr BALCOMBE - I would have to ask because I understand there are confidentiality issues in regard to that. It is not something we would normally do. They are market sensitive because if they get into the public domain it gives people requisite information that would not normally be available. We are operating in a market here, so I would have to take advice on that.

Mr BACON - As to the detail around the model, would that be commercially sensitive?

Mr BALCOMBE - I think the whole lot. I would have to take advice.

CHAIR - On the load shedding, with Bell Bay Aluminium, for instance, did you approach them and ask that they consider decreasing productivity to save energy?

Mr BALCOMBE - No, we didn't. We never had any discussions with any of the customers.

CHAIR - None at all?

Mr BALCOMBE - No. The only discussions we had were when they announced they were going to shed load. We needed to understand that from the point of view of our system operation.

CHAIR - So it was their approach?

Mr BALCOMBE - We didn't instigate it.

CHAIR - So they made the public statements.

Mr BALCOMBE - Or they might have told us that.

CHAIR - Did they approach you? Is that the way they did it, or did they make a public statement? Is that how it works?

Mr BALCOMBE - We have discussions with these customers all the time. As soon as those plans were announced or being considered, our customer team would have been aware of that. But did we actually approach them and ask them? No, we did not.

PUBLIC

CHAIR - Who did the load shedding? Bell Bay Aluminium. Comalco, I think, did as well, did they not?

Mr BALCOMBE - That is Bell Bay Aluminium.

CHAIR - That is the same?

Mr BALCOMBE - Nyrstar did some, and Norske Skog brought forth some outages. We certainly coordinated with those outages because we took the opportunity to do a bit of work ourselves. That is my recollection.

Ms FORREST - Lance, when electricity is exported over Basslink, AEMO pay Hydro Tasmania the wholesale price for the exported power. Who pays TasNetworks to transmit the energy to George Town, for example, prior to export?

Mr BALCOMBE - Can I just correct you on the first one?

Ms FORREST - If I made a mistake, that is fine.

Mr BALCOMBE - I do know a little bit about this. I had a bit of time at Hydro. In essence, what happens is Hydro pays a facility fee and it received what is called the inter-regional revenues. It is the difference between the price in each region - so between the north and southward price, or the south and the northward price. If there is a \$20 difference, Hydro essentially receives the volume times the price difference. That is what they receive in exchange for paying the facility fee.

What happens is that there is a connection point, and that is part of the energy flow within Tasmania on the southern end of Basslink. Prior to 1 July last year, essentially all of those costs were born by Tasmanian customers to get the energy to that connection point. What is actually happening now that is there are things called inter-regional - so between Tasmania and Victoria - transmission use of system. We are starting to recover money out of Victoria for some of those inter-regional flows, particularly with those northward flows. Victorian customers are starting to pay some of that now.

Ms FORREST - Victorian customers pay for the transmission to that connection point on the Tasmanian side?

Mr BALCOMBE - A portion of it.

Ms FORREST - Who pays the rest of it?

Mr BALCOMBE - Tasmanian customers.

Ms CLARK - It works both ways. We also pay a share of the Victorian system. There is a national rules methodology; but in essence, Tasmania benefits because the nature of our transmission system is that we have distributed generators. To get capacity to Basslink, a bigger share of our transmission network is used, whereas in Victoria, it is right next to the Victorian power station and there is very little. The netting off is that Victorians -

Ms FORREST - We benefit?

PUBLIC

Ms CLARK - Tasmanians benefit.

Dr NORTON - We are starting to benefit, but for many years, because it was an entrepreneurial, not a regulated link, Victorian customers essentially got the benefit of having this load coming from Tasmania without having to pay any of the transmission costs.

Mrs RYLAH - When did this change?

Ms CLARK - Last year was the first year. From memory, it was in the order of \$8 million net benefit. So that is a big -

Mrs RYLAH - To TasNetworks?

Ms CLARK - To Tasmanian customers. We do not earn any extra income; it just comes off what we charge the rest of our transmission customers.

Ms FORREST - Just going down the track of major industry users, I am sure you have read all the submissions and you will know the specific question coming on this. The Tasmanian Energy and Minerals Council stated that currently maximum revenue is based on a totally unrealistic model set down at a national level, which is what you are talking about. There are moves across the nation to challenge this. What would happen if TasNetworks' maximum charge reduced by 30 per cent to 50 per cent? I am not sure if that is on the table or not, but this is what they are asking. Would this business collapse, and what impact would this then have on the state Government's finances? That is a big question for the Government.

Mr BALCOMBE - There are statements and questions within that. Whilst understanding the intent of the question, the model is the model. It has been in existence for a long time, so to say it is unrealistic is somewhat misguided. I say that with the greatest respect to our colleagues that we know on that council. It is a longstanding regulatory process that -

Mr BALCOMBE - It is a long-standing regulatory process that has been continued to be refined over a number of years. The revenues will not fall between 30 per cent and 50 per cent. It is not a relevant question.

We continue to work very hard with these customers to ensure we understand them. The first year of operation on the back of Transend's revenue proposal that kicked off in 2014-15 resulted in the 18 per cent reduction in transmission prices for those customers. Those prices will continue to fall in real terms over the remaining years of the determination to 2019.

There was a significant ramp-up in transmission prices prior to that. That was as the result of significant investment in the transmission system. We have been able to reduce that investment now. The system is very reliable and it needs less money spent on it. All Tasmanians customers are benefiting from that because we have to invest less and our maintenance costs are substantially reduced. That is benefiting all customers.

Ms FORREST - It could be a potentially significant impact if one of the major industries pulled out of the state, and in terms of your revenues having to apportion it across the rest of the customers - that would inevitably result in an increase in cost for customers?

PUBLIC

Mr BALCOMBE - That is a choice we have and that will depend on the circumstances at the time. One of the questions I have raised with our board is the question of risk allocation from a perspective of who should own that risk. It is fair to say, in past years, that risk has generally been sheeted back to customers. It is a bit more of an open discussion these days. I do not know whether, Ms Forrest, you have heard of a thing called 'the death spiral'?

Ms FORREST - I have.

Mr BALCOMBE - The death spiral is a term used about regulated distribution and transmission businesses where you have fewer customers on the network, inevitably driving up a price. Our strategy is very much focused in ensuring we are not in that situation. We are very much focused on working with those customers and retaining them in the state. The example we undertook was with Bell Bay Aluminium. They were able to take an additional 10 per cent of load without any appreciable increase in expenditure from TasNetworks to get that additional load to Bell Bay Aluminium, which had not been the case in previous years. We took a little bit more risk in working the network harder and Bell Bay Aluminium took some risk that, under certain scenarios - temperature-related generally, and with outages - they might be able to take that load. We had a very successful commercial discussion about how that load could be assumed regarding risk allocation.

We are working to keep these customers with Tasmania at least in the medium term and hopefully in the long term. Should one of those customers depart, that is a different discussion we will need to consider at the time. It will depend on whether we have take in new load in the intervening period. We are working with all sides of government to try to get new load into Tasmania.

Ms FORREST - Your other challenge is the photovoltaics. Some of us did AEMO training to better inform ourselves, which was very good and useful. That is why we need you to spell out acronyms because there are pages of them. I did not bring my pages of acronyms. The death spiral was discussed in the increasing uptake with the photovoltaics but also the battery storage that is coming online. Where does that leave TasNetworks?

Mr BALCOMBE - We are connecting about 300 photovoltaics, or solar customers, a month.

Ms FORREST - Is that straight into the grid without batteries, or with both?

Mr BALCOMBE - Generally without batteries. There is very little battery uptake at the moment.

One of the things we need to consider as a business is how we position ourselves as a network operator, particularly in the distribution side of our business into the future. If we do nothing, there will be a big impact on our business. This is an issue facing energy networks right across the country. The Energy Network Association, of which TasNetworks is a member, is doing a lot of work about understanding energy works for the future. There is a large project going on with the CSIRO at the moment in regard to that.

One of the things that is very clear about people who have solar and most likely people who have batteries into the future is that they will still want to use the network. It is more a two-way flow. Instead of always drawing energy into your household, if you are a house with solar you will want to use the grid to export excess energy. When you have extra energy and when your

PUBLIC

battery is full, you will still want to earn those revenues. It is more of a two-way flow. We have to come up with ways to deal with that. It will also be through what sort of tariffs we have and how we can incentivise people to use the network at the right time. At the moment we have a set of tariffs that are all consumption-based. We are very different from the mainland states where they have a summer peak and their solar is responding. Effectively what happens is that the sun shines in Adelaide and that reduces demand. It makes it very hard to predict how much maximum demand is. On a cold winter's morning like Tasmania -

Ms FORREST - You were saying how lovely it was this morning, being so cold, because it was increasing demand.

Laughter.

Mr BALCOMBE - It's good for business. The solar is not responding on a day like today, so we are still seeing the same peak demand that we have seen for many years. We have to understand how batteries are going to fit into that. We also have to understand things like electric vehicles as they come onto the network.

We are doing several things. We have a project within our business about what the future grid is going to look like. We are also looking at issues such as tariff reform. We are doing a battery trial on Bruny Island. Bruny Island experiences a large increase in the summer peak and what we are looking to do is to run a trial for about 40 customers down there. We have some money out of ARENA, the Australian Renewable Energy Network Agency; so it is research and development funding. What we are looking to do with the customers at times is for TasNetworks to take control of that battery so that we can use some of those energies stored in the battery to shave off that summer peak.

Ms FORREST - Why aren't you getting into batteries yourselves?

Dr NORTON - We probably will, is the answer, at some point in time. The difficulty with batteries at the moment is that they are very expensive.

Ms FORREST - They are coming down quite quickly.

Dr NORTON - They are not actually coming down as quickly as they need to for widespread uptake. The projection is that they will come down a little bit similar to how photovoltaic costs came down. I don't think there is any doubt they will; but the real question is, how far and how fast? At this point they are still relatively expensive.

Ms CLARK - There is still a view - and battery installers today will generally say - that you can still stay connected to the grid because it is cheaper than a second battery. It is still your insurance policy and your export vehicle. We certainly see batteries as part of the future. In some cases customers will go off grid; but in many cases they will remain and use the grid.

Dr NORTON - The other difficulty for the customer who has photovoltaic batteries is how much you can physically store in the battery compared to your usage.

Ms FORREST - There is modelling that can be done around that and household use and everything.

PUBLIC

Dr NORTON - We are not negative about battery technology. As I said, no doubt we will be using it ourselves in some ways and that is why we are doing the trial at Bruny. There is a way for prices to fall before we are likely to invest in it.

Mr BALCOMBE - We are also doing a trial with respect to tariffs and prices. At the moment, there has been a new rule announced by the Australian Energy Markets Commission where contestable metering will commence in December 2017. It will mean that any new or replacement meter will have to be an advanced one. An advanced meter is a one that is capable of being remotely read and remotely de-energised or re-energised.

Mrs RYLAH - Variable pricing?

Mr BALCOMBE - It will facilitate tariff reform.

Mrs RYLAH - Does that mean variable pricing as opposed to flat pricing?

Ms CLARK - That's a matter for the retailer. The rule just says the meter needs to be there and then it's up to retailers as to what products they use.

Mr BALCOMBE - One of the things we need to do is understand our tariff framework. We are running a trial in the Brighton area with about 600 customers where we will install an advanced meter. Then alongside that, with Aurora, we will do some work on tariffs to see how customers might respond to time-of-use or demand-based tariffs. These are all works we're doing within TasNetworks to understand some of those future positions and where we need to be as a network business.

Mrs RYLAH - I'm referring to your corporate plan. Can you give an explanation so I can understand the terms? I thought it was the circular sentence but I think I'm missing something. I note you say the transmission network is currently assessed at a very high level of efficiency but the distribution system does not go so well. I would like to understand the performance. What are the characteristics that negatively affect our network characteristic?

Mr BALCOMBE - What you are referring to is how we are benchmarked by the Australian Energy Regulator.

Ms CLARK - The Australian Energy Regulator has been building a benchmarking database for a number of years now. As part of that, there is an overall benchmarking tool, which has an acronym - it is an aggregation of various products and inputs and outputs. It's comparing all around Australia the transmission networks on one measure and then all the distribution networks in another. The data TasNetworks is using is largely a function of the previous businesses because it is a lagged benchmark, so it is still a couple of years behind. It assessed that the transmission network is the best performer on that overall measure and the distribution is the worst. Our view is that with those measures there is some judgment as to the inputs and outputs and we aren't necessarily convinced our transmission is the best. It is a good network and we're not necessary convinced our distribution is the worst.

The AER has changed its commentary around the distribution metric to say it doesn't particularly deal well with the Tasmanian network characteristics. It reflects that we have a different boundary between our transmission and distribution to some other states. A 'boundary' is about voltages. In some states anything that is 110 volts is in the distribution system but in

PUBLIC

Tasmania it is in the transmission system. The substations that connect distribution and transmission are largely in transmission. So we have more stuff that we call 'transmission' that some other states would call 'distribution'. That is a function of history. Ours is similar to Western Australia, for example.

Mrs RYLAH - We have some large substations within your distribution network. Is that what you're saying?

Ms CLARK - No, we don't. Our distribution network is much more like a poles-and-wires network than some other states. Other states have more of the big substations sitting in distribution. It means a lot of the measures can't cope with our distribution network because it looks quite different to others we are being benchmarked against.

Mrs RYLAH - You also say, 'Network prices have not reduced to the same extent as network revenues as many distribution network tariffs are linked to consumption. Allocating lower network revenue over a lower consumption base can dilute the effects of the lower network revenues.' I don't understand that. Can you put it into English please?

Laughter.

Ms CLARK - We get an amount of revenue and the regulator looks at our business and says, 'You have this many assets worth this much money. You have to build some new ones and then you need to depreciate those,' - and you get a depreciation allowance. You get a return on those assets and you get money to operate the business efficiently and you get some incentive payments and benchmark tax payments. They add all that together in a model and say, 'You need this much each year to efficiently run your network' - and that's a revenue cap we get each year. What has been happening in our distribution business is that consumption has fallen from past levels. In part that is because of things like solar where we are still seeing the same peak load on our network but sometimes the consumption is less when solar is generating. So we have the same costs to run the network but the amount of units we are measuring in terms of consumption from customers is falling.

Mrs RYLAH - Where does the network prices bit come into that?

Ms CLARK - A lot of our distribution prices, as for all around Australia, are based on cents per kilowatt-hour, which is consumption. So, it is how much energy you are using. In fact, it is often even how much energy you using in net terms because if you are exporting you have netted off what you are importing. The issue is - and it is a problem all around Australia and in fact the world - that really what drives our costs is how much peak we have to build for. What we are saying is that we are charging based on how many units of energy customers use. The units are, in some cases, falling. The same revenue to recover per unit; prices actually go up.

Mrs RYLAH - Is the regulator addressing that issue?

Ms CLARK - Yes. What has been happened with this rule, with the metering rule, is that part of it says we have to get more cost-reflective signals in network pricing. So TasNetworks' current reform program is a 15-year path to go from where we have largely consumption-based tariffs to a world where we have a greater proportion of our tariffs covered through fixed and time-of-use signals. That is some of the trialling we are doing to work with our customers.

PUBLIC

Mrs RYLAH - With your meters and stuff?

Ms CLARK - Yes.

Mrs RYLAH - Terrific, that was helpful; thank you.

Mr BACON - You spoke before about modelling around load shedding and different scenarios. Did you work with State Growth and AEMO modelling to justify the sale of the Tamar Valley Power Station when Hydro was putting that case together?

Dr NORTON - No.

Mr BACON - So they can model that on their own without the assistance from TasNetworks, from a load shedding point of view? Does Hydro have the capability to model load shedding?

Mr BALCOMBE - I am not sure they would have done. I do not know; I cannot answer that.

Mr BACON - They did not work with TasNetworks on it?

Mr BALCOMBE - Certainly, they did not talk to us about it.

Mr BACON - You said the Tamar Valley Power Station was mothballed in August last year, I think. In the Government's submission, they talk about the turbine going into dry lay-up in July 2013. Is that the same process for TasNetworks when you go through that? If it goes into dry lay-up is that the same as what happened in August last year, or is it a separate process?

Mr BALCOMBE - My understanding of dry lay-up means that it is laid up ready to come back.

Mr BACON - So from TasNetworks' point of view that is ready to go at that point?

Mr BALCOMBE - Once it gets warmed up or whatever it needs to do.

Mr BACON - You do not need to put anything into place to use the unit at that stage?

Mr BALCOMBE - I do not think so.

Mr BACON - What actually happened in August last year?

Mr BALCOMBE - I am working on the basis of the announcement that it would have come out based on the fact that it was - I would have to be clear on what was stated - not going to be available for generation.

Mr BACON - So what did TasNetworks do in August last year when it comes to the Tamar Valley Power Station? Changed contingencies? Do you know what I mean?

Mr BALCOMBE - I would have to go back and check. My presumption is it would have come out of our being there for generation.

PUBLIC

Mr BACON - Is that the first time that happened since the combined cycle unit was in place?

Mr BALCOMBE - I presume so.

Mr BACON - Given the amount of debt that TasNetworks has taken on from Hydro Tasmania is there capacity for TasNetworks to take on further debt from Hydro Tasmania at the moment given the pressure that Hydro is under financially?

Mr BALCOMBE - We run our capital structure in line with the way the Australian Energy Regulator established our capital structure. So the Australian Energy Regulator, when it sets your revenue, assumes you have a certain level of gearing - so 40 per cent equity, 60 per cent debt. Our level of gearing is currently around 62 per cent and we are headed towards 64 per cent. So we are reasonably comfortable with that. One thing I do know is that other regulated businesses, particularly the privately owned ones on the mainland, run with much higher levels of gearing. The reason is that debt is much cheaper than equity. However, that is not our intention. Our intention is to continue to operate around that 60 per cent level of gearing. In the end, the question of the level of gearing is one for our board. Should the shareholder choose to transfer debt in our business, then that is a consideration for them as well.

Mr BACON - You would say, Chair, that you are comfortable with the level of debt at the moment?

Dr NORTON - Yes. We have an additional \$50 million that is going to be transferred in January 2017. There were three tranches of debt that were transferred from Hydro to TasNetworks and we have one of those to go.

Mr BACON - Where will it be in terms of percentages once you get to that point, after that \$50 million?

Mr BURRIDGE - The gearing percentage?

Mr BACON - Yes.

Mr BURRIDGE - It is about 62.7 per cent.

Mrs RYLAH - In your financials, you are indicating for 2016-17 it is 65.3 per cent, if that is helpful.

Mr BURRIDGE - I will just confirm the number. In the corporate plan?

Dr NORTON - We have done a bit better than the corporate plan, so that is why it is a bit lower.

Mr BURRIDGE - On the corporate plan for 2015-16, it is 66.2 per cent. It is lower than that because we had a lower starting debt level as our capex had been delayed, so we had not borrowed as much.

Dr NORTON - The answer to the question is that we are comfortable where we are. Can we take on additional debt? We could. From the board's perspective, the concern is that we need enough headroom to deal with a negative contingency. We talked about loss of a major industrial

PUBLIC

customer if that happened and we chose or were unable to pass all of that reduced revenue onto other customers, which could well be the case. If we had some other failure of assets, which impacted on us, we would have to take more debt, so we need some headroom of debt. We are relatively comfortable at the sort of level that we are at the moment.

Mr BACON - It is 65.3 per cent and that includes the \$50 million?

Dr NORTON - Yes.

CHAIR - The question I was going to come up with is ball gazing. You have said that the consumption has fallen. To what level has that consumption fallen? What modelling have you done on that to determine where it might go to? A major industrial closing up is not out of the question.

Ms CLARK - We talk about consumption but transmission pricing is actually more demand-based. Transmission and distribution pricing are quite different in that regard. In a way distribution pricing is trying to move to be more like transmission pricing. We do modelling, as does AEMO, the Australian Energy Market Operator, each year and we put that in our annual planning report. We run a range of scenarios because in Tasmania a big industrial will make a big difference to our consumption and demand forecasts both from an upside and downside. Bell Bay Aluminium taking another 10 per cent makes a big increase on the increase side as it would on the downside. Last winter, because we had perhaps the coldest winter in 50 years, we had an increase in consumption. It is not a continuous downward trend. It has actually stabilised compared to past levels.

CHAIR - I am probably ignorant here, but does it also mean the possibility of more exporting of power? Does it relate to that or could equate to that? Would there be that demand on the mainland for that energy transportation if that happened?

Ms CLARK - Yes, to the extent that if there is surplus generation there is always that opportunity. If you have hydro dams filling and wind farms blowing, the energy would be wasted. You always assume you would export, but that is actually a function of consumption demand at a point in time in part. Our forecasts are more that we forecast Tasmanian demand and then we do demand on our network with Basslink export as well. AEMO does something similar. AEMO has just released a whole lot of new forecasts. They released them last week, which they do for every region and every state in Australia. Their long-term forecast is that energy to be delivered is plateauing all around Australia. They see there will still be low growth over the next 30 years but because people have been more energy-efficient, they see it will be in a reasonably stable state.

Mr BACON - When you talked about the modelling around the potential for residential load shedding, you said there was another scenario if there was no gas network or if the gas network was down.

Dr NORTON - If you have the Tamar Valley Power Station operating and all of a sudden you did not have the gas supply to it, or the gas pipeline gets disturbed in some way, obviously that is going to impact on the generating capability of that power station. So it is in that context.

Mr BACON - If the Tamar Valley Power Station was sold and the gas contract was not renewed, do you have you to update your modelling for that?

PUBLIC

Ms CLARK - We do modelling around a whole range of scenarios and we did do one this year when the Tamar Valley would not run but it did assume our Basslink outage would be six months. So we have done various scenarios and all the scenarios show there will be sufficient energy security. There is a bit of a mix between energy security, which we model, and if there is a contingency event like a bushfire under two main corridors then what loads get shed. They are slightly different sets of things we model.

Mr BACON - So in terms of energy security, was the model updated for the removal of the Tamar Valley Power Station from the network and the effect that would have on gas prices and the like?

Ms CLARK - Yes. We just do an assessment around energy security and not around the price impact.

Mr BACON - How often would it be done?

Ms CLARK - We do it every year in annual planning. It is in the Tasmanian annual planning statement, which is a public domain document that we publish each year.

Mr BACON - You do not do any further modelling apart from the one that is done every year.

Dr NORTON - It is a statutory requirement.

Ms CLARK - We do the annual assessment of supply and demand balance and security; we do a range of scenarios to test that. We have done that every year. Even before we joined the National Electricity Market that has been an obligation on the transmission business.

CHAIR - I was going to ask when you are referring to acronyms because Hansard has to follow this.

Ms CLARK - Yes, I apologise.

Then we do a separate set of analysis around what are the contingencies that could mean we have to keep the system secure in a shorter period of time. That is the modelling we do regularly and work with the jurisdictional security coordinator.

Ms COURTNEY - With the annual statutory modelling, is that done standalone by TasNetworks, or is that something you do in conjunction with State Growth and the other entities?

Ms CLARK - We do it. Hydro and other generators are obliged to provide us with data and some of that is market sensitive so they have confidentiality. It is done under the requirement of the Tasmanian Economic Regulator.

Ms COURTNEY - So you have the statutory, and then you the other modelling around different scenarios during the year, and you do that?

PUBLIC

Ms CLARK - Yes. That is a statutory requirement as well. All businesses are required to do that in the National Electricity Market because it is about keeping the system secure in contingent events.

Mrs RYLAH - I would like to get a point of clarification. When you are talking about the Tamar Valley Power Station being reconnected, et cetera, I understood the peaking units are still connected and were always connected. So you are only talking the combined cycling unit - or am I wrong?

Mr BALCOMBE - My understanding is that we are talking about the 200-megawatt combined cycle unit.

Mrs RYLAH - So, calling it the Tamar Valley Power Station is overstating what you had to reconnect? You only had to reconnect the combined cycle units. The peaking units have always and continued to be connected and they were always there to balance the load and do whatever else you have to do in the network?

Mr BALCOMBE - That is correct, although the Trent machine has had some operational issues.

Mr BACON - To clarify a point - it is a normal course of business for TasNetworks to model residential and non-commercial load shedding. There has not been any change in the last 12 months on the frequency of that or any extra input into any other -

Ms CLARK - No, we update from time to time because the network changes and you consider the scenarios under which you might need that. You always update that to reflect the latest information but it has not changed as a result of the energy.

Mr BACON - If Basslink goes down, that does not change?

Ms CLARK - No, because you have always assumed that Basslink could be down in that modelling, where it is a scenario.

Ms COURTNEY - Scenarios have not changed over the past?

Ms CLARK - Only to the extent there is new information like a new line that is being built or a different generation on the network, or whatever it might be. You have the whole lot of scenarios under different sets of network and generation and load.

Ms COURTNEY - The same modelling was done?

Ms CLARK - Yes, in the past.

Mr BACON - But not the combined cycle unit; so taking that out of the network does not -?

Ms CLARK - The transmission network dispatch is run every five minutes being able to cope with all sorts of different scenarios. So it has always has to foresee a generator being on or off or Basslink being on or off.

Mr BALCOMBE - Or things such as bush fires.

PUBLIC

Ms CLARK - Yes. So all you do is say for each state what would it mean in terms of which load would need to be shed to keep the system secure. We have lots of scenarios that we run.

Ms FORREST - I would like to go back down the issue of the debt that you are carrying, which has always been significant for Transend and now TasNetworks. The major industries are concerned that that impacts the costs that they are charged, or the customers generally. I know you have explained that but I want to ask a few a couple of questions they have posed in terms of the operating expenditure and then the debt.

The forecast operating expenditure was \$140 million in 2016-17, \$137 million in 2017-18 and \$133 million in 2018-19. What are the operating expenditure benefits of the - and I do not know what this stands for - Ajilis project? You might explain what that is.

Dr NORTON - It is not an acronym. It is a title.

Ms FORREST - Isn't it?

Dr NORTON - We ran a competition with our staff to name this project. The board had nothing to do with the selection of this name; it was a management issue. Ajilis is just a name; it is not an acronym.

Laughter.

Mr BURRIDGE - It is Latin for agility, I am told.

Mr BALCOMBE - I will give you some context about the Ajilis project. It is a business transformation project. When TasNetworks started, it inherited two disparate IT systems - Aurora's finance system, HR systems, asset management systems, and likewise for Transend. Both of those systems were at end-of-life and both were heavily customised, which made them very difficult to continue. In fact, some of the systems are no longer supported. That was the appropriate decision by both of those businesses because they knew the merger was coming and there was little point in investing in new systems for a new business where a merger is required. I have put on the record before that one of the things about a merger is that, whilst there is opportunity for many benefits, it creates many inefficiencies. One of the big challenges we have at the moment is that we are operating with three asset management systems. We had to turn two HR systems into one and we are still operating across two finance systems.

Ms FORREST - This is one of one of your efficiency measures, then.

Mr BALCOMBE - Exactly. One of the things we had to do was to go and evaluate how we were going to rebuild our business support systems - our IT systems. We did that; we chose to go down a path of an enterprise resource pooling system. There are two choices; you can do what is called the enterprise resource planning system, which is ERP, or you can do what is called a 'best of breed', where you cherry-pick whatever you like out of finance, HR, and asset management.

Under the best of breed system, you have to get all of these systems to talk to other; so you have to build bridges between them. Invariably what happens is that all of those software packages end up on a different upgrade path so you are continually rebuilding the bridges. We chose to go down the ERP - enterprise resource planning - path. We did that because one

PUBLIC

consistent process to get across all the modules that are offered, and one consistent upgrade path. Basically, what happens is that the ERP system is the centrepiece. Everything else we have in the business talks to that, such as our geographic information systems, our customer systems, and our vegetation management systems - all sorts of things like that will link into this ERP platform.

These are complex projects; they are very risky. We went to market, and I suppose on the way through we realised that we were building the business case for this project, it was much more than an IT project, because it was going to transform the way that we do business in TasNetworks.

What is going to happen is that for everyone whose job touches IT or business systems, their job is going to be changed because they are going to have a different interface. We will be looking at things like mobility for our field workers where data can have updated life. There is a lot of training. There is a lot of change management. It is a very substantial project. It has its own project office. It is a \$58 million project. We have spent a lot of work and a lot of time ensuring that this project is right to start. It has got very distinct projects and milestones. It will deliver benefits down the track.

Ms FORREST - When do you expect it to be fully operational?

Mr BURRIDGE - The first phase for release is December this year, which is human resource management, finance management, procurement, and things like that. Then the second release is the following December, which is really asset management.

Ms FORREST - A question when do you expect to see the positive impact on opex reduction?

Mr BALCOMBE - We are anticipating we will have about \$5 million in benefits next year, and that will ramp up to about \$8 million by 2021.

Mrs RYLAH - What is the total capex expenditure?

Dr NORTON - \$58 million. I suppose there are a couple of aspects to this. There was no 'do nothing'; so we were faced with spending something.

Mr BALCOMBE - We had to spend something.

Ms FORREST - Will it be ongoing savings, or is it that these savings have been materialised?

Mr BALCOMBE - Our projections are indicating about \$70 million by 2025, but that is based on what we know now. We are very confident that we will be able to leverage that system the further we get to understanding and delivering additional savings.

Ms FORREST - Just going to the debt, because you have covered some of it already, but I have a question about the MIs again. What is the target capital structure for TasNetworks, knowing that it has increased over recent times? You did touch on this, but I am just interested in it. This is a question that I do not think you may want to answer, but I will put it to you in case you do.

PUBLIC

Mr BALCOMBE - Yes.

Ms FORREST - Why is the Government transferring debt from Hydro to TasNetworks?

Mr BALCOMBE - You would have to ask them that.

Ms FORREST - That is right. The question I would like you to address is, does this impose efficiency issues on an organization with these ongoing transfers of debt, when you have got your own debt to deal with as well?

Mr BALCOMBE - Our target credit rating is at least triple B plus, which is the benchmark used by the Australian Energy Regulator in establishing how our revenue is determined. There were another couple of questions in that from a point of view of efficiency so -

Mrs RYLAH - Yes. What is your current rating? Is it triple B plus?

Mr BALCOMBE - It is at least that. It is probably a little bit north of that.

Dr NORTON - It is probably about A.

Mr BURRIDGE - TasCorp independently rate us, so -

Dr NORTON - The direct answer is that I do not think taking on additional debt has had an efficiency impact on us or made the debt management task, which Ross basically looks after, more complex.

Mr BALCOMBE - One of the things we are really conscious of is managing and operating cash flow. That is really the lifeblood of the business. Then, if you are managing operating cash flow, you have got sufficient funds aside to deal with your capital projects, and you have got sufficient funds aside to deal with your debt.

Ms FORREST - To also pay your returns to Government?

Mr BALCOMBE - Correct. A big focus of ours has been making sure that that operating cashflow is sustainable. My recollection is -

Mr BURRIDGE - It is about 350m on average over the years. It does not vary much.

Mr BALCOMBE - That is holding, notwithstanding that we have still got a lot of efficiency debt that is going to come on as a result of this Ajilis project.

Ms FORREST - It's not limiting you in any way, either?

Mr BALCOMBE - No, and there is no customer impact, either. There is a benchmark amount of debt within the revenue determination that the Australian Energy Regulator allows.

Ms FORREST - So \$1.645 billion has been drawn from the Tascorp master loan facility. Can you provide details of the types of debt instruments and the relative risk to these instruments? Why is there \$500 million in fixed rate loans?

PUBLIC

Mr BURRIDGE - We borrow exclusively from Tascorp, so it's all government debt and we pay a guarantee fee on top of that.

Mrs RYLAH - Can I ask what rate that is?

Mr BURRIDGE - It is in two parts; so up to five years it is 35 basis points and over five years it is 52 basis points - so that is 0.52 of 1 per cent and at five years plus it is 0.35 below that. We add that to our market rate. To give you an example of costs at the moment, we have just taken two 30-year loans at an average of 4.6 per cent, plus the 52.

Ms FORREST - What's the predominant purpose of those loans you've just taken out?

Mr BURRIDGE - We have to borrow and the idea was to take advantage of the lower interest rates that exist in the market and to lock in some longer-term debt to secure those rates.

Ms FORREST - So it's not for specific capital expenditure; it is just the general need to borrow.

Mr BURRIDGE - We inherited a bit over \$1 billion from Aurora and approximately \$650 million from Transend and the Australian Energy Regulator allows us an allowance on that debt. In simple terms, they are looking for us to get a profile of equal amounts at the 10 years. We divide that by 10 - that's not quite perfect in an actual world but in the benchmarking world it would be one-tenth of our debt in every year maturing, and every year that is re-priced at the 10-year bond rate. As it rolls through, you end with a portfolio of 10-year bond rates; so that's the benchmark and that's what we allowed for in the revenue allowance. We manage the debt with Tascorp around that. When Transend was still in existence it borrowed in equal 10-year increments a month before TasNetworks came into being; so that was already in place. Earlier this financial year we refinanced the Aurora debt because that was about \$600 million and was refinancing in two to three years which was causing us a maturity re-pricing problem and it was also causing Tascorp maturity problems; so we refinanced that into a 10-year profile. We spent approximately \$24 million on that paying out the debt.

Mrs RYLAH - Is that the expense you see in your - ?

Mr BURRIDGE - It is within this year's figure. We recouped that because we are now paying a lower interest rate. We are about net \$12 million this year and we'll get that back next year. We have now solved the re-pricing problem for Tascorp and ourselves and we have a benchmarked portfolio in place at a significantly lower interest rate.

Dr NORTON - I think we're Tascorp's biggest customer.

Mr BURRIDGE - We are Tascorp's biggest customer.

Ms FORREST - I reckon.

Laughter.

Mr BURRIDGE - What we do is very important for them in their various instruments. On that basis, the amount maturing in five years should be about \$800 million, and it will be around that because we have equal tranches of debt. We have a bit more floating rate debt because we

PUBLIC

manage working capital. In the immediate term, your cash goes up and down depending on cash flow; so that's why there is a bit more flex in that front 0-1 year position.

Ms FORREST - So the types of debt instruments and relative risks of those instruments?

Mr BURRIDGE - We did inherit some interest rate swaps from Aurora and I think we only have two of those left; otherwise it is all Tascorp.

Ms FORREST - Going to your financial sustainability, you have talked extensively in the submission about the requirement to save money. TasNetworks has been in operation as its own entity now for over a year, so what savings have been realised since the establishment of TasNetworks - as opposed to Transend and Aurora?

Mr BALCOMBE - The combined businesses had an operating base of about \$175 million. That was made up of people, maintenance and the myriad of expenses that those businesses would have had. We saved a little bit - over \$8 million as a direct result of the merger. That was mainly because we took out a lot of duplicated roles, mainly management positions.

Dr NORTON - They were redundant positions.

Mr BALCOMBE - The cost of redundancy was met by both Aurora and Transend, so we did not inherit that. In our first year of operation, we found about another \$25 million in savings. Where did that come from? Obviously, we had a better handle on the business. We also had a pretty big imperative on the business itself because around October 2013 we identified that our revenues were going to be down, so we took some positive action to look for areas where we could save on expenditure. That came from myriad issues. I suppose the important thing was that we wanted to ensure that we maintained the safety of our people, the reliability of the network and the safety of the public. We ensured that any customer expenditure did not impact upon that. We had a lot of vacancies in the business. We were able not to fill a lot of them and we learnt a lot more about operating our business, so we have been able to save that money.

Our objective is to hold our cost base to around \$140 million in real terms. That will see good outcomes for our customers.

Ms FORREST - In terms of your role in the Energy Security Plan, I understand that you are still looking for extra savings because all government departments, agencies are in the same boat. Will further reductions in operating expenditure impact on your ability to play your part in the Energy Security Plan?

Mr BALCOMBE - No, not at all.

Ms FORREST - What other measures are you looking for in the future to reduce your costs further?

Mr BALCOMBE - An example is that a lot of the systems that we have within our works and on the services side of the business, which is our field staff, are paper-based. A very good example is that every time the teams go out and do their job safety analysis, they are all very much paper-based. Every time they do one of those they have to be loaded up into the system, scanned or whatever happens. When they do the job, they fill out pieces of paper to say the job is complete.

PUBLIC

Ms FORREST - It is so last century, isn't it?

Mr BALCOMBE - It is. Part of the issue is that the more bits of paper you have, the more people you have to do non-efficient operations. What we want to do is to make sure that we have more people doing value-added operations. That impacts on productivity, ultimately. One of the things with this Ajilis tool is that it will enable more and more of those sorts of operations to be automated. As part of our investigations into the sort of system that we buy, one of the great things about this side of the industry is that it is very collaborative. We have been spending time with AusNet Services. They have just installed a similar system. PowerCo in Melbourne have been operating a similar system for about 10 years, so they are a very mature user. We have been able to understand what the future could look like and what sort of efficiencies that can drive. It means we can not only get the work done faster, we can probably get it done to a higher quality. What happens now is that our planning systems might not be as sound as they can be in the future. It means that for some jobs we might have to have two truck rolls to get to a job, rather than get it done in one day. There are lots of opportunities in that.

Simple things like with our HR systems and our payroll systems, there will be more self-serve for our team members rather than clunky processes with leave applications and processes like that.

Mr BURRIDGE - It is not all about processing. Procurement is another thing because at the moment we have two separate procurement systems that do not talk to each other and a business this size has a significant purchasing power. It is about trying to manage and harness that purchasing power by having this new system, which will provide better data and better analysis for us. We think we can drive a lot more efficiencies in our purchasing and our contracting as well.

Ms FORREST - Going down that a bit further, I cannot recall seeing your staff numbers before and after. Do you have that information handy?

Mr BALCOMBE - There are about 1 000. I say about 1 000 because it depends upon how you deal with vacancies. I think at the time we merged we were about 1 020.

Ms FORREST - Are these FTEs we are talking about?

Mr BALCOMBE - FTEs. One of the challenges we have had is with our very clunky system is that getting a really good handle on our staff numbers has been difficult. Inconsistent practices between the two systems and how you deal with vacancies have made it quite challenging. So we are pretty well on top of that now but we are looking forward to our new system where a lot of this will be a lot simpler.

Ms FORREST - Are you able to provide the FTEs at the beginning of TasNetworks and where we are now? I am particularly interested in the breakdown of your administrative staff and your field staff, if that is the correct term. Without having those figures in front of me, have there been reductions in the field staff?

Mr BALCOMBE - I do not think so. They have held pretty solidly because -

PUBLIC

Dr NORTON - Most of the reductions were in the administrative area where there was duplication; that was always what was envisaged. There is one factor that has gone the other way and that is that Aurora had outsourced some of their IT capabilities. We looked at that contract and decided it was more efficient to conclude it and to bring some of those resources in-house. This is the difficulty with counting staff numbers. You have in-house and then contracted staff, and you should really be counting both together.

Ms FORREST - I will come back to the IT area in a moment.

I am interested in the recent storms. We have had fires; we have had floods; we have had just about everything. You say you have not had staff reductions in the field area. So that has not had an impact on the return to service?

Mr BALCOMBE - No, it has not.

Ms FORREST - I received a nice cheque from TasNetworks recently and I did not even know the power had been off.

Mr BALCOMBE - Great, thank you. The biggest challenge we face during those times is that we run a roster where people are on call. Obviously, we have to really manage the workforce very closely to ensure they are well-rested and getting suitable breaks. The other element is that we have to make sure we are not putting them into harmful situations. That is a really big challenge.

It was really pleasing to see in the recent events that whilst it resulted in some customers being out overnight on the Tasman Peninsula, the conditions were very treacherous. The ground was very wet and we had a different wind direction from the prevailing wind. Trees were falling into the clearance zone, so we had to pull our people out. There was no debate about that because it was 'safety first'. That did allow our people to get some rest.

The other thing about resourcing is that we run the south, the north and the north-west and that gives us some opportunities where conditions might be different across the state to actually shift resources and reallocate them. If there is a big peak in the north-west, we will shift some guys up from the south.

What it ultimately means is that it does impact on your routine work. Your maintenance program gets deferred because you are over there dealing with that situation.

Ms FORREST - Does that impact on your operating expenditure much then, or is just a shifting of it?

Mr BALCOMBE - We have a base assumption about how much we put into our operating expenses about storms. We also have a base assumption about how much we pay our customers with those guaranteed service levy payments. The stormier that is, the bigger the impact on the budget. That is a risk we have to wear.

Ms FORREST - With the IT, there has been criticism about it being a very person-heavy, money-hungry area within TasNetworks. We understand the need for a sophisticated IT system and platform to operate such an important asset. Can you explain to the committee why it is so? You have talked about Aurora and some of that coming in-house rather than being outsourced, as

PUBLIC

Aurora were doing it. I need a bit more information about the need to maintain it as it is without cost.

Mr BALCOMBE - I will give you some context about IT and our business. We have several areas for IT. We have our business, finance, HR, and asset management systems. We have a GIS - geographic information - system. That pegs the location of every asset we have. If you want to find a specific pole, it has a GIS location. It is very important from an asset management perspective. We have systems for vegetation management. Then we have our market systems. Our market systems are how we bill our revenue. On the back of those market systems there are metering systems because we have go out and collect all the data on all those meter reads. That gets fed into the market system. That goes to AEMO and the retail customers. They are very complex systems and that is something that is on an agenda down the track to see what we can do to drive some efficiency there.

Then we have what is called our SCADA system.

Dr NORTON - Supervisory control and data acquisition.

Mr BALCOMBE - That is the system that operates the transmission network and the distribution network. Then we have our telecommunications business. It has microwave systems. It also has a network operating control system. There is a lot of IT that drives our business.

Mr BURRIDGE - Corporate and systems IT both sit with me. To give you some idea of numbers, we had budgeted this year for 82 people. The budget for next year is 76 people. That includes the previous outsourced arrangements, which were about 20 people. There would be about 50 if we had not in-sourced. It is a significant reduction. We are adopting a sinking lid policy on this - not replacing people as they leave, unless they are specialised. We also have an IT strategy recently approved by the board. We are running through the implications of that and how that may harness all those IT areas into a more centralised approach, or not. We are working our way through that. Numbers are falling in IT.

The new Ajilis system will require some new skills but that does not necessarily mean more numbers; it might be a retraining or a re-skilling. In the corporate IT, there are about 76 people.

Ms CLARK - Back to the discussion we had earlier, if you look at the way our industry is evolving, we are going to see far more of our 280 000 distribution customers, bring generators or have batteries, or both, and for the power system to make sure it is safe, reliable and responding, is going to require a lot more IT. And we expect to see more real time metering data. The future of our industry will rely on strong IT across the power system. We have to continue to invest in that and it will be a continuing part of our landscape.

Ms FORREST - The staffing numbers you are going to provide would be very helpful, as much as you can break them down into the different areas.

CHAIR - We will give notice to you of that again. I will go back to your emergency managements that are in place and I will use, as an example, the recent floods in the north of the state - sadly, Launceston and Latrobe, in particular. The member for Mersey suffered more than most of us. What happens in that case with TasNetworks? What would be the cost of the works required to be undertaken by TasNetworks in that situation?

PUBLIC

Dr NORTON - It is a question I have asked the CEO to report to the board on. I will be very interested to know whether he has the numbers at this point in time.

CHAIR - Obviously, you move personnel from around the state to there.

Mr BALCOMBE - We have an emergency management system.

CHAIR - Which is reviewed I guess regularly?

Mr BALCOMBE - It is an ongoing process; we continue to work with bodies such as the Australian Energy Market Operator, and Police and Emergency Services. We are increasing the amount of discussion we have with the fire service. Depending on the scale of the emergency, it obviously goes up the scale.

Generally with weather-related events, we go into a mode called Incident Control System - ICS. To put that in context, normally what happens is that if you ring up Tas Networks and say you have got a fault, the truck to go and fix that fault or the personnel to go and fix it are dispatched from the fault centre itself.

The operator takes the call; gets on another system and looks after that dispatch. That is fine when you are getting a drip-feed of calls through the centre. Then, as those calls escalate, if they are big enough to be a major storm event, we go into what is called the Incident Control System. What that means is that the dispatch, rather than being done from the fault centre, goes to the local depot.

In the case of the recent floods, we had a very interesting situation. However in normal circumstances that would go, if it was in the north, into the Rocherlea depot. The fault centre would continue to take the calls, and they could focus on the calls and stop doing the dispatch. Then there is a coordination exercise between the fault centre and the local area because the local area has control of the manning to make sure they are working through it. I suppose they can also have a better handle on it; if there are issues on one feeder, and where they need to get two or three teams out, they can do that.

The events of the last few weeks have been quite interesting. One of the issues we had is that we moved into ICS, the Incident Control System, in the north, but in our Rocherlea depot we had people who were going to be impacted by the flooding. We were also concerned about some parts of the greater Launceston area in particular. I will come back and talk to you about the Latrobe area later. We were worried that parts of that city would be cut off.

We sent most of our people home. Our incident controller worked from his house at Longford, which thankfully was dry, and we used a lot of our telephony and our conference calling abilities to dispatch the work. What we wanted to do is make sure that we had operators close to home and also close to areas that they could service.

We created, if you like, a decentralised model under that ICS mode. That was a great piece of innovative thinking by the team because they had really challenging circumstances to deal with. With regard to the Latrobe area and generally in these places, one of the issues we are faced with is access. Until you can get in and until the water recedes, we could not get teams of people in there. As soon as we could get access to Latrobe, in particular, we put a couple of our customer services representatives into an office in Latrobe to talk to those affected residents about how they

PUBLIC

were going to get reconnected. We could also talk to them about electrical safety. Electrical safety is our role; generally, the safety of their own premises is more an issue for them to deal with through electrical contractors, but we helped explain that.

We have granted extensions of time to some of those customers to ensure that they can get reconnected. There is a normal statutory time frame; we have relaxed that. With some of those customers who are going to be off for quite some time, we are going to relax some of our charges. They are without supply, so they should not be paying for it; so we relax some of that.

Generally, our response depends on the severity of the incident. The bushfires earlier on in late January this year - one of the big threats we had there with the Lake McKenzie fire was in relation to our microwave network, because that has a lot to do with controlling the hydro stations and our own network. A couple of those sites became isolated by fire. The power systems going into those sites were burnt. Whilst they had battery backup, that is only there for a certain amount of time. Once we could get access, we organised to do some small-scale diesel gen sets to connect onto those microwave stations, so we could maintain those communications that were pretty vital at that stage.

CHAIR - The solar power feed-in people involved and interrupted by that process through emergencies - there is obviously no support for them, I take it?

Mr BALCOMBE - I think they will be treated like any other customer if they can't connect. I will have to take that on notice, because I am not sure about the impacts.

Ms CLARK - One of the things for solar customers is that if they lose supply they often have to reset their inverter. That is just normal and that would happen in any interruption. They just have to make sure they manage their own assets.

CHAIR - The other question that came out of that is the security and reliability standards around your infrastructure. How much work is done on that? I guess I could use an example here of fire-prone area. With your poles and lines and all the rest of that, the question often asked is: why you haven't gone into different types of poles and so on, knowing that it is a risk area?

Mr BALCOMBE - That is something that we consider all the time. One of the things that you have to consider is that a pole has about a 50- to 60-year life. Obviously, if it is in a fire-prone situation you need to consider whether you would put another type of pole in. For instance, after the fires on the Tasman Peninsula a few years ago, Aurora chose to replace the poles on one of the feeders in one part of the area with concrete poles. They have a high capital cost. The sides are still out to some extent as to whether that is a sounder option.

One of the big issues for us is vegetation management. We are doing an enormous amount of work on our vegetation management strategy. It is a very substantial cost to our business. In general, we have to come up with something that balances the risk against the overall cost to our customer base.

Mrs RYLAH - I would like to go back to some debt and finance issues, if we could, please. I sense there is an arbitrage between the rate that the regulator uses for interest rates in your calculations of your network pricing and what you are charged by Tascorp. Can you give me an understanding of that, please?

PUBLIC

Mr BURRIDGE - That would have some truth to it, because it is the debt rate set by the regulators, the 10-year bond rate, plus the corporate margin and we are borrowing at pretty good rates from Tascorp.

Mrs RYLAH - Difference?

Mr BURRIDGE - I would have to go and check, but off the top of my head, I think for the moment we are getting about 8 per cent on the distribution debt and we are borrowing at about 5 per cent.

Ms CLARK - There is a countervailing offset that the national regulatory regime assumes that you have private owners and that they get benefits from imputation credits, which have benefits. It is actually also based on an independent benchmarked owner. You can win or lose on different aspects of that.

Mrs RYLAH - So you lose your imputation credit benefit, but you gain from the corporate credit rating, or the government credit rating of Tascorp?

Mr BALCOMBE - No, we don't.

Mr BURRIDGE - We pay the guarantee fee -

Mrs RYLAH - Only 0.53?

Mr BURRIDGE - On the longer-term debt, 0.35 on the first part. That is the difference between what the government rating is - a double A, and what our rating is - an A. The difference that is estimated to be the difference in borrowing costs - that is the Tascorp assessment and that is what we get charged. We are effectively paying the corporate rate, not the government rate.

Mr BALCOMBE - I think that opportunity is also reduced with this new model that the AER has introduced too where there is an assumed refinancing every 10 years of one-tenth of your portfolio. It used to be five years 'set and forget'; now it is a continuing maturity profile, so there is less opportunity.

Mrs RYLAH - In your weighted average cost of capital calculation, what is the cost of the contributed equity that you use?

Ms CLARK - We have two: transmission and distribution. I would have to have a look. Then we weight it because we have two different - . I would have to take that on notice.

Mr BALCOMBE - There is a big look through to interest rates; so the important thing is our weighted average cost to capital is significantly impacted by the prevailing interest markets. To put that into context, Transend's previous revenue determination at a weighted average cost to capital is at around 10.2 per cent. That was set at a time back in 2012 when interest rates were quite high. The weighted average cost to capital that we inherited at the new revenue determination is in the early 6s, and it looks like being something very similar to that for our distribution.

PUBLIC

Mr BURRIDGE - Aurora's weighted average cost to capital is 8.28 and the equity in that was 8.69 and the debt was 8. That is about to roll off. There was 8.28 weighted average cost to capital, equity of 8.69, and debt cost of 8. That is historic and we are about to reset that.

Ms CLARK - It's basically a fixed margin above the risk-free rate, the government bond rate.

Mr BACON - Can you give us a timeline from when Basslink went down and TasNetworks' contribution to the overall government decision around the recommissioning?

Mr BALCOMBE - This won't be precise, but I will try. We got advice pre-Christmas, about the same time everyone else did, about Basslink's non-return to service. My understanding is that we had already received advice from Hydro prior to Christmas that they were looking to recommissioning - if that's the right word - the Tamar Valley Power Station.

Ms COURTNEY - The combined cycle.

Mr BALCOMBE - Thank you, the combined cycle. One of the things we had to do was to work up the contingency scheme, should that come off. That was the focus of the work in January and it was done. I am working very much from memory here, but from the point of view of the diesel connection, that probably kicked off mid-late February.

Mr BACON - Do you know if that was before or after the first energy security cabinet meeting; I think it was on 15 January?

Mr BALCOMBE - I couldn't tell you, to be honest.

CHAIR - Are you able to get that information?

Mr BALCOMBE - I wasn't involved in the early meetings of the energy security cabinet.

Dr NORTON - When were you invited in?

Mr BALCOMBE - I think it was about the same time, mid-late February.

Dr NORTON - We weren't involved in that process initially. Then the Government understood what our role was and felt it was important for us to have a representative at those meetings, and Lance was there.

Ms FORREST - So it was around the time the decision was made for the diesel generators to be secured?

Mr BALCOMBE - I don't know.

CHAIR - Taking a question on notice is not going to help, is that what you're saying?

Mr BALCOMBE - I don't think so because I am not sure of the meetings of the Cabinet prior to when I became involved.

CHAIR - We want the dates of you getting this information; that is what we want.

PUBLIC

Mr BALCOMBE - I can certainly give you a timeline, but from the point of view of Cabinet involvement, I can only tell you when I became involved.

Mr BACON - TasNetworks didn't really get involved in the energy supply plan until the middle of February, effectively?

Mr BALCOMBE - Other than from the perspective of the Tamar Valley combined cycle.

Ms COURTNEY - You had already started the modelling involving that coming back on line?

Mr BALCOMBE - That's my recollection.

Mr BACON - Has there been any disruption to residential energy supply that you can attribute to the crisis?

Dr NORTON - No, none at all.

Ms FORREST - I noticed in your submission that the Ajilis system is over budget.

Mr BURRIDGE - No, it is on time and exactly on budget.

Ms CLARK - We did increase our estimate compared to the previous year.

Mr BURRIDGE - I think it was the profiling more than anything else; over a three-year financial period there was change in the profiling. It is certainly on budget.

Ms FORREST - Okay, I am going to read through it then.

Mr BURRIDGE - There was a reference to drawing on some contingency, I think, in the papers; there could have been.

Ms FORREST - I want to find it again. I did not highlight it so I cannot find it.

Mr BURRIDGE - It is on time and on budget.

Dr NORTON - It would be fair to say that the Ajilis project has had a lot of focus from the board's perspective and also from our owners. Everybody, I guess, is nervous about these large -

Ms FORREST - We have had a few debacles in the past, haven't we? Not TasNetworks or Transend but Aurora did with their billing system; it blew out and blew out.

Dr NORTON - I do not want to comment on Aurora's situation but everybody is focused on ensuring that this project delivers what it is intended to deliver at the cost that we have budgeted. We took a long time; it took about 12 months and we did various studies and analysis before we made the decision. We have independent experts who are providing quality assurance for us. As Lance intimated before, we have drawn on the experience of network businesses interstate so we have done a lot of work to try and insure that it does deliver what we want, on time and on budget. It is certainly a great focus of attention and we report back to Treasury on a quarterly basis. There

PUBLIC

are reporting arrangements from management to Treasury on how we are going so it has a high central focus of attention.

Ms FORREST - In your statement of corporate intent - and I have not cross-referenced this with the Budget papers to see if it is still the same - I noticed the dividend payment to Government in 2017-18 of \$72.8 million. Is that still the expectation to Government?

Mr BALCOMBE - The statement of corporate intent was signed off in July last year and we are about to lodge another one. The corporate plan may have updated that.

Ms FORREST - I was looking at the statements of 2017-18; maybe it is in there.

Mr BALCOMBE - I have only got total returns to Government. What years do you have?

Ms FORREST - I have 2017-18.

Mr BALCOMBE - Of \$63 million.

Ms FORREST - It is \$136.6 million.

Mr BURRIDGE - Total returns, yes; \$136.6 million is correct.

Ms FORREST - That is actually more than what is in the statement of corporate intent.

Mr BURRIDGE - Yes, because we have made more money this year than we planned to.

Ms FORREST - It is purely because you have also taken on the extra debt but that is not impacting on your -

Dr NORTON - The debt would have been in those numbers.

Ms FORREST - That was already factored in previously? I notice it drops away - the return to Government.

Mr BALCOMBE - That is a function of the lower weighted average cost of capital as these revenue proposals get refreshed. Ultimately, the interest rate environment reflects on that.

Dr NORTON - As well as the debt transfer from the Hydro, we have had these equity transfers to a couple of tranches to TasRail and also FT, or one to FT, I think.

Mr BURRIDGE - Depreciation charges are a higher level, which is why our underlying cash flow is still strong. If our depreciation charge is up, it is because we have got some shorter term assets that we are amortising, like the full retail contestability IT work that Aurora did, and Ajilis; they were amortised over a shorter period.

Ms FORREST - What period are they amortised over?

Mr BURRIDGE - I think Ajilis is 10 years and the others are at some stages at 40 or 50 years; that shortens up the amortisation. It gives you a temporary increase in depreciation.

PUBLIC

Ms FORREST - The returns to Government do drop away quite significantly. That is an issue for Government more than you, unless they come asking for a special dividend.

Mr BALCOMBE - Our job from an equity return perspective is to ensure that we at least deliver the regulated rate of return to Government, and we are doing that; we are quite comfortable in doing that.

Ms CLARK - One of the reasons our revenue is dropping is because the interest rate environment is lower and so the expected rate of return to owners of a business like ours is also lower. So we have to achieve that benchmark but it is inherently lower because there is less risk in the market in general.

Mrs RYLAH - I would like to turn to the future in terms of solar feed-in tariffs. I understand the Office of the Economic Regulator sets that price. So it is not directly the executive government that does that. I presume you feed in the information the Economic Regulator is provided with to determine that? Is that correct? Your cost of transmissions?

Ms CLARK - For feed-in tariff the critical thing we provide each year is the distribution loss factors which are taken into account, but beyond that it is really about energy markets.

Mrs RYLAH - Oh, really?

Ms CLARK - Yes, the feed-in tariffs are a function of what energy values are because it is about remuneration for the energy.

Mrs RYLAH - So if it is an energy value, how does that value the cost of your distribution network and your transmission network? How does that work?

Ms CLARK - It doesn't.

Mrs RYLAH - It doesn't? It is ridiculous, if I could suggest. Isn't that right?

Dr NORTON - I do not think it is for us to comment on whether it is ridiculous or not.

Ms CLARK - It is one of the challenges customers do not necessarily appreciate. The feed-in tariff is a lot less than the cost of delivered energy because the cost of delivered energy does include the cost of providing the network. The feed in tariff is just saying, 'What is your electricity itself worth?' The network still has to be paid for, even if you are exporting it.

Mrs RYLAH - Would you suggest then it should be a work- in- progress to evaluate an appropriate feed-in tariff, seeing we are moving to more people who are likely to take on solar PV to ensure we get an equitable spread of the cost of our transmission and distribution networks for those people receiving it and those people feeding in?

Dr NORTON - This is essentially the heart of the tariff reform - instead of charging distribution charges on an energy basis, charging on a demand basis. That is the change we are going through over a long period of time but an adjustment in the balance.

Mrs RYLAH - When do you think that will start to impact on the feed-in tariffs and other metering costs?

PUBLIC

Dr NORTON - It will not impact on the feed-in tariffs but it will impact on the customer charges for the distribution services they get.

Mrs RYLAH - There may be a separate charge for having a connection to the network or something like that - is that what you are envisaging?

Mr BALCOMBE - There is already.

Mrs RYLAH - I obviously do not read my power bills.

Ms CLARK - Our long-term transition is recognising we charge network charges in the main via retailers. What we do is charge Aurora and ERM our network charges and then it is up to them how they turn up in the end bill. For many Tasmanian customers, it is a function of what the Tasmanian Economic Regulator has as the standard offer price.

In the long run we are transitioning: your fixed charge will go up because there is a service of being connected to the network if you want to export energy or you want an insurance policy even if you do not use it very often. We still have to cut down the trees and keep them safe to prevent bush fires, et cetera. So there will be a service charge and that is gradually increasing. Then we are looking to transition and doing these trials to say that we want to send some better signals around when you use the network, so they see some time-of-use signals and some demand signals. We are talking about a 15-year transition because we need to take the community with us on that journey.

CHAIR - We are getting very close to end of time.

Mrs RYLAH - When do the 15 years start?

Dr NORTON - They have started.

Mrs RYLAH - When?

Ms CLARK - Last year was our first transition.

Mr GAFFNEY - I have had some very good feedback from the people in Latrobe who did receive some good work from your staff.

Mr BALCOMBE - Thank you.

Mr GAFFNEY - That is very important because it was trying times. They were very appreciative of your group. So thank you - if you could pass that on.

CHAIR - Thank you very much and thank you for your attendance and the answering of questions. It may well be that we will need to ask you to come back before the committee to answer further questions. We have taken some questions on notice as well and we will forward those to you today or tomorrow and we look forward to getting those responses back from you.

THE WITNESSES WITHDREW.

PUBLIC ACCOUNTS, HOBART 20/6/16 (NORTON/BALCOMBE/CLARK/BURRIDGE)

PUBLIC

PUBLIC

Mr GRANT EVERY-BURNS, CHAIR, **Mr STEPHEN DAVY**, CHIEF EXECUTIVE OFFICER, **Mr MILES SMITH**, CHIEF FINANCIAL OFFICER AND **Ms RACHEL STEVEN**, MANAGER, GOVERNMENT RELATIONS, HYDRO TASMANIA, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR - Welcome to the public hearings of this committee. The terms of reference have been provided to you. Whilst you are here, parliamentary privilege applies to all evidence at this hearing. Once you leave here it no longer applies. The hearing is being recorded for *Hansard* and the proceedings today are also being streamed live. A copy of the information for witnesses has been made available. If you have not read that, I give you an opportunity to read it. Most of you would have given evidence previously. If you have not read it, I ask you read it now.

The evidence will be made public in due course. If we reach a stage during these hearings where you believe the evidence you want to give should be taken in camera, you will need to make that request of the committee and the reasons for it and the committee will then make a determination on the procedure.

We are aware of the correspondence we have received from you. We would like to proceed with all issues, if we can. You have provided to the committee a submission and a number of other documents. I will open it up for you to add to your submission and make any further statement you want to make and following that we will go into questions.

Mr EVERY-BURNS - Thank you, Chair. I would like to go through an opening statement, if I may. I will do it in a way that goes from A to B and I hope that sets the scene for us.

Thank you for the invitation to appear today. Hydro welcomes the opportunity to help the Public Accounts Committee with this body of work. Hydro and the state are coming through the most testing of times. In the space of just six weeks we have moved from a period of record low rainfall that had the potential to limit electricity supply in Tasmania to now being in a situation of record-breaking rainfall and damaging flooding in many of the catchments, regrettably with some loss of life. The effects of such dramatic reversals in nature are very real in communities and at a personal level, and our sympathy is extended to all those affected at this time by the Tasmanian events.

I will outline the unprecedented challenges Hydro has faced in recent months, but let me say up front that the impact on Hydro will be substantial. This year's profit will be eliminated and a loss of \$90 million is expected. In the year ahead Hydro intends to build storages again and target a break-even or positive financial result for 2016-17. The business has the capacity to do this.

The period that commenced in September 2015 and lasted until April 2016 was very dry by any reckoning, containing a number of sequences, each representing the driest in 100 years. Within this same record dry period the Basslink undersea cable failed, cutting off power connection to the mainland. Power flow into the state was running at 40 per cent in the prior months to make up for low inflows and that was operating, as intended, in these circumstances. The consequences of this failure were magnified by a repair time amounting to 176 days against our prior expectation of 60 days.

I contend that these facts are at the heart of the energy supply situation that has gripped the state for eight months. The facts are that the storages were more than 29 per cent at 30 June 2015;

PUBLIC

spring inflows last year were half the lowest experienced by Hydro in 100 years of records; Basslink failed unexpectedly on 20 December 2015, with storages already dropping; and the Tamar Valley Power Station was mobilised so that by mid-January 2016 some 300 megawatts of gas-fired generation was in service and supplementing 30 per cent of the state's power needs.

An energy supply plan was announced in late February and reported on regularly by the Government and Hydro. During March and April 2016, diesel generator capability from around the world was brought to Tasmania and by May some 220 megawatts of additional capacity was available. Diesel energy progressively supplemented the Tasmanian grid from March 2016. Major industrial customers cooperated in load reductions negotiated with Hydro. Dam levels fell to 12.5 per cent in late April before record rain in May reversed the situation. The Basslink cable returned to service on 13 June 2016. Today our storages are 27.6 per cent and rising. No customers were required to go without power and the diesel fleet is being progressively decommissioned because it has served its purpose.

In my 45 years experience in the power industry as a power engineer, senior executive and board director, I have rarely seen a situation more difficult than that faced by Tasmania recently, and I have never seen a response so effectively executed. However, none of this is cheap. We recognise the absolute importance of maintaining confidence in supply given the economy-wide significance of doing so. We estimate the total cost to Hydro will amount to \$140 million-\$180 million, most of which will be sustained in this 2015-16 financial year.

I believe there are substantial learnings from this event, and we will now take the opportunity to test the existing science which will most likely help to build a more sophisticated understanding of western Tasmanian climate and meteorology in particular. We will also challenge and reset our understanding of risk associated with our reliance on Basslink and the associated repair times for our future modelling.

In responding to such a difficult set of events, Hydro was assisted by the Government, the public service, the workforces of Hydro and TasNetworks in particular, and especially the private sector. We are right to examine and opine on a myriad of contributing factors, but I reiterate my view that the root cause is a coincidence of the driest in-flow sequence in 100 years, coupled with the rarity of the undersea cable failure that took months longer to repair than we had anticipated.

Hydro refutes the notion that power generation in the carbon period was somehow causal to the outcomes or the dry lay-up and the two-month start-up for the combined-cycle gas turbine was contributory in any real way. I ask all parties to carefully consider the long-term cost of initiatives that may follow and try to avoid overreaction.

CHAIR - Thank you for that. Before we move forward with any questions, we must stick strictly to time today because we have another session later on. I was hoping that at 12.45 we would adjourn for 30 minutes so we can grab a bit of lunch, then come back and proceed through to 2.45 p.m. and have a very short break thereafter. I am happy with Christian names being used. If other members are happy with that, we can proceed in that way to expedite it and make it easier. Having said that, I open it up to questions from any member.

Mr BACON - Obviously Hydro has provided a public submission and a private submission to the committee. Could you explain to the committee and the Tasmanian people why there are two submissions, one private and one public?

PUBLIC

Mr EVERY-BURNS - Yes, certainly. As you know, under the law, Hydro Tasmania operates as a government business enterprise. We are market facing and the consequence of that is that much of our activity is of great interest to our competitors. That being the case, it would be wholly inappropriate to put some information into the public arena that would assist the competition. No company would normally do that. We respect that there is a dichotomy, if you like, in terms of public ownership, where you are placed in a market situation and therefore have to act as a private operator. I am hopeful that in terms of the large picture we are able to work through issues of interest to the committee perhaps without getting into the absolute detail that would offend our contractors, suppliers or the market.

Mr BACON - Did you consult with the Government about your submission to the committee and which parts would be public and which parts would be private?

Mr EVERY-BURNS - No. I wish for the company to be as independent as possible and I can tell you I have not consulted.

Mr BACON - Has anyone at Hydro consulted the Government about it?

Mr EVERY-BURNS - I cannot answer, but not to my knowledge.

Mr DAVY - Not to my knowledge.

Mr BACON - Have you taken legal advice on what should and should not be provided to the committee?

Mr EVERY-BURNS - I have been legally advised about the meaning of the rules of engagement, if you like, and the commercially-sensitive issues. We would like to be able to move forward and provide what is reasonable so, to that extent, I am advised.

Mr BACON - The only reason you would keep things from the committee or the public is because of commercial reasons? There is no other reason you can think of?

[11.30 a.m.]

Mr EVERY-BURNS - Essentially commercial reasons. It may be because we regard it as sensitive in the marketplace and therefore damaging to the corporation, so I have a fiduciary duty not to let that happen. It may be issues that go to the confidentiality of contracts we have signed with suppliers where we are bound and despite requests to release we do not have that right or permission. The alternative is we may be in potentially a legally disputed situation so we need to maintain privilege. That is the reality of it.

Mr BACON - The 2014-15 state Budget had a predicted dividend of \$75 million and in your GBE hearings of that year it was said by the chair of Hydro Tasmania that at the end of the day that was the target the corporation had. As we sit here today, that would be difficult, so how was that \$75 million figure in dividend reached? Was that proposed by the Government or by Hydro Tasmania?

Mr EVERY-BURNS - If we were asked that before, whatever my answer was then I would stick with that. The company developed its budgets.

PUBLIC

Mr BACON - Was that \$75 million dividend contingent upon the sale of the combined-cycle unit of the Tamar Valley Power Station?

Mr EVERY-BURNS - For 2014-15?

Mr BACON - Was the dividend expected in 2017-18?

Mr EVERY-BURNS - You are taking me to detail I cannot put my mind to.

CHAIR - I will interrupt at this stage. If you get into a position where you are unable to provide the information, it is acceptable in some situations to take that on notice and the committee will bring that to your attention and write to you to request that information.

Mr EVERY-BURNS - Someone else may have the detail.

Mr BACON - In the 2014-15 budget there was an expectation from the Government that in 2017-18 there would be a \$75 million dividend from Hydro Tasmania. Then in the next budget I think around \$100 million was expected in dividends but it had been moved around in terms of the timing. The Treasurer said in budget Estimates that that was due to moving parts within Hydro Tasmania. What was the initial \$75 million dividend based on and what were those moving parts in the following year so that when the next state budget came out those dividends had moved around? When the Treasurer says 'moving parts within Hydro Tasmania', what is he referring to?

Mr EVERY-BURNS - I can answer that but I cannot answer the detail of your question about the money. The term 'moving parts' means that we are a market-facing business and every month, every six months and every year the world moves on and the market moves on. Electricity prices change, for example, so our forward estimates of what that is going cost changes and our debt levels change and therefore the earnings and budgeted amounts will change. The strategies the company uses in terms of people, projects, plans and capital expenditure all change, and a business can tune those things and of course the results will change. Whatever we have answered previously I would refer to, but I do not have any particular detail on the \$75 million or \$100 million other than every time the board has considered these issues we have done it on the basis of the best advice from management and what was achievable.

Mr BACON - If you look back now, that expectation was around \$100 million. Was that contingent on the sale of the combined-cycle unit?

Mr DAVY - I don't believe so.

Mr BACON - Those dividends could have been provided to the Government without selling the Tamar Valley Power Station?

Mr DAVY - Which ones are you talking about, the \$100 million total or the \$75 million?

Mr BACON - The \$75 million initially and then further down the line the \$100 million which was in the next state budget in 2015-16.

Mr DAVY - I think the estimates we provided to the Government included the normal operation of our business over a similar period.

PUBLIC

Mr BACON - A letter from the Treasurer to the Minister for Energy in January 2015 talks about a letter that went to Hydro Tasmania on 27 August setting out the expectations around the \$75 million and Hydro Tasmania had presentations to the Government in terms of Momentum Energy, Entura and the optimisation of the TVPS in terms of the dividend and how that would be achieved. It looks like the Government has asked you for \$75 million in dividends and you have come back with three strategies that include Momentum, Entura and the optimisation of the TVPS. Would that be a fair representation?

Mr DAVY - Does that letter say \$75 million in returns or \$75 million in dividends?

Mr BACON - It says, 'Our letter indicated that a dividend return of \$75 million was expected for the 2017-18 financial year'.

Mr DAVY - I think we will take that on notice.

Mr EVERY-BURNS - What you're saying about Momentum, Entura and the power station seem correct to me. Return from the power station was figured in there somewhere because we went forward with a proposal. You are quoting back something that is factual.

Mr BACON - No, that's fine. I am just trying to establish -

Mr DAVY - We have also been asked to provide commentary on what the Government has said, and I don't think we can.

CHAIR - So you will take that on notice?

Mr EVERY-BURNS - Yes, in terms of the factual questions we can answer, but as to what the Government was doing, you should ask them.

Mr BACON - But this is about whether you were asked for \$75 million and then came back with three strategies.

Mr DAVY - Well, you have the letter.

Mr BACON - I know, but we are at a public hearing and this goes on the public record. Is it your understanding -

Mr DAVY - Is that letter between the Government and us?

Mr BACON - No, between two government ministers. This is about the actions of Hydro Tasmania when they were asked for \$75 million.

Ms COURTNEY - But isn't that just being drawn from an assumption? You've got a reference to a letter between two ministers.

CHAIR - I think we need to make the details of the letter known.

PUBLIC

Mr BACON - It is a letter from Treasurer Peter Gutwein to minister Matthew Groom in January 2015 that refers to a letter to the chairman of Hydro Tasmania on 27 August setting out their expectation for Hydro Tasmania which includes the \$75 million dividend. Then it says:

Since then, we have received presentations from Hydro Tasmania in relation to Momentum, Entura and the optimisation of the TVPS.

Ms COURTNEY - So you're expecting Hydro to give you information based on correspondence from ministers to Hydro that hasn't been released?

Mr BACON - Did Hydro Tasmania present to the Government a range of options around Momentum, Entura and the optimisation of the TVPS?

Mr DAVY - We have certainly been embarking on a joint venture strategy with Entura over the past eight or nine months, which is on the public record. We believe it is a plan to make Entura into a more successful business. As is a matter of public record, we investigated the sale of the Tamar Valley Power Station combined-cycle unit in the second half of 2015. That approval from the Government to investigate that sale was withdrawn when Basslink suffered its undersea cable failure.

Mr BACON - It appears that the dividend has driven that policy from Hydro Tasmania to divest the combined-cycle unit.

Mr DAVY - No, I don't think so. Are you asking another question about the Tamar Valley Power Station?

Mr BACON - Yes. The Government asked you for \$75 million and you then presented to the Government a range of options to come up with that \$75 million.

Members interjecting.

CHAIR - Did the Government ask you for the \$75 million dividend that has been referred to?

Mr EVERY-BURNS - I don't know, but I can tell you that in my dealings it doesn't work like that. It is not black and white, where someone comes forward and says, 'This is what you will do'. It is a process. We are running a large corporation where there are iterative processes between ourselves, the shareholding ministers and the public service.

Ms FORREST - But don't you meet with the Treasurer to agree to the dividend ultimately?

Mr EVERY-BURNS - Yes.

Ms FORREST - In 2014 - and correct me if I am wrong - there was a decision by government to increase the dividend percentage from 70 per cent to 90 per cent.

Mr EVERY-BURNS - Yes, there was a letter about that.

Ms FORREST - Ultimately that will push up the total dividends paid. Is that around the time this discussion was had? It was clearly in the budget papers in the forward Estimates. I

PUBLIC

know it is an estimate in the forward period, but there was a clear expectation from government that Hydro Tasmania would pay a \$71 million dividend in 2017-18. Has it since been revised?

Mr EVERY-BURNS - Yes, and constructed at 90 per cent, as you said. Hydro has never paid a 90 per cent dividend. We did not last year.

Ms FORREST - I know that, but I am talking about the negotiation that goes on between Hydro and the Treasurer.

Mr EVERY-BURNS - That is precisely right, it is an iterative process.

Mr BACON - Is there any way that \$75 million could have been delivered without those three projects, and particularly the divestment of the TVPS?

Mr DAVY - The collective earnings over the same period the Government referred to wasn't particularly reliant on selling the Tamar Valley Power Station combined-cycle unit.

Mr BACON - Ruth made the point that next year, when it was expected to have dividends - I am not sure what the total was but is based on the 90 per cent - you said that Hydro never pay a 90 per cent dividend. Is it possible there was a period Hydro could have done that without assets sales?

Mr DAVY - Are you saying we could have provided a 90 per cent dividend or a \$75 million dividend?

Mr BACON - Either/or.

Mr DAVY - Whether we provide 90 per cent dividend or not is a matter of negotiated capital structure with the Government. Regardless of what targets the Government may set for us, we will always do our best to operate our business as efficiently as we can and deliver the best return we can to the state. We have been in a very detailed process with the Government about fixing Hydro Tasmania's balance sheet which has resulted in the transfer of debt of around \$275 million from ourselves to TasNetworks, and there is a further \$50 million scheduled at the end of this calendar year. We have been through a process whereby we are in the best financial shape so we can deliver the best financial result and, from that, deliver the best possible return to the state. At the same time, the Government has taken to account the need to improve our balance sheet. In the most recent year where a dividend was payable, which was 2014-15, a lower dividend was negotiated to help speed the repair of our balance sheet.

Ms FORREST - That was also facilitated by the transfer of a significant portion of your debt to TasNetworks.

Mr DAVY - That is correct.

Mr BACON - On what date was Hydro Tasmania formally notified by the Government to take the sale of the combined-cycle gas turbine off the agenda?

Mr DAVY - It was about the time of the discovery of the undersea cable failure.

Mr BACON - You do not know exactly when that was?

PUBLIC

Mr DAVY - It was around then.

Mr BACON - When the fault was found or when the extension to the fault was found and it was going to take longer? Was it 20 December?

Mr DAVY - On 20 December the failure was known because the cable had gone out of service. On 22 December, it was known that it was an undersea cable fault.

Mr BACON - So you were advised by the Government to take it off the table on 22 December?

Mr DAVY - At about that time.

Mr BACON - It was around that time?

Mr DAVY - I do not have that information here.

CHAIR - Are you able to provide that information if it is taken on notice? The question has been asked and it is a proper question.

Mr DAVY - Yes.

Mr BACON - Can you rule out selling any assets now at the Tamar Valley Power Station?

Mr DAVY - The Government has taken the sale of those assets off the table.

Mr BACON - Has Hydro Tasmania received any offers for the purchase of the Trent unit?

Mr DAVY - I don't believe so.

Mr BACON - Is the sale of the Trent unit being considered at the moment?

Mr DAVY - No.

Mr BACON - Your public submission to the committee states that Hydro continues to deliver on the objectives of the 2015 corporate plan. Can you confirm for the committee whether this plan included the proposed sale of the combined-cycle gas turbine?

Mr EVERY-BURNS - We are contemplating that. We will check whether it is what is says to be factual.

[11.45 a.m.]

CHAIR - We can proceed with a couple of other questions while they are getting that information. I wanted to ask one question from what you originally read from a document. You have said that a legal dispute situation between yourselves and Basslink may be instituted, so is there any legal dispute at the present time?

Mr EVERY-BURNS - I don't think I said that.

PUBLIC

CHAIR - Sorry, I might have misheard it. I thought you made a comment along the line that a legally disputed situation may be happening, but I may have that wrong.

Mr EVERY-BURNS - I don't think I said that.

CHAIR - Is there a legal position currently existing between yourselves and Basslink?

Mr EVERY-BURNS - No. Steve, there isn't a legal dispute at the moment between ourselves and Basslink, is there?

Mr DAVY - No.

CHAIR - That is fine.

Ms FORREST - I think Mr Davy has the answer to that question.

Mr DAVY - The 2015 draft corporate plan, which was provided, states that the financial assumption regarding the combined cycle is that it does not come back on line and is sold on 30 June 2016.

Mrs RYLAH - So it is not in that year's financials? The money is not received on that day.

Mr DAVY - It would not affect our profit and loss and our dividends, it would more affect our capital structure.

Mr BACON - There has been talk about the dry lay-up of the combined-cycle unit of the TVPS and we had TasNetworks in earlier today and they talked about the power station being mothballed and taken from the network for the first time ever in August last year. I just wonder how that fits in with the definition of 'dry lay-up' versus being mothballed?

Mr DAVY - We were transferred the Tamar Valley Power Station and associated assets from Aurora Energy on 1 June 2013, including the debt. We optimised the operation of the gas-fired power station with our broader portfolio. This optimisation included not using gas-fired generation when there is plenty of hydro generation or when imports from Victoria are cheaper. That is different to the way it was operated before it was transferred to us. The combined-cycle unit was placed in dry lay-up from 8 July 2013, apart from a period from 10 December 2013 until 3 June 2014. That was to preserve it in good condition when it wasn't required to run within the generation portfolio. Dry lay-up means putting it in a state where it can be restarted.

Mr BACON - How long -

Mr DAVY - Let me finish, please. The economics of gas generation were inconsistent with the use of the combined-cycle unit, so the business made staff reductions. We sought government approval for the sale of the combined-cycle unit in January 2015. In November 2015 we made a commercial decision to reactivate the combined-cycle unit and it was put back into service on 20 January 2016. It was at that point a two-month repair time. It took longer than it could have done because it was recommended by the original equipment manufacturer to do some maintenance to one of the components before it was put back into service. It is now back in stand-by mode and can be started within a fortnight.

PUBLIC

Mr BACON - Is stand-by mode the same as dry lay-up?

Mr DAVY - We have it in a more rapid restart mode at the moment.

Mr EVERY-BURNS - Dry lay-up is different from stand-by mode.

Ms FORREST - Can I clarify this point? TasNetworks were saying they needed to reconnect the combined-cycle gas turbines into the network so they were talking about reconnection, you are talking about dry lay-up and we are also talking about stand-by. I don't know whether dry lay-up and reconnection into the network are the same thing or different as well. Are we talking about three different things here?

Mr EVERY-BURNS - Unless they know something I don't, it remains electrically coupled to the grid through its circuit.

Ms FORREST - No, they said connected into the network so it could operate. It did take a period of time for them to reconfigure it or whatever. Is the process TasNetworks have to undertake to enable them to transmit the energy from the gas turbine into the system the same as being in dry lay-up? Does it take the same amount of time and the same process?

Mr EVERY-BURNS - I don't believe so.

Ms FORREST - What is the difference there then?

Mr EVERY-BURNS - I think they are talking about something that is happening on their side of the connection, we are talking about what we have to do physically to the equipment to make it able to run.

Mr DAVY - To describe dry lay-up is very simple, isn't it?

Mr BACON - No, it is more from the evidence this morning about what happened in August last year with the power station and TasNetworks effectively taking it from the network for the first time since it had been commissioned.

Mrs RYLAH - August 2013.

Mr BACON - No, 2015.

Mr DAVY - I do not know what TasNetworks did in August 2015 or why they did it, but they were here and answered your questions regarding that - is what you were telling me?

Mr BACON - Yes.

Mr DAVY - I am saying that Hydro Tasmania had the plant offline from 3 June 2014 until 20 January 2016, so it was offline and not generating for more than 18 months.

Mr BACON - When the decision was made, as you said, to give conditional approval for the decommissioning and the sale, what actually happened in August of last year with the power station?

PUBLIC

Mr DAVY - Nothing physically, but we did announce a downsizing of the work at that time.

Mr BACON - And there was no conversation with TasNetworks about them removing the power station from the network at that time?

Mr DAVY - I couldn't say there wasn't at an operational level but there were no decisions made at my level or taken to the board about doing any of that. I would have expected that if we had been successful in finding a buyer for the combined cycle we would have run it to prove that it was fully operational. I would be surprised if it was in some way permanently removed from the network in a way that could not be reversed.

Ms FORREST - They didn't suggest it was.

Mr EVERY-BURNS - Can I confirm from the board's point of view that the concept of dry lay-up is total preservation of the plant. That is what dry lay-up means; it is not laid up with any moisture and it is totally preserved. The reason for totally preserving it is that it has some value and we were not going to be let it be diminished in any way. If we were going to sell it, it was going to recover its value. From the board's point of view and my point of view, we were not aware of any restriction on asking it to be operated or coming back into service. That is why we are wrestling a little with your questions, because we are simply not aware of any reason that if we chose to operate it we would be limited in operating it. I think Steve is saying that on the other side, if TasNetworks has done something -

Mr BACON - The process they go through.

Mr EVERY-BURNS - that we are not aware of at all, only they can answer that to you but I am certainly not aware of it and we did not see it as any limitation in what we would choose to do.

Ms FORREST - We're trying to use common terms, that's all, so we are all talking about the same thing.

Mrs RYLAH - Can we confirm that your commercial decision to bring the combined-cycle unit back on line occurred, according to your submission, in November 2015, before Basslink went down?

Mr EVERY-BURNS - Yes, I have no doubt about that. That is precisely what happened and the reason for it was that we knew because of the low water levels that we were going to import more power. If we are going to import a lot of power then, in the national market, you run the risk of the price on the other side of that interconnector becoming higher than we would choose, and we effectively wanted to choose whether or not we took power we could generate on-island from gas and compare that with the market in Victoria. That was a straight commercial decision and I have no doubt at all that it predated the failure of Basslink.

Ms FORREST - Following on from that point, at GBE hearings in December last year I asked you the very same question. What I am hearing you say now - and please correct me if I am wrong - is that it wasn't for energy security that you fired it up again, it was because of financial security. Is that what you're saying?

PUBLIC

Mr DAVY - Yes. When Basslink was in service we regarded the operation of the combined-cycle unit, given that many of the costs were sunk - we already owned the unit and were already paying pipeline charges and for there to be people on site -

Ms FORREST - And you had a take-or-pay gas contract.

Mr DAVY - Yes, but the marginal costs of operating the plant, given the contracts we had, meant that it was commercially viable to run the combined cycle to reduce the cost of the low inflows we were suffering up to that point.

Ms FORREST - On that point - and again it may be more a question for the Government and I am happy to direct it to them if that is the case - why wouldn't we maintain ownership of it if it can be used for financial security for Hydro Tasmania as opposed to energy security, which one could argue is still important for energy security?

Mr DAVY - That is a good question and I can talk to that. The question is, 'Why did Hydro Tasmania recommend to the Government that the asset be sold?'

Ms FORREST - Yes, in terms of financial security as well as energy security.

Mr DAVY - I have just explained that because many of the costs were sunk, the marginal costs of operating the combined cycle in the environment we were going into - we were importing a lot of energy and therefore paying a higher marginal cost - meant that on balance it was a better decision to run the combined-cycle unit rather than not run it. If we are looking to the future, we are not just taking into account the marginal costs of operating, we are taking all the costs of ownership into account. We put in our submission that some of our fixed operating costs were \$7.5 million per year, which refers to the insurance, staffing, operations and maintenance that are needed on the site. In addition, there is the cost of financing the plant and depreciation. There is also the cost of having the pipeline service there all the time. The total operating costs we would be committing to into the future if we continue to own the combined-cycle unit are in excess of \$20 million per year. That is not a number we put in our submission but, nonetheless, it is something I am putting on the record now.

Ms FORREST - They are holding costs you're talking about?

Mr DAVY - It is the combination of needing to have a pipeline arrangement to take gas to the combined-cycle unit, having to have it operationally fit for service - it takes a lot of money each year to have it in the stand-by mode - and there is also the cost of financing the asset. If we had sold the asset for a considerable amount of money, we would have been able to reduce our debt. That was another fixed cost we would be avoiding if we had sold the unit. The annual cost we would have been avoiding by not having the combined cycle, in our opinion, vastly outweighed any risk management advantage we might have received from continuing to own the asset, which is why we made the recommendation to the Government at the time that the sale be investigated.

Ms FORREST - So is the holding cost in excess of \$20 million to maintain the station in dry lay-up or in stand-by?

Mr DAVY - The operational cost is \$7.5 million and the difference between dry lay-up and stand-by in those annual costs would be very small. In stand-by we have a full operational staff

PUBLIC

and in dry lay-up we probably only have the staff required to maintain it in that state. The operational costs, the financing costs and the pipeline costs are the three that make up the total.

Ms COURTNEY - In your submission you look at your expected long-term inflows into the system in gigawatt hours. It used to be 10 000 prior to 2007 and then it was 9000 in 2014 based on, it seems, some not-so-favourable years of inflows.

[12.00 p.m.]

Mr EVERY-BURNS - Yes.

Ms COURTNEY - Then it says here it was progressively lowered to 8700. I just want to have some clarity on when it went from 9000 to 8700. It says here the figure of 8700 gigawatt hours was seen as a conservative estimate of expected inflows at that point in time. Could you give me some information about why you thought that was conservative considering there had been obviously a couple of years of substantially less than that over the past five or six years? I just want to have an understanding of why you thought that was conservative when it may not be.

Mr EVERY-BURNS - Yes. If necessary, I will let the team work away on their notes. The rainfall graph that you have in the notes I think goes back to the early 1900s up until now. It emerges that there are three statistically significant bands within it. In the early period the rainfall was statistically higher for about 50 years than it was in the two subsequent periods. The team will have to help me with this, but I think from the 1970s or 1980s onwards it dropped and became statistically lower than it had been for the prior 50 years, and then in the last 20 years or so there has been another drop, which has brought it down to the lower level again.

That is empirical; it is evidence-based. We looked at it and said you cannot keep believing that what happened in 1930 is going to continue happening, it is not true. I think, and I rely on the team again, that the estimate of what energy is available from the storages or the inflows at 9000 gigawatt hours does not necessarily mean that is what we can put out from the terminals of the system to the grid, because we have losses on the grid as well. From my recollection when we say the lower figure was conservative it was because we have to account for losses. If you imagine that everything you can generate at the terminals and the machine gets to the market, that is not correct. There are losses.

Ms COURTNEY - What I am referring to more is whether that is a conservative estimate of future inflows if in 2007 it was 7100-odd? That is more where I am getting at.

Mr EVERY-BURNS - I will make the point that one or two years of difference in rain flow cannot be used to estimate what will happen in future. That is the challenge we have. Just as rain returned after the prior drought, and there were some amazing years of rainfall, you cannot possibly believe that is going to happen all the time in future. As we sit here today, we have had staggering amounts of rainfall, 250 per cent of the May rainfall and more than 150 per cent probably of June -

Ms COURTNEY - Overnight?

Mr EVERY-BURNS - Yes, overnight. You cannot then look at that short-term window and say, 'I think that means we're going to return to glory times.' In my opening remarks I made the comment that we really have to try to understand the climate and meteorology of what is going on

PUBLIC

here so that we can reset. It won't be done by a study overnight. It may take five or 10 years to be more confident about what is actually happening.

Ms COURTNEY - We have had heavy rainfall and then lower rainfall, so is this increase in variability of rainfall from an actuarial perspective therefore adding risk to the portfolio or the asset, and therefore a conservative value of inflows would need to be -

Mr EVERY-BURNS - I think that's right. I will let Steve take that up.

Mr DAVY - I think you are referring to the graph on page 12 of the -

Ms COURTNEY - Yes, the data around page 12 and page 13.

Mr DAVY - Yes. If I can turn you back to page 9, it shows the system yields for a series of calendar years, 90 in fact, and you can see there is more variation in the past than there is now. They are estimated yields from our system, bearing in mind the system did not really exist. The system was built over the last century but most of it was built more recently. The earlier years are inferred from rainfall measurements. Some of the historical rainfall measurements are not as well maintained as some of the more recent. Some of the old variability will be because of modelling inconsistencies. Once we get into the 1960s, 1970s onwards it is much more reliable would in my estimation. There was a distinct shift down, in our view, after the mid-1990s. There was a very high rainfall event in 1996 or 1997 and since then there has been no more of those events where there has been more than 11 000 gigawatt hours in a calendar year. The lows are about as low as the lowest but there are no longer the very high years.

Ms FORREST - This year is not over yet.

Mr DAVY - That is true. I am just talking about the history.

Ms FORREST - It might muck up your whole thing for next time.

Mr DAVY - Except for the flooding it would be good for our hydro system to have more rainfall. I am getting to the question that was raised on how we go about shifting our view of the long-term inflows for our modelling.

When I started at Hydro Tasmania, 11 years ago, 10 000 was the number we were still using and we had just had a run of low years. That is the way we were looking at it. Because we used statistical analysis to decide whether or not the mean had shifted it took a number of low years before we were at the point where we decided it had shifted. Following the very dry years we had in 2006 and 2007 we decided we needed to revise down our long-term estimations. In figure 2 you can see we had a long-term estimation in 2006 that was above 10 000, that is what we call the budget yield, but it is basically using history to determine what we want to rely on in future. By 2008 or 2009 we had come down to 8700 because those very low years of 2006 and 2007 were in the history. We maintained 8700 as our modelling assumption until it no longer became possible using just the recent history to justify that number. You can see on the graph in figure 2 that the actual yield in the year labelled 2014 was high and that lifted the long-term average or the average since the mid-1990s to a level where could no longer use 8700 as it was too conservative, so we started using the slightly higher 9000 number, which I think is the question you put originally.

PUBLIC

Ms COURTNEY - That is fine; I was just wondering where that number came from. Effectively it is some kind of actuarial average of recent years.

Mr DAVY - It is simply a number derived from historical average since a certain date.

Ms COURTNEY - So it is based on historical data rather than forecast. Excellent, thank you.

Ms FORREST - In terms of the whole risk management and strategy the board has to take on Hydro generally, how much forward thought had been given to the possibility of what actually happened, with very low rainfalls and the Basslink outage for longer than 60 days as well as any other contingencies there? Was there much work done in planning and preparing for that?

Mr EVERY-BURNS - In the time I have been on the board, which stands at about four years, the possibility of Basslink failing was clearly understood and factored into the risk management activities we undertook. I think it is public now that we generally use a 60-day contingency on top of another set of charts that gave us high risk, medium risk, extreme risk and so on. We would operate on what we believe was the right place. There were bands below that in terms of risk and a 60-day contingency on top of that. That was relatively conservative. Your question as to anyone had thought -

Ms FORREST - Or had any work been done?

Mr EVERY-BURNS - Some work had been done, to my knowledge. In one earlier review they looked at the prospect of a longer outage, but when you look at the timing of that, we are talking about very rare events.

Ms FORREST - I asked the question because in your corporate plan you list 12 strategic risks and an extended outage of Basslink is not one of them.

Mr DAVY - We had assumed, in running our system, that the adverse circumstances we needed to be prepared for were dry inflows, very low inflows and a two-month Basslink outage. That is what we assumed was the -

Ms FORREST - Worst-case scenario.

Mr DAVY - We had modelled other scenarios but the scenario we needed to be prepared for was a two-month return to service. As has been reported in the expert panel's review of the Tasmanian energy sector, there is a contractual arrangement between Tasmania and Basslink that Basslink would be able to repair a cable failure in two months. In our scenario analysis we had also looked at a much rarer event, which was the combination of a much drier than had been experienced inflow sequence and a one-year Basslink outage. That is referred to in our public submission, and we had also modelled how the energy system would be operated in that scenario.

Ms FORREST - Why didn't an extended Basslink outage appear in your strategic risks and your corporate plan?

Mr DAVY - As far as we knew, a Basslink undersea cable was already a very rare event so we had built that in as being a once-in-the-life-of-a-concession type of arrangement. We have a

PUBLIC

25-year arrangement. We had anticipated that once in 25 years there may be an undersea cable failure that would take two months to repair. That was the downside risk.

Ms FORREST - When we look at Basslink's one undersea cable, and there are others around the world, it does not appear to be that rare that they break.

Mr DAVY - Basslink, as has been reported in the expert panel's work, has a contractual arrangement - it was part of the specifications.

Ms FORREST - I understand the contractual arrangement but that does not remove the fact that undersea cables do fail and can fail for longer than 60 days, as is the contractual arrangement. Maybe you can get some money back as a result of them not meeting their contractual obligations but the reality is that one strategic risk that was not identified was an extended outage of Basslink that potentially means you would have had to spend a heap more money on diesel generators or some other form of generation because we are isolated from the NEM.

Mr DAVY - As the chairman said in his opening remarks, what we have faced over the last year is an unprecedented combination of much lower inflows that we had seen in history during the spring period, combined with the undersea cable failure which took almost six months to repair. If we had had a six-month undersea cable failure while we were having normal inflows, that would have not been a risk to the business. It would not have created the energy supply situation we have experienced.

Ms FORREST - I accept that.

Mr DAVY - For it to have the impact it had, that undersea cable failure had to be combined with a low inflow period.

Ms FORREST - We are talking about the risk matrix here. You have a highly unlikely risk that all things happen at once. Was the cost of planning and mitigating that prohibitive in looking at what the options might be or what contingency measures should have been put in place? You can always mitigate somehow, it is how much.

[12.15 p.m.]

Mr DAVY - I think you have seen over the last six months what the mitigation is for that combination of events of a one-year undersea cable outage, which is what we looked at, and a very low inflow sequence, which was about we achieved over the last six months.

Ms FORREST - We are getting there. Obviously diesel generators have to be bought from somewhere. I don't imagine they are just lying around waiting for someone to ring up and say, 'Do you have 200 megawatts of energy you can just ship over,' on that chance -

Mr DAVY - You are quite right. If I can put your question another way, you are saying why doesn't Hydro Tasmania put in place generation on the ground to deal with an inflow sequence that is likely to happen once in a hundred years, combined with an undersea cable failure that is not even likely to happen once in 25 years? That is a one-in-2500-year chance combined, so why didn't we spend the money to have generation in place so we could -

Ms FORREST - I'm not saying having generation in place, I'm saying the plans to facilitate and access it.

PUBLIC

Mr DAVY - Should we have plans in place to be able to deal with something that is so unlikely to occur?

Ms FORREST - I would question the unlikelyhood of an undersea cable failure, because we have seen them around the world and they are not that uncommon. There is a link between Scotland and Ireland.

Mr EVERY-BURNS - They're not that common.

Ms FORREST - It doesn't mean you can say it is only a one-in-25-year chance.

Mr DAVY - We would have expected that over the lifetime of the cable or the lifetime of the transaction, the Basslink Service Agreement, it might have happened once and we expected it would take two months to fix and instead it took longer. Any kind of plan we would have had in place to deal with that was pretty much what happened - a combination of negotiated load reductions and bringing temporary generation in the island. That would be the response plan.

CHAIR - Maybe you want to address the commonality of the breakdown of the cable. You said it is not that common, so maybe you want to address that situation.

Mr EVERY-BURNS - Undersea cables do fail, I agree with Ruth on that.

Ms FORREST - And it could fail again. There's no guarantee it's not going to happen again.

Mr EVERY-BURNS - It might never fail again either.

Ms FORREST - That's true.

Mr EVERY-BURNS - I have to be very clear. Engineering is different from just sitting back and saying you can have anything you want to cross a river, you can have as much power as you want to stop blackouts. Engineering has to be done a risk-based, probability-based, impact-based assessment, otherwise you would spend tens of billions of dollars for no return. The probability matrix is important, the impact is important and, as Steve says, we got to a point where we didn't really think a failure of the extensive nature that it was, occurring at the time that it did with the inflows being as low as they did, was a particularly credible scenario. We didn't ignore it but we just didn't believe it was a particularly credible scenario, and certainly you wouldn't spend, in my view, a fortune to prevent it, because there are other things you could do. If you went down that path you would think of other things that would be the most effective thing to do to mitigate.

Mr BACON - There is a Hydro document entitled 'The Optimisation of the TVPS', which states repeatedly that the combined-cycle gas turbine is not required for energy security and claims that the combined-cycle gas turbine plant is not required even in the event of a 12-month Basslink outage.

Mr EVERY-BURNS - Yes, I think we have mentioned that publicly.

Mr BACON - Can you please detail for the committee the assumption those reassurances are based upon?

PUBLIC

Mr EVERY-BURNS - As I understand it, those assumptions were based on a very low inflow sequence and Basslink being unavailable for 12 months. Our assessment, and this is testing my memory a little bit, was based on a one-in-1000 year probability and the conclusion was that you would still bring additional generation in in that very rare event. As Steve said, at the end of the day it doesn't mean that in the most extreme circumstances you can expect to handle it all on-island necessarily.

Mr BACON - Did those assumptions include mandatory residential load-shedding?

Mr EVERY-BURNS - I don't believe so.

Mr DAVY - There were assumptions about load reductions across the economy but not mandatory load-shedding.

Mr BACON - So there were no assumptions in the modelling in that document that was used to justify the sale of the Tamar Valley Power Station that went to residential load-shedding?

Mr DAVY - There was an assumption about load being reduced across the economy but there was no mandatory load-shedding.

Mr BACON - Can you explain to the committee what load reduced across the economy means?

Mr DAVY - We are talking about how to guard against a one-in-1000-year occurrence.

Mr BACON - We are talking about whether or not the combined-cycle gas turbine is needed if there is a 12-month Basslink outage at the same time as low inflows.

Mr DAVY - Yes, that's what we said.

Mr BACON - So what does 'load reduced across the economy' mean?

Mr DAVY - I don't think we went into detail, we just assumed we could have some sort of program that attained some load reduction across the economy.

Mr EVERY-BURNS - My recollection is it is exactly where we ended up this time - that is, that we negotiated outcomes with significant users and brought generation on-island. The event we have been through is one of these one-in-1000-year events. We didn't plan it, we didn't expect it, but it is just what happened.

Mr BACON - So when you talk about load reduced across the economy you're not just referring to what has happened in this scenario with the way the major industrials have negotiated with Hydro to reduce load?

Mr DAVY - That could achieve enough. This was a modelled outcome.

Mr EVERY-BURNS - The question I heard was whether we contemplated or intended to load-shed from domestic customers, and the answer is that to my knowledge we never had that contemplation. I have never contemplated it, so I can't embellish it or say anything else.

PUBLIC

Mr BACON - That document on the optimisation of TVPS we received, which was a heavily redacted version, was to say to the Government that the combined-cycle unit was not needed for energy security. What are the assumptions that document is built on?

Mr EVERY-BURNS - I just told you that my recollection of it was record low inflows and a 12-month Basslink outage. That was essentially it. It was our view that it was a one-in-1000-year event. If you want to model one-in-1000 or one-in-50 000-year events you can, but you have to cater for it in a different way.

Mr BACON - Why wasn't the term 'load reduction to major industrials' used rather than 'load reduced across the economy', which I think is what was said?

Mr EVERY-BURNS - Wording that is picked out today with a retrospectoscope is quite amazing. You can read into it anything you want, but if you asked me if we ever contemplated domestic load reductions, the answer is no.

Mr BACON - I know it is different in hindsight, but in that document you are looking forward to justify the sale of the combined-cycle unit, which repeatedly said 'the combined-cycle gas turbine is not required for energy security'. All I am trying to understand is exactly what assumptions were made. If it is not the combined-cycle unit that is going to make sure we have energy security in the state, if Basslink does go down for 12 months, which is what was modelled, when you use this term 'load reduced across the economy' - I don't know if that was the one that was used when the document was put together.

Mr EVERY-BURNS - I don't either.

Mr BACON - This document obviously went through the board.

Mr EVERY-BURNS - I'm not sure it did. As we looked forward, someone has picked what they believe is an absolute limiting case. It doesn't mean you plan for that at all. We didn't plan to lose Basslink for 12 months, we didn't plan to have the lowest inflows ever. It is simply a limited case for modelling purposes.

Mrs RYLAH - So it is the boundary of your parameters?

Mr EVERY-BURNS - It is the boundary of consideration, as far as I know. As to trying to look back and ask, 'What do these specific things mean?', I can't answer that.

Ms COURTNEY - I want to clarify something Scott was asking around the mooted possible sale of the combined-cycle unit. There were a number of conditions placed on exploring the sale around making sure there was energy security for Tasmania. Obviously they were not met in that time frame between when that was requested by Hydro and when the plant started recommissioning in November last year.

Mr EVERY-BURNS - Yes, that is right. The approval was quite conditional and it had a number of quite sensible conditions in it, one of which was that the Government had to approve the sale price. Before it ever got to that, the board would have had to consider that the sale price was reasonable for the asset management. We never got to that point in terms of putting a price to the Government. It required a review of the prudent water management guidelines. We didn't get

PUBLIC

to that because we did not get to the sale of the gas turbine. If you had known you were going to operate without that, you would have done that review of the prudent water management guidelines, which may well have made a difference of 20 per cent or 25 per cent, whatever it was. Then there was the statement that Hydro would assume responsibility for security of supply. Again, those issues were not addressed because we did not go forward or proceed any further through the process of selling the gas turbine, so all those things remain moot.

Ms COURTNEY - You mentioned there the prudent water level or the preferred minimum water level. Obviously that was dropped by 5 per cent under the former government which aligned with the introduction of the carbon tax.

Mr EVERY-BURNS - I can't help you.

Ms COURTNEY - How did the decision-making about dropping that from 30 to 25 per cent come about? Was that a decision by you or the shareholding minister?

Mr EVERY-BURNS - No, that was worked on by Hydro Tasmania very much based on again the probabilities and modelling taking into account what was learned from the drought of 2006. The reality was that the load on the system was dropping and has continued to drop in the national market for some period of time. Musselroe Wind Farm was being commissioned and was well and truly engaged at that point in time, whereas in earlier times that had not existed. By that time we knew that the total wind farm input, including Musselroe, would be about 1000 gigawatt hours a year, which was about 10 per cent of the system. A whole lot of things were then coming to fruition so a review was reasonable. It was presented to the board and I have a recollection of that - I think I had been on the board for a month - but it was done on the basis, I believe, of reasonable information presented to reasonable people at a point in time, and it appeared to make sense.

CHAIR - On that point, I think in your opening - and I will be careful this time - you refuted that the carbon returns contributed to the issue at hand, or words to that effect.

Mr EVERY-BURNS - Yes, I said Hydro refutes the notion that power generation in the carbon period was somehow causal to the outcomes.

CHAIR - Right. I would like to know how you were able to make that statement, because the El Nino effect was known by then.

Ms FORREST - It was predicted.

CHAIR - It was predicted some time ago, what this El Nino impact would mean for us moving forward, so with that knowledge, how are you able to say - because to produce more power you have to use more water. Am I right in saying that?

Mr EVERY-BURNS - Yes.

CHAIR - You have to use more water. With than in mind, using more water to produce more power to gain these extra carbon credits, I want to know how Hydro can say that did not contribute to the issue at hand?

[12.30 p.m.]

PUBLIC

Mr EVERY-BURNS - I will come back to Steve in a moment, but I will answer the first part. In the submission we have included data about the levels in dams in 2009 through to 2010, 2011, 2012, 2013 and 2014, and you see the level of the dams peaked up quite deliberately because we brought up pre-carbon into the carbon period deliberately to take advantage of the situation. After the carbon period it came back and in those couple of years it has been 27 per cent, 28 per cent and we have started, as I said, this financial year at 29.6 per cent. So the carbon period in effect had a bubble in it in terms of the water that was stored in the dams -

Ms FORREST - You were banking [?? 12:30:40] you asked this across the table. You were not here at the time but we asked the previous chair that across the table at GBEs.

Mr EVERY-BURNS - Yes, we were banking it; we were quite open about that. If you look at the water levels achieved before that and the dam levels after that you will find January was a bubble and the water was used for the purposes intended. It generated the power so the state took the benefit of it.

Mr DAVY - I think there is more to say. The simple answer about the carbon price period and the last of now almost 12 months is that our storages were at 29.6 per cent on 1 July 2015. If our target level had been 25 per cent or 30 per cent, we were at 29.6 per cent in any case. If we had not built up our storages for the carbon price and not run them back down again but had maintained at either a revised level of 25 per cent or the old level of 30 per cent, nonetheless we were at 29.6 per cent. We were still at 29.6 per cent on 1 July, so all the decision-making that led up to 1 July is immaterial because we had 29.6 per cent of water in storage on 1 July 2015. That is a fact.

The next question you asked was, 'Didn't you know it was going to be dry? Didn't you know it was forecast to be dry and shouldn't you have operated differently given you knew it was going to be dry?' What we say to that is the weather on the west coast of Tasmania, which is where almost all of our inflow storages come from, was not forecast. The weather pattern in the north and east coast of Tasmania - in fact, the east coast of most of Australia - is very much dominated by the Pacific Ocean. The rainfall pattern in those places, which people then extend across to the rest of Australia, are relatively well forecast. Unfortunately there is no accurate forecasting we have found for forecasting inflows into our catchments on the west coast of Tasmania. We have done quite a bit of analysis on the climate forecasts provided by the Bureau of Meteorology over the last 18 or so months and they have been not reliable at predicting even a month ahead what the rainfall would be on the western half of Tasmania where our catchments are.

That is not because the BOM does not do a good job or work hard, it is because the climate models do not provide that kind of predictive capability. The weather forecasting for the west coast of Tasmania is basically observing the fronts coming towards Tasmania and forecasting that rain will fall. Beyond that, there are no seasonal forecasts available for the west coast of Tasmania that have proven to have any reliability. The bureau admits that whenever they publish those forecasts because they claim they have a very low degree of reliability and skill.

Mrs RYLAH - Farmers confirm that. They say the long-term forecasts they get on the west coast are not helpful to them. They are not a reliable source of information.

Ms FORREST - In terms of cloud-seeding in those areas then, you can only cloud-seed when the clouds are suitable and surely that is part of a forecast.

PUBLIC

Mr DAVY - Yes, that is based on the short-term forecast. Cloud-seeding decisions are made daily based on knowledge about the fronts that are already being observed approaching the state.

Ms FORREST - With regard to the management of the water flows Ivan was talking about, were there any directions issued for the Government pre-carbon tax? You obviously bank the water, that has already been on the public record, but were there directives from the stakeholder minister in regard to that or was that entirely a Hydro decision pre-carbon tax and then post and leading to this period of a dry spring?

Mr DAVY - Instructions of what kind?

Ms FORREST - To manage the water differently from the way you did? Were you pressured or leant on?

Mr DAVY - Pressure to do what we did or pressure to do something else?

Ms FORREST - Either?

Mr DAVY - No - neither.

Ms FORREST - Was there any communication from the Government, any correspondence from ministers, the Treasurer or Energy minister?

Mr DAVY - The way we communicate our plan for the coming year is through the corporate plan process. What we were endeavouring to do to maximise the return to the state, which we think is our responsibility, was communicated through the normal channels

Ms FORREST - Outside of that, are you saying there was no pressure or direction from the Government in managing it, or are you saying there was and it was contained within that?

Mr DAVY - No. I don't recall every piece of correspondence or meeting that occurred, but the normal flow of activity is that Hydro Tasmania sets out its plans and those plans include how to take full advantage of everything available to us to maximise the returns to Hydro Tasmania so we can maximise the contribution we can make to the state. That is what we do all the time.

Ms FORREST - Are the corporate plans leading into the carbon tax period available publicly or do we need to obtain those from you?

Mr DAVY - They're not public documents, they're private documents between Hydro Tasmania and the Government.

Ms FORREST - Are you able to provide those to the committee? We have your current draft corporate plan 2015. Are you able to provide the ones leading up to the 2013-14 period?

Mr DAVY - If it is something the committee require from us we will answer that request and requirement.

CHAIR - The committee is asking for that. The member asked for that and the committee supports that position unless it is unreasonable.

PUBLIC

Mr EVERY-BURNS - I think you are entitled to that but we would submit them privately. They are not public because there is very commercial stuff in it.

Ms FORREST - Further to that, around the time leading up to the carbon tax opportunity, was there any other additional communication between Hydro and the government of the day with regard to this?

Mr DAVY - You are asking me to go some way back. The carbon pricing was mooted in Australia between 2009 and 2011. The rebuild we started doing was from 2009 so we are going back a long way.

Mr EVERY-BURNS - We were asked for the corporate plan around the 2012 period.

Ms FORREST - Leading up to the implementation of the carbon tax. You started planning a bit before it with the expectation it may present.

Mr DAVY - There was a proposal between the then Government and Opposition in 2009, I believe, to have something called the carbon pollution reduction scheme. That was the first time.

Ms FORREST - It is always a moving feast with the federal government, we understand that.

Mr DAVY - Planning for a carbon price occurring at some point in the future was a long time ago. That is seven years ago now and I do not recall what communication was occurring back then.

Ms FORREST - I am interested in seeing the corporate plans over that period. If there was no communication trying to deviate from the set approach taken with the corporate plan then there is nothing. Do you see what I am saying?

Mr DAVY - Yes, but I cannot recall.

Ms FORREST - I am asking you to provide it if there was.

CHAIR - Is that information available?

Mr EVERY-BURNS - It will be in our records if there is that information.

CHAIR - I am trying to understand this lake level issue with the carbon credit situation. At the time Hydro would have commenced the project of providing more energy to get more carbon credits, what were the lake levels in Tasmania at that time?

Mr EVERY-BURNS - In very rough terms, we built them up to 50 per cent and then ran them down to about 30 per cent then 27 per cent.

CHAIR - What were the levels of the lakes at the time you commenced the carbon credit situation and what were the levels at the time you completed that project?

Mr EVERY-BURNS - Yes, we have that.

PUBLIC

Ms FORREST - It's all in here, isn't it?

Mr EVERY-BURNS - As at 30 June 2009 the levels were 27.7 per cent, and then through the carbon credit period as we prepared for it they were 36 per cent, 45 per cent, 53.7 per cent.

Mr DAVY - The 53.7 per cent was at the start of the carbon pricing.

Mr EVERY-BURNS - By 30 June 2013, they were 32.8 per cent; by 30 June 2014, 28.1 per cent; and then last year they were 29.6 per cent, which is why I said we came up to a level we regarded as the normal level. A bubble of water was created and that came down to the plateau at the same level.

CHAIR - The point I am trying to make here is had you not embarked on the carbon credit situation the lake levels would have been much higher than they were.

Mr EVERY-BURNS - No, not at all.

CHAIR - They weren't at capacity, they weren't at 100 per cent, so the water wouldn't have been blowing away.

Mr DAVY - The energy would have been sold earlier at a lower value.

Mr EVERY-BURNS - We increased our level of imports and decreased our level of exports.

Mrs RYLAH - That is the really important point, you increased the level of imports. We bought power to build our dams.

Mr DAVY - At the time the carbon price was starting to be proposed there was an initial one, that was abandoned and then there was another scheme that was put in place due to some political agreements. We are saying that the first end-of-year date prior to the carbon price starting and our rebuild occurring was on 30 June 2009 and we were at 27.7 per cent. If there had never been a carbon price we would have continued to manage our storages at around 30 per cent or 25 per cent, depending on the conditions, all the way through that period. Our storages would not have gone up and they would not have gone back down again. We would have kept operating our storages -

CHAIR - Even knowing at that time of the projected rainfall moving forward?

Mr EVERY-BURNS - Again, we are still saying we do not have a correlation between the east coast knowledge of El Nino and what actually turns up in our catchments.

Mrs RYLAH - If we graph the water storage on one axis and lake level percentages as metres below full, what does the graph look like? How do they correlate?

Mr DAVY - That is a very complicated question. The lakes are different shapes so that correlation between metres below full -

Mrs RYLAH - I am trying to get an understanding of what that really means.

PUBLIC

Mr DAVY - For most of our lakes in the normal operating range the relationship is quite linear, but the surface area gets bigger as the lake fills up. A metre when the lake level is high has more water in it than a metre when the lake level is low. The situation is different in each lake, because they are different shapes in cross-section.

Mrs RYLAH - When you are saying you have x percentage of power generation capacity and your reporting on lake levels are full.

Mr DAVY - The same thing.

Mrs RYLAH - It is linear? It doesn't vary?

Mr DAVY - When we are talking about percentage full we are talking about the energy. If you were to clock the amount of energy in a lake against the amount of metres it wouldn't be a straight line. It would be a different curve for each lake.

Mr EVERY-BURNS - When we are quoting 27 per cent or 29 per cent and so on, we are actually quoting the equivalent energy that you can get from the water. That does not necessarily equate to 27 per cent in any lake or 29 per cent in lake, it is just the amount of energy we can produce from that. The reason for doing that -

[12.45 p.m.]

Mrs RYLAH - Is it the amount of productive energy? There is some water in there that you cannot produce power from?

Mr DAVY - Yes, that's true. For our lakes what we call zero in terms of energy and storage is not the lake being empty, it is that there is no more water we can extract for energy generation.

Mrs RYLAH - If a lake is at zero, how much is it, in lake level terms, metres below full?

Mr DAVY - It is different for each lake.

Mrs RYLAH - If it is at zero in energy production is it zero empty in terms of lake levels?

Mr DAVY - In most of our lakes when we say that the lake has no energy left there is still some water in the lake.

Mrs RYLAH - Do we have a number that tells us where, when you revise down those percentage numbers, we are going to get to critical levels of water and storage?

Mr DAVY - If lake levels were down to a certain level, while there was still more energy in those lakes to generate electricity, we were not confident we would have enough generation capacity spread across the system to reliably meet the demand of the state.

Mrs RYLAH - So even the location of those generation capacities related to that?

Mr DAVY - Yes, for distribution. Once lake levels were too low, for a combination of operational and environmental reasons we would not be confident we would be able to meet state demand. There would still be more energy in storage but we wouldn't reliably be able to meet state demand.

PUBLIC

CHAIR - I think now is a convenient time for us to suspend. We have to stick to time so we will return again at 1.15 p.m.. Thank you.

The committee suspended.

Ms FORREST - I just wanted to bring up a point that was made before lunch and then go to another area, if that is all right. We were talking about the undersea cable failing and you claimed it is a random event, but wouldn't the fact that they fail on a number of occasions around the world, albeit not always an undersea fault like we've had this time, suggest it is not actually a random event? It doesn't mean that it is not going to happen again, it could happen again.

Mr EVERY-BURNS - I can answer that in very general terms. Things that happen on cables that I have read about around the world are often caused by movement of the seabed or anchor strikes where the cable is actually physically disrupted, and I think that is regarded as fairly random because you do not know it is going to happen.

Ms FORREST - But it doesn't mean it is not going to happen again.

Mr EVERY-BURNS - No, it doesn't.

Ms FORREST - The point I was making is that it could happen again.

Mr EVERY-BURNS - Yes, but it might not.

Ms FORREST - Yes, but if you live in a world where it might not happen again you are living in la-la land.

Mr EVERY-BURNS - No, no. In the case of this one, it is buried. I don't have the full detail of it, but it is not just obviously exposed. In terms of the alternative modes of failure, which could be within the cable, everything I read is that it is not particularly predictable.

Ms FORREST - That's my point. The fact that it is not predictable doesn't mean it is not likely to happen again. Is it the case that we still don't know the cause of that breakage?

Mr EVERY-BURNS - If it happens again, for example, why would you expect that we are going to have minimal rainfalls and the lowest point we have ever had with the dams?

Ms FORREST - No, I am not focusing on that, I am talking about the Basslink cable.

Mr EVERY-BURNS - My whole point is that the circumstances we have is a coincidence.

Ms FORREST - I want to talk about the Basslink cable.

Mr EVERY-BURNS - We may hit difficulties talking about it.

Ms FORREST - The Basslink cable could fail again. It could fail on the seabed or at various points of connection and that sort of thing. When this one was repaired the Government's submission suggests it was further delayed until mid-June due to the length of cable to be

PUBLIC

replaced. What were the circumstances around that in terms of the extra length that was needed or whatever?

Mr DAVY - I can only recount what Basslink said about that. Basslink said that when they made the decision to cut the cable they were then able to more closely identify exactly where the fault was as a result of making that cut and redoing the testing from where they had cut. They then cut all the way to where the fault was and a little bit past that to clear the water regress and then they were left with a piece that needed to be inserted that was longer than the longest piece they had, so it took longer because they had to do a three-join repair rather than a two-join repair.

Ms FORREST - So they had to get extra cable?

Mr DAVEY - No, they had the extra cable but they had to make it a three-join repair out of two pieces of cable rather than inserting one new piece of cable.

Mr EVERY-BURNS - Ruth is right, they had to go back to shore.

Ms FORREST - So they didn't reuse some that had already been cut out?

Mr DAVY - No.

Ms FORREST - They used new cable?

Mr DAVY - Yes.

Ms FORREST - If there is another break - and we can't say it won't happen - or another failure of the cable on the seabed, how much cable is there available should another repair be needed? I understand quite a significant length was put in and it was released the other day that there was 40 metres on the seabed still that Hydro would like to have examined. How much is there left over?

Mr DAVY - My understanding is that Basslink has cable left over after this repair to make the repairs. I encourage you to put your questions to them about how they will go about effecting the repair. I am not able to share that information with you.

Ms FORREST - Do you know how much cable is left over and how much they have available should another break occur?

Mr DAVY - Yes, we have been provided with information by Basslink but that information is commercial-in-confidence. They haven't provided it to us to be made public, they provided it to us as their contractual counterpart.

Ms FORREST - There's a letter in the public domain that suggests an amount that is left.

Mr DAVY - I'm not sure which letter you're referring to.

Ms FORREST - One that was released to the ABC.

Mr DAVY - By whom?

PUBLIC

Ms FORREST - It was released to the ABC and somehow it's from Basslink about the 600 metres.

Ms COURTNEY - It's not in the public domain; it's been leaked.

Ms FORREST - It has possibly been leaked but I know it is in the public domain now.

Mr DAVY - Can you show it to me?

Ms FORREST - Yes. In the last page it talks about the amount of cable that's left.

CHAIR - I think this is putting the witnesses in a difficult condition. I need to make you aware the documents were made available to myself and the member last week through the media. I don't know how they obtained those documents but it has been tabled and our committee has a copy of that and another document. Saying it is in the public domain we need to be careful. Some comment was made on the news last night about the documents but that was it. I am not sure how much of that document is in the public domain so we need to be scrupulously fair with you about that.

Mr EVERY-BURNS - All I am thinking is that if you have a document you have whatever information is there and it's hard for us to comment on it and how you got it originally.

Ms FORREST - I am concerned that you are saying you do not expect it to fail again, but the key thing was there an issue with the amount of cable they had at the time to repair it and that's why they had to do the two joins, which took longer.

Mr DAVY - The assumption we made up until that point that an undersea cable failure would result in a two-month repair we made because of what we understood to be the contractual undertaking they had made to the state to repair it within two months. Having been through this experience, clearly it would be wrong of us to assume right now that a two-month repair is the thing to plan for and from now on we will have a different repair time in our scenario of planning. That will mean operating our system and our alternative generation differently. For example, even though we are in the process of demobilising some of the diesel generation, those sites are still available, so if we have another undersea cable failure that coincides with a dry sequence we now know how to quickly escalate a temporary generation program to respond to that. In addition, the sale of the Tamar Valley Power Station CCGT is no longer on the table, so that will be in Tasmania ready to operate should it be needed.

Ms FORREST - But ultimately, if the cable needs repairing, whatever the time frame, you can't repair it if you don't have cable.

Mr DAVY - We are told they have cable. They did not use all the cable. They used one length and a short piece of the other length.

Mrs RYLAH - Are you aware if this cable is still being manufactured?

Mr DAVY - These are questions you should put to Basslink.

Ms COURTNEY - I don't know how much detail you will be able answer with this question but what is the anticipated life of an undersea cable such as this? I am assuming as it gets older it

PUBLIC

will either have less efficiency or less reliability. You have a contract period but when do you expect that to start dropping off?

Mr EVERY-BURNS - Did the expert panel go to this?

Mr DAVY - I'm pretty sure they did.

Mr EVERY-BURNS - Some of this is public knowledge. The risks we run at the moment is crossing into an area we are a little bit uneasy about but I have to be open and say some of the knowledge is there. There was quite a lot published in the expert report in 2012. I am not familiar whether that is there or not.

Ms COURTNEY - I can always check and refer to it in the future if we need to.

Mr BACON - You said before the lunch break that when it comes to the optimisation of the TVPS you had the assumption that load would be reduced across the economy. Can you explain to me if that includes residential customers or not?

Mr DAVY - The comment about load reducing across the economy referred broadly to across the economy.

Mr BACON - Does that include residential customers?

Mr DAVY - It includes the broad economy.

Mr BACON - Every user in Tasmania?

Mr DAVY - It is broadly across the economy.

Mr BACON - And that includes residential customers?

Mr DAVY - I think I have answered the question.

Mr BACON - Is that a yes or no?

Mr DAVY - I said broadly across the economy.

Ms COURTNEY - Did you have expectations that you would have to have forced rationing on retail customers?

Mr DAVY - No.

Mr BACON - But it included reduction for residential customers.

Mr DAVY - It was broadly across the economy.

Mr BACON - If the answer to Ms Courtney was a no then the answer to me is a yes.

PUBLIC

CHAIR - We need to be clear and fair on this. A question was previously asked on this line and I cannot remember what your answer was but I think it is a fair question to be asked whether or not the residential side of it formed part of that - yes or no.

Mr EVERY-BURNS - I answered previously and said to my knowledge, I have never been a part of contemplating domestic load restrictions. That is what I stated.

Mr BACON - Is that the CEO's position as well?

Mr EVERY-BURNS - I don't think there is any difference between us.

Mr DAVY - We're talking about scenario modelling to deal with a hypothetical one-year Basslink outage combining with a very low inflow sequence. It is not contemplated, it is a hypothetical scenario.

Mr BACON - But the document was put together as part of a business case for the Government for the sale of the TVPS.

Ms COURTNEY - But that did not happen. It was not approved by government, it was conditional.

CHAIR - I don't think you can answer questions, Ms Courtney.

Mr BACON - Why was this document on the optimisation of the TVPS was put together then?

Mr DAVY - I don't recall. I don't have the document.

Mr BACON - Was it put together as part of a case to the Government to justify the sale of the Tamar Valley Power Station?

Mr DAVY - I think that document would have been our internal workings.

Mr BACON - Okay, but this is when Hydro was taking the case to the Government around the sale of the Tamar Valley Power Station.

Mr DAVY - We put the case to the Government in January 2015.

Mr BACON - So this was in the lead-up to that?

Mr DAVY - It may well have been a working internal document or it may have been a document that went to the Government, I do not recall.

Mr BACON - This document is build on the fact that there will be load reductions across the economy, including residential customers?

Mr DAVY - In the one-in-1000-year scenario of the lowest inflow sequence on record combined with a one-year Basslink outage.

PUBLIC

Mr BACON - Would it be fair to say that in a scenario very similar to what has actually happened the modelling is all based on a reduction in residential users' energy use?

[1.30 p.m.]

Mr EVERY-BURNS - I don't think that is fair to say. I think you're just taking a view that is so hypothetical that if ever we got to that situation, you would address it.

Mr BACON - Seriously, I'm not trying to be difficult at all. This document is built on modelling future scenarios and whether or not residential reductions in load are in the models I think is a fair question.

Mr EVERY-BURNS - This is all very hypothetical. If you get to a situation like this, you have a number of choices. One of the choices that may have been used in the modelling, which I am not across and was never across, is that one way of avoiding any form of load reduction is by putting more generation in. These are trade-offs and I think you are trying to read very hard and fast outcomes from what was just a modelling exercise.

CHAIR - Can I assist here? When the member asked whether or not that document had been provided to the Government, I think the answer was you could not recall. Is it better if you take that on notice? You might well be able to look back -

Mr EVERY-BURNS - Yes.

Mr DAVY - Yes, we can certainly look at it. It has just been brought to my notice that in the expert panel's report entitled 'Basslink: decision-making, expectation and outcomes', it states that when the Government went to the marketplace in December 1998 it asked for a minimum design life of 40 years.

Mr BACON - When the Government agreed to the conditional sale of the TVPS, did part of the business case that was taken to them include this modelling? This optimisation of the TVPS document that either went to the board of Hydro Tasmania or put for part of the business case that went to the Government for the sale of the Tamar Valley Power Station is built on the assumption that there would be load reductions across the economy.

Mr DAVY - In the event of a 12-month Basslink outage and a coincidental drought.

Mr BACON - Yes, a scenario very similar to what has actually happened. The Government assumes that if we sell the Tamar Valley Power Station there will have to be load reductions across the economy.

Mr DAVY - No, that cannot be correct.

Mr BACON - Negotiated load reductions, but load reductions.

Mr DAVY - The interaction with the Government about it did include the 12-month Basslink outage and coincidental drought scenario and the response, yes.

Mr BACON - And that response included load reductions across the economy, including residential customers?

PUBLIC

Mr DAVY - Yes.

Mr BACON - The Government agreed to the sale of the TVPS with the understanding that if there was a scenario where Basslink went down for a year and dry inflows, there would have to be load reductions across the economy. They would then agree to that sale?

Mr DAVY - They agreed conditional to the conditions they put to us, which they released.

Mrs RYLAH - Which were about energy security et cetera.

Mr BACON - There is another letter I accept you might have not seen. This is a letter from Hydro Tasmania to the Government that says upon approval for the closure and divestment of the combined cycle gas turbine, Hydro Tasmania proposes to mothball the plant immediately. Can you confirm that in August of last year the plant was mothballed?

Mr DAVY - No.

CHAIR - It might be helpful if the member identifies the date of the letter to assist. Obviously there has been a lot of correspondence and I think you need to be fair.

Mr DAVY - I think I already answered the question earlier today about what happened in August 2015.

Mr BACON - It is the same terminology that Tas Networks used last year; they used the term 'mothballed'. The chairman's letter to the Treasurer is effectively for the closure and divestment of the Tamar Valley Power Station. It is dated 13 January and says:

Upon receipt of shareholder ministerial approval for the closure and divestment of the combined cycle gas turbine Hydro Tasmania proposed to mothball the plant immediately.

Was the plant was mothballed in August of last year?

Mr DAVY - The plant was placed in dry lay-up on 8 July 2013 apart from a period from 10 December 2013 to 3 June 2014 to preserve it in good condition while it was not required to run. In September 2015 we reduced the staff but the operational mode of the combined cycle did not change in either August or September 2015.

Mr BACON - In the letter from the chairman where it says Hydro Tasmania proposes to mothball the plant immediately, what did you mean?

Mr EVERY-BURNS - Dry lay-up, as far as I'm concerned.

Mr DAVY - I think what happened at that point was that it remained in dry lay-up.

Mr BACON - But it was already in dry lay-up, so you wouldn't propose to put it into dry lay-up when you got the approval.

Mr EVERY-BURNS - I signed that letter in January, a long time before.

PUBLIC

Mr BACON - But the plant was already in dry lay-up. I just want a definition of the difference between 'mothball' and 'dry lay-up'.

CHAIR - I think the difference between mothballing and dry lay-up has been adequately explained so we need to proceed past that. That is recorded and on *Hansard*.

Mr EVERY-BURNS - Thank you, I can't differentiate between the two.

CHAIR - Unless you can add to that?

Mr EVERY-BURNS - I can't.

Mr BACON - Why did you propose to put it into dry lay-up if it was already in dry lay-up?

Mr DAVY - To be clear, as far as I know we didn't take any additional steps physically at the plant in either August or September 2015.

Mr BACON - So the only thing that was done was that the staff was reduced and redundancies were paid, I assume.

Mr EVERY-BURNS - Yes.

Mr BACON - And no other changes were made?

Mr DAVY - I believe that's the case, but I can take it on notice and answer in more detail. That is my understanding.

Ms FORREST - Just following on a bit from that, under the ministerial charter you are required to prudently manage your water resources consistent with the long-run energy capability of the system. When Hydro determines its target operating levels, how does it treat the risk of running out of water and involuntary load-shedding?

Mr DAVY - What we want to do is effectively be able to operate the system through a wide range of contingencies and still maintain a secure supply. We basically work from the bottom and the lowest levels we would want to go to and then add buffers for contingencies such as a two-month Basslink failure, very dry inflows, and then a layer on top. We try to, through that means, reduce the probability of getting to something where there is not enough energy to meet Tasmania's demand to be a very low probability.

Ms FORREST - What about the involuntary load-shedding?

Mr DAVY - Effectively if the system cannot meet Tasmania's demand that means there must be some demand that is not met. That is where you have involuntary load-shedding. We want to reduce that probability to something that is very small.

Ms FORREST - Do you estimate the cost of buying load reduction, for example, from the major industry customers, or do you only take into account the cost of load reduction to Hydro Tasmania and/or the potential cost to the Tasmanian economy at large?

PUBLIC

Mr DAVY - We don't price in the load reduction. We run our system so that the probability of load reductions is small enough to be ignored.

Mr EVERY-BURNS - You do not normally expect to get there.

Mr DAVY - We expect to have enough water in storage to be able to cope with the dry inflows and the Basslink outage.

Ms FORREST - On this occasion there wasn't enough and so load-shedding arrangements were made between some of the major industries?

Mr EVERY-BURNS - There was enough water in hindsight. The problem we have had is we did not know where the end point of it all was going to be. As you are managing through that you have to try to take decisions about how quickly you let it progress.

Ms FORREST - I understand that, but we were at the point where load-shedding was an option that was considered and the major industries were approached, as I understand it, and somehow there was agreement reached with them to load-shed, so how did that process unfold?

Mr DAVY - I would not term negotiated load reduction as load-shedding. Load-shedding is compulsory. There were customers who engaged with us and we engaged with customers as well, so there was a combination of the first move being made by customers in some cases and in other cases we spoke to customers and worked what their appetite was to negotiate load reductions. We were evaluating their appetite to negotiate load reduction with the cost of ramping up the temporary generation program. If we had negotiated less load reduction we would have ended up having to find more temporary diesels to install.

Ms FORREST - I understand all these major industries are on contractual arrangements and you are not at liberty to necessarily release the details, but I am not asking about specific contractual arrangements between major entities, I am asking in broad terms. Were there any terms in Hydro's contractual arrangements that if they had been able to be used differently or been able to be enacted or called upon those provisions in the contract could have produced different outcomes for Hydro?

Mr DAVY - I think that question takes us into the realm of confidential arrangements between ourselves and our customers.

Ms FORREST - I am not asking for particular detail, I am just asking if any of the contracts - and we could go into camera and discuss it in more detail - have provisions within them between the major industries that could have -

Mr DAVY - Between them and each other?

Ms FORREST - No, between Hydro and the major industries.

Mr DAVY - I'm not at liberty to reveal that in public.

Ms FORREST - I am not asking you to reveal a particular contractual arrangement. I am asking if there are provisions in the contracts that could have enabled them to be actioned or adopted or whatever that may have changed the way Hydro did things.

PUBLIC

Mr DAVY - And I am saying I am not at liberty to reveal that in public.

Ms FORREST - I am not asking you what they were.

Mr DAVY - I know you are not.

Mr EVERY-BURNS - Can we get the question in writing or on notice?

CHAIR - Yes, as long as you understand that question, which I think is fairly clear. Is there a different way to put the question?

Ms FORREST - If there is not there is no point going into camera to discuss it further. I am sure every major industry or major customer has a different contract with Hydro. They do not all have a shared contract and I am sure they are all different, but maybe I am wrong on that. If there is no provision in some of these contracts that would enable things to be done differently had Hydro taken a particular course of action, that is something I think we should discuss in camera, understanding the nature of it. If there is not, if what happened and the decisions made with regard to load reduction were completely in line with the contract and no other option was available, we do not need to go into camera to discuss it. I think I am being fairly clear, Chair.

CHAIR - Maybe you could answer the question by saying you may well make a request to go into camera for that evidence to be provided.

Mr DAVY - You could request that we go into camera if you want an answer?

CHAIR - No, you request of us to go in camera for the purposes of providing that information in answer to that question.

[1.45 p.m.]

Mr DAVY - I don't think I can at this stage. You can require us to go into camera but my understanding is that we are here voluntarily. I can't volunteer confidential information. Even asking me whether I want to go into camera is risky. If we want to have this conversation, I think we should go into camera.

Ms FORREST - I am happy to leave this until a bit later, as long as we leave adequate time at the end.

CHAIR - We will leave it until we go through all the publicly available information.

Ms COURTNEY - Given we had this unprecedented long Basslink outage and the unprecedented low rainfall, earlier in 2016 an energy supply plan was instigated with the Government. Over the past eight months or so, did you ever contemplate load-shedding for residential customers?

Mr GAFFNEY - You mentioned that you were approached by some major industrials about shedding some of their load and you also had discussions. Were you approached first by a company or did they announce they were going to shed load? What strategy came first? Was it from the industrials or was it one of the strategies you guys contemplated anyway because of the

PUBLIC

situation you were in? You made mention that some came to you and that you approached some others, so which was the first initiative?

Mr DAVY - I don't know accurately, but I can come back to you on that. I think the first one might have arisen from broader discussions rather than being an approach from one to the other but I will find out for you.

Mr BACON - Prior to the Basslink outage and the sale of the combined-cycle gas turbine being taken off the table, was it Hydro Tasmania's intention to renew gas contracts beyond 2017?

Mr DAVY - Hydro Tasmania has other gas assets at the Tamar Valley site, so there is a peak in generation at that site. We also have a tolling agreement with the Bairnsdale Power Station in Victoria and we retail gas to industrial, commercial and residential customers in Victoria, so we have been involved in negotiating gas arrangements beyond 2017.

Mr BACON - Was Tasmanian Gas Pipeline told by Hydro Tasmania in meetings last year that you didn't intend to renew that contract beyond 2017?

Mr DAVY - I'm not sure. Can I take that on notice? It doesn't sound likely but I will find out. We were talking to TGP between November 2013 and February 2015 but no agreement was reached and we haven't had any particular negotiations since then.

Mr BACON - Why did the negotiations stop in February 2015?

Mr DAVY - Because TGP notified us that it did not want to continue negotiations.

Mr BACON - So in February 2015 they contacted you and said they didn't want to continue negotiations for a contract beyond 2015?

Mr DAVY - I don't know if they said they didn't want to, they just said they wouldn't continue.

Mr BACON - Did they give a reason why?

Mr DAVY - I don't know, it was a long time ago.

Mr BACON - Can we put that on notice to find out the nature of it?

Mr DAVY - Sure. So the question was did they give a reason?

Mr BACON - No, the question is why did the negotiations stop there? Were they told at any point that there would not be a gas contract for them beyond 2017?

Mr DAVY - I understand.

Mr BACON - There are commercial realities around negotiating a new contract with the gas pipeline. Can we assume those negotiations will start up again?

Mr DAVY - Yes, I have had contact with some senior individuals from TGP and Palisades to restart those discussions.

PUBLIC

Mr BACON - Was that contract made by Hydro? Who initiated it?

Mr DAVY - There has been contact from them to us to restart the negotiations.

Mrs RYLAH - I am not sure if this is a question for Hydro so if I am asking the wrong person, let me know. It is contended the delivered energy price of the contestable loads in Tasmania is amongst the most expensive in the world. Are you the right group of people to ask?

Mr DAVY - We are not responsible for the delivered price of energy in Tasmania or anywhere else.

Mrs RYLAH - Not even for the major industrials?

Mr DAVY - We contract either with retailers or, in the case of some of the major industrials, directly with them for the energy component of their electricity purchases.

Mrs RYLAH - So in regard to the major industrials?

Mr DAVY - I see the contention that it is the most expensive in the world but I do not know what the substantiation is for that. In terms of the methodology by which prices are set in Tasmania for electricity contracts, there are five regions in the National Electricity Market, Queensland, New South Wales, Victoria, South Australia and Tasmania. Tasmania sit in about the middle of those five regions with the contract price of energy and that is the bit we are responsible for.

Mrs RYLAH - When we are setting energy prices in this state, because we are in a global market for our manufacturing industries, what consideration is given to the relative cost of energy in Tasmania compared to the rest of the world?

Mr DAVY - I cannot talk for the rest of the world but I have information about how we are relative to the other NEM regions and Tasmania is about in the middle for contestable customers.

Mrs RYLAH - Does AEMO take that-

Mr DAVY - In terms of setting?

Mrs RYLAH - How do we sit globally in the cost of energy we provide for the major industrial customer? The major industrials have to compete globally.

Mr DAVY - For the major industrial customers we have negotiated individually with them for the energy component. Some of them contractually have dealt with us and others have negotiated with us and then put a retailer between our arrangement and their arrangement. They have done the negotiation for the energy component with us but have then used a retailer to provide them with their ongoing services as they are using the power. The pricing for each of those customers has been to help them be internationally competitive, so we have worked for decades with large industrial customers in Tasmania to help them ensure their international competitiveness and my understanding is that, by and large, that has worked. Those customers have come to us when they are finding it difficult to be competitive and along with all their other

PUBLIC

suppliers we have looked at how to manage their business to continue to be competitive and so far that has worked. As you know, the four large customers I am talking about are all still operating.

Mrs RYLAH - So when you go into negotiation they inform the debate on what is happening to global prices in energy, as opposed to you doing the research and knowing the range of prices you can offer? Are you telling me that you don't do the research?

Mr DAVY - We don't research the international price to our customers. There are all sorts of things that affect their competitiveness. When a large customer comes to Hydro Tasmania to look at the energy component of their energy supply arrangements, we verify for ourselves that what they are saying about their international competitiveness looks right to us. We try to understand the broader industry they are in in order to be fully informed for our negotiations. That is normal practice.

Mrs RYLAH - That is what I imagined would happen, so where do we fit in the price range when you are informing yourselves of that price range?

Mr DAVY - The situation is dramatically different in other countries. There are some countries where there are assets that are dedicated to supply certain industrial customers and there are other countries where they have very high electricity supply costs, but nonetheless those countries are still producing the same kinds of materials as are produced in Tasmania, but there are other reasons why that manufacturer might be competitive there. The market might be a lot closer so the transportation costs are lower, or some of the raw materials for the production might be much more available or at better prices. There are lots of factors, not just the energy price.

Mrs RYLAH - I get that, but in terms of the energy component of that -

Mr DAVY - There is a very wide range.

Mrs RYLAH - Where do we fit? Are we at the bottom or the top?

Mr DAVY - We're not the most expensive but we're not the cheapest.

Ms FORREST - Are we at the top of the range?

Mr DAVY - I haven't seen detailed research. I simply don't know. It's a good question but I don't know the answer, so I can't say I know the answer if I don't.

CHAIR - Again, would it help if you took that on notice too?

Mr DAVY - But this is other people's information. We haven't done research into that. There may well be research into it, but if you wanted to find that research you would find it as easily as I.

CHAIR - Who would have that information, then? I thought it was a direct issue Hydro was involved in.

Mr DAVY - No, we look at the competitiveness. We look into the industries that our major customers are in, but I have not seen where we have engaged anybody to provide delivered energy

PUBLIC

costs into different industrial sectors globally to see how we compare. As far as I know we haven't sought that work recently. It may well exist, but we haven't sought it.

CHAIR - The committee can further look and consider that.

Mr BACON - You said in your opening statement that the Energy Supply Plan was announced in late February. When did Hydro start working specifically on the Energy Supply Plan?

Mr EVERY-BURNS - I don't know, that is operational. We were talking about the issues that emerged from September onwards but when that was formalised I am not sure.

Mr DAVY - Yes, it was in the weeks leading up to the announcement.

Mr BACON - Can you give some indication of what happened from Basslink going down on 20 December, the last weeks of December, then January and the first couple of weeks of February?

[2.00 p.m.]

Mr DAVY - Sure, but I have to make sure I don't give you the wrong information. We started internally to ramp up our concern about the situation on the day we found that the Basslink failure was an undersea cable failure. On 22 December 2015 we formed our internal energy supply management team and on 14 January 2016 the Tasmanian Government formed the energy cabinet subcommittee and met for the first time on 15 January, so either at that or one of the following meetings the terminology 'energy supply plan' would have come up.

Ms FORREST - How often did that Cabinet committee meet?

Mr DAVY - There were the occasional breaks but generally it met every week. I don't have the date we started working on the Energy Supply Plan to hand.

Mr BACON - So we can put that on notice?

Mr DAVY - Yes.

Mr BACON - Following the failure of the Basslink cable, were there ever any discussions with the minister or his office about playing down the extent of the energy crisis?

Mr DAVY - Not to my recollection.

Mr BACON - The minister put out a press release on 27 December saying there was no energy crisis. Was that based on advice from Hydro Tasmania?

Mr EVERY-BURNS - On 27 December water storages would still have been in the 20+ per cent range.

Mr DAVY - I would say no.

Mr BACON - So that wasn't based on advice from Hydro Tasmania?

PUBLIC

Mr DAVY - I would say we did not offer an opinion to the Government about whether the situation should be called a crisis or not.

Mr BACON - How many meetings did you have directly with Minister Groom between 22 December 2015 and 15 January 2016?

Mr DAVY - I will have to take that on notice, but we had some between 22 December and the first subcommittee meeting. I understand the question but I simply don't know how many.

Mr BACON - Were they here in Hobart?

Mr DAVY - We had phone conversations and I think some face-to-face meetings, but I will take the question on notice.

Mr BACON - When did you first engage with TasNetworks around the Energy Supply Plan?

Mr DAVY - The engagement with TasNetworks was very early in the piece because we identified that in order to install the temporary diesel generation we needed to form some new connections, and the electrical connections are with TasNetworks.

Ms FORREST - Following on from that, I want to read something from your 2013 annual report under 'contingent assets and liabilities':

The corporation currently has a disagreement with the owner of the Basslink interconnector, Basslink Pty Ltd, relating to charges associated with the Basslink services agreement. This dispute dates back to events in 2009. In December 2012 the dispute broadened following implementation by BPL of a new 'dynamic protocol' for the bidding of Basslink. The dispute has been referred for arbitration, with the hearing fixed for November 2013.

Can you explain to me what the new dynamic protocol was about and what it meant?

Mr DAVY - You are referring to the revelations on the ABC yesterday?

Ms FORREST - No, I am talking about what's in your annual report from 2013. It's a direct quote from your annual report.

Mr SMITH - Because we were having a legal disagreement about the operation of the dynamic protocol it had to go in the accounts as a contingent liability.

Mr DAVY - I don't think it was a liability, I think we were ranking that as a future possible claim, not a deficit.

Ms FORREST - What does the 'dynamic protocol' refer to?

Mr DAVY - The dynamic protocol is a mode of operation Basslink put in place from late December 2012 through the calendar year 2013.

Mr SMITH - The matter was subsequently been decided at arbitration.

PUBLIC

Ms FORREST - In favour of?

Mr DAVY - In relation to the dynamic protocol, Basslink made an announcement in January 2014 saying that the arbitration found that the dynamic protocol was something Basslink should not do and they had to cease it.

Ms FORREST - What is or was the dynamic protocol?

Mr DAVY - It restricted the flows on Basslink while Basslink was flowing from Tasmania to Victoria.

Ms FORREST - So it limited the amount of energy that could be -

Mr DAVY - It limited the amount of energy in certain circumstances.

Ms FORREST - What sort of circumstances?

Mr DAVY - They had a protocol whereby they were calculating some immediate past use and saying because of that past use they would restrict the amount of energy that can flow in a particular half-hour to certain megawatts.

Ms FORREST - Why were they imposing that dynamic protocol and restricting Hydro at that point? Was there a risk to the cable? What was the problem there?

Mr DAVY - They thought it was what they should do. That is what they told us.

Ms FORREST - Just because they could?

Mr DAVY - Well, they could not. We had an arbitration process where -

Ms FORREST - So they were unfairly limiting the capacity for Hydro to export?

Mr DAVY - I don't know about unfair, but outside of the terms of their contract, yes. They were not complying with what they were required to do under the contract.

Ms FORREST - Did that result in a payment to Hydro?

Mr DAVY - That is commercially sensitive.

Ms FORREST - So the arbitration found in Hydro's favour?

Mr DAVY - Yes, but the arbitration did not come up with an award for that. The issues that were settled by arbitration were settled by arbitration. Compensation for that particular thing was not settled by arbitration.

Mrs RYLAH - But the arbitration was to desist from their using the dynamic protocol?

Mr DAVY - That is correct, yes.

PUBLIC

Ms FORREST - When you go to 2014 in your annual report again under contingent assets and liabilities, it says:

The corporation made a claim against Basslink Pty Ltd, BPL, in respect of losses incurred by the corporation as the result of BPL's failure to make full contractual capability of Basslink between 24 December 2012 and 14 January 2014.

That was the following year and the upshot of what was being discussed the previous year?

Mr DAVY - Yes, that is correct.

Ms FORREST - Just on Basslink for a minute, the Minerals and Energy Council put in a submission, which I am sure you have read, and they posed a question I will put to you. In terms of revenue, is the Basslink outage an insurable event and, if so, what costs will or will not be absorbed by Hydro?

Mr DAVY - As far as I can see, the only company that has talked about the Basslink failure being an insurable event is Basslink, so you should probably ask them about that.

Ms FORREST - So it is not an insurable event from Hydro's perspective? That is the question.

Mr DAVY - We disclosed at the start today what the impact on Hydro Tasmania has been of the Basslink failure.

Ms FORREST - But you cannot insure against that yourself. Does Hydro have insurance against this sort of loss that potentially you could suffer?

Mr DAVY - We have a variety of derivatives within our portfolio but not specifically insurance for this kind of Basslink failure with other parties.

Ms FORREST - What profit and loss impact and balance sheet impacts have been sustained due to the loss of arbitrage opportunity of Basslink outage and below average inflows compared with Basslink being operational and normal inflows?

Mr DAVY - We have given an estimate of between \$140 million to \$180 million which is the combined impact of the low inflows and the almost six months outage.

Mrs RYLAH - Are they gross or net earnings forgone? Is it net impact?

Mr DAVY - In the public submission we have included some of the components.

Mrs RYLAH - So net impact?

Mr DAVY - Yes, net impact.

Ms FORREST - Again this is one from the major industrials. Would Hydro Tasmania be a viable business if it were to lose 100 megawatts from its current customer base?

PUBLIC

Mr DAVY - Yes, I think we would.

Ms FORREST - Otherwise we would have an oversupply in the state?

Mr DAVY - No, Tasmania's demand is about 10 800 gigawatt hours as generated. You can talk about load as consumed at the point of consumption or load as how much electricity supply is generated and as generated Tasmania's demand is 10 800 gigawatt hours per year. The hydro system on average we expect to provide 9 000 gigawatt hours per year if we have average rainfall in the future. The wind on-island generates between 900 and 1 000 gigawatt hours a year, so there is a shortfall of about 800 or 900 gigawatt hours per year which is about the same as 100 megawatts average load, which is currently met by the net flow across Basslink when Basslink is available, or by additional on-island generation.

Ms FORREST - That is generation, but what about consumption?

Mr DAVY - That is what I am saying. If Tasmania's demand was lower by 100 megawatts on average we would be able to meet Tasmania's demand with the renewable energy in Tasmania on average.

Ms FORREST - The Basslink facility fee swap fixed interest rate is 7.83 per cent. I know this was struck some time ago and it is not with Basslink, it is with Macquarie, as I understand it. What options have been explored to renegotiate the interest rate, if any?

Mr SMITH - That deal was struck a long time ago but it is a long-term deal and there are not very many opportunities to open up, or there's none.

Ms FORREST - It is 25 years, so you are stuck in that. Has Hydro had to continue to pay this throughout the outage of Basslink?

Mr DAVY - Pay what?

Ms FORREST - The facility swap fee.

Mr DAVY - No, the facility fee had not been paid.

Ms FORREST - No, the facility swap fee; the arrangements with Macquarie - that interest?

Mr DAVY - That arrangement is not with Basslink so it was not suspended while the outage was going on.

Ms FORREST - No, so have you had to continue to pay that amount all this time?

Mr DAVY - Yes.

Ms FORREST - How much has that been over that period?

Mr DAVY - We will come back to you on that. Can we take it on notice?

PUBLIC

CHAIR - I have a question on the diesel fleet. You made the comment this morning that the diesel fleet is being progressively decommissioned as it has served its purpose. What does that mean? What does that entail?

Mr EVERY-BURNS - When the external generation was brought on shore each of the units and companies involved had leases in place. They did not all start at the same time and do not all finish at the same time. You have to lease them for a period of time and generally I think that is for a three-month period. The Catagunya site is the first one we mobilised and very quickly after that we mobilised Meadowbank. Those units and sites were up operating fairly quickly. When we got to the point of the leases reaching their natural terminal point that was coinciding with mid-June or the end of June, so they were the obvious break points for us. As we moved ahead there were other units that came on, including other diesel sets and then other gas turbine units that were all contracted later or took longer to install, so for whatever reason there is a number of staggered end-point dates. When I say they are being progressively decommissioned, rather than going in and the corporation paying break fees or anything like that, it has been very useful for us to let each of those units or sites come to the end of their leases and then cut them off.

[2.15 p.m.]

In the situation with Catagunya and Meadowbank, we had to give notice that was some six weeks early and so in some cases that was too early for us to terminate, so we extended the leases by a slight amount. As soon as we got to the point where we could see the end in sight the board took the view that they should terminate on their dates. Some of them will remain in place. The ones at Bell Bay, the 75 megawatts, will remain in place for longer than the diesel sets. The earliest are the diesel set arrangements that are probably terminating now.

Mr DAVY - Yes, we have terminated the arrangements and the physical removal of the assets will take place over -

CHAIR - They will go back to where you got them from?

Mr DAVY - That's up to them, but from the date our lease arrangements terminate the owners of those units are free to take them to where they want to take them next.

Ms FORREST - How long did you lease them for at the outset?

Mr DAVY - It varied. I think between three and four months were the initial lease periods.

CHAIR - What has been the total cost of getting that infrastructure here, setting it up, operating it and now the decommissioning and ending the contract?

Mr DAVY - It has been \$64 million.

CHAIR - That is the total from setting up to decommissioning.

Mr DAVY - Installation, lease, decommissioning and the operating costs.

Mr BACON - How much energy have they produced so far?

Mr EVERY-BURNS - They have produced 55 000 gigawatt hours.

PUBLIC

Mr BACON - There was a range of minutes and other documents from the risk management committee on Tuesday 15 December that were released to the *Mercury* under RTI. I will quote briefly from those minutes, which say:

The committee questioned whether the risk relating to an unplanned outage of Basslink for 60 days or longer was appropriately assessed in light of Tasmania's increased reliance on importing electricity from Victoria.

This is at the same time that I think you said Basslink was supplying 40 per cent of Tasmania's energy. The next section is redacted and it appears to be the name of someone who advised that Hydro Tasmania was adequately positioned to respond to Basslink being unavailable past 60 days. Can I just ask who gave that advice?

Mr EVERY-BURNS - I probably know. It was in the risk management committee and as chairman of the board I take the view that I ought not chair that committee so I don't; I am a member. The observation about that particular risk was made by me. You didn't have to be a rocket scientist, I simply observed all the risks and issues and made the comment in that meeting that the largest risk we faced at that moment, in my view, was probably a Basslink risk. It has been interpreted to mean that therefore we knew something was going to happen but I can tell you I had no concept in the world that anything was going to happen and no reason to believe it was going to happen. It was simply an observation. Steve Davy was the one who answered me on that.

Mr BACON - He said that Hydro Tasmania was adequately positioned to respond to Basslink being unavailable past 60 days. Was that based on the retention of the Tamar Valley Power Station?

Mr DAVY - At the time we continued to own the Tamar Valley Power Station and it was available to use. We had not reviewed our management of the system as a whole because the Tamar Valley Power Station was still available.

Mr BACON - It was undergoing reconditioning.

Mr DAVY - We had actually taken the decision to re-fire it.

Mr EVERY-BURNS - At that point we had decided to.

Mr BACON - You had already decided to do that and that process was already underway. Would you have been able to make that prediction if the Tamar Valley Power Station had been sold?

Mr DAVY - I cannot remember the question and answer, but what I believe to be the case is that our management of water and storages had enough capacity in it to deal with the two-month undersea cable failure possibility.

Mr BACON - With the combined-cycle unit still being in Hydro ownership?

Mr DAVY - With the combination of it being in ownership and having enough water in storage, even though we had already suffered those dry periods, we were still in that mode of operation.

PUBLIC

Mr BACON - I can look them up but do you remember where the dam levels were around that time?

Mr EVERY-BURNS - They were over 20 per cent.

Mr DAVY - I have a graph here of roughly where they were. It would be about 20 per cent.

CHAIR - You need to make it clear you will take that on notice.

Mr DAVY - Yes.

CHAIR - I need to remind members of the time and that we have another matter to determine in camera so we will need to progress.

Mrs RYLAH - I am trying to get an understanding of the relationship between your ministerial charter and the fundamental imperative of energy supply to the state. When you put into your various modelling buying load reduction, is the cost simply the cost to Hydro - which I suspect it is - and how do you then communicate that because the other part of that is the cost to the state's economy? Is it part of your modelling or do communicate that separately through the energy task force or through Treasury or through your shareholder minister? How do you escalate these issues? I do not know what you do so I am trying to get a sense of what that is and how you deal with those escalations.

Mr EVERY-BURNS - I can let Steve have a chop at it and if he does not get there, ask me again.

Mr DAVY - We have been given by the Government accountability for energy security temporarily while we are in this situation. The ministerial charter we currently work under does not give Hydro Tasmania formal responsibility permanently for security of supply but we have been instructed or required to make energy security our top priority at the moment as a result of the situation we are in right now.

As far as energy planning is concerned in the broader sense, because we are part of the national market, it is AEMO's role to look at supply and demand and calculate whether or not there is always going to be sufficient supply to meet demand under extreme circumstances. It uses that modelling you talk about of what would be the impact on the economy if there were supply shortfalls. That is a formal process AEMO would use in determining how much supply is needed but because Tasmania is mostly supplied by hydro sources they largely rely on the information we provide them. Even through that methodology, AEMO is kind of relying on the information Hydro provides about its own assets and ability to provide its own energy at some point in the future.

If Hydro Tasmania was operating in a region where there was other generation, we would be managing our own affairs. We would not be managing energy security for the whole state. The market operator would be saying, 'I don't think we have enough energy here, we will need to encourage people to build more or we will need to instruct people who have taken energy off-line to put it online to ensure energy security'. My understanding is that this idea of giving Hydro Tasmania the responsibility for energy security is something the Government is still thinking about and they may well give us that accountability at some point in the future.

PUBLIC

Mr BACON - Was that in the draft ministerial charter the Government provided to Hydro Tasmania?

Mr DAVY - That is a confidential document, I believe.

Mrs RYLAH - How do you communicate to government about your models and the economic cost of buying load reduction? How was it communicated to government that the energy crisis was developing? Who does that?

Mr DAVY - As I said, that is the work AEMO does. They have a concept of what is an acceptable probability of having load reductions in a region because of energy shortages and they calculate that based on -

Mrs RYLAH - Did they feed into the -

Mr DAVY - I don't know; I don't think so. Do they calculate it in general or did they do it this time?

Mrs RYLAH - As our crisis worsened, were they providing information to the Government to say, 'This is the economic impact of load-shedding'?

Mr DAVY - If they did, it wasn't via Hydro Tasmania.

Mrs RYLAH - And Hydro wasn't aware of that?

Mr DAVY - No, we weren't involved in those sorts of calculations. I don't know whether such calculations were done, but we didn't do them.

Mr EVERY-BURNS - I think Joan was asking if we had to make a decision on buy-backs or recommendations on buy-backs from customers. We did it on a business basis, and Steve got very close to it earlier when he said that once we knew we were installing diesel generators or were running combined-cycle gas turbines or open-cycle gas turbines we had a range of prices ahead. You know what it is going to cost you to do that, so that begins to set an envelope and you would say, 'If my choice is to get cooperation from an MI, including some form of buy-back', you just rank that and say that is a better alternative than the next most expensive alternative, and then the Government, I think you are aware, had a protocol where in dealings such as that they simply wanted to be informed or discuss it. That is how it was managed and Steve handled a number of those conversations. It was just handled back and forth so there were no surprises. In the national sense there is the AEMO overlay Steve is talking about. Once we were separated from the national grid, we took a view of how we would economically manage in Tasmania, and some of that included those buy-backs and that included communication with government.

Mrs RYLAH - And that happened in that energy cabinet subcommittee?

Mr DAVY - Some of it happened through the Cabinet process, yes.

CHAIR - This is probably the time to address the issue on our plate in relation to evidence being taken in camera. So I am clear on that position, your position is that you are not making a request of this committee to take that evidence in camera? I think you have said at this stage it is

PUBLIC

a matter for the committee to determine whether they will go into camera to receive the evidence. Is that the situation?

Mr DAVY - I am asking that we go in camera to discuss how to answer the question.

CHAIR - The committee is satisfied with that position.

Evidence taken in camera.

CHAIR - Thank you very much for your attendance today. We are only part-way through. We will be requiring you back here and how and what form it will take place will be discussed by the committee. We will be in contact with you at the earliest opportunity to see where we are going and what we are doing. We thank you for your attendance here today and your answering of the questions and the issues that have arisen.

Mr DAVY - Thank you to the committee. We appreciate the respect we have been shown.

THE

WITNESSES

WITHDREW.

PUBLIC

Ms REBECCA KARDOS, CHIEF EXECUTIVE OFFICER/MANAGING DIRECTOR; Mr GRANT RUSSELL, CHIEF OPERATING OFFICER, CUSTOMER OPERATIONS; Mr KANE INGHAM, GENERAL MANAGER, COMMERCIAL SERVICES; WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Mr Dean) - This is a public hearing. You have provided us a written submission and other documentation. The evidence taken here today has parliamentary privilege but once you leave here that no longer applies. Evidence will be recorded on *Hansard* and made public. The session is also streaming live so be aware of that. If we reach a stage where you believe the evidence you are about to give should be taken in camera, you can make that request of the committee and the committee would then determine whether that should occur.

Ms KARDOS - Thank you for inviting us to appear before the Parliamentary Standing Committee of Public Accounts to discuss the operating and financial performance of Aurora Energy Pty Ltd and its financial outlook. Our recently-appointed chair, Ms Caryle Demarte, sends her sincere apologies that she could not make it today. I acknowledge the point you made, Chair, that we operate in a fully competitive environment and there may be times where we will flag that. Giving information may be challenging and we will request that is done either through a confidential submission or in camera.

As the committee is no doubt aware, the period leading up to my appointment as CEO of Aurora Energy on 1 July 2014 was one of significant change for Aurora Energy, but also for the Tasmanian energy supply industry. On that date, the market became fully contestable. That included residential and small businesses. It was against this backdrop that Aurora Energy emerged as an independent, committed energy retailer with the sole focus on Tasmanian customers, providing them with consistent, proactive and strong customer advice linked to customer value. This approach assisted us in achieving strong operational and financial performance in our first year of operations and resulted in returns to government of \$34.8 million, and achievement of all our operating and financial performance targets in that first year.

Throughout our first year of operation we embedded a new operating model, we prepared for competition and we implemented a customer excellence framework. We undertook improvements which targeted increased efficiencies and focused on improved customer service outcomes for Tasmanians. We did this whilst reducing our operating costs by more than 20 per cent against budget. This focus, together with a number of our operational and business support activities, has enabled us to position ourselves as a responsible, low-cost Tasmanian energy retailer.

I am proud to say that the strong performance evident in 2014-15 has continued into 2015-16. Aurora Energy is again on track to achieve the majority of its operating targets and all its financial performance targets.

The focus on driving cost efficiencies is consistent with a requirement to operate as an efficient entity, providing services in a cost-effective manner. As evidenced by our strong financial performance, we have been able to spend less while providing more services and support to our Tasmanian customer base. There have been a number of examples over the past two years that demonstrate that commitment and those achievements. The Your Energy Support program, the YES program, is the most evident of that. That program has been hugely successful; both customers participating in that program and the community services sector as a whole have acknowledged the success of that program in supporting vulnerable Tasmanian customers, with

PUBLIC

over 2000 customers participating in that program at any time. Year to date, we have had 813 participants in the program successfully complete.

As part of the YES program, this year we have been able to increase our support to the No Interest Loan Scheme Tasmania, run by NILS Tasmania, and increase the energy efficiency subsidy as part of the NILS energy saver loan. Our ongoing partnership with NILS has been enormously successful in helping vulnerable customers, low income customers, to purchase energy efficient appliances and making fabric and fitting changes within their homes. An example is, through our support and contribution, that roughly 400 households have been able to purchase a range of energy efficient appliances. This includes 203 heat pumps, 111 new energy efficient fridges, 83 washers, 34 heat pump hot water systems, 18 freezers and 16 household insulations. I am sharing that to demonstrate the practical difference we have been able to make with our customers through our association with these entities.

In February this year, we officially launched a partnership with Rural Business Tasmania which is designed to provide Tasmania agribusinesses with services to help manage their energy usage and costs. We did that at that time in recognition of drought conditions that were affecting the agribusiness sector. It is interesting to note that partnership will now support those who were impacted by the floods now.

Turning to most recent times with our support of flood affected areas, we immediately put in place a range of measures to support flood impacted customers. Through our proactiveness we have actively contacted YES customers in flood impacted areas to understand what the nature of their impact is and what we could do to help them. As of last week, there were 16 customers we have been able to actively support in the first week alone. We know there will be many more to come.

Ms FORREST - What support are you giving?

Ms KARDOS - That may be payment arrangements or one-off financial support payments. It depends on the individual circumstances.

Our focus on delivering valued customer services outcomes was also demonstrated during the recent energy supply event. Aurora Energy worked to assist customers in industry in a number of ways. Examples of these were management of our energy purchasing risks, the provision of information to customers, the participation on a number of inter-government business committees formed to address the event, and working directly with our large business customers to help them manage their contract renewal process during this challenging time. Our effective management of energy risk has ensured there has been no detrimental effect on Aurora Energy's financial position and that the price customers pay has largely been unaffected.

More recently, we have been working closely with the government in the development of the Tasmanian energy efficiency loan scheme due to be rolled out towards the end of this year. We have also been proactively engaged with customers with the recent launch of our winter energy campaign.

As everyone on the committee would know, last winter was one of the coldest on record. Energy usage obviously increased in light of that. We saw a number of our customers really struggling in terms of paying their energy bills this year. We wanted to proactively assist them and help them make more-efficient energy choices through low-cost or no-cost changes they can

PUBLIC

make. It's a multi-phased campaign. Phase 1 is about advice and support; phase 2 is around payments, and phase 3 is about targeting vulnerable customers.

Looking to the future, we acknowledge the electricity market is undergoing a period of significant change, both locally and nationally. We recognise the importance for Aurora Energy to remain relevant in that market and retain the confidence of Tasmanian consumers during this period of change.

I believe our performance over the last two years as a stand-alone energy retailer has strongly positioned the business to respond to this period of change. I am confident in our ability to maintain a strong business, deliver strong customer outcomes and continue to deliver sustainable returns to government, whilst effectively managing the risks inherent with energy retailing.

CHAIR - It is in your submission that your customer's pay has largely been unaffected. What do you mean by that? Obviously there has been an effect on some customers. I take it that has increased the costs and not decreased costs to them; is that case? If so, why? I ask because I think the government made a statement that, as a result of the crisis we have just gone through, there would be no impact, as I understood it, on residential customers and other customers moving forward. I ask that question in light of that statement.

Ms KARDOS - For regulated standing offer for customers, this is all residential customers and small business customers that consume less than 150 megawatt hours per annum, they are covered by a standing offer price. As a result of how the pricing of that is structured, they were not impacted at all by the energy supply event. Their prices are set by the Tasmanian Economic Regulator.

CHAIR - It is the farmer that's on contract; is that the one that we are talking about?

Ms KARDOS - The customers who were affected were a very small number of large commercial and industrial customers. These are customers who consume greater than 150 megawatts, roughly more than \$40 000 a year spent on their energy costs. That is the affected group. There were some customers who were Aurora Energy customers. I cannot talk for other retailers. There were a small number of Aurora Energy customers who came out of contract during the first quarter of this calendar year.

CHAIR - Is that the farmers that we have been hearing a lot about?

Ms KARDOS - In the media, are you talking about?

CHAIR - Yes.

Ms KARDOS - Yes, that is correct. For that small number of customers, they did see a portion of their price increase directly attributable to the energy supply event. Usually retailers set their wholesale position before a quarter. Buying energy in a quarter is usually very expensive.

Ms FORREST - At the spot price? Is that how they buy it?

PUBLIC

Ms KARDOS - No, you can get in-quarter contracts, but they are usually very expensive, so you tend not to and you take the exposure to the spot market. For those customers, we did see a price increase. That price increase on average was approximately \$5000.

Ms FORREST - Over the year?

Ms KARDOS - Over their first contract period.

Ms FORREST - Which was for?

Ms KARDOS - It depends on the customer. Some customers may have a one-year contract or they may even just contract for six months, or they may contract for three years. It is really on a customer-by-customer basis.

Mr INGHAM - That was priced in for the first 12 months. If they had a three-year contract, the price in the second and third years would not have included that.

Mr BACON - How many of those customers?

Ms KARDOS - In total 116 customers; that is about 8 per cent of our large customer base.

Ms FORREST - With those customers, in terms of being proactive, do you contact these customers when they are coming out of contract, and did you do that with all these customers?

Ms KARDOS - Yes.

Ms FORREST - They just failed to renew or did they make a deliberate decision?

Mr RUSSELL - The contracting process happens each and every month generally, which tend to be the end of December going into the next calendar year, and then July in that year. We have a renewal process but we proactively contact each and every customer whose contract is coming up to an end. We do that in advance. We will then provide additional quotes at their request. Requoting can be common when the price is very high; next week the price may come down. We will wait until next week and ask for another quote. That is the way the process actually works. The customer is aware of the contracting market and where it is at. We will provide a quote through to them. If they choose to accept that quote, that is great, but they may choose to wait on the contract expiring.

Ms FORREST - And risk the spot market exposure in that time?

Mr RUSSELL - That is effectively it; it is a customer call.

Ms FORREST - The ones that were perhaps exposed during this time and then were hit with a high spot market exposure -

Ms KARDOS - Sorry, to clarify, they were not directly exposed to the spot price. We as the retailer -

Ms FORREST - You contracted them halfway through -

PUBLIC

Ms KARDOS - We contracted with them into a fixed price arrangement, and we wore the exposure against the market.

Ms FORREST - Is Aurora fully hedged to deal with these fluctuations so that -

Ms KARDOS - We take a really prudent approach to our hedging strategies, but I would prefer to share the full extent of that in camera, if possible.

Ms FORREST - In terms of Aurora's role in the Energy Supply Plan, did you have a role in that? We know that you are the retailer, which probably had a lesser role, but certainly there was a role around assisting customers who may have had some exposure. Is there any other role beyond that that you had during that period?

Ms KARDOS - As I said in my opening statement, we had a number of roles. We assisted with the connection of the temporary diesel generation as part of our market role and the standard market procedures.

Ms FORREST - You had to assist with the connection of those?

Ms KARDOS - Just in terms of the -

Mr RUSSELL - The AEMO processes in terms of putting in FRMP effectively responsible for payment in the market.

Ms KARDOS - Financially Responsible Market Participants.

Ms FORREST - Explain that to me again. There is a requirement for Aurora to -

Ms KARDOS - It really depends on where the connection point is. When they were bringing in the temporary diesel generation they wanted to expedite that so we were looking at where the optimal connection was into the network and where that was in the metering. We had some involvement in relation to that. I think in the end most of the connection points became generation and hence behind the meter.

Ms FORREST - So TasNetworks?

Mr RUSSELL - Hydro Tasmania [inaudible] generation connection points.

Ms KARDOS - We were just involved as a market participant in those discussions to support those processes and the timely connection of that temporary diesel generation.

Ms FORREST - Was there any additional cost to Aurora in participating in that?

Ms KARDOS - In terms of the temporary diesel generation, no.

Ms FORREST - You said in relation to the energy supply event there were the energy purchasing risks you had to deal with. Are you able to talk about the impact the energy crisis had for Aurora?

PUBLIC

Ms KARDOS - There was no detrimental impact on our financial performance as a result of the energy supply event.

Ms FORREST - Were you contacted by Hydro at all to consider load reduction?

Ms KARDOS - Hydro provided us with a briefing in February on the energy supply event and the impacts. As part of that briefing we discussed what the impact was and what the opportunities were around managing the situation.

Ms FORREST - Was there any suggestion there may be a necessity for residential load reductions?

Ms KARDOS - Not at that meeting, no.

Ms FORREST - At any subsequent meeting since then?

Ms KARDOS - No, not in any of those subsequent meetings. Due to the nature of the Tasmanian energy market, 60 per cent of the load is major industrials. The small customer segments, the regulated standing offer is only a very small subsection. The benefit of them significantly reducing their load and the timing it takes to do that would not have provided the speed of response as required.

Ms FORREST - You touched on the large business customers you dealt with during the energy supply event, about recontracting them. I think you might have said how many there were that fell out of contract in that time.

Ms KARDOS - There were 116 customers that were impacted during that quarter.

Ms FORREST - Of those, they all entered contracts?

Ms KARDOS - They are 116 customers that entered into contracts with Aurora Energy. I can't comment for the other retailer; I don't know.

Ms FORREST - But that was during that first quarter, so they are potentially the ones we hear about that have perhaps been paying higher prices as a result of not recontracting earlier. Some of them made that decision based on the fact they were waiting for a better offer; is that right?

Ms KARDOS - For some of them, but for some of them their contract would have just fallen due during that period. It was unfortunate timing for them.

Ms FORREST - For those that fell due at that time, I guess whenever your contract falls due, you have to take the price that is offered and you can choose perhaps to wait or sign up. Is that the way it works?

Mr RUSSELL - You can request early pricing. You can't ask to recontract before your term ends, if that makes sense.

Ms FORREST - But you can get an indicative price?

PUBLIC

Mr RUSSELL - Yes, we can provide a quote.

Ms FORREST - So a major customer could go from one contract to the next in a seamless way, without any delay?

Mr RUSSELL - That's what happens in the main with a renewal; it is a seamless process. But you cannot say, 'I'm in a contract which has 18 months to run. Can I stretch that contract out for another 12 months in addition to where I am now?'. We will recontract, as could any retailer. That is standard practice.

Ms FORREST - How many contracts are there all up?

Mr RUSSELL - There would be 1400 large customer contracts.

CHAIR - In the case of the farmers, some of the 116 I am talking about, getting towards the end of their contract they cannot then wait and go onto a normal payment of energy and wait for a better period to recontract. Can they do that?

Ms KARDOS - No. There is no standing offer tariff for customers who consume more than 150 megawatt hours per annum. They can go out of contract, and as a result when you are out of contract you tend to pay a premium.

Mr BACON - Has there been a reduction in energy sold to residential customers through the energy crisis?

Ms KARDOS - We have observed a reduction in energy demand in standing offer tariff customers, yes.

Ms FORREST - Compared to like period?

Ms KARDOS - Compared to the same time last year.

Mr BACON - Is that a significant reduction?

Ms KARDOS - From memory it has been over the last three months on average 7 per cent. Most of that is temperature driven, though. It has been quite temperate. Most of your residential and small business load is weather driven. If we are having summer warm days, which we did, then you will see a reduction in demand.

Mr BACON - When the Government took out the ads in the three Tasmanian newspapers, I think it was getting people to go to the Aurora website for energy saving tips and the like. Did you see any reduction on the back of that or is it hard to tell?

Ms KARDOS - Nothing that we can directly attribute to that. Of that 7 per cent, maybe, but I cannot definitively say that 7 per cent is all weather related or some of that 7 per cent is. I know there was changed behaviour in my family and I am assuming that may be true of all Tasmanians but I cannot say definitively of that 7 per cent what proportion was directly related by customers being more prudent in their energy usage during that period.

PUBLIC

Mr BACON - Were there discussions with the Government about the best way to try to get residential customers to reduce their energy use in the early part of this year?

Ms KARDOS - The discussion we had with the Government was more in terms of what advice and guidance can we give customers in terms of if they want to take action. So Aurora Energy always provides energy tips and advice; that is part of our job, part of energy retailing. One of the things we did do at one stage was put up a banner on the front screen of our web page to enable customers who did want to change the behaviour within the home to have some ready tips and tricks to do that.

Mr BACON - That was not on the back of discussions with the Government? They did not come to you and say we want to try and minimise residential use as much as possible and take your advice?

Ms KARDOS - It was not as a result of discussions of that nature, no.

Mr BACON - I think you said in answer to an earlier question you had a briefing from Hydro in early February about the Energy Supply Plan. Was that the first engagement Aurora had regarding the Energy Supply Plan?

Ms KARDOS - Directly? We have discussions with Hydro at an officer level on a very regular basis. That was where I met with the chief executive officer of Hydro Tasmania and received a formal briefing on the event.

Mr BACON - Were you brought into the energy subcommittee of Cabinet? I think TasNetworks were brought into the process.

Ms KARDOS - Yes, that was in mid-March. We were a member of a joint coordination committee, which I think was in mid-March as well, coordinating efforts across the three entities.

Mr BACON - When Basslink first went down, what was the first engagement Aurora had and was any advice sought?

Ms KARDOS - I think it was 22 December when Basslink made the announcement there was an under sea cable fault. At that point I convened a meeting on 4 January of our energy risk assurance committee to discuss the impact of that event, the impact on our wholesale exposure, and the approach to managing that over the intervening period. We created a small committee which was meeting bi-weekly initially and then weekly, and now we have gone back to our normal monthly meetings.

Mr BACON - Did you provide advice to the Government early in the New Year about what the committee discussed and what Aurora's plans were with the energy crisis at that time?

Ms KARDOS - I am not sure if we did at officer level.

Mr INGHAM - No, not that I am aware of.

Mr BACON - There was no contact with the Government through that period?

PUBLIC

Ms KARDOS - We had our first meeting with the minister in early March, which is our normal minister meeting. We would have provided a briefing on our performance and how we are managing the risks associated with the energy supply event. We always have the opportunity to escalate issues. Once we received the advice from Basslink and knew what the impact was, we took immediate action and were confident we were managing it appropriately. That is now evident in that we have had no detrimental financial impact.

Mrs RYLAH - What I am reading in your financials is that you buy short and sell your product long. You are like a bank, borrowing short and lending long. I heard you say you are fully hedged. Is that correct?

Ms KARDOS - No. We have an energy purchasing strategy that is approved by our board. I am happy to share more details around that but I would request in camera to do that. Your position to the market is commercial-in-confidence. I am happy to share but I would rather do that in camera.

Mrs RYLAH - Okay. I look at trade and other payables, and reliability in that area is larger than it was in your budget for 31 December 2015. Can you outline what that extra almost \$40 million is?

Mr INGHAM - Yes. At that time at the end of December we had been seeing higher spot prices come in. That represents the amounts payable to AEMO for wholesale energy pool payments. That is what is reflected there. We also see a higher contract, the different receivable amount from Hydro Tasmania that offsets that amount. That should be within the asset section.

CHAIR - You talked about managing the impact of the issues and problems. In your submission to us you have said that monitoring of the energy risk has been a critical focus during the energy supply event. What did that entail? Listening to what was happening or what process did you enter into?

Ms KARDOS - We commenced weekly and bi-weekly meetings initially. We have border-proof limits in terms of our exposure to the market at any given time. What was our wholesale exposure, what were the earnings at risk during that period, what were our hedging strategies, what were the potential flow-through impacts onto customers - managing the wholesale risk. In energy retailing your exposure to the market is one of your most critical risks. The spot market can go from anywhere from minus-1000 through to plus-13 500. Fortunately those events occur very infrequently. You can lose a lot of money very quickly with your exposure and that exposure is not on average. It is in a five-minute interval. In those super peak periods at one stage during the energy supply event we were seeing prices of \$550. If that is in a super peak period where we have a lot of load exposed to the market it can cost you a lot very quickly. We put a range of mechanisms in place to ensure we are working within our border-proof limits and were managing that wholesale exposure prudently to minimise the flow-through impact. As a result, there was no detrimental impact on our financials.

CHAIR - As a result of all of this, there is a lot of emphasis put on and discussions about people connecting to solar, batteries and all of those things. You have already said there was a downturn of about 7 per cent. Is any of that attributable to that? The courses of action people were frightened in this situation in relation to their energy use and continued supply?

PUBLIC

Ms KARDOS - We haven't seen a spike in the number of embedded generation solar installations, household solar installations, that I know of. However, because the weather was so temperate the level of solar insolation would have been greater during that time, so that would have probably been a factor of that 7 per cent. You would have had a greater number of solar hours and as a result solar production would have increased during that period. If they weren't offsetting that within the home, they would have been exporting that into the network.

Ms FORREST - I was going to ask some questions Renewable Energy Credits. I noticed there were \$42.5 million worth of RECs in your last annual report expense in the P and L. How many RECs does that relate to and what was the renewable energy target percentage for that year?

Ms KARDOS - Can I take that on notice? I don't have those numbers on me at the moment. What I can tell you is that LGC liability at the moment is roughly around 400 000.

Ms FORREST - LGC?

Ms KARDOS - Sorry, Large scale Generation Certificates - around 400 000. That is roughly our liability. The market price of Large scale Generation Certificates has more than doubled in the last 12 months alone.

Ms FORREST - That's on the back of?

Ms KARDOS - There has been a number of factors at play. Federally there was a lot of discussion around the scheme itself and what should be the headline target. At one stage the original target was 41 000 gigawatt hours by 2020. That then was agreed, after a lot of discussion, to 33 000 gigawatt hours. As a result the liabilities were changed to reflect that. Also there was some change to the definition of an emissions intensive trading entity. A number of the MIs meet that and they then, therefore, get exemption certificates from that scheme. As a result of that the market around the Large scale Generation Certificates had been roughly trading around \$26 per certificate up until that time. Once the legislation was settled the price of Large scale Generation Certificates are roughly around \$82 per certificate now. We have a portion of our certificates in a long-term off-take arrangement. That only covers around 40-odd per cent of our liability.

Ms FORREST - This is something I struggle to fully understand, and I am sure a lot of members probably don't understand it any better than I do, but maybe they do. How are the RECs sold? Are they sold directly to the purchaser pursuant to a contract? It is a little bit hard to know how it all works. Are all the RECs sold via the registry and the spot market and do the RECs have to be registered first, even if they are sold under contract?

Mr RUSSELL - Basically all RECs have to be registered. If they are not on the register they don't count. That is the first piece. In terms of how they are actually made available, they can come through a number of mechanisms. You could have a power purchase agreement, you could directly own yourself, or you can buy through the clearinghouses. There is a clearinghouse where it tends to be small-scale aggregators who will then sell their credit certificates into the wider market. That is another mechanism. You own yourself, you have a power purchase agreement and effectively be that for certificates and energy or just certificates, or you buy them direct from a clearinghouse.

PUBLIC

Ms KARDOS - It is a national market, so there are a number of people who buy and sell certificates.

Ms FORREST - So Hydro is one of those sellers. Does Aurora buy from Hydro or do you buy from the market?

Ms KARDOS - We have an off-take arrangement for a portion of our liability and then we buy off-market depending on who is selling. We are always trying to get the best price, for obvious reasons, because that price gets passed through to our customers.

Ms FORREST - During the years when the carbon tax was in place there would have been RECs aplenty and possibly not so many now. Is that impacting the price?

Ms KARDOS - Yes. We are fast approaching 2020 and the headline number - and please don't quote me on this - was about 4000 additional megawatts of installed capacity that needs to be built between now and 2020 to meet the liability. That is quite a significant amount. You would have noticed that a number of mainland retailers have made significant announcements recently to ensure they can meet their liability. Aurora Energy is also looking at its strategy to meeting its liability because the scheme goes out to 2030 and ensuring we do that in the most cost efficient and appropriate risk approach as well.

Ms FORREST - Hydro hasn't been able to generate any RECs in the last little while and I assume, depending on how much it rains, it will take a while before they are back up to the levels because you have to generate a certain level before the RECs can be generated and sold. In your view, could there be a shortage and will that have an impact on Aurora?

Ms KARDOS - No, because it is a national market. We can buy RECs from anywhere in Australia.

Ms FORREST - It's more an issue for Hydro's revenue rather than Aurora's costs?

Ms KARDOS - Acquitting our liability, exactly.

Mr BACON - Have there been any discussions with the Government about the sale of the Aurora customer book?

Ms KARDOS - No, not recently.

Mr BACON - No ongoing discussions?

Ms KARDOS - No.

Mr BACON - Have there been discussions with the Government around dividends? You talk about a 7 per cent reduction in retail energy use in the early part of the year. Will that have any impact on dividends or have there been any discussions on that?

Ms KARDOS - No. Revenue doesn't have a direct impact on our bottom line results. As to the standing offer customer base, where we saw that 7 per cent reduction, when you look at the cost build-up methodology associated with that, we get a cost-to-serve allowance per customer and we recover that through the fixed daily charge and the usage or consumption within the

PUBLIC

premise. You won't see a one-to-one impact on our margin as a result. You can have a 7 per cent variation and, as per our half-yearly results, we are on track to exceed our financial performance targets this financial year.

Ms FORREST - There was a comment made some time ago that Aurora was allegedly paying above market price for Renewal Energy Credits and that in turn you're getting a cut from the non-contestable block-17 power from the Woolnorth wind farm. Is there any strength in that claim?

Mr INGHAM - I don't know anything about that.

Ms KARDOS - I really cannot comment. I am not sure on what basis.

Mr INGHAM - We obviously have a number of contracts for our purchase of RECs going forward and the local regulator considers all of those costs when he puts together his prices. I am not really sure how that could work, but -

Ms FORREST - I am not either, but I thought I would ask you.

Ms KARDOS - For our large customer base we are in a competitive market, so if our costs are not competitive then we will not win contracts.

Ms FORREST - Do you have off-take agreements with the Woolnorth wind farm and Musselroe?

Ms KARDOS - They are commercial-in-confidence agreements, so for me to comment I would prefer to do that in camera.

Ms FORREST - I am not asking you to comment on them, just do you have them with those wind farms? Can you say that or -

Ms KARDOS - Do you mind if we do that in camera?

CHAIR - We will consider that in a moment. We will get through the public information first.

Ms FORREST - In terms of the Granville Harbour proposal, I understand there is discussions going on with Aurora and Hydro. I am not quite sure why they are with Hydro. Is that something we can talk about?

Ms KARDOS - We are having discussions with a number of wind proponents in terms of potential off-take arrangements or Renewable Energy Certificates, but they are all commercial-in-confidence discussions. I can confirm we are having discussions with a number of wind proponents.

Ms FORREST - I would like to talk about what was then called the Aurora Energy Tamar Valley Power Station, when Aurora owned it. It was given to Aurora at a time when I believe the ACCC said that Hydro could not have it. It had to be competitive. That is why Aurora ended up with it. This is before your time obviously -

PUBLIC

Ms KARDOS - Well before.

Ms FORREST - Yes, they paid \$100 million for it or \$110 million - by the taxpayers of Tasmania. There have been some claims that during the time Aurora owned it that it was used a lot and actually displaced Hydro Tasmania generation to the point that Hydro Tasmania elected to export across Basslink because it was more financially sustainable to do that. Can you tell us about how Aurora operated the Aurora Energy Tamar Valley Power Station during that period?

Ms KARDOS - I am not in a position, sorry, to answer any of that, Ruth, because I do not know. I was not a member of the organization, neither was Grant and -

Ms FORREST - Would you have any historic records about the amount of generation over that period?

Ms KARDOS - We still have the records, so I can take the question on notice and see what we have in our archives. I personally cannot comment.

Ms FORREST - I would be interested in the amount of generation since Aurora took it over until it was then handed over, along with the debt, to Hydro.

Ms KARDOS - What you want to know is the amount of output - how much generation produced by AETV whilst it was in Aurora's hands. That data went through AEMO so the Australian Energy Market Operator will have all of that data, but we obviously do not have it on us. We can source that data and provide it to the committee.

Ms FORREST - I understand that the generators when they were bought were not new. A lot of them were bought from Enron and they generate a different frequency from what we use and had to be converted. I am just interested in the cost associated with that conversion.

Ms KARDOS - We can have a look and see what is on business records we have in relation to that, and -

Ms FORREST - And whether there was any provision for FCAS services at the time when Aurora took it on.

Ms KARDOS - Yes, we can look at that.

Ms FORREST - I understand that the decision for the Aurora Energy Tamar Valley Power Station was handed to Hydro as a directive. Hydro did not offer to take it, along with the debt which was soon written down. Is that your understanding, that it was a directive?

Ms KARDOS - Again, it was well before my time. I think that happened in June 2013 or something like that. No, I am not privy to any of the decisions made at that time.

Mr BACON - Your key initiatives for 2015-16 when you talk about the review into Pay As You Go, I think it says somewhere you had approximately 30 000 customers and you have done the first stage of the review. Now you are looking for alternative products. So are you committed to Pay As You Go as a concept but it is how you can deliver that into the future is the issue at the moment?

PUBLIC

Ms KARDOS - Yes. I have discussed this in previous scrutiny. The underpinning infrastructure is at end of life. I will get Grant, who is leading that strategic initiative, to give you an update of where it is.

Mr RUSSELL - We now have approximately 27 000 customers still on the Aurora Pay Pay As You Go platform currently operational.

Mr BACON - Is that dropping because no new customers can go on; is that the issue?

Mr RUSSELL - To be honest a lot of it is behavioural change from customers. We have accessed a number of focus groups who have customers who are current users and asked them questions. What do they like? What don't they like. What features and benefits worked for them? We had a large number change out of prepaid each year as well. I think about 1 400 customers changed out last July.

Ms KARDOS - We found a number of customers had a Pay As You Go meter and did not want it and did not realise they could access the free payment period. So Grant and the team did a text campaign because most people do not read the newspaper; even though it is advertised in the newspaper they were not aware of it. Through Grant and the team's proactiveness we found 1 400 customers who did not want this product any longer.

Mr RUSSELL - That is what we are aware of. What we are now doing is getting ready to go to trial with alternative technology which retains many of the features and benefits the customers told us they wanted. We are looking to do that in quarter three this year, which will be a relatively small scale trial to see what works with apps and bringing it into the twenty-first century. So bringing it up to date, giving customers greater visibility, greater choice, more flexible payment arrangements. They can use a whole range of payment channels potentially. Those kinds of things are what we are looking at. So we are hopefully we will have a trial underway in quarter three. We will again, once that trial is complete, go back to the customer focus groups, and get their customers again to come back with the benefits and features they liked, used and that worked for them. That will help us as we go towards a solution design and then implementation.

Ms KARDOS - That is just a test trial. It is not the final solution design, just testing the solution design. Obviously this is a significant investment decision for Aurora Energy and it is not something we will enter into idly.

Mr BACON - The other key initiative in 2015-16 is undertaking planning for gas retailing arrangements beyond 2016-17. Could you give the committee a bit of an update on how that is going?

Ms KARDOS - Our current gas arrangements are with Hydro Tasmania and they end at the end of calendar year 2017. So we have been undertaking a review of our gas customer book and what the options are around managing that into the future and what are options are in terms of those counterparty arrangements. That is in progress and has not reached completion yet.

Mr BACON - I am not sure how this arrangement happened in the first place. When Aurora operated the Tamar Valley Power Station, you did not have a negotiation then with Hydro over the gas supply?

PUBLIC

Ms KARDOS - My understanding is, correct me if I am wrong, that all of the gas arrangements are part of AETV Pty Ltd, so it is not with Hydro Tasmania directly; it is actually AETV Pty Ltd. When they transferred over, I assume, to Hydro Tasmania those gas arrangements also transferred across.

Mr BACON - Would it have been a risk to Aurora gas customers if Hydro had decommissioned and sold the power station and not renewed that gas contract beyond 2017?

Ms KARDOS - The risk is for Aurora Energy to ensure we secure an appropriate replacement arrangement, whether that be with Hydro Tasmania or another counterparty.

Mr BACON - Was there work done by Aurora when the power station was announced for sale?

Ms KARDOS - We have been undergoing a review over the last six months or even longer -

Mr RUSSELL - Nine to 12 months.

Ms KARDOS - Yes, over the last 9 to 12 months. That review is still in progress.

Mr BACON - What was the reason for that review initially?

Ms KARDOS - The end of those arrangements.

Mr BACON - The fact that they come to the end in 2017?

Ms KARDOS - Coming to the end. There are also a number of factors at play with the gas market more broadly. I think you know the discussion that has been happening on the east coast. Obviously the gas itself comes from Longford in Victoria, so we are also doing a review of long-term outlook in terms of gas prices, both in terms of commodity and then capacity. We only have a very small number of gas customers.

Mr BACON - How many would you have?

Ms KARDOS - Approximately 4000.

Mr BACON - They would be all small residential customers?

Ms KARDOS - Predominantly large ones.

Mr RUSSELL - There are some large ones, which are the bulk of the book, if that makes sense. They take the bulk of the load, but the vast number of customers would be small.

CHAIR - Has that plateaued now, the gas customers?

Mr RUSSELL - Yes. There are probably a couple of hundred connections, roughly. I cannot speak for anybody else in terms of Tas Gas retail. There may be a couple of hundred new [inaudible], which is the gas connection points, the meters established each year; there are new connection points. Certainly there is not a significant volume of new gas connections.

PUBLIC

Mr BACON - As part of that review have you done modelling around different outcomes for gas prices based on the sale of the gas-fired power station ?

Ms KARDOS - No.

Mr BACON - When do you expect the review to be completed?

Ms KARDOS - Probably over the next three months.

CHAIR - There were certain phases in relation to the gas rollout in the state and different locations coming on gas. Is that all finished has it, the connections? A lot of areas weren't set up for gas connections and energy.

Ms KARDOS - I'm not across the phased rollout of gas, sorry. I am not aware of that.

CHAIR - There were certainly phases; one was certain areas, then two and three.

Evidence taken in camera.