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18 OCT 2018

Hon Ivan Dean MLC
Chair
Parliamentary Standing Committee of Public Accounts
Parliament House
HOBART TAS 7000

Dear Mr ~~Dean~~ *Ivan,*

Thank you for your letter of 13 September 2018. I am replying for both the Treasurer and myself.

You asked for a response in relation to eight recommendations made by the Parliamentary Standing Committee of Public Accounts (the Committee).

I will preface my detailed response to each question by the general observation that the Government places the utmost importance on its responsibility for maintaining a reliable and secure energy supply for Tasmanian businesses and households. That is why the Energy Security Taskforce (the Taskforce) was established in 2016 and why the Government moved to implement its recommendations.

This has included the establishment of the roles of Monitor/Assessor and Energy Security Coordinator, and the allocation of budgetary provision for energy security monitoring in the Department of State Growth. These steps represent the implementation of the Energy Security Risk Response Framework which provides for greater clarity and transparency around roles and expectations to deliver on energy security.

I will now respond to each of the Committee's recommendations as listed in your letter.

- 1. The Tamar Valley Power Station Combined Cycle Gas Turbine should be retained in the current supply environment for the purposes of energy security within the State.*

This recommendation is entirely consistent with the recommendations of the Taskforce, and has been implemented. The Tamar Valley Power Station (TVPS) has been operating as and when it is commercially sensible to do so since 2016, and the Government is committed to the retention of the TVPS for the foreseeable future. The Combined Cycle Gas Turbine (CCGT) has recently undergone scheduled maintenance and Hydro Tasmania will run the unit if it is commercially sensible to do so. In any case, the CCGT is and will remain available to generate if required to ameliorate the impact of any long term drought on Hydro Tasmania's storage position.

2. *The importance of the Tamar Valley Power Station gas turbine units in relation to energy security should be reconsidered if there is significant expansion of energy sources and associated change to the energy mix.*

A key element of the Taskforce report was the establishment of energy-in-storage profiles referred to as the “Prudent Storage Level” (PSL) and the “High Reliability Level” (HRL). The Energy Security Risk Response Framework ensures that significant changes to the supply/demand balance will be appropriately considered by the Monitor/Assessor. The Monitor/Assessor may as a consequence recommend changes to the PSL and HRL threshold settings within the Framework to ensure they provide a consistent level of security into the future.

The Taskforce recommended that should there be a significant change in the supply/demand balance, due to new additional sources of generation and/or greater interconnection with mainland Australia, then these profiles would be reviewed and revised accordingly. The importance of the Tamar Valley Power Station would be considered as a part of that process.

3. *Hydro Tasmania storage management policy should be reconsidered in the context of revised assumptions on Basslink reliability, availability of Tamar Valley Power Station and improved rainfall forecasting.*

This recommendation is mirrored in detail under the Taskforce report, and has been implemented in the establishment of the PSL and HRL as key indicators for monitoring energy in storage.

These two profiles indicate when Hydro Tasmania may operate in a fully commercial manner, when greater monitoring may be required, when a recovery plan may need to be developed, and when implementation of appropriate measures may be required.

The Monitor/Assessor role, undertaken by the Tasmanian Economic Regulator, includes the publishing of an annual report on energy security together with monthly “dashboard” reports. This reporting regime has been in place since November 2017.

4. *Energy security should be the responsibility of Government and energy standards should be set by the Tasmanian Government on expert advice.*

This recommendation (including the more detailed elements included) is consistent with, and covered by, Priority Actions 2 and 3 of the Taskforce. The establishment of the twin roles of Monitor/Assessor and Energy Security Coordinator, together with the monthly and annual reporting, provide a high level of monitoring that is transparent.

5. *Significant planned changes in energy security management practice should only be made following consultation with major users.*

This recommendation was not expressly considered by the Taskforce, but the Government has a strong commitment to consultation with all major stakeholders in relation to maintaining energy security. Should there be a need for fundamental change in the Energy Security Risk Response Framework, this would be based on careful consideration of the needs and views of all stakeholders.

6. *Planning for energy security should not include any assumptions of voluntary or forced load shedding.*

The Taskforce final report included two recommendations in relation to pre-planned, negotiated demand-side response, together with consultation with major industrial users, and the potential for additional generation if required. More generally the concept of “load shedding” in the National

Electricity Market (NEM) relates to very short term responses to immediate capacity constraints rather than to energy supply issues.

Commercially based and negotiated demand side responses are a well-established feature of the NEM generally, and are deployed in particular to manage capacity constraints or to ensure system stability. Where it is commercially sensible for a business to choose to provide demand response, this will be based on pre-planned negotiations rather than on assumptions without prior consultation.

7. *Hydro Tasmania and the Government should take account of the impact of the Tamar Valley Power Station contracts with Tasmanian Gas Pipeline on other gas users. Any negative financial impacts for Hydro Tasmania should be disclosed*

In late 2017 Hydro Tasmania and Tasmanian Gas Pipelines entered into an arbitration process in order to resolve a dispute regarding future contractual arrangements for the transport of gas to Tasmanian customers. As the largest gas customer in the State (when the TVPS is running) Hydro Tasmania has a lead role in securing gas transportation services for the State, both for its own needs and as “shipper” for a number of other gas customers.

As a result of that process Hydro Tasmania agreed to the commercial terms set down by the Arbitrator. The Arbitrator’s determination, and any subsequent commercial contracts, are confidential under the rules of arbitration. The confidentiality provisions prevent further disclosure of the details of the financial impacts, however it is understood that the arbitration has delivered a fair and reasonable deal for Tasmanians and removes the uncertainty around future gas supplies.

8. *Tasmanian energy entities actively support the opportunities from emerging technologies for energy efficiency, reliability, production and storage, with due consideration to the energy mix, thereby reducing reliance on imported energy supply.*

This recommendation is also consistent with the recommendations of the Taskforce. That this recommendation is being met is demonstrated by new wind generation projects currently underway. Wind farms at Granville Harbour and Cattle Hill are currently under construction, and there are also further proposals for wind energy generation by UPC at Robbins Island and Jims Plains.

Further, opportunities for energy storage, via pumped hydro, are being actively pursued by Hydro Tasmania as part of its “Battery of the Nation” project. Together with Project Marinus, which relates to developing further interconnection with the mainland, Tasmania is actively pursuing and supporting a range of potential opportunities to capitalise on a robust approach to managing our energy resources, for the benefit of Tasmanians.

Thank you once again for your letter.

Yours sincerely



Guy Barnett MP
Minister for Energy