

12 May 2016

Ms Gabrielle Woods  
Secretary  
Public Accounts Committee  
Parliament House  
HOBART TAS 7000

Dear Madam

**Parliamentary Standing Committee of Public Accounts  
Inquiry into Government Owned Energy Entities  
Submission made on behalf of the Tasmanian Minerals & Energy Council**

The Tasmanian Minerals and Energy Council (TMEC) consists of a collective of Tasmania's largest industrial businesses and interested parties who collectively generate wealth for Tasmania via minerals extraction, minerals processing and/or the myriad of supporting requirements needed to ensure Tasmania can produce products needed by the modern world.

Collectively TMEC members contribute over \$2.5B per annum toward GSP; TMEC members employ 10,000 Tasmanians directly and indirectly, and consume over 50% of the state's energy to create wealth for all of Tasmania.

TMEC's constituent members welcome the opportunity to provide a submission for your consideration and would also welcome the opportunity to attend a public hearing of the Committee provided a suitable date can be agreed.

**Opening Statement:**

TMEC remains increasingly concerned with the progress made to realise the intent of the State Government's Energy Strategy, which was released in May 2015. The strategy states, "... there is a recognition that energy once again work to the advantage of the Tasmanian people." The Minister's foreword continues to say, "Our energy sector must deliver the lowest possible power prices that are genuinely sustainable over the longer term". Finally it says, "Our energy businesses must be more efficient and customer focussed."

Since the State Government's Energy Strategy was released, a flat contract for 2017, quoted by Hydro in January 2015 was \$44.38. A flat contract for 2017 quoted today is \$58.85. This demonstrates electricity prices have increased by 33% since the Energy Strategy was released. The situation has been made all the worse following the recent energy shortage, albeit caused by a combination of events. Further investigation is required to understand how many of these events were foreseeable.

TMEC represents the interests of a number of multi-national resource and downstream processing industries as well as a broad base of local and national enterprises who support the success of these operations. For many of the TMEC Major Industrials, the events in Tasmania always need to be viewed through a global lens. These major industrials are in highly competitive markets when it comes to selling products, and equally competitive environments when attracting the funds to sustain their operations, let alone attracting approval for growth capital.

It goes without saying – industries competing in the competitive international commodity markets are faced with highly damaging losses in credibility when they are forced to go to their hard won customer base and advise them that their energy supplier is unable to meet their ongoing energy needs and doesn't know when it will be able to resume normal supply. Lost sales and market share are very very hard to recover in the world's commodities marketplace for these local businesses.

For these reasons, how the Tasmanian Government and their Government Energy Businesses respond following the restoration of a balanced and reliable supply of energy is a vital element in restoring the Major Industrials' confidence in the supply of reliable renewable energy such that they can restore their customers confidence in their capacity to meet their purchase/supply requirements in full and on time. It is critical to ensure the significant wealth creating sector within the Tasmanian economy is not permanently damaged.

Arguably the financial sustainability of the GBE's before the energy crisis were already becoming less sound. Whilst ever the predominant strategy to maintain the GBE and/or State's viability hinges on charging customers more and more, the State energy management value proposition moves closer to a collapse, ultimately culminating in an economic disaster for the entire State.

The major customers have been saying, and continue to say, that the delivered energy price for contestable loads in Tasmania is amongst some of the most expensive in the world.

Until the delivered energy price for contestable loads is on par with other international jurisdictions, multi-nationals/internationals operating in Tasmania will always have a more difficult case to justify ongoing support from their owner. Whilst ever there is misalignment between what the Energy Strategy says, and what State owned Energy Businesses do, Tasmania faces the threat of significant job losses and reduced GSP.

The current energy crisis should serve as a catalyst for a total overhaul of how the State plans and manages its energy resource. It should start with a "zero base" and redraw the optimum configuration of energy businesses to ensure the structure and the strategies are effectively end-to-end with integrated drivers and aligned success factors such that it is capable of delivering a sustainable energy resource base for Tasmania for generations to come.

TMEC has divided its submission into sets of example questions which are intended to reveal how both TasNetworks and Hydro Tasmania are financially positioned today and have forecasted into the future, in order to gain a clear understanding whether the sum total of the responses by the State owned enterprises actually provides a clear and coherent pathway to a long term sustainable energy resource base. Anything less than absolute clarity should be strongly rejected and the entity's CEO's and Board's be requested to rework their plans until this can be demonstrated.

The ultimate outcome is where the State Government can unequivocally demonstrate it has the structure and strategies in place to ensure it is supplying internationally competitively priced delivered contestable loads which are reliable and are priced to attract ongoing investment and employment for future generations of Tasmanians.

## **Hydro Tasmania**

### **Cash**

1. In light of the energy crisis what is the projected cash flow from operating activities for the next 3 years?
  - a. What are the largest risks to this forecast being realised in full and on time?
  - b. What is the probability that all barriers to success have been identified and plans have been put in place to ameliorate the risks?

## Revenue

1. Is the Basslink outage an insurable event? If so, what costs will or won't be absorbed by Hydro?
2. Does the Basslink outage impact the Basslink financial liabilities? If so, what is the impact on Hydro's balance sheet?
3. What profit and loss impact and balance sheet impacts have been sustained due to the lost arbitrage opportunity of the Basslink outage and below average inflows compared with Basslink being operational and normal inflows?
4. Would Hydro Tasmania be a viable business if it were to lose 100MW from its current customer base?

## Costs

1. Why is the Basslink Facility Fee Swap fixed interest rate @ 7.83%? What options have been explored to renegotiate the interest rate?
2. How would Hydro deliver a 20% reduction in the cost of generation?

## Debt

1. Interest bearing liabilities have grown compared with 2014 from \$494m to over \$800.
  - a. What is driving this increase?
  - b. Can Hydro detail its capital structure evolution over the next 3-5 years?
  - c. If not, why not?
  - d. Can Hydro also provide reasons for this capital structure positioning?
  - e. Why is the Government transferring debt from Hydro to TasNetworks?
  - f. Wouldn't this action reduce efficiency focus?

## Energy Security

1. What is the long term positioning of TVPS in Hydro's generation portfolio and how will Hydro operate this asset going forward?
2. With TVPS:
  - a. What is the current annual gas transmission cost?
  - b. What is the contract position for the Gas Transmission Agreement post-2017?
3. Has Hydro modeled scenarios where below average inflows may be the new norm?
  - a. What is the impact on the profit and loss and balance sheet?
  - b. More broadly has any modelling been done on the impact to customers and the Tasmanian economy more broadly assuming a continuation of below average inflows?

## TasNetworks

### Cash

1. Return on Equity (ROE) was 11.1%.
  - a. What is the projected ROE to 2019?
  - b. What are the drivers of this?
  - c. What are TasNetworks long-term objectives and how are these balanced with lower network prices for customers?

### Revenue

1. Currently the maximum revenue is based on a totally unrealistic model as set down at a national level. There are moves afoot across the nation to challenge this.
  - a. What would happen if TasNetworks maximum charge reduced by 30-50%?
  - b. Would this business collapse and what impact would this then have on the State Government's finances?
2. Would TasNetworks be a viable business if it were to lose 100MW from its customer base?

## Costs

1. Forecast opex is \$140m (16/ 17), \$137m (17/18) and \$133 m (18/ 19)
  - a. What are the opex benefits of the AGILYS project?
  - b. When will the AGILYS project have a positive impact on opex reduction?
  - c. Whilst the opex profile is reducing what further opex reduction can AGILYS bring?

## Debt

1. What is the target capital structure for TasNetworks?  
(Noting gearing has increased in recent times to over 64%)
  - a. Why is the Government transferring debt from Hydro to Tas Networks?
  - b. How does this impose efficiency on an organization with these types of transfers?
2. \$1.645 billion has been drawn from the Tascorp Master Loan facility.
  - a. Can you provide details on the types of debt instruments and the relative risk of these instruments?
  - b. Why is there ~\$0.5 billion in fixed rate loans with maturity >5 years?
3. Why is there only 15% of the debt portfolio on the floating rate?
4. Fair value decrements totaling \$9.5 m were recorded for interest rate swaps mostly with maturity 2-5 years.
  - a. Why?

## Summary

The industries and employers who are represented under the Tasmanian Minerals and Energy Council are highly dependent upon the performance of the State's energy businesses. As such, the absence of a clear set of strategic plans which moves Tasmania from the current situation of high debt and high charges to one of sustainable debt and internationally competitive delivered contestable loads remains a priority of TMEC as it should be a priority for the State Government.

Yours sincerely,



Wayne Bould  
Chief Executive Officer