PUBLIC

THE PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS MET IN COMMITTEE ROOM 1, PARLIAMENT HOUSE, HOBART ON THURSDAY 4 AUGUST 2016.

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

Mr WAYNE BOULD, CHIEF EXECUTIVE OFFICER; **Mr RAY MOSTOGL**, PRESIDENT, and GENERAL MANAGER, BELL BAY ALUMINIUM; **Mr GREG ZOOEFF**, MEMBER, and ENERGY MANAGER, NYRSTAR; AND **Mr BEN MAYNARD**, MEMBER (BY PHONE), TASMANIAN MINERALS AND ENERGY COUNCIL, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Mr Dean) - Welcome, everyone. This is a public hearing. Parliamentary privilege applies while you are in this hearing but once you leave here you are no longer covered by any privilege. The evidence you are giving will be recorded on *Hansard* and will go online in due course for the information of the public. We have a submission from you and I will now give you an opportunity to speak to that submission or to add any additional information you may have.

Mr BOULD - To give some context about TMEC and its interest in energy in Tasmania, the Tasmanian Minerals and Energy Council is an amalgam of the largest businesses in Tasmania in mining and downstream processing. We contribute a bit over $2 billion to the gross state product. The amalgam of our major users constitutes approximately 50 per cent of the base load off-take of electricity in Tasmania. Each of the businesses has an individual contract for the supply of electricity, mostly with Hydro Tasmania. As a group we are quite cognisant of our ACCC requirements not to act as a cartel, so at a group level we have formed a committee that is representative of energy users and deals with energy concepts and issues at a higher level. At the lower individual level, no information is shared between members of the committee and TMEC. We don't know what individual contracts looks like, what requirements there are for them to take or pay, or what the rates are et cetera. We have no knowledge of that. That is dealt with individually between each of the companies and Hydro. If you address questions to any commercial matters, we aren't aware of them . However, Ray and Geoff are both individually in their cases in relation to their contracts with Hydro.

Ms FORREST - Do you only want to take questions on the high-level information rather than the individual level?

Mr BOULD - We are happy for you to ask individual questions but they are individual and, as such, it is up to Ray to answer -to take one hat off and put another one on.

CHAIR - You can make that clear in your answering of the questions because the TMEC is currently here before us. As long as we have that clear understanding and clear position.

Mr BOULD - Ray is chair of our energy committee and, while I signed the paper, he largely wrote it. The gentlemen will give you an update on where we are with it and happy to take some questions.

Mr MOSTOGL - From our submission, we continue to be fairly alarmed by some of the decisions and messages which are being made about the energy assets in Tasmania. If we reflect back, our view is the energy businesses have been floundering for the last six or seven years and being at mixed or crossed purposes. Are they there to generate cash for the government? Are they there to drive the economy. That has been that been twitched and between.

The current Government promised to be different in its election campaign and when it delivered the energy strategy not long after it came into government - it was released in early to mid 2015 -- and it made some very clear statements, which we have captured in our submission. Quotes, such as, 'Our energy sector must deliver the lowest possible power prices that are genuinely sustainable over the longer term.' It also says, 'Our energy businesses must be more efficient and customer focused.' I will come back to that.

Most of our businesses have a home office somewhere else in the world - Oslo, Geneva, Montreal - so we are scattered across the world. We compete for capital and goodwill from our businesses based upon the performance of the rest of the world. Our comparisons are always done at an international level, not at a state-by-state, region-by-region level. That is irrelevant for our businesses.

The strategy made a very clear statement and when the strategy came out it was well received by our head offices around the world because it laid out a platform and a pathway to deliver a really good result. It made it clear that the intention was to use energy to drive the economy. Unfortunately, what has transpired is contradictory to the strategy, although I would make one exception. TasNeworks business has shown the most promise and are furthest down the path of trying to become a customer-focused, efficient business. They have made a good start. They have a long way to go and they are a long way behind the rest of the world, when we compare performance and prices. Nevertheless, there is a change happening there and we welcome that.

The evidence suggests, as per our submission, despite a statement about low prices, the comparison that we drew over the period of the energy strategy being release and at the start of this year there was a 33 per cent increase in flat contract prices. Clearly, not low prices. We experienced, on a couple of occasions, record high ancillary service charges and those happened to happen at the same time Hydro became the monopoly provider of that service. So, the moment the market competition reduced for technical reasons, Hydro provided that services, we saw a ten-fold increase in the costs the big businesses had to pay for various features in the market.

Tamar Valley Power Station. This was supposed to be the energy security and yet, all of a sudden, it was being sold or mothballed and none of the energy businesses were advised of that. We all took a material risk to our business and we only found out about it through the newspapers.

Mr BACON - You were not consulted at all through that process in the lead up to that?

Mr MOSTOGL - We received no advice prior to that being put out. The first advice was when it was in the media. The energy statement says to be more customer focused when you introduce a material risk into your business, clearly that is not customer focused.

Ms FORREST - You will take questions about these after?

Mr MOSTOGL - Yes. The energy crisis, while arguably a set of highly improbable circumstances, but when you think about it from a global point of view, it is another indicator the

asset is not performing as it should.. I accept the fact that there are occurrences there that are outside of the control but when you stand back and you see one after the other of these decisions that suggests that these assets are not performing.

Based on the track record there is some trepidation that the Government's response to the energy crisis ends up further compromising the ability for Tasmania to be competitive on a global level. We do not know what the response will be going forward in terms of how do we not have this crisis again but based on track record we are very, very nervous that we are going to end up with some legacy or liability that just takes Tasmania away from being internationally competitive.

All we are asking for is to see the intent of the strategy actually being delivered. This says there will be lower energy prices because of efficient Government business enterprises and a reduction in debt. But it is clearly not happening. Energy security is part of the strategy and what we are asking for is that is achieved through smart low-cost means, not something that is expensive.

From our point of view, until Tasmania can show its relative performance to show that it is competitive, our view is that it is time for the current leadership to show they have the skill and the motivation to deliver this or stand aside and let someone else who can. That is at all levels of the decision-making process around energy businesses.

In closing this is not about the major customers telling the Government and the energy businesses what to do, this is us just saying do what you said you were going to do; this is a good strategy, just deliver on it. We see our role as nothing more than holding the Government and its businesses to account to deliver what they said they were going to do. That is it.

Ms FORREST - I would like to go down that path with Ray. You talked about not being informed about discussions regarding the future of the Tamar Valley power station when I guess you could argue that it is a decision for the owners to have those discussions. Last year in December, at Government business scrutiny I asked Hydro, across the table, because I was concerned about it being part of the energy security solution. Basslink was not down at that stage - this is early December - and the drought was having some bearing and predicted to continue, so there was obviously that in my mind at the time. I was assured by the minister at the time that Tamar Valley power station was not necessary for energy security. They are now saying in the media that it is no longer up for sale and it will not be considered for sale but it is important for energy security.

You were not consulted at all? I am not sure what the process is around that, whether it would be appropriate to consult your major customers or whether you would not normally in business. What is your view? I would like to explore that a little more with you.

Mr MOSTOGL - It is obviously a commercial decision of government to make those decisions but the consequences of the decision affects the sovereign risk of our organisations and our base energy. I accept that it is not necessarily our role to be involved in the decision but the consequences which affect the material risk of our businesses is something of significance. From that point of view there should have been some sort of indication, not necessarily asking for our approval, but I think it would have courteous given that we are such a significant part of the energy network that it would have been appropriate to at least say that this is the decision or the direction we are taking.

From my previous conversations - and we have probably predated that by 12-18 month - was the Tamar Valley Power Station was part of the energy security equation for Taslink and that was going to be the case. That is from the Hydro perspective as being part of the means of how they ensure base-load customers like ours can sustain their operation.

Ms FORREST - I know you have a business to run and you probably did not read the *Hansard* inquiry, unless you were really bored, so no flags were raised at that time when those questions were asked?

Mr BOULD - If I may answer the question in another way, whilst Hydro may view the Tamar Valley Power Station singularly as a backup source of energy, it also plays another economic role. There are significant businesses that use gas as part of their production process and the cost of transmission of that gas is reduced and ameliorated by the contract that Hydro has with Pallisades with regard to the pipeline. So to take the Tamar Valley Power Station out of action and not be transporting any gas has a further flow-on effect other than just energy security. It also has a potential commercial impact on businesses such as Grange, Simplot, Nyrstar and Norske Skog where they use gas to augment their processing. So it is a commercial exercise. It costs 100 dollars to transmit the gas and one of the guys drops and 50 percent of it goes then that 50 percent is shared over the residuals and that means that the cost of production for those guys goes up. It means that they are faced with making a decision about whether or not they stick with gas or they replace it with hydro electricity, and that is a major potential capital impact on those businesses. So to just close it down and view it as a simple energy backup source is unrealistic. It is not looking at the strategic use of energy in Tasmania.

Ms FORREST - And that comes back to the energy strategy and at the whole impact. I know you can't speak for Grange, but Nyrstar use gas, don't you?

Mr BOULD - We all do. Grange use gas and we know what sort of level of content it is in their overall energy usage in terms of production. I cannot tell you what costs are all up.

Ms FORREST - No, but should a big customer withdraw and then the transmission costs remain the same, what impact would that have had on these businesses to wear that additional cost.

Mr BOULD - The transmission cost is actually quite high and the asset has never been fully utilised, so the pipeline operates at about 30 to 50 percent of its capacity so it has never been used as a strategic asset.

In Grange's case and in Simplot's case it could well double the cost of gas. So the gas is one fee, but the transmission cost is another and that could double the cost of their gas input.

Mrs RYLAH - Wayne, you have mentioned the sale of Tamar Valley power station. Aren't you talking about the sale of the combined cycle unit which is part of the Tamar Valley power station? But the other turbines were not up for sale? They never were and that you somewhat inflated what was being proposed.

Mr MOSTOGL - No, what we are talking about is the ability to generate electricity using gas. I am not going to talk about is it this machine or this machine I am just talking about being able to source enough electricity from the gas and the capability that was in that facility. That was

reduced and obviously mothballed, or part of it was. Those decisions were made without prior consultation.

Mrs RYLAH - From your perspective there would have been insufficient ability to meet the energy requirements?

Mr MOSTOGL - I think the evidence is that they have had to recommission the facility to do that, and again even if it was a theoretical outcome and we did not have the situation of no Bass link and no levels we weren't made aware that that was no longer in the energy mix, therefore the sovereign risk was compromised and that is the concern. That is the bit that goes back to head office to say 'How can that happen without your prior knowledge?' Does the government not understand the significance of energy in this business? That is what the message is, and it's as simple as that.

Mrs RYLAH - I get that, but it was the combined cycle unit that was the concern.

Mr BOULD - The combined cycle unit is what makes it work. It is a piece of modern technology. Everything else is like an FJ Holden. So the issue is, no combined cycle unit, no effective generation of electricity at a reasonable price. So that was why the whole circuit was upgrade to incorporate the combined cycle unit.

Mr BACON - You said Ray in your opening remarks that the last conversations we had with Hydro were about 18 months before you read in the newspaper and at that point the Tamar Valley Power Station was part of the energy security mix in Tasmania.

Mr MOSTOGL - Yes.

Mr BACON - Hydro firmly saw it as that.

Mr MOSTOGL - That was certainly the information that I took from that conversation, that it was part of it. That was always our belief, and that was confirmed at that stage. Our questions were along the lines of, at what point does that not become part of it? At that stage it was just, no, it is part of the security mix. That is what I took away from that.

Mr BACON - They did not say, 'Under these circumstances we would not see it as part of the mix. It was just seen as part of the mix?

Mr MOSTOGL - Yes.

Mr BACON - You also talked about a range of consequences to the major industrials, not only around energy security, but also around gas. Are there any other consequences that you have not gone into that you see would flow from the -

Mr BOULD - I think one of the issues is that these businesses compete on an international market, and it is all about delivering in full, on time, at quality, at cost. If they are unsure about security of electricity, one of the options theoretically could be to increase your working stock holdings and hold additional stock to cater for fluctuations in power or turn off or turn down. That adds a lot of cost to the businesses and actually reduces their capacity to work efficiently.

The other thing is that these plants by nature are now highly tuned. The reason they are still in business is because these guys are getting rates in the high 90s, compared to probably efficiency rates 10 years ago in the 1960s or 70s. That is why they are still here, because they compete very hard. When they do that, getting the plants to operate at that level is a really tight balancing act. It is tweak this little bit, tweak that little bit.

To get plants back up to pace so that they are operated economically and efficiently when you turn the power off and bring it back on or fluctuate it, is really difficult for these guys. Bell Bay Aluminium is still not back to full production after turning itself down before because it is still tweaking bits and pieces to get it right. There is a long tail in playing with the power supply of these large industrials.

Mr MOSTOGL - We only get our sales orders on the twentieth of the month. I do not have the ability to produce months in advance. I get the sales orders. We produce to order, and therefore if the energy is not there, we cannot use it. The issue is, regarding reputation, that we have had to go to customers, and all of the businesses have had to do this, and say, 'We cannot provide you with product.'

They are like us, they do not have massive inventory anymore. They all run with just-in-time delivery. That is how manufacturing is surviving in the world. They do not have, 'It's okay; you're not going to provide anything for three months.' They have got to then source it from someone else. For our reputation it is quite damaging when that happens. The reality is, as Wayne has just described, we are not yet running at full capacity. We have not been able to go back to some of our customers and even start the conversation because I cannot do that until I know I am actually going to be back on full load.

Mr BACON - You also mentioned sovereign risk in terms of the way the Government handled the potential sale of the Tamar Valley power station. Would you say there has been an impact on business confidence and investor confidence for your businesses, given the way that was handled?

Mr MOSTOGL - Yes. As I said, it is reputation not only with our customers but also with the head office. Bell Bay Aluminium, for example, were not on the radar as being an at-risk asset from the point of view of electricity supply. There are other smelters around the world where due to their energy mix, they are fluctuating loads. They do appear from time to time. Bell Bay was not one of them, it now is.

CHAIR - You are not back on full load at this stage; in other words, you are not getting the energy that you require?

Mr MOSTOGL - The energy is available.

CHAIR - Why aren't you? Why not?

Mr MOSTOGL - Because it is a chemical process and it is very complex. It took us five years to learn how to run at the level of performance we were at in January. We have never turned down from where we were in January until the end of February. We have never done that before. It is now taking months and months to bring that process back up. It is not just a switch on and off, it is a highly complex process. It has hundreds of variables. If you change one variable - that is, put a bit more energy into it - the other 99 all have to be balanced. You just step

it up very slowly. What happens is we have just not been able to get to the level of efficiency yet. Yes, the dams are full, Basslink is back in, but we are not yet at full production. We are not yet able to talk to our customers to say we are back in the game.

CHAIR - The energy is there, but you have all of these changes?

Mr MOSTOGL - That is right. That is a consequence of our process and it is a complication that we have.

CHAIR - How long will it take for you to be able to get those changes in place to get back onto full load?

Mr MOSTOGL - As I have said, we have never done this before. It took us five years to learn how to run the plant at this level. Since May we have been inching that back up. I would have thought we would have been there by not but we're not. My technical people are saying maybe by the end of the August we will be at that point, but we will just have to see because it is new territory for us to ramp up as quickly as this.

CHAIR - So on a percentage basis, where would you be at the present time of returning to full load?

Mr MOSTOGL - There are two parts to this. You can use the energy but not very efficiently, so we are probably at about 97 per cent or 98 per cent of the energy. In terms of efficiency, we are probably at about 95 per cent, so the energy is going in but it's not very efficient.

Mr BACON - Given the large impact on your business and other businesses covered by the council, is the council pursuing compensation from government from the way the sale of the power station has been handled and the energy crisis impact?

Mr BOULD - It's not an option for the council but it is for the members under their individual contracts to deal with Hydro individually. All we can do is make people like you and the public aware of what the issues are. These businesses are fairly highly tuned now. Whilst they are old, they have been around a while and have learned how to operate in a world market with comparatively old equipment. Each of these businesses was lured to Tasmania in its own way because of cheap and reliable energy and to not have reliable energy exposes their risk. As Ray said, each year most of the decisions made about the future of these businesses aren't made in Tasmania, they are made in Zurich, Montreal or somewhere else. He and his team and Geoff and his team go to head office and put forward a case for some more capital to keep the business going based on their operating capacity and performance in this year and the likelihood they can exceed it in the next year. When you get a major blip like this, it impacts on their credibility internally as well as externally in the market with their customers.

Mr ZOOEFF - The past is the past and the important thing now is to look at how the state and the GBEs - particularly Hydro in this case - look back and how they are going to respond to the future. That is what the focus should be, not necessarily on compensation or recovery of consequential losses. It's really about positioning for the future and I think this is what the whole energy strategy is about. It is about the future and how we can run the system and restore confidence in the energy system going forward.

Mr MOSTOGL - Without divulging the specific commercial losses, and backing up Greg's comment, we would anticipate if the Government and the GBEs get the response wrong it will cost us far more than what we lost in the first six months of this year. It is about going forward and the consequences of decisions about how the state will respond. That will have a much bigger material impact on our businesses than what we have lost in the last six months.

Mr BACON - You said before that you had concerns around the leadership so far or the capability going forward to deliver on those things you want to see delivered on. Do you want to expand on that?

Mr MOSTOGL - As with any business, you establish a strategy and then you have to deliver on it. I believe this is a good strategy. It is probably not perfect and if I could write my own it would be different, but it's not backed. This strategy was put together not just with major industrials in mind. TasCOSS was part of putting this together so there was a broad spectrum of consumers that contributed to it and I believe it is a very good document. Then it comes down to the will or the skill to implement and drive this through, and that is the bit we're saying has not happened yet. There has been some movement and, in defence of TasNetworks, they are very expensive by world standards but they have changed and there are some good things happening, so we have an organisation in Tasmania that seems to be doing something a bit differently. We would argue that be it the Government, the board or the executive management - and it is typically somewhere in there - it is that leadership and the skill and the will to drive and deliver on that strategy that is our concern.

Mr BACON - So leadership from the Government, the board of Hydro Tasmania and the executive team?

Mr MOSTOGL - All of those relationships - the shareholder ministers in terms of what they have asked for, what the boards interpret and what executive management deliver. I don't know enough about who says what in that process but that is how our business runs between those three levels and that is who is accountable for delivering on the strategy.

CHAIR - On TMEC's position with the document, have you had discussions with the Government in relation to that document?

Mr BOULD - We have shared it; we don't have anything to hide. We have had some preliminary discussion, but not as much as we would have liked, and we will continue that dialogue. We will make a submission to the energy review task force that has been put together and we will make that jointly and there will be some individual submissions on more specific matters with that.

We would probably be of the view that Hydro has played a large part in Tasmania's history to the extent that, regardless of whether we nominate somebody as a minister for energy, it is highly likely that we will have a minister for Hydro rather than a minister for energy. We would like to see more holistic approach taken to energy and the end-to-end delivery of energy in the state rather than individually driven segments that compete against each other to some degree and have different drivers. What we see in the GBEs is that each of the drivers have different performance and award characteristics for its people and staff and sometimes it appears to us that they get out of sync because of that.

Mr MOSTOGL - Certainly. In the last dialogue the Minerals Council had with Minister Groom we acknowledged that for the last six months, given management issues around the crises, we would not have expected a lot of progress to happen. We want to put that into context. Dealing with the here and now is the priority and we accept that would go on the back-burner in that time frame. Our criticism is that since this was issued the amount of progress that occurred up until we got to that point in December was not sufficient, and our concern is about when this will start getting some attention.

Ms FORREST - When you were answering Scott's question you talked about the contractual arrangements. I don't need to know the details of the contract, but when you were negotiating the contract obviously there would have been discussions about some issue that could result in a failure to deliver for a period and, as good negotiators, you would have factored some of that in. Do you believe your contractual arrangements have been met in terms of that position you would have reached in that process? There has been load-shedding and a slower ramp-up and maybe that was not predicted or expected in your negotiations. It seem it was not because it is a new experience for you, but aren't these things taken into account in striking your contract price?

Mr MOSTOGL - Certainly.

CHAIR - Is this an answer with your other hat on?

Mr MOSTOGL - I will only answer for the Minerals Council perspective.

Ms FORREST - It is a broad question about how they establish their contracts.

Mr MOSTOGL - While all the businesses are large consumers of energy, we all have different processes and some can be turned off and some can only be turned down. That drives the terms of the commercial arrangements because they are largely driven by the technical capability of the plans. There are some things you can do and some things you cannot do. That sets the constraints and you negotiate within those. There is always provision for some variation and you anticipate what you think is a normal range of variation and build that in. If it goes outside of that, then you are potentially having negotiations in new territory. I suspect all the businesses and the Hydro probably found some new territory to discuss during the first six months of this year as a result of that. That would be my guess.

Ms FORREST - That could influence future negotiations.

Mr MOSTOGL - I am sure for everybody it is a consideration. There is a new base line, a new set of history that needs to be taken into account and we will all be very cognisant of that.

Mr BOULD - In terms of contract negotiation, it's not sensible for organisations of this type to enter short-term negotiations and renew a contract every two or three years. When you are looking at the next discussion for contract renewal, it might be 2022-25 - they are a long way out because these guys lock in for long term.

Another of the unforeseen consequences is the way the RETs are calculated. These guys who turned down the power are going to be penalised in that calculation in the coming year.

Mr ZOOEFF - Any turndown in capacity or volume. The way the Renewable Energy Target, the exemption regime, works is that it looks at the prior financial year in applying

exemptions for the next year. At the moment, renewable energy prices, the large-scale certificate prices, are up around $90, so they are very expensive in the cost of that. These large businesses, especially the emission-intensive trade-exposed businesses, rely on those exemptions, so if we have turned down in first half this year, which most of the large enterprises have been impacted, then next year those exemptions are reduced because there is an over-allocation from the previous year and they will have exposure to some renewable energy costs, which can be quite significant depending on the position of the company. There is a catch-up in that some of these impacts are long lived; they go into future years.

Ms FORREST - But you would have known that. That would be part of your understanding because of the nature of the way they are calculated.

Mr ZOOEFF - Absolutely, but there's not a lot you can do about it. It is either there is a consequence in the here and now, which we are all faced with with a lack of energy, but there is not necessarily a lot you can do about next year or the year after because you're trying to survive this year.

Ms FORREST - Wouldn't your owners overseas recognise there is a tail with the RET calculations?

Mr MOSTOGL - Yes, and what that means is we will appear in books again next year of underperforming businesses by world standards. Not only is it a six-month experience; it is an 18-month to two-year experience coming out of Tasmania saying, 'If you do business in Tasmania, this is what you have to deal with'. You compare that with other countries around the world where you don't see that and Tasmania's competitiveness falls away.

Ms FORREST - In other countries around the world where you don't see that, is that because of the way the RECs calculated?

Mr MOSTOGL - I compare with, say, the Canadian assets - we pay a small percentage on transmission or we pay a small percentage on generation. We are very expensive by world standards and these things add to that.

Ms FORREST - Some of the policy here is federal policy, not just state policy?

Mr MOSTOGL - From a networks point of view it is, but as for efficient businesses and lower sustainable cost, they are decisions that can be made here in Tasmania.

Ms COURTNEY - You mentioned before that you weren't consulted when it was mothballed recently. When it was mothballed in July 2013, did you have active conversations with government then?

Mr MOSTOGL - I can't recall. I assume they didn't because it wasn't on the radar as being an issue at that stage. Last year came as a surprise.

Ms COURTNEY - The mothballing of it or -

Mr MOSTOGL - The fact there was a decision to change the function of that facility.

Ms COURTNEY - It is my understanding that, while Hydro had been given permission to investigate it, there were still a whole lot of caveats with regard to the fact that energy security still needed to be determined, so it could be suggested that that process would have involved active engagement with MIs and as well as a number of other players within the industry because, although it was obviously on Hydro's agenda, the Government made it very clear that energy security was paramount and no decision about the sale would be considered unless that was secured.

Mr MOSTOGL - In December and January when we had a shortage of energy the facility was not able to function, and that was a surprise. It was not able to generate electricity.

Ms COURTNEY - It was put back in from dry lay-up; it was starting to be recommissioned.

Mr MOSTOGL - Yes, but it was in a situation where that was a surprise.

Ms COURTNEY - The recommission started before Basslink went down as such.

Mr MOSTOGL - Again, we were not aware that had been taken out of the energy security mix and it was not available, hence my comment. It was part of our risk profile for the state. It said this is what the energy reserves are; this is what we operate between in terms of dam levels; this is the backup in terms of the gas-fired power station; that is the decisions that we make to operate. When something changes materially and we learn that somewhat as a surprise, then that is an issue.

Ms COURTNEY - So in 2013, the fact that it was mothballed then, was that part of your energy security considerations at the time?

Mr MOSTOGL - I cannot recall how that was flagged or otherwise. I do not remember. I do not know.

Mr ZOOEFF - There is nothing wrong with mothballing thermal generation like that. It is actually quite normal in the National Electricity Market to do it, but to take the step from mothballing to active decommissioning is a big step. That is where the MIs were not consulted. Certainly from my perspective I was actually notified the night before the actual media announcement on the sale and decommissioning of Tamar Valley.

It is not uncommon to mothball. Where it became problematic was the decommissioning. That was a material change; it is of strategic relevance as well. It was a major change to actually decommission a thermal station that actually does provide backup - an efficient backup as well compared to the open cycle. That was quite a significant change in the strategy.

Mr BOULD - The industry's understanding was, and I do not have it to hand, but there was an independent energy review commission in about 2010 or 2011. There were some standards set in that for water stock retention and generation. In that review it was recommended that the Tamar Valley Power Station be maintained whilst those water levels et cetera grew over a period of seven to 10 years.

In 2013 we understood that was the guiding principle for the way that Hydro et cetera were going to be acting because that was what had been adopted by the government in 2010. Effectively we saw it still in play. There was nothing to trigger to us that suddenly the water

stock levels were going to be depleted to the level that they were, nor that there had been another decision made on the power station. We still considered the 2010 review to be the relevant guideline.

Ms COURTNEY - The minimum water levels were maintained - obviously they dropped below it - but the minimum mandated water level, the 25 per cent that was under the previous government, obviously it was the same. The Government had not given actual permission to Hydro to sell the Tamar Valley Power Station.

Mr BACON - There was also the decommissioning in August of last year that came as a surprise at that time. There was no warning given by the Government that that was the case. I think you said you got warning the day before the media announcement.

Mr ZOOEFF - Correct.

Mr BOULD - TMEC was actively beginning to argue the value, in lots of press releases that we had done in that period in 2015, about the strategic significance of the pipeline itself and the supply of gas to Tasmania as an alternative form of energy for industry. The fact that in 2017 that contract comes to an end, can have a major impact. We have actually been arguing the value of the power station and the pipeline well prior to being told that suddenly it was not going to be there.

Mr BACON - Were you having those discussions with the Government as well with Hydro or with the shareholder ministers about what you saw as the strategic importance of the Tamar Valley Power Station?

Mr BOULD - Yes - not to the degree that I guess ultimately we would have liked to, but we had highlighted it to the Government certainly before they were elected, and equally to both parties about the economic significance of that pipeline and the strategic importance of being able to leverage new business in Tasmania potentially.

Mr ZOOEFF - I will put my company on. We had discussions with the government, some senior staff in the energy area. Actually it was a shock to us that it was going to decommissioned; there was no risk to energy security at that point. Those discussions were probably in September, so it was about a month or so after the actual decision was made. There was an assurance that there would be no impact on energy security and that if there was a Basslink outage the state could manage. Clearly extreme risk scenarios were not considered and history shows that we saw an extreme circumstance and the state struggle.

Mr BACON - Were you given those assurance by Hydro or the Government?

Mr ZOOEFF - It was some senior people in government.

Mr BACON - Did that reassure you at the time?

Mr ZOOEFF - No, because with risk management you have to look at the extreme boundaries of conditions. Tamar Valley provides that energy security and an economic transmission price as well, so it has dual benefits. The concern our business had was that the decision to close Tamar Valley was purely based on the cost of maintaining their transmission agreement and that was it. There were no other benefits taken into account in terms of long-term

security, the role of gas in the economy and economic transmission pricing. Those decisions were not factored in to the decision to basically decommission and sell the power station.

Mr BACON - And in your view that should have definitely been part of the decision making.

Mr ZOOEFF - Absolutely, and that comes back to the consultation. For a major decision like that, with major industries like us whose combined demand is probably 650 megawatts, one would have expected them to come to we larger users because we are making long-term decisions on our assets that we should have been consulted about.

Ms FORREST - I don't know if you would have had time to read the *Hansard* of our inquiry with the energy entities a few weeks ago, but a lot of the questions you posed in your submission I have put to TasNetworks and Hydro particularly. Have you looked at those?

Mr ZOOEFF - No.

Ms FORREST - Okay. It's a bit hard to ask you questions about their responses if you haven't read it but it would be helpful to have some feedback on those. Basically they were questions that you posed which we put to the various entities. One of the things that has been raised repeatedly with me about Hydro and TasNetworks is their ongoing financial sustainability and the level of debt they carry. In your submission you talk about debt with Hydro and I want to explore that a bit with you. I think the 2014 figure of $494 million is understated because that only covers the non-current portion of their debt. The overall borrowing is $164 million, the same as the 2015 figure. Even so, borrowings are understated and if we ignore the Basslink commitment which adds up to another $800 million to the amount owed, Hydro borrowings are really $1.7 billion and TasNetworks has another $1.9 billion that will peak at that. Isn't that the real problem here in terms of their long-term sustainability? Do you want to make any comment about the level of debt they are carrying?

Mr BOULD - I think there was also a comment about the cost of just maintaining it with the interest rates they are currently paying.

Mr ZOOEFF - It comes down to the optimal capital structure of these businesses in the context they are operating in. Is that sustainable? If you look at it here and now, given the size of the Tasmanian economy, there is no growth in energy. Energy is forecast to be flat or declining. Is that a sustainable situation to have? In TasNetworks case the value of the asset is closer to $3 billion if you include the distribution assets there. Is that sustainable for the size of the Tasmanian economy? If at least 60 per cent of that is debt, is that sustainable as well?

Ms FORREST - That is the question I would like an answer to.

Mr ZOOEFF - Absolutely. If you look at the history of their capital structure evolution and look at the future of energy, one would have to conclude it is not sustainable and you will have to start making some decisions because at some point you will reach a tipping point for these larger loads and customers in general. Some tough decisions will have to made on the size of these assets and the debt that is needed to fund them as well.

Ms FORREST - Notionally, TasNeworks is a transmission and distribution business. That is what they do, but it seems they are being used as a source of working capital for government. They have taken on Hydro's debt and they are paying money to TasRail and Forestry Tasmania,

so they are being used in that way. Also it appears they are using their borrowings to pay dividends back to government. In terms of their long-term sustainability, I am interested in your view on that.

Mr MOSTOGL - Governments have choices about how they manage their funds and finances. If you looked at the energy businesses as an entity and they were listed on the stock exchange, and you looked at those numbers - debt, revenue -

Ms FORREST - Debt-to-revenue ratio?

Mr MOSTOGL - This is a problem. It could potentially lead to a trading halt on a business with these sorts of numbers. That is the commercial perspective at play. I understand it is government business and there is a whole lot of community service obligations and all the other things that come into play, so you cannot just look at it like that, but fundamentally that is the bit the strategy describes to say, 'Let's run it like a business and use it for the benefit of the economy', but their actions are not suggesting that. As the debt goes up on a reducing base it is going to push somebody over the edge and then it is going to be a horrible situation where there will be a steep change in revenue but the debt will still be there. The debt is not going to change, the asset will still be there and all of a sudden we are going to have an issue. That has been talked about year after year and the potential gap is getting bigger.

Ms FORREST - Ray, you said that is a good strategy, albeit not perfect. How can the Government progress that strategy unless this changes? Isn't this the elephant in the room?

Mr MOSTOGL - Part of the strategy talks about being more efficient and running the business like a private enterprise. I am not suggesting privatisation. There is a place for this to be in public ownership as it is, but it needs to have a different business model and a different set expectations. They are good people running these businesses. There are lots of good people around, they just need to be asked the right things and then held to account to do it, no different to anybody else.

Mr ZOOEFF - One of the things in the energy strategy was about using the competitive advantage here to grow Tasmania. It is about the dual role of business retention and business attraction. You create a more sustainable situation by attracting growth and investment in the economy. We have this vicious cycle here in that there is a view on the survival and the here and now in terms of state returns. The strategy was trying to address both here. We have to go back to the intention of that strategy. The overarching objective was to drive costs down to be more competitive and to attract business, so some strategic actions and tough decisions have to be made to be able to do that. That is the reality, otherwise we are going to be sitting here in two or three years' time having exactly the same discussion.

Ms FORREST - These are questions you need to put to government as well but I am interested in your view. I would appreciate it if you could look at the *Hansard* from last session and provide some feedback to the committee on the responses they gave. A lot of them wouldn't go near -

Mr BOULD - If we look at this from a listed company point of view, some of the ASX reporting guidelines that would normally apply to the thinking you are suggesting are not applied to the GBE, and perhaps it should be.

Ms FORREST - I have asked a number of times that they release their financials a bit earlier because the Attorney-General signs off on them on 13 August and we have had varying views on that from the businesses and the Government. It would be nice to see them a bit earlier.

Mr BOULD - With that debt-equity ratio they may be forced to do a re-evaluation if they were listed.

Ms FORREST - Yes, Hydro has shifted a fair bit of its debt to TasNetworks.

Mr ZOOEFF - I think the practice of transferring debt defeats the whole purpose of this. All it does is reduce the efficiency focus in the organisation that the debt has been transferred from, so I am not sure what it achieves in the long run.

Ms FORREST - It may reduce the need for a serous refocusing and restructure.

Mr BOULD - That again implies there are different drivers for each segment of that end-to-end supply continuum. That means people are being driven by different performance criteria and different [inaudible] criteria. Does that really add value? We don't think it does.

Ms FORREST - In terms of being the lowest cost energy providers, to me as a consumer paying my Aurora account, and you, as major industries paying a lot more than I do, how do you see the future?

Mr MOSTOGL - In the establishment of the strategy the Government funded some modelling to work out if the price is reduced, who in the economy would benefit. There were two clear beneficiaries. The major industries would and it would potentially open up the state to more industrial growth, but it was the disadvantaged folk in the community who would also benefit significantly.

Ms FORREST - I'm not in either category there - I am not a disadvantaged person in the community or a major industry - so how would they benefit?

Mr MOSTOGL - How would they benefit by lower electricity prices? Then they could start talking about putting food on the table and heat into rooms and start to live in a far better way. From an industrials' point of view, as Greg said, the strategy was about bringing that threshold down. It's not about compromising revenue to the state, it's about running the business more efficiently, still having the margin that goes to the State, but overall the cost of that comes down. The State benefits in that if you can grow the economy through attracting other businesses, you are doing exactly the opposite of what happened with Tamar Valley. You are redistributing the fixed costs over a much bigger base. That brings the price down again. It creates an angelic cycle of lowering the cost, whereas we are in the other spiral at the moment where, as people drop off the grid, the costs for those still on the grid goes up and up.

Ms FORREST - There has been criticism of Hydro and TasNetworks being required to pay significant amounts of dividends, and to do that, generally, they need to make a decent profit, unless there are using their borrowings for it.

Mr MOSTOGL - We don't have an issue with that.

Ms FORREST - As to providing health, education and infrastructure -

Mr MOSTOGL - That is why you would want to keep it in the ownership structure. What you then need to do is drive it efficiently. The unit costs of production and transport needs to come down and be efficient. You can still have that, you can have your margin and revenue for the state and you can have an overall price. We are not arguing against that. Some jurisdictions around the world say it has to be neutral, no returns to the government, and that is why they have an advantage.

Ms FORREST - But that is a different model, though.

Mr MOSTOGL - That's right, and from a social responsibility point of view we understand we have a role to play to help in that situation. We accept that there needs to be a dividend to the state. That is good business and why you would want to keep the ownership. We just need those businesses to run efficiently so they can bring the overall costs down without compromising those other things.

CHAIR - I want to go to the issues you raised in your submission in relation to the minister's forward in that document. Apart from other comments it says, 'Our energy business must be more efficient and customer focused' - and you have discussed some of that here today. What have they done or what can they do to make it more efficient? Have you looked at these issues as to where it could go? Have you discussed any of that with the Government?

Mr MOSTOGL - We have done more than that. We have invited and had opportunities with the boards of the GBEs and executive management and we have shared the methodologies that Nyrstar and Bell Bay use to compete globally. We have shown people how they can do their business differently. They have gone away and taken that information but what we have not seen is any results. There is potentially a lot of activity going on but we haven't seen it translate to the bottom line, which is what we have to do in our business. The methodology of making a business more efficient, any business owner - no matter what the business is - those opportunities exist. What we are looking for is evidence to suggest that the price isn't going to go up by 33 per cent, it is either going to stay flat or reduce. Clearly there is a disconnect between the results coming from the effort. We can only judge it on price. At the end of the day that is where the decision needs to be made and we are not seeing that change. All we see is potentially that this will get worse because of the decisions that are being made. I do not have the view of those businesses to understand exactly how they are doing it, but I would suggest that there are many efficiency opportunities within those businesses to drive their business a lot harder, and still deliver the service and the benefit to the state.

CHAIR - Are you in further discussions with the Minister as to where they are coming with this?

Mr MOSTOGL - I think for the last six months it has. They have done some wonderful things in the last six months. To credit to all parties, it was probably miraculous some of the work they have done in terms of mobilising power stations into the state. You could probably write a book about it - I am not sure the CEOs would want to read that book - but, anyway, some wonderful things have been done. Now if that capability that they have demonstrated in the last six months was put into running these businesses more efficiently, I am sure they would get a better result. It just needs that motivation, a burning platform, to do things and they have already demonstrated what they can do when push comes to shove. I have no doubt they are capable of running a more efficient business.

Ms FORREST - Wayne, you were talking about the combined-cycle gas turbine. I am no expert in the field, so if I can just understand more fully, if that sold then even though you have the other older turbines and even if you had capacity to deliver energy via gas, the efficiency is gone? Is that part of it?

Mr BOULD - I think the 2010 review highlighted the fact that without that concern, without that unit, the efficiency of the power station was basically defunct. It was a retro.

Ms FORREST - Effectively, you lose all the efficiencies and so if it had to be brought into action, the other facility that remains would have to be brought into action?

Mr BOULD - It is old tech.

Ms FORREST - You are not going to be able to meet the needs of a major outage?

Mr BOULD - No. The efficiency comes from having that medium closed.

CHAIR - I think you would be very pleased with the Government's position. I think I am right in saying they have taken that off the books.

Mr MOSTOGL - What we need to see is what the strategic thinking is in terms of the gas contract because that will be a clue as to the time frame they are expecting to keep these assets operational.

Mr BACON - Beyond 2017.

Mr MOSTOGL - Well, that is at the moment. That is the only future we know of. When it gets to the end of 2017 or thereabouts, there is no clarity beyond 2017 as to what the future of that asset is. I appreciate that those machinations are probably being worked through now, but until we actually know what that is, we are up against a pretty ugly position.

Ms FORREST - We have had some evidence to the committee, that is public, that suggests that it is not going to be renewed.

Mr MOSTOGL - That is what we are hearing, but until we actually know what it is...

CHAIR - We have Tas Gas pipelines appearing later this morning so I guess we will hear a little more of that.

Ms FORREST - The Government need to talk about that too.

Mr BACON - Some certainty around that would help your businesses?

Mr MOSTOGL - Absolutely. It puts that back into play. From a sovereign risk point of view, that gives us a view to say, well this asset has this future and therefore we can make some decisions with that knowledge. Absolutely.

Mr BOULD - Utilisation of the pipeline with the supply of gas in Tasmania really put these businesses over time transitioning out because they come to an end of their life cycle. If we are

serious about advanced manufacturing we should be with who has got the buzz on at the moment. Those businesses will be much smaller producers but they will require energy. Having a second form of energy available, such as gas, makes eminent sense for their downstream production. To not see the pipeline and the transmission of gas as a strategic opportunity is completely foolhardy. It just means that we are focussed on electricity for the sake of focussing on electricity.

Mr BACON - You think that is the approach that effectively the Hydro and the Government have taken, not seeing that as a strategic asset.

Mr BOULD - I do not think that the Hydro have and, as I said earlier, I do not think we have looked at energy holistically. I am seeing that change now and it is very welcome and we want to participate in it. But if you go back a couple of years, I think we focussed on the only energy in the world being Hydro electricity because that is what we have had. Certainly it is the major component in the state, but we have been remiss in not looking at the opportunities that other forms of energy can provide.

CHAIR - We have five minutes left. I am wondering if there is anything that you would like to cover off on in that time. Are there any other issues that you want to raise that we have not discussed this morning?

Mr ZOOEFF - Just back on the gas, as a final comment, is that we understand that there have been a number of negotiations between Palisades and Hydro. I think TMEC's position would be that we would want to see a long-term contract that actually then signals that there is a future for Tamar Valley, provides us certainty, provides us also with an economic transmission price, and also a backbone to grow gas, I guess, in the economy. That is our position. We understand the ACCC with the east coast gas inquiry have a number of recommendations around pipelines, but they are going to take time. I think we cannot wait for that.

I think we need to have a position here in the state. This is where we encourage the Government to encourage an outcome, because I think 2017 is not long - December 2017. You can talk to the TGP, I am assuming later on this morning about their views, but certainly our view is that we would like to see an outcome on this sooner rather than later.

Mr MOSTOGL - If I can just sum up then, from our point of view I think the last six or seven months have been fairly horrible. Ultimately our owners are going to judge Tasmania's status by the response. There is time to consider that response. There is time to demonstrate that this actually goes to the root cause. More importantly, whatever decisions are taken around energy security, gas, et cetera, has a trajectory that leads to a more efficient energy business at a better price.

Any decision that says that trajectory is actually going to see an increase or a continuation of the same, I think will be judged poorly and will not put Tasmania in the position that it wanted to. We have talked a lot about what happened in the last six months and the things that led up to that. It is what it is, but it is really the decisions that are taken now that are ultimately going to set the agenda for our businesses in the long-term, and I think from the economy's point of view in terms of manufacturing and minerals processing.

Is it a second interconnector? Is it higher dam levels? How will the gas facility be featured in the energy mix? All of those things are really critical decisions and they will set the agenda for the future. From my point of view, that is where the intellectual effort needs to go, into making

those sorts of decisions. Once they are out there, it will provide the setting for our businesses to make decisions about the future.

Ms FORREST - I just want to ask one thing. If we review the Hansard from last time, it may be there too. You did propose the question, would Hydro Tasmania be a viable business if it were to lose 100 megawatts from its current customer base? Can you just explain more fully what you mean by the 100-megawatt customer base?

Mr MOSTOGL - Our view is that everything is geared toward the current load. I do not see any capacity to absorb a significant reduction other than passing on more costs to everyone else, in other words, really kicking off the vicious cycle. If you could operate the business at a point and say, well, if we lost 100 megawatts or 200, and it is quite notional what that amount is, and we would not see massive price increases or a downward spiral, that would be a clue that the business is actually running in the right direction. If it is geared to survive purely on what it has currently got and it is so fickle, then that is a concern. That is really what the point of that question is about - what if the businesses had to run in that scenario, how would they survive?

Mrs RYLAH - I am concerned that the hypothetical situation that you outlined - that the Government had not consulted with you in regard to the decommissioning or the dry lay-up and subsequent sale of the CC unit. Because we did not have a fully-researched, robust request from Hydro for that, I would suggest that we had nothing to talk to you about In your businesses, you would not go to your head office unless you had a fully-researched, firm commitment on a strategy going for the proposal.

Mr MOSTOGL - All I can say is the amount of work we had to do at our operation to get that power station back into service was significant and it was not going to go back into service until all that work had been done. It was not ready to go and we thought it should have been ready to go.

CHAIR - I thank you all for your presentations today and answering our questions. We appreciate it very much.

Mr BOULD - Chair, in the interim, between us submitting and meeting with you today, we have prepared a position paper on gas that provides more explanation than we may have been able to give today. We are happy to submit that or leave that in any shape or form of which you wish.

CHAIR - The committee will receive that. Thank you very much.

Mr BOULD - It provides some more rounding on the matter we were discussing

CHAIR - I appreciate that very much.

THE WITNESSES WITHDREW.

PUBLIC

Professor MICHAEL NEGNEVITSKY, CHAIR, POWER ENGINEERING AND COMPUTATIONAL INTELLIGENCE, AND DIRECTOR OF THE CENTRE FOR RENEWABLE ENERGY AND POWER SYSTEMS; AND **Mr MARC WHITE**, GOANNA ENERGY CONSULTING, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Mr Dean) - Welcome, gentlemen. Parliamentary privilege applies to any evidence or information provided in this hearing but once you leave here it no longer applies in any way. The evidence will be recorded for *Hansard* and will be made available online in due course. If at any stage you feel evidence you might want to give should be received in a confidential manner, please raise that issue and the committee will make a determination on whether that evidence should be taken in camera. We have received your submission and I will give you the opportunity now to add to that and raise any additional matters.

Prof. NEGNEVITSKY - I would like to make a short statement which might help to clarify my position. I have been in Tasmania since January 1993. Tasmanian energy security is at a crossroads now. In the past Tasmania was in a similar situation twice. The first time was when the Government made a decision to build a hydro power system. It was a bold decision at that time to secure reliable and renewable power for generations. The second time was when the Tasmanian power system joined the National Electricity Market. Again, it was a bold decision which brought benefits to Tasmania. I believe the recent failure of Basslink was not just a disaster but a wake-up call for the Government on the energy sector in Tasmania. In my view, it is also an opportunity to ensure power security for Tasmania in the new environment. We once again may need to make a broad and unpopular decision. For you to make informed decisions, I am here to contribute my knowledge, expertise and time because a sustainable energy supply will ensure a sustainable future for Tasmania.

Mr WHITE - I thought this would be a good opportunity to share some of the insights from customers we had during the Basslink outage, but not necessarily because of the Basslink outage. These are the impacts we saw on businesses and people. On 23 February, a large health business in Tasmania contacted us because their electricity bill had doubled and they didn't understand why. They were one of perhaps five businesses in Tasmania that found themselves exposed to the spot price market at the worst time in Tasmania's history. In early March, a dairy farmer contacted us because he found himself out of contract and was facing a peak energy price, which had moved from probably 7 cents last year to around 15 cents for this calendar year. We did some calculations for him and we believed the impact of that was around $30 000 per annum on his business, plus there were some increases to the renewable energy certificate price. His estimate was that it was a $50 000 per annum impact on his business. There were probably scores of businesses such as our dairy farmers who were exposed to these price rises. The interesting thing we noticed was that it was only business owners who were prepared to speak out on it, because many of the employees we discussed these same matters with were concerned that it would reflect poorly on their job positions so they weren't prepared to speak out about it.

In April, we were fielding questions from small and medium enterprises about the need to arrange their own generation and to advise their boards on the importance of this. On 8 May, after a discussion with a mutual friend, I was so concerned about the health and wellbeing of one of our Tasmanian farmers because of the financial stress he was under from a range of reasons, not only energy, that I arranged financial counselling for him through the Rural Financial Counselling Service. By 30 June contract prices in Tasmania for the 2016-17 financial year had

finished some 55 per cent higher than what they had during their lows of mid-2015. The results of this are that similar businesses in similar areas were now facing starkly different input costs and that those costs would play out in their relative competitive postures over time.

CHAIR - Thank you very much, Marc. I think we all remember that the Government had indicated that as a result of what was happening there would be no price increases in energy. Did you have discussions with the Government in relation to this and the price increases that were being brought to your attention?

Mr WHITE - Yes. Tasmania is part of the national market and the pricing mechanism is strongly influenced by Victorian market pricing. Also, because there was a small handful of customers exposed to spot market pricing there were some very different impacts. We are not suggesting they are a direct result of the Basslink outage but the fact is that this is what the customers experienced during the time of the outage, so it is human nature that they are connecting the dots themselves.

Ms FORREST - On that point, I accept the difficulties the farmers are facing broadly at the moment and it does not reflect on any particular decisions they have made. The point you made with the particular farmer you referenced was that they had a contract. We heard some evidence about that in our last hearing, particularly from Aurora, where they talked about some of these people who were exposed to a spot market. Prices can be volatile even when the system is working perfectly so for anyone in that situation, isn't it more an issue of ensuring they are advised somehow to ensure their contracts are in place? Some people choose to take an exposure to the spot market and that is a risk they take and they factor that in, but this could have happened regardless. Isn't there a case here that we need an education component here? I do not know whose responsibility it is, whether it is Aurora or some other entity, but this could have happened at any stage and it will happen in the future unless people are aware when their contracts are due to expire and take action to renew them.

Mr WHITE - Absolutely. We have a number of reports on the Tasmanian market and what we have highlighted is that because of the low levels of retail competition in the Tasmanian market the education of consumers has not proceeded at a pace that it has in other markets. The mere existence of multiple retail competitors picking up phones, knocking on doors and trying to do deals with businesses expedites the education process of those businesses. Unfortunately in Tasmania we see businesses that do not invest in their own understanding of the risks and rewards of a competitive market and therefore in a lot of cases, such as the examples I have given, they become victims of the competitive market rather than beneficiaries.

Ms FORREST - Whose responsibility is it, then?

Mr WHITE - We have put forward some funding applications to assist with the education of consumers.

Ms FORREST - To government?

Mr WHITE - There was a consumer advocacy panel in the past and the attitude has been that it is in the customer's own interest to access independent advice and therefore it is not part of their charter to provide that assistance.

Ms FORREST - So 'buyer beware', basically?

Mr WHITE - Yes.

Prof. NEGNEVITSKY - I am from the university so education is close to me. So there is a problem of where you're setting new rules and also with smart metering technologies, new technologies coming on the market, and consumers are encouraged to take responsibility for this technology. The problem with this not only in Tasmania, but in Australia and around the world, is that public consumers are not educated enough to make informed decisions. I strongly believe that governments and the Tasmanian government should play a significant role in educating consumers.

Ms FORREST - To the government or the energy entities?

Prof. NEGNEVITSKY - The government.

Ms FORREST - The Government itself?

Prof. NEGNEVITSKY - The government, together with utilities. Utility, I would say, secondary. It has to be in place and with regulations, and it should encourage and enforce education of the public, otherwise we may face a situation of where the government and utilities will spend millions and billions of dollars installing smart meters, but the effect of this will be negligible, which we faced in many jurisdictions, including what happened in Victoria recently.

Mr BACON - You said, professor, that this should act as a wakeup call to the Government. Could you just outline to the committee what you think needs to be done to restore confidence in energy security here in Tasmania?

Prof. NEGNEVITSKY - With energy security it is relatively simple. There has to be a secure and reliable, and at the same time, affordable power supply in Tasmania. In order to achieve it, we have to consider different options, including the option of privatisation. It is a very difficult discussion, but probably it is time to start this discussion.

As I said, we have to consider efficiency. Why do we consider privatisation? Probably to improve efficiency of our energy systems. As previous speakers were here to discuss energy, it's gas options as well. We have to consider it. Privatisation is a very difficult issue that includes technical issues. It includes economics. It includes also social aspects. Our security has to be considered. An overall option, all assets have to be on the table, including from our point of view, privatisation, because sometimes if it is done properly it will encourage competition and innovation. This is a major issue I can see in Tasmania - a lack of competition and a lack of innovation significantly.

Mr BACON - In terms of the combined-cycle gas turbine, do you think that should be retained?

Prof. NEGNEVITSKY - The gas turbine has to be considered as a plausible option to secure energy supply in Tasmania. Demand is flat at the moment. In the future, 10 years, we may not be able to recognise our system because demand actually will go down. People will go off the grid because new technology will appear on the market, such as battery storage. When we have a solar panel on the roof, battery storage in your garage, you do not need connection to the grid.

As a result, we may have unutilised assets, a distribution network which will have to be maintained or sold somehow, but in that case it will be very difficult to find anybody who would buy it. Imagine billions of dollars in government owned companies which have to be maintained somehow and utilised and look at consumers who cannot afford to go off the grid. Prices will go up and government will be required to subsidise those prices for consumers.

This is why it is a very important discussion to have now, because in a few years time we may be forced to make an unpopular decision. It is much better to think about possibilities now than now than in a few years time.

Mr BACON - In your opinion, should the gas contract be negotiated beyond 2017?

Prof. NEGNEVITSKY - I believe it has to be on the table. I strongly believe this is one possible option. This is why it has to be initiated. It is part of the responsibilities of society to consider possible options. Gas is one alternative.

Mr BACON - Would there be an appropriate period that should be looked at, in your opinion, if that is renewed beyond 2017?

Prof. NEGNEVITSKY - That could be period from five to 10 years. But we have to estimate what can happen in 10 years time. It is a very difficult discussion because it is clear demand will go down. That is not only in Tasmania but Victoria is the same and mainland Australia. Demand will go down because people will be using new technologies. The discussion is difficult because power utilities invested in assets. These assets cost billions of dollars in Australia. Unless we can have a programmed transition to a new environment, we may have a real problem. This is why I consider Basslink not just a disaster but a reasonable wake-up call. Yes, it happened, yes, we will fix it now, but imagine what will happen if outage disasters will be frequent. It could happen.

Ms FORREST - To follow on, I do not know how much you heard of our previous witness, but they were the energy strategy and the energy strategy focuses on using energy to drive or grow the economy which, to me, means bringing more industry in.

Prof. NEGNEVITSKY - Absolutely.

Ms FORREST - You are talking about reducing demand. If the energy strategy plays out, as I am sure the Government hopes it does, we could see that turn around.

Prof. NEGNEVITSKY - Absolutely. I witnessed the previous speakers here. I agree with every word they said because I am thinking in exactly the same direction. We have to create a policy which encourages industries to come to Tasmania. It is possible because with the hydro power, if we integrate renewables, additional quantities, and encourage industries through power at reasonable prices. In that case, the reward has failed. In that case you will be able maintain security of power supply and to reduce prices.

Ms FORREST - Most of the people who choose to go off grid are small, domestic users. Why might get a few small communities, but we are not going to see a major industry go off grid, are we?

Prof. NEGNEVITSKY - Major industry will be on the grid. This is how you maintain power supply and demand. Currently there is very little encouragement to come to Tasmania because we have a bit of a problem.

Mr BACON - Is that a price problem?

Prof. NEGNEVITSKY - That is a price problem. It is competition from China and many issues. The population in Tasmania is not growing; in fact it has been going down. Our students are looking for jobs on the mainland and overseas. It is a reality. This is why I am saying privatisation could be one possible option because privatisation will encourage innovation, which will encourage young people to stay here and possibly develop their own businesses, but that will be a very painful process because Tasmania is a small state. This is why social aspects have to be considered very carefully, but it has to be on the table and be discussed. I understand that the Government will probably be at least losing power in that case but that is life and tough decisions sometimes are needed.

Mr BACON - Have you had this discussion with the Government?

Prof. NEGNEVITSKY - No. As I said, I am here in my private capacity. These are my private views.

CHAIR - We may see big industry going on to their own energy and a good example currently is the Cochin International Airport, which is a big facility that generates all of its own energy, so that is happening around the world.

Prof. NEGENEVITSKY - Absolutely; it is one of the possible options. Tasmania is a small state and I do not think it will be viable for large industries in Tasmania not to use a private infrastructure so, yes, it is possible when security of power supply is not guaranteed as they have their own power supply as a backup, but for a well-functioning infrastructure it could be not viable for them to create another infrastructure for themselves. I agree with you that there are some examples around the world, but they are under different circumstances.

Mr GAFFNEY - I am interested to hear your opinion on a mooted second Basslink cable to secure our future. Do you have any comment on that aspect that has been made both in the public arena by the Government about whether it is financially viable or necessary or whether we would be better off to spend that money in other areas?

Prof. NEGNEVITSKY - Again, I express my personal point of view. When you consider Basslink you need to go through a revision at least 10 years ahead because it is a large-scale investment and unless you know demand and what might happen at that time, I would consider it very carefully. The purpose of a second Basslink is not quite clear. Is it a backup for the first Basslink? Still, disasters happen and probably we should partly blame it on decisions of the Government because it was an operational decision not to have sufficient reserves in dams. A second Basslink would be an interesting technical challenge but from an economic point of view we would have to be very careful when we decide to spend a billion dollars of taxpayer money to do a second Basslink because they deserve a clear understanding of why they are doing it. Is it to sell energy to the mainland? Is it to secure energy supply to Tasmania? There are several other options in which effectively you can say that, for example, it is increasing renewable energy in Tasmania to ensure a reliable power supply for the next 10 years, so I cannot see clear justification at this stage for a second Basslink, to be honest.

Mr GAFFNEY - When I was a young kid and wanted to buy a car my dad used to say, 'Be very careful with that car, Michael', which was virtually saying 'do not buy that one'.

Prof. NEGNEVITSKY - I would say you interpreted my words correctly.

Laughter.

Ms FORREST - You said the business case would be difficult to stack up and there are other people who would share that view, but if it was to be brought in for whatever reason, whether it is energy security or to sell more energy to the mainland into the NEM, is it your view that it would have to be a non-regulated link to run alongside the current non-regulated link? If that is the case, who pays for it? Obviously you may not want to express your views on all of this but in the submission you talk about that and I am just wondering how you would see it actually working. In terms of battery storage, who would push battery storage? Would it be Hydro Tasmania or should it be TasNetworks or Aurora? Aren't there inherent conflicts between particularly Hydro and TasNetworks in that?

Prof. NEGNEVITSKY - As to Basslink, I think I have already answered that question. From my point of view we have to be very careful with Basslink, even before considering whether we need a second Basslink at all. Regarding battery storage, obviously it is a choice for consumers because the price for battery storage will go down very fast.

Ms FORREST - It already is.

Prof. NEGNEVITSKY - It is already. Battery storage is affordable for middle-class people already. This is why we started considering going off the grid. In the next few years we will find storage batteries which are reliable and cheap, so it will be more economical for you to buy and install them. It will be up to consumers to take this technology on board, as people are taking up solar panels now. I do not see any role for government except public education at this stage. When technology comes onto the market that is affordable and reliable, people will take it. Once again, we have to be very careful what happens next because we are looking at billions of dollars of under-utilised assets in the form of a distribution network. About five years ago I had this discussion with my colleagues from Aurora Energy. At that time, just five years ago, they considered it a blue-sky idea. Just last year I had the same discussion with the same colleagues and now they are asking my opinion on what would happen, because this if this is a real problem now, imagine what will happen in ten years time?

CHAIR - If I can just explore the position of the price increases, did you take that up with the Government at the time of those increases being brought to your attention? I think you said a large health business had their prices escalated. Have you taken any of that up with the Government to see where or why this was occurring in view of the statements that they had made about no price increases?

Mr WHITE - I understood the increases happened because of the mechanism in the wholesale market. I think it would be fair to say I have been pretty active in the media drawing attention to the issue. I think it would be fair to say there was quite a bit of coverage through the likes of Leon Compton, Sarah Gillman, local papers, *The Australian* and the *Financial Review*. There was quite a bit of coverage.

CHAIR - So I am clear on that, are you satisfied that those increases were not as a result of the predicament we found ourselves in in relation to energy in this state?

Mr WHITE - That's right, because the wholesale pricing mechanism takes no account of whether Basslink is operating or not.

Ms FORREST - In your submission you talk about capacity constraints and energy constraints. Can you talk us through how you see the differences in those?

Mr WHITE - The National Electricity Market has seen volatility over the last 15-20 years mainly due to what we call 'capacity constraints', being the maximum demand at any given point in time. That is the traditional reasoning in the National Electricity Market why spot prices go to $14 000. At any given half-hour in time the supply and demand equation is under stress and energy is bidding at a higher price, generally for short periods of time. That is called 'capacity constraints'. The National Electricity Market capacity constraints at any given point in time tends to drive higher spot market price outcomes.

Ms FORREST - So you are talking about the physical infrastructure?

Mr WHITE - Correct, and the need to bring on high cost generation plants to meet short periods of demand. The Tasmanian market has been characterised as being energy-constrained because whilst it has multiple generation plants, the water reserves are the limiting factor in some cases. That's what we saw in the first half of this year: Tasmania was driven by energy constraints - that is, water and storage - as opposed to short periods of time, peak-demand capacity constraints.

Ms FORREST - Was that exacerbated by the unavailability of gas?

Mr WHITE - Yes, and Basslink, because you are then reliant on water and storage and, obviously, a bit of wind.

Ms FORREST - You talk about your demand role in energy security, could you further explain the demand response and also how it links with voluntary load shedding?

Prof. NEGNEVITSKY - When you switch on electricity when you get home after work, around 5 o'clock, you increase your demand. At the same time, other people come home and increase their demand as well, so you have a peak. The problem is our power systems aren't designed to supply that peak, so you have underutilised capacity in the power system - generation, transmission, distribution - to supply peaks. Peaks happen over a very limited time, just a few hours a day, but you design an entire system to supply those peaks. Instead of this current way of thinking - why should we supply this peak just for a couple of hours and incur underutilised capacities in the system for 22 hours. In that case, let us consider another part of the equation - demand. Let's reduce demand; in that case, you may flatten electricity prices because the maximum electricity price is generated during peak demands. This way of thinking led to a new concept; that demand is forced. So, you have a heater in your house and you can discount the heater for a short period of time. You want to have a discount in your house, but at the same time the peak will be significantly reduced and this allows you to control your demand. At first, initial investments are required. It can be done through smart meters. Education of consumers to take this new technology on board is required, but it is achievable. Instead of an increase in capacity

of generation, transmission and distribution, we should consider [education 10:55.19] and this is what modern power utilities are trying to do.

Ms FORREST - Again, it comes back to education, and doing your washing in the middle of the night.

Prof. NEGNEVITSKY - Yes, by education I mean you have to educate your consumers. The installation of a smart meter in your house does not mean anything, even if you explain how to use this smart meter in the most efficient way. You should not expect your consumers or customers to take on work technologies they do not know and they cannot use. Such technology provides opportunities to do this.

Ms FORREST - Is load shedding not an option?

Prof. NEGNEVITSKY - No. Load shedding is a contradiction. Load shedding occurs where you cannot supply your demand; it is an emergency situation. You simply shut down all loads.

Ms FORREST - Load shedding is not all loads, is it?

Prof. NEGNEVITSKY - It is all loads for shedding. For example, when you have power, when you have factories or consumers, you just switch them off. You talk about demand response, you switch off your consumers for a very a short period of time on these selected loads, which do not affect consumers - for example, heaters in your house.

Ms FORREST - The load shedding done by major industry, they did not shed their entire loads. They shed loads to enable them to produce their demand.

Prof. NEGNEVITSKY - No, they share parts of their load. It is completely different from a demand response. They share a particular market for periods of time; for example, for one hour, a particular market in demand response they do not switch off this particular motor. We switch off a load for very specific short periods of time without affecting production.

Mr WHITE - I will quickly add to that a bit of a contrast in the national electricity market. The customer response, particularly large industrial customer response, to price signals is far more developed than what it has been in Tasmania. There are a number of reasons for that. both the 15 to 20 years that the national market had to experience response to price signals but also, in Tasmania, a much lower level of competition and therefore innovation.

There is actually a school of thought that says that some of the experiences we have had through the last event, forcing large industrial customers to think about how they respond to price signals is not necessarily a bad thing going forward. It may be that we have increased renewable energy and increased price volatility. Businesses response to that becomes more important. There is a lot of development to be done in the Tasmanian market about how to respond to more volatility in the future in pricing.

Ms FORREST - To date in the inquiry you have been the first person that has really put privatisation on the table and I would like to explore that a little. Your comments suggested that in reducing demand it would not be an entirely attractive asset to buy or to privatise and build into the whole mechanism of our energy businesses considerable amounts of community support or

subsidies or concessions. To look at privatising any aspect of the energy or utility businesses, couldn't that still become a major issue that government will still have to provide some sort of subsidy or support to enable that to happen, particularly for the disadvantaged in our communities?

Prof. NEGNEVITSKY - Absolutely. This is one of the problems that potentially Tasmania can fix. Tasmania is a small state. With privatisation usually you will need to cut jobs, so people will lose their jobs. In a small state, if it is not done properly it will be a disaster because many people may lose jobs as a result of privatisation. We also need to ensure that people who lose their jobs will be able to get something else instead. It would require a significant discussion with the public and education on the potential benefits of privatisation. There will also need to be some kind of alternative jobs for people because young people will probably be able to get into related businesses, especially people with degrees. Usually privatisation leads to innovation and competition if it is done properly. We have to be very clear. Tasmania is a small state and there are several challenges associated with this. This is why I am requesting it be on the table as a discussion and it should not be done in a rush. This discussion has to be done now because in five years' time we may find it could be much more difficult.

Ms FORREST - You talked about the potential job losses and that is one aspect of it. The other aspect I was focusing more on is that there is a lot of government support in our currently system. There are concessions to low-income earners and those sorts of things built into the system. There is also the need to have some income for government to provide health and education infrastructure and those things which come through the dividends payments. If part, some or all was privatised, you would get some through company tax and things like that, but a lot of that does not come directly to the state. In view of those significant social benefits, how do you see privatisation meeting that social need and benefit?

Prof. NEGNEVITSKY - This why we need to have these discussions. This is exactly what I am saying. I entirely agree with you but there has to be a discussion. You may find in time it will become more difficult and efficiency will go down, not up. We need to consider where we are moving because at the moment efficiency is going down, and we just had a disaster or energy crisis. Without comprehensive discussion in this area, it will continue like this. Some bold decisions have to be made now because in five years time it might be too late and we will pay a big price, much bigger than now.

Ms FORREST - Are you saying it may be unsaleable at that point?

Prof. NEGNEVITSKY - Maybe, but once again it has to be discussed because there is no public discussion in this area at all.

CHAIR - Thank you very much for your attendance here today.

THE WITNESSES WITHDREW.

Mr LINDSAY WARD, CHIEF EXECUTIVE OFFICER; **Mr JOHN DELICATO**, GENERAL MANAGER; AND **Mr ELIAS BOZOGLOU**, BUSINESS ANALYST, TASMANIAN GAS PIPELINES, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

CHAIR (Mr Dean) - Whilst you are in these proceedings parliamentary privilege applies to you, but once you leave this environment it no longer applies. It is being recorded by Hansard and in due course it will go online for the public to see. If at any stage you believe that evidence you want to give should be treated in a confidential way, you have the right to ask this committee and the committee would then make a determination.

You have provided a submission. We have the amended document that was provided yesterday to us which I think was simply a declaration.

Mr WARD - It was just that qualification that was left out. The actual document itself has not changed at all.

CHAIR - Thank you very much for that.

Mr WARD - Thanks again for allowing us to appear before the committee today. I am here representing Tasmanian Gas Pipelines. Tasmanian Gas Pipelines is owned by Australian superannuation fund investors, 'mum and dad' investors who invest their superannuation into organisations that then give people such as Palisade, as a fund manager, to manage that investment on their behalf. The idea of investing in infrastructure is to invest for long-term certainty and moderate return, but with a high level of understanding where the future revenue streams are going to go. That makes infrastructure an attractive investment.

Tasmania has for the last 40 years owned and operated gas- and oil-fired generation for two key reasons - fuel diversity away from Hydro, and fuel security. The Tasmanian gas pipeline runs from Longford in Victoria through to Tasmania. It was built in 2002 by Duke Energy, and at that time had active support and facilitation by the Government to make that happen. Gas is supplied to the Tamar Valley Power Station and these assets, the TGP and the Tamar Valley Power Station, are operating and are proven they can provide energy security. They also provide fuel diversification. If you look at the recent energy crisis, both those assets were critical to getting the state through what was a sustained drought and challenges in keeping the lights on. In contrast, new wind farms or a new interconnector require significant investment in the hundreds of millions, and in Basslink it is a billion dollars. What people need to understand is that a second Basslink is 10 years away.

A new gas transportation agreement is vital to ensure that the Tamar Valley Power Station is able to fulfil its role as a provider of energy security. The contract that is in place between ourselves and the Tamar Valley Power Station at the moment runs out at the end of December 2017 so we have been negotiating with Hydro since 2013 to put a replacement contract in place. I think we are at a point now where industry is demanding certainty around gas transportation pricing beyond the end of 2017. Our shareholders and investors are getting concerned about the lack of a contract beyond 2017 and we certainly are keen to continue to negotiate with Hydro to put in place a contract that is commercially viable for all parties.

The current contract underpins our business and provides 55 per cent of our revenue. Both the power station and the pipeline have been dependent on each other. They were crucial to TGP

being built. Tamar Valley is crucial to the long-term viability of TGP and, importantly, is crucial to underpinning competitive gas transportation prices in Tasmania. I think people have probably missed that link where gas has been provided throughout Tassie - to Bridgewater, out to Grange Resources. Neither of that would have been possible unless the construction of TGP had been underpinned by the contract with the Tamar Valley Power Station. That contract was facilitated by the government. To be in a position now where that support does not exist, the very viability of gas to Bridgewater or to Grange Resources is really under threat.

The recent energy crisis showed that the combined-cycle unit is important. The Government came out quite robustly and said that the sale that had been lobbied for very hard by Hydro was off the table and that the Tamar Valley Power Station would be kept, and in particular, the combined-cycle unit, but no-one has come out and said now that they want to keep the power station, what government policy is in terms of entering into a long-term gas transportation agreement with ourselves.

I think it really is important that people understand this link between the two. You cannot have one without the other. They are integral and they then underpin gas transportation pricing to the likes of the smelters in Bell Bay, the dairy industry and the mining industry. From some work we have done, if gas transportation prices, along with commodity prices, get away and they are too expensive, it will have a profound impact on jobs in Tasmania, particularly in the north-west.

We are prepared to take some pain. We have been very clear in our approach to both the previous Labor government and the current Liberal Government that we see a 'Tassie Inc.' solution is important in this position. We can't sit here and expect to receive the same level of revenue we are currently receiving from Hydro. We are prepared to take some pain but, equally, Hydro needs to look at this not in its own isolated commercial view. They need to look at it in the broader context of jobs, economic growth, what gas does for the state and how it underpins jobs in the north-west in particular. We need a whole-of-Tasmania solution that involves government, ourselves, Hydro and the large industrial customers.

Indeed, we made a number of offers to Hydro over 2014 and early 2015 that would have facilitated a substantial reduction in the obligation of Hydro to pay for our contracts to the end of 2017. Basically we were offering a position whereby we would waive the current contracts and introduce new contracts two-and-a-half to three years earlier than what would be the case under the current contracts. That new contract was substantially lower than the rate they would have to pay in the remaining three years of that contract - in the order of 30 per cent - and that was money Hydro could have returned to the state at a time when it was predicting nil dividends to the Government. Unfortunately that was rejected.

We also offered significant increased flexibility around how the peaking units could be used. At the moment there is an additional charge every time those units run. What we were proposing is that they could run at their choice at no additional cost; we would provide a fixed fee to give flexibility. We also offered storage whereby the Momentum business in Victoria could benefit substantially by having a large amount of gas stored in the gas pipeline they could contract at lower than their demand, in the safe knowledge that should gas prices rise they could push gas into Victoria and therefore have an effective hedge. We felt we offered up quite a viable commercially-attractive outcome but that was rejected.

At the time we thought it was quite difficult to understand the thinking behind it. Basically what was offered to us was in the remaining two-and-half years of the contact that amount of

money you could have in any form you liked. Whether it be in the remaining three years of the contract, whether it be a five-year or a 10-year contract, it was a bucket of money that was available. We found that strange but it wasn't until after those negotiations had come to a halt that we realised that in parallel with the negotiations they were having with us, Hydro was lobbying the Government to shut down, sell and dismantle the Tamar Valley Power Station. It then became obvious that the negotiation we were in was all about Tamar Valley not being there post-2017 and any obligation Hydro had between the time of the negotiations and the end of 2017 was what they were prepared to honour in the total cash payment. That has made it difficult. We have had some information discussions with Hydro over the last 12 months or so, and I can talk about the non-commercial aspects of those in a little more detail later on.

The pipeline is a critical piece of Tasmanian infrastructure and the future of our business and the state needs to recognise that the existence of the Tasmanian gas pipeline was facilitated by the state. We will not be comfortable if changing state policies results in the closure or uneconomic viability of the Tasmanian gas pipeline, given they were fundamental in establishing that business in the first place. If we are unable to reach a satisfactory outcome with Hydro, the impact is quite significant on the major industrial users. We are looking at increases in the order of 110 per cent for some of those customers and that would then bring into question their viability and whether they should look to switch from gas to other fuels, which would mean a move back to coal or heavy oils, neither of which is great for the carbon footprint of Tasmania for those industries. That is why we have maintained consistently there needs to be a solution that takes into account all people's views and not just the narrow views and commercial focus of Hydro.

Investors do not like uncertainty. We manage funds on behalf of Australian superannuation funds. They do not like sovereign risk of the kind we and our customers are now looking at. The state facilitated construction of TGP with a gas fired generator. It was a long-term foundation customer that underpinned the gas pipeline being pushed out to Bridgewater. It was not economic at the time and is not economic now. It was only economic on the basis of the Tamar Valley power station contract. That is a very important thing to remember.

I have talked about all parties. It is a Tasmanian solution we are looking for and we want to be part of that. We are happy to take some pain. We are not here with our hand out, saying we must get the same level of revenue we currently get. We have made significant investment in the pipeline in anticipation of a reduced revenue stream from Hydro. We are investing $18 million, connecting the Tasmanian gas pipeline to the Victorian system, something that has been thought about but never achieved. It will be connected in December.

We have reduced our cost base considerably. We have taken the management of the business in-house to our own employees rather than paying an O&M provider, and we have negotiated with a number of our other major service providers, reducing the cost of our business. We are bringing to the table a sound position and we just need some assistance for Hydro and some direction from Government to act in a commercially reasonable sense in the broader context of Tasmania.

We would also like to challenge Hydro's comments before the committee where I believe they said that the holding cost of the Tamar Valley Power Station was more than $20 million, excluding the cost of the gas commodity. We believe those numbers are grossly inflated. We have done some internal work. We have gone out to an external professional service provider that maintains a number of similar CCGT plants around Australia and believe the number is substantially less than $20 million being quoted. We are more than happy to make a separate

submission to the committee, a short submission outlining that, but we are very confident our numbers are correct. In any consideration of the viability of Tamar Valley Power Station versus wind, versus other insurance products, because that is what Tamar is, it is an insurance product. You are buying insurance, and when you are buying insurance you do not have to buy commodity, you just have to buy the capability to run, and all the numbers we have put together would allow the power station to return to service with a month's notice. That would give you plenty of time to go out and buy a gas commodity contract for the period you are expected to run.

When you are looking at the numbers, be very wary of averages, be very wary of rules of thumb because typically they are not right. Gas commodity prices are increasing, but if you go into the market in summer and you buy a summer contract, the cost of that will be substantially less than going into the market in winter. Quoting a $9 figure for a gas price is not right. You have to look at when would it run, how would it run and what are the true economics of that.

Basslink has become heavily politicised. We do not believe it is economic. It is $1 billion; it is 10 years away.

Ms FORREST - Are you talking about a new interconnector? Basslink is the one that is there.

Mr WARD - Basslink 2, I apologise.

Ms FORREST - Call it an interconnector because why would it be called Basslink?

Mr WARD - In our view, it has become politicised. It is $1 billion. There is a huge opportunity cost associated with it. Someone pays for that, whether it is mum and dad in Tasmania with higher bills, whether it is the Australian taxpayer, whether it is Hydro, ultimately someone pays for that. It is significant amount of money that could be invested elsewhere. We have Tamar Valley, it is a sunk cost. It has been written down to very low levels on the Government's books and my understanding is it is not even on Hydro's books anymore.

When you look at both the short-run and the long-run marginal cost of Tamar Valley, it is less than wind and it provides a far more economically viable and certain future in terms of energy security and fuel diversification for Tasmania. Thank you.

CHAIR - I notice in your submission that you asked that your original submission be kept in confidence until this hearing occurs. I take it that confidence is now no longer required in relation to that submission.

What you are saying in relation to the contract is that since the facility at Georgetown has been taken off the market there has been no change in the position between yourselves and the Hydro and the Government to negotiate a contract after 2017? The other part of that question is, what discussions have you had with the Government in relation to the situation and what has been the response?

Mr WARD - In terms of interaction with Hydro, the last key interaction where we had a definitive position put by Hydro was in November 2015. I apologise - our submission says December. We were told at that time that the Tamar Valley Power Station would be sold, it would be dismantled and removed from the state, that there should be no expectation that Hydro would enter into a gas transportation agreement with us. When we asked, 'What about the

peaking stations? Surely you will need gas transportation for those?', we were told, no, they will be run to failure and they were no longer needed. We had a very definitive position put to us in November of last year.

Mr BACON - What does run to failure mean?

Mr WARD - We stop doing maintenance and if they fall apart they fall apart, and they will not be rebuilt or be in a position to run.

CHAIR - What you are telling the committee is that there has been no discussion since that time with Hydro or the Government?

Mr WARD - Following that, I received a text message from the CEO in April asking us to put forward a proposal, a new offer, which we did in May. That offer was provided with an expiry date of 30 June. I met with the CEO on 30 June, on the day it expired, and there was no offer made, there was no counter offer made, there was a discussion about getting together at the end of July to talk around the principles and fundamentals of the deal. I was approached by Hydro this week - the timing was interesting - with a view to providing us with an offer. I pointed out to that individual that the discussions with the CEO were along the lines of meeting first in person to talk about the parameters of a deal. The response I got was, yes, you are correct we should organise a meeting in the next few weeks.

Ms FORREST - When was that?

Mr WARD - I had an approach either on the weekend or on Monday.

CHAIR - As a result of that you are now expecting that meeting to occur in the very near future?

Mr WARD - Yes.

Mr BACON - Is there a deadline from your point of view to strike a new agreement?

Mr WARD - When you look at the challenge that large industry is facing, in December 2017 two things happened, probably three. Hydro said that they are no longer going to provide gas transportation or gas commodity services for large industrial customers. That is the message that has been told to us. So those customers will have to go into the market and perform a service that they have not done before, which is buy their own gas and negotiate their own gas transportation agreements with us. That is less than 18 months away.

As most large businesses do, they are doing five- or 10-year budgets to look at their long-term viability and future. They have no certainty on gas transportation prices as we speak. It is an unacceptable position for a large industry which has international boards and competes in the international marketplace to have a significant cost to their businesses with a question mark 18 months out from a drop-dead date. That is a bit challenging for them. Our view is that the deal should be done quickly. It is not a complex deal; it is quite a simple deal to be done, and certainly the offers we have made in the past could quite easily be accepted.

Mr BACON - When was the last contact you had with the state government around the continuation of the gas transportation agreement?

Mr WARD - We've had a number of meetings with both the previous Labor government and the current Liberal Government over that period of time where we have kept them abreast of our negotiations with Hydro. We have raised concerns around the lack of good-faith negotiation from Hydro. It is fair to say the Government has shown some interest but has not shown any interest in acting or influencing Hydro to come to a decision that is in the best interests of Tasmania as a whole. I can accept Hydro's position that it is acting in its own best interest and as a state-run enterprise that is probably to be expected, but there is the opportunity within its charter for government to direct it to consider the broader ramifications of gas in Tasmania. We are at a point where government needs to give that greater consideration but that hasn't been the case to date. I have no complaints about access to the Energy minister or his advisers and we have also had good access to the Treasurer, but everyone is sitting back and looking for a commercial solution. That is okay potentially if there is equal strength on both sides of the negotiation but, given Hydro's size, position and attitude to date, we aren't able to influence those negotiations apart from accepting a figure from Hydro that is extremely low, which would then result in prices being passed on to large energy users which would be significantly increased.

Mr BACON - Was that communication from Hydro in November 2015 that there wouldn't be a new contract beyond 2017 communicated back to the Government?

Mr WARD - Yes, it has been on a number of occasions.

Mr BACON - And that was in November last year?

Mr WARD - The meeting was on 4 November last year and we have had a number of discussions with government since then where that matter has been raised. We have had a good hearing but we haven't yet seen any change in the attitude of Hydro as a result of those discussions.

Ms FORREST - Weren't those discussions premised on the work Hydro was doing about mothballing and then perhaps decommissioning the Tamar Valley Power Station?

Mr WARD - That is correct.

Ms FORREST - At that point that was their intention so they wouldn't need gas at that time - other customers still do, obviously - so the change of attitude in more recent times reflects the current government's decision not to sell it. Is that a fair comment?

Mr WARD - I would hope so. If you look at the negotiations through 2014 and early 2015, they were very difficult and, in my view, one-sided. The reason for that, which we didn't understand at the time, was Hydro's decision to close, mothball and then sell Tamar Valley Power Station. That was still their position in November 2015 and that was made very clear to us. The thing we found a bit puzzling at the time was that we always believed, and our modelling has always shown, that open-cycle gas turbines were required. We thought Hydro's decision to mothball Tamar Valley Power Station was courageous and we saw that in the energy crisis. If you do a simple internet search on undersea cable failures, I think in the last seven years there have been six, so they are a known event. That is a failing of risk management, in my view, where we know there are cable fails, we know there are droughts. The coincident nature of those events is something you would always factor into a risk-based model. Our view was always that the Tamar Valley was a very cheap insurance product. To take that away, as I say, was

courageous, but at the end of the day they put a position to government that must have been backed up by fact in some form. We thought to then make the statement to us that shutting down the peakers and letting them run to failure - which is basically letting them collapse and go away - was certainly well beyond courageous.

That was the surprising feedback we got in November last year. We certainly spoke to government about that. I am hopeful that the engagement with Steven Davy in June to meet and discuss the parameters of the deal is now in the context that government has decided that the Tamar Valley Power Station has a role to play in energy security and fuel diversification, and there is an intent to ensure that gas that underpins industry in Tasmania will be taken into account in those negotiations.

Ms COURTNEY - This morning we heard evidence from the major industrials that if for an asset such as yours, one of the major customers was no longer a customer, the price would be driven up for the other customers. You said before that around 110 per cent is your estimate for other MIs. Could you comment on the alternative view, because if you look at other asset classes, if you lose a major customer in some respects, in many other asset classes the value of your asset therefore is just eroded and effectively your organisation and your shareholders take a haircut. Why is it different for this asset?

Mr WARD - I think if you look at infrastructure as an asset class, things such as gas pipelines, overhead transmission assets and major ports, typically the model is what I would call in some ways a shadow regulatory model. If those assets are regulated, as many ports, some pipelines and many transmission grids are, basically the cost base of the business and its allowable return is borne by the number of customers that are there. If you've got ten customers and you lose one, nine customers then pick up that cost. That is how regulated assets work and how assets in this infrastructure class typically work. TGP is not a regulated asset, I accept that, but we would look at our pricing on the basis of the return that we want to achieve and should be able to achieve on an asset like this and that cost base would be spread across the remaining assets in no different way, shape or form than as if it was a regulated asset.

Ms COURTNEY - So effectively you are looking for the protection of being a regulated asset, protecting your margin for your shareholders, and - it could be asserted by some - at the cost of Tasmanian taxpayers through the ownership of Hydro. Then whatever happens with negotiations in the future of Tasmania Inc., as we referred to before, there is that payoff, I guess.

Mr WARD - I can probably answer that in a couple of ways. When Palisade, on behalf of the Australian superannuation funds, purchased the Tasmanian gas pipeline, it did so on a cost base that was substantially below its construction and replacement costs.

Ms COURTNEY - It was a commercial decision?

Mr WARD - It was a commercial decision. The returns we are trying to get is on that lower cost base. If the asset was to be regulated, the regulated asset would be on its replacement cost, so what you would see if it was regulated would be a fixed return that we could get based on a cost base, and that would be borne by industry in Tasmania, so we are adopting a similar viewpoint to how that would apply. I do not think regulation is the answer because it results in high prices. My view is that we are wanting to work with the state, Hydro and industry and have a cost base that is reasonable for all parties.

We have invested $18 million on an interconnection that is a large commitment by ourselves that we think will allow us to diversify our rate base. That is something we will bring to the mix and enables us to accept a lower return on an annual basis from Hydro. We have brought the management of the business in-house, again saving costs. We have gone out and renegotiated contracts and the like so we are bringing to the table a substantially reduced cost base. If we were a regulated asset there is no incentive to reduce your cost base. The incentive is to typically gold-plate your assets because you get a fixed return on the money you spend. That is not the nature of us as a business and it is not the nature of our shareholders. It is about long-term certainty of revenue at modest returns on the infrastructure.

Ms FORREST - Following on from Sarah's question, in terms of the meeting in November last year when you were basically informed that Tamar Valley going to be mothballed and then sold, the major industry groups here earlier told us they hadn't had any communication from government around that decision and were in some respects caught a bit short. During November 2015 when you were informed, did you have discussions with major industries and was there any indication that they were aware?

Mr WARD - That Tamar was being -

Ms FORREST - Yes.

Mr WARD - No. We weren't aware either. We were caught off guard by that announcement, but I suppose it clarified or confirmed our frustration at the time with Hydro in the way they were behaving in the negotiations. We were just not getting anywhere. We were just spinning our wheels and it was all about, 'There's *x* million dollars we still owe you until the end of 2017 and that's all we're ever going to pay you for the next seven or five years' or whatever, but they were obviously negotiating in the full knowledge that they were going to terminate Tamar Valley Power Station at the time and in my view that is not negotiating in good faith. They should have been upfront about that and parked negotiations until that decision had been made.

Ms FORREST - I do not need you to go into the detail, but what is the basis for the discussions you have had with the major industrials in more recent times?

Mr WARD - They share our frustration. They acknowledge, I believe, that Tamar Valley Power Station was what underpinned gas in Tasmania and that is what underpinned them switching to gas, which a number of them did when gas was made available and they switched from other fuel sources. I don't think they ever envisaged a position post-2017 where Tamar Valley Power Station wouldn't be there, and neither did we. All our modelling at the time of purchasing the asset indicated it was needed for energy security and fuel diversification and modelling continues to say that. I think major industrial customers never envisaged a future where there would not be a gas transportation contract with Hydro because they would not be on gas if Tamar Valley was not there. Everyone's decision around gas is tied back to Tamar Valley Power Station, which is tied back to that decision to build Tamar Valley, buy it from Babcock & Brown and underpin the original Duke Energy decision. That was government policy and was government facilitated. They wanted fuel diversity, generation diversity and they wanted to use that basis to attract heavy industry to Tasmania.

Ms FORREST - That was decision was made about the time of previous drought.

Mr WARD - That is correct. I think when you look at risk management Tasmania has history of droughts every five years or so. It has a history of dam levels falling below 20 per cent. It has been down at 17 per cent before. I think it was down to 14 per cent this time. That is known; you factor in that it is going to happen. You also have to factor in failure of a major generating unit. That is commonsense risk management. You should factor in the potential failure of Basslink. Basslink now is a one-in-10-year event and it should have been factored in. You then have to factor in the coincident occurrence of drought and a generator failure. That is what you do in risk management and then you sit back and see what reserve you need. The decision was we need a generator like Tamar Valley, 200 megawatts, on standby. It does not have to have a gas commodity contract but it has to be ready to run for insurance if we need it so we can sleep easy at night. That was not the approach taken and we saw the energy crisis as a result.

Mrs RYLAH - I turn to the comments you made about the original contract being facilitated by the Government to get an understanding of what that facilitation was, if you can explain that to me, and then explain what you would ideally seek under a new contract. What is your version of the facilitation now, seeing you have also mentioned your preference is for a non-regulated market?

Mr WARD - In our submission we gave a little bit of history around government involvement in that original decision. I will start at the second part of your question and then come back. All we seek is for government to acknowledge that the gas transportation contract with Tasmanian Gas Pipelines has a broader contract than just Hydro and that in that context they direct or encourage Hydro to take into account that broader contract. That is all we are seeking. If that is there, what we have offered to Hydro by way of flexibility makes the commercial decision of Hydro acceptable.

We are offering storage, a service they do not currently have. Their Momentum business in Victoria is a gas commodity business. At the moment you can only buy flat gas commodity prices, which means you have to buy a gas contract for your highest demand day to make sure you can meet that. In the past you have been able to buy gas contracts that peaked in winter and ebbed in summer.

They are not allowing that now, so the concept is that you buy a contract that maybe is 30 or 20 per cent below your peak. You are not covered for that so you take up an insurance product - storage - and we are offering that as part of the settlement. That value of that storage, because of the increasing volatility in the east coast gas market, has gone from around $30 to about $60 a gigawatt. We are offering substantive storage to Hydro as part of this settlement. We are also offering them far greater flexibility around the peaker plants. At the moment, if those peakers run, and they can come on for system stability means, to lop a peak price or take advantage of a peak price, they have to pay to run them at about a 30 per cent premium to a firm forward contract. We are saying they can run when they want to run, there is no extra charge, and we give them the ability to run Tamar Valley up to its full production load if and when they need to do it. I think we have given them a broad package of opportunities, not just, 'We want the same amount of money you gave us last time'. We are saying we are happy to get a hair cut at 30 per cent and we are giving them all this additional flexibility.

In terms of the Government's involvement in the Tasmanian gas pipeline and then the Tamar Valley Power Station, it is our understanding that the Tasmanian gas pipeline came about through the re-powering of the Bell Bay Power Station. They converted from fuel oil to gas. That

commitment by Government is what basically underpinned the Duke Energy Committee to build the Tasmanian gas pipeline. If it was not for that government policy, you would not have gas in Tasmania. You would have to have a large significant load to make it economic. That is what was facilitated, the conversion of the Bell Bay Power Station.

At a later date, you then had a position where there was a desire to have energy security, fuel diversification. It was at the time of a drought. There was a real push to get the Tamar Valley Power Station built. Indeed the Government stepped in and took over the contract of Babcock and Brown, and completed the construction. They could have stepped back and let Babcock fail, but they recognised the energy security value of the Tamar Valley Power Station, the fact that it also underpinned gas transportation into Tasmania, and they stepped in and built that asset. That is facilitation by government.

Mrs RYLAH - And the form of facilitation that you are looking for now?

Mr WARD - All we ask is that Government encourages Hydro, as is their ability to do, to act in a broader commercial sense with their Tassie Inc. hat on, rather than purely and simply a Hydro hat.

Mr BACON - In the first part of that answer you talked about the original offer that you put to the Government last year around a 30 per cent saving of storage capacity and the flexibility around it. Is there a figure that that would have saved Hydro if they had done that deal then rather than -

Mr WARD - The saving - I am just thinking about commercial-in-confidence. Our view that if you combine the recent energy crisis, and had our contract been in place during that energy crisis, and the money that we were prepared to forego by bringing in a new contract at a lower amount - the sort of additional savings to government, and effectively taxpayers, was getting close to $20 million.

Ms FORREST - I am just wondering if that included the cost of recommissioning or ramping it back up. If you had it in the contract, they might not have wound it down, would they?

Mr WARD - Correct. That is right.

Ms FORREST - Did that include that cost?

Mr WARD - It is purely money we would have forgone, if you look at it in that context. If they had entered into the contract, then I would have thought they would have kept the station on standby, and this cost of flying in generators and the like from Dubai and diesel assistance and all that would have been avoided if they had recognised that the Tamar Valley was crucial to energy security.

CHAIR - I have a number of questions, particularly around the comment that you made about overstating of the stand-alone generation and so on, which I would certainly like to explore. We will be coming back, probably this afternoon, so I thank you so far.

The committee suspended.

PUBLIC

THE PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS MET IN COMMITTEE ROOM 1, PARLIAMENT HOUSE, HOBART ON THURSDAY 4 AUGUST 2016.

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

Mr LINDSAY WARD, CHIEF EXECUTIVE OFFICER; **Mr JOHN DELICATO**, GENERAL MANAGER; AND **Mr ELIAS BOZOGLOU**, BUSINESS ANALYST, TASMANIAN GAS PIPELINES, WERE RECALLED AND RE-EXAMINED

CHAIR - We will resume. Once again I apologise for any inconvenience caused to any of you.

Mr BACON - During the budget Estimates process the Energy minister revealed that the total amount of energy produced by diesel generators was I think 55 gigawatt hours or just 0.4 per cent of energy and storage. On our calculations that amounts to an extraordinary $1 million per gigawatt hour. Given gas prices and generation, what would it have cost the combined-cycle gas turbine to generate the same amount of power?

Mr WARD - We have done quite a detailed analysis on what our view of both the long-run and short-run marginal costs. The long-run marginal costs take into account the debt aspect and the short-run marginal costs are the general operating costs of the business. I will double-check my notes to make sure I have the right numbers. I can give you a number that we think is the long-run marginal cost for a megawatt hour and it ranges somewhere between $66 and $71 per megawatt hour on a long-run marginal basis. You would need to apply that to how many gigawatt hours and we can quickly do a count - 55 gigawatt hours.

Mr BACON - Around $1 million a gigawatt.

Mr WARD - Yes, but certainly substantially less than the cost of running diesel.

Mr BACON - How much money do you think could have been saved if the Tamar Valley Power Station was online earlier than January and could it effectively have meant the state could have avoided the needed to install diesel generators?

Mr WARD - I think all of the costs associated with the response to the energy crisis could have been avoided if Tamar Valley was in the mix in terms of energy security. What you saw was Hydro, having made a policy of the business, thought it did not need Tamar Valley and therefore was going to survive, come what may, without it. I think if you had a prudent approach to risk management and had had Tamar Valley on a one-month recall - which is what we think it should be set at - you would have brought Tamar Valley into play when water levels dropped below 30 per cent and it would have then been used to maintain water levels in that range of 25 to 30 per cent.

What you saw was an emergency late response to the dropping water levels and you had a situation where parts of the machine were overseas and had to be flown back. They had basically

decided there was no room for Tamar Valley in energy security and therefore they had parked it. It was not until it was too late that they reactivated Tamar Valley and as part of that it was too late to hold those dam levels because they had fallen too far. You then saw that reaction of bringing in 100-odd diesel generators.

Mr BACON - You think that was basically made because the Government had made the decision on 12 August to provide the option for Hydro Tasmania to sell the combined-cycle unit and given permission to decommission it at that point?

Mr WARD - I think definitely a decision had been made by Hydro that gas would be no longer part of their energy offering and they behaved accordingly by pulling parts of it off. It was not in a state of readiness because if it was a part of their energy security and risk mitigation mix, they would not have had parts pulled off and sent overseas. Their behaviour reflected their view that it was not required, that had been certainly been relayed to government and I believe government was in support of that decision.

Ms COURTNEY - I have a question on your response before when you were reflecting on Hydro's possibly late response in starting the recommissioning of Tamar Valley Power Station. I am looking here at the storage history and it looks like when the levels dropped from 30 per cent to about 25 per cent that aligns with the timing in November 2015 when it started getting commissioned for dry lay-up, so the truth does align with your comments. They started recommissioning it when it went down to that point.

Mr WARD - I don't have the chart in front of me. Our view at the time - and I am happy to be proven wrong if that is the case - was that the generation could have come back a lot earlier than it did because the gear was overseas. I don't have the date of when it started generating versus what the dam level was at that point.

Ms COURTNEY - I guess it was more reflecting on your assertion that they should have recommissioned the power plant when it got to that critical 25-30 per cent, and from the data I have in front of me it seems they did make that decision. When the dam levels dropped they started recommissioning it well before there were issues with Basslink.

Mr WARD - The issue is the time it took to bring it back into commission. If you had that generator as part of your risk mitigation, your energy security, at no time would it take longer than one month to recall it to operation. My understanding is that it took a lot more than one month to recall to operation.

Ms COURTNEY - That wasn't what I was reflecting on; it was more the comments you made earlier about the late response. I am sure Hydro can speak for itself, but from the information I have in front of me it looks as though it wasn't a late response. They did start commissioning it when those water levels dropped.

Mr WARD - Probably my concern and my comment was around when it started generating. If you look at when it started generating and what the dam levels were at that time, I think there was a passage of time when it could have been generating earlier if it had been on a one-month recall to service.

Ms COURTNEY - I take that comment. I am not commenting on that; it was more the assertion it was a late response when the data may not reflect it necessarily was a late response.

Mr WARD - Maybe we are splitting hairs a bit. It started generating at a point where dam levels had dropped. My view is that if it was available it could have generated sooner, which would have allowed you to hold the dam levels for longer.

Mr BACON - So it shouldn't have been decommissioned in August and could have been brought back two months earlier - I think it took three months to bring it back on line - and generated significant amounts of energy to save the dam levels at the height of the energy crisis.

Mr WARD - Yes. If you look at how you assess the economic benefit of the insurance policy, it needs to be considered in the context of what improved flexibility you have in making a decision around your dam levels when you have base load generation that is guaranteed and reliable with a combination of Tamar Valley combined-cycle and dam levels. There is greater flexibility in that minimum level that you are prepared to set. As soon as you stop generating and importing brown coal-fired power from Victoria, if you have the gas there you can be a bit more flexible around that 30 per cent and what the right number is. If you make the decision on the 30 per cent, you don't have Tamar Valley. You might have wind but wind is very intermittent; you can't rely on it or factor it in to your risk mitigation and what the right dam level is and whether we can come down a bit and arbitrage it knowing we have the ability to recover quickly. That's the benefit of base-load guaranteed gas-fired generation. Wind might be there but it may not be.

Ms COURTNEY - A follow on from Mr Bacon's question with regard to the couple of months earlier and whether it was recommissioned in August. In the August-September period it looks like the storage levels were above that 30 per cent level. Are you suggesting you think Hydro should have started recommissioning the Tamar Valley Power Station when storage levels are more than 5 per cent above the minimum levels?

Mr WARD - I think that at no point the Tamar Valley should be longer than a month away from being able to be brought back into operation. If you take my comments in that context, I won't argue with you around the graph and timing because I do not have that information in front of me. If Tamar Valley had been available to run, it would have run a lot earlier than it did because of the way in which the dam levels were going. You also have a good forward look on weather, which was predicting lower than average rainfalls and El Nino. All the information was pointing to falling dam levels and in that context you would run Tamar Valley sooner. It may not be a hard number at 30 per cent run, it should be what is the context in which we make a decision to run. If you have forward weather predictions of an El Nino and you see that reflected in your daily, weekly and monthly rainfall and dam levels are falling, it would be prudent then to be in a position to run Tamar Valley earlier so you maintain those dam levels.

Ms COURTNEY - You would suggest they should run it when it is above 30 per cent?

Mr WARD - No. It should be part of a decision around the circumstances at the time. You have a number of 30 per cent that you do not want to go below or it may trigger certain decisions or certain reactions. If you are dropping from 40, to 35, to 34, 32 and you are getting down towards that number, you then look at the weather predictions going forward. If they are adverse to average inflows, then you may run Tamar Valley above 30. If the forward forecast is for higher than average inflows, you may not run it until it gets to 25, 26 or 27. There is a range in which you need to make that decision. The importance is that gas-fired generation gives you certainty of base-load generation.

CHAIR - We are probably getting an area that may create some difficulties, so I ask we not proceed further in that area at this time.

Mrs RYLAH - To get a clarification, when you were responding to Mr Bacon's earlier question in regard to comparative costs between running the gas-fired station versus diesel generation, you quoted the long-run marginal cost, which you said includes debt, and you quoted a figure, as I recall, of $66 to $71 to megawatt hour.

Mr WARD - That is the higher figure. The $66 is assuming the power station runs 700 gigawatt hours for the year, and $71 assumes running at 550 gigawatts per hour per year. You have to make some assumption around what it would run and what would make sense. Our view is that, on average, the power station would probably need to run somewhere between six and eight weeks a year to ensure dam levels stay above that 30 per cent mark. That is the basis on which we then present the numbers of $71 to $66.

Mrs RYLAH - What is the short-run marginal cost?

Mr WARD - Under the scenario of 550 gigawatt hours per year, it is $63 and for 700 gigawatts per year it is $60. That is what we call our central case; that is not our best case. They are relatively conservative numbers.

Mrs RYLAH - Could you explain the difference between the term long-run and short-run if you are talking about both of them generating at 550 or 700 gigawatts hours per year? I am not getting what the difference between these two calculations.

Mr WARD - Yes. The primary differences are the depreciation cost, the ownership cost, and the variable commodity cost, so the gas. That is really the difference between the two.

Mrs RYLAH - Why do you call one long-run and one short-run?

Mr WARD - I have no idea. It is a longstanding -

Mrs RYLAH - I will have to look it up.

Mr WARD - It is economic-speak, yes.

Mrs RYLAH - Is it economic-speak or an industry term?

Mr WARD - It is an economic term that is used broadly in industry to rank the merit order of when a certain power station would run - a coal-fired power station would have a lower short-run marginal cost and then wind sits above gas, and solar sits above wind.

Mrs RYLAH - That is an efficiency versus cost equation?

Mr WARD - It is a good way of characterising one power station over another, and its cost to generate electricity. It is a pretty standard methodology.

Mrs RYLAH - Where does Hydro sit in that equation?

Mr WARD - Hydro is very low. It has a very low marginal cost. In the short run, it does not include your capital.

Mrs RYLAH - Yes, I got that.

Mr WARD - If you think of Hydro, you are not paying the commodity. It is pretty low-cost, it is there. I do not know their number, but it is very low. I am not sure.

Mrs RYLAH - It is not divulging something dramatically new to recognise that a gas-fired power station - versus a whole range of diesel generations - is going to be considerably cheaper.

Mr WARD - Considerably.

Mrs RYLAH - It is a well-known industry fact?

Mr WARD - It is a well-known fact. Hydro, I think, is the cheapest. Then there is base-load brown coal, then base-load black coal, then gas, wind, and then solar. That is the order of cost. That is accepted worldwide, to be quite honest.

Mrs RYLAH - Terrific. Thank you very much.

Mr WARD - Importing diesel generators is not the way to provide energy to a state. That is the way you would provide energy to a mine site in the middle of nowhere. The cost of that is about $1 million a gigawatt hour. It is just not the way you do things.

Ms FORREST - A couple of things. You were talking about wind and the importance of gas being a base-load generator. We are seeing in South Australia particularly, issues with having a lot of wind generation that does not have the inertia that you need for the base load. In terms of the future for Tasmania - with gas as well as a potential source of base load when Hydro can't produce - because of poor water storage or no run-of-river generation, can you flesh that out a bit more?

Mr WARD - I think that is a very good point. In South Australia over 40 per cent of generation is wind. If you talk about the capacity factor of wind, it is generally 30-35 per cent, which means you can rely on it 35 per cent of the time. It is sporadic. As an example, we have a wind farm in South Australia. We were something like 15 per cent behind budget, and in one month we ran enough to make up 11 months of lost generation. It is that sporadic.

Ms FORREST - Who is 'we' in this discussion?

Mr WARD - Waterloo Wind Farm. It is very, very sporadic. South Australia is struggling because it has got such variable power, so it does not have the base-load generation that can come on at the flick of a switch to bring stability to the system. The system gets upset - it gets out of frequency - and it needs the certainty of base-load generation to push through those faults and stabilise the system.

If Hydro is not in a position to provide generation, or its generation is markedly reduced because of the lack of run of rivers and dam levels are down, then you need something like the Tamar Valley Power Station to come on and provide that system stability that allows you to also have wind in your system. The Warwick Smith report on Basslink 2 has not characterised what

are the cost implications of bringing on 500 megawatts of wind. What does that do to the system? If you look at the South Australian experience it is not going to be a good outcome, and will be particularly worse if Tamar Valley is not around.

Ms FORREST - You can increase the hydro by building another dam, then you have base load there. But if that is not an option and you go for wind, or solar, you do not have the inertia in either of those generators, so you do need some other back up. Is that it?

Mr WARD - That is correct. That is the mix that has to be brought into the decision about Tamar Valley. It is not just about what our needs are or what the major industrial customers' needs are. It is what is right for Tasmania's broader energy mix.

Ms FORREST - It is also what is right for the system. You cannot afford to damage the system, otherwise everyone is stuffed.

Mr WARD - Yes that is right. Sorry, I was moving towards that. If you go back to the original decision around having Bell Bay initially and then having Tamar Valley, it was all about those things, it was about energy security. Tassie is in a pretty healthy spot. It has hydro, it has base load gas and it has wind, so it has a good balance. You would not want to see a South Australian situation in Tasmania.

CHAIR - In relation to the costs that Hydro have indicated on maintaining the station at George Town, you have made the comment, and TGB considers, that these fixed costs appear to be significantly overstated as a stand-alone generator and could be further decreased. Are you able to expand on that and why do you make that statement?

Mr WARD - We have experience in running open cycle gas turbines as Palisade. We have an investment, or the superannuation fund has an investment, in an open cycle power station in W.A. We have also been out to an independent third party and O&M provider who manages, I think it is three or four, combined open cycle gas plants around Australia. We went to them and said, if you had Tamar Valley Power Station and you wanted to have it available for energy security on a one month call-back regime what would be the cost of maintaining that? So we have gone to an independent third party. What they have come back with coupled with the true allocated cost of the gas transportation agreement we think the number is a lot closer to $12 million a year in fixed costs and certainly substantially less than the 20 million plus that Hydro commented on. Again, we are quite happy to do a short one-page paper to the committee confirming the background and data on that.

CHAIR - That would be useful for the committee if you are able to provide that.

Mr WARD - We have spoken to the O&M provider who is prepared to make available their submission as long as it is in confidence to the committee.

CHAIR - If that document is in confidence you will need to clearly identify that so we are in a very clear position.

Mr WARD - We are certainly quite happy to take questions outside of this forum to seek clarification around our numbers, or the background or anything from them we are open to that. I think when you look at the Gas Transportation Agreement and what I spoke about before, there are three elements to that. It is required or the opportunity for Hydro is for storage, so there is a

value attributed to the gas transportation and for storage. There is a value attributed to being able to run the open cycle. And then there is a value attributed to the combined cycle. You cannot sit there and say the total value of that gas transportation agreement is a function of a stand-by cost for the combined cycle; that is just not right. There is a component to each of those elements. When you look at that in an objective light - we believe around the $12 million mark a year is the fixed price of keeping the combined cycle available on a one-month recall, with a gas transportation agreement with ourselves. You don't need commodity; you look at the water inflows, the weather, the dam levels, and then you go into the market and purchase your gas on an as-required basis to meet the needs of your business at the time. There is no need to have in place a long-term gas commodity price for the combined cycle units.

CHAIR - I think you have clarified my next question, which was going to be what sort of agreements would there be with Tasmanian Gas Pipelines to maintain the power station so it could come back online within, say, four weeks?

Mr WARD - We would reserve capacity on the pipeline to enable Tamar Valley power station to run as required. It would have a priority right, and if they want it to run, they can run. We would just maintain that opportunity for them, and we are able to store gas on the pipeline for them that they can use. That was part of the offering, that we can store gas for them to be used through the peakers for a short period of running, or more importantly to support their Momentum business in Victoria.

Ms FORREST - This morning you said you were willing to take a bit of pain and talked about some of the offering you made to Hydro previously. The figure you might have mentioned was a 30 per cent reduction. It is a bit hard for the committee to understand the significance of that to your business. Your financials are not public, as I understand it.

Mr WARD - That's correct.

Ms FORREST - Are you willing to provide some information to the committee, to give some indication of the financial position, particularly the balance sheet, for example, to give an understanding of what that actually means for the business?

Mr WARD - Can I take that on notice? That is something I would need to discuss with the board of TGP. It is not something we would do ordinarily, so let me take that on notice and come back to you. We do not have a real issue with talking about what our returns are, and the like, but we certainly would not want to do that in public. We would do that in confidence and we would want some commitment that that sort of information doesn't flow out of this group to Hydro, or other customers.

CHAIR - Once again, once you have considered that issue, if you could at least advise this committee that if the board determines you shouldn't do that, if you notify the committee through our secretary, we would appreciate that. We will follow this up with correspondence to you in any event - our secretary will.

Ms FORREST - It can be received in confidence too, as other documentation. It means it is not published anywhere and not shared with any other party.

CHAIR - Thank you for that.

Ms FORREST - Before lunch we were talking about risk management in terms of your business and Hydro making their assessment about risk management. What about the risk to the gas pipeline itself? How is that factored in?

Mr WARD - The pipeline in terms of its security of supply?

Ms FORREST - Yes.

Mr WARD - There are a number of government regulations that govern asset integrity for pipelines. It is heavily regulated. There is also a code of practice and we maintain the pipeline - we see the code as a minimum standard and we tend to maintain it above that. The pipeline is very reliable. It was very robustly built. We are comfortable putting capital back into the asset and we want it to be here for the next 40 years, not the next 20 years. That is our investment horizon and that is our approach to asset management. My view is the pipeline is in very good condition and we are not looking to cut costs out of maintenance to try to make up the shortfall in any revenue stream.

Through the energy crisis, when the pipeline ran at its highest ever loads, we mobilised additional people; we mobilised more maintenance and we didn't have a hiccup through that whole period of time. So it is, from a risk perspective, in very good condition.

CHAIR - I want to go back to the contract with Hydro, and we have covered it off fairly well. You were saying that if it's not taken up there will be a passing on of the cost to all the other users. If a reasonable contract isn't accepted, what does that mean for Tasmania moving forward? Does it mean a further rollout of gas availability in this state?

Mr WARD - It gives industry some certainty on their long-term gas transmission pricing and that's important for industry. It means gas transmission remains competitive and that underpins jobs and growth.

CHAIR - The reason I ask the question is that when Duke Energy was being brought into Tasmania there was identified within this state a number of tranches. The first tranche was a rollout to certain industry in a certain area, the second tranche was to another area and I believe there was a third tranche in that agreement as well. What does it mean in relation to that?

Mr WARD - If you have certainty of pricing and that pricing is competitive because you continue to see Tamar Valley Power Station underpin gas in Tasmania, it has the opportunity to generate more investment in gas-based industries, a further rollout to a more broadly retail base within Tasmania and also more broadly within that small- to medium-size industry as well. At the moment investment is probably stalled because there is quite a high level of uncertainty around gas pricing and gas transportation pricing. I believe it can only have a very positive impact. The converse is all these energy-intensive industries that are relying on gas, and if gas is priced out of the market it will impact jobs and growth and industry will leave the state.

Ms FORREST - There is one other area I would like to address that is in the attachment to your submission. You talk about the government submission to this inquiry and comment, 'In May 2012 the former government announced its response to the expert panel', and then go on to say that the independent commercial analysis is not on the public record and suggest we pursue that through other means. Why is that important?

Mr WARD - It is probably in the interesting basket, to be honest. I'm not sure it's critical. It's just that there was work that was done at one point that hasn't really been seen publicly. If it is driving government policy, and let us say the modelling is not necessarily correct or is open to challenge, it would be nice to be in a position to challenge those numbers if it is adverse to Tamar Valley being part of that energy mix.

Ms FORREST - In some respects it takes us back to that question I was pursuing with you a while ago about the base load not being able to rely on wind. If gas is available in the mix, can you then maximise the price you can sell the energy at? If you rely on base load to keep your system secure and safe to operate and water storages are very low, you cannot generate and sell when the price is high unless you have a base load somewhere else. You could have all the wind you like but you're not going to be able to sell it unless you have that level of base load that makes it safe to operate the system.

Mr WARD - I think that is a reasonable assumption. It is a very complex issue that involves system stability, base load, your regular wind and the way in which is meets people's energy needs. I believe wind is very important and will become a growing source of power but it has to be supported through good government policy ensuring the system is stable. In South Australia they were very happy to have 40 per cent of their energy coming from renewables, which is great, but the problem is that the market itself has not kept up with that growth in renewables and you are seeing that reflected in increasing electricity prices in South Australia. They have gone up substantially.

The other thing around Tamar Valley is that when you have high-price events, which are inevitable as you get greater change in the market, when you look at those short-run and long-run marginal costs there is no reason gas generation cannot play a role in revenue source for Hydro coming on when prices are high. That is what other gas generators are doing. In Townsville where we have another gas pipeline, there are two peaker plants there that run when the price is high and the economic model for those owners is strong. There is no reason you cannot make money out of Tamar Valley over and above the cost of it being an insurance product. You can hold it for $12 million a year but potentially -

Ms FORREST - That is the insurance cost of $12 million a year?

Mr WARD - Yes, that is insurance cost, but you could run it over Christmas, January, February and March when it is not unusual to have an event where prices go to $14 000 a megawatt hour and potentially Tamar Valley can run and make money during that time and therefore offset that $12 million.

CHAIR - You mention that the development of the gas market in Tasmania has never met the regional expectations of either Duke and/or the government that set it up and put it in place. What went wrong or what are the reasons for that?

Mr WARD - I think there was a view - and this is well before my time - that by bringing gas to Tasmania and underpinning that with a contract with the Tamar Valley Power Station you would not only convert existing industries to gas, which has been very successful, but you would attract other energy-efficient industries to Tasmania.

Mrs RYLAH - Like a pulp mill.

Mr WARD - Like a pulp mill - and that would have taken a lot of gas. The basis of our comment is that the pipe was a certain size for a reason because they thought there would be enough industry improvement or new industry to warrant the size of the pipe, and that has not come off and that is a function of a multitude of thing that are well beyond just the gas transportation cost or the gas commodity cost. Broader economic factors have prevented that growth in the industry.

CHAIR - Thank you very much for your presentation to us today and the manner in which you have answered our questions. We look forward to those two issues that have been taken on notice, so if you can come back to our secretary we would appreciate that very much, making clear your expectations in relation to any documents you might provide to the committee.

THE WITNESSES WITHDREW.

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 RECALLED AND RE-EXAMINED.

CHAIR (Mr Dean) - Thank you for appearing again, as requested by the committee. The statutory declarations taken previously still stand and other issues remain the same as to parliamentary privilege and your rights if you feel evidence should be taken in camera. Is there anything additional you want to say to the committee since your last attendance here?

Mr EVERY-BURNS - I would like to make a one-page statement, if I could, along similar lines to last time but with a small update. Hydro Tasmania again welcomes the opportunity to appear before the committee and make some opening remarks. When we last appeared before the committee on 20 June we advised we expected to post a loss of $90 million at the operating level for the 2015-16 financial year. This figure was a conservative estimate based on calculations available at that time. Quite obviously the year hadn't finished so we were guessing that Basslink would finish and we were guessing other things would happen. Our end-of-year financial processes have shown our result will be somewhat better due to several factors. We have revised assumptions but they are actuals and we know about the status of Basslink because we returned at the date that is now known and we know exactly about the operation of the diesels and the demobilisation because that is all now in hand.

We have had a strong revenue result in the second half of June owing to the very good rainfall. We had increased generation from our storages which are on spills, and there was related export in the Victorian spot price market, where high prices were realised. We have also had additional revenues from the gas market where we have been able to sell gas at higher prices and increased price of the environmental products - energy certificates.

It is difficult to provide a final figure today because Hydro Tasmania's annual accounts are currently undergoing the normal end-of-year audit process and we do not have our board audit committee for another short period of time. Our financial results would normally be reported through the tabling of our annual report in parliament during October. We intend to announce our end-of-year results earlier this year given the specific focus of this committee on the financials in the terms of reference. We expect this will occur soon after the audit process is complete so that would still be a couple of weeks away.

Ms FORREST - So it would be 13 August when you expect the A-G to -

Mr EVERY-BURNS - That is right, when the accounts will be signed off. I would also like to update the committee on the position of a Hydro storages. As of midnight just gone, the total energy in storages is 36 per cent. Our major storages have recovered well as a result of the record rainfall in the past three months and it has just been a steady increase. Great Lake is now at 26.8 per cent and Lake Gordon is at 20.5 per cent.

While this is pleasing, Hydro Tasmania is taking a conservative approach to the management of water in storage. Our approach is designed to ensure that any energy security can be assured under similar conditions to 2015-16 without returning to the same low storage levels recorded during that period. Hydro Tasmania aims to build storages to around 40 per cent during spring this year assuming average inflows and then maintain that level just leading into the new year.

The changes we have put in place support prudent management for storages, while a better understanding is being developed of the low inflow or the inflow variability, possible impacts of climate change as there is a body of work to be done there, the future reliability that we should ascribe to Basslink, the possible repair times that we should ascribe to Basslink, and the future energy supply mix in Tasmania that is being considered right now by the Energy Security Taskforce. We have not cut off any options but are leaving them open.

Ms FORREST - I am really pleased to hear you are going to release your financials a bit earlier. How many times have I asked for this? Thank God someone has been listening. Last year they were signed off on 30 August, which is usually about the time the AG signs off on them, so can we expect them to be released before the end of August - is that what you're telling us?

Mr EVERY-BURNS - Yes, we will try.

Ms FORREST - Tabled in parliament?

Mr EVERY-BURNS - I am not sure.

Ms FORREST - But they will be released?

Mr EVERY-BURNS - To the committee, yes.

Ms FORREST - But not publicly?

Mr EVERY-BURNS - I'm not sure I can answer that question. I'm not sure what the answer is.

Mr SMITH - We have to get the accounts signed off by the end of August and as soon after they are signed off - and they are on track at the moment - we will release them to this committee.

Mr EVERY-BURNS - I think there are other processes which will follow.

Ms FORREST - You did say that your $90 million loss was a conservative estimate. Are you willing to give us a more updated figure without the signing-off of the accounts?

Mr EVERY-BURNS - I would prefer not to because things [inaudible] this morning. If you are asking me if it's a 1 per cent difference, it is a better result than that.

Ms FORREST - The Government has made it fairly clear it does not intend to sell the Tamar Valley Power Station now.

Mr EVERY-BURNS - They said there would be no authority given if we recommend it.

Ms FORREST - Yes. Essentially, it is off the table.

Mr EVERY-BURNS - Yes.

Ms FORREST - You made a comment about the Energy Security Taskforce and the work that they are doing. How does the Tamar Valley Power Station fit into this energy mix?

Obviously, Hydro will have to consider that. How will it be used? What will it mean for a gas contract?

Mr EVERY-BURNS - I cannot answer that. We will get to it. In terms of what all this means to the energy mix, I think what I was trying to say in my opening statement was that we are going to carry more water level - 30 per cent in the dams by the beginning of the new financial year. That is not necessarily pre-empting the outcome of any of the work, but it is making sure that as much as we can, if the committee recommends holding higher levels, then we won't be in the way of doing that. It doesn't limit options. The same with the Tamar Valley. The Tamar Valley assets exist - they won't be sold, so it is an option that remains open. It is just clearly available as a part of the energy supply mix. That is where we go, but I think those things should be very thoroughly examined because there are many ways of getting the final result in terms of energy security once you determine exactly what level of reliability you want. Gas is one potential way. Higher water supplies is another way. There are many more ways than one or two of getting the result.

Mr DAVY - Our plan when we started this current financial year was to run the combined cycle unit for a number of months, starting in about October, earlier if it was dry during winter, and later if it was wet through winter. Our base cases will run for a number of months through spring and summer with the combined cycle unit. We are doing that so that combined with in-flows, we can ensure that we restore our storage levels up to about the 40 per cent level. The actual amount of generation that we run through the combined cycle unit will depend on the market for electricity, the amount of rain that we get, and the market price of gas. We have set up our arrangement so that we have got the ability to run it for a number of months, starting in October and through most of the summer.

Ms FORREST - In terms of a long-term strategy of energy mix and energy-generation mix, the gas contract runs out in 2017; obviously, you do not want to leave it to the last minute because that is when you always get done over, I think. When you leave a contract to the last minute and you fall out of contract, then you are in real trouble, as some farmers and others have found. What is the plan for gas for generators into the future?

Mr DAVY - That is certainly something that we have under active consideration and we are preparing a lot of analysis on it at the moment for consideration by the Energy Security Taskforce. We are putting our own thinking together for that process. We need to be very mindful that we don't lock Tasmania into long-term arrangements that then become a cost to the state. We are being careful that we enter into arrangements that retain flexibility for the future. In the short term, we want to retain flexibility so that whatever decisions the state may make after getting the advice of the Energy Security Taskforce, that we have not already closed off options.

At the moment what we intend to do with the Tasmanian Gas Pipeline and gas supplies - because the gas pipeline can't be the only thing that provides transportation from Victoria to Tasmania - is to enter into arrangements that deal with the next few years, give them some revenue certainty, and give us some flexibility so that we are not locked into very, very long-term arrangements.

The energy supply dynamic in Australia is changing dramatically at the moment. The combination of more renewables in the mix; potentially, the change of how much thermal generation will be in Australia; the price of gas due to the export of gas from Queensland have all changed the costs of various supply options in Australia quite dramatically. It is very hard to say

what would be the right arrangement, say, for 10 years time. We do not want to lock ourselves into very long-term arrangements while that situation is so vague.

Ms FORREST - In terms of that, the focus on renewables is right across the country - and the world in fact - but wind and solar, for example, do not have inertia that you can stabilise the system with, so if we found ourselves in a situation with particularly vulnerable water storages where we could not use Hydro for the base load, do we not need some sort of other base line option to prevent instability in the system?

Mr DAVY - That could well be the case in extreme circumstances, but it wasn't what we found in general. We managed our way through the last very low storages situation and we were providing inertia from some of the gas plant when it was not generating, we were providing inertia from some of the hydro plant when it was not generating. So inertia can be provided for example by the units being free. They do not need to be generating to do that so that is what we have learnt to do in Tasmania over the past decade with imports over Basslink and wind generation as it has come into the state, but generally yes that is the challenge for the national market place.

Ms FORREST - South Australia is having some challenges with it at the moment.

Mr DAVY - They are having lots of challenges, but I am not an expert in everything that is going on in South Australia so I am not particularly talking about that.

Ms FORREST - No, neither am I.

Mr BACON - The Tasmanian Gas Pipeline gave evidence to the committee this morning that on 4 November last year the Hydro Tasmania informed them that you had no intention of renewing the gas contract beyond 2017. Is that true?

Mr DAVY - I don't think so.

Mr BACON - You did not tell Tasmanian Gas Pipeline in November last year that you would not be renewing the contract?

CHAIR - I call order. I just need to make sure that was absolutely right that they said it would not be. I did not understand it that is what they said that they would not be, but I was of the belief that what they said was that there would be no negotiation past 2017 at this stage, but they did not cut it off.

Mr BACON - You would have to read the *Hansard* then.

CHAIR - We need to read that.

Mr BACON - That is what they said this morning. In your negotiations and your meetings with Tas Gas Pipeline in November of 2015, what was the nature of those discussions for the contract beyond 2017?

Mr DAVY - Can I just give you some background points to how the eastern Australian gas markets? The wholesale gas market in eastern Australia is known for unprecedented structural changes. So recognising, the impending issues in the wholesale gas market, the federal

government requested the ACCC to conduct an enquiry to establish the veracity and claim of various domestic wholesale market gas buyers as to the challenges they face in security gas supply. The ACCC enquiry confirmed the difficult market conditions of buyers and made some recommendations for enabling supply-side responses and structural reforms to improve gas market efficiency. We are carefully considering our options to secure our future gas suppliers and transportation in context of the high risks associated with the uncertainty in both the gas and electricity markets. Our experience in negotiating with TGP who are a monopoly service provider to the transportation services isn't inconsistent with the description summarised by the ACCC in its report on gas enquiry into the Australia east coast gas market. We have through the AETV entity gas transportation contracts for Tamar Valley Power Station and for non-TVPS customers in Tasmania. These contracts expire at around the end of 2017. The bulk of them at the end of 2017. They were transferred to Hydro Tasmania as part of the transfer of TVPS through the AETV entity in June 2013. We had extensive discussions governed by an MOU and confidentially between November 2013 and February 2015 regarding an extension to the TVPS transportation contracts. No agreement was reached. Negotiations ceased on 11 February 2015 when TGP notified Hydro Tasmania - so TGP notified Hydro Tasmania - that it would not be continuing negotiations.' The substance of these discussions is confidential between ourselves and TGP and we have recently reopened discussions regarding a new agreement and I have been in contact with Lindsay Ward as a result to do that. So does that answer the question?

Mr BACON - So late last year you did inform the gas pipeline company that you would not be renewing the contract beyond 2017?

Mr DAVY - Are you asking me if I personally did that?

Mr BACON - No, if Hydro Tasmania did that.

Mr DAVY - I do not know whether such a conversation took place but I can certainly say that was not my view of Hydro Tasmania's intentions at the time.

Mr BACON - Did Hydro Tasmania tell the Tasmanian pipeline company that when the combined-cycle gas turbine was sold it would run the remaining assets to fail?

Mr DAVY - I do not know whether that comment was made to Lindsay Ward but that was not the company's policy.

Mr BACON - There was no intention that once the combined-cycle unit was sold you would keep the rest of the units there up to maintenance and continue to run them?

Mr DAVY - The way we were operating the gas plant up until the time we had to generate more energy from them was that we were using a lot of the gas units either intermittently for peaking energy and we converted the FDA units, which are the older units that have been there since 2006-2007, to run in synchronous condenser mode. We were running those plants at the time.

Mr BACON - If the combined-cycle unit had been sold, was it your intention then to run the rest of the assets to fail, as the TPG have said in their submission?

Mr DAVY - Our view was that the site continued to be operational even after the combined cycle was sold.

Mr BACON - And the assets would be maintained as they have been in the past and not run to fail?

Mr DAVY - They were old units and we thought they were at the end of their life and eventually there would be less of them running, but we were not running them to fail, which is a completely different operation where they were not running to generate energy. I don't think that is a fair description of what we were doing at the time.

Mr BACON - I think the submission is more that your intention, once the combined-cycle unit was sold - and it is my understanding you originally intended to sell that by the end of December - was that you would run the rest of the assets to fail.

Mr DAVY - What do you think that meant?

Mr BACON - It was explained to us this morning that -

CHAIR - It is not for you to ask questions of the committee.

Mr BACON - It was explained to us this morning that maintenance would not be kept up because they are outdated.

Mr DAVY - Are you asking me if we said that to TGP?

Mr BACON - Yes.

Mr DAVY - Well, I'll have to take that on notice because I don't know.

Mr BACON - During the last hearing you also said there had been no offers received for the sale of the Trent unit.

Mr DAVY - We had not sought any offers, that is true. We had not put the Trent unit up for sale.

Mr BACON - Have you received an offer for the Trent unit?

Mr DAVY - I don't know whether we have received anything you could describe as an offer. People may have expressed interest in buying it but I don't recall that we have received an offer.

Mr BACON - What was the nature of the inquiry around the sale of the Trent unit?

Mr DAVY - When we had it with Siemens to get it repaired, at some point during that repair they inquired whether we would be interested in selling it, and we weren't.

CHAIR - This morning Tasmanian Gas Pipelines commented - and it is in their submission which you would have seen - in relation to the maintenance and operations costs you have provided the figure on for the Tamar Valley Power Station where you identified it would exceed $20 million per annum to keep it in that mode and status. They said they have had some calculations done in relation to this area and that a more reasonable figure is $12 million, so they

are saying your estimations on the operations and maintenance of that facility is absolutely over the top. What is your comment and how did you come up with the figure of $20 million-plus?

Mr DAVY - Can I take that one on notice? I don't have anything prepared on that.

CHAIR - Okay. If you take that on notice we will provide these to you again in writing, as we did previously. The figure was given by your submission.

Mr DAVY - Yes, and what I was repeating there was the summary of the calculations we had done back when we were making the case to the Government that it would be better off if the combined-cycle unit was closed. That is the number I quoted but I can't tell you right here and now what -

Ms FORREST - We are talking about apples and apples here. As I understand, the gas pipeline people were talking about the Tamar Valley Power Station being in a position to recommence operation within 30 days, which means holding it in a different format than mothballing. We want to be sure we are talking about the same thing otherwise you can't make a comparison. It is about having it producing energy within 30 days.

Mr DAVY - What I will be able to come up with is what I meant was contained in the amount of money I was talking about. I can't back-solve someone else's -

CHAIR - So as to not mislead in any way, the evidence of Tasmanian Gas Pipelines will be online in the next few days, so it might well be that you should look at that in relation to the question I have just asked.

Ms FORREST - Their submission wasn't public either, until today.

CHAIR - No, the submission wasn't, but it will go online very shortly, so if you could take that question on notice in accordance with the evidence they provided today, we would appreciate it.

Mr DAVY - Sure.

Ms COURTNEY - I have a question about levels of reliability and the acceptable risk of a failure of the system. When you are looking at the cost of reliability, do you look at that as a commercial decision for Hydro or do you take into account the cost of reliability to the broader Tasmanian economy?

Mr EVERY-BURNS - Just to give a little background, in the National Electricity Market most generators do not have responsibility for security of supply. That responsibility falls to the market operator, who then determines whether they can recruit sufficient generation capacity, interconnector capacity and whatever else they need to get the reliability from the generation aspect. In Tasmania during the more recent problems we had, at the board level we were quite cognisant of the economic impact that that lack of security of supply would have. It is evidenced by the temporary generation and the response we made was not a cheap response. We took a view that the wider economic interest was paramount. It is different depending on whether you are in mainland Australia where a national market operator can recruit any amount of generation they want, but our situation was peculiar to Tasmania where we found ourselves with far less water than anticipated and a complete disconnection from the mainland. They were the

considerations that were quite important to us. The board was very concerned about the cost of the response but also about the cost to the economy of not responding.

Mr DAVY - We haven't formally had responsibility for security of supply for a while. Nonetheless, whenever the state has got into situations where it has been dry and the long-term security of supply has looked less certain because it has been dry, the government has always been very clear to us that security of supply should then become our prime concern. That was true with the drought in 2006-07 and it is also true of the dry period we had through 2015. In both circumstances the government made clear to us that we were to regard continuity of supply as the more important factor in our consideration than financial consideration. That is what we would expect. It is what the people of Tasmania would expect as well.

The way that we had organised ourselves, and even in deciding to recommend to the Government that we would sell the combined cycle, is that we had done analysis which convinced us that the probability of not having enough supply in Tasmania with Basslink available, with Hydro available, even with the variability that we had seen in the past, and factoring in a possibility of a 60-day outage, was that the probability of not having enough energy in Tasmania was virtually zero, so close to zero that it was a much lower number than households normally would experience from the distribution network breaking down slightly from time to time. It was a very low number.

The number that is used across the national market for the reliability of the generation system is called the USE, the unserved energy. That is 0.002 per cent of energy that might not get served. That is the reliability standard across the national market. That equates to only a few minutes of interruption every few years. It is a very high level of reliability.

I think the work that the state is looking to with the Energy Supply Taskforce is that Tasmania has a level of reliability across a system that is better than that sort of national standard. Because we are the only significant owner of generation in Tasmania, it is going to be up to us to make sure we have that level of generation capability available so that that level of reliability is delivered.

The cost part of that really becomes, what is the most efficient way of delivering that? - not, is there a cost reliability trade-off? - but more, given that is the reliability standard that we need to deliver, what is the most efficient way of delivering it? When we are talking to TGP, for example, it is very important that we do a good deal on behalf of the state so that we can deliver the most efficient outcome. There will be other people who are saying, 'If that is how much gas-fired generation costs, then surely you would be better off having more wind farms in Tasmania because that might be a better source'. It is not just a matter of saying, well, this is what is costs for gas-fired generation; that is the only way to provide reliability, so we must pay for the gas, we must pay for the pipeline and we must pay for the Tamar Valley Power Station to be able to operate in the future forever if there are, over time, going to be better solutions for the state. That is what I was referring to earlier in the hearing when I was saying we must maintain some flexibility so that we can make the best decisions in the future.

Mr BACON - Before the energy crisis, were you referring to the modelling then that Hydro did to justify the sale of the CCGT?

Mr DAVY - Yes.

Mr BACON - That did include residential load-shedding, did it not? It was across the economy as you recalled it, but you have now provided documents to the committee.

Mr DAVY - In the event of a one in a 100 inflow event and a 12-month outage - which we thought was impossible - it was a one in a 1000 possibility in total when you combined the unlikely inflow event with the unlikely Basslink outage. It was a one-year Basslink outage. We had a six-month one, but combined with a very sharp - that was outside the parameters of it being 0.002 per cent reliability. Nonetheless, because something has now happened, that goes from being very unlikely to being possible. What we have to do in the future is more conservative than what we thought we had to do when we made our analysis. We now understand that our analysis was deficient because it had too little variability of rainfall, and it had too short a Basslink outage in it. We will now be more conservative in our parameters for planning for the future.

Mr BACON - You will remove residential load-shedding from your modelling, given that obviously that is not the path that you went down. Given there was an energy crisis there was an expensive move to diesel generation.

Mr DAVY - Whatever you regard as being the impossible scenario, which we ended up having, you still have to do more than you would have done under all the probable scenarios.

Mr BACON - This is what I mean. The decision to sell the CCGT was based on the fact that if we had a situation that was improbable, we would move to residential load-shedding. This information was given to the Government before permission was given to decommission and sell the CCGT and then it has been hidden from the public through a number of right-for-information requests where it has been blacked out on documents that have been received by the Opposition. Can you explain why it has been blacked out given it is not commercially sensitive? It has even been blacked out in correspondence that went to the Government on 13 January 2015. Why has that been blacked out in right-to-information requests?

Mr DAVY - You are putting a question to me which is, 'Why have you claimed that certain information was confidential?'. We are here voluntarily and I can't talk about why information is confidential in an open committee. If you want me to answer that question, I can go in camera about how to answer that question, but I can't answer that question in open committee.

Mr BACON - But you can rule out if there is any political interference in the RTI process or that you make political decisions, and if it's politically sensitive you don't put the black line through it?

Mr DAVY -Yes, I can rule that out.

CHAIR - Tasmanian Gas Pipelines in its presentation today talked about the contract at some length. It was indicated by them that they were prepared to negotiate a position going back two or three years ago that they say would have seen significant savings in the contract they already had with Tasmanian Gas Pipelines. From memory, they put a figure on it of $20 million, saying it would have seen a saving to Hydro Tasmania of $20 million. Are you able to answer that?

Mr EVERY-BURNS - I can't. I haven't seen what they said.

CHAIR - That's why I raise it and it might be that you should take that on notice as well.

Mr EVERY-BURNS - It is self-evident. If someone offers fuel or pipe-lining services at a lower cost contract then of course we could save money. You would think that if that was the case that someone would have accepted the change to contract.

CHAIR - The question that follows from that is why didn't Hydro accept that position? Can it be taken on notice? That will be evident when you look at the transcript of evidence on *Hansard* as provided by Tasmanian Gas Pipelines.

Ms FORREST - TGP made comment regarding negotiations they sought to undertake with Hydro prior to the announcement that there was consideration of the sale of the CCGT.

Mr EVERY-BURNS - More than 18 months ago?

Ms FORREST - No, they weren't aware of that decision. The decision might have already been made at Hydro level to recommend to government, but TGP wasn't aware of it.

Mr EVERY-BURNS - I am just remembering back to a GBE committee with the minister and he made the statement across the table, which was public, I think - at the end of 2014.

Ms FORREST - This was before that, from memory. It will be on the record.

Mr DAVY - Not by my reckoning.

Mr BACON - I believe three weeks after the GBE meeting you had a meeting with the shareholder ministers to progress it, but I think it was probably done -

Mr DAVY - No, the minister clearly publicly spoke about the prospect that the Government was entertaining the idea of selling the combined cycle unit.

Ms FORREST - Are you about talking about December 2015?

CHAIR - Order. Try to speak one at a time because it is going to be very hard for *Hansard* if we don't.

Ms FORREST - In 2014 Hydro were in front of the House of Assembly GBE committee. In 2015 you were in front of the Legislative Council GBE committee. Any discussion I was party to was 2015 or 2013; 2014 was House of Assembly.

Mr EVERY-BURNS - It was December, that is correct.

Ms FORREST - Maybe he did and maybe he didn't; I wasn't there. I don't read the transcripts generally.

Mr EVERY-BURNS - It was in 2014.

Ms FORREST - You can clarify the date. You will need to read the evidence from TGP to line up the dates. I will rely on you to do that. The questions I would like to hear answered - I think the Chair was alluding to this - is that TGP informed us that they sought to renegotiate the contract ahead of time, aware of some of the challenges. They offered what they believed to be a superior contract in terms of Hydro in that it required them not to have a gas supply contract - you

could buy it on the market as and when needed - if the Tamar Valley Power Station was not going to be operating all the time, which is was not. They also, I believe, suggested that they did not want to accept a short-term contract - and earlier in your comments today referred to making a short-term contract as a possibility. I believe they are not interested in that. I would like to know whether the length of the contract was part of the discussion then. Maybe that is why things didn't progress. There could have been a not-meeting of minds there.

The evidence they gave us would suggest that the discussions between Hydro and TGP were to provide a better deal, but in the background - which they were not aware of - was the recommendation to Government that the CCGT be sold. They were trying to negotiate, not knowing that. We need to line the dates up here and get them right.

Mr EVERY-BURNS - We will have a look at *Hansard* and understand what they have said.

Ms FORREST - And provide your version of events.

Mr EVERY-BURNS - Yes. I still make the statement that at the GBE hearing in public there was a statement 18 months ago.

The other thing is that our use of gas through the combined-cycle gas turbine and, hence Tamar Valley Power Station, had changed dramatically from the time it was handed over to us. You would be aware of that. To a pipeliner or a gas supply contractor, it would be absolutely evident to them there had been a change in the gas consumption and gas transport. It would beggar belief for them to say to us that they had no knowledge anything was changing.

Ms FORREST - No, that is not what I said. They had no knowledge of the Government's plan or the recommendation to sell it.

Mr EVERY-BURNS - We will have a look at what they said.

Ms FORREST - They knew the gas duties were changing. That was one of the reasons why they offered, in my view of what they said, was because of that, they recognised the holding costs were greater. They believe - and you will read it in their evidence - that the renegotiation of the contract they were trying to achieve would have had financial benefits for Hydro if it agreed with it. If you are going to sell it, and you do not need gas anyway, there is no point in renegotiating. We need to understand the discussion and the dates to line up with that.

Mr EVERY-BURNS - I do not have any first-hand knowledge that they were the dates involved but the company will take it on board and we will get back to you. Thank you for clarifying it.

Ms FORREST - You made the point about your expected loss not being as much as your estimate of $90 million. Does that take into account the fair value movements and impairment charges or is it cash loss we are talking about?

Mr EVERY-BURNS - No, it does not. I can quite clearly say upfront that the operating level - which is what I have talked to the committee about when we explained the costs of the whole - was somewhere between $140 million and $180 million. We said that would reflect back from the operating result that we had budgeted for into an operating result issue without fair value movements, without revaluations or devaluations or anything else .

We have had a fair amount of movements throughout, with valuations or devaluations. It would come through as a $90 million loss. On the apples-for-apples comparison, I am saying to you the result will be somewhat better than that. It's a good-news story. It is not doubly good and it is not 100 per cent, but that's where it is. It is still very significant I would think. A fair amount of movements because of the assets valuation, the change in the derivative valuations, change of in other asset values. It is just a minefield.

Ms FORREST - There has been the writing down of assets as well?

Mr SMITH - That is not something I want to talk about right now, but we will be back here to defend that. It will be in the monthly accounts as they will be out in a couple of weeks. I think that is probably the appropriate place to talk about it because, as Steve has already outlined we are still, reviewing it.

Mr DAVY - The price of electricity has moved up so all things being equal, our Hydro generation assets in the long term should go up and down, but which part of that increase in valuation ends up in profit or loss and which ends up in the balance sheet is unfortunately set by accounting standards. So it is going to be complicated and we are reviewing with others right at the moment and taking it to the audit committee and our Board and getting them signed off in the next week or so.

Mr EVERY-BURNS - The offset to that is if electricity prices and fuel go up, in the long-term experience that increases the value because you are putting more out for money in terms of leverage into the future so you take the downward swings as a result of that. In answer to Ruth's question no I was talking about the underlying operating result. It will be fair value movements, all are, in fact, accounting standard issues.

Mr BACON - Last time we talked about the first budget that the Government brought down in 2014 with the expectation that there would be a dividend of $75 million in 2017/18 and there was some discussion about whether that expectation was put to you by the Government or whether it came from Hydro Tasmania. It does seem that it has been set by the Government. When the Budget was brought down on 28 August 2014 there was that expectation of a $75 million dividend in 2017-18. Hydro has now provided a statement called 'Corporate Intent' and it was sent out on exactly the same day saying there was a forecast dividend in 2017-18 of zero and no returns for that year or the next two years after that. How does this gel with the fact that our discussions last time were around whether or not the Government had put this $75 million expectation to you and asked you to come up with it, which you said was not the case? So how do those two documents that came out on exactly the same day, 28 August 2014, how does that gel with Hydro's expectation on that day was that there would be no dividend provided and the Government's was that there would be $75 million provided.

Mr EVERY-BURNS - Was this a question on notice from last time? There was a question on notice with something to do with $75 million. This is very detailed stuff, but I thought we had answered a question on notice with that information.

Mr BACON - That was with documents provided to the committee to say that on the same day that the budget came out, Hydro provided a letter to the government to say that the expectation from the company was there would be no dividends provided in that year while in the Budget there was a figure of $75 million. And then there is some question about whether the sale of Entura and the sale of the combined cycle unit would then depend on delivering that

$75 million, given that the pressure was put on by the Government to provide $75 million when the Hydro had no expectation that be the case on the very same day.

CHAIR - As to whether that question was answered previously, we need to go back and have a look at our transcripts.

Mr EVERY-BURNS - I clearly have a recollection the question was asked.

Mr BACON - Obviously, it was the previous Chair at the time who sent the letter on budget day. Obviously you have not signed the letter, so I can understand, but it is just a curious thing.

Mr EVERY-BURNS - I am trying to understand.

Mr BACON - The Treasurer delivered the budget on 28 August 2014 with an expectation that in 2017-18 there would be a dividend of $75 million. On the same day, the chair of Hydro wrote a letter to the Government to say, 'Our expectation is that we will not be providing any dividends. Effectively the figure is zero.'

Mr EVERY-BURNS - When I came in, one of the things I did was look at the capital structure of the company and consider how we would move forward. Issues like that - obviously we wanted to re-capitalise the company. Once it was re-capitalised, that affects your ability to extract dividends and so on in the future. I do not know all the history. I really cannot tell you. I hear the dates you are quoting there.

It is curious, but certainly from the time I was Chair I did work with the Government to try to get the equity injections that would put us on what I believed was a sounder footing for the future. We got reasonable cooperation with that, then we moved forward so -

Mr BACON - There was correspondence from the Government back to Hydro though, was there not, to say that the equity injections were contingent on things like selling the combined cycle unit and the sale of Entura.

Mr EVERY-BURNS - I do not recall - it probably was.

Mr DAVY - We do not know what documents you are referring to.

Mr BACON - I am not trying to be difficult, but these are documents that have been provided by you to the committee.

Mr DAVY - Absolutely. Are you asking a question or making a point?

Mr BACON - No, I am asking a question. How is it that the Government had the expectation of a $75 million dividend on the same day the Chair had an expectation of a zero dividend?

Mr DAVY - We have been asked to provide quite a bit of information. I think we have provided some number of hundreds of documents over the past week or so. I have not looked at those documents as they have gone through. We have said that they are all confidential, because we want to be careful about -

CHAIR - Sorry to call order. We just need to be very careful, Scott, of information that has been provided to us in confidence -

Mr BACON - I am not sure, but I think this one is not confidential.

CHAIR - We are in a public session at this stage and it might -

Mr BACON - My understanding is this one is not confidential, Chair.

CHAIR - It is not?

Mr BACON - No.

CHAIR - I think we need to be careful about this because we do not want to breach that confidentiality under which the -

Mr BACON - I will find the number, sorry.

Mr DAVY - We would like to cooperate, but there has been so many documents -

CHAIR - We understand that. We need to be fair to you and ensure that we do not breach any of the requirements that have been put on -

Ms FORREST - Chair, this question was pursued last time. There was a question on notice, as the Chair rightly points out. They did provide an answer, which in part says - and there was no claim of confidentiality over the answers to the questions that I am aware of - that Hydro Tasmania has a process of regular and ongoing consultation with the Government, and it goes on. It says, 'This consultation occurred as usual prior to the 2014-15 state Budget.' This is the budget I think Scott is referring to.

Mr BACON - This is the same budget.

Ms FORREST - Then you went on to say - sorry, the CEO signed it, 'No, there was no linkage between the sale of the CCGT unit and dividends for the 2014-15 state Budget. However, Hydro Tasmania is committed to maximising the value of the business by being as efficient and low-cost as possible,' and it goes on. I think what Scott is saying is there were two documents that were released on the same day, one from Hydro saying that there was to be - there was no expectation of delivering a dividend, whereas the Budget, and obviously the Treasurer, was expecting a $75 million dividend in the last year of the forward estimates, which is a bit of a pie-in-the-sky guess, in my view. We rarely see the forward estimates materialised in subsequent budgets but -

Mr BACON - I think this one does say that it is not confidential, but it is just difficult to - it has got a couple of Ns next to it.

Mr EVERY-BURNS - I think the feeling is that we are working in a very dynamic environment.

Mr BACON - It's not confidential . I can give you the number - 508, I think it is.

CHAIR - Does that document have confidentiality around it? If not, the question is a reasonable and fair question.

Mr BACON - This is the first number on the chart - 000200010508. In the chart it has two Ns next to it.

CHAIR - So it's not confidential?

Ms STEVEN - According to this one, if that's the document.

Mr BACON - It is a letter from Dr Crean as the chairman to the Treasurer and the Minister for Energy on budget day saying the expectations were that there would be no dividends, at the same time the Budget is brought down saying there will be $75 million in dividends in 2017-18.

Mr EVERY-BURNS - Are you asking me if I can explain that?

Mr BACON - Yes.

Mr EVERY-BURNS - No, I can't explain it.

Mr BACON - Would you accept that that would put pressure on Hydro Tasmania to come up with ways to provide that dividend to the Government given that that is their expectation?

Mr DAVY - There's no doubt that we understood the Government's expectation to deliver returns, but that is not quite the question you asked before. The question you asked before was, 'Was there communication that made the dividend reliant on certain activities?'

Mr BACON - There's information that has been received by the Opposition under right-to-information where it is set out that expectations on Hydro, if they are going to get their equity injections around providing the sale of the CCGT -

Mr DAVY - In your previous question you asserted that the dividend was reliant on ... well the question we answered was, 'Was the Government's expectation that for that dividend to be delivered, was it reliant on some things like that happening?' We answered to that, that there was no linkage between the sale of the CCGT unit and the dividends for the 2014-15 state Budget.

Mr BACON - What communication was there between Hydro back to the Government to say how the $75 million could be provided? Given on budget day you thought you could provide nothing, what happened over the ensuing months?

Mr DAVY - Aren't those the documents we have provided?

Mr BACON - Yes, but as you can see yourself it is very difficult to find anything in the documents given there are hundreds of them and they are all listed under different numbers and things like that. I just want to know what your thinking was at the time about how you would provide the $75 million.

Mr DAVY - I'm sorry, but the committee has asked for a lot of documents and we have provided a lot of documents. I have the same problem as you; I have not looked at them all and I don't know what is in them. I simply don't know.

Ms STEVEN - I don't think 508 is the document you are referring to?

Mr BACON - It is a letter from Dr Crean on 28 August 2014.

Ms STEVEN - With a statement of corporate intent?

Mr BACON - Yes.

CHAIR - It is difficult to have members research specifically from documents from three years ago.

Mr BACON - That is right and it's not a criticism that it is difficult to find the documents. I am just saying it is hard for us to find it as well. That document is in there and my understanding is it is not a confidential document.

Mr EVERY-BURNS - I tried to say earlier that you are asking very specific questions about what is a very dynamic situation in any company with its shareholders, owners, managers and so on. My previous chairman has probably correctly written that that was the projection. I don't have the letter in front of me. I am quite well aware the Government had put a dividend expectation out there. All that does then is put us in a position where we start thinking and negotiating and discussing with the Government and forming a view as to how we might meet expectations. One of those discussions was about capitalisation of the company. Other discussions and other actions the management took were about cost efficiency. You have related discussions about the sale of the power station, about the sale, the joint venture with Entura. There are probably a million other things. These are all things companies try to do to become more efficient. I cannot give you any specific comments on two letters, on two committees, on a particular page because I do not know. It is dynamic, it is normal. In the years ahead we are going to modify our dividend expectations because the company has had a different set of outcomes than expected in the past financial year. That will modify the future.

CHAIR - As previously and as discussed today, if any of these issues come up and you would like to take it on notice, the committee would be happy with that rather than you try to come up with an answer that is difficult to, in the circumstances. If it helps you to do that, then please do so.

Mr DAVY - I am not sure we understand. We have not yet heard a question.

Mr BACON - Why did the budget say $75 million and the Hydro document say zero?

Mr EVERY-BURNS - I am not sure.

Mr DAVY - We know why our document said zero.

Mr BACON - Why did your document say zero?

Mr DAVY - That was the projection available to us at the time.

Mr BACON - What did the company do on the same day, when it became apparent the Treasurer's expectation was that you would provide $75 million? Then what action did the company take?

Mr DAVY - That is outlined in the draft corporate plans, the last one. All the things we told the Government about what we were doing are all outlined in our subsequent draft corporate plans.

Mr BACON - Will you talk about that now?

Mr DAVY - The answer is, there is not one single thing. Everything we did after that point was to do with the delivering to the Government's expectations of an improved financial performance.

Mr BACON - There was a range of things. What would you say were the two or three that would make the most significant difference to the amount of dividends you provided to the Government in terms of dollar figures?

Mr DAVY - The largest thing we did over the last few years to improve our financial performance - and bear in mind there are lots of external factors that affect our financial performance, electricity pricing being a large one and inflows being the one that has dominated over the last year - the largest thing we do is cost control. We have done a lot of manage our costs over the last few years.

Mr SMITH - Steve's answer is right, cost control is a really important tool we focus on to create value. We have had a strong cost reduction and continuous improvement program which started in the 2013-14 year. The stated aim was to reduce our non-customer facing cost by $39 million. There was some science in that, by the 2018-19 year. We embarked on that. I have to exclude the costs of the recent low inflow and Basslink. If we keep to the core costs, we have been focusing very hard on keeping them under control, even with temporary generation going on and other things happening.

We are approximately $30 million to $35 million into that program we have found and we will probably finish it a year or so early. As we get closer to this target, we are going to reset a new target after we have reviewed the areas and we have worked in the areas where we think there are some more efficiencies and [inaudible] but that is a big impact. Over this past year the fact we started this before we had this tough situation has really helped us with our financials.

Mr DAVY - There is no doubt the second element, which is very important in our managing the costs of our portfolio - and I think this was the intention of the previous government as well - that the Tamar Valley Power Station had proven to be a very expensive asset to run and that it had created quite dramatic price rises for domestic customers in Tasmania, and that the Government of the day, which you were a minister in, made the decision to transfer the Tamar Valley Power Station to Hydro Tasmania so that it could be run more efficiently than Hydro Tasmania's portfolio.

When gas-fired generation was the most expensive form of generation that Tasmania was using, running more efficiently means running less. We embarked on a program where we optimised the use of the Tamar Valley Power Station in our portfolio to reduce its cost in the

system so that we could continue to make a reasonable return to the state with much lower electricity prices.

That is what we continue to do. It is somewhat surprising to me that in the context of that, for example, the Tasmanian Gas Pipeline complained. They could not see that that is what we were doing, running it less. That is what we started doing from the very first time. Once we concluded that we were not likely to need to run the Tamar Valley Power Station CCGT unit again, we recommended to the Government that it would be even better for the cost of running our business to sell the unit.

Mr BACON - What was the expected return on that sale? Given that, I think it was around $30 million or $35 million you said in terms of cost reductions -

Mr DAVY - That was a separate set of cost reductions.

Mr BACON - That is right. In terms of providing the $75 million -

Mr DAVY - We previously provided an estimate that, compared to where we were before, the operational costs we had to face, including I think the pipeline costs, the financing costs and the operating costs, by disposing of the combined-cycle unit altogether, we could reduce our annual costs by some $23 million a year. That is what we figured at the time. I agree that we will come back with an exact breakdown and why we believed that number at the time.

Ms FORREST - Does that include the $100 million that was allocated in the financials for the sale? Does that count that money?

Mr DAVY - The interest on that number? We will come back onto it, yes.

Ms FORREST - No, the sale price that was anticipated. That was $100 million out of -

Mr DAVY - Whatever we received for the sale price would have created an ongoing savings and interest cost by reducing our debt. There may well have been some of that included in the $23 million, I do not recall. When we come back with the reconciliation, we will say. In trying to come up with the most efficient way to run Hydro Tasmania, eventually our forecast did include the sale of the combined-cycle unit. Where that lines up with when we forecast a certain outcome for the state, I do not know. I cannot tell you the answer to that off the top of my head.

Mr EVERY-BURNS - When it was sold, it would have been used to reduce debt. I think that's where it is struggling a bit, the operating costs that Miles is talking about. The operating costs of the combined cycle add up to a lot of money every single year, whereas if your proceeds are used to reduce the debt, then that would be a reduction in interest costs in the ongoing years. It does not necessarily come through as a bullet, the $75 million in disbursed [inaudible].

CHAIR - Was that in fact a driving factor behind Hydro's recommendation that the combined-cycle unit be sold? That was specifically for the purpose of reducing debts, a financial benefit in other words.

Mr DAVY - Reducing ongoing costs.

CHAIR - That was the driving force?

Mr DAVY - That was to reduce ongoing costs to make the business more efficient.

CHAIR - Rather than taking into account the risks that could lie ahead of -

Mr EVERY-BURNS - My recollection at the time was that the material that was put before us had taken into account the risks.

CHAIR - That is the question I am asking now: were all of the risks taken into account in determining your recommendation that it be sold?

Mr EVERY-BURNS - At the time we believed they were, and patently what has happened since shows that not all the risks were fully understood, the extent of the risks were not fully understood. Scott put it at the extreme end of that. No, we took that into account. We did not believe that by selling the combined cycle that we would be increasing the security risk. One of the conditions in the letters that were given to us from government was that we had to come back and answer those outlying security issues. We had to take on security of supply risk, for which we didn't previously have responsibility. We also had to review the prudent water management. There were a whole lot of conditions that went with it before we could even explore it and make a recommendation.

Mrs RYLAH - But you had to justify each of those points? That was the requirement before you could proceed?

Mr EVERY-BURNS - Yes, that was the requirement, but we hadn't got to that point.

CHAIR - I'm struggling with the fact you said you believed those risks weren't taken into account. In fact, that's not right, those risks were taken into account and were part of this whole process.

Mr EVERY-BURNS - Yes. I am trying to say to you, with perfect hindsight you have to sit back and say there were risks larger than those that were put to us. We took in the 60-day account; we took in more than that; we took in what was believed to be the lowest prior rainfalls and a whole lot of other issues.

CHAIR - If you look at the *Hansard* of today - and I think it was TMEC - where it was suggested that perhaps all the risks were not taken into account and then it was purely on a financial benefit to Hydro that the sale was identified for the CC unit.

Ms FORREST - You did both say one of the reasons for suggesting to government you could sell the combined-cycle gas turbine was increasing the efficiency of Hydro overall.

Mr EVERY-BURNS - As a business.

Ms FORREST - As a business, yes. I put it to you - and this was evidence we received; I am not expert in gas turbines - the suggestion was made that what makes the whole Tamar Valley power station as efficient as it can be is the CCGT. Without that, the older turbines that can still be used to generate energy are much less efficient. So by removing that from the mix you decreased your efficiency.

Mr EVERY-BURNS - The term 'efficiency' has different meanings. If you mean the technical efficiency of converting gas to electricity, there is no doubt the combined cycle is the most efficient way of doing it. You will get more megawatts of electricity or more megawatt hours for energy out of the combined cycle than you will out of the other plant. But in terms of efficiency for producing peak energy, for example - peak power - that is completely incorrect. The combined cycle is not efficient at ramping up and producing peak energy.

Ms FORREST - But neither are the other older ones.

Mr EVERY-BURNS - Yes, they are. Open cycles, you push a button and they will come on.

Ms FORREST - So short-term efficiency as opposed to long-term efficiency?

Mr EVERY-BURNS - Yes, but it is very important how you classify efficiency. Gas turbine power stations are most often used for peaking capacity and in this day and age it is unusual to attempt to use gas-fired power stations to produce bulk electricity. It is absolutely uncompetitive in the marketplace and it is frighteningly expensive to do it that way. The usual purpose for a gas-fired power station is peaking capacity and the combined-cycle gas turbine is a 200 megawatt closed-cycle turbine. It is not suited to peaking capacity; it is not designed to do it. Once you bring it on it has to stay on and there are very large costs because you are effectively feeding 200 megawatts of gas whether you need the 200 megawatts or not, whereas the peaking plant can be fired up in 30 megawatt blocks - or in the case of the Trent in a 60 megawatt block of energy and you can come up to full output in 30 minutes, do what it is required to do and then shut down again. People talk about the technical efficiency of converting gas to electricity. The combined cycle is better in that term of efficiency but it is inefficient because it's not what you want.

Ms FORREST - Well, you do want it if you've got an extended period of outage -

Mr EVERY-BURNS - Yes, but that's different.

Ms FORREST - in terms of the mix. We've talked about - and I can't remember the figures you used - the likelihood of having an extended Basslink outage beyond the 60 days and a drought that was probably one of the more severe we have had in recent years and when you needed to have it available, which it was in the end. It was put back into service but it took three months.

Mr EVERY-BURNS - From the time we decided to put it in, which was sometime in November till about 20 January - that is pretty quick.

I heard a comment this morning. I did see something this morning about it should have been back in December. For the savings the company have looked at accruing versus one extra month to put it back the service - one extra month did not make a great deal - it was not breaking-the-camels-back type of stuff. Honestly the gas turbine came back on 20 January and fired continuously almost without a shut down for four months. It did precisely what we wanted and produced 700 gigawatt hours of energy in that period. So it did what we wanted given the extreme circumstances - Basslink outage coincided precisely with the worst inflows we had on record.

Mr BACON - I will try to do this a bit fairer. I am referring to document 000200010646, which to my understanding is one of your public documents. There is no need to keep this one

confidential. It is from the CEO, Mr Davy, and it is to Mr Ferrall, the Secretary of Treasury. It is regarding the return to government forecast and it sets out a meeting that happened with the shareholder ministers and Treasury on the 17 December 2014 and Hydro Tasmania, and acknowledged the importance of achieving the shareholders' expectations of return as contained in the government's budget forecast and this will be the focus of the 2015 corporate plan. It goes on to say the coming years will be a period of consolidation for Hydro Tasmania with significant emphasis on pruning cost management.

The 2015 corporate plan will outline Hydro Tasmania's strategy, including the focus of cost leadership over the corporate plan period. Hydro Tasmania is working to provide returns to government consistent with the government's budget forecast. We note that it will be extremely challenging to achieve these returns if our trading environment deteriorates further, or measures we need to take are delayed. Hydro Tasmania has formed its views using the assumptions below. Continuation of aggressive cost control, which we have heard about obviously. No requirement to enter into non-commercial arrangements with suppliers in Tasmania, including the Tasmanian Gas Pipeline, capital structure outcomes as agreed, the timely closure and sale of the Tamar Valley combined cycle gas plant, Momentum growth and returns achieved, strong growth and profitable wholesale and retail gas sales, Entura to maintain at least a small profit, expected in-flows, no further decline in national energy market electricity prices, maintenance of current major industrial pricing and demand, positive outcomes from the RET review. Therefore we believe it is appropriate for the government's budget forecast for use in the interim whilst Hydro Tasmania works with the government on the 2015 corporate plan.

So this letter from 10 February 2015 from you Mr Davy as the CEO to the Secretary of Treasury does set out that the government's expected returns from the budget cannot be achieved without not being required to enter into a non-commercial arrangement with the Tasmanian Gas Pipeline or other Tasmanian suppliers and it also is contingent on the sale of the Tamar Valley combined cycle gas turbine.

Mr DAVY - So it was our view? Yes.

Mr BACON - So the only way that that $75 million could be provided was with the sale of the combined cycle gas unit and by not entering into a non-commercial arrangement with the Tasmanian Gas Pipeline. I can give you this copy.

Mr DAVEY - Yes; your question?

Mr BACON - The question is, the government's expectation of a $75 million dividend was contingent on not going into a non-commercial arrangement with the Tasmanian Gas Pipeline and it was contingent on the sale of the Tamar Valley combined-cycle gas turbine. So Hydro approached the government?

Mr DAVY - So are you asking me did the government in August 2014 forecast their budget on the basis of a letter that I wrote in February 2015?

Mr BACON - No, did you write this letter which states that you can only provide the expected return that the government's put on Hydro Tasmania under these conditions?

Mr DAVY - That is what I wrote, yes. I do not deny that I wrote it, but the question that you asked in the question on notice was: when the Government formed its Budget in 2014-15, was it

taking that into account and the answer was, no, they were not. We came up with a whole lot of measures to be able to deliver those returns afterwards. We had discussions and calculations afterwards.

Mr BACON - That is right. The government said, 'Come up with these dividends', and you said, 'We can come up with these dividends on these conditions.'

Mr DAVY - No.

Mr BACON - That is what you just said.

Mr DAVY - No. The letter is the letter I wrote so I stand by exactly every word that is in that letter. What I am saying that when the Government set its Budget, it did not say to us, what do you have to do to get here and -

Mr BACON - No. I am agreeing with you. What I am saying is that you said to them, 'We can only provide those returns under these conditions.'

Ms FORREST - After the event.

Mr EVERY-BURNS - Yes, that's right: after the event we did say that, but we also regarded the combined cycle unit wasn't something you needed to generate secure supplies to Tasmania. It wasn't that we were saying, putting energy security aside, we can meet your budget forecast by doing things that do not make sense from a certain point of view of risky -

CHAIR -It is important that you understand the question clearly in answering. The chairman may have read that letter, I do not know.

Mr EVERY-BURNS - Scott was saying that this letter is saying that the only way we can provide it, and it does not say that. The letter says that the company would stamp that into its corporate plan, using the following assumptions. I do not think it says it is the only way, but that is what was factored into it. It was a reference at a point in time.

CHAIR - That is right. It is important to fully understand the way the question is couched and what is in the document.

Mr BACON - But it was shortly after this that you wrote to the Government for permission to sell the combined-cycle unit?

Mr EVERY-BURNS - That foreshadows that. That was foreshadowed.

Mr BACON - That is what I mean.

Mr DAVY - Technically it was around the same time. I could not guarantee that it was shortly after the 11th.

Mr BACON - If you are the Government getting that letter you are going to think, if you do not sell the combined cycle gas unit and not sign the non-commercial arrangement, then you won't get the dividends. That would be the clear expectation.

CHAIR - Scott, we have moved on with this now. We have been on that for a time. I think we have answers to it. If we need further clarification, we can do that from *Hansard*. We need to move on.

Ms FORREST - I am interested in looking forward because this is about the financial sustainability of the energy entities, not only the term of reference number (1).

Mr DAVY - We can only answer the questions we are asked.

Ms FORREST - I am drawing your mind to the future, not the past here. Last time when you were before us, I did talk about whether or not Hydro had insured against such events as an extended Basslink outage and dry conditions - I can't quite remember what your words were.

Mr EVERY-BURNS - I think you asked whether we considered the events.

Ms FORREST - I asked, from your perspective, was this an insurable event. Could you insure against so you would not suffer such loss in the future? Mr Davy said -

Mr EVERY-BURNS - Oh, insurable!

CHAIR - Order. Once again I want to caution in relation to this question in view of other issues. I bring the member's attention that we need to be careful where we go.

Ms FORREST - Yes. I am repeating what is on the public record.

CHAIR - Okay. It is on the public record.

Ms FORREST - Mr Davy said, 'We have a variety of derivatives within our portfolio but not specifically insurance for this kind of Basslink failure with other parties.' That is the answer you gave. You said that Basslink had talked about it but you hadn't got it. In the future, are you looking to insure against such events for your future financial sustainability? You would not expect it to happen again in a short space of time but it could.

Mr DAVY - Do you mean take out products with third parties?

Ms FORREST - I am not talking about Basslink, I am talking about insurance. This has nothing to do with Basslink.

Mr DAVY - When we were referring to derivatives we were referring to here is, we enter into rainfall hedges so that we have product whereby we will receive a payout from a counter party if the rainfall is low and conversely we will pay if rainfall is high. We do enter into those kinds of arrangements.

Ms FORREST - So you won't have to pay because of the rain in June?

Mr DAVY - That is right. When we have heavy rain, we pay out. We have entered into a number of those transactions over the years. They are not nearly as big as the variation and revenue we get from the variables in rainfall but they dampen it down a little bit. It reduces the variability a little bit.

In terms of the insurers buying a product from a third party to protect us against the losses that we might have from extended Basslink outage, no we have not done that in the past.

Ms FORREST - I am talking about the future.

Mr DAVY - We have not yet considered it for the future. It is something that might well come up. We have not, as a corporation, considered or entered into discussions with other parties about covering that possibility.

Ms FORREST - But in terms of the Hydro? Is it considered an insurable event? You obviously insure against rainfall or lack thereof.

Mr DAVY - Could we purchase such a product?

Ms FORREST - Yes.

Mr DAVY - It is possible, but our normal insurance for our own assets does not include that at the moment. We have a general insurance policy on all of our assets and at times there might be some of what we might call business interruption insurance included in that. But, in that whole policy we have not anything that is in relation to a long-term outage of Basslink at the moment. It is worth contemplating in the future, but we have not contemplated it to date.

Mr EVERY-BURNS - We certainly have not contemplated it in the past because on all the calculations the repair periods are within the contract. It is easily managed within our risk management structure.

As I said, we cannot gloss over the fact that the two events that occurred were so far off the radar. Each of them was extreme in its own right. The fact that they occurred together was very extreme, rare.

The very fact that we did not consider that would happen, we had not attempted to insure. But if you did attempt to insure, you would have to price the product. Whether or not their insurers would need to step up to effectively offer you this as a business interruption, whatever, the issue would then be what is the actual loss that occurred. We could lose Basslink. The loss of 60 days -

Ms FORREST - You would factor that into your risk assessment though. You have already said that.

Mr EVERY-BURNS - Yes, but there would not have been a loss. There would not have been much to collect on insurance, if you insure the entire insurance against general loss. Going forward, we will be factoring in the knowledge of the potential for Basslink to take longer to repair than we previously expected, but I certainly don't accept that 176 days is by any way a new standard.

Ms FORREST - I am not suggesting that. I am talking about whether this is something that the Board will look at in the future. As you have talked about, it has had a hit on your financial position for this year and that may flow through longer with the renewable energy credit income as well, which I will talk about in a moment.

Mr EVERY-BURNS - We are intending to look at all the aspects of it, all the learnings. One of the questions will be: Is it even possible to insure against such an event? If it were possible, what would it cost, and if that cost was equal to one per cent of additional water in storage, might we take the view that that is where we put our money? There is a whole raft of off-setting questions.

Ms FORREST - Going to the value of water in storage: I think I raised this, not with you but with a previous Chair, perhaps some time ago, about the value of water in storage and banking water, which is the same as banking money in many ways. I do not know if you read Graeme Wells' submission to the Committee. It is only a one-and-a-half page document.

Mr EVERY-BURNS - I actually went through all of them but you are probably straining my memory.

Ms FORREST - He is basically suggesting that, even though accounting standards do not require you to put a dollar value on the water in storage, when you talk about dam storage you talk about percentage full. Really, what perhaps we should be talking about is how many megawatts are in the dam. We can put a dollar value on megawatts. I will read you part of his submission and you can perhaps comment on it.

'Not all stored water has energy value.' We understand that because you cannot run it right to empty. Some is released for irrigation to other downstream uses under agreements or specific legislation. The associated water licences for downstream users or tradeable personal or property rights. Standard practice for commercial enterprises to account for the changes in the monetary value of all assets and liabilities in the financial reports. Investment and dividend policy rely on accurate assessment of financial position. A sustainable enterprise is unlikely to obtain dividends, for example, in the face of a large downward asset revaluation. It is not clear why Hydro Tasmania's practice in valuing assets does not conform to the standard commercial practice as is, say, the case of Forestry Tasmania that assess financially for their biological assets. I am paraphrasing this; it is not a quote.

Unlike the more difficult valuation problems facing Forestry Tasmania's assessment of forest growth there is evidently no difficulty for Hydro Tasmania establishing the quantum of stored energy. Given the pricing signals provided by the national electricity market, the ASX futures and auctions, together with contracted prices of many users, it should also possibly provide an acceptable monetary value for energy and storage. It is debatable that there is no directly applicable accounting standard. Treating energy as inventory is inapplicable as accounting standards prohibit carrying inventory amounts greater than cost. The cost of inflows to Hydro storage is zero, it just falls out of the sky, but its value is not.

Have you given any consideration to recognising this, and he goes on to ask, in the absence of an existing standard Mr Wells recommends that Hydro Tasmania develop a methodology for valuing energy and storage, providing details as to volumetric inflows and outflows of water, and annual end-of-year monetary values of energy and storage with changes broken down into volume and price effects. If these measures cannot be incorporated formally into their regular financial statements then they could be included as a satellite account.

Mr EVERY-BURNS - Have I considered this? Yes, I have been through the issue of value of water in storage before in New South Wales. It actually came up with the context of substantial amounts of water in cooling lakes - not using the water to turn into electricity directly

but the ability to use the water to cool the power stations is critical to the operation of power stations. The same sorts of issues had emerged in discussion about whether or not that water has a deeper value and we should carry it on a balance sheet or whatever else. My recollection is exactly what has been quoted there, the standards do not cover a requirement for that.

Yes, I have come across the issue before and I am aware that it is not covered by standards. In terms of the technical question you have asked, I have no capacity to answer it personally but am quite happy for the CFO to comment on that.

Mr SMITH - On the accounting answer, what he said there is right. There is not a standard that fits it and so our auditors, even if we ask them, will not [inaudible] us putting it on the balance sheet. There is a standard being developed, as I understand.

Ms FORREST - There is?

Mr SMITH - A water standard. It is in its very early stages but it is very focused on irrigation so, at the moment, from the very early information I saw, it did not really apply to Hydro Tasmania very well. The Snowy had the same problem as us. At the moment the answer is, we just put it on the balance sheet.

Ms FORREST - He was suggesting you do it in a satellite account. There is a value there, there is clearly a value, in the water. Obviously you lose some by evaporation and some goes off for irrigation but there is clearly a value there. You can bank your water, as you did prior to the carbon tax. That was when I was across the table, we discussed banking water for that purpose. There is clearly a value there. Does the Snowy scheme put it anywhere on their accounts?

Mr SMITH - No. I do not believe they do. I have not seen their last one. The economic value of that water is taken into account in other processes in the business, in making business decisions.

Ms FORREST - Can you explore that a bit more for me?

Mr SMITH - It is not in our accounts. Our accounts are dictated by accounting standards and there to document what has happened here. Some things are included and some things are not. What I am trying to say is, the fact that that water has value certainly isn't ignored within the business. It is something that is taken into account when making decisions, it is just not in our input in our formal accounts.

Ms FORREST - You could provide some commentary around that.

Mr DAVY - We certainly could.

Ms FORREST - Yes.

Mr DAVY - Can I just elaborate on Miles' answer a little bit. Even though the total amount of water in storage is not directly in the accounts, the total amount of water in storage at the start of the valuation period compared to where we want the long-term average to be, is because if we had a very high storage level, then the fact that we would be generating more than normal for a period of years to come back down to an average level - that is included in the asset value because

the assets are valued by their volume of generation. On the asset valuation, the balance sheet - so the asset valuation -

Ms FORREST - It includes the water that is above your baseline level?

Mr SMITH - It does, yes.

Mr DAVY - If it is higher than normal, the fact that we are going to be generating slightly more than normal for a few years, will make the asset value slightly higher. Similarly, if it is slightly below normal, the fact they are going to be generating slightly less than normal for a period of years would decrease the asset value slightly. I understand it is opaque. It is reflected on the balance sheet or in the profit and loss, depending on where that asset valuation turns up that year, but it is not directly observable, so there is no particular place where you can find 'here is the dam level of water' -

Mr SMITH - There is no 'Our agreement says -'

Mr DAVY - What you are suggesting is that it is not worth contemplating having something that says, because we have 36 per cent full, if the water is worth *x* dollars a megawatt hour, that means we have got so many dollars worth of water in storage.

Ms FORREST - No, you cannot just do a straight conversion like that because some of it you cannot use for energy generation. It is what is available in storages for energy generation that I am talking about.

Mr DAVY - That is true. We could come up with something that demonstrates what is available for generation -

Ms FORREST - What the value of it is in the lake.

Mr DAVY - We could do that. Whether that would help make our business more transparent to Tasmanians and customers - I am willing to consider that, but we have not got a plan to do that at the moment.

Mr EVERY-BURNS - If you operated every year with, say 30 per cent - you have been operating at 25 or 30 per cent of the whole number, and year on year, if on average that is where you end up, there is actually no movement in the value of water.

CHAIR - I am going to call order at this stage because the committee has another briefing to go into at 4.30 p.m. and we just need about a five-minute or so break. If there are any new areas any member wants to raise at this stage, it could well be that we might even need you to come back a third time. That is a decision for the committee to make at a later time. Are there any issues that any of you want to raise at this stage?

Mr EVERY BURNS - We respect what you said. We respect the committee. We have tried to make ourselves as available as we can.

CHAIR - Yes, we appreciate that.

Mr EVERY-BURNS - We are trying to listen to your questions. I know sometimes we do not necessarily play it back exactly, but yes, we are trying to listen.

Mr BACON - I would much rather deal with you than the ministers. More enjoyable.

CHAIR - I thank you for coming in at a later time this afternoon. I think we scheduled it for half past one. Thank you for your cooperation and support. We do appreciate it very much, and the way in which you answered the questions we had, and the other information you are passing on. We do have a couple of questions on notice again for you, so we will get those through to you from our secretary.

Mr DAVY - It is a pleasure.

Mr EVERY-BURNS - Thank you very much.

THE WITNESSES WITHDREW.