

# UNCORRECTED PROOF ISSUE

**Thursday 7 December 2017 - Legislative Council - Government Businesses Scrutiny Committee A - Hydro Tasmania**

## LEGISLATIVE COUNCIL

### GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

**Thursday 7 December 2017**

#### MEMBERS

Mr Armstrong  
Mr Farrell  
Ms Forrest  
Mr Gaffney  
Mr Hall (Chair)  
Ms Lovell

#### IN ATTENDANCE

**Hon. Guy Barnett MP**, Minister for Energy

**Ministerial Office**

**Dr Michael Connarty**, Senior Adviser

**Hydro Tasmania**

**Mr Grant Every-Burns**, Chairman

**Mr Stephen Davy**, Chief Executive Officer

**Mr Wally Borovac**, Chief Financial Officer

**Ms Eleanor Inglis**, Acting Government Relations Manager

**The Committee met at 9 a.m.**

**CHAIR** (Mr Hall) - Good morning, everyone. Welcome, minister. Would you like to make an opening statement?

**Mr BARNETT** - There have been some excellent outcomes for Hydro Tasmania in 2016-17 and also some exciting developments have occurred over the past 12 months. Hydro Tasmania is playing a key part of our Tasmania First energy policy and has helped manage electricity prices, keeping them low as well as promoting renewable energy opportunities. Hydro Tasmania has rebounded strongly from past challenges and has helped in the development of a strong, new

vision for Tasmania's energy future. As promised, Hydro Tasmania has rebuilt the storages and restored profitability after the energy supply challenges of 2015-16. Hydro Tasmania has comfortably exceeded its storage target of 30 per cent at the end of June this year and has already exceeded the next target of 40 per cent by the start of summer. Storages at the start of this week were 45.1 per cent and yesterday were 45.5 per cent. Good news there. This strategy is part of the Government's new energy risk framework developed by the energy security taskforce in conjunction with Hydro Tasmania.

In the last financial year Hydro Tasmania delivered an underlying profit of \$20.1 million. That result is significantly better than forecast. Hydro Tasmania has also reduced net debt by \$89 million to \$733 million at 30 June 2017. It is working on positioning itself and the state to play a significant role in supporting Australia's transition to a clean energy future. That is leading to 100 per cent full self-sufficiency in renewable energy generation by developing a further 1000 gigawatt hours by 2022 - fully self-sufficient by 2022. Part of that is Granville Harbour wind farm development and part of it is the Goldwind Cattle Hill wind farm development.

Hydro Tasmania is acting to keep power prices low and protecting businesses from soaring wholesale prices on the mainland by reducing wholesale prices in Tasmania by around 20 per cent. The Government implemented a \$20 million energy rebate for non-regulated customers to further reduce their exposure to the extreme prices being seen in the National Electricity Market - NEM. The National Electricity Market has a significant influence here. I can speak more about the National Energy Guarantee - NEG - in due course if questions allow.

Hydro is keen to support the battery of the nation initiative, which is investigating and developing a pathway of future development opportunities in Tasmania that could mean another 2500 megawatts of capacity and would create up to 3000 jobs. That is more than \$5 billion-worth of investment over a 10- to 15-year period. Aligned to the Battery of the Nation project is the ongoing focus of reinvesting in existing assets. In 2016-17, more than \$86 million-worth of capital works was completed to ensure the long-term sustainability of Hydro Tasmania's generation assets. This is approximately a \$1 billion investment over the next 10 years.

Chair, you can see that Hydro Tasmania has rebounded well and the Tasmanian system is well placed for the future. We are in many respects the envy of the nation with over 90 per cent of our energy from renewable sources. Most of this is well managed by Hydro Tasmania.

Thank you. I will pass to our Chair.

**Mr EVERY-BURNS** - Thank you, minister. I agree wholeheartedly.

When I sat here last year we were talking about the issues of the energy supply challenge. We promised to rebound strongly from that. By this time last year the Basslink cable had been repaired, rainfall had substantially returned and we said Hydro Tasmania was on a path for recovery. That is what has happened, as has been reflected.

Throughout the year we have busily supported the Tasmanian energy security taskforce and the Public Accounts Committee in their mission to bolster Tasmania's energy security. We have sought ways to re-engage with the Tasmanian community that in part we let go while we were so busy working on the supply challenges. We are actively into that space again now. We are forging an ambitious but achievable vision to help lead Australia through the transition to the

low-carbon economy which will involve Tasmania playing a part to become the battery of the nation.

We understand that Tasmanians want secure and affordable electricity and I believe we are on a path to achieving that. The challenges of the past have been very significant. We have addressed those. I see the challenges ahead as also being quite substantial but we are in a good space to address those issues.

The financial result for 2016-17 is an underlying profit of \$20.1 million, which was substantially better than we had planned initially. The reduction of net debt by \$89 million to \$733 million was also very good from our point of view.

Minister, you have addressed the energy security matter. We are indeed 45.5 per cent water now, which sits above the target of 40 per cent for December according to the prudent storage levels recommended by the taskforce. That means we are operating in the commercial zone, which is a great place to be.

A week ago the Tasmanian Economic Regulator's first annual energy security review came out and noted that we are now in a strong enough position to withstand a repeat of what had happened in 2015-16. It is not getting to the levels we did at that point in time and putting us in a much safer, more secure position.

With a year of recovering consolidation, we are well placed to lock in Tasmanian energy security and achieve low power prices while we move to the newest initiatives.

I reflect on our mainland retail business, Momentum Energy. It is one of the fastest growing retailers in Victoria. It had a good year in 2016-17. During the year we implemented a customer relations IT system we are particularly proud of. It now allows Momentum to engage with its customers, at a level probably better than the majors. It is a very good future investment and has gone well for us.

Our engineering company, Entura, continues to work in the international space and is now one of the go-to companies for advice on Hydro power and pump storage. We have work in Uganda, India, Nepal, the Republic of the Marshall Islands and domestically.

It is public knowledge we are at the leading edge, advising or doing a feasibility for the Kidston Pumped Storage Hydro Scheme in Queensland. We were advising on that before it became a very popular thing to examine so we are in a good place.

In conclusion, Australia is seeking new solutions for energy affordability, security and carbon omission reduction. Hydro Tasmania have been doing this for about 100 years. We have learnt a lot from our own energy issues in the years past and are now in a good place to play a proper role for the nation.

Thank you very much.

**CHAIR** - Thank you. Minister, I will open with one general question and then open to the committee. Something topical all year, we have two umbilical cords to the mainland, the gas pipeline and the Basslink cable. We have had different commentary from different entities, political parties et cetera that the state Government and/or Hydro should purchase them both.

What is the Government's view on those two matters?

**Mr BARNETT** - Thank you very much, Chair. That is a very big question in regard to both the gas pipeline and Basslink so if I can take them one at a time.

In terms of Basslink, the current owner has recently made a public announcement they are looking at a strategic review of their asset and may look forward to seeking expressions of interest. That is a matter for them.

The first point is energy security is and will not be compromised under this Government. It should be noted that it has been sold in the past and may be in the future to some other entity. We are monitoring the situation very carefully as a state government, and likewise with Hydro.

In terms of the gas pipeline, to make it clear, it is not for sale. It has not been publicly announced as for sale. We have no intention of proceeding down that track. It is a regulated asset so that does allow for a fair arrangement to be achieved by the state Government, Hydro and various commercial entities in Tasmania that rely on gas. We have no intention at this stage of considering that asset because it is not for sale and that is not our intention.

**CHAIR** - We might explore the matter of a second Basslink cable at another time.

**Mr ARMSTRONG** - Pumped Hydro was all the talk a few months ago. Can you elaborate on where you are at with pumped Hydro?

**Mr BARNETT** - Yes, you have made a very important point for Tasmania and we support it. We support it in the context of a second interconnector. You cannot maximise the outcomes of pumped Hydro unless there is a second interconnector, as the capacity in the existing interconnector of about 650 megawatts is not adequate. To achieve the maximum outcomes of pumped Hydro, a second interconnector is essential. The Premier recently announced with Josh Frydenberg, the federal minister, further steps towards a second interconnector, a \$20-million further study.

Pumped Hydro - the option there is a doubling of our energy output in Tasmania. This is very exciting. If this can be, this would be based on a \$5-billion investment over a 10- to 15-year period and some 3000 jobs. It is a huge, long-term investment opportunity for Tasmania and it would deliver renewable energy development, jobs galore and terrific investment progress into the future. This is vision in action. We have started with the announcement that the Australian Renewable Energy Agency - ARENA - with \$10 million from federal and \$10 million from the state will be working with the Tasmanian Government and specifically with TasNetworks to bring the business case forward for a second interconnector.

We are very supportive and Hydro is already doing a lot of work on it. I met with the team a few weeks ago; Steve can outline more details with regard to the benefits of pumped Hydro if you would like. As a committee, it is up to you.

**CHAIR** - Yes, thank you, minister. Perhaps we ought to focus a little on that matter, members of the committee, on the pumped Hydro and second interconnector, while we are on it so we do not get confused.

**Mr VALENTINE** - My question is related to that in terms of storage levels because of the possibility of the second interconnector. What modelling are you using to say what your storage levels need to be to cope with the demands that might come as a result of a second interconnector? We have seen some interesting events over time. We have had the diesel generation issue because of low storage levels. We have fixed that, but what modelling are we using to predict what the storage levels need to be?

**Mr BARNETT** - Good question. On some of the operational matters, I will pass to Steve as the CEO and then we can drill down on that a little further.

**Mr DAVY** - First, a bit more detail about the purpose of the pumped Hydro, the system and the way the three investment opportunities will go together to make Tasmania the battery of the nation. Tasmania has a fantastic wind resource and there are many people who are looking at developing additional wind power in Tasmania. Two recent projects have been announced at Cattle Hill and Granville Harbour. With those two projects, we will be very close to being fully self-sufficient in terms of renewable energy on the island, which is very important.

There is much more potential for Tasmania and we have proponents talking about a large wind farm on Robbins Island and other parts of Tasmania. For those projects to ahead, that would go hand in hand with the extra interconnection. Most likely, if there was to be extra interconnection, there would be extra wind farm development in Tasmania.

The management of storages can't be seen just in the light of our water and storage and the current wind farm make-up in Tasmania. More on-island generation would supply an excess of power in Tasmania. There would be more power now being produced in Tasmania because of the extra wind farm development. The second interconnector would be to make sure that the additional wind power had a market on the mainland. The two must go hand in hand.

**Mr VALENTINE** - Wouldn't base load be the main issue there? Wouldn't you need base load to satisfy the demands from -

**Mr DAVY** - Yes. Initially that storage management would be how to coordinate the operation of the hydro system with the new wind that's in Tasmania to make sure that our storages were managed in a way that was sustainable given that new make-up. The modelling we would need to do would depend on the actual make-up of the amount of new generation on the island at the time. The whole process the Energy Security Taskforce recommended that has now been set up requires a reassessment of all those storage levels once there's a change in the supply and demand dynamics in the state. There is a mechanism already built into that framework to make sure that should things change, such as more interconnection and more generation available on the island, those calculations are redone. It's not just Hydro Tasmania that would make new calculations; with the process the Government needs to run to understand what those new prudent levels should be, those would have to be recalculated each time there was a substantial change in the supply-demand dynamics.

**Mr BARNETT** - ARENA, the federal government's Australian Renewable Energy Agency, and Hydro are already in a joint venture assessing the top 10 to 15 options for Tasmania in terms of pumped hydro. As you know, the Prime Minister is very keen on it, so as a result of that and Hydro's initiative, we've joined together so that funding and those studies are underway. They are drilling down to find the top and the best options for pumped hydro. That is exciting work and is proceeding very positively. Drilling that 15 down to 10 and then down to the top few, we can

seriously look at those to consider further investment opportunities. That work is ongoing and progressing.

**Mr GAFFNEY** - We heard from stakeholders yesterday and others who have said, and I quote from the Tasmanian Renewable Energy Alliance in its submission to the Finkel review -

We have argued that this large-scale development is not necessary' - this is about the second interconnector - 'and is not a cost effective way of meeting Tasmania's requirements for energy security.

In light of the business case, the \$10 million from the federal government and the state Government, has the decision already been made to get a second interconnector and are you putting a business case forward to support that position? Or is the money being used to analyse further some of the concerns other people have regarding the need and the viability, and financial opportunities that the interconnector has? I am a bit confused about what the \$20 million is for. Is it to support the case that we've already decided to make it, or is it to analyse whether that is what we really need in this state? We have heard many people say that it's not the best way to go and it's financially not what we want to lock ourselves into.

**Mr BARNETT** - I can see where you are coming from and understand the question. It comes out of the Tambling report and Warwick Smith, who did some work on this in the past years. Our Government certainly supports in principle a second interconnector subject to a business case and subject to it stacking up economically and in every sense. The further work under this joint venture that is now in place between TasNetworks and ARENA, and Josh Frydenberg and the Premier's announcement some weeks ago essentially progresses that business case.

The work they will be doing is looking at the capacity of the cable, how big it is, what sort of capacity is required, the geography of where the cable should actually be across the Bass Strait so it connects in the right position, and also the financial modelling. It has to be profitable and sustainable and who would actually invest in such a cable to make it worthwhile, because that is a key and fair question. In that regard, I was delighted to hear Mr Frydenberg standing next to him at the announcement when he referred to the second interconnector asset as 'national infrastructure' because our federal colleagues know how important it is that they have access to renewable energy. They know how important it is that they have access to dispatchable energy, which is base load, which is what Rob Valentine has been referring to, and the importance of base load power, which injects reliability into the system on the back of problems in Victoria and South Australia last year. They know how important it is to have renewable energy or clean energy. Tasmania has bucketloads. In fact, our target is for 100 per cent renewable energy and self-reliance by 2022.

**Mr GAFFNEY** - Minister, thank you. It is interesting, when you hear a business case put forward, it is like: here is a proposition and how can we manage it and get it to fruition? But from what you have just said, it still seems to me it is more of an assessment process to see if somebody else is going to pay for it, which would be a bonus. If it comes down to Tasmania being the one paying for it, that is a bit of a concern. It is an assessment process and then, from that, there will be further -

**Mr BARNETT** - As I have indicated, we have a 'Tasmania-first' energy policy. The key priority there is the lowest-cost power - and our target is the lowest-cost power in Australia by

2022. Any decision must be consistent with our 'Tasmania-first' energy policy: secure power, lowest-cost power, and of course we support the renewable and fully self-sufficient power, by 2022.

That is our objective. Any business case must be consistent with that. We believe, based on the feedback we have had from the federal government, that they believe it is national infrastructure. They believe this will support the national energy market. As Steve has indicated, and the Government's position is, this is only exporting excess power.

We have to get to that 100 per cent by 2022, then we will be able to export our excess power. We want that to benefit Tasmanians, to ensure the lowest-cost power and to make it sustainable. We are very supportive. As a minister, I am very supportive of the merits of it and, of course, it must stack up.

**Mr FARRELL** - The TFGA raised concerns with pumped hydro because farmers usually irrigate and pump in off-peak times. If Hydro is using pumping in off-peak times, is it going to affect the domestic price of off-peak power for the farmers if the demand for off-peak power goes up?

**Mr BARNETT** - I think we are getting into the detail there. I will perhaps ask the CEO to respond. Obviously, we would want to and will continue to consult with all the key stakeholders. The TFGA is a very important part of our fabric in Tasmania of the agricultural sector. We have plans to grow it significantly, 10 times by 2050. In terms of any further reflections, the CEO.

**Mr DAVY** - Probably if I can continue on the question of the purpose of pumped hydro and how that would work in our system. The idea of the Battery of the Nation study is that we are plotting a path to see whether Tasmania can be a major contributor to the national market beyond the ability to meet its own demands for renewable energy.

If we do, and if it proves to be commercial and a good thing for Tasmania, if we get to the stage where there is a large excess of renewable power in Tasmania, that will create a lot of opportunity for pumped hydro because there will be, at times, more wind and potentially more solar generation in Tasmania than the demand.

At that point, off-peak energy or energy when there is an excess supply - because off-peak and peak will not really mean the same thing by then, it will be 'Is there a lot of wind blowing?' or 'Is there a lot of sun shining?' - the electricity that is available for storing at pump storage will be very cheap. In fact, if we do get to the future situation where pump storage makes sense to build, it will already mean that off-peak power, or power when there is excess wind generation or excess solar generation, will already be very cheap. If I were an irrigator looking for low spot prices to pump in, this future would probably create that outcome rather than prevent it.

**Mr FARRELL** - You mentioned the other choices of energy generation - thermal, wind and that type of thing - do you have a preference for which way you will steer the company in future energy development?

**Mr BARNETT** - We support renewable energy as a government and we have a target to be fully self-sufficient by 2022. We are not wanting to say, 'This is the best way to go or that is the best way'; it has to be based on a sustainable future that makes economic sense.

**Mr DAVY** - One of the studies we are doing with the ARENA co-funding is to understand how Tasmania fits into a future energy mix. We think that technically and looking at Tasmania's potential, using a combination of more interconnection, wind, pumped hydro and more hydro capacity is something that can be done. We are well on the path to understanding how much that might cost. The study is also making sure that we understand how those opportunities compare to all the other forms of technology.

What we want to do is work out how we can help Tasmania by investing in these assets. If the answer is Tasmania is better off not investing because either other technology turns out to be more cost-effective or other parts of Australia can do the same things Tasmania can do but do it more cost-effectively for the region that they are serving, that is what we will work out from the study.

The study is to understand the opportunity for Tasmania, not to jump to a conclusion early.

**Mr FARRELL** - Are you confident that 12 months is long enough to gather all this? There are so many different options and opportunities out there that it seems a fairly short time frame.

**Mr BARNETT** - There are two parts here. One is the second interconnector study that was announced as a 12-month study. That is ambitious but I hope is achievable. The federal minister is specifically hoping that will be achieved. We will do everything we can to progress that.

With respect to the pumped hydro opportunities, they are ongoing and the research is ongoing. The work between ARENA and Hydro is already underway and continuing, nailing that 15 down to 10 and down to a short list. In the first half of next year I think we will see more reports and I will be delighted to share them with the Legislative Council and others.

That work will also be ongoing. Hydro has a team of people involved in pumped hydro and looking at these issues. That has been continuing for some time and will continue well into the future. We are quite positive about it, we are excited about it, and Hydro has a team working on it and that will be ongoing.

**Ms FORREST** - I want to talk about the second interconnector. As Mike alluded to, there are various views on that. I think it is important to understand how the first one went. I have a few questions on that before we look at the second one.

When I read the expert panel report - I know you wouldn't have one in front of you - on page 46, volume 2, it was stated -

... that as a result of lower than expected opening water storage levels, Hydro Tasmania was prevented from running down its inventory in water in the initial years to generate export income.

The Basslink case depended on running down water storage in the early years. Is that correct? For it to work, it would have to run down the storage in the first few years.

**Mr BARNETT** - Which years are we talking about?

**Ms FORREST** - Back in 2006.



**Mr BARNETT** - You are talking all the way back to 2005-06.

**Ms FORREST** - Yes, I am talking about the business case for that. We are talking about the business case for a second one, but we need to understand the business case for the first one.

**Mr BARNETT** - Could you repeat the question?

**Ms FORREST** - The expert panel noted -

... that as a result of the lower than expected opening water storage levels, Hydro Tasmania was prevented from running down its inventory in water in the initial years to generate export income.

So the first Basslink case depended on running down water storages in the early years, is that right?

**Mr BARNETT** - I think that is a view you have picked out, one quote from one report. I am sure there would have been a range of issues and views put forward to support the business case to progress the first Basslink, as you referred to it. On behalf of the Government, I can't say that was the only view.

**Ms FORREST** - Maybe Hydro can answer it.

**Mr BARNETT** - The Government's position would not be saying that is the only position. There would be a whole range of measures and key performance indicators in terms of the sustainability and profitability of the Basslink cable. I don't want the Government to be put in a position to suggest that that is the only profitable way to go. I am happy for the CEO to share some observations. This is 2005-06, 12-odd years ago.

**Mr DAVY** - If I can remember back that far. I joined Hydro Tasmania not long before the cable was connected. I did not work for Hydro Tasmania and no-one here worked for Hydro Tasmania while the business case was going on. Nonetheless, it was a dry period back in 2005, 2006, 2007. I recall that in about 2006 we decided to purchase some of the open-cycle gas units that were installed at the current Tamar Valley Power Station because of the dry conditions. We also brought back on line the thermal power station, the now out-of-service Bell Bay thermal power station next door to the current Tamar Valley Power Station.

As to the work the expert panel did - which I think was 2009-2010 - at that point, putting aside whatever was in the business case which we couldn't do much about by 2009-10, we calculated that the benefits of the Basslink project for Tasmania exceeded the costs. We'd been through a dry period and the cost of importing power from Victoria over that period compared to the cost of having to install and run whatever new generation might have been required was exceeded when we added the benefits of buying and selling across the link and not having to install the extra generation that might have been required should the link not have been there during that dry period of 2006-08. For the few years we could look at back then we had worked out that that first interconnector had proven to be a reasonable deal for the state.

**Ms FORREST** - The original business case showed Basslink allowing for net exports almost every year, but that wasn't the reality, was it? The business case was based on Basslink allowing net exports in almost every year, but that didn't occur, did it?

**Mr BARNETT** - I want to be very clear -

**Ms FORREST** - I am just trying to establish what the business case for the first one was. This is the point raised by Mike.

**Mr BARNETT** - There is a suggestion, there may be a suggestion, and if there is a suggestion, I want to be very clear that the Government's position on prudent water levels is very strong. They have been raised. Energy security is a top priority and it will not be compromised under our Government. If the suggestion is the prudent water levels would have to be reduced to an inappropriate level to make the business case for a second interconnector, we would reject that proposition. Energy security is a top priority, it is one of our Tasmania First energy priorities, together with the lowest possible power prices.

**Mr DAVY** - One of the reasons things haven't quite worked out as envisaged when Basslink was planned was that the assessed long-term average inflows were higher back in the 1990s than we now believe them to be. Up until -

**Ms FORREST** - On that point, Steve -

**Mr DAVY** - Sorry, can I finish my answer please; I think it is important to the question you are asking.

**Ms FORREST** - All right.

**Mr DAVY** - In the middle of the previous decade, around 2005 or 2006, we were still envisaging that inflows to our storage system would be in excess of 10 000 gigawatt hours per year, each year, because that was the long-term history.

**Ms FORREST** - Was that the initial intent?

**Mr DAVY** - I do not know if that was the modelling used in the Basslink business case but demand at that time was growing but lower than it is now. The expectation of the long-term supply from inflows was a quite a bit higher than we now use. We now use in our modelling, as has been reported broadly, the average from about 1996 through to now, which is an average of about 9000 gigawatt hours per year, which is substantially lower than the previous level at various levels but slightly above 10 000 gigawatt hours per year.

With slightly higher demand and quite a bit lower average hydro generation over a cycle, Basslink has definitely, in the absence of additional wind investment and when the gas-fired generation isn't running, then Basslink, in a normal year, would be used for importing at the moment, which is why it is so important Tasmania invests in additional renewable generation so we go back to being self-sufficient in renewable generation. The expectation was, in the 1980s and 1990s, that there was excess supply in Tasmania from hydro because demand had not yet grown and there was this long-term assessment of inflows.

**Ms FORREST** - Is there any other suggestion of further downward revisions? It was a 10 000-gigawatt-hour system when it was first proposed and now it is down to about 9000, Steve said. Are there any plans for any further downward revision?

**Mr BARNETT** - The key point I want to stress is: our target is to be fully self-reliant by 2022. It is not that far away. The only power that can be exported to the mainland under our Tasmania First energy policy would be excess power. Whatever the figure is, and it changes from year to year and perhaps slightly up or down depending on exactly where we are at, the point that this is only for excess power. Tasmanians come first. Tasmania First.

By 2022, we want to be in position where we can have more renewable energy developed in Tasmania. We have already mentioned Cattle Hill Wind Farm, and I am happy to talk more about that, through Goldwind. We have Granville Harbour. UPC, the developers for the Robbins Island and Jims Plain Wind Farm - and there is a quote of them from a media release on 24 November, which I am happy to copy for you - says this about the opportunities for a second interconnector -

... UPC Renewables Australia supports the further study and progression of the development of a second interconnector between Tasmania and Victoria.

The second interconnector will enable the optimal development of Jim's Plains and Robbins Island projects, rather than being constrained by the present transmission system.

This represents a major increase in the expected total combined output from about 450MWs (~AUD900 million of investment) to 1000MWs (~AUD1.6 billion of investment).

That is what is at stake here and it is on the north-west coast. Then they say -

This will also mean a significant increase in expected job creation in north-west Tasmania.

I am making it very clear that there are some real opportunities here. It is only excess energy and post-2022, or once we get to that capacity.

**Ms FORREST** - What I have been trying to understand is the Basslink 1 business case. If we are going to progress to a Basslink 2, we need to fully understand Basslink 1.

As far as the electricity generation from gas, what was budgeted and what was exported or budgeted to provide power for local consumption while hydro power was saved for export until the Victorian prices were higher during the period of the last 10 years of Basslink? Gas has been used, we know that.

**Mr BARNETT** - Yes, we do know that and gas has been used wisely by the Hydro to protect Tasmania's interests to ensure that Tasmanians come first, and to ensure that the prudent water levels are met. Under our Government they have increased. In terms of exactly what amount of gas has been used -

**Ms FORREST** - How much energy has been generated from gas was the question.

**Mr BARNETT** - Yes, and that's over a 10-year period. I'm not sure that we have all that with us, but I think some sort of response from the CEO of Hydro might be of assistance.

**Mr DAVY** - We can certainly have the statistics available by the end of the meeting. Hydro Tasmania exited the gas generation business when the proponents of the Tamar Valley Power Station purchased the active Bell Bay site from us back in 2008 and we closed our facility in early 2009. We ended up back in the business of gas-fired generation when the assets were transferred to us and I'm going to say 2012, but that's just relying on my memory.

When the combined-cycle unit was owned by Aurora Energy, it was largely run as a baseload facility and generated about 11 months of the year. That was suboptimal for the Tasmanian operations because it created the situation where there was more generation than required through winter and it was creating some additional spill in our hydro assets. What we do is run the combined-cycle unit when it is optimal to run either because it's supporting storages, which it certainly did during the Basslink outage, and also when it's more economical to purchase gas and generate on the combined-cycle unit rather than import power across the link. That is what we are doing today: we are buying gas, running the combined-cycle unit so that we are supplying Tasmania's needs without using as much hydro generation, or using Basslink imports.

That will be how we continue to operate the Tamar Valley Power Station combined-cycle unit into the future.

**Ms FORREST** - It would have changed if we had sold the Tamar Valley Power Station but anyway, we didn't do that. The question I would like you to get back to is: how much electricity was generated from gas?

**Mr DAVY** - We will find out for you how much gas-fired generation there has been, yes.

**Mr BARNETT** - We can get back to you on that.

**Ms FORREST** - I haven't finished the question. How does this compare with what the Basslink business case said from 2006-17? How much did the business case say would be used and how much was actually used?

**Mr DAVY** - The stats for the gas-fired generation for the last five years is in the annual report.

**Ms FORREST** - Yes, but I want to compare it with the business case.

**Mr DAVY** - We don't have a metric within the business where we compare our activities to the Basslink business case. That's not our practice.

**Ms FORREST** - But the Basslink business case tells us what was expected. I'm just interested in how it lines up. You can tell us how much gas-fired electricity was generated during that period. I need it from 2006, so you might need to get that.

**Mr DAVY** - Okay.

**Ms FORREST** - I can read the annual report where it has the past five years.

**Mr DAVY** - We'll get back to you.

**CHAIR** - Thanks, Ruth, we'll continue on then. As you say, minister, we talked about exporting excess power gained from renewable resources, and we have obviously done that in the past and received a premium for it. Other states are also moving down that path. As you know, there are some massive wind and other renewable projects on the mainland, so if they all come into play, do we not get a premium down the track?

**Mr BARNETT** - It's all part of the National Electricity Market. You have raised some good points. I can assure you we are in a very good position in Tasmania. We have what most of the other states really want: we have renewable or clean energy; we have secure energy and amongst the lowest cost. We are targeting the lowest.

Victoria and New South Wales have been in diabolical trouble, particularly in the last 12 months or more. This summer they are predicting a 40 per cent expectation of outages in Victoria and 30 per cent in South Australia. That is their expectation - very serious concerns.

**CHAIR** - Is that because they have closed Hazelwood and Port Augusta?

**Mr BARNETT** - Part of that problem, exactly. They have closed down a number of significant coal power stations such as Liddell in New South Wales. This is not going to stop and will continue. Huge capacity in those states will suddenly disappear, so there will be a serious need for more power in the years ahead. Not in one or two years ahead, but over the medium- to longer-term, so we are well placed.

That is why pumped Hydro with the second interconnector can be so valuable to Tasmania and benefit us. It will bring on more renewable energy projects, countless jobs associated with the construction and then ongoing. UPC Renewables was talking to you about an additional \$900 million - \$1.6 billion investment to build their wind farm at Robins Island and Jims Plains on the north-west coast, so we are well positioned.

I am happy to talk more about the National Energy Guarantee, which is being debated and discussed at the moment. We support further work being done, as do most of the other states and territories.

**CHAIR** - With regard to environment impacts, particularly from wind farms such as more remote locations of Cattle Hill, Robins Island. While it doesn't affect many populations, based on the *Weekly Times* of this week, strangely enough there is a lot of resistance in the Western District of Victoria for projected very big wind farms out there from landowners. The Victorian Government introduced regulations to allow wind farms to be approved without taking into account objections. Would your Government might consider going down that track?

**Mr BARNETT** - Our Government is very supportive of renewable energy projects done in a sustainable, environmentally friendly way. We are very supportive of the Cattle Hill Wind Farm, for example - it is a \$300-million development, 144 megawatts, 49 turbines, 150 jobs during construction, 10 ongoing and commencing in January.

They have the approvals, gone through due process and have the support of the Central Highlands Council. We are very supportive, likewise, of Granville Harbour on the west coast and they are proceeding accordingly. We are very supportive of those going through due process of sustainable development and with the appropriate environmental approvals.

**Ms LOVELL** - I would like to explore Momentum Energy in the north. Minister, are you aware Momentum Energy has struck a deal with the Victorian Farmers Federation to offer discounted power to Victorian farmers?

**Mr BARNETT** - Is that the question?

**Ms LOVELL** - That is my first question.

**Mr BARNETT** - I am aware Momentum Energy is operating very well and profitably in Victoria. They are doing a lot of good work there. It is important we do not compare apples with oranges in terms of prices that might be available to Victorian customers and Tasmanian customers. I would like the CEO to respond more specifically.

**Mr DAVY** - Thank you, Minister. We have a tie-in with the Victorian Farmers Federation where we offer deals to farmers better than comparable deals they can get with other retailers in Victoria. This is a way of targeting a good group of customers in Victoria but the power is bought from the marketplace at prevailing prices and we purchase hedges in Victoria. We also use the fact we have Basslink as a way of hedging that Victorian load with our Tasmanian generation. It is excess generation that would not be sold to Tasmanians. Because it excess of Tasmanian demand, we are using this to offset some of the price risk.

It is a great opportunity for Tasmania to be able to utilise the facilities we have paid for to make extra margins out of selling to Victorian customers. We are proud of the way Momentum Energy operates on the mainland. There has been a lot of commentary over the past months about how some retailers operate, and pressure from the federal and Victorian governments to change some of those practices. Tasmania can be very proud. I am very proud of the way Momentum Energy goes about its business and delivers a return to Tasmanians.

**Ms LOVELL** - What kind of discounts are being offered to Victorian farmers?

**Mr DAVY** - The discounts are relative to what they might otherwise be able to achieve. I do not have those numbers to hand, but I can have more details about the offerings we are supplying to Victorian farmers by the end of the meeting.

**Ms LOVELL** - Thank you. On the website it says, 'By partnering with us you get: satisfaction in knowing that together we are supporting Victorian agriculture and the VFF.' I appreciate what you have said it is about targeting a particular group of customers. Minister, this is probably to you: that power is bought from the marketplace at the prevailing price; given Victorian farmers and Tasmanian farmers can often be in direct competition, is there an equivalent scheme in place, or plans for an equivalent scheme to be in place for Tasmanian farmers to benefit in the same way that Victorian farmers are?

**Mr BARNETT** - The first point is we have a Tasmania First energy policy, which is the lowest power prices in Australia by 2022. Secondly, already Hydro, together with the other energy businesses, has been doing a terrific job to ensure we have among the lowest prices in Australia. That includes for small business and medium-sized business, and of course for larger businesses.

We have implemented a whole range of measures to ensure those prices remain at the lowest possible level. Our businesses in Tasmania can be competitive and compete not just on a level

playing field, but the most level playing field possible to ensure they can do a good job in their businesses and run profitable and sustainable operations.

**Ms LOVELL** - I appreciate that is the goal by 2022. Perhaps we will need to wait for more information to come through on the detail of the discounts. But my questions are: Are Victorian farmers at the moment paying less for their power than Tasmanian farmers as a result of this deal? Is that fair to Tasmanian farmers when they are in direct competition and Victorian farmers are getting an advantage?

**Mr BARNETT** - Yes. There is a point that has been missing. The point that is perhaps missing or behind your question, not specifically the question, is that we already offer among the lowest power prices in Australia now.

**Ms LOVELL** - But with the discount?

**Mr BARNETT** - What I am saying is we already do that now across a whole range of areas. Specifically for residential customers, we have among the most generous concessions in Australia. They are very extensive. Aurora Energy answered those questions yesterday. With respect to small- and medium-sized business, we have instigated a range of measures to ensure the price increases occurring on the mainland that have flowed through to Tasmania are mitigated in Tasmania with the recent rebate scheme in place. The checks are now flowing. That is backdated to early this year. We have a range of measures in place to ensure the best and most competitive arrangements are in place.

**Ms LOVELL** - How many farmers are in receipt of concessions?

**Mr BARNETT** - I would not call them 'concessions'. In terms of farmers, they would be operating as a small business. If they are obviously residential, they might be receiving concessions. If they are pensioners, they will soon be receiving the pensioner's special energy bonus, \$125. The Government is proud of that particular initiative.

With respect to farmers, if they are a small business, they will be obviously receiving the small business rate. You would not call it a concession but you would call it the lowest possible power prices under those arrangements for a small business.

**Ms LOVELL** - Taking into account the lowest possible power prices you are saying Hydro Tasmania is providing to Tasmanians the discounts Victorian farmers are receiving through this partnership with Momentum Energy, are Tasmanian farmers paying more for their power than Victorian farmers?

**Mr BARNETT** - Aurora Energy is the retailer of the power. Hydro is the generator of the power and has done a great deal in addition to the government measures to provide further rebates for small business. I would ask the CEO to speak specifically to -

**Ms LOVELL** - That has not answered my question. It is a fairly simple question.

**Mr BARNETT** - It does. I think once you hear the answer, you have heard half the answer regarding government measures to provide rebates and concessions for Tasmanian customers including businesses. Hydro has done a great amount of work to ensure that its cost measures in

terms of the price available to customers are reduced. I will ask the CEO to address that specific part of the question.

**Mr DAVY** - There has been a dramatic rise in prices across the national market triggered by some of the coal-fired generation that has closed. The decision to support the continued operation of the Portland Smelter following the announced Hazelwood closure in particular caused a very sharp rise in wholesale prices in Victoria.

For some years Tasmania has had a regulated contract price system that links Tasmanian contract prices to Victoria's. Hydro Tasmania made the decision towards the beginning of 2017 to decouple some of those Tasmanian contract prices that affect medium-size business customers, business customers that use more than about 150 megawatt hours per year. They decided that the wholesale component, the energy contract rather than the distribution and transmission part of that contract, would be linked to lower Victorian prices rather than to the prevailing prices for the current year.

We were attempting to insulate, to some extent, business customers, including farmers, from those price rises. Then the Government took some additional measures the minister has already referred to. We are very mindful of the impact that sudden price rises can have on Tasmanian customers and we have worked with the Tasmanian Government, as have the other energy businesses, to attempt to keep prices in Tasmania as low as they can be while still running our businesses effectively.

**CHAIR** - Thank you. I think the honourable member raises a very fair point.

**Ms LOVELL** - That has not answered my question. The question was quite a simple one. I appreciate we might need to wait for further information that you are going to provide for us. The question is: are Tasmanian farmers paying more for their power than Victorian farmers under this scheme with the Victorian Farmers Federation? I think the Chair is right - it is an important point for Tasmanian farmers. You might not be able to answer it right now. I am happy for you to take that on notice and come back with that information once we get more information about the discounts being offered to Victorian farmers. Given that farmers in Tasmania and Victoria are in direct competition, I think it is a fair question.

**Mr BARNETT** - Chair, in answer to the question, which I think I have already answered but I will try to add to the answer, Hydro has outlined the measures it has taken to reduce the cost of power to customers. TasNetworks has also done a great amount of work to reduce the cost of power to its customers, as has Aurora Energy. The question you are asking is a question specifically for Aurora Energy. Aurora Energy is the retailer servicing various customers, whether they be residential, small business, medium business or some of the bigger businesses. That is really specifically a question for Aurora Energy, and that hearing was yesterday.

**Ms LOVELL** - I have a couple more questions on Momentum Energy. What interstate sponsorships is Momentum currently involved in?

**Mr BARNETT** - They are involved in a range of initiatives. What is the question specifically - the types of sponsorships?

**Ms LOVELL** - What are the sponsorships arrangements? Who are the sponsorships with?



**Mr DAVY** - Momentum Energy has sponsorship arrangements with two football teams - St George Dragons, a local team in the Illawarra and St George area. Illawarra a region just south of Sydney in which Wollongong is located. That arrangement with the St George Dragons comes to an end this year. We also have an arrangement with the Geelong Cats, which is a sponsorship arrangement. We are talking to the Geelong Cats about that at the moment. Those are both very modest sponsorship arrangements designed to increase customer brand awareness of the Momentum Energy business. It is the fastest-growing Victorian retailer for mass market customers. We have worked out these were good cost-effective ways of increasing awareness of the Momentum brand. It is part of what has helped Momentum grow to be a successful business. Without Momentum Energy in Hydro Tasmania's results, Hydro Tasmania would not have been able to contribute as much as it has to the state over the past three or four years.

**Ms LOVELL** - In the annual report you talk about the ownership of Momentum Energy continuing to be of great benefit. We have heard Momentum is doing very well. Can the Government rule out selling Momentum Energy?

**Mr BARNETT** - Momentum Energy and the retail price it offers, the activities it undertakes, does not impact on Tasmanian power prices. Hydro has a strategic plan in place; we haven't been advised of any change to that at this stage and we're not expecting any change in the near future.

**CHAIR** - In regard to Ms Lovell's questions, I would like to make a ruling. If you could please provide an answer - I know you said it is in the domain of Aurora, but her questions were in the domain of Momentum, which is part of this whole deal. That was the thrust of her questions. Could you provide the committee, not specifically right now, an answer to those questions, please?

**Mr BARNETT** - Of course, Chair, we will ensure the answers are provided from Hydro's perspective to the best of our ability to do that.

**Ms FORREST** - On page 11 of your annual report it states -

In 2016-17 Momentum exceeded its overall customer sales target with growth of 14 per cent overall and 20 per cent in Victoria. It is therefore one of the fastest-growing energy retailers in Victoria.

On pages 74-75 it says revenue has fallen from \$855 million in 2016 to \$836 million this year. If it is growing, what is happening? It is confusing.

**Mr DAVY** - I wouldn't say it is confusing. We are the fastest-growing in the number of customers. What we are focusing on at Momentum Energy is improving the quality of our customer base. The reason that total revenue has fallen is that some very large customers we were supplying in the past - commercial and industrial customers - with relatively low margins have rolled off our books and we have won a large number of much smaller customers that are much more profitable on the amount of energy we are selling. The total sales revenue has dropped, while the profitability has grown and the total number of connected customers has grown.

**Ms FORREST** - They are all smaller customers.

## UNCORRECTED PROOF ISSUE

**Mr DAVY** - That is right, the smaller customers are the ones we have won. During that time, some larger commercial and industrial customers have rolled off our books because they are now served by other retailers.

**Ms FORREST** - On page 32 of the Auditor-General's report, he refers to unbilled energy accrual of about \$87 million. We do not have the financials of Momentum. Can you provide a copy of Momentum's financials to give us the detail of where this fits?

**Mr BARNETT** - Ms Forrest, my understanding is that information was provided to the committee yesterday and is available - there is no problem at all; we have a copy of it here.

**Ms FORREST** - It has not been received by members of the committee. I do not think I am the only one who has not received it. Can you provide a hard copy for us now? We gave you the heads up and said we wanted to look at it.

**Mr DAVY** - We received it.

**Mr BARNETT** - They were asked to bring a copy. There is a copy, so please feel free to copy that and we can answer any questions about it. We do not have the actual audit report in front of us, Ms Forrest. As to the other question about Momentum, the strategic plan is in place. The Government has no intention of selling Momentum, and I know Hydro does not have any either. There is a copy of the financials.

**Ms FORREST** - Can you point to, in those figures that I have not seen, where you refer to the unbilled energy?

**Mr BARNETT** - Can you be a bit more specific? What are you seeking?

**Ms FORREST** - Steve knows what I am asking for. The unbilled energy.

**Mr BARNETT** - For the last financial year?

**Ms FORREST** - Yes.

**Mr BOROvac** - Are you asking what the amount was?

**Ms FORREST** - The Auditor-General said there was accrual of \$87 million.

**Mr BOROvac** - Yes, correct.

**Ms FORREST** - So where do you report that?

**Mr BOROvac** - It is reported in the individual Momentum financial statements and then it is consolidated in the financial statements of the group. If I were to lead it through to the consolidated financial statements, I gather your question is: where would that amount be included?

**Ms FORREST** - No, we really need to see Momentum's financials. It is a shame they are not included in your annual report. The Auditor-General also refers to a significant estimation at year's end relating to unbilled energy sales. How do you estimate it? It seems, as the CEO

referred to, minister, to have a fairly tight margin at times, particularly for the bigger customers you have just lost. Perhaps that is improving. How do you keep an eye on the unbilled energy? Aurora put it into its accounts, but there is one entity; Momentum sits within Hydro. The Auditor-General talks about significant estimation at year's end.

**Mr BARNETT** - I will pass to Wally in a moment, through the CEO. They are very specific questions on a particular report. We are trying to ascertain exactly what you are seeking and we are happy to try to respond to it.

**Ms FORREST** - The question is: how do you estimate the unbilled energy sales? The Auditor-General made a comment, 'There is significant estimation at year's end relating to unbilled energy sales.' How do you estimate it? It is quite simple.

**Mr BOROvac** - To answer your question, we monitor the unbilled energy on the basis that the meters are not read on a regular basis. We are required, as are other retailers, to make a regular estimate. That would be done through a number of means. Internally, we would be monitoring the regular invoicing over a period of time. We would know the number of customers we have. We have internal metrics that would generate these estimates. It is a process that has been developed internally. It is a common process among retailers because there is a time difference between the raising of the invoices and the reading of the meters. In order to correctly reflect the total revenue, we need to make these estimates. There is nothing unusual in that. It is a comment that the Auditor-General has made and that's a fair enough comment. However, we do have a clean set of financial statements and the Auditor-General has signed off on those.

**Ms FORREST** - All we get is the consolidated ones; we don't see all of this.

**Mr BARNETT** - Can you let the witness finish the question?

**Mr BOROvac** - The opportunity for us to report that is in the consolidated financial statements. In answer to your next question, we only report the consolidated financial statements because we have a deed of cross-guarantee under ASIC orders that enables us to report that on a consolidated basis. That is, again, common practice. It is designed to make it more efficient and cost-effective in terms of auditing. It also reflects the group position, which is the important factor in that the underlying support is from ourselves as the holding company. The subsidiary accounts were audited separately - a report was prepared - and we can table those. As far as we are concerned, in terms of reporting to the stakeholders, consolidated financial statements are more accurate and give a more complete picture of the financial position of the corporation.

**Ms FORREST** - That's true, I accept all of that. Momentum is an entity about which there are claims it is doing brilliantly and all that, but then there are questions raised and it appears that it has never been easy to understand how well it is doing.

I want to raise a matter raised with us yesterday - that Momentum is a purchaser of large-scale generation certificates; Hydro generates them. I am focusing on Momentum at the moment and there are other questions around LGCs generally. I am wondering if there is some sort of agreement in the offsetting of the LGC arrangements with Momentum. How does that work with Hydro and Momentum?

**Mr BARNETT** - That's a fair question -

**Ms FORREST** - They're always fair questions from this side.

**Mr BARNETT** - Totally understandable, so I'll ask the CEO to respond.

**Mr DAVY** - All the trading activities in the wholesale market required for Momentum's activities are done by Hydro Tasmania. Momentum Energy does not go into the marketplace to buy energy derivatives or LGC contracts. All those contracts are either purchased from Hydro Tasmania or are purchased by Hydro Tasmania from the market to then on-sell to Momentum Energy.

Because Hydro Tasmania is itself a producer of large-scale generation certificates from its hydro operation, every year each power station has a baseline and if the generation from that power station exceeds the baseline, Hydro Tasmania can apply for certificates to the Clean Energy Regulator. We have a number of certificates that we create each year from our hydro generation. In a very dry year it can be very close to zero, because none of the power stations exceeds their baseline, but in a wet year, or a high-generation year, it can be a million certificates. It is variable.

We also have offtake arrangements with some of the wind farms here in Tasmania. In fact, we have an arrangement to buy the power and LGCs from the Granville Harbour wind farm.

**Ms FORREST** - All of them?

**Mr DAVY** - We are the off-taker for the Granville Harbour project substantially, yes.

**Ms FORREST** - How long does that agreement last for? Is it a long-term agreement?

**Mr DAVY** - It is multi-year agreement, yes, which has been the subject of public release.

On the LGCs and Momentum Energy - because Hydro Tasmania is a producer and has already entered into contracts mostly with the already built wind farms it is a shareholder in, we supply all the certificates Momentum then needs to acquit against its retail load. That amount grows year on year as the renewable energy target grows. It is getting to the point where it is on balance with the contracts we have with wind farms and the amount of generation from the amount of LGC generation from our own facilities. That it is a reasonable offset over time.

**Ms FORREST** - The price is the issue here. Are they sold to Momentum at a discounted rate? There is concern raised that it is hard to understand how this all works and that there is potentially cost-shifting to make Momentum look more profitable than it actually is, if Hydro is the generator of the LGCs and Momentum is the recipient.

**Mr BARNETT** - The Momentum Energy statement of profit and loss and other comprehensive income ended 30 June 2017 outlines the arrangements and profit and loss for that 12-month period. It is reasonably comprehensive with notes attached. This will assist you in some way, but if the CEO would like to respond in any further detail in addition to that, it is certainly available for all members of the committee.

**CHAIR** - Minister, that was requested yesterday. Officially in terms of process, could it be tabled?

**Ms FORREST** - It has been tabled.

**CHAIR** - We need it to be tabled.

**Mr BARNETT** - I can officially table this on behalf of the Hydro.

**CHAIR** - Thank you.

**Ms FORREST** - The question has not been answered, though. I am asking about the arrangement and the cost the LGCs are sold to Momentum by Hydro. There is some concern it could be profit-shifting. If being sold at discounted rate, it could prop up the financial position of Momentum and if it is buried, it could be buried in these figures we and the general public do not see, because all we see is the consolidated set of accounts.

**Mr BARNETT** - I confirm I have answered that question in part. The member may not like the answer. I have referred to the financials I have just tabled officially.

**Ms FORREST** - Are you confident that answer is in those financials?

**Mr BARNETT** - Chair, I was trying to answer the question and the member interrupted. I have answered that question. I have tabled the information. The information is in there for all members to see. We have been fully transparent. The financials, the income is there. I ask the CEO to add to the answer in the best way he can.

**Ms FORREST** - Can I ask one simple question, Chair.

**CHAIR** - Order. We have a conga line of people who want to ask questions.

**Ms FORREST** - I have asked one question: are the LGCs sold at a discounted rate from Hydro to Momentum?

**Mr BARNETT** - I will pass that to the CEO. Sorry, let me make it very clear: that is an additional question. I have made it very clear. Much of what you are seeking is in the financials I tabled. You have asked a whole range of different questions. I will ask the CEO to respond to your final question.

**Ms FORREST** - It was not my final question, I can assure you of that.

**CHAIR** - Order.

**Mr DAVY** - The arrangements in place internally are designed to reflect the conditions Momentum would find itself in if it were accessing financial arrangements from the wholesale market. What we attempt to do in the transfer pricing between the Hydro entity and Momentum entity is create an arrangement the same as Momentum would have ended up with had they sequentially gone to the market and bought the financial products

**Ms FORREST** - You can wait until they are at a lower price and then sell them, rather than sell them as we know the prices of LGCs change.

**Mr DAVY** - We attempt to make sure the transfer price between the Hydro entity and the Momentum entity would reflect those Momentum would obtain had they gone to the market in the same way an independent retailer would have gone to the market.

The reason for this process is we believe it is the process the entities Momentum competes with use. We would try to use a process that does exactly what you would hope. When you asked the question, you said there is a fear some sort of profit misrepresentation might be going on. In fact, we have endeavoured with this process to ensure that does not happen. The process in place is designed to prevent the thing you fear might be happening from happening.

**CHAIR** - We now have the document tabled. We can return to it at another time, but in the meantime, Rob Valentine.

**Mr VALENTINE** - With respect to the impact on Hydro of the closure of the coal-fired power stations on the mainland - Hazelwood, in particular; Port Augusta to date; and Liddell in 2022 - what has the impact of that been on Tasmania, and Hydro? Did wholesale market prices increase in Tassie in line with the rest of the states? Are there some customer impacts to come?

**Mr BARNETT** - Perhaps if I could start and then pass to the CEO for further comment. The bottom line is that on the mainland prices have been going up specifically as a result of the closure of a range of coal-fired power stations. You have outlined a number of them. There have been significant increases under the National Electricity Market. As a result Tasmania is becoming better placed, and will continue to be better placed in the years ahead as a result of our Tasmania First energy policy. The CEO will respond further.

**Mr DAVY** - The price rises on the mainland - in particular, in Victoria - have been dramatic. We took measures and the Government has taken measures to smooth price rises for Tasmanian customers and to reduce the overall impacts.

**Mr VALENTINE** - Is this the legislation that went through earlier?

**Mr DAVY** - There was legislation, but there was also unilateral action taken by Hydro Tasmania to prevent the price rises in Victoria having as big an impact on Tasmanian customers as they would have done otherwise. Because Hydro Tasmania sells and buys across Basslink into Victoria, the higher and more volatile prices have created more opportunities for Hydro Tasmania in the short term.

This is part of the very dramatic energy transformation going on through the national market. In the short term, yes, it creates trading opportunities, but we must also be careful about the long-term impacts. We must make sure that if prices are high in a sustained manner in the national market, they do not end up creating problems for Tasmanian customers.

We have been careful and working with the Government - and other state-owned electricity businesses have also been working with the Government - to try to make sure Tasmanian customers are impacted as little as possible. It also creates great opportunity for Tasmania. The entire reason there is an opportunity to invest in more renewable generation in Tasmania, more interconnection and more hydro augmentation pump storage is because some of the existing coal-fired generation in the rest of the country is coming to the end of its useful life and some of it will close. That will create opportunities for new, cleaner forms of generation to be built. In the long term this transition of the national market creates an enormous opportunity for Tasmania.

The purpose of the Battery of the Nation project is to examine whether that opportunity is one that should be pursued. Can it create more economic activity in Tasmania, more jobs and better prices for Tasmania relative to the rest of the country?

**Mr VALENTINE** - I can understand long term with respect to the Battery of the Nation project, but has there been a major short-term impact, especially with what is happening in South Australia?

**Mr DAVY** - In the very, very short term we have done slightly better in the 2016-17 financial year than we budgeted because prices went up. A lot of hedges were already in place but some additional opportunities created some additional revenue opportunities. If the power price goes up, we are selling the energy that is not contracted at better prices on the mainland.

**Mr VALENTINE** - Are you doing that aggressively or conservatively, given the situation we found ourselves in a couple of years ago?

**Mr DAVY** - We have always been very conservative in our trading operations. We are taking prudent opportunities to lock in some of the high prices available on the mainland.

**Mr VALENTINE** - With respect to the handout being provided to pensioners, is that part of the old heating allowance system that used to be provided through Hydro or is it on top of that?

**Mr BARNETT** - The special energy bonus is on top of the very generous concessions we already have in place for pensioners and those who use those concessions. It is specifically for pensioners - an estimated 80 000 households around Tasmania - and Commonwealth senior health care cardholders. It is called the 'special energy bonus' and it is \$125. It is through Aurora Energy but I am more than happy to respond to that question and hopefully that assists. It is because of the windfall gains we've had from a number of the energy businesses. Rather than keeping that in consolidated revenue, we wanted to give it back to those doing it tough. The pensioners had a cold winter, their costs of living, including cost of power, were high. This money will assist them in paying for that. Cost of living is a top priority issue for our Government and the cost of doing business is important. That is why we are trying to keep the cost of power as low as possible.

**Mr ARMSTRONG** - I noticed yesterday that storage was at 45.1 per cent capacity and most of the run-of-the-river schemes have spilled or are spilling during the year. The Great Lake is down to 13 metres below full and Lake Gordon was 22 metres below full. We heard a lot when the crisis was on about Lake Pedder where there were only 1.8 metres or 2 metres of top flows into Lake Gordon, which supplies 40 per cent of the water for the Gordon power station through McPartlan Pass. There was talk about using more water out of Lake Pedder. Has there been any work done on lowering the McPartlan Pass canal to take more water out of Lake Pedder? Has it been on the Hydro's books? I believe it has to get the approval of parliament.

**Mr BARNETT** - The storage targets have increased, so 30 per cent midyear, 40 per cent at the beginning of summer. We are at 45.5 per cent yesterday. We are well above the prudent water level and we are pleased about that.

Specifically, Great Lake is 32.4 per cent and Gordon is 44.9 per cent and 45.5 per cent across the board.

More specifically, if you would like to respond on Lake Pedder, CEO?

**Mr DAVY** - Certainly. What was being considered in the time of the energy supply plan in 2015-16, was: could we utilise a bit more of the water in Lake Pedder for supply during that tight supply demand situation? Lake Pedder normally operates in a very narrow band to preserve the environment on the foreshore and to keep the beaches formed around Lake Pedder consistent.

In the legislation originally set up, we had the ability to draw Lake Pedder down another few centimetres but that needed some authorisations to go ahead. We did not conclude those authorisations through the 2015-16 period. What we want to do now, as a result, is submit a referral to the trigger-based approach so that, if required at some future point, that extra 90 centimetres of drawdown of Lake Pedder could be used in emergency situations. We want to clear the way for that, should we ever find ourselves in the circumstances, which I hope we will not, we found ourselves in early 2016. We do not need to increase the size of McPartlan Pass; it is operating the canal at McPartlan Pass the way it operates at the moment.

**Mr ARMSTRONG** - When we had that big rain event the overflow had to be opened up on the Serpentine. By allowing it to go down that extra four metres, that water was wasted and it went out through the spillway. That would probably help fix those problem, wouldn't it, if you could drawdown a little bit more when you knew you had a big influx of rain coming?

**Mr DAVY** - We do not have that operational flexibility at Lake Pedder. Lake Pedder operates through a very narrow range. It is true we have had, on very rare occasions, a spill event over the Serpentine Dam. All our Hydro assets at times, cannot contain the amount of inflows that go through. That is part of the trade-off that is made with the kind of infrastructure we build.

Even if we get authorisation to use a lower Lake Pedder level during some emergency situations, I do not think we would then use that authorisation to create more headroom in Lake Pedder for high inflow events. I think that would be outside the bounds of what would be approved.

**CHAIR** - Minister, we will adjourn until 10.50 a.m.

**The committee suspended from 10.39 a.m. to 10.52 a.m.**

**CHAIR** - Minister, a question was raised among stakeholders yesterday under the auspices of corporate governance. I refer to a particular person, Samantha Hogg. There was a perception she is a non-executive director but she also chairs Tasmanian Irrigation and that therefore we have a nexus between Hydro and TI with mini-hydro schemes, all that sort of stuff. There are people who are asking questions about how that could be and whether you, as minister, see a conflict of interest there.

**Mr BARNETT** - Thanks for the question. I will ask the Chair to respond.

**Mr EVERY-BURNS** - I was involved in the appointment of Samantha from the day of interview. At the time we were interviewing her, I think she was also seeking a role in TasRail, completely independent of what we were doing. Our recommendation was made for all the right reasons and Samantha became a director on the Hydro-Electric Corporation.



Subsequently she was offered a role in Tasmanian Irrigation as a director. At that time, I can assure you, the company, the secretary, the board and I considered the issue of conflict because it is a key issue. We took the view that there was no irreconcilable conflict at all. The usual rules apply that if you are conflicted, you simply declare that conflict and stand aside. Samantha was well and truly across those issues, as I believe I am. Subsequently she became chair of TI as well.

In terms of how we've managed that, she is very careful. She talks to me quite openly about it and we are very careful that in dealings that TI may have that relate to Hydro. My understanding is that she absents herself or stands aside from that to make sure she is not involved. In any time Hydro has had to consider issues associated with TI, she has generally not had the papers associated with that critical decision and has stood aside - not been in the room and not voted. It is completely manageable and the other directors are across the issues. The officers of the companies handle the issues properly. I've never had any concern about it whatsoever.

**CHAIR** - I accept the explanation; however, there is an inquiry with TI coming up and no doubt it may well be raised again by other entities.

**Mr EVERY-BURNS** - I can assure you it's considered.

**CHAIR** - Another quick question on renewables generally. In regard to renewables aside from hydro -and we've talked about wind farms at this stage - how much public subsidy generally is required to make wind farms - not only here but across Australia - viable? There is a quantum of public subsidy, I take it?

**Mr BARNETT** - I have been a long-time supporter of renewable energy as a senator for Tasmania in the federal parliament under John Howard. I am a very big admirer of the former prime minister. The Renewable Energy Target was put in place, and under that scheme a certain percentage of our total energy must be provided from renewable energy. That necessarily supports or benefits any renewable energy, including hydro, wind and other renewable energy projects, and puts Tasmania in a very good position.

Going forward under the National Energy Guarantee, which is what is on the table, we're doing more work on it. We will not support it unless it's consistent with our Tasmania First energy policy - low price, secure power and renewable, clean energy.

We are moving into a carbon-constrained world. I don't think anybody would deny that. The fact is, when people say there are massive subsidies for renewable energy, I think that's an unfair observation. It is fair to say there are policy parameters in place that are supported by all sides. It is noted that in moving to a carbon-constrained world, renewable energy is part of the solution, absolutely. Tasmania is in the sweet spot and so they are operating on a level playing field like everyone else in Australia in renewable energy projects. We want as many of those projects in Tasmania as possible, subject to them being sustainable, viable, profitable and, of course, environmentally approved.

**CHAIR** - The short answer is yes, there is quite a large public subsidy to make them work.

**Mr BARNETT** - I don't accept those words as the minister responsible for energy in Tasmania. What I do accept is that there is a renewable energy target through to 2020 in Australia; as you would be aware, the current rules relating to that initially commenced under the Howard government, continued under the former Labor government and then continued under the

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current government. Now they are looking to progress to a new environment post-2020 and that is proposed to be a national energy guarantee. We're working through those options and making sure that they benefit Tasmania under our Tasmania First energy policy. The current arrangements are in place, we are operating under those arrangements, and it is equal for every renewable energy project all around Australia.

**CHAIR** - Are we getting closer with geothermal or is it not the radar?

**Mr BARNETT** - I am not an expert on geothermal, but is part of the solution. The CEO will comment.

**Mr DAVY** - We are not aware of any commercial attempts at geothermal electricity in Tasmania at the moment. We are not working with any proponents.

**Ms FORREST** - I have two very direct and specific questions related to Momentum. When I asked about the fall in revenue, the reason you gave was about losing those big customers. There has also been a fall in profit, so that cannot be explained by better profits. What is the explanation for the fall?

**Mr BARNETT** - The answer to the question was provided by the CEO a bit earlier at least in part, but I will see if he can add anything further to the previous answer to that question.

**Mr DAVY** - The market has certainly become more competitive in Victoria over the past few years. We have seen good competition for Victorian customers, so narrower margins on those Victorian customers as a result.

**Ms FORREST** - But you said you had better margins on the residential customers.

**Mr BARNETT** - Chair, is it possible for the witness to have the opportunity to answer the first question before going to the next question?

**Ms FORREST** - We do not need to be dictated to.

**Mr BARNETT** - I am just trying to help the Committee.

**Ms FORREST** - No, you are not.

**Mr DAVY** - The reason for the lower revenues is we are moving from large, low margin customers to smaller, higher margin customers, to increase the profitability of Momentum. Even for those small customers, the margins have been squeezed by a competitive Victorian marketplace and a high wholesale price.

**Ms FORREST** - So you need to build your customers base, is that what you are saying?

**Mr DAVY** - No, what I am saying is the price we use to calculate the energy component for Momentum's customers on the mainland has moved up as the wholesale price has moved up in the market. Because the sales price to the customers has not moved up as quickly, because these markets are competitive, the margin on the retail customers has been squeezed slightly and resulted in a lower profitability for Momentum compared to some of the previous years. It is on a

good trend in the quality of the earnings, but there are ups and downs as the margins change from year to year.

**Ms FORREST** - We talked about the un-built energy for Momentum and the CFO said it was in the consolidated accounts, can you show me exactly where it is in those accounts?

**Mr BOROVAC** - It would be part of note 6 as part of 'trade receivables'.

**Ms FORREST** - Why is it listed as a trade receivable, when it is not a receivable until it has been billed?

**Mr BOROVAC** - We classify receivables and accruals and whilst we have not invoiced those people, they do owe us that money. It is a fine line as to how you describe it.

**Ms FORREST** - It would be more transparent, wouldn't it, rather than saying it is a trade receivable, to talk about 'unbilled' amounts?

**Mr BOROVAC** - Yes, at the end of the day that disclosure is made as to our policy and how we disclose that.

**Ms FORREST** - Where?

**Mr BOROVAC** - We talk about our policies and how we disclose those unbilled amounts. From that point of view, we consider them to be receivable.

**Ms FORREST** - Where do you explain that?

**Mr BOROVAC** - There is a policy note, which I can refer you on page 31, unbilled energy, we do talk about the estimates we use.

**Ms FORREST** - That is all there is?

**Mr BOROVAC** - That is right.

**Ms FORREST** - That is not really clear or transparent. It has not been billed, so you cannot really classify it is receivable, but is the way you do it. I will go to some other questions I wanted to ask. On page 11 of the annual report.

**Mr BARNETT** - Sorry, Chair, just through you, in answer to that question, it is very clear at page 31 and the CFO has outlined it, it is in black and white, and it makes it very clear it is unbilled energy.

**Ms FORREST** - My point is, Mr Chairman, it is caught up in the trade receivables. It is not billed, so it cannot be receivable until it is billed. If it was listed, as Aurora do, as unbilled, then it would be clearer, unless he wants to argue with that point.

**Mr BARNETT** - My understanding is they are following accounting standards common across Australia.

**Ms FORREST** - I make the point Aurora notes it as unbilled energy.

**CHAIR** - Next question.

**Ms FORREST** - On page 11 of the annual report, the underlying profit of \$20.1 million before tax, their value adjustments and valuations are recorded. Does the underlying profit adjust for one-off amounts, income or expenses that will not re-occur? Is there a definition as to what gets included or excluded in the underlying income?

**Mr BOROVAC** - Sorry, I -

**CHAIR** - Could you clarify which financial statements you are looking at?

**Ms FORREST** - Hydro's.

**CHAIR** - At what page?

**Ms FORREST** - It is mentioned on page 11 in the commentary. I will take you further then on page 89 -

**Mr BARNETT** - Just so the CFO can follow, we are looking at page 11 of the annual report under finances, I assume, at the top half of the page?

**Ms FORREST** - Yes. I am just reading what it says there.

**Mr BARNETT** - Which paragraph? There is three paragraphs.

**Ms FORREST** - The top of the page, 'Achieving an underlying profit of \$20.1 million before tax, fair value adjustments and revaluations.'

**CHAIR** - Yes.

**Ms FORREST** - On page 89 it says, 'The results in fair value movements and revaluations 2016-17 target is \$6 million performance, \$20 million.' The budget was \$6 million. The actual was \$20 million. I am assuming this is a good result, but did the budget include the full payments of the BSA payment which were not made? How much was not actually paid in that?

**CHAIR** - I will allow the CFO time to gather his thoughts on that.

**Ms FORREST** - That is why I wanted to ask the first question first, but the minister could not follow me.

**CHAIR** - There is two components, yes.

**Mr BARNETT** - We have got two parts to the question.

**CHAIR** - I know.

**Mr BARNETT** - I will just pass back to the CEO.

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**Mr DAVY** - The stated results include the items that occurred during the year. Except the figure of \$20 million is before the fair value movement. Fair value movements are after that. It is inclusive of all the items brought to account that year, including anything abnormal.

**Ms FORREST** - With regard to the budget, \$6 million, actual \$20 million, did the budget include full payments of the BSA payment, which were not made? The 2016-17 budget, did it include those amounts?

**Mr DAVY** - Yes.

**Ms FORREST** - It included all the BSA payments that were not made? That is what you are saying.

**Mr DAVY** - The budget included making BSA payments.

**Ms FORREST** - But you did not make them.

**Mr DAVY** - You are asking about the budget.

**Ms FORREST** - Yes. The budget did include them? The answer is yes? I am clarifying.

**Mr DAVY** - The budget did include them, yes.

**Ms FORREST** - Yes. Did hydro make all the BSA payments in that year?

**Mr DAVY** - Yes. We publicly said there was a process we agreed with BPL, Basslink Proprietary Limited, about the payments we did actually make over the year.

**Ms FORREST** - Yes. You did not pay all the BSA payments?

**Mr DAVY** - I think I have answered the question that you have asked. If you have another question, maybe you should ask that.

**Ms FORREST** - All right, when did you decide not to pay the BSA amounts in full? There was no mention in last year's annual report about this and no event subsequent to the balance state that would suggest you didn't need to.

**Mr BARNETT** - Through you, Chair, I think the question goes to matters that are commercial-in-confidence for Hydro in terms of its relationship with Basslink. The CEO doesn't feel comfortable providing commercial-in-confidence information at this point in time. This is not the time to proceed accordingly.

Perhaps if the question was rephrased we might be able to assist.

**Ms FORREST** - Okay, I will ask the question a different way. Keppel has reported income for its Basslink subsidiary as \$81 million for the year 2016-17. Is that what the amount should have been had you not withheld payments? This is publicly reported, this is not commercial-in-confidence - it is out there in the public arena.

**Mr BARNETT** - Repeat the question to clarify what you are saying.

**Ms FORREST** - Keppel has reported income for its Basslink subsidiary as \$81 million for the year 2016-17. Is that what the amount should have been had you not withheld payments?

**Mr DAVY** - It has been a matter of public record that we disagree with BPL about the amount that was due under the Basslink services agreement, but I am not at liberty to publicly disclose the size of that disagreement.

**Ms FORREST** - Basslink will soon have to lodge its financial statements with ASIC and they will disclose how much is in receivables. As they only have one customer, which is Hydro, doesn't it make it pretty evident what the amount is?

**Mr BARNETT** - Through you, Chair, I think the CEO has responded accordingly. Basslink, we know as it is on the public record, has a contract with Hydro through to 2031. That remains in place.

The Government is confident of the security of our energy in Tasmania. As I indicated in my opening remarks, the entity has been sold in the past and energy security is not compromised in any way, shape or form. The CEO has made it clear there are certain matters he cannot talk about because of commercial-in-confidence. He can speak about what is on the record. I think he has outlined that to some degree.

**Ms FORREST** - Chair, I go to Hydro's financials on page 56 where it talks about the Basslink agreement amounts that were expected to be paid for 2016-17. They are listed in the first two columns here. That is less than six months - in six to 12 months there. In the case of the BSA amounts, the total was \$78.5 million expected to be paid 2016-17. You disclose that amount was supposed to be paid but not the amount that you have actually paid.

Is this what was supposed to be paid or what actually was paid?

**Mr DAVY** - Maybe you want to restate the question, Ms Forrest.

**Ms FORREST** - I will try to expedite things. I refer to page 56 of the annual report where it says, 'It will be the same amounts that are expected to be paid for 2016-17 listed in the first two columns.' It amounts to \$78.5 million that was expected to be paid 2016-17. Hydro disclosed the amounts you expect to pay but not the amounts you paid - is that the case?

**Mr BARNETT** - Thank you for the question. My understanding is there are other revenue streams that flow to Keppel apart from Basslink and that is a point that should be noted and acknowledged.

**Ms FORREST** - I am talking about Basslink. Hydro is the only customer of Basslink.

**Mr BARNETT** - Yes, I know. My understanding is, in terms of Basslink specifically, there are other revenues that I have been advised flow through to Basslink apart from the Hydro. That is the advice I have received.

With respect to the second part of the answer, I will pass to the CEO.

**Mr DAVY** - Basslink receives revenue from the sale of telecommunication services.

**Ms FORREST** - A minute amount, compared to what Hydro pays.

**CHAIR** - One at a time.

**Mr DAVY** - I am not able to publicly discuss the difference between what we have paid and what Basslink says should be paid. I am not going to publicly talk about the size of that difference.

**Ms FORREST** - Can you talk about the size of the difference on page 55, the amount you expect to pay in this current year under the BSA? In the first two columns together again it is \$107 million. That is a rise of \$30 million in a year. Can you explain why it has increased so much?

**Mr DAVY** - There are multiple causes for the differences. The Basslink fee has in it a commercial risk-sharing arrangement. In the years where the power prices are very low, the commercial risk-sharing arrangement leads to the fee being at the lower end of the possible range. When powers are very volatile, which they were already forecast to be by the time the year started, we had much higher spreads. The spreads in the 2016-17 were much higher than in the 2015-16 year. A combination of high prices, volatile prices throughout the year, create a much higher fee as the fee has a link to price spreads. That is the cause of some of the difference you see there.

**Mr VALENTINE** - What aspect of commerciality is on these payments, given it is a monopoly supplier? Why does it need to be in confidence? You have an owner of the facility and you are using the facility, it is monopoly and they do not have any competition. Why does it have to be in confidence? It might be simply answered, but I would be interested to know why that is. Is it the commercial side of it? Is it Hydro's concern or is it Basslink company's concern?

**Ms FORREST** - Basslink publish its publicly.

**Mr BARNETT** - Perhaps if I can at least attempt to answer that question. It relates to the Basslink outage and the costs flowing from that. There has been a conflation of the issues of the very extreme drought and weather and then the Basslink outage itself. There has been a conflation of those by some in the community.

The position of the Government on the cause of the fault is quite clear - we do not accept that the fault was force majeure. That is a key point I am making on behalf of the Government and Hydro. Hydro did withhold some payments to Basslink that reflected its position on the contractual arrangements. It is fair to say and I think I have said publicly in the House and elsewhere that Hydro resumes those payments. It is continuing the full facility fee in September of this year, but I note that Labor opposed Hydro taking that action. Mr Green, when he was Leader, urged Hydro Tasmania to accept Basslink's position and abandon its position on recovering costs, saying there is a risk they will turn it off. That was certainly not appreciated at the time by the public or others.

What I am saying is, there is a range of issues. There are contractual arrangements in place and the contract goes through to 2031. It is important that those two issues are not conflated - the drought issue and the Basslink outage issue. Now, of course, Keppel has advised it is doing a strategic review. It has advised it is considering its options with expressions of interest. The

Government and Hydro have advised we are monitoring the situation very carefully. The main point from Tasmania's point of view is that energy security has not and will not be compromised under our Government. That remains the position because it is part of our Tasmania First energy policy.

**Mr VALENTINE** - There is nothing in court at the moment, is there? All court action has been completed.

**Mr DAVY** - There is no dispute on foot at the moment between ourselves and Basslink but the process within the Basslink service agreement for dealing with disputes would be to use the dispute resolution process in the contract. This particular issue between ourselves and Basslink Pty Ltd, if it needed to be brought to a conclusion, would be done through the workings of the contract, which has been done a couple of times before when we have had large disagreements about how the contract should work under certain circumstances.

**Mr VALENTINE** - If Basslink publishes its figures, wouldn't it be in the interest of transparency to see Hydro's figures published on this?

**Mr DAVY** - I do not think Basslink has publicly made any statements about the size of the disagreement. We are not in a position to talk about that. It is a commercial, confidential matter at the moment, and I would like to leave it at that, if it is okay with the committee.

**CHAIR** - Okay.

**Mr VALENTINE** - Thanks for at least -

**CHAIR** - I think we have had a fair line of forensic questioning. It has been good, with answers from the minister and others. That is for the committee to deliberate on.

**Mr FARRELL** - One thing that has been fairly topical publicly and in the media has been the salaries. It is noted in the annual report that the cost for 11 positions is \$3.689 million in total. I would like to know a little bit more about the short-term incentive payments - what they are for, how they come about and who makes the decision on what they are based on.

**Mr BARNETT** - Firstly, there has been quite a bit of debate and discussion about that, as the member has noted. The fact is that under our Government executive remuneration is still lower now than under the former Labor-Greens government. The issue of executive remuneration is a matter for the board, so the Chair might wish to respond. In terms of the specifics, in 2016-17 total remuneration was \$3.7 million compared to \$3.9 million in the 2013-14 year, or the last year of the Labor-Greens government. Over the past four years the total remuneration has fallen, where CPI increases alone have been greater than 7 per cent. Under the Labor-Greens government power prices went up 65 per cent in the last seven years of that government. I will ask the Chair or the CEO to add to that.

**Mr EVERY-BURNS** - That one is probably in my area. The salaries for the executives over a four-year period have gone up and down, and then about level. If you ask about the incentives, there was a very big jump in apparent salary from the year before to the current year that has been reported on because of the energy supply situation. The board took the view that irrespective of the performance agreements that were in place with the executives, the company's capacity to pay



was very limited because of the loss that had been made in that period. The board took the view, in consultation with the executives, that it would not pay bonuses in that year.

Irrespective of how hard people have worked or the reality that most of the executives had worked harder during the energy supply crisis than in previous times, because it was extremely demanding of people, again, the board took the view that capacity to pay was limited and would not be paid.

In the year that has just been reported on, in reality the total payments didn't jump any more than they had in the prior period. We assessed the short-term incentives then in the traditional way, which went back in this particular case to the profit of the company, but it was limited in the year that we're reporting on by the reality that we actually wanted water storages to build, if possible, in addition to profit being returned. That was an additional constraint. It wasn't just a matter of making a profit or better-than-budgeted profit, it had to be done in the face of the storages being conserved at a very minimum, and we set a target that they had to come in above. In fact they came in well above that. The company ended up with, in value terms, probably more than \$50 million of water in storage in addition to anything that you see on the papers there.

The performance agreements also go to other cultural elements. They go to other initiatives the board wants to see put in place. At the end of it, the board sits back and takes a view on generally fairly quantifiable factors as to what those incentives ought to be. In the year gone by, where we went from having to commit something in the order of \$100 million to a program of securing the supplies, reporting a loss of \$65 million to the point where we turned the company around - when I say 'we', I mean the executive team has done that - the board took a view that we had achieved the sort of things we wanted to do and recognised people for those achievements.

**Mr FARRELL** - Is it based on extra hours worked?

**Mr EVERY-BURNS** - No, it's not. You can reflect on the reality that during the energy supply situation, many extra hours were worked and no, the incentives don't reflect that at all. In fact, they almost reflect the exact opposite. This is often the case in business: the harder the year, the more effort the team put in, but in general, in enterprise, if you don't get the bottom line results, you don't get the incentives. In the year prior to this one, despite the effort, we didn't get the results, we didn't get the profit; water storages were not where we wanted and they are key drivers for the corporation.

In the year we are reporting on here, the company has substantially put water into storage, made greater profits, more than the budgeted profits, the returns were every bit of what we wanted, and the turnaround in the company was every bit of what we wanted. They are the judgments we put into it. It is not based on hours worked; it is based on results.

**Mr FARRELL** - So it is only an incentive system. If you have a bad time and profits go down, you do not cut from base? Is it capped?

**Mr EVERY-BURNS** - Yes. The bad year demonstrates in a bad year there is nothing paid. It is tough.

**Mr FARRELL** - Is there a cap on the incentive?

**Mr EVERY-BURNS** - Certainly. The cap for executives is a 15 per cent maximum because that is what is allowed for in their conditions of employment. The chief executive has a 20 per cent cap, also a condition of employment.

**Mr BARNETT** - Chair, before we close this session, we have the answers to the two questions.

**Mr GAFFNEY** - Please do not take this as a crack at the process, but it seems to me and a lot of people in Tasmania wrong to award bonuses to people when you want them to be doing the best job anyway. I would rather see their base line salary increase and know, regardless of how the company performs, whether it is good times or bad times or how many hours they work, that is their salary. They should be making good decisions all the time, getting the best back for the company and the state, so why do they get bonuses? That really offends some people. Has the board discussed that point of view?

**Mr EVERY-BURNS** - Yes, we have. This is a question that vexes boards throughout the country. The particular distinction here is that Hydro Tasmania is a very substantial business and one every individual in Tasmania should be proud of. This is not a government department; this is not doing ordinary things; it is operating in one of the most competitive commodity markets in the world. This is the only commodity market in the world where prices can shift on a five-minute basis. They can go from the average at the moment of about \$100 a megawatt hour, lawfully in the marketplace to \$12 500. The hedging and financial arrangements are very onerous and substantial. There are enormous amounts of money at risk. That does not mean the business is risky, it means there are enormous amounts of capital at risk. In the normal enterprise Hydro Tasmania is one of the big players in Australia and we should be very proud of it. The idea of not having incentive schemes is unusual in businesses of this magnitude. The concept of 15 and 20 per cent in the commercial world is very small. I understand the difficulties for people.

**Ms LOVELL** - Minister, can I please have an update on the progress of the energy deal made in May 2015 between TasNetworks, Hydro and Bell Bay Aluminium to increase load to Bell Bay by 10 per cent, which was around 33 megawatts? This deal was spruiked in the 2015 TasNetworks annual report. I will explain why I am asking the question here in a moment. It has not rated a mention in any of the annual reports since then. Is this project off the table because of the energy crisis?

**Mr BARNETT** - TasNetworks is the next witness, but I will pass to the CEO for feedback.

**Mr DAVY** - We have had a number of arrangements with Bell Bay over the years to help them improve the profitability and sustainability of their plant by increasing the current through their potlights. While I do not have all the details to hand, my understanding is since entering into those transactions they have made the changes they wanted to make with their processing and have gradually increased demand.

**Ms LOVELL** - So it has increased to the level set in that deal?

**Mr DAVY** - I cannot recall whether it has climbed to that exact number, but my understanding is they have got very close to it.

**Ms LOVELL** - The reason I am asking this question here - and I am happy

**Mr DAVY** - My understanding is that they have come very close to it.

**Ms LOVELL** - The reason I am asking this question here, and I am certainly happy to ask it in the next hearing as well, but the chair of TasNetworks, Dr Norton, told the Public Accounts Committee on 20 June 2016, when he was asked the same question, that this was a question for Hydro. That is why I am asking it here.

It is important to seek an update on this because it was spruiked at the time as a deal that would secure the future of 1500 jobs. What is the status now of those 1500 jobs?

**Mr BARNETT** - I can respond to say and confirm what the CEO has already confirmed. I visited there just some weeks ago and had very amiable, positive and thoughtful discussions with the CEO of Bell Bay Aluminium. We had a tour of the site and feedback was very positive. They were very pleased and positive about the Tasmania First energy policy and the push for the lowest prices in Australia by 2022.

There was no negative feedback in respect to the matter you are referring to. That was not raised with me at that particular meeting.

**Ms LOVELL** - So is it your understanding that those 1500 jobs were secured as a result of this deal?

**Mr BARNETT** - There was no negative feedback with respect to the matter you are referring to. The discussions I had were positive and I am happy to obtain further detail for you in due course.

**Mr GAFFNEY** - We went through some work yesterday and the Mozo People's Choice Awards target of plus-53 was exceeded by three plus-56. What does that mean? We could not find any reference to how that is indicated - you could have set a low target and then exceeded it by three.

My second question would be now you have plus-56, does that mean next year's target is plus-56 because you do not want to go backwards?

**Mr DAVY** - It is the Mozo Awards - an independent agency that measures customer satisfaction, Australia-wide. I am very proud of what all of our people do but in particular the way Momentum Energy look after their customers is one of the reasons they are very successful in winning and retaining customers.

The number you are referring to is the net promoter score. What we have done in the past is poll customers who have called in for various reasons to ask them whether they would recommend Momentum Energy to their friends. So the net promoter score means the degree you recommend and that score is calculated by subtracting the number either ambivalent or would not recommend from the numbers that would strongly recommend or very likely to recommend. Let us say you poll 10 customers, eight say they would strongly recommend Momentum Energy and two say either, 'Don't know', or 'Wouldn't' - that is a net promoter score of eight minus two which is six, so that is 60 per cent. The common thing is zero, about normal or negative, so Momentum Energy has a very strong score, but we are looking at further ways of improving our measurement of customers for satisfaction.

Can I go to the questions left hanging?

**CHAIR** - Yes, we want to finish up so we will do those other couple of questions.

**Mr BARNETT** - Yes, the CEO has the answer to those two questions.

**CHAIR** - Thank you.

**Mr DAVY** - Gas fire generation in Tasmania since December 2005 was approximately 11.7 terawatt hours, 8.1 terawatt hours from the combined cycle unit, 0.7 terawatt hours from the peak units and 2.9 terawatt hours from the old steam cycle unit at Bell Bay, now closed.

I made a mistake in saying 2012 when the assets were transferred to us; they were transferred in June 2013. The Victorian Farmers Federation offer currently is at about 29.76 cents per kilowatt hour for peak energy and 14.9 cents for off peak and there is an additional daily charge of 162.35 cents per kilowatt hour.

I am not aware of the pricing for Tasmanian

**Mr DAVY** - (cont.) .35 cents per kilowatt hour. I am not aware of the pricing for Tasmanian farming customers, but on average, that is the offer in front of our Victorian farming customers through the VFF. That is a small discount to our regular market offer.

**Ms FORREST** - Mr Chairman, one question was not answered fully: how did the gas usage compare to the Basslink 1 business case?

**Mr DAVY** - Yes, I do not have the Basslink business case. I do not refer to it.

**Ms FORREST** - Hydro has it.

**Mr DAVY** - I am sure we do somewhere, but nobody in the time has made that comparison.

**CHAIR** - Thank you. We are running right over time. Minister, on behalf of the committee, I thank you very much and your team from Hydro. Now we have a changing of the guard because we will move straight on. You can stay there and you can bring some other people in from Tas Networks. Thank you.

**The committee suspended at 11.41 a.m.**