

# UNCORRECTED PROOF ISSUE

**Thursday 5 December 2019 - Legislative Council - Government Businesses Scrutiny Committee A - Hydro Tasmania**

## LEGISLATIVE COUNCIL

## GOVERNMENT BUSINESSES SCRUTINY COMMITTEE A

**Thursday 5 December 2019**

### MEMBERS

Mr Finch  
Ms Forrest (Chair)  
Mr Gaffney (Deputy Chair)  
Ms Lovell  
Mr Valentine  
Ms Webb

### SUBSTITUTE MEMBERS

### IN ATTENDANCE

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

#### **Ministerial Office**

**Mr Ashley Bastock**, Chief of Staff

**Ms Vanessa Pinto**, Senior Adviser

#### **Hydro Tasmania**

**Mr Grant Every-Burns**, Chairman

**Mr Stephen Davy**, Chief Executive Officer

**Mr Tim Peters**, Head of Financial and Management Accounting

**Ms Eleanor Inglis**, Government Relations Manager

**Ms Cassandra Leigh**, External Communications Manager

The Committee resumed at 10.48 a.m.

**CHAIR** - Welcome back, minister. We now have Hydro until 1 p.m. Just by way of explanation again, this is a public hearing. It is being streamed -I am sure you are aware of that - and the *Hansard* of the session today will form part of our report that will be tabled in parliament.

I invite the minister to make some opening comments and the chair if he wishes to do so as well. If there is anything of a confidential nature, that questions relate to matters you would consider confidential, as with all committees you can request that information be received in confidence. You would need to make the case for that and the committee would then deliberate on that, otherwise it is all public. We ask that because we have limited time if this side tries to keep our questions succinct and the answers can be equally so. I just remind members on both sides of the table to use the microphones for the benefit of *Hansard* and all members and those in the gallery there. Thank you, minister.

**Mr BARNETT** - Thank you very much, Madam Chair, and thank you for the opportunity of being here today with the Legislative Council. I would like to introduce Grant Every-Burns, on my right, the Chair of Hydro Tasmania; Steve Davy, the CEO on my left; and Ian Brooksbank, Chief Financial Officer who has been in the role for nine days. A special welcome to Ian.

Thank you, Madam Chair, I will make a brief opening statement and then I will pass to the chair for an opening statement. The role of Hydro Tasmania is a key part of the Tasmania-First Energy Policy. We are pleased and proud of that. Delivering downward pressure on electricity prices and ensuring energy security it is a top priority for our government. Of course, the performance of the 12 months we are reviewing today is very good. The profit underlying result for 2018-19 was \$195 million, well above the budget, and a dividend of \$120 million be paid in that financial year.

Hydro continues to invest in its hydro assets and that is a significant investment, such as the \$22 million upgrade of the Devils Gate Power Station, marking 50 years of service. Hydro Tasmania has also comfortably exceeded its storage targets, we are very pleased to advise, with 40 per cent at the start of the summer and just over 34 per cent at the end of June. That again is a good result. As I say, energy security is a top priority and we have implemented all the task force report recommendations. The Tasmanian Economic Regulator's Annual Energy Security Review for 2018-19 indicates a good report.

Regarding the Battery of the Nation project, Hydro Tasmania is playing a key part in that, offering pumped hydro opportunities and expending \$30 million on the top priority projects such as Lake Cethana, Lake Rowallan and Tribute Power Station on the west coast. We are looking at those options very seriously now and Steve can provide more information to the committee in due course. That is the key part of our plan, to become the battery of the nation, based on the fact that we are the renewable energy powerhouse of Australia; we are very proud about that.

We are thankful for the Australian Government's backing for the 1500-megawatt capacity Marinus Link, that is the second interconnector across the Bass Strait. We thank it for the \$56 million to fast track the design and approval plans for Marinus Link. The underwriting of the pumped hydro opportunities in Tasmania is the Underwriting New Generation Investments - UNGI. Those discussions and negotiations with the federal government are very positive and we appreciate that, and that is progressing positively.

We are investigating the \$500 million upgrade or redevelopment of the Tarraleah Power Station. This is a very significant development and that work is ongoing. That would transform an

80-year-old scheme into one of the most modern state-of-the-art hydro power assets in Tasmanian history. It is perfectly suited to fit with the changing national electricity market and be part of our renewable energy assets here in Tasmania, of which we are very proud. As minister, I am particularly proud. There is a lot more to share but I would like to pass to the chair to share some opening remarks.

**Mr EVERY-BURNS** - I would like to echo the points made by the minister. It has been a very good year for Hydro, very strong financial results and we are in a very space in terms of storage, as well. So, it is a good start. The minister also highlighted our continued investment in the hydro power asset base to ensure it continues to provide the service we need, not just today but for the future need of Tasmania and the national market.

These assets are the ones that will underpin our contribution to the Battery of the Nation with the new build as well. Some of these generation assets, as well as major transmission assets, were severely threatened by bushfires in January this year. I will take this opportunity to acknowledge the extraordinary work that the emergency services personnel did at that time, as well as the people from our energy business and the other energy businesses.

I flew down at that point in time and spent some time with people on the ground and it was a very difficult time but it is the first time I have seen such good cooperation between all the services. We had one of our Hydro people actually effectively lived in for about seven days during that process, so every day.

**CHAIR** - Which assets were under threat?

**Mr EVERY-BURNS** - The transmission lines down the centre of the country and some of our generation assets.

**CHAIR** - Transmission is TasNetworks so what Hydro assets were at risk here?

**Mr EVERY-BURNS** - The power station and the transmission system were affected by a loss of transmission. The fire service actually had members of the energy groups with them and they had briefings every morning and sorted out where the priority should go. It was a very good process. Apart from that, a good year for Hydro. We hope that translates into being good for all Tasmanians.

We are proudly playing a part of being in the Tasmanian community for over a century. We are actively seeking ways we can grow our social licence and we have spent time this year supporting the Smith Family Learning Clubs and providing support to recreational activities, including kayaking and angling. We have supported sporting events that attract visitors to Tasmania's regional areas, such as the National Canoe Slalom Championships and currently the World Fly Fishing Championships, which I don't think Australia's doing perfectly in at this stage.

**CHAIR** - They are now apparently. We had an update from the minister.

**Mr BARNETT** - I can advise the committee and on the public record, Australia is now winning and Jonathon Staggs the lead individual fly fisher. Congratulations to Jonathon Stagg, a local Tasmanian and a fine angler. Thank you for the opportunity to share that important information.

**Mr EVERY-BURNS** - We are currently assisting young women who want to pursue a career in engineering. We have continued building our education program that helps young Tasmanians

learn about where their energy comes from and we are trying to inspire careers in science, technology, engineering and maths. We are provided funding for some grassroots projects that make a real difference to communities and we have done quite a bit of work to upgrade infrastructure to help people access the lakes and rivers.

While our home priority is Tasmania, our work has impacts much further afield. I want to acknowledge the contribution Momentum has and continues to make to the Hydro Tasmania group. It has been able to differentiate itself in a very competitive market and one of the offerings that puts it ahead of others is it is a decent company to deal with. The ethics of Hydro and Tasmania move into that area also.

Our consulting business, Entura, once again made an excellent contribution to the Hydro group and has been awarded future work in the pipeline valued at about \$50 million. That is exceptional work, but it is also going to provide vital support for Battery for the Nation, so we are very pleased about the announcements been made and see that as being extremely positive for us.

Final note, Entura is also doing a lot of work in places like Papua New Guinea where it is actually part of the rural electrification program. It is being supported by a number of governments. We are working the Cook Islands, Tonga, Vanuatu, and the Federated States of Micronesia and bringing forward the renewable technology showcasing what Tasmania can do.

Thank you again, for the opportunity to make those statements.

**CHAIR** - If I can go to the financials to start with. As you both alluded to, the headline profit before tax was \$195 million. After tax it was \$160 million. The other comprehensive income was a loss of \$329 million. This is on pages 20 and 21 of the annual report. When added to the profit after tax, the overall loss was \$169 million. The balance sheet shows total equity falling by \$249 million. The overall loss was \$169 million, less the dividend paid of \$80 million to equal \$249 million. That is just the background.

The profit figure, as both of you have described, describes a successful year so, but to what extent does the other comprehensive income loss of \$169 million indicate a less than successful year? Is it fair to characterise Hydro's balance sheet as going backwards despite the profits other liabilities increased and is this a concern? If not, why not?

**Mr BARNETT** - Thank you very much for the question. It is in two parts and the sustainable profitable Hydro Tasmania is the objective of our Government and what is being achieved with a good result this year. I will ask Steve to address those particular questions.

**Mr DAVY** - I wanted to echo the comments the chairman made about the tremendous effort our people have made throughout the year to deliver the result we have.

The result we focus on in terms of what we have done over the year is the result before fair value movements and revaluation, the \$195 million. This is effectively the cash contribution across the year, but as you point out there are other impacts we have brought into the annual report. We have diligently followed the accounting practice we are required to do, so we end up with a bunch of figures that come through the profit and loss and then other values that come through equity.

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The main thing that has affected the negative parts added to the profit to get the comprehensive income - which is a loss this year - is the change in the value of the net assets, due to the change in the long-term forward curves.

Our Hydro generation assets are valued out to 100-years and our view of the very long-term value of electricity has dropped from one year to the next.

**CHAIR** - In terms of your return on those assets, is that what you are talking about?

**Mr DAVY** - No, we are required to value each year our derivative contracts and assets based on a view of the forward curve of electricity.

The observable forward curve for electricity only goes out about three years, so after that we are required to build a model, then auditors review that model and tell us whether that is the right model.

What has unfolded over the last year or two is that we have taken a different view about what the long-run price of electricity will be into the future decades and a lot of this is informed by the drops in capital costs of the technology being constructed.

**CHAIR** - So you are suggesting electricity will be cheaper over the longer term?

**Mr DAVY** - It will be cheaper than the curve we assumed a year ago.

**CHAIR** - I am not saying it will be cheaper than it is now, but it is not going to grow at the same rate?

**Mr DAVY** - Exactly right.

**CHAIR** - Or the price is not going to increase at the same rate maybe a better way of saying it.

**Mr VALENTINE** - That is set against asset life?

**Mr DAVY** - Yes. That is going all the way out to the long-run asset life over our assets. We followed a process of constructing the curve that takes into account the cost of constructing assets now and also the learning curve of how the cost of future assets - not our assets - but the assets that are built to supply the national market will likely fall as time goes on in coming decades.

**CHAIR** - Minister, those comments the CEO has made, do they fully explain the 10 per cent backward movement in the balance sheet?

**Mr BARNETT** - The CEO has explained it pretty well.

**CHAIR** - The question was, does that fully account for the 10 per cent backwards movement in the balance sheet? Ten per cent backwards movement in the balance sheet does require a little bit of commentary.

**Mr DAVY** - Yes, that is the explanation. We have changed the forward curve in light of the information that has come to bear about costs of building new generation. As when we talk about

the Battery of the Nation project later, the electricity sector in Australia, as it is globally, is in the beginning of a transition and part of the reason for that transition is the cost of these new assets has fallen in price. We are reflecting that fall in price of these new assets and expect a further fall of these new assets that will be built in Australia, in our forward view of electricity prices. That is what we are required to do to apply the accounting standards.

It has little to do with the actual money these assets will earn in Tasmania. They are entirely to do with the accounting methodology we are required to use to fair value these assets.

**Mr VALENTINE** - Because you have private assets coming into the generation space, do you take that into account, that you are actually not needing to provide a level of generation going forward or in perhaps 60, 70 or 80 years out and the life of the assets you currently have and the failure rate of those assets?

**Mr DAVY** - It is entirely to do with the need to create a long-run national market curve and value the assets on that national market. It does not go into that detail of the supply.

**Mr VALENTINE** - And who owns the assets?

**Mr DAVY** - No.

**Mr VALENTINE** - With regard to how you handle your asset life, is that something that's live, that every time you get an asset failure you update the life of similar existing assets? For instance, you have a dam which you might originally say has a 100-year life. If you get a dam failure at 80 years, do you reassess all your assets of similar type and then adjust their life back? How do you do that?

**CHAIR** - How was maintenance accounted for? Is that what you're asking?

**Mr VALENTINE** - No, how is the valuation of the asset handled? Back in my days of local government - and you were talking about pipes in the ground - if you get a failure of a sewerage line, or two or three in one year, you might revisit the whole value of the inground infrastructure and it's actively updated as you go.

I am interested to know how you handle that for assets like dams and generation equipment.

**Mr BARNETT** - It's a really good question. I'd like to respond to the previous question. You talked about the transition in the National Electricity Market. I will give you an example: a 12 000-megawatt increase in renewables over coming years and a 17 000-megawatt demand for storage, which is like pumped hydro, in the next 10 to 15 years. You can see that there is a massive transition taking place. I'm sure we will have more questions about that but I thought I'd clarify that.

Hydro Tasmania spends more than \$100 million a year on repairs and maintenance. As to the aspect of how that is rolled out, I was at the Repulse Dam, which has had a \$17 million upgrade and that's to increase the efficiency of the dam. You get that 5 or 10 per cent increase in efficiency. That will feed into the system and that repair and maintenance - that upgrade - is fantastic for Hydro and its capacity to provide low-cost reliable clean energy here in Tasmania.

On the management and valuation side and how that works, I will pass to the CEO.

**Mr DAVY** - With the Repulse Power Station refurbishment the minister was referring to, like all of our refurbishments, we take what measures we can to improve the efficiency of the assets by the new equipment we install.

Rather than change the life of our assets through our valuation techniques, we have set life times that are accounting standard lifetimes for the civil and power station assets. We don't change those very frequently at all. They are always under review, but I don't think they have changed from year to year recently.

What we do take into account is the level of capital investment. As well as having a depreciation schedule against the civil and power station assets, we also have a capital investment program. Our capital investment program for the year just past would be more than \$100 million and it's of that nature in the year that we are in now.

It's that future capital investment cashflow that is informed by the condition monitoring, as you say, and any evidence that we get about the amount of asset investment that we need to maintain those assets, which is really our strategy to make sure that all those assets are available for future generation.

Any information about failure rate would go into that asset management plan and our level of expenditure would go up and down as a result of the -

**Mr VALENTINE** - You would put further funds aside for depreciation in relation to that so that you are quite cashed up and ready to place money into those assets?

**Mr DAVY** - The depreciation doesn't affect them, the amount of cash available affects the state of results. It's making sure that we have the right amount of capital investment to keep the level of availability, reliability and safety on the assets for future generation.

To go to the point of what you were saying, any incident or condition assessment informs that future expenditure program rather than change our view of the value of that life of the asset.

**Mr VALENTINE** - It's not a real-time management, basically. As I say, you get an asset failure - it might be a rock-fill dam as opposed to a solid-wall dam - if that fails after 60 years and it had an original life of 80 or 100, you don't then go back and reassess all of those rock-fill dams to see whether or not -

**Mr DAVY** - We do. Any incident causes us to reassess every like asset, but we don't then automatically change its book value as a result of that assessment - which I think was the question you were asking.

**Mr VALENTINE** - That's fine, thank you; you've explained it.

**CHAIR** - I noticed the statement of comprehensive outcome there. The losses were mainly due to hedge losses - that is on page 21 - and when you go to page 67, there is further commentary on this.

I find this a very complicated area and I am sure most of us on this side of the table do, if not some of those on that side as well. Can you explain, minister, or someone who is able to, in simple layperson terms, why the electricity price cashflow hedges have moved like they did in 2018-19?

**Mr DAVY** - This is more detail of the answer that I was already giving. When you add it all together, the assets, the forward curve, as well as falling in terms of our long-run expectation in the front few years it has risen. We are required to use the mainland forward curve to revalue our Tasmanian contracts and our Tasmanian assets. Even though the price of electricity in Tasmania for customers isn't moving in the same way, when we fair-value our contracts we fair-value on the Victorian forward curve. The Victorian forward curve, between the end of the previous financial year and this financial year just finished, had moved up dramatically in the earlier few years. There was quite a big negative market-to-market change on a handful of cashflow hedges that we bring through the balance sheet.

**CHAIR** - Again, it's an area that I'm not overly familiar with, but given the fact that we have decoupled - for want of a better word - from the Victorian energy market in terms of costs, and this is going to other areas - not necessarily your area but Aurora and others - and the minister sets the wholesale energy price for retail customers, we are basically having to make our determinations and our judgments based on a price that we don't use for a lot of our customers. Is that right or am I misunderstanding what you are saying?

**Mr BARNETT** - A clarification of the delinking process: that is being undertaken by Treasury. I think we have discussed it in the past but that process is ongoing. There is a consultancy called EMCa; there was a public document seeking options and feedback on that. That process is ongoing in accordance with our plans to have the lowest regulated electricity prices in Australia for residential and business customers by 2022 and likewise to delink by 2022.

**CHAIR** - In the meantime, Treasury is still setting the price?

**Mr BARNETT** - That's right. We have the regulated CPI cap on our electricity prices because that is a top priority to keep the cost of living and the cost of doing business down.

On the other part of the question, I will ask the CEO to respond.

**Mr DAVY** - You are quite right. This is what we are required to do under accounting standards: to fair-value our Tasmanian derivative contracts at the Victorian forward curve. Once the Victorian forward curve that is observable is finished, we are required to model one ourselves and then our auditors and the government's auditors review those models for us and tell us whether we have gone about that the right way. Following that process diligently, those are the numbers that come out of that process.

The reason for that cashflow hedge change is the change in shape of the observable Victorian forward curve.

**CHAIR** - It may be a similar answer, but in looking at the cashflow statement on page 23 under investing activities this year, \$108 million cash was received, whereas last year \$202 million was paid out. On page 37, economic hedges covering energy prices posted a fair gain of \$141 million this year compared to \$175 million loss last year. Are the cashflow receipts and outflows related to fair-value gains and losses of the economic price derivative hedges? Can you explain the economic price derivative hedges? We were talking about the cashflow hedges earlier.



**Mr DAVY** - Yes.

**CHAIR** - Is it the same answer?

**Mr DAVY** - There is a process by which we are required to decide which hedges come through the profit and loss and which hedges go through equity. As it happens, with the move up and the forward curve, the hedges that go through profit and loss add a positive change and the hedges that go through equity have the negative change.

**Mr EVERY-BURNS** - This is not real money in the sense that people are worried about money being lost or gained. The issue is that we put hedges in place to reduce risk to the company, which means you fix the price into the future at something you are happy with, which means you fix it at a price you are making money out of. People then later come back and have a look at it and say, 'You know what? The electricity price is lower now', which means we have locked in a better price than we would have got otherwise. We appear to have lost an opportunity. The alternative is the other way around, where you say that you -

**CHAIR** - That is what hedges are.

**Mr EVERY-BURNS** - Yes, that is what they are. It is probably recorded through, as Steve says, the accounting standards to reflect that, if you or banks are doing something completely ridiculous, it will show up in a transparent way. If you are operating normally in the traded electricity world, all that happens is that some usually reflect losses because you might have done better had you waited but you cannot afford to wait, other times you would have done worse had you waited. You find year to year they bump up and down between positives and negatives and we generally take heed of it. As Steve says, we adhere absolutely to the accounting standards and the auditors hold us to that but it is a rear-view look at what has gone on. You can't actually drive the business that way.

**CHAIR** - I think the CEO was suggesting that there is an expectation that energy prices won't grow at the same rate and these will be reviewed regularly.

**Mr EVERY-BURNS** - They have to be.

**Mr BARNETT** - The answer is, yes, it is reviewed regularly and it is designed to ensure that the business remains sustainable and profitable.

**Mr EVERY-BURNS** - That is correct.

**CHAIR** - Going back to the cashflow statement, were the cash received and derivative sales used to reduce the TASCORP loans? There is money coming in; net proceeds from the financial derivatives, your cash inflows.

**Mr DAVY** - I think I know the answer to that question but rather than misstep, could I make sure I state it clearly before I give the answer?

**CHAIR** - Yes.

**Mr BARNETT** - The CEO is going to check with his financial adviser.

**Mr DAVY** - Can we go to another question and I will come back later with answer to that one?

**CHAIR** - Yes.

**Mr VALENTINE** - How often do you review modelling of storage targets? These days, there is a lot of talk about climate change and reduced rainfall. Some would say it's wetter in the west and drier in the east. Does that cause you to review your storage targets? Can you explain what you are doing with storage targets over time?

**Mr BARNETT** - Thanks very much for the question. Following the 2015-16 challenges we had in Tasmania, you might recall the Government appointed the Energy Security Taskforce. We received a report with recommendations. We have responded to that and implemented it and we have now legislated for it and those measures are now in place.

I can give you an update. The current levels are 47.2 per cent, which is very good for this time of year. That's some 16 points above the high reliability level and there's also what's called the prudent reliability level. We are tracking very well at the beginning of summer. Likewise, coming out of winter. We have the prudent reliability levels, high reliability levels and then the actual levels. I receive weekly reports on that. If you ever ask me, I can tell you what the levels of the dams are. I am pretty across it but it's very important for Hydro Tasmania to be monitoring and managing this.

We have the Energy Security Monitor and Assessor, an independent part of the government working on behalf of the public. It's not just Hydro Tasmania that's doing this in accordance with the way they wish to do it, but they are following standards and procedures. We have a government system in place now as a result of that legislation being passed through both Houses of parliament. The Government and I regularly receive those reports. As to how Hydro Tasmania manages it, I'll pass to the CEO to provide additional information.

**Mr DAVY** - As the minister was explaining, at the level of the parameters that Hydro manages its storages within, those are set and reviewed by the government's process. People from the Office of the Tasmanian Energy Regulator fill the role of ensuring that the storage minimum levels and target levels are assessed in light of any change information about the supply and demand balance in Tasmania. That's the main thing: does Tasmania have enough sources of supply to have reliable future supply? As those supply and demand issues vary there may be different views about what's the right level of water and storage to target but that's not our decision. That's the decision that's made through this government process.

**Mr VALENTINE** - How often do they review your storage level?

**Mr BARNETT** - It's an ongoing review. They review it regularly and consistently, ongoing.

**Mr VALENTINE** - Would it be 12 months or every two years?

**Mr BARNETT** - Oh no, they review it on an ongoing basis throughout the year.

**Mr DAVY** - If we are well above the prudent storage level that the minister was referring to, effectively, it's up to Hydro Tasmania's board and management to decide how to optimise the use of water and storage. As we approach the prudent storage levels, if it was very dry, approaching

the higher reliability line, the level of reporting and government and regulatory involvement in determining what the responses need to be grows and grows. Our task, which the Chairman reminds me of constantly, is to stay well above the prudent storage level so that we are making economic choices. That's what we aim to do through our management; - optimise the value of the water and storage by deciding when we generate and stay well above those.

**Mr BARNETT** - Energy security is a top priority. We've legislated for it now. It's in place. It's a top priority for our Government and it remains so.

**CHAIR** - Do you have your answer to the previous question? I might move onto the Basslink facility fee swap. The swap is a hedge, obviously too, so it is still in the area of hedges.

Note 17 sets out that \$77 million was the net revenue, which is a loss, for the year. Is this the net cost of Basslink for the year? Is it made up of the Basslink facility fee plus the amount in respect to the Basslink facility fee swap to Macquarie Bank less the revenue for the regional revenue provided by Basslink? Can you talk us through the \$77 million figure?

**Mr BARNETT** - Thank you for the question, Chair. I will pass to the CEO with regard to that. I will make it clear that in respect to Basslink, there is a dispute in place and an arbitration arrangement that is occurring. We are thwarted to some degree by legal processes to not reveal -

**CHAIR** - Not about this, minister. This is about the money.

**Mr BARNETT** - I know, but I am making it as a peremptory measure, responding to that question, to say that there are certain things we cannot reveal. I will pass to the CEO to address those parts of the question that he can respond to.

**CHAIR** - So, the \$77 million, the net cost for Basslink for the year.

**Mr DAVY** - Are you referring to page 53?

**CHAIR** - Note 17.

**Mr DAVY** - Page 53? Is the \$77 million you are referring to halfway down the page? It refers to net Basslink financial liability movement reconciliation and the line current year net revenue and operating expense?

**CHAIR** - Yes, that is the one.

**Mr DAVY** - What was the question?

**CHAIR** - Is this the net cost for Basslink for the year, and what is it made up of? There are a number of aspects to this fee.

**Mr DAVY** - Yes, it is a pretty straightforward question. Before I answer, I will confirm with the finance team whether that is the case.

**CHAIR** - While the finance team is working on that, I am assuming that the answer might be yes. Can you also provide a breakdown between the Basslink facility fee paid, the Basslink facility swap fee paid and the Basslink revenue received?

**Mr BARNETT** - Chair, I realise we are digging deep into the detail of the annual report and the finances.

**CHAIR** - That is what we are here for, minister.

**Mr BARNETT** - I am sure we will do our best to respond to your question in a timely manner. If you provide an opportunity for the CEO with his team to respond.

**CHAIR** - While the CEO is working on that with his team, you might like to ask that question on the Basslink cable, Sarah?

**Ms LOVELL** - Minister, and bearing in mind what you have said about the dispute and understanding that there may be some limitations, are you able to provide us with an update on that dispute and time lines around that legal case?

**Mr BARNETT** - Thank you the question. I can advise that the dispute is ongoing and it is progressing through the dispute resolution process. It is currently in arbitration. I am advised that the arbitration process may take some time to play out and that could be between 12 and 24 months. The Government considers that it is the most appropriate and prudent course of action to take to protect the interests of the state.

As it is part of a confidential arbitration process, it would be inappropriate to offer further details at this stage. I make it clear that energy security is a top priority for our Government and ensuring prudent storage levels are in place is clearly a priority. That is why we have the Tasmanian Economic Regulator responsible for monitoring our storage -

**CHAIR** - Minister, we are getting off the question of Basslink. I would like to go back to that and the challenges.

**Mr BARNETT** - It is related to Basslink. It is absolutely essential, energy security.

**CHAIR** - Is the amount in dispute \$30.8 million?

**Mr BARNETT** - I am not getting into that detail.

**Mr DAVY** - Where does that come from?

**CHAIR** - Keppel shareholders are told that in the annual report to Keppel, the owner of Basslink. That is the public domain; that is nothing secret about that.

**Mr BARNETT** - You are putting information on the public record?

**CHAIR** - It is already on the public record.

**Mr BARNETT** - We are not responding to that question.

**CHAIR** - In the Section 19 Report tabled in the parliament by the Government earlier this year, it says there was an extra action from the minister against Basslink that has cost \$3.3 million by

way of extra money required. That is a separate claim to the one that in in arbitration, is it? That is in the public domain, that is in the Section 19 Report.

**Mr BARNETT** - That's fine; the sum of \$3.356 million was spent on expert advice in that 2018-19 year and that is in relation to the state's dispute with Basslink as disclosed in that section 19.

**CHAIR** - The Section 19 Report said it was a dispute with the minister, not Hydro, which I understand the dispute that is being in arbitration is with Hydro.

**Mr BARNETT** - I will ask the Chair to respond to that part of it and I am happy to add.

**Mr EVERY-BURNS** - I understand they are reasonable questions. There is an arbitration going on at the moment and it does involve Hydro Tasmania and Basslink Propriety Limited in respect of the BSA, just the Basslink Services Agreement. There is a separate dispute going on that is a part of whole activity between the Government and Basslink Propriety Limited.

**CHAIR** - So there the two different ones?

**Mr EVERY-BURNS** - There are two things happening, and so it is a fair question but it is difficult for us to get into discussion on either of the detail of those things because you are either asking Hydro to talk about the Government's activity or the Government to talk about Hydro's activity. We are in a position where we ought not go into the detail of either because they are -

**CHAIR** - I am not asking for the detail, I am asking about the high level that is already in the public arena.

**Mr EVERY-BURNS** There are those two things going on so I think there was a number of \$30 million quoted -

**Mr BARNETT** - That was the figure that the Chair quoted. We are not quoting that figure.

**Ms LOVELL** - Minister, are you able to update us on the total legal costs incurred in both of these disputes to date?

**Mr BARNETT** - I can refer to the \$3.356 million as per the Section 19 returns spent on expert advice in the 2018-19 year. I can also talk about the state Government's position and it would be a matter for Hydro to talk about its position. In terms of the state Government, if that is the question, I can assist you there.

We have a sum of \$885 000 we have spent of expert advice in the quarter ending 30 June 2018 as disclosed in that Section 19 return, which I referred to earlier. As at 30 June 2019, a total of \$4.24 million has been spent on expert advice in relation to the state's dispute with Basslink.

**Mr FINCH** - Minister, I want to ask about this continuing uncertainty about the future of TEMCO and there is the issue of Rio Tinto's Bell Bay Aluminium. I am wondering what contingency plans are in place if all that electricity is no longer needed? Are you thinking through into the future if they don't need that electricity? Is this where the Marinus Link might play a part? Would that be fortuitous in that unfortunate likelihood that those two companies might get into difficulties staying in Tasmania?

**Mr BARNETT** - Thank you. There is a range of parts to that question, but let's address the TEMCO part of it upfront. On 17 October 2019 South32 provided an update to the stock exchange, all on public record. They made it clear that they are continuing to review the operations for their manganese alloy smelters across the country and in New Zealand, and that they would report again by March next year, the first quarter of 2020. They have also confirmed they are considering potential buyers for both their smelters, including TEMCO, which means there is more work to do to assess and analyse those options. It's working closely with the Government and we are engaging proactively and constructively with TEMCO. Those discussions and that relationship are ongoing. Until that decision is made, those plants and TEMCO at Bell Bay will continue to operate. I can confirm that the Government continues to engage positively and constructively. Their other smelters, are in New Zealand and South Africa.

In Tasmania we are very proactive and we are out there. We have been engaging with the local community and the council and the Bell Bay industrial zone organisation and we have had ongoing discussions. The Minister for State Growth, Michael Ferguson, has played a lead role in that regard.

**Mr FINCH** - Then, what is the latest on Bell Bay Aluminium, minister? Anything to report?

**Mr BARNETT** - That has been operating for more than half a century and engages about 500 employees and contractors. It's a very significant employer in northern Tasmania and it's the largest electricity user in Tasmania. It's very conscious of the cost of electricity at Bell Bay. That's understandable that they are conscious of that cost. The Government and Hydro remain highly engaged with Bell Bay Aluminium. There have been some concerns, I know, in a letter to the editor as recently as today. I'd like to assure the author of that letter, Brian Khan, and the readers of *The Examiner* and anyone else in northern Tasmania who is interested, that Tasmania's energy security is a top priority and it's secured by the monitor and assessor by legislation, as I have referred to recently, and that will remain so. The concerns expressed in that letter are unfounded. We are certainly a renewable energy state and one step away from reaching 100 per cent fully self-sufficient in renewables, among a handful of countries worldwide, whether that be Iceland or Norway or elsewhere. Our low-cost, reliable, clean energy is one of the great assets we have. That's something we have drawn to the attention of Bell Bay Aluminium and any other industrials and businesses in Tasmania, interstate and overseas. We are ready to receive your investment and support here because of that premium and acknowledgement that we are low-cost, reliable and clean.

**Mr FINCH** - Another question, going back to potential buyers of TEMCO. Is that to operate the plant or to scrap the plant?

**Mr BARNETT** - The review?

**Mr FINCH** - There were the potential buyers that you are dealing with for TEMCO, yes.

**Mr BARNETT** - That's obviously as matter for TEMCO. They have advised us that they are considering potential buyers as one of the options so that it would continue as an ongoing concern. That would be an outcome that would be welcome, but that's a matter for TEMCO. They are reviewing that, with report by the end of the first quarter of 2020 and we will get feedback on that. We are working cooperatively and closely with TEMCO and South32, but until that decision is made those plants, we are advised, will continue operating at TEMCO at Bell Bay and the other one in South Africa.

**Mr FINCH** - In the unfortunate situation that one or two of those big operations go, does this strengthen the case for the Marinus Link?

**Mr BARNETT** - The Marinus Link case is strengthened in any event with the release of the business case assessment today.

**CHAIR** - Can we deal with that later in TasNetworks? That is a TasNetworks question.

**Mr BARNETT** - There are two parts to that. The answer is we are very confident about Marinus Link going forward and there is a lot more work to do in that space, but we are very pleased.

Second, it highlights the importance of our Renewable Hydrogen Action Plan, which is very focused on Bell Bay and northern Tasmania. It is a draft for report and feedback by 10 January. We are excited about the opportunity.

Tasmania has an objective to be a producer of green hydrogen by 2025 and to be a global producer of green hydrogen for export by 2030. We have plans for Bell Bay to be a hydrogen manufacturing hub for Australia. That's another action that we are undertaking that will be very supportive of creating jobs, growth and opportunity in northern Tasmania which will benefit all of the state.

**Ms LOVELL** - Minister, I wanted to seek an update from you on the Momentum Energy jobs. I know that there was an election commitment made to relocate call-centre jobs from Victoria to Tasmania - I believe it was some 79 or 80 jobs - and I know that a site was identified about six months ago, and an expression of interest process was due to commence in March.

Can you update us on where that is at, how many people have expressed an interest and how many jobs have started to move to Tasmania?

**Mr BARNETT** - I would be delighted to update the committee on that and also to indicate that I was with the CEO at Momentum's offices in Melbourne not so long ago. I met with their local manager and many of their staff and was delighted to meet with those wonderful people.

**CHAIR** - Can you keep the answers focused, please, minister - we have a lot to get through. Thank you.

**Mr BARNETT** - I think it's directly relevant to the question but thank you very much, Madam Chair.

To make it very clear, Hydro Tasmania has identified Cambridge as the location to home these wonderful Momentum employees. The expanded Momentum Energy team with over 70 jobs moving to our state over the next three years was a commitment we gave prior to the election. We are now delivering on that commitment. Hydro Tasmania has responded to that and I think they are very exciting plans for a wide range of customer-facing jobs in the new Tasmanian team, which will be expanded.

As of 1 November, just a month or so ago, there were 20 full-time equivalent additional customer-facing staff located at the Momentum Energy's Cambridge office in Tasmania.

**Ms LOVELL** - Does that then mean there's been a reduction of 20 jobs? Are they direct transfers across from Victoria?

**Mr BARNETT** - That is a separate question. As I say, our policy commitment at the election was to identify a place and to have an extra 70 jobs moving to Tasmania. That's still the case. That will occur over the life of the Government, over the next three years, which we said would. We are delivering, that is happening.

**Ms LOVELL** - Sorry, minister, can I clarify that? The commitment was to relocate the 70 jobs. You said 'over 70' - how many jobs - that is the first question.

The second part of that question is the commitment was to relocate those jobs from Melbourne to Tasmania. In last year's GBE scrutiny committee, I believe there was a discussion about this and it was understood from that that those call centre jobs would not be in Melbourne any longer. There would be no more of those jobs - they would all be relocating to Tasmania.

The 20 new jobs in Cambridge, does that mean there are 20 fewer now in Victoria?

**Mr BARNETT** - Let's be very clear. I don't want to have the views of myself or Hydro or anybody else mischaracterised. What we made a commitment at the election is now being delivered and that's with over 70 jobs moving to our state and operating at Cambridge. Cambridge is the site and that's where it will be operating. They are already operating there with an extra 20 full-time equivalent additional staff. Regarding the specifics in and around Momentum more directly, I will ask the CEO to respond.

**CHAIR** - In terms of relocation of staff - that is what the question was.

**Mr BARNETT** - Can I make it clear what the promise was? It was the 70 jobs moving to our state over the next three years.

**Ms LOVELL** - Yes, moving from Victoria.

**Mr DAVY** - The commitment was to move more than 70 jobs by 2022. As the minister said, we selected Cambridge after assessing three other locations alongside Cambridge, which was the site of our existing smaller Momentum call centre team. Cambridge already had an existing team.

The progress we have made is that there are already, in the first six months of that transition, 20 new roles in Cambridge.

**CHAIR** - In addition to the jobs in Victoria.

**Mr DAVY** - Momentum is also a growing business in Victoria. I cannot tell you exactly what the total change in Momentum staff numbers has been over the last six months. I do not have that number right here, but I do not think it was zero. I do not think the additional number of people we have employed working for Momentum in Cambridge is exactly equal to an opposite change in Melbourne. I do not think that is the case.

**Ms LOVELL** - To clarify: I am reading this from the document the Liberal Government published before the election. It talks about a relocation. It talks about work with Hydro Tasmania to relocate call centre roles from Melbourne to Tasmania. Currently Momentum's major call centre



is based in Victoria. This includes approximately 79 call centre employees, so this is quite clear that it is about a relocation of that call centre.

Momentum will be expected to identify such and relocate their call centre to within the first year of government. This seems to have shifted somewhat. They are not relocating, are they? They still will be operating? Are these in addition to those jobs? That is what we are trying to get to?

**Mr BARNETT** - You should be pleased we are creating more jobs in Tasmania, Ms Lovell. That was the commitment. We are delivering on the commitment. We said we would identify a site and those people would be established in Cambridge over the three years through to 2022. It is happening with now 20 full-time equivalents at Cambridge and is well underway.

**Ms LOVELL** - By 2022 you would expect all the 79 call centre jobs, not necessarily those employees you have referenced in this document, will be relocated to Tasmania and employed here to be on track to deliver that commitment.

**Mr BARNETT** - What we are delivering is what we said we would be delivering.

**Ms LOVELL** - Which is 79 call centre employees.

**Mr BARNETT** - Yes, and we have said we would be doing that over the course of the term of the government. We have 20 full-time equivalents. What Steve has indicated as the CEO, is they have demands in Victoria and those demands continue. They have an operation in Victoria and exactly how that pans out in the months and years ahead is a matter for the CEO.

**Ms LOVELL** - Okay, so putting aside Victoria and what happens in Victoria, are you saying today you are confident that by 2022 there will be approximately 79 call centre employees at Cambridge?

**Mr BARNETT** - Correct.

**Ms LOVELL** - Thank you.

**Mr BARNETT** - I hope it is welcomed by all around the table and in Tasmania. It's more jobs in Tasmania. We are all about jobs, jobs and jobs.

**CHAIR** - Thank you, minister. Do you have the answers to those questions from previously?

While we are looking at the Basslink one. Minister, in terms of what is on the public record there is also a statement from Basslink to ASIC. It clearly outlines the figures. The other figure referred to is the dispute with the state in relation to the interconnector and the problems we had previously. Furthermore, the state alleged that it had suffered the various losses and Basslink must indemnify it for those losses, including alleged losses incurred by Hydro Tasmania rising from the incident amounting to over \$100 000 000, which is \$100 million.

**Mr BARNETT** - Where are you reading from?

**CHAIR** - A Basslink statement to ASIC. These figures are in the public arena. It is \$100 million, plus the other figure I referred to that came from the Keppel Report. That information is out there.

**Mr BARNETT** - Madam Chair, what is out there is one thing. What is the position of Hydro Tasmania and the Government is another thing in terms of confidentiality in and around a legal process.

**CHAIR** - I am not asking you to talk about legal process. We are just saying it -

**Mr BARNETT** - You are definitely inviting us to refer to the legal process and our views with respect to another party that is party to the legal process.

**CHAIR** - Do we have answers?

**Mr DAVY** - Yes.

**Mr BARNETT** - This is to the earlier questions. The answers to the earlier questions.

**CHAIR** - This is the Basslink one we are going to answer now? The cost - the \$77 million question.

**Mr BARNETT** - You had a number of questions. I think the CEO has answer to at least one or other of those questions. Would you like to receive those answers?

**Mr DAVY** - Minister, Chair, I believe there are two outstanding questions. One relating to the impact on debt of the derivative trading, or derivative settlement. In our futures accounts, the way futures contracts works, some derivative contracts are traded through the Australian Stock Exchange and the way those contracts work is as the market moves up or down, the margins paid and received come out of the operating cash. There has been a reduction in our net outstanding loan through TASCORP because the upward movement in Victorian prices has led to a net long futures position to end up in us receiving cash from the margin account, and that cash has gone to TASCORP to offset our loan.

**CHAIR** - That was the question.

**Mr DAVY** - It is a temporary feature and we expect that because there are sales transactions to customers on the other side of those futures transactions, over time that repayment of cash into TASCORP will be reversed. In the long run, the loan will go back to its -

**CHAIR** - You do not have any idea at what point that repayment is required?

**Mr DAVY** - As the period that those futures contracts cover passes, I do not know which way the market will go next, as much as I would like to - it would be handy. If the market does not move further, those payments would come out as we sell that electricity to customers.

In terms of the question relating to the Basslink numbers in the annual report, the \$77 million is the net settlement between the current asset and the current liabilities and we do not disclose the actual annual fee we pay. That is a commercial-in-confidence quantity.

**CHAIR** - You will not give us the cost of the Basslink facility fee under the swap fee broken down?

**Mr DAVY** - Those are transactions with counterparties and our dealings with those counterparties require us to keep that information confidential.

**Mr FINCH** - I want to go to labour costs, and within the report over the two fiscal years labour costs are up \$20 million. Given wage growth in Australia is virtually static, is there some explanation for this increase in wages?

**Mr BARNETT** - Are you referring to a particular aspect of the annual report, or more generally about labour costs?

**Mr FINCH** - Generally labour costs and the \$20 million that could be ascertained from looking through the report.

**Mr DAVY** - I want to make sure I give you an accurate answer related to the movement in employee numbers, so I will make sure we have that accurate for you as the meeting proceeds.

**Mr FINCH** - Is that a suggestion the wage increase is because of extra employees that might be employed by Hydro?

**Mr DAVY** - I think that is likely. I want to confirm that before I put it on the record.

**CHAIR** - One other question before we go to Mike.

It might have been the Chair's opening statement regarding their employment and what they are doing to try to attract women into the area. In the business overview at the end of the report, it talks about Hydro having 1200 employees and the Chair mentioned the actions of trying to encourage women into that work because, as I said, we have all these men at the table and the women are all sitting behind. I would like a breakdown of your employees in terms of age and gender. TasNetworks provided a very good breakdown in its annual report; you might like to have a look at that in terms of how it describes that.

I am interested to know the breakdown, particularly as you have two women on the front page of your annual report, but there is no indication that women are highly represented in the organisation, certainly not in the leadership positions.

**Mr DAVY** - It is a very good point, Chair. As it happens, the three senior representatives here are male. What I can report is that, of the five independent directors that Hydro Tasmania has, two are women, and of my 10 direct reporters, the 10 senior executives in the executive leadership team at Hydro Tasmania, four are women, and they fill four important roles, including the Managing Director of our retail business, Momentum Energy, and the Managing Director of our consulting business, Entura.

We are striving to do better than that in terms of female representation in our senior positions but that is the current state. Further across our business we are requiring internally that 100 per cent of our interview panels demonstrate gender diversity so that we do what we can to remove bias from the interview process.

**CHAIR** - In terms of who is doing the interviews or when you are considering the applications?

**Mr DAVY** - I will get to that as well. We require that we have diversity in the interview panel -

**CHAIR** - Diversity doesn't mean one female out of five.

**Mr DAVY** - Our panels generally comprised two or three people doing the interviews. We are also targeting that, on candidate longlists and shortlists, we have at least 40 per cent and 40 per cent women because there are plenty of roles in Hydro, as there are in lots of businesses, if you weren't aiming for diversity, you would have an overweighting of women for certain roles as well, which women have more often filled those roles in the past.

That is what we are striving to do but we by no means think that we have achieved what we want to achieve. We are very keen to encourage women into engineering studies, in particular, so we are running a STEM program through Tasmanian schools. We are trying to highlight the attraction of working in STEM to young people, including women. We are sponsoring, with Engineers Australia, a scholarship for women first-year engineering students. We increased that commitment to sponsor two this year. In total, Engineers Australia have four first-year engineering students they are sponsoring and we are sponsoring two of those. There are many things we need to do across our business in our graduate, apprentice and trainee intake. We are very consciously ensuring that we have increased female representation as well.

**CHAIR** - Are you are in a position to provide to us the breakdown by gender at different levels?

**Mr DAVY** - We certainly have those figures available. I don't have them in front of me but I can provide those by the end of the meeting.

**CHAIR** - That would be great, thank you.

**Mr GAFFNEY** - Minister, I am interested in the \$500 million for Tarraleah. Can you give us a quick snapshot of that?

**Mr BARNETT** - Yes, and I have been up there on a number of occasions and had a tour with Steve and the Hydro Tasmania team. It is terrific. They are looking at the feasibility of either a total redevelopment or an upgrade. That work is ongoing and, Steve, perhaps could outline a little bit more detail. It is a \$500 million prospective plan that, subject to that feasibility study being positive, would - like the Repulse Dam we had earlier, with the investment at a smaller level - upgrade and provide increased efficiencies and then opportunities to sell electricity into the market in Tasmania and potentially, in due course, any excess energy through to the mainland.

It is all about ensuring this facility at Tarraleah is fit for purpose. We are taking the opportunity to re-envision an older facility, about 80 years old, updating it and creating a whole new one. We have 100 years of hydro industrialisation we are very proud of it but it does need updating and upgrading, so this is an opportunity. I might ask Steve just to share more detail on the timing of the feasibility study and its progress.

**Mr DAVY** - Through funding from ARENA, we have committed \$2.5 million and the federal government has committed \$2.5 million as well, so we have been spending \$5 million over the last two or more years understanding exactly what the options are at Tarraleah. If we go for the full 220-megawatt redevelopment, it would be an expenditure of something like \$500 million over about three years. Whether that is the best answer, we are still working through the choices. We've got choices about what to do with the current power station, what to do with the current conveyancing systems and whether we build new conveyancing at a new power station.

There are many issues with the current power station. Some are just that it is old technology and, because of the distance from Butlers Gorge where the water is released to the Tarraleah Power Station, it is relatively inflexible in its operation. There are also problems with the future reliability of the station - we would have to spend some large amounts of money to make it reliable in the future. We would also want to be continually investing money in the canal infrastructure because that has been prone to slips in the past. We need to keep on monitoring the canals built 80 years ago with the technology available at the time; if we are to keep using those, we would need to have considerable reinvestment.

In parallel, we have designed a new conveyancing system and a new power station. The new power station, if it were to be built where we are currently considering it, would be across the river from the current Tungatinah Power Station. We are just getting ready to present all those different choices to the board and map out what the best investment strategy might be. That would also depend on the interaction of that investment with the investment in Marinus Link, because the value of the different options changes whether Marinus Link is built, the capability within the state and the capability within Hydro Tasmania depending on whether we are building a pumped hydro project at about the same time, which is another decision. We haven't yet decided what we are going to do but we are definitely narrowing down on the options.

**CHAIR** - In addition to the Tarraleah station, do you mean?

**Mr DAVY** - No, this is in relation to the timing and kind of investment we make at Tarraleah, and the timing of the investment has interactions with Marinus Link and any investments we might be making in pumped hydro. We haven't yet landed the plan of work, but -

**Mr GAFFNEY** - Can you inform the committee of your time line to decide?

**Mr DAVY** - Finalising all the options, we would expect that to be occurring within the next six months. If we just getting on with the Tarraleah task, we would expect that we would be, about a year later than that, coming to the board with an investment decision. Whether that is to do with refurbishment of the current assets or the new assets, we haven't decided, but we would expect that would need to come within about 18 months.

**Mr BARNETT** - We are talking about more than doubling the capacity. It is around 90 megawatts at the moment, up to about 220 megawatts.

**Mr DAVY** - That is correct. That is certainly one of the options.

**Mr BARNETT** - It's a significant upgrade and/or redevelopment, an opportunity which would increase our capacity in Tasmania by over 2 per cent if that were to occur.

**CHAIR** - Just in Tarraleah?

**Mr BARNETT** - Yes, if Tarraleah were upgraded, it would be about a 2 per cent increase on what we have at the moment.

**Mr VALENTINE** - Minister, I think it might have been in the Auditor-General's report. In response to a projected lower revenue environment for the energy industry in future years, Hydro Tasmania has commenced a business-wide program to target budget improvements and identify

operational efficiencies. Do you want to talk us through what's going on in that space and exactly what you are doing into the future in identifying those efficiencies and what you might have found already? Can you share that?

**Mr BARNETT** - Yes, absolutely. It's a very good question. It gets back to the fact that it needs to be a sustainable business going forward so that it can make money for and on behalf of the taxpayers of Tasmania, being a government business enterprise. It is really important.

This is ongoing and I have briefings from the board and likewise from the CEO and others on their work that to ensure a streamlined approach and efficiency are in place. They have an employee assistance program there that supports the staff. I think a lot of what you are asking is more operational and I might ask the CEO to respond to that and provide the committee with an update.

**Mr DAVY** - For more than a year now we have been running a program throughout Hydro Tasmania called Make it Happen. The aim of that program is to deliver sustained bottom-line improvements to our operating result of \$24 million a year. As an interim stage we have improved the budget result for the year we are in now, 2019-20, by \$15 million. Of the programs that were required to get that \$15 million improvement, \$11 million-worth of those programs of annualised improvement have already been introduced.

We have quite a pipeline of potential future projects to create these extra improvements. These improvements are revenue improvements, efficiency improvements and cost reductions. There is a variety of different programs that get the improvement in different ways. As the minister said, we always put it upon ourselves to be as efficient as possible. We decided, in consultation with the board, that it was time to run a specific program to drive a series of programs to create this improvement.

**Mr VALENTINE** - What sort of job losses are we talking about as a result of these projects or operational efficiencies? Are you outsourcing more? Are you bringing in more employees in certain areas? Can you just give us an understanding of that?

**Mr DAVY** - The \$15 million of improvement for the current year and \$24 million recurrent that we are aiming for is not all cost reduction, but there is an element of cost reduction there. We have been reviewing our operating model and looking at the roles that we don't need in the business anymore. As a result, as of today, I am told, 49 people have left the business and of those -

**Mr VALENTINE** - Are they targeted redundancies or are they people who no longer have a job and need to find one?

**Mr DAVY** - A number of those were voluntary redundancies and the balance were redundancies.

**Mr VALENTINE** - Do you have a number?

**Mr DAVY** - As of November, seven of the redundancies were voluntary, but I haven't got in front of me what that number is today.

**Mr VALENTINE** - Can you give us that?

**Mr BARNETT** - That says of November, doesn't it?

**Mr DAVY** - Yes.

**Mr BARNETT** - Well, that's the November figure.

**Mr DAVY** - I'm told the total number of redundancies as of today is 49, but how many of those are voluntary, I don't have that number.

**Mr VALENTINE** - I would be interested to know.

Are you able to give us some understanding as to the level of operations that are going to be outsourced as a result of these reviews?

**Mr DAVY** - We are not envisaging we will make economies across the business by outsourcing. The reason I wanted to pause on your question about employee expense is that we have been doing the reverse. We've been running our business more efficiently by bringing some of our outsourced contracts back internally. Some of the work we have been doing with contracts and contractors, we are now doing with the permanent employees.

**Mr VALENTINE** - Internal staff?

**Mr DAVY** - Yes.

**Mr BARNETT** - To confirm, the two other things are that, first, we are spending over \$100 million each year on repair and maintenance and, second, Hydro is responding to the transition in the National Electricity Market working on things like the pumped hydro. They have a whole team. I think you might have met Chris Gwynne, who is heading that team. He does a terrific job. They are doing work now, spending money now, authorised by the state Government, looking at those pumped hydro options, and that is progressing.

**Mr VALENTINE** - Are projects like pumped hydro going to be undertaken broadly by internal employees or are they going to be undertaken by companies that simply exist in Tasmania?

**Mr DAVY** - We would hope - one of the major reasons for wanting to have these investments take place in Tasmania is because of the economic impact that this activity will have in Tasmania. We will be certainly aiming to procure as many services as we can from Tasmanian companies to maximise the economic benefit to Tasmania.

**Mr VALENTINE** - With the knowledge of the sorts of roles needed, do you see yourself bringing in mainland companies to cope with this?

**Mr BARNETT** - I will take that question. To be very clear, the Australian Government has already invested \$17 million in energising our energy system in Tasmania to build the workforce of the future. To assist us in doing that, we do need people who have the jobs, have the skills and you have talked about engineering before, so you have mechanical, civil and electrical engineers, you have the whole range of civil contractors involved in building and constructing the pumped hydro project - a massive range of trades in that space. Then you have the administration, technical, computer-based support to provide for all of that work.

We got support from the federal government that has already committed \$17 million working with Skills Tasmania, our education system - and Jeremy Rockliff is well across that. We have to build the capacity here in Tasmania wherever possible, jobs in Tasmania - and we are talking about thousands of jobs, billions of dollars of investment subject to Marinus Link proceeding. We are very positive about it.

The business case is released today and we are looking forward to progressing that.

**Mr VALENTINE** - You are focused on employing Tasmanians rather than mainlanders?

**Mr BARNETT** - Absolutely. That's the type of priority of our Government.

**CHAIR** - There are a few project managers left over from the Royal apparently, according to the Auditor-General, that might be available.

**Mr FINCH** - That reference I made before about the labour costs for Hydro is on page 20 in the expenses section. Labour has gone up in 2018, \$140 million, 791; in 2019, \$160 million, 453. That's where that indication is that there was that rise in the labour costs. Do you want to deal with that later -

**CHAIR** - I thought you answered that. Didn't you answer that about the increase in employment costs?

**Mr DAVY** - No, we haven't answered that one yet. We have that one coming.

**Mr FINCH** - Yes, the detail of that. Minister, on the back of what you were talking about with Mr Valentine, an area that intrigued me in the report, tucked away nearly towards the back page - I'm not suggesting it was hidden, but the procurement summary is there on page 110. I suppose what has been suggested here, what you've just been talking about, is in respect of that expertise you need to draw on. I notice that it is widespread around Australia. We go outside of Tasmania financially, quite heavily, to draw on the expertise. I just want to it highlighted in our gathering here today - to perhaps get your opinion, suggestions - jobs, jobs, jobs - whether this outsourcing can be diminished in respect of employing Tasmanians or bringing these people to Tasmania? I think you touched on that before.

**Mr BARNETT** - Thank you very much, a great question. Thank you very much for it. Our plan and vision is to ensure we have the capacity and build the capacity here in Tasmania for Tasmanians, to create jobs in Tasmania for Tasmanians, so Tasmania first. That is our energy policy.

We're going to do that because we have a long-term plan. We're a government with a plan and in terms of energy, a long-term plan. If we build the capacity in Tasmania, this is not going to happen overnight - click your fingers and bingo, we've had a one-year project and bingo it's all gone and they're off again. It's not going to work like that.

What we're seeing over the next decade and the decade after that, and I hope the decade after that, is generational opportunity for young Tasmanians to build their trade, to build their professions and to work in this game. Renewable energy is one of the top priorities of our Government. We are the renewable energy powerhouse so all those trades, whether it be the engineers or the



mechanical-electrical, all the civil construction works, all the various trades, all the tradies - it's just a fantastic opportunity so we want to build that here.

We are now in discussions with the Australian Government designing these skills and training opportunities from that \$17 million commitment with Skills Tasmania and our education institutions. I've met with the University of Tasmania and Rufus Black, the Vice-Chancellor, and other members of the university. They have a future energy hub at the university. They are working with us and our Government on how we build the qualifications and the people we need to do this work in the years and decades ahead. We have a long-term plan. We're working to the plan, but it's a lot of work. It will take time.

Hydro is working with the Government, working with the university, working with Skills Tasmania across Tasmania, as I say it's 'Team Tasmania'.

**Mr FINCH** - If I might, Chair, in respect of those labour costs, can we get more of a breakdown of that? You can take that on notice.

**CHAIR** - Do we have it or are we still waiting? Okay, we'll move on.

**Mr FINCH** - I can take it on notice. A breakdown.

**CHAIR** - We might have it at the end of the day; we'll see how we going at the end of the session.

I would like to go to more about the Battery of the Nation or pumped hydro, as you seem to call it, minister. Just a few questions there. I assume, and correct me if I'm wrong, the plan is that Hydro would build it, so the question is who will provide the finance for that? Who will own and operate the systems? Will it all be Hydro or will some of these projects potentially be sold, or part sold, like Woolnorth - the wind farm was part-sold - and what does that mean for the future of those projects?

**Mr BARNETT** - Thanks for the question, and of course it's a really good question today when the business case assessment has been released for Marinus Link, which I know is directly relevant to TasNetworks.

**CHAIR** - We'll come to that later.

**Mr BARNETT** - I'm just outlining the relevance of the question, and thank you for the opportunity. Battery of the Nation, yes, we do have plans to be the Battery of the Nation. It links directly with Marinus Link because Marinus Link will open up and unlock those opportunities for renewable energy development, specifically pumped hydro and wind and solar.

All in all, we're talking about \$7.1 billion-worth of investment into the Tasmanian economy over the years. In terms of Marinus Link, the 1400 new jobs but those -

**CHAIR** - Who is going to build it? Who is going to fund it?

**Mr BARNETT** - I am just getting to that. I am just saying with respect to other renewable energy developments, including pumped hydro and wind, 2350 additional jobs during that construction period and going forward.

We have the feasibility study in terms of Lake Rowallan, Lake Cethana, Tribute Power Station, that's underway. We'll get a report back on that and we'll have the TOF project and again, subject to Marinus Link proceeding, that pumped hydro project can proceed. That is up to 600 000, 800 000 megawatts, many hundreds of jobs -

**CHAIR** - Who will build it? Who will finance it? Will it continue to be owned -

**Mr BARNETT** - It will be a Hydro Tasmania project and how that works, for and on behalf of Hydro Tasmania, I will pass to Steve. Obviously, it is a key part of our future in terms of battery of the nation.

Hydro Tasmania owns much of the assets in and around those lakes, and it is Hydro Tasmania asset. As a government, we would support that. We are very happy to have feedback from the board regarding exactly how that rolls out and how we can maximise the benefits for Tasmania, jobs for Tasmanians, and how we get a good outcome in terms of financial and other outcomes.

**CHAIR** - Maybe the CEO could address a couple of other questions I have had so we can cut to the chase of what I have asked. What are the costs to date and have these costs been capitalised or expense? Who owns it? Who builds it? I would like that all addressed in one, please.

**Mr EVERY-BURNS** - One of the questions is about the delivery model. The board has recently had a discussion so we know that management is considering the delivery options. Essentially, it comes down to - our current view is probably that we would provide the management expertise for that, and a lot of the construction would be done by contracting companies.

The model used in the past was one where the delivery was entirely by Hydro. Effectively, it employed its own day labour. We are reflecting at the moment what the delivery model might be.

**CHAIR** - Delivery to build the infrastructure?

**Mr EVERY-BURNS** - The delivery to build. The delivery model is how you do it. It would be unusual in this day and age to attempt to build a project of this size using day labour. That would be very unusual. What is most likely to emerge, I think, is that the delivery model will be project managed by people living, working and employed by us. The companies that are brought in to do the contracting, the proportion of those will be Tasmanian where it is possible, and a lot of it will be possible. We are already using them for civil works and engineering work.

We are far from having landed on what that delivery model would be but that is the current thinking about it.

**CHAIR** - Going to the cost, who is funding it? What has been spent to date? Has it been expensed or capitalised?

**Mr BARNETT** - Up to \$30 million has been authorised to spend on those three projects and that is expended by Hydro Tasmania, with the support of the state Government and it is based on an agreement we have with the Australian Government. There has been \$56 million plus in support of Marinus Link. We have an understanding, we have an agreement, with them. It was consummated in February this year and we have ongoing discussions and negotiations with them.

A financial investment decision as to which project and how it will be funded is to be made in due course. As the chair said, we are way too early to be answering those questions. But as a government, be assured we will be focusing on jobs in Tasmania wherever possible.

**CHAIR** - In terms of the money allocated by the Australian Government, how much has been spent to date on this and has it been expensed or capitalised?

**Mr BARNETT** - With respect to pumped hydro, none. Up to \$30 million has been expended by Hydro Tasmania, but \$56 million relates to Marinus Link.

**CHAIR** - You said that \$30 million has been spent by Hydro -

**Mr BARNETT** - Up to \$30 million has been committed to be spent.

**CHAIR** - None has been spent, is that what you are saying?

**Mr BARNETT** - No, no. I am trying to answer -

**CHAIR** - I am just repeating back what you said.

**Mr BARNETT** - I have made it clear that up to \$30 million has been committed to progress the feasibility of those three projects with the support, obviously, of Hydro Tasmania, the board and the CEO. I am happy for the CEO or the chair to add to that if you would like.

**Mr EVERY-BURNS** - Steve will give you the detail, but it is a number of grants that have been given to us.

**CHAIR** - How much has been spent to date on Battery of the Nation? Not Marinus - Battery of the Nation, and has it been expensed or capitalised?

**Mr DAVY** - What was announced back in April 2017, was that the federal government would contribute up to \$5 million to a variety of Battery of the Nation studies, and it would contribute 50 per cent of those projects.

There were four separate projects that arena contributed: \$500 000 to the Tarraleah prefeasibility study, and a small unit at Gordon feasibility study; \$1 million to the pumped hydro concept and prefeasibility studies; \$1 million to future state and national market analysis; and \$2.5 million to Tarraleah feasibility studies.

That is the sum the federal government has contributed through International Renewable Energy Agency, and we have contributed the same.

**CHAIR** - You have matched the funding?

**Mr DAVY** - Yes. So, between the federal government and Hydro Tasmania, we have spent a total of \$10 million on those projects.

**CHAIR** - Has it been expensed or capitalised?

## UNCORRECTED PROOF ISSUE

**Mr DAVY** - We can only capitalise investigations to do with a capital asset. We would only be capitalising when we are actually designing a specific project, not looking into -

**CHAIR** - So, it has all been expensed?

**Mr DAVY** - I imagine we will decide to capitalise some of the work that relates to the actual projects we end up building, including the Tarraleah projects. At the moment, we will be looking closely at what to capitalise for the Tarraleah investment. As the minister said, we are also going further down the track at the moment, on taking the top three pumped hydro sites to make sure we have one of those ready for a financial investment decision, so it can be online when the 1500-megawatt Marinus is on line. That is the \$30 million project just commenced and underway.

**CHAIR** - These decisions have not been made, is that what you are saying?

**Mr DAVY** - The \$30 million the minister is referring to, \$10 million was spent up until the end of the ARENA projects and now we have commenced on a series of feasibility studies that relate directly to the three projects.

We will capitalise what is appropriate, depending on the likelihood of a project proceeding out of those three projects. We make those decisions each year, based on an assessment of how the accounting rules apply to the expenditure. I think I have answered the question in the level of detail you asked.

**Ms WEBB** - It is \$5 million of the \$30 is what you said so far, and the rest.

**Mr DAVY** - Sorry, the \$5 million we have contributed and the \$5 million ARENA has contributed to that initial \$10 million I was talking about is separate from the \$30 million. We have only recently commenced on the series of projects.

**Ms WEBB** - That is fine. I wanted to clarify the \$5 million we put in was separate to the \$30 million.

**Mr VALENTINE** - When this is finished, if indeed it goes ahead -

**Mr BARNETT** - We are very hopeful, Rob.

**Mr VALENTINE** - I am sure you are. Is it going to then belong to TasNetworks or is it going to be Hydro asset and is it going to remain in public hands?

**CHAIR** - Are you going to sell it? You haven't answered it near enough.

**Mr BARNETT** - Thank you for the question. It is a Hydro Tasmania project and the Chair has outlined how that might be rolled out, but they will need to get people - wherever possible, Tasmanians - in to actually do the work on the project. It is a Hydro Tasmania project in terms of the views of the board and future boards in how they characterise that and what they do with it. That is a matter for future boards, but as a government we will be monitoring and having a close relationship with the current and future boards, absolutely.

The other thing to note is that they have released a report on the capacity for pumped hydro in Tasmania, and it is an extra 3400 megawatts on top of our 2300 to 2400 current capacity, so more

than double. We have the opportunity not only to do one pumped hydro project, but many over a period of time, up to 3400 megawatts. This is more than double our current capacity. The opportunity for Tasmania is fantastic, which is why I am so positive about the future.

**Ms WEBB** - The decision about whether it stays in public hands or not: Would that be the Hydro Board's decision? Is that what I heard you just say?

**Mr BARNETT** - They would obviously be influenced by the government of Tasmania. I cannot expect what would happen in 10 or 20 years time. This is very long term, but it is clearly the Government's view that this is a matter for Hydro Tasmania, which is a government business enterprise owned by Tasmanians. I have every expectation they will do the project and do it very successfully.

**Ms WEBB** - That was not the question, Mr Barnett.

**Mr VALENTINE** - I am conscious a lot of generation activity is in windfarms at the moment and they are private. They are not public.

**Mr BARNETT** - Many of them are, absolutely, which we support. We think it is terrific there are so many private developers who want to build wind farms in Tasmania. Of course, they have to do it in accordance with the planning rules and development procedures.

**CHAIR** - The concern here is that if you sell, and I am not suggesting you are, a Battery of the Nation project, they are inherently linked to Hydro Tasmania's assets of dams and water. That would carry a whole new level of risk than, for example, perhaps selling off part of Woolnorth wind farm.

**Mr BARNETT** - That is right, absolutely. Our current thinking is to build pumped hydro and for Hydro Tasmania to build these pumped hydro projects. They own the assets. They own the current assets. They have to do it and it is done with the full support of the state Government.

**CHAIR** - The intention would be for Hydro to continue to own and operate them?

**Mr BARNETT** - That would be the current intention, but I cannot advise what a future board might say in 10 or 20 years. These are long term.

**CHAIR** - Or a future government.

**Mr VALENTINE** - What is the Government's policy position in terms of ownership of assets?

**Mr BARNETT** - The policy position is that we have no intention of selling Hydro Tasmania.

**CHAIR** - Or any part of it?

**Mr VALENTINE** - Or these pumped hydro projects once they are completed?

**Mr BARNETT** - Let us make it clear: our focus is on building the pumped hydro projects. They will need contractors, wherever possible Tasmanian contractors, to build them, and our expectation would be that they would remain in Hydro Tasmania ownership, which is a government business enterprise.

**Mr VALENTINE** - Thank you.

**Ms WEBB** - In terms of the new renewable generation coming on board and the fact some of it is private and some remains public, does the Government have a view as to what proportion in the future we would expect to see renewable generation through public and private companies?

**Mr BARNETT** - First of all, Hydro Tasmania is a government business enterprise owned by the taxpayers of Tasmania, and we support and have views on that.

With respect to the private sector building other projects - for example, wind farms or solar or indeed hydrogen facility in and around Bell Bay or elsewhere in Tasmania - that is a matter for the private sector. We strongly support the role of the private sector. We want it to be involved. We want private sector entities to come to Tasmania, invest in Tasmania and employ Tasmanians wherever possible. That is our policy and our plan; we are delivering on it and hope to see thousands of jobs created as a result of our plans for Marinus Link and the Battery of the Nation, with a host of new renewable energy developments on the drawing boards in future years.

This is part of our plan, that is a Tasmania First energy plan.

**Ms WEBB** - There is not a proportional mix you have as a current policy or looking ahead as a target?

**Mr BARNETT** - Correct. There is no particular mix we are looking for other than we are supporting 100 per cent Hydro Tasmania and the work they are doing. We are supporting TasNetworks and the work it is doing on Marinus Link, again another government business enterprise. We are very supportive of the private sector being active and coming to Tasmania, employing Tasmanians and building renewable energy projects that will deliver energy security, downward pressure on prices, create more jobs and billions of dollars of investment in Tasmania.

**CHAIR** - Going to an asset that was Hydro's, three-quarters of which was later sold to the Chinese - Woolnorth Wind Farm: it had a loss of \$41 million due to fair value losses of \$91 million and Hydro has a 25 per cent share of that. Can you explain that?

**Mr BARNETT** - Explain?

**CHAIR** - The loss. Woolnorth puts in its statements with ASIC and at its year end, 31 December 2018, it all looked fine, but in June 2019, this year, the end of this financial year, our reporting year, the fair value loss was picked up in Hydro's accounts. I am interested if you could explain that or someone at the table can if you cannot.

**Mr BARNETT** - Thank you very much for the question, Chair. I will pass to the CEO, it being an operational matter.

**Mr DAVY** - The audit advisers to Woolnorth Holdings Limited, which owns the Woolnorth Wind Farm, and as you say we are a 25 per cent shareholder, with China Energy Investment, the 75 per cent shareholder. They received advice they should change the way they account for derivatives. The wind farms were built by Hydro Tasmania, by Roaring Forties and then by Hydro Tasmania. They were project-financed and sold with offtake agreements, and those offtake agreements contained energy derivative components.

Woolnorth Holdings has had a change in the way it does its accounts. It is now fair-valuing those derivatives rather than a previous treatment. As that is how Woolnorth is now doing it, as shareholders, we have to take our share of that through our annual accounts. The actual cashflow and predicted cashflow returns from those projects aren't changed at all by this change. There would be an equal and opposite change in the value of the physical asset if you value in the same way, but that wouldn't go through the profit and loss so it hasn't been picked up.

**CHAIR** - In Note 25, Related party information, you have Woolnorth Wind Farm Holding with sales to related parties. This may partly explain your previous answer. When you look at Woolnorth's figures, there wasn't \$25 million-worth of purchases. What do the sales from Hydro of \$25.7 million relate to?

**Mr DAVY** - I will find out; it would be something to do with the derivative contracts we have with each other, but I will come back to you.

**Mr FINCH** - Going back over those procurement numbers, my colleague has worked out that, of the procurement spent on consultancies, \$18.25 million, only 11 per cent, was in Tasmania, according to these figures here. That 11 per cent is quite a low number. Here we are with Hydro, the longevity of the development, the involvement of Hydro in Tasmania and our expertise that we export, I would have thought we would have that expertise in Tasmania to handle a lot of that knowledge and intellectual property. Wouldn't that capacity be contained within a lot of people here in Tasmania?

**Mr BARNETT** - Thanks for the question. I appreciate that. It is important. Everyone around this table, of all colours and persuasions, wants as much spent in Tasmania as possible to build the capacity. We and Hydro Tasmania support the Buy Local policy and Tasmania First. My advice is 58 per cent of Hydro Tasmania spending went to Tasmanian suppliers, and that is equivalent to 58 per cent spent in the year 2018-19. The total spend on local suppliers in the financial year 2019 was \$125 million, an increase of \$9 million from the previous financial year. I would ask Steve to add to that.

**Mr DAVY** - That is exactly right. We very much focus on buying in Tasmania. As the minister said, we have maintained 58 per cent of local purchases across our total. That is quite an increase on the 2015-16 and 2016-17 years, when it was quite a bit lower. The local spend of \$125 million is the highest it has been for the last five years, by quite a considerable margin on some of those earlier years.

**Mr VALENTINE** - These are consultancies valued at more than \$50 000. There are 41 companies involved, 12 of those are Tasmanian, and that is about 11 per cent of the consultancies above \$50 000.

**Mr FINCH** - That was a separate circumstance.

**Mr VALENTINE** - I'm talking about the total.

**Ms LOVELL** - Minister, my question is about the dividends payable to government on page 98. We can see an increase in the dividends to be paid over the forward Estimates. What impact will increased dividends have on the future sustainability of the business and have there been any discussions with Government about any further increases to dividends?

**Mr BARNETT** - Thanks for the question. I am pleased with the profit result for the last 12 months and the after-tax return to the government. That was 32 per cent higher than the comparable figure the previous year so that's a good result.

The Treasurer has expressed a view and is trying to ensure that our government and our budget stays in surplus as a priority. It does mean that our returns to government this year will be greater than projected in the state budget, also due to that dividend being higher than budgeted. As far as the Government is concerned, that policy is in place to ensure we can pay for health, education and roads and those sorts of things, and keep our government and our budget in the black.

**Ms LOVELL** - Is there no concern about the future sustainability of Hydro as a business with any increase in dividends or any special dividends that might be sought from the Government?

**Mr BARNETT** - You're referring to hypothetical situations that may occur at some future year.

**Ms LOVELL** - Which all businesses, I imagine, plan for -

**Mr BARNETT** - The Government's policy position is well understood by Hydro Tasmania and it is a government business enterprise. We are very appreciative of the good work they've delivered in past years, particularly this last financial year. We have every confidence that they'll remain sustainable and profitable going forward.

**CHAIR** - I would like to hear what Hydro Tasmania sees as the key risks for the business, and there are a couple of aspects I would like to look at. One is what you think is a reasonable and manageable level of debt and the other is any other risks that Hydro is considering. When rain doesn't fall, that's always a risk, but you don't have much control over that one. The other is insurance.

I have raised this in the past, but I note that in Basslink's public comments they advised that payments from the insurers substantially covered the costs of repairing the interconnector when it broke some years ago, subsequently, as it does, and the loss of the income for the period the asset was out of service. Their insurance covered that. In terms of mitigating risk, what steps has Hydro Tasmania taken in terms of insurance against further outages and problems with that regard? I have a follow-up question regarding risks. I would like you to start with those if you could, minister.

**Mr EVERY-BURNS** - I will ask Steve to answer part of it. As to the question about debt, it's always an ongoing concern for the board to make sure that the sustainability of the debt equates to the sustainability of the company. We keep a very close eye on that. Currently, the debt has been running below \$700 million. The discussion today partly went to the cash benefit we had from derivatives that have managed to head off some of that. Each year, when we consider dividends, we consider our go-forward sustainability and discuss that with government. We do that actively every year. That continues.

**CHAIR** - In terms of managing your debt. You are not going to go into debt to pay dividends, is that what you're saying?

**Mr EVERY-BURNS** - We haven't, so far.



**CHAIR** - Others might have, but carry on.

**Mr EVERY-BURNS** - Yes, as I say, it depends. You have to have an ongoing discussion between the boards, the Treasurer and shareholder ministers, and we do that. They are active discussions because the company looks ahead to its sustainability. We completely understand the needs of the shareholder and I think it is fair to say that we are a large contributor to the economy.

The dividend we have declared this year is \$120 million. In answer to Ms Lovell's question, there was no special dividend involved in that. Again, we are trying to work our way through with the Government on what is the best way for the corporation to manage its affairs, year by year, and going forward so they are key issues for us.

**CHAIR** - And meet your capital expenditure requirements?

**Mr EVERY-BURNS** - Yes. The insurance question, I think, was more related to Basslink.

**CHAIR** - General insurance in terms of mitigating risk, what are your key risks? Some you can't insure against. As I said, you can't insure that the rain is going to fall but key risks and then the question of insurance directly related to outages from Basslink.

**Mr EVERY-BURNS** - The issue of insurance is that when you sit back and consider your key risks, the risks you can't manage ultimately are the ones you will insure if they are large enough risks.

Things to do with maximum probable loss of plants in case of natural events - say, natural disasters - they're not things we can manage. We manage what we can manage and we insure things that we cannot manage.

Each year in the risk committees, we review the insurance programs and we insure prudently. We look at the risks we carry, what we are prepared to carry, and we insure not just against industrial special risk, against plant loss, but against a whole range of things - the director's insurance, the normal functioning of the company - that all goes on. Year by year, we are reasonably satisfied we are doing that as effectively as we can.

I think you also asked a specific question relating to Basslink insurance?

**CHAIR** - Yes. Their insurance paid for the repair of the interconnector. Does Hydro take out any insurance to deal with loss of income or revenues as a result of an outage, particularly if it's a longer term outage?

**Mr EVERY-BURNS** - I'm in a difficult spot there. I might hand over to Steve. There is insurance in place that is required under the agreements, and it is in place year by year. Whether we do anything additional to that, I would need advice on that.

**Mr DAVY** - In relation to risks in general, we have a very thorough internal process for monitoring risks and we do risk assessments at the business level. We have a strategic risk register, we also have business area risk registers. Our business is split into 10 different business areas and we also have risk registers for specific activities and projects.

We could spend the entire hearing on how we -

**CHAIR** - I am talking about key risks.

**Mr DAVY** - The key ones we always come back to are safety, first of all - that is the one that we need to keep on top of mind, that we are properly managing down all of our safety risk -

**CHAIR** - In terms of people and plant?

**Mr DAVY** - I am talking about people. I am talking about the safety of our employees and also the safety of the general public - both very, very important. Yes, we do have a lot of work on understanding the risks across our physical assets and sometimes those two combine. There are some risks with the physical assets that cause human safety risks as well. Those are the most important physical risks we would look to manage - if the plant is not safe to operate or can't be operated in a way that keeps the public safe. That is the first thing we would always look to address. A very major risk we always have to look at is the risk of having the right people doing the right jobs, so managing our people that way.

Rainfall - even though we can't do much about how much it rains, there is a lot we can do to be ready for a variation. Storage management is the first place, but there is also the operation of the Tamar Valley Power Station. From time to time, we consider insurance products that help us financially with the risks that come from inflow variations - we will consider entering into those.

The other kinds of risks that are growing in our review are the cybersecurity risks, whether it's the protection of customer information, which is a big legal requirement, or, and also a big moral requirement for us, looking after our customer and employee data very carefully, increasingly making sure we are very secure internally.

In terms of Basslink affairs and how we mitigate that particularly, that is really something which is very much the source of the dispute between the state, Basslink and Hydro Tasmania, and I do not think it would be a good idea -

**CHAIR** - No, the question is: do you insure against loss of access and revenue? If Basslink is down for an extended period, do you have any insurance?

**Mr DAVY** - That is exactly what I mean; I do not think going into the details about how we manage those instances commercially is the right thing to talk about, while we are in these processes.

**CHAIR** - Okay. This is from Hydro Tasmania so this is public and directly out of Hydro Tasmania. Market update regarding Basslink bidding instructions - I would like to understand this a bit better. Just to read from this -

Hydro Tasmania has today commenced instructing Basslink to bid Basslink's capacity above certain levels at the market price cap.

And it goes through what the levels are -

Hydro Tasmania has a contractual right under the BSA to instruct BPL to apply a price to its bidding of Basslink capacity. Hydro Tasmania's bidding instructions must be consistent with the ministerial notice, dated 9 October 2014 -

And it talks about where that is issued -

The reason for Hydro issuing the bidding instruction discussed above is that Hydro Tasmania has received engineering analysis from its cable experts following a preliminary review of the recent survey of Bass Strait environmental properties which concluded that the Basslink cable may be at risk of exceeding its temperature design limits if operated continuously above these levels.

Hydro Tasmania has provided BPL, the asset owner, with the recommendations from its cable experts. These recommendations are subject to ongoing review and Hydro Tasmania will continue to review its position as new information comes to hand.

Hydro Tasmania is using its contractual right to issue these bidding instructions because there is a disagreement between Hydro and BPL about the risk that Hydro Tasmania is seeking to address.

Can you talk us through that?

**Mr BARNETT** - Thank you very much, Chair. I will kick it off by just saying that the Government supports Hydro Tasmania exercising its contractual rights in terms of transport bidding and any other contractual rights to support the prudent use of Basslink. Energy security is the top priority for our Government, and likewise for Hydro Tasmania, and that is why managing those storage levels is so important. I will ask the CEO to provide more information.

**CHAIR** - Maybe the CEO could also address whether there is likely to be any impact on Hydro Tasmania's finances or revenues as a result of what is going on here.

**Mr DAVY** - You summarised this situation very accurately, Chair, about -

**CHAIR** - I read from your statement.

**Mr DAVY** - You put that on the record, so that is fine. In terms of the long-term impact of these restrictions on us, that is part of the matter we are seeking to have settled through the settlement of our legal agreement. I do not want to go into the long-term financial impacts on Hydro Tasmania on what we see as the right restrictions to have in place.

**CHAIR** - When do you expect all this to be finished so we can actually have a proper conversation about this? Is it likely to be in the near future? Is this going to be ongoing for years still?

**Mr BARNETT** - It's potentially a long period of time. Obviously, it would be good if it was a shorter time, but there is an arbitration process; it is a legal proceeding. I am happy for the CEO to add to that, if possible and appropriate.

**Mr DAVY** - At the moment we have contracts or arrangements that cover the arbitration process that require us to keep the details of the process confidential, so that is about the limit of what I can say.

**CHAIR** - It is obviously 'how long is a piece of string?'

**Mr BARNETT** - I think the best we can say is that it is likely to go through at least until next year.

**CHAIR** - That is not very far away, minister.

**Mr BARNETT** - No, it will go into next year. The CEO has the answers to your earlier questions.

**Mr DAVY** - Would you like me to place those answers on the record now?

**CHAIR** - Which ones are these?

**Mr DAVY** - They are mostly to do with our people. There was a question to do with the voluntary redundancies versus redundancies. Of the 49 redundancies to date, nine are voluntary.

In terms of the diversity across our organisation, in total 69 per cent is male and 31 per cent is female. At the executive level, that number is 77 per cent male and 23 per cent female. As I said, we don't consider that to be acceptable, but that's the current state.

There was a question regarding labour costs. The labour cost of \$140 million for 2017-18 was for 1209 employees, and the labour cost of \$160 million for 2018-19 was for 1265 employees. Also, part of the gap between those two numbers is explained by the salary increases that took place from one year to the next. There is an increase in headcount and an increase in salaries as well.

**Mr FINCH** - Salaries that were quite static in other areas of Australia, and it's quite unusual for Hydro to have those increases.

**Mr DAVY** - Across our executive level, the average pay increase was 1.9 per cent. In our enterprise agreements the salary increases are 2 per cent. There is up to another 1 per cent available when enterprise agreement staff have been through training and increase their skills level.

**CHAIR** - Is that all of them, Steve, or do you have another one?

**Mr DAVY** - I think they were the three that were outstanding.

**Mr FINCH** - Minister, it is interesting going through the annual report: 1200 people are employed by Hydro, 800 people here in Tasmania, but there is scant reference to your employees. There is plenty of information here about the board, their training, how meetings are run and their remuneration, and all that sort of thing. We have some smiling faces of people -

**CHAIR** - You will have to put a question, please.

**Mr FINCH** - Okay, my question is: The report doesn't seem to contain references to your employees. Do they feel that Hydro is an employer of choice? No reference to that. I would have thought that with 800 employees, there would have been programs, initiatives, things that go on for employees, their betterment and their development - and apprentices - no reference to apprentices at all - that there might have been more reference to your workforce.

**Mr BARNETT** - An annual report has certain legal requirements to report on the financials, the audit report, statement of corporate intent, community service obligations and those things that are legally required. With respect to the other parts of your question, I will pass to the CEO.

**Mr DAVY** - I can see that this looks like an oversight from us, but the intent has definitely been to slim down the financial report so that we don't put excessive amounts of resources into producing a document that unfortunately we found = not many read or refer to, present company excepted. This is an important thing for you to consider. We did slim it down to the bare minimum to make sure we were only spending what was required to issue a financial report. It's a much less ambitious document in terms of describing our business than it has been in past years.

**CHAIR** - Your finances are much more complicated than most other GBEs.

**Mr DAVY** - Hopefully, we have done enough to do what we are required to do, to report the financials. In terms of what the programs are running internally to understand how our people feel about working in the business and to then make sure that they are properly given all the resources they need, that they understand the context of the business and the strategy that we're pursuing and the part we want them to play in that, and also that our leaders and managers have the right skills to make sure that all those things happen, there are many different programs across the business.

Importantly, what we do - and one of these is underway at the moment - every six months is survey our people so they can tell us exactly what they see as being important. The survey is a combination of answering questions on a scale - so we're trying to measure their opinions on lots of different items - and we also offer many opportunities through that survey for free text comments. Through those comments and through this feedback across the business but also in the different business areas, we modify our program so that we are doing what's necessary to improve how it feels to work at Hydro Tasmania. We see that as being very important.

**Mr FINCH** - You have a sense you're empowering the next generation of employees as well?

**Mr DAVY** - That's certainly what we're aiming to do, and the feedback we get from our people is that they really align themselves with that sentiment.

**Mr GAFFNEY** - In the Sustainable Timber Tasmania session I asked some questions about hydro wood. I want to understand the relationship between Hydro and Lake Pieman, and what involvement you have with the royalties or who gets some money from that. Also, the amount of cubic metres and the species, and who is monitoring what resource is taken out of the dam - if you could give me some information about that.

**Mr BARNETT** - The heads up was given during that short break, so I will pass to the CEO.

**Mr DAVY** - Before I answer that, there is one question I haven't answered yet. The \$25.7 million for the related party transactions is the net settlement of the power purchase agreements between Hydro Tasmania and the Woolnorth Holdings wind farms.

**CHAIR** - The net settlement?

**Mr DAVY** - Yes, the net settlement of those derivatives.

Hydrowood, under licence, currently accesses submerged specialty timbers within Lake Pieman. Hydrowood is the trading name for a local company by the name of Sustainable Forest Management. They have a contract with us which I wouldn't call a royalty, but it's a fee they pay, which has a fixed and variable component they pay to Hydro Tasmania for taking the timber out of Lake Pieman.

**Mr GAFFNEY** - Do you receive information about how much timber is taken out?

**Mr DAVY** - Yes.

**Mr GAFFNEY** - In the fee that you receive there's no - for any other resource in Tasmanian forests people pay for a certain amount I suppose and out of the dams, so they can just take as much as they can gather in a year or find?

**Mr DAVY** - Yes, it's my understanding that they have a contractual right to extract the timber from Lake Pieman. They would extract as much as they want to and they pay a fee to Hydro Tasmania that in part relates to the amount of wood they've extracted.

**CHAIR** - How much do they pay and where does it show up in your financials?

**Mr DAVY** - That's a commercial-in-confidence piece of information.

**CHAIR** - Can you provide to the committee the amount of timber that is being pulled out and what timbers they are?

**Mr DAVY** - I don't have that information to hand. Is that something you'd like me to -

**CHAIR** - I am not saying right now. We can write to you to get this. Are you able to tell us?

**Mr DAVY** - Is that something you would like us to take on notice?

**Mr GAFFNEY** - It's of interest to us because with special species, there's a lot of cubic metres in the agreements about special species that come out of Tasmania, albeit in a lake.

**Mr DAVY** - They are dead trees -

**CHAIR** - Yes, we know that, but we're just interested in the special species timber availability. There are some in the industry who say they can't get what they want, so we just want to know how much is being pulled out.

**Mr GAFFNEY** - It does reflect on the prices as well.

**Mr BARNETT** - We'll try to do what we can to respond to that question. I don't see any reason why not. The actual agreement is commercial-in-confidence, but it's a fair question. I see where you're coming from. We can take it on notice and get back to the committee.

**Mr VALENTINE** - Can we add to that about where those logs are destined? We've heard that they go to Melbourne and Sydney rather than Tasmania.

## UNCORRECTED PROOF ISSUE

**Mr BARNETT** - That is a matter for Hydrowood, which is a private company. We will definitely try to respond to the queries in terms of the timber and the type of timber to the best of our ability, as in Hydro Tasmania.

**CHAIR** - In acknowledging the amount you receive is a commercial figure, that can be provided to the committee in confidence and would not be distributed any further. Basically it is to inform the committee about what sort of value is coming out our lakes, in terms of return to the government. This is our timber. We all own it. It is a fair question, so we will put that to you in writing, in terms of what is coming out, the volumes and the cost.

**Mr GAFFNEY** - That makes sense for future. Lake Pieman will be finished and they may go to another lake for the same sort of resource. It is important for people to know how much is available.

**Mr BARNETT** - To your very point - and I am talking to Hydro Tasmania now - about other possible lakes because it has been working well and productively. Why not? As you say, in these lakes, it is a resource; let us make the most of it, and specialty timber. We are looking at this as we speak and is very encouraging.

**Mr VALENTINE** - Minister, if it is not coming to Tasmania, it is not doing any benefit to the artisans in this state. That is the reason I asked the question about how much of it actually comes back into the state.

You have a contract, and I can appreciate there might be some commercial-in-confidence, but we were told through Sustainable Timber Tasmania that a lot was going to Sydney and Melbourne. Can you give us an understanding as to what quantity of it might be coming to this state?

**Mr BARNETT** - In relation to the question, I understand where you are coming from. It is difficult to answer for and on behalf of Andrew Morgan at Hydrowood. I understand he is in China at the moment doing some good work. How much is used here in Tasmania compared to Melbourne, Sydney or overseas, I do not know the answer, but might be a question you could ask directly of Hydrowood at a convenient time. We will do the best we can from Hydro Tasmania's point of view to answer those questions.

**Mr VALENTINE** - So there are no strictures in the contract to say a certain percentage has to come to Tasmania?

**Mr BARNETT** - Not to my knowledge. That is a commercial-in-confidence matter between Hydro Tasmania and Hydrowood, but we will take your question on notice.

**Mr VALENTINE** - Tell us what you can, please.

**CHAIR** - We will put that in writing. We are over time, minister, but I want to raise one question to see if you can answer it quickly or not.

The Tamar Valley Power Station, on page 38 under Assumptions and Judgments, Site Rehabilitation Provision, the group has provided for the cost of removing the Bell Bay plant and removing the Tamar Valley Power Station at the end of its useful life. When is the end of its useful life? Do we know?

## UNCORRECTED PROOF ISSUE

**Mr BARNETT** - Tamar Valley Power Station is a 208 megawatt-combined cycle gas turbine

**CHAIR** - Yes, we know what it is; we want to know when the end of its useful life is likely to occur?

**Mr BARNETT** - I am not sure I am in a position to answer that question. It is a matter for Hydro Tasmania. I will check if the CEO would like to respond to that question.

**CHAIR** - We are happy to put it on notice if you need more time to look at that.

**Mr DAVY** - As far as the old Bell Bay Power Station, it has already gone.

**CHAIR** - That has already gone, we are talking about the Tamar Valley one.

**Mr DAVY** - It has not gone, it is there but it is not operating, so it is at the end of its useful life. It will be the accounting useful life we will be using there, so it will be 30 or 40 years, which is what you would expect is the operating life of a combined cycle unit.

It was commissioned in 2009, so it will be 30 or 40 years on from 2009.

**CHAIR** - We are not planning to shut it down, though?

**Mr DAVY** - No.

**CHAIR** - Only checking. Thank you, minister, we have gone a little over time, so we appreciate you doing that. We thank the Hydro people for appearing and the information they have provided. We will send a couple of those questions to you.

Thank you for getting back to us with the majority of answers very promptly. We appreciate that.

**The Committee suspended at 1.09 p.m.**