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THE PARLIAMENTARY STANDING COMMITTEE OF PUBLIC ACCOUNTS MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART ON TUESDAY 30 AUGUST 2016.

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

Mr PETER GUTWEIN, TREASURER, WAS CALLED AND EXAMINED.

CHAIR (Mr Dean) - Thank you, Treasurer, for your attendance today. We have received the whole-of-government submission and other correspondence from yourself and the minister. We will ask questions appropriate to the terms of reference. If you feel confidentiality is necessary, you may ask the committee to make a determination on whether that evidence should be given on camera.

Mr GUTWEIN - Chair, I thank the committee for being flexible today. It is a difficult day for one of my staff members. I would like to also thank the committee for its patience. Whilst we are committed to being up-front with the committee, there is a sensitive legal matter intertwined in all of this. We all want to ensure we do not compromise the interests of the state. I thank the committee for its understanding and cooperation.

The energy supply situation we experienced this year was unprecedented. The combination of record low inflows from the driest spring for around 100 years and the first major outage of the Basslink undersea cable presented a set of unique and difficult circumstances for the Government and the wider Tasmanian community. We can be proud of the efforts of many people across the Government and the broader community for their resilience, patience and positive attitude. I place on record the Government's strong appreciation for the employees and contractors of Hydro Tasmania, TasNetworks, Aurora Energy, and key personnel across government for their extraordinary efforts during this challenging set of circumstances. The assistance we received from our major industrials and other parts of the Tasmanian community should also be recognised.

At the very outset of the crisis the Government adopted very clear principles that, guided our decision making, we ultimately delivered. We wanted to protect jobs and economy, avoid forced power rationing and keep power prices as low as possible. Without the Government's decision to install temporary generation and manage voluntary load reductions of our major industrials, Tasmanian's dam levels would have fallen to critically low levels of just over 5.0 per cent below the theoretical low of 6.5 per cent. The Minister for Energy will have more to say about these matters.

It is important the misinformation being propagated from the energy supply situation to this day is well and truly refuted. I would like to address very quickly the issue of the Tamar Valley Power Station. Mr Green is on record, both in the Parliament and in public, asserting the Government had made a decision to sell the Tamar Valley Power Station. That is inaccurate.

Hydro Tasmania requested the divestment of the combined-cycle gas turbine - CCGT. Following much internal consideration, the Government gave approval for Hydro Tasmania to

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seek expressions of interest for the sale of the CCGT, subject to a number of stringent conditions. These included Hydro Tasmania confirming it could continue to meet Tasmania's energy needs without the CCGT; Hydro Tasmania reviewing its prudent water management guidelines and credible extreme events plans; the sale price of the CCGT to be endorsed by the Treasurer and the Minister for Energy before sale, and Hydro Tasmania to be formally given responsibility for energy security.

It is obvious from the conditions placed on Hydro that the issue of energy security was front and centre in the Government's thinking. None of these conditions were ever actioned. There was never a proposal before the Government to consider, therefore no approval to sell the CCGT was ever given. It is the Government's position that the CCGT will remain a part of Tasmania's energy mix.

I expect the member, Mr Bacon, will attempt to use this committee to continue to misleadingly assert that the divestment of the CCGT was driven by the Government's dividend policy.

The Government makes no apologies for ensuring our energy businesses are delivering appropriate returns to the Tasmanians community. That is the right and proper thing to do for any government. I reject any assertion that returns to government were prioritised over energy security. Hydro Tasmania first proposed the divestments of the CCGT to this Government in its 2014-15 corporate plan. This corporate plan was in response to the shareholder letter of expectation set by the previous government in early February 2014, a few days before it entered caretaker mode and was signed off by the board before ministers and the new Government were appointed. I suspect Hydro Tasmania also raised divestment of the CCGT with the previous government on a number of occasions.

To suggest this issue emerged in response to the Government's dividend policy is nonsense. This issue has been around for some time. Both Mr Green and Mr Bacon know that. It is hypocritical of Mr Green and Mr Bacon to criticise this Government for seeking Hydro to deliver a reasonable return on its equity for the Tasmanian taxpayers. Under their watch, some \$240 million in dividends and more than \$500 million in total returns was provided by Hydro between 2010-11 and 2013-14.

The final point on the Tamar Valley Power Station is Mr Green's claim that Labor was publicly calling for the return to service of the CCGT as early as August 2015. Hydro Tasmania had already commenced the process of returning the CCGT from dry lay-up to an operating state in November 2015. This was well before Labor, via former energy spokesman, Mr Llewellyn, first called for it publicly on 3 December and well before the Government received advice from Basslink on a long-term outage on 22 December.

The Opposition has based much of its attack on its erroneous assertion the Government sold the TVPS, putting the state's energy security at risk. The assertion is complete nonsense. We still own the TVPS and the Government never gave its approval to sell the CCGT. It was never sold and there is no approval to sell it.

Under the previous government, the prudent water management levels were reduced from 30 to 25 per cent. It is on the public record, and a decision criticised by the former shadow energy minister for the Opposition, Mr Llewellyn.

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For the benefit of the committee, it is the Government's position that the prudent water management levels be restored to the pre-September 2012 level. I am pleased see the board of Hydro Tasmania has taken steps to reflect the Government's position. The optimum, prudent water management levels to ensure Tasmania's future energy security is a key reference for the Energy Security Task Force, established by the Government.

The Government is committed to participating in the inquiry and supporting the committee to the fullest extent. We will not jeopardise the interests of the Tasmanian community, breach long established conventions or divulge commercial-in-confidence information to the detriment of Tasmanian businesses. We do this not to disrespect the important role of the committee, but to ensure important principles are upheld and we do not - either inadvertently or deliberately - damage the interests of the state or other affected parties. We believe it is cognisant of the committee to at all times act responsibly.

I want to commend you, Chair, for the sensible way you have led the committee through what is a difficult, legal and political exercise.

I would like to raise two housekeeping matters. In our letter of 19 August to you, Chair, we raised a concern that has not been answered by the committee. Mr Groom and I provided correspondence to the committee in confidence, but there is a very important matter I am prepared to discuss publicly. Information provided to the committee made its way into the public domain, without it being released by the committee. The material in question was provided to the committee by Hydro. I would like advice from the committee on what actions have been taken. How you will ensure such a breach does not occur again? It is important that sensitive information provided to the committee is given the appropriate protection.

I would ask the committee to consider evidence provided by the Leader of the Opposition, Mr Green. On the 5 August, this committee asked Mr Green whether in his four years as minister for energy he had ever considered the sale of Momentum. His reply was an unequivocal no. It is clear from Hydro's 2014 corporate plan, which I understand from Hydro the committee has a copy of, the previous Government had actively considered a sale of Momentum to the point they expressed their request that Hydro model either a 100 per cent sale, or a part thereof, through the corporate planning process. At worst, Mr Green lied. At best, that is a matter for the committee to determine. I am happy to respond to any questions from the committee.

CHAIR - The committee is proceeding and working through that. The committee will share information with you, with regard to that matter outside of this process, in due course. It is part of the committee's work at present.

Mr GUTWEIN - That is a very serious matter. Your own act of parliament establishing this committee makes that point.

CHAIR - It is a serious matter. I do not wish to discuss it further in a public session. The committee will come back to you and the minister and advise you of the position we take.

I ask members to direct their attention to the terms of reference. I realise it will deviate across areas from time to time. I will try and ensure that we keep to the terms of reference.

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Mr BACON - Treasurer, on 28 August 2014, Hydro Tasmania submitted its 2014-15 statement of corporate intent. Can you confirm that statement showed Hydro Tasmania would be unable to deliver a dividend in financial years 2017-18, 2018-19 and 2019-20?

Mr GUTWEIN - So I am clear of which letter it is - in the opening paragraph of that letter, does it mention that Hydro had signed off on their corporate plan in July? Is that the letter?

Mr BACON - It is the letter David Crean sent you on 28 August 2014.

Mr GUTWEIN - If you read the first paragraph, so that I am clear.

CHAIR - We need to be very specific with the document. So many documents have been referred to throughout this process.

Mr BACON - This is the letter to you, Treasurer, on Budget day 2014. It said Hydro's expectation is that they would not return a dividend for the next three financial years.

Mr GUTWEIN - I do not have that letter in front of me. If the member would read the first paragraph I might be able to recall it.

CHAIR - Order. Do you have the letter, and can you read the first paragraph?

Mr BACON - To be fair, the Treasurer is here to answer questions.

CHAIR - The Treasurer is here to answer questions. The Treasurer said he would like the paragraph of the document referred to, so he can be clear on the question. I do not see anything wrong with that.

Mr BACON - Did you receive a letter from David Crean, the former Chair of Hydro, on 28 August 2014, saying their expectations were that they would not -

Mr GUTWEIN - If you would share the first paragraph of that letter, so that I know which document? Could I have a quick look at it? I am happy to answer.

CHAIR - Order. I do not want this cross-table talking. Do we have the letter?

Mr BACON - I would like to ask a question and for the Treasurer to answer it.

Mr GUTWEIN - If you have the letter, can I have a quick look at it, and I will provide some answers.

Mr BACON - Did you receive a letter from David Crean on 28 August 2014 setting out Hydro's expectation was that they would not receive a dividend?

Mr GUTWEIN - Chair, if that is the letter that I think it is, it is the one which starts with Hydro or David Crean making the point that as part of the planning process in July of that year, they had signed off on their corporate plan. If the member would be prepared to share the first part of that paragraph I would know exactly which letter it was.

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CHAIR - Treasurer, if you could answer that question in accordance with that - the position you have now articulated to us - I think that should satisfy the circumstances. You are answering a question in relation to the letter you have referred to.

Mr GUTWEIN - I am happy to. I can understand the member's discomfort because he wants to play politics with this. If it is the letter that I think he is referring to, it is the one that -

CHAIR - Yes, answer the question along that line.

Mr GUTWEIN - David Crean wrote to me on that particular date, which opens up by explaining that Hydro had made a decision back in July in regards to the corporate plan. I think that letter refers to that. If that is the letter, then yes, I did receive a letter explaining that Hydro had made decisions around its corporate plan, and the forecasts in that letter back in July - some months before the Budget was brought down.

Mr BACON - That letter was sent to you on Budget day 2014?

Mr GUTWEIN - I think a letter was sent on that day, but again, if you read the first paragraph of that letter, the first couple of sentences, we would have absolute clarity.

CHAIR - I think you have answered it to the best of your ability.

Mr BACON - You know which letter it is. Did that letter set out that it was Hydro's expectation that there would be zero dividends for those three years?

Mr GUTWEIN - That was their thinking in July, yes.

Mr BACON - They sent the letter on budget day?

Mr GUTWEIN - The letter makes it perfectly clear the board made the decision when they met in July. Regardless of when the letter was sent, it relates to a decision of the board in July prior to the Budget.

Mr BACON - Does that set out that Hydro's expectations are that the dividends for those three years would be zero?

Mr GUTWEIN - If it is the letter that we are both talking about - I cannot understand your reluctance to share it, but -

CHAIR - Just answer the question, please.

Mr BACON - We could get you a copy of the letter, Treasurer, but I thought you could answer questions. I don't know why it is that difficult.

Mr GUTWEIN - You have a copy of the letter. I am asking whether or not you would make it available, rather than attempt to verbal me on something. If it is the letter that David Crean sent on 28 August, it makes the point that in July the board had signed off on the corporate plan.

CHAIR - Order. To assist here, I will obtain a copy of the letter and provide a copy to you.

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Mr GUTWEIN - Thank you. That would be useful.

Mr BACON - In that letter, does it say that Hydro's expectations are that dividends for those three years will be zero?

Mr GUTWEIN - As at July of that year I think that is the case, yes.

Mr BACON - When was the letter sent?

Mr GUTWEIN - The letter was sent around 28 August, I think.

Mr BACON - The letter was sent on Budget day?

Mr GUTWEIN - I think it was. Once I have seen the letter and I can see the date stamp, but I do not have the letter -

Mr BACON - It does set out that the expectation is that dividends from Hydro Tasmania for those three years will be zero?

Mr GUTWEIN - That was their view in July, as I understand it.

Mr BACON - Why did they send the letter on 28 August?

Mr GUTWEIN - You would have to ask Hydro that.

Mr BACON - On the very same day they sent you a letter saying the expectation from Hydro Tasmania is that they would not deliver a dividend, the Budget sets out that in 2017-18 there will be a dividend of \$75 million?

Mr GUTWEIN - You would have to ask Hydro why they sent the letter on Budget day. My understanding of that letter is that was a view the board took in July of that year.

Mr BACON - That was the same view that led you to believe they could deliver \$75 million?

Mr GUTWEIN - There were a range of discussions through the budget process with Hydro, and with Treasury, in landing at a \$75 million dividend.

Mr BACON - Can you explain the discrepancy between the zero and the \$75 million?

Mr GUTWEIN - Once we have the letter - and I think it makes the point that it was the view of the board in July, but we had a range of conversations with Hydro and the Treasury through that period.

CHAIR - We are getting a copy of the letter. We will provide a copy of the letter to the Treasurer. Maybe we can go into another area. We can come back to this area.

Mr BACON - Can I ask, Treasurer, when did you advise Hydro they would have to provide a dividend of \$75 million?

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Mr GUTWEIN - They were formally advised before the Budget. There were discussions between Treasury and Hydro during the preparation of the Budget.

Mr BACON - When were they advised?

Mr GUTWEIN - I do not have that date in my mind.

Mr BACON - Can we put that on notice?

Mr GUTWEIN - This is part of the normal budget process.

Mr BACON - We can put that question on notice of when Hydro was advised they had to provide \$75 million?

Mr GUTWEIN - You have asked it and I have explained it. Through the budget process, discussions go on between Treasury and Hydro.

Mr BACON - What date were they formally advised?

Mr GUTWEIN - I would have to check that.

CHAIR - Can you take that on notice then? The committee will put these down, and send it through to you in a documented form.

Ms COURTNEY - Treasurer, in your opening remarks you touched on the mooted consideration of the sale of Momentum Energy, and it is a question I asked Mr Green in the last hearings. Could you clarify what you said in your opening statement? I am confused about whether there has been any consideration about the sale of Momentum Energy.

Mr GUTWEIN - My recollection is that we received the corporate plan from Hydro at or around the time we were sworn in as ministers, which would have been around 30-31 March of that year. In that corporate plan it clearly references a letter of expectations as part of the corporate planning process. My recollection is that it clearly explains in that corporate plan that they were requested by the then ministers - of which Mr Green would have been one, and I presume the-then Treasurer at that time - that they wanted to have options brought forward for either a 100 per cent or a partial sale of Momentum. There is no doubt at all in my mind, therefore, that the previous government, and certainly the previous energy minister, had considered the sale of Momentum Energy to the point that they had asked for formal modelling to be undertaken.

Ms COURTNEY - There have been a lot of questions and comments around this table about forced power rationing. I know the Opposition leader has been on record a number of times discussing the possibility of power rationing and brownouts and blackouts. We heard evidence before this committee from a number of witnesses - including Ms Kardos and Mr Davy - saying they did not have expectations of any forced rationing on retail customers. Is that something you considered as part of the crisis we had, that position of having forced rationing?

Mr GUTWEIN - In regard to residential customers, that was certainly never in my mind. One of the key things we did with the Energy Supply Plan - with the minister and the subcommittee of Cabinet that was established - was roll out a plan that would see up to

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220 megawatts of diesel generation brought into the state which, combined with gas and the water we had at that time, would ensure we did not get to that point. It was not in my mind, no.

Ms COURTNEY - Are you happy with how the task force progressed during that time and the outcomes over that period?

Mr GUTWEIN - That is one thing that has been missed in all of this. An incredible amount of work was done to manage two extreme events - the driest spring on record coupled with a long-term outage of Basslink. The efforts of hundreds of people across different agencies and businesses ensured we were in a position where we didn't have to consider residential load shedding. Hydro worked very closely with the major industrials to ensure suitable arrangements were arrived at, and at the end of the day we did what we set out to do - protect the economy, keep the lights on and ensure there was no upward pressure on power prices as a result.

Ms COURTNEY - So there weren't any upward pressures on power prices as a result of the response?

Mr GUTWEIN - I don't have the statement in front of me but the Economic Regulator, in setting the most recent price determination, made it very clear that the impacts and costs borne by Hydro through that period had no impact on the regulated power price for residential customers.

Mr BACON - Could you look at the back of that letter, Treasurer?

Mr GUTWEIN - Just to be clear, the very first statement in this letter is that at its July meeting, 'the Hydro Tasmania board approved the attached statement of corporate intent', and then it goes on to explain other matters.

Mr BACON - When did they send that letter?

Mr GUTWEIN - That was the point I was attempting to make. Hydro sent a letter dated 28 August. I am not sure when it was received.

Mr BACON - Why is that an important date in your career, Treasurer?

Mr GUTWEIN - That letter was sent on 28 August but it references a position taken by Hydro in the previous month.

Mr BACON - Can you turn the letter over, Treasurer, and read for the committee what Hydro's expectations were around dividends for the three years? It is on the back page.

Mr GUTWEIN - In July of that year, they were not forecasting any dividends.

Mr BACON - Zero?

Mr GUTWEIN - They were not forecasting any dividend. That correspondence relates to a decision taken by Hydro in July of that year.

Mr BACON - So Hydro sent you a letter on 28 August 2014 telling you their expectations were that they would deliver zero dividends, and you put in your Budget on the very same day that they would deliver you a dividend of \$75 million?

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Mr GUTWEIN - That was a position taken by Hydro back in July.

Mr BACON - Then they waited a month to send you the letter?

Mr GUTWEIN - You would have to ask Hydro why they sent the letter on that day.

Mr BACON - Did your dividend expectation assume the cessation of gas contracts at the end of 2017?

Mr GUTWEIN - In regard to dividends in the 2014-15 budget, on advice from Treasury, based around what was a reasonable return for a business of the size and scale of Hydro, taking into account what its peers in the marketplace were returning and also based on Hydro had been returning through the carbon tax period, Treasury suggested a \$75 million dividend was a reasonable target dividend for Hydro.

Mr BACON - When did they suggest that to you?

Mr GUTWEIN - Through the budget process.

Mr BACON - Did your expectation of a \$75 million dividend assume the combined-cycle gas turbines at Tamar Valley would be decommissioned and sold?

Mr GUTWEIN - This was a target dividend set three years in advance for Hydro that assumed Hydro would be as efficient as it could be. In regard to the view of Treasury at the time, \$75 million was a perfectly reasonable target dividend.

Mr BACON - Did that rely on the sale of the combined-cycle unit that at the Tamar Valley Power Station?

Mr GUTWEIN - As to the combined-cycle unit, there had been no decision to even go to expressions of interest by the Government; it had not even been considered at that time. There had been no presentation, as I recall, from Hydro, so in setting the \$75 million dividend, that was not in my mind.

Mr BACON - So the sale of the combined-cycle unit was not in your mind when you set the \$75 million dividend?

Mr GUTWEIN - No, it wasn't.

Mr BACON - Have you ever had a valuation of the combined-cycle gas turbine of \$75 million?

Mr GUTWEIN - No, I don't believe I have.

Mr BACON - You have never had a valuation that came back at \$75 million?

Mr GUTWEIN - No. That \$75 million bears no resemblance to the value initially suggested by Hydro later in the year, post that budget process.

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Mr BACON - What was that figure?

Mr GUTWEIN - That is a question you'd need to ask Hydro. I don't know whether you have asked them but that is a matter for them.

Mr BACON - So you have never, at any point, had a valuation of the combined-cycle gas turbine of \$75 million?

Mr GUTWEIN - Not that I can recall.

Mr BACON - But you're not certain?

Mr GUTWEIN - Not that I can recall.

CHAIR - Order. We have a certain period of time with the Treasurer and we have gone over those questions. If you continue to ask these question five and six times, we are not going to get through anywhere near what we ought to today with the Treasurer.

Mr BACON - Chair, if the question is not answered, then you need to re-ask it.

CHAIR - The question has been answered. The Treasurer has said he is not certain on that and that is the answer.

Mr GUTWEIN - I want to be absolutely clear so there is no misunderstanding. When the \$75 million dividend was set, the Government had not considered the case for going to an EOI for the combined-cycle unit. There had been no decision made by the Government in respect of going to an EOI for the combined-cycle unit, and it has never been sold. I understand the politics you want to play -

Mr BACON - No, I just want some questions answered at some point. Treasurer, on 13 January 2015, in response to your dividend expectation, Hydro Tasmania formally sought approval to sell the combined-cycle gas turbine at Tamar Valley. When did you first see Treasury advice on the sale of the combined-cycle gas turbine?

Mr GUTWEIN - I would imagine that as a result of that request from Hydro advice was sought in respect of what was proposed.

Mr BACON - On 9 April 2015 you wrote to the Energy minister and attached some Treasury advice you had received on the sale of the combined-cycle gas turbine. Why won't you release that advice?

Mr GUTWEIN - We won't be releasing Treasury advice. Previous governments haven't released Treasury advice and neither will we. The combined-cycle unit wasn't sold and, as I have indicated about the framing of the dividend in the 2014-15 Budget, the combined-cycle sale and process to an EOI had not been considered. It was not in my thinking.

Mr BACON - Did the Treasury advice caution you about the impacts of decommissioning and selling the combined-cycle gas turbine?

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Mr GUTWEIN - I'm not going to go into the Treasury advice; I'm not going to release it. The decision that was ultimately made by the Government is what is important, and that was that we would proceed to an EOI and allow Hydro to go through a process of seeking an EOI, subject to strict conditions. Front and centre in that was the issue of energy security.

Ms FORREST - I want to talk a bit about the amount of debt the energy entities carry, particularly in relation to our first and second terms of reference regarding the financial sustainability of the energy entities.

It seems to me one of the biggest problems facing our energy companies going forward is the debt that needs to be serviced by them. This is not a criticism of your Government; previous governments have done similar things. Hydro has a debt of \$800 million or so, plus \$800 million owing in respect of the interconnector if one includes the amount owed to the Singaporeans, plus an amount owing to Macquarie Bank as part of the swap fee, and then we have TasNetworks whose debt is estimated at \$1.9 billion. This debt has come about over the years by government policies - not just of yours, but of previous governments - and paying such a high level dividend for capital-intensive businesses made this even worse, in my view. It is effectively using TasNetworks as a de facto source of working capital underneath the Government and some of the other GBEs, including TasRail, Forestry Tasmania and others.

Given there is a substantial amount of debt that has arisen from shareholder demand rather than business demand, would the Government consider shifting some of the debt back to general government to allow the energy companies to be a little more free in their decision-making in being able to innovate, adapt and maintain their own capital expenditure, particularly for Hydro with its ageing assets?

Mr GUTWEIN - You have asked a multitude of questions there. Across the suite of energy companies we have - retail, generator and transmission network - I will deal with TasNetworks business first. I think you have heard evidence before this committee that their debt-to-equity ratio is broadly in line with the market.

Ms FORREST - You have to accept it's at the upper limit.

Mr GUTWEIN - It is broadly in line with the market. The point was made that other private sector entities carry a higher debt-to-equity ratio than TasNetworks. My recollection from the discussions I've had with TasNetworks - and from the evidence that was presented before this committee - is that they are reasonably comfortable with their debt sitting in that range. As to Hydro's current debt levels, I think it is a debt-to-equity ratio of 40 to 50 per cent. Obviously Hydro would like less debt. We have provided assistance since coming to government, with \$325 million in three tranches to be provided to Hydro to reduce their debt. Aurora carries no debt so -

Ms FORREST - I am talking about Tas Networks and Hydro here, the shifting of debt and the fact that basically they are being used as working capital for government so you can claim as a government you are net debt-free.

Mr GUTWEIN - Over time TasNetworks has provided equity transfers to TasRail, both under this Government and the previous government. Obviously there has been a small transfer to Forestry Tasmania as well. In the main, my understanding from the conversations I have had with TasNetworks, and I think the evidence they provided to this committee, is that they are

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comfortable with their debt level being at that particular range, which is broadly in line with the market.

CHAIR - Order. When asking questions I ask members to be fairly specific. We are covering a lot of areas and I do not think that is fair to the witness. If you can be specific with the questions you ask, and ask one question at a time, it is helpful as well.

Mr GUTWEIN - Just finishing that, the question went to whether or not we should bring some of the debt back to the general government sector. At the end of the day, that would simply manifest itself in either an interest cost to the general government sector and a cost to the government sector, or conversely, where the debt level is with TasNetworks at the moment, that manifests itself in respect of an impact on returns back to government. Who holds the debt is largely to some extent irrelevant.

Ms FORREST - My point, Treasurer, was that when they are holding such high levels of debt and there are requirements to prop up a range of other GBEs and provide effective working capital for general government, doesn't this potentially limit their capacity to innovate? We all know of the rapid emergence of battery storage energy. I sat across the table not too many years ago with TasNetworks and said, 'Are you concerned about this potentially having an impact on your profitability and financial performance?', to which they responded, 'No, it is years away'. That was only a couple of years ago. This technology is moving very fast, and there are opportunities here, I believe, for TasNetworks or others perhaps to get involved in this. While they have so many other requirements in terms of dealing with their debt, how can they really innovate and look at different ways of doing things?

Mr GUTWEIN - Again I make the point that both in evidence to this committee and certainly in the conversations I have had with TasNetworks, they are comfortable with the settings at the moment which are broadly in line -

Ms FORREST - But that's not the point, Treasurer.

Mr GUTWEIN - Let me just make the point that they are broadly in line with where the market is. They are a regulated business. If we were to reduce debt to TasNetworks, we would have to pick up debt in the general government sector. The debt manifests itself in TasNetworks through interest costs, and obviously it is their bottom line. If it were transferred back to the general government sector, it would hit our bottom line. At the end of the day, somebody has to pay. In that context, my understanding from the discussions I have had with them is that TasNetworks are broadly comfortable with the level of debt at that level.

Ms FORREST - With regard to TasNetworks' returns gradually potentially reducing, mainly because there is a lot of people now considering going off grid or certainly in-grid with battery storage, there is always a fear and a bit of a concern that a major energy user could withdraw from the state. Let us hope that does not happen, but even without that it is clear that demand is dropping. As battery technology becomes more available, we will see more people adopting it. Doesn't this create another challenge for TasNetworks, in addition to the challenge they face with their debt burden?

Mr GUTWEIN - Their evidence to this committee was that they were broadly comfortable with their debt-to-equity ratio at the level it was. During that conversation they raised the

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challenge of what happens with broader network impacts in coming years. They are matters we work through with them in regard to the corporate planning process.

Ms FORREST - While there is that level of pressure on them - the dividend policy up to 90 per cent under your Government - the furnishing of their debt and the need for them to innovate, doesn't that concern you?

Mr GUTWEIN - If presented with a position from TasNetworks that they were uncomfortable with their debt-to-equity ratio, the Government would work through those matters with TasNetworks. My understanding is that they are comfortable as a business with their debt-to-equity ratio at the level it is at the moment.

Mrs RYLAH - Treasurer, it is my understanding that the usual level of debt in infrastructure businesses is about 60 per cent debt-to-equity. Under the new economic model, NEM, do they utilise the figure of 60 per cent debt-to-equity as the base figure on which they calculate their figures for electricity prices and the issues surrounding our electricity market? Is that the correct understanding?

Mr GUTWEIN - Being a regulated business, as part of the building block model used to determine prices, they look at a 60 per cent debt-to-equity ratio. From my conversations with TasNetworks is that they are at or around that level. They might be slightly higher than that at the moment. They have indicated to me they are broadly comfortable with that level of debt. It seems to be the type of debt-to-equity level most similar companies in the market are bearing.

Mrs RYLAH - It is true to say there is no benefit in reducing TasNetworks' debt-to-equity ratio below 60 per cent because of the way the NEM operates, and how that plays into electricity pricing in this interest rate market?

Mr GUTWEIN - By its nature, you have a lower level of return from debt. You would be expecting to see a higher level of return from equity. The debt-to-equity ratio utilised is 60 per cent. TasNetworks are broadly at that number. They have indicated to me, and to the committee, that they are broadly comfortable with the level of debt.

CHAIR - Has TasNetworks raised with you the debt they are carrying? Have they discussed with you the fact they are unable to do the innovate in the way they would like to? Have they raised that?

Mr GUTWEIN - I cannot recall them ever having done that. In conversations I have had with the chair, and with TasNetworks over time, is that they have been broadly comfortable. Any company would like to have as much flexibility in its balance sheet as it can. They have never raised it with me formally, that the Government needs to take a position of reducing their debt.

CHAIR - Have they raised it with you informally?

Mr GUTWEIN - Not that I can recall.

CHAIR - There is no correspondence between you and TasNetworks in relation to that issue?

Mr GUTWEIN - Not that I can recall.

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Mr BACON - On 9 April 2015, you wrote to the Minister for Energy, Matthew Groom, about the sale of the Tamar Valley Power Station. This letter has been released to the Opposition under right to information, but it is heavily redacted. Can you table a copy of that letter for the committee, to allow us to understand your thinking behind the sale of the Tamar Valley Power Station?

Mr GUTWEIN - No.

Mr BACON - Why not?

Mr GUTWEIN - You have received, under RTI, information that that act believes is fair and reasonable. I am happy to talk about the decision the Government made and the correspondence formally sent to Hydro in August in regard to the expression of interest process Hydro could engage in. The advice to me, as Treasurer, from Treasury -

Mr BACON - To be clear, this is not advice from Treasury to you, this is a letter from you to the Minister of Energy.

Mr GUTWEIN - Which speaks about advice, as I understand it.

Mr BACON - It attaches the advice to the letter. Why is it heavily redacted?

Mr GUTWEIN - I am not certain what is in those paragraphs. It has been through a process, it has been considered and that is what is being released.

Mr BACON - You do not know what is in this letter?

Mr GUTWEIN - I do not have a copy of that letter in front of me, no.

Mr BACON - Could you provide a copy of the letter to the committee?

Mr GUTWEIN - You have got a copy of the letter provided under RTI.

Mr BACON - Will you be providing a copy of this letter to the committee?

Mr GUTWEIN - No, I will not be.

Mr BACON - Why not?

Mr GUTWEIN - What was viewed as appropriate under that act has been released to you under RTI

Mr BACON - It is not Cabinet-in-confidence; this is a letter from you.

CHAIR - Order, to raise the issue. Is it possible to release that letter in confidence to this committee?

Mr GUTWEIN - I would have to have a look at what is in that letter. I am not sure what it refers to in the areas redacted.

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CHAIR - Will you take it on notice to consider that, and provision of that document to the committee?

Mr GUTWEIN - I will consider that.

Mr BACON - What goes into your thinking about what will and will not be released? You are going to read the letter. What will you release and what won't you release?

Mr GUTWEIN - Again, I am not -

CHAIR - Order, that is a very difficult question for anyone to answer, as to what they will and will not release. We are told there is information in confidence, and should be kept in confidence. The Treasurer has agreed to look at that document now with a view of providing it to the committee in confidence. We need to move on.

Ms COURTNEY - I want to ask a question on that point. Treasurer, when documents were released through RTI, do you decide which bits are redacted? How is that decided?

Mr GUTWEIN - No. That is done, at arms length, by my delegated officer in Treasury.

Mr BACON - In releasing this letter to the committee, you will personally look at it and decide if it is released to the committee?

Mr GUTWEIN - If you want me to leave it for the RTI officer's judgement, you will receive what is there. I will consider whether or not it can be released.

Mr BACON - Treasurer, on the 21 January 2015 you and Mr Groom wrote to Hydro Tasmania outlining your corporate plan expectations for 2015-16. You informed Hydro that future debt transfers would be conditional on the corporation achieving set performance targets. Did this include the \$75 million dividend in the 2017-18 year?

Mr GUTWEIN - We initially transferred \$205 million to offset the debt they had acquired as a result of the TVPS. There were two further tranches of debt transferred away from Hydro to improve their equity position. That was to ensure Hydro was track in regard to its corporate plan. That was to ensure it could provide its services at the lowest possible cost to Tasmanians, providing an appropriate return to the taxpayer. As per the charter, put in place in 2012, signed by Mr Green.

Mr BACON - This letter contained a warning that if Hydro Tasmania was unable to provide the \$75 million dividend -

Mr GUTWEIN - No, it did not. Do not verbal me. I will not be verballed across the table by you. I have watched you -

Mr BACON - What is the answer to the question?

CHAIR - Order. Put the question to the Treasurer in the form in which it appears in the letter.

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Mr BACON - Did you inform Hydro future debt transfers would be conditional on the corporation achieving set performance targets, and did this include the \$75 million dividend for 2017-18?

Mr GUTWEIN - I am sure an appropriate return on its assets was one of the matters we would have been looking for, but I don't believe the \$75 million dividend would specifically have been a part of that.

Mr BACON - But it did make clear the equity transfers were conditional on certain things being met?

Mr GUTWEIN - Yes, that Hydro would take steps to ensure it was operating efficiently, ensuring it reduced its risks, and focusing on its core purposes, which are to provide services to Tasmanians at the lowest possible price but, also importantly, to provide an appropriate return. Again, you're reading from documents I don't have in front of me.

Mr BACON - They're available to you.

Mr GUTWEIN - But I don't have them in front of me.

Mr BACON - Why don't you have them?

CHAIR - Order. We need to get control over this session. You asked why he doesn't have these documents. The Treasurer has come to answer questions. If we raise documents, it would be a good idea to provide those documents to the Treasurer so he is able to answer the question asked about those documents. If the Treasurer came armed with documents, we would probably have had three or four boxes of them here.

Mr BACON - If you're not here to answer questions about -

CHAIR - Order. When the Leader of the Opposition was here, we controlled this reasonably well after a fairly ordinary start. I ask that in your questioning of the Treasurer you ask specific questions. Making personal comment is not acceptable in this circumstance. Please address your clear questions to the Treasurer so he can answer them to the best of his ability.

Mr BACON - Treasurer, on 10 February 2015, Stephen Davy -

Mr GUTWEIN - What is the date of the letter?

Mr BACON - It is 10 February 2015.

Mr GUTWEIN - The Government had made no decision about even moving to an EOI at that stage with the combined-cycle unit. In regard to our position with Hydro, we wanted to be certain they were looking to do the types of things we had asked them to do and that was to become as efficient as they possibly could, which most Tasmanians would expect them to be, and to provide a reasonable return on their equity.

Mr BACON - Treasurer, on 10 February 2015, Stephen Davy wrote to Tony Ferrall confirming that Hydro was working to provide your expected \$75 million dividend in 2017-18. His correspondence make it clear that to achieve your dividend expectation, assumptions would

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need to be made including that there were no requirements to enter into non-commercial arrangements with suppliers in Tasmania, including Tasmanian Gas Pipeline, and that there was a timely closure and sale of the Tamar Valley combined-cycle gas plant. Isn't this clear evidence that it was the dividend expectation in your first budget that prompted Hydro's decision to decommission and sell the combined-cycle gas turbine at the Tamar Valley Power Station?

Mr GUTWEIN - No, it is not. As I indicated in my opening statement, Hydro had long been of the view that they did not require the combined-cycle unit for energy security. That was on the table and was brought to our attention shortly after coming to government in the 2014 corporate plan. Hydro had long been of the view that from an energy security point of view they did not require the combined-cycle unit. In regard to that letter, from memory -

Mr BACON - Do you want a copy of the letter?

Mr GUTWEIN - No. I think there were 11 different things raised in that letter that they would need to work on. I have mentioned before that there were a lot of moving parts within the Hydro business they were considering and working on.

Mr BACON - Of those 11 points, did that letter include that there be no requirement to enter into new non-commercial arrangements with suppliers in Tasmania, including Tasmanian Gas Pipelines, and did it also include the second of the 11 points - 'the timing, closure and sale of the Tamar Valley combined-cycle gas plant'?

Mr GUTWEIN - I don't know if you know how ridiculous that looks. You are reading from the letter and asking me if it included it. You know what's in the letter and there were 11 different things.

CHAIR - I want to call order here. We ought not engage in questions designed to have the witness answer in an opposite manner when those questions are taken directly from the correspondence you're referring to. They could be referred to as 'trick' questions and that is not acceptable. You should provide the document.

Mr BACON - I have just offered to do that, Chair. Would you like a copy of the document, Treasurer?

Mr GUTWEIN - You've just read the points in. This is ridiculous, Chair.

Mr BACON - Why can't you answer the question?

CHAIR - Order.

Ms COURTNEY - Treasurer, did you give Hydro unconditional permission to sell the combined-cycle gas turbine?

Mr GUTWEIN - No, we didn't. That is something some members of this committee and the Opposition have been trying to portray to the Tasmanian people. We absolutely did not. Energy security was front and centre in our thinking. As to the conditions that were provided when we gave Hydro conditional approval to go down the path of an EOI, they needed to satisfy certain things. Energy security was front and centre but they also needed to review their prudent water

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management levels. There was a range of conditions that are on the public record. There was no unconditional approval provided for the sale of the CCGT.

Ms COURTNEY - I have only been in Parliament for this term. Had this concept of the sale of the combined-cycle gas turbine been raised prior to our coming to government? Was this a concept that was being discussed publicly or suggested by either former governments or Hydro?

Mr GUTWEIN - The previous government had a view that they would like to sell the entire TVPS site if they could. As to the corporate plan, you have a copy of the 2014 corporate plan and can draw your own conclusions as to whether the previous government considered it. I believe they probably did. I don't want to mislead the committee but I think Mr Green is on record as suggesting they had considered at some stage the sale of the CCGT. You would need to check that, but I think it is on the record. The 2014 corporate plan indicates it was front and centre in Hydro's thinking at that time, but they didn't believe they required it and therefore, if Hydro was considering it, I would have expected they more than likely had those conversations with the previous energy minister.

Mr BACON - You said the Government never made a final decision to sell the combined-cycle unit. Did you have any input into the press release the Minister for Energy put out on 12 August 2015? It said:

The Government has today given approval for Hydro Tasmania to decommission and sell the combined-cycle gas turbine. This will allow Hydro Tasmania to rid itself of a redundant liability and reduce its debt.

Mr GUTWEIN - That was not my press release and it is a matter you should raise with the minister. The letter to Hydro sets out very clearly, as I understand, that if they were to proceed with the EOI there were certain conditions that would need to be met.

Mr BACON - The letter you are referring to is signed by yourself as the Treasurer and shareholder minister and the Minister for Energy.

Mr GUTWEIN - My understanding is that that letter is signed only by the Minister for Energy. I might be wrong.

Mr BACON - Sorry, I meant the letter on 12 August to Hydro Tasmania.

Mr GUTWEIN - The letter on 12 August, which provides the conditions, I thought was signed by the Minister for Energy. I think you would have to ask the Minister for Energy about that matter.

Mr BACON - So you didn't have any input at all into that press release of 12 August?

Mr GUTWEIN - To the best of my knowledge, no.

Mr BACON - Do you think that could have been explained to the Tasmanian people a little more clearly?

Mr GUTWEIN - That is a matter you need to ask the Minister for Energy about.

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Mr BACON - You don't have an opinion on that?

Ms COURTNEY - Point of order, Chair. The member is asking for opinions on media releases. Our terms of reference relate to the financial positions of GBEs, looking at energy mix and policy decisions. I do not see how opinions on whether or not media releases are appropriate has anything to do with the terms of reference in front of us.

CHAIR - It depends what the media release says and who was involved in that media release. The Treasurer is simply saying at this stage he has no knowledge of that and it was probably done by somebody else. It could go to the risk or the financial state.

Mr GUTWEIN - It is not my media release.

Mr BACON - The original question was around this misconception in the public's eyes that the Government gave permission to decommission and sell the combined-cycle unit at the Tamar Valley Power Station. Do you think if energy security in some form had been included in this media release, as it was in the letter to Hydro Tasmania, that it could have been clearer for the Tasmanian people?

Ms COURTNEY - Point of order again, Chair.

CHAIR - The Treasurer has answered the question in relation to that media release and said that, to his knowledge, he did not have anything to do with it whatsoever. That question needs to be put to another witness and we will speak to them later on.

Mr BACON - That is fine, Chair, but effectively the Treasurer just said the Government has never given permission, yet this media release that says permission was given is still on the Government's website.

CHAIR - It is a media release, and the Treasurer is simply saying that he does not recall having any say in that whatsoever, so that is the position. You can put that question to the next witness.

Mr GUTWEIN - Chair I make the point that the important thing here is the formal correspondence to Hydro. The decision is what is important.

Ms FORREST - Treasurer, the Tasmanian Government's Energy Strategy published in 2015 did not contain any discussion of security or planning standards or capability of the Tasmanian system. The progress report published in July 2016 stated that the energy taskforce will, amongst other matters, review energy security oversight arrangements and deliver its final report to government in mid-2017.

In your submission - and that of the Minister for State Growth - you say that the current Government and its predecessor intended to give Hydro Tasmania formal responsibility for electricity security supply in Tasmania through a revision to the ministerial charter and provided a draft with the revised ministerial charter to Hydro Tasmania. Is that still the Government's intention or will you wait for the report of the Energy Security Taskforce chaired by Mr Willis?

Mr GUTWEIN - Again, that is a matter we will work through. Certainly it is the Government's view at this stage that formal responsibility for energy security will be transferred

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back to Hydro, as it was once before. That is more appropriately a question you should ask the Minister for Energy later today.

Ms FORREST - Are you able to provide us with a copy of the draft provision of the ministerial charter, or is that a matter for the Minister for Energy too?

Mr GUTWEIN - I would need to check to see whether we can provide a draft of the ministerial charter. I am happy to consider that.

Ms FORREST - Has any response been received from Hydro Tasmania on this position or this suggestion?

Mr GUTWEIN - I would need to check. Certainly in conversations I have had over the time with Hydro, they are fully cognisant of the Government's view that energy security would be transferred back to them. I think they made that point in their appearance before the committee when it was raised with them. In regard to correspondence I would have to check.

Ms FORREST - When can we expect that the revision to the ministerial charter will be given effect?

Mr GUTWEIN - That's a matter before government at the moment we are working our way through.

Ms FORREST - Is there a ballpark figure for the time line?

Mr GUTWEIN - You have raised a very important part of the task force that Mr Willis is chairing. From the point of view of energy security being transferred back to Hydro, I do not believe we necessarily need to wait until that process is over, but the Minister for Energy is probably the most appropriate person to have that discussion with.

Ms FORREST - This is what we do at Estimates because ministers often shirk responsibility and send someone else, who then tells us we should have asked the Treasurer. When the Government gives Hydro Tasmania formal responsibility, will it advise Hydro Tasmania of the required level of security? Will it get some guidance around what the Government expects?

Mr GUTWEIN - I would imagine we would. From a timing point of view, it is important that when Hydro takes on the role formally they are fully informed and we are all cognisant of what is required and expected. I know they've presented to this committee and I believe the point was made by Mr Davy that, albeit they don't have formal responsibility for it now, they take the view that energy security is something they are absolutely mindful of.

Ms FORREST - Treasurer, the National Electricity Market has a system of independent experts and public hearings to set energy security standards. Why does the Government consider the National Electricity Market arrangement inadequate for the Tasmanian purpose in this case?

Mr GUTWEIN - That is more properly a question for the Minister for Energy. It is not my area of expertise, I am not the Energy minister, but jurisdictionally Tasmania's structure is quite different to other states. We have one dominant generator, one retailer -

Ms FORREST - There are more now.

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Mr GUTWEIN - There are more now, but only one in the residential space. We are structurally different to other jurisdictions, but that is a matter you should explore with the Minister for Energy.

Ms FORREST - How will the Government, and you as Treasurer, satisfy yourselves that Hydro Tasmania should propose the least-cost means of meeting the security needs of Tasmania?

Mr GUTWEIN - I will take advice on that.

Ms FORREST - From where?

Mr GUTWEIN - I receive advice from Treasury, State Growth provides advice to the minister, so we would consider the advice of both those bodies, I presume.

Ms FORREST - How will you then require Hydro Tasmania to reconcile its commercial objectives with its additional responsibility in the interests of the state?

Mr GUTWEIN - I believe Steve Davy has indicated to this committee that already to some degree they balance that challenge at the moment. It is a matter of working through and taking advice on that matter.

Ms FORREST - Will you take advice on this matter in relation to things such as your dividend policy, as to the percentage of dividends and other equity injections that other GBEs seem to need from time to time?

Mr GUTWEIN - Treasury provides me with a range of advice across the entire government business portfolio.

Ms FORREST - This goes back to the question I was asking you about the level of debt and the capacity for energy entities to invest in newer technologies, innovation and also meet their capital works requirements, particularly for Hydro with its ageing assets.

Mr GUTWEIN - There is a corporate planning process for each of the different businesses. I receive advice from Treasury on matters Treasury has responsibility for and the Minister for Energy receives advice for matters he is responsible for.

Ms FORREST - Are you aware of specific steps Hydro Tasmania has taken already in responsibility for energy security, knowing it is coming down the line?

Mr GUTWEIN - That is a matter more properly for the Minister for Energy.

Mrs RYLAH - Treasurer, in 2012 an expert panel was set up to look into the structure of the Tasmanian electricity industry. This is only four years after they had commissioned, changed and spent \$330 million on the Tamar Valley Power Station. The information provided included a recommendation from that expert panel was the sale of the entire Tamar Valley Power Station, including the combined cycle unit. In May 2012 they sought independent commercial analysis of the asset values and investigated the sale. Do you know what the terms of reference were for that expert panel? You might want to take that one on notice -

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Mr GUTWEIN - I would have to take that on notice. In 2012 I was in opposition and not holding a ministerial portfolio.

Mrs RYLAH - Do you know what values were provided to the Labor government as a result of that inquiry?

Mr GUTWEIN - Off the top of my head I do not, no.

Mrs RYLAH - Do you know whether any of that information was made public?

Mr GUTWEIN - I do not. The Minister for Energy might be able to assist you with that, but I do not have that available to me at the moment.

Mrs RYLAH - Is it possible Labor may know the value of these assets, but it has not been made public? Does the postulation of values for assets come from work they did in preparing to sell the Tamar Valley Power Station?

Mr GUTWEIN - That is possible. As a former energy minister, I am certain Mr Green is aware of a great deal of information. One thing that I don't have available to me is any of the advice or information provided to the previous government.

Mrs RYLAH - The incoming government does not have access to that information?

Mr GUTWEIN - No.

Mrs RYLAH - So, we have no idea if it was not made public?

Mr GUTWEIN - If information or advice was provided to ministers under the previous government, that advice is not available to me.

Ms COURTNEY - Treasurer, energy security is at the front of mind for a lot of people after what has happened over the past year or so in Tasmania. The proposed Basslink 2, or a second interconnector, is a topic of conversation. There are a lot of opinions around it. Do you have a view on that? What is the Government doing in terms of investigating that as a possibility?

Mr GUTWEIN - There is a process underway with the federal government. A change of Chair is occurring at the moment. I am not sure whether that new Chair has been appointed yet. After that process, we will consider advice on that. I think -

Ms FORREST - When is that advice expected?

Mr GUTWEIN - When the taskforce was first announced I believed they would be reporting toward the end of this year.

Ms FORREST - Would a change of Chair slow that down?

Mr GUTWEIN - That is a matter for the federal government.

CHAIR - What are the real benefits of a second Basslink? What are the reasons for it?

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Mr GUTWEIN - A range of matters would need to be considered. One is energy security. We have one Basslink, which has recently broken. Secondly, there is opportunity in the potential for further investment in renewables, especially wind. I think the appropriate process is in place for things to be considered, after which we will have a body of advice to look at.

CHAIR - The capacity to export is a big part of that consideration. Is that what you are saying?

Mr GUTWEIN - There are two parts to it. One is from an energy security point of view, and the other is from what opportunities might be, and might open up. The Minister for Energy has more detailed thinking on this than I have at the moment. From a Treasury point of view, I am looking forward to the time we have something to consider.

CHAIR - Is there concern a second Basslink would undercut the commerciality of the current Basslink contracts for Hydro Tasmania? What would its impact be?

Mr GUTWEIN - They are matters being considered. If you have one of anything, there is a value to that. If you have two, there are other matters to be taken into account. There are two key drivers. The first would be what it means to energy security. If you look it occurring in the South Australian marketplace at the moment, they face a range of challenges. Once we have a body of work in front of us, we can consider it.

Ms FORREST - In your view, Treasurer, does Hydro Tasmania have a balance sheet capability for further investment, or would it require an injection of funds to add to its generation? This is in context of a second interconnector.

Mr GUTWEIN - These things need to be considered once we have the results of the study in front of us.

Ms FORREST - No, I am thinking in broad terms. Do you think Hydro Tasmania's balance sheet could manage this? The current Basslink is the only unregulated link still existing in Tasmania, the rest are regulated. We can speak later about whether a second interconnector should be regulated. In terms of Hydro's balance sheet, do you think it has the capacity to undertake significant further investment, to maximise the opportunities a second interconnector would bring?

Mr GUTWEIN - You also have to take into account the revenue generating opportunities for further investment. You cannot look at it in isolation and say, that is Hydro at the moment, that is its balance sheet, that is the revenue stream it generates, and if we load it up with more debt will that make the company -

Ms FORREST - We have just taken a whole lot of the debt off it.

Mr GUTWEIN - Yes - will that make the company more or less viable. These things need to be considered both in terms of the strength of the balance sheet, the strength of revenue opportunities and potential expenditure.

I am not in a position at this stage to comment about a second Basslink or a second interconnector and what that might mean for Hydro's balance sheet.

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CHAIR - In relation to that, what else is the Government looking at in creating energy in this state? Are we looking at wind farms, waves and all those other areas? What is the position of the Government with that, and with nuclear?

Mr GUTWEIN - Nuclear, I can suggest, is completely off the agenda. That is more a question of detail for the Minister for Energy. I am sure he has his views. It is on the public record, a number of wind farm opportunities around the state are being considered. I am aware of some interest in biomass. They are more detailed questions for the Minister for Energy.

Mr BACON - When was the sale of the combined-cycle gas turbine formally taken off the agenda?

Mr GUTWEIN - My recollection is 22 December.

Mr BACON - How was that communicated to Hydro Tasmania?

Mr GUTWEIN - We met with them that day.

Mr BACON - And you told them it was off the agenda?

Mr GUTWEIN - That is my recollection.

Mr BACON - We have a letter written by you, Treasurer, released under RTI, to Matthew Groom, the Minister for Energy, which is still talking about the sale of the combined cycle gas turbine on 19 January 2016.

Mr GUTWEIN - I do not have a copy of that letter in front of me. I am fairly certain there was a further letter from me and the minister later on that month that was quite clear about where matters were at. I can't explain why that's the case. In what context was it raised?

CHAIR - If you are going to ask questions on that, perhaps you could provide that too.

Mr GUTWEIN - I believe there was a letter I signed, if my memory serves me correctly, in the context of ensuring that the statement of corporate intent or the corporate planning process was flexible enough in future to accommodate things such as that, so I am presuming that might be why that was included. My recollection is that the sale of the combined-cycle unit was taken off the table on the 22nd when we met with Hydro.

Mr BACON - But the letter you wrote to express that to Hydro wasn't written until the end of January - would that be fair?

Mr GUTWEIN - As to when we provided formal notification to Hydro, I was present when we had the conversation that afternoon and the combined cycle was very clearly taken off the table.

Mr BACON - But not in writing until much later?

Mr GUTWEIN - I'd have to check.

Mr BACON - Your best recollection of when it was?

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Mr GUTWEIN - I'm not going to guess.

Mr BACON - Could you provide that letter to the committee?

Mr GUTWEIN - I'll see what I can find.

CHAIR - We will include that in our correspondence to you.

Mr BACON - Do you recall receiving a briefing from Hydro Tasmania entitled The Optimisation of the TVPS in October 2014 when the sale of the combined-cycle unit was very much on the table?

Mr GUTWEIN - I remember requesting a briefing and being provided with some information from Hydro towards the end of 2014.

Mr BACON - Did that include residential load-shedding for an outcome such as what took place later on?

Mr GUTWEIN - To be clear, residential load-shedding was never in my thinking.

Mr BACON - So that wasn't raised in that briefing from Hydro Tasmania?

Mr GUTWEIN - When Hydro spoke with us it was in regard to demand-side management. I would have to check whether the issue of residential load-shedding was ever raised, but you have the document there.

Mr BACON - But it's all blacked out, that's the problem.

Mr GUTWEIN - Residential load-shedding was certainly not front and centre of my mind.

Mr BACON - What's your understanding of what 'demand-side management' means?

Mr GUTWEIN - In my thinking that was the major industrials and working with them if necessary - and we have just seen an example of that.

Mr BACON - Did you raise any concerns with them that residential load-shedding not be a part of any response if the Tamar Valley Power Station was sold?

Mr GUTWEIN - It certainly wasn't front and centre in my mind, no.

Mr BACON - But you didn't raise that with them?

Mr GUTWEIN - Again, you are asking me to go back a number of years to a conversation in October 2014. Residential load-shedding was not front and centre of my mind in relation to demand-side management.

CHAIR - Order. We have covered this and the Treasurer has said they didn't do that in relation to residents and providing electricity positions to improve our energy system in the state.

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Mr BACON - This is about the process to sell the Tamar Valley Power Station and the fact Hydro Tasmania told the Government that what the Treasurer calls 'demand-side management' is needed and whether that includes residential customers, which Hydro Tasmania has told the committee it does.

Ms COURTNEY - Point of order, Chair. I am trying to ascertain where that question is going. We are hearing more of a statement and we have evidence before us from Hydro and other entities about residential load reductions.

CHAIR - Thank you for the point of order. The position is that we have covered off on this today and on a number of previous occasions. You need to direct your questioning to new issues that are pertinent rather than continually going over the same area, because we are just not making any progress.

Mr BACON - For Hydro Tasmania to assure the Government that the combined cycle unit at the Tamar Valley Power Station was not needed for energy security, they presented to you and the Minister for Energy and also discussed as part of that briefing demand-side management, as you call it, which is code 4, as Hydro Tasmania has called it in the hearings, load-shedding across the economy, meaning that it is not only the major industrials but small business and homes as well. That was part of that briefing. Did you raise any concerns about that with Hydro Tasmania?

Mr GUTWEIN - All I can say is what I can recall in my mind at the time and that is that residential load-shedding was not something that was being considered.

As we worked through this process in the last six months, introducing alternative generation was obviously front and centre in the Government's mind. That is why we moved to introduce 220 megawatts of diesel. Based on the credible scenarios that Hydro presented, and obviously you have received advice from Hydro and I think they made the point that they were looking at a one-in-1000 risk event where you have a dry spring or a period of low inflows matched with a longer-term outage of Basslink. Certainly in my mind residential load-shedding was not something I was considering.

Mr BACON - They didn't make it clear to you that that is what 'demand-side management' meant?

Mr GUTWEIN - In my mind, working with the major industrials was what we were talking about with regard to demand-side management and introducing alternative generation if need be.

Mr BACON - So you didn't raise it?

CHAIR - I am going to call order again. We have gone down this path and I cannot see where it is useful to our position moving forward from here.

Mr GUTWEIN - Just to clear, I can only explain to the committee what was in my mind.

CHAIR - Sure; I understand that.

Ms FORREST - In terms of the gas contracts and the energy strategies, this matter has been raised by the major industrials in terms of security and cost, as well as Tasmanian Gas Pipelines. Your energy strategy contains little reference to natural gas supply and no mention of

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relationships between gas transportation agreements with Tamar Valley Power Station and gas transportation arrangements by users. We have heard from the users and Tas Gas who have said that the commercial arrangements for the Tamar Valley Power Station will impact on the prices charged to other users. How will the Government and Hydro take into account the implications for other gas users in their decisions on the future of the Tamar Valley Power Station?

Mr GUTWEIN - I do not think it surprised anybody when the Minerals and Energy Council and Tasmanian Gas Pipelines presented before this committee that you had a range of corporate entities that wanted to put a position. It does not surprise or concern me that they did -

Ms FORREST - But householders also use gas for heating.

Mr GUTWEIN - but of course those businesses that presented before the committee were going to take the view that they were going to come here and represent the best case they possibly could for their shareholders. That was the opportunity provided and they would have been derelict in their duty in respect of the members of their associations or shareholders if they had not put the cases they did.

We have to take into account all the shareholders of Tasmania, and that is each and every Tasmanian, in our thinking. In regard to gas, the committee is aware that there is a commercial negotiation underway at the moment between Tas Gas and Hydro. I do not want to say anything more on that other than I am hopeful we can get a very good outcome for Tasmania.

Ms FORREST - You must be aware, Treasurer, there was real concern this contract was not going to be renewed, particularly when the combine-cycle gas turbine was up for sale. It was up for sale because in the 2015 corporate plan of Hydro there is \$100 million allocated for it.

Mr GUTWEIN - In the negotiations that have been going on, I am not going to insert the Government into those negotiations. Tas Gas came here; they presented their case on behalf of their shareholders and they took every opportunity to position themselves as best they can. That is their business and no-one would expect anything less, provided with that opportunity.

Ms FORREST - Does the government have a role here?

Mr GUTWEIN - There is a commercial negotiation underway and I am not going to insert myself into the middle of that.

Ms FORREST - I am not asking for details about the negotiations going on.

Mr GUTWEIN - I think you are.

Ms FORREST - I am asking, do you have concerns about the potential flow-on impact of cost to residential users who use it for heating, hot water, cooking? There are people out there who rely on gas for that.

Mr GUTWEIN - Anything I say today will be used in a commercial negotiation. I would ask you to be responsible and not put me in that position. There is a process underway and a commercial negotiation underway. You have heard from a range of corporate entities that have been before the committee. It does not surprise me and it should not surprise anyone else that

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they would take the opportunity to position themselves as best they can to get the best outcome for the shareholders. There is a process that needs to be allowed to take its course.

Ms FORREST - Will the Government consider in their strategy the needs of residential users of gas?

Mr GUTWEIN - From the point of view of an energy strategy, they are all matters that need to be considered. There is a commercial negotiation underway here at the moment and -

Ms FORREST - No, I am not asking about -

Mr GUTWEIN - I think you are.

Ms FORREST - No, I am asking is the Government aware this is an issue?

CHAIR - Order. One at a time.

Ms FORREST - People out there tend to feel they have been neglected and forgotten in all this. It is all well and good for the major industries to come and present their case; they are the big boys in town. People like Grange Resources rely heavily on gas and prices are important for them. Their gas bill would be huge. As a residential gas user, which I am not, these people are also concerned, because if there is a significant change, they will be caught up in it. Is the Government focusing on that issue as well to be sure that residential customers are considered because it is well and good to give concessions for electricity from wherever they buy it from, but this is another important source of energy for some customers.

Mr GUTWEIN - Absolutely and I am not disputing that. I am suggesting you have had a range of witnesses before the committee who have done their best to ensure they position themselves well for their shareholders. As a state government, our role has to be to look at the shareholders of Tasmania and take into account the needs of all Tasmanians. There is a commercial negotiation underway and it needs to be allowed to take its course.

Ms COURTNEY - Treasurer, I am not sure whether you are the appropriate to talk about this, but in terms of future energy mixes for Tasmania, Hydro is the lion's share of our power generation at the moment, do you have any views on how our power mix should look in the future - 20 to 50 years down the track?

Mr GUTWEIN - This goes back to a question asked earlier in regard to the network. We see a range of different generation options that are coming forward. Certainly batteries are going to change the way that people think as well about these matters.

CHAIR - Not nuclear.

Mr GUTWEIN - The Chair has once again ruled out nuclear, and I am on the same page with him on that. These are matters probably best put before the Minister for Energy. That is the space he operates in. Certainly I have a role as Treasurer in regard to the state budget and to the returns we receive from government businesses, but in regards to the broader energy mix I think that is probably a more appropriate question to explore with the minister.

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Ms COURTNEY - Thank you, Treasurer. You mentioned returns from GBEs and state-owned entities to government. Could you talk to me broadly about your thinking around that? Obviously there is a lot of taxpayer money invested in these GBEs, and obviously the government needs funding to be able to provide the services it does to the community. Do you have any thoughts around those types of returns and where they should sit for the Tasmanian community?

Mr GUTWEIN - With the broader businesses, we have some that can provide a return and some that cannot. Let us be clear about that. It is a mixed bag when you look at our broader government businesses. What most Tasmanians want is that the businesses should run as efficiently as they possibly can. They should deliver the services they do at the lowest possible cost, and that there is an appropriate return to government for the equity that is invested in these businesses. We have sizeable amounts of equity that are invested in government businesses. I think it is reasonable; most reasonable people expect that we will get a return from our investment in these businesses, but again ensuring that those businesses are run as efficiently as possible and are delivering services at an appropriate price and cost to Tasmanian customers.

There has been a lot of discussion in this space about returns from the energy businesses et cetera. One thing that does seem to have been missed in all of this, and it is in regards to Hydro's performance, is that in the 2015-16 year, where, without the sale of the CCGT, Hydro was able to provide a return of \$25 million in that particular year, when in the 2014-15 Budget they were forecasting no return. In the 2015-16 year, they were able to provide a return.

The issue of the level of dividends we take from businesses has been raised. In that 2015-16 year, at a 90 per cent rate of dividend, Hydro would have provided around a \$36 million return, but we took \$25 million. In that 2015-16 Budget, \$13 million was what I think was forecast in that year. We arrived at a position with Hydro whereby the state did well and Hydro were able to retain some additional profits for their own use. At the end of the day everybody won. They returned to profit in that particular year with no sale of the CCGT, which, if you listen to some, that was the only way in the world Hydro was ever going to get back into a profitable position.

CHAIR - What, if any, external oversight was there of Hydro Tasmania's responsibilities for prudent water management, and in particular of Hydro Tasmania's proposal to dispose of TVPS?

Mr GUTWEIN - You mean CCGT?

CHAIR - Yes, CCGT.

Mr GUTWEIN - Obviously we receive advice from a range of different quarters. If you are asking was there an independent study conducted -

CHAIR - External, yes.

Mr GUTWEIN - I do not believe we received advice externally in regard to the CCGT sale. There was advice provided by Hydro, from Treasury, from State Growth. In regard to other sources, off the top of my head, I am not certain there was any other independent analysis provided.

CHAIR - Is there a need for an external oversight of Hydro for the management of water? It may be we might not have been in the position we were, if it had been. I do not know.

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Mr GUTWEIN - The process that Mr Willis is engaged in now will explore a range of matters. It is a statement of fact the prudent water management levels were reduced in 2012. We have increased it, Hydro are now looking at it, to at least 30 per cent. They have gone back to where they were. What those prudent water management levels might be in future is a matter for discussion. What most people understand is that if you have more water in your dams, the level of risk is reduced.

CHAIR - It seems to me the Hydro, as a user of that component of water, that an external overlooking it would have been a good thing to have had in place. I think others have referred to an overseeing body as well.

Mr GUTWEIN - I am not sure what discussions you have had with Hydro, and what advice they take in regards to those matters. That is a question for the Minister for Energy. The process that Mr Willis is overseeing will consider a range of these matters.

Mr BACON - Treasurer, between Hydro coming to the Government with the request to sell the combined cycle unit in January 2015, and the announcement being made by the minister on 12 August, did you have discussions with our major industrial users about the importance of the combined cycle gas turbine, or the fact the Government was considering putting it up for sale?

Mr GUTWEIN - No, I did not.

Mr BACON - You had no conversations with them in that period at all, or none about this specifically?

Mr GUTWEIN - I do regularly meet with the major industrials. Through that period and in conversation with them, no, I do not believe I had a conversation with them about the CCGT.

Mr BACON - Do you think it would be reasonable for someone within the Government, while this was under act of consideration, to consult with the major industrials about the importance of the combined cycle gas turbine?

Mr GUTWEIN - No decision was made to sell the CCGT. All that was provided to Hydro was to enable them to seek expressions of interest. Any sale needed to be considered with the applied conditions. We were a long way from there being a sale, in my mind.

Mr BACON - In your mind, or in the Government's mind?

Mr GUTWEIN - It is very clear that no decision was made to sell the CCGT. What was provided to Hydro was the opportunity to seek expressions of interest. Before a sale could occur, certain things had to be satisfied. There was a process underway.

Ms COURTNEY - Treasurer, you mentioned a number of conditions. Can you outline what those conditions were?

Mr GUTWEIN - I can.

Mr BACON - Why weren't they in the press release?

CHAIR - Mr Bacon, let the Treasurer answer Sarah, rather than be sidelined.

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Mr GUTWEIN - That was one letter you did not need to leak, Scott.

Mr BACON - If you have an allegation to make, Treasurer, you should make it.

Mr GUTWEIN - I have raised before the committee my concerns about matters entering the public domain.

CHAIR - Order, Treasurer. A point of order was called, and is clear. Please be careful in the comments you make the members of the committee. The interjection was on the question asked by Sarah. Treasurer, can you answer that question without being put off by other interjections?

Mr GUTWEIN - Certainly, Chair. Those conditions included Hydro Tasmania confirming it could continue to meet Tasmania's energy needs with the CCGT. Hydro Tasmania is reviewing its prudent water management guidelines and credible extreme event plans, the sale price of the CCGT - to be endorsed by both myself and the Minister for Energy - and Hydro Tasmania to be formally given the responsibility for energy security. We never had a prospective sale in front of us. Those conditions were never actioned because there was no proposal before the Government.

Ms FORREST *interjecting*.

CHAIR - One at a time. We will come to Scott, but please keep the argy-bargy of the other place in the other place. I prefer it not to come into these hearings today.

Mr BACON - Is that letter a public document, Treasurer?

Mr GUTWEIN - Which letter?

Mr BACON - The letter you referred to about the conditions put on Hydro Tasmania?

Mr GUTWEIN - I believe you have it.

Mr BACON - Was it made public by the Government?

Mr GUTWEIN - It was correspondence to Hydro. I do not think it would have been made public. I think the Minister for Energy might have released it.

Mr BACON - Why did he do that?

Mr GUTWEIN - You would have to ask him.

Mr BACON - He released it significantly after the press release was put out, to clear up the fact he had misled the Tasmanian people -

CHAIR - Order. I will not allow the question. It is a question to put to the Minister for Energy later on today. I ask you to withdraw the comment. The question has been withdrawn.

Mr BACON - Okay. Treasurer, you talked before about the major industrials' evidence to the committee. Have you watched, and read through the *Hansard*, Mr Mostogl's comments to the committee?

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Mr GUTWEIN - I have read the *Hansard*.

Mr BACON - Having read that, how do you now intend to regain the trust of the major industrials around the way energy security is managed in the state?

Mr GUTWEIN - You should speak with the Minister for Energy. My understanding is that he has had conversations with Mr Mostogl since that occurred. He is best placed to discuss with the committee any resulting matters he might like to raise. I know it has been fantastic political fodder for some in regard to what was said -

CHAIR - Be careful, Treasurer.

Mr GUTWEIN - but it did not surprise me that the major industrials would take the opportunity to put their case on behalf of their own shareholders, before this committee. In effect, they were given a free kick. When provided with that opportunity they would have been derelict in their duty if they had not made as strong a case as they could. The distinction needs to be made that they were here arguing for their shareholders. They were here arguing for their corporate interests, and that is their role and responsibility. We have to take into account all of Tasmania's interest.

Mr BACON - In March this year Mr Mostogl told ABC News that the state's energy crisis had threatened the plant's expansion plans, and that the Tasmanian public has received no update since. In light of these comments and Mr Mostogl's revelation to the parliamentary committee that the smelter is still not back in full production, have you sought assurance the expansion plans are still on track?

Ms COURTNEY - Point of order, Chair. I want to see how this fits in with the terms of reference. We are talking about financial positions of the government entities, and these seem to be straying into interesting, but unrelated entities.

CHAIR - The position is that we have gone into that area, as raised by other witnesses to this committee. It is probably appropriate and proper, but I ask the member to restrict the questioning on this point. The Treasurer has provided an answer already on the position of Mr Mostogl and the comments made by him.

Mr BACON - Have you sought assurances that the expansion plans are still on track?

Mr GUTWEIN - I have not had any direct conversation with Mr Mostogl, but I understand Mr Groom has. It is a matter for you to discuss with Mr Groom around his interactions with the major energy users.

Mr BACON - You can't assure Tasmanians the expansion will go ahead?

Mr GUTWEIN - I have not had a conversation with Mr Mostogl.

Mr BACON - But Mr Groom has spoken to him?

Mr GUTWEIN - I understand he has.

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Ms FORREST - Can you provide some sort of insight into why \$100 million was allocated to the sale of combined-cycle gas turbine in the 2015 corporate plan for Hydro Tasmania?

Mr GUTWEIN - That is a matter for Hydro as part of its corporate planning processes. Hydro took the view through the expressions of interest process that they would find a willing buyer and would be able to meet the conditions. There was no sale -

Ms FORREST - I'm not suggesting there was.

Mr GUTWEIN - That is Hydro's corporate plan and that is a question more appropriately put to them.

Mrs RYLAH - Treasurer, given we know from the evidence that the capacity of Hydro to generate power dropped from 10 000 gigawatts per hour down to 8200 -

Mr GUTWEIN - I think it was 8700.

Mrs RYLAH - Thank you - 8700 gigawatt hours in early 2014, and that relates to the sustainability of the capacity of Hydro to generate power. What is your view in regard to the reduction in the same period of time of the dam storage levels down to 25 per cent as a reasonable minimum storage level?

Mr GUTWEIN - It is a fact that dam storage levels reduced. I want to be very cautious about commenting on matters in that space, but it is a fact. It is also a fact that more water in the dams provides for a higher level of security.

Ms COURTNEY - I want to ask a question relating to the first term of reference, the financial position of the government-owned energy entities. As Treasurer, are you comfortable at the moment with the financial positions of the government-owned energy entities?

Mr GUTWEIN - Certainly Hydro has taken a hit over the last financial year. I understand that in the presentations you've received from Hydro they have talked about what their underlying loss might be and have also provided some indication that it is potentially not as severe as they first thought.

Ms FORREST - They told us they were going to provide us with the financials earlier but we're still waiting.

Mr GUTWEIN - My understanding is they will do that. The audited financial statements came through my office on Friday but I haven't looked at them yet. They are with Treasury and I am waiting on the Treasury advice I would normally receive on those. It is my expectation the committee will receive an opportunity to view those at the earliest opportunity. My preference would be, if they are provided to the committee, that they be accepted in confidence until I have received my advice from Treasury and am in a position where we can look to release those publicly at an early stage.

Ms FORREST - Hydro indicated it was willing to release them publicly after they provided them to the committee.

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Mr GUTWEIN - My preference would be that they be provided to the committee but ultimately, as a shareholder minister, I need to receive advice on those. Once we have received that advice and are in a position to understand what is included in those statements, they will be released publicly. It is only fair and reasonable. I am not sure if they provided a different commitment, but I read what they said in the *Hansard* and I believe what is being proposed is in line with that.

Ms COURTNEY - As to the position of the GBEs broadly, taking into account the costs and implementation of the Energy Supply Plan, are you comfortable as Treasurer?

Mr GUTWEIN - I am comfortable as Treasurer. It has certainly been a difficult period for Hydro, but TasNetworks as a regulated business is in a strong position and Aurora, by its nature, is not carrying any debt. That company has performed very well in the last couple of years. Across the suite of energy businesses I do not have any major concerns. Hydro has had to deal with difficult circumstances and has borne the cost of the introduction of diesel and the alternative generation options, but I believe it will have a bright future.

Ms COURTNEY - Looking over the past year and the impact of drought and Basslink going down, are you happy with how the Government has responded to this energy challenge?

Mr GUTWEIN - As to the efforts by the Minister for Energy - and I know there have been those who have done their very best to make it as difficult a period as possible for him - the energy plan that was rolled out by the Government delivered on exactly what we said it would do. It protected the economy, it kept the lights on and there was no flowthrough to electricity prices, so in terms of having delivered, we delivered.

CHAIR - I have a question about the emergency management plans. Your submission states:

The holders of licences from the Office of the Tasmanian Economic Regulator are required to maintain an emergency management plan. The plans are reviewed by an independent appraiser every second year to ensure they meet industry best practice.

Did Hydro Tasmania ever submit an emergency management plan to OTER? If so, what was its scope? It is referred to in your submission.

Mr GUTWEIN - I would need to take some advice on that. That was a joint submission from the Government and there are certain areas I have responsibility for and areas the Minister for Energy has responsibility for. I am happy to take that on notice and provide a response.

Mr BACON - Can you detail for the committee the interactions you had with Hydro, TasNetworks or any of the other businesses from the period Basslink went down through to 15 January, when I think you had the first meeting of the subcommittee of Cabinet?

Mr GUTWEIN - I would have to check my diary but there were a number of discussions through the week of 22 December. I was on deck until 31 December and came back to work on 15 January which I think was for the first subcommittee meeting of Cabinet. During that period I was in contact by email but, apart from a number of discussions during that initial week, I would need to check.

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Mr BACON - Did you speak to the Minister for Energy from 31 December to 15 January?

Mr GUTWEIN - I might have spoken to him on 14 January but I don't think I spoke to him during that period.

Mr BACON - Can we put that on notice for the meetings, phone calls and emails you had in the time from when Basslink down?

Ms COURTNEY - Point of order, Chair. What is the relevance of that?

CHAIR - I am trying to establish what that has to do with any of the terms of reference and what this committee is looking at.

Mr BACON - A lot of questions today have been about the Government's response to the energy crisis, the rollout of diesel generators and those kinds of things, and whether that was done in the most timely fashion.

Ms COURTNEY - That has nothing to do with the terms of reference, Chair.

CHAIR - I cannot see any reason as to why the questions would be asked other than for political reasons. I cannot understand where they fit within the terms of reference so I am not going to allow that question at this stage.

Mr BACON - We have heard a lot today about the Energy Supply Plan.

CHAIR - If you want to go down another path do so, but I can't see the point in that question when one looks at the terms of reference and how it will assist this committee.

Mr BACON - If the Government's response to the energy crisis was the rollout of diesel generators and the Energy Supply Plan - and we have heard a lot today from the Government and government members on the committee about the rollout of the Energy Supply Plan - whether that was done in the most timely fashion I think is an important thing for the committee to establish.

CHAIR - What answer are you able to provide to that in the circumstance, Treasurer?

Mr GUTWEIN - If this committee wants some detail regarding the development and rollout of the Energy Supply Plan, I am happy to take that on notice and provide what I can.

CHAIR - In that form it is acceptable, but the member was asking for?

Mr BACON - Meetings and emails.

CHAIR - I can't see the point to that and where it fits within any terms of reference. You have given an explanation as to why you believe it does but my ruling is that I can't see where it fits.

Ms COURTNEY - Mr Bacon brought up the Government's response to the energy challenges we have had. Are you comfortable with the way the Government responded to this unprecedented energy challenge we had?

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Mr GUTWEIN - Absolutely. The Minister for Energy did a very good job. One of the key things that needs to be acknowledged here is the Government response and the response from the businesses themselves. An enormous number of people did a great deal of work to ensure we managed the challenge of the driest spring on record and the unprecedented failure of the cable.

CHAIR - Treasurer, thank you very much for your attendance today.

THE WITNESS WITHDREW.

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Mr MATTHEW GROOM, MINISTER FOR ENERGY, WAS CALLED AND EXAMINED.

CHAIR - Welcome, Matthew.

Mr GROOM - Thank you very much, Chair. I thank the committee for the opportunity to come along today and to talk about some of the energy circumstances we were dealing with earlier in the year. I am conscious that there are specific terms of reference. Obviously the energy security circumstances have been a subject of interest. I would like to make some basic points in relation to that.

The first one is to just state clearly on the record from my perspective what happened with our energy security situation earlier this year. It was the combination of an extreme natural weather event, combined with a catastrophic failure of critical infrastructure - the Basslink cable going down. It is important to acknowledge that. I know there has been speculation about other things that may have been causal to the energy security circumstance, but in essence what happened was that it did not rain and the cable went down.

As we have acknowledged, it was a record dry. We are talking about the lowest spring rainfall over 100 years of record-keeping. In terms of in-flows into the Hydro attachments, it was less than half the previous recorded low. It was off the Richter scale.

In addition we had the failure of the Basslink cable, the first substantive failure of that cable. Happening in combination, this was an extraordinary circumstance that we had to confront. It was a very improbable combination. It had been described previously by Hydro as a one in 1000-year event. We can all say now with the benefit of hindsight that you might want to go through a revision of risk assessment of the likelihood of that happening again. That is part of the work Hydro is doing and also we are doing through the Energy Security Task Force. On any analysis, it was still a very improbably scenario.

I put on the record my sense of pride in the response to those events. It is, in some respects, the untold story of the energy security challenges we confronted earlier this year. We developed an energy supply plan. That energy supply plan was focused on avoiding forced power reductions, keeping the lights on, protecting jobs, protecting the economy and keeping power prices as low as possible. We were successful in the implementation of that plan. That did not happen by accident. That was a consequence of the collective effort of more than 450 people across government, across the energy businesses, including independent contractors who were working tirelessly over a very extended period, often in very difficult circumstance. What they were able to achieve through that time frame was truly remarkable. It is important their efforts be acknowledged.

There are some who have suggested there were other causal factors. One which has been the subject of a lot interest has been the decision of the Government to approve an expressions-of-interest process for the CCGT. I reject that contention. All the advice I have received consistently is that the decision to allow the expressions-of-interest process had no material bearing on the energy security circumstances we confronted. What is important to acknowledge in that context is that this unit was up and operating within four weeks of the link going down. The delay in getting that up and operating was a consequence of it being in dry lay-up - a status it had since July 2013. There was a period of about six months where they were generating in order to take advantage of the carbon tax profits.

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At all times in the Government's decision making, energy security was front and centre. We were very conscious of the importance of energy security. I reject any suggestion to the contrary.

The last point I make is that some have suggested that engaging in the supplementary generation under the Energy Supply Plan was not necessary or not required. I completely reject that. The Energy Supply Plan, including the supplementary generation, was critical in avoiding the worst possible outcomes for the Tasmanian economy. If we had not put that plan in place we would have been seriously exposed to the potential of black-outs, the potential for untold damage on the Tasmanian economy. It was critical. It was the only rational response. The Government had to act and we did. I am very proud of the efforts people put in right across government, the energy businesses and also independent contractors.

CHAIR - Thank you for that, Matthew. I will open it up the questions. In the process, if there are references being made to documents and it is going to be helpful for the minister to answer questions from them, it would be good to be able to provide those documents so there can be no misunderstanding and mistakes in relation to answering of those questions.

Ms COURTNEY - Minister, what about future energy mix policy decisions - one of our terms of reference. Could you talk to me around where you think renewable energy fits within that? Obviously we have a very large renewable energy base within Hydro but could you talk about where you see our future energy mixes lying and the relationship with renewable energy in that?

Mr GROOM - It is one of the big questions we have as a state. In some respects, the circumstances we have confronted over the course of the last year or so present an appropriate opportunity for us to reflect on it, which is why have included this in the terms of the reference for the Energy Security Task Force. Tasmania is the renewable energy state and it is my belief that we should be very focused on renewables into the future. Tasmania has a great opportunity to contribute more as the national market transitions to cleaner forms of energy. It can potentially present opportunities for investment and job creation in the state. It can also be relevant to energy security. We have got the potential for a strong future in renewables. It is important we make sensible judgments. We need to reflect on the emerging circumstances in the national electricity market.

There have been some challenges with some of the outcomes in South Australia. I believe that presents a potential opportunity for Tasmania. We need to understand the future for strengthened interconnection. If Tasmania is to maximise its renewable future there would be a need for additional interconnection, which can also have an energy security benefit.

It is a precondition to us maximising renewables. We need to understand the broader circumstances; the potential impact of technological developments; battery storage and embedded generation; and the future of gas. We are committed, and I say that squarely on the record, to the retention of gas assets. We still need to understand what that profile looks like. It is a timely moment to reflect on the future. It is my belief that Tasmania is a renewable state, and we should be seeking to maximise renewables as part of our future mix.

Ms COURTNEY - You mentioned the possibility of more interconnection with the mainland. That has been discussed broadly within the community. It is something very topical, which a lot of people have opinions on. Can you tell me what you think about the concept of

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having a second interconnector to the mainland, and what type of pathway we would see if that were potentially to become realised?

Mr GROOM - It is one of the big questions we have discussed recently through the COAG minister's meeting. We were reflecting on the need to transition the national market to cleaner forms of energy. Some of the challenges South Australia had is their increased intermittent generation. They do not have the benefit of base load renewables we have through Hydro.

One of the issues raised was the need to strengthen interconnection. In some respects, the core objective of the national electricity market has not been realised. It tends to operate as a series of submarkets. In some instances, there is not full interconnection.

It presents an opportunity for Tasmania in further renewable development, which can mean investment and jobs. It can also assist from an energy security perspective. You need to make sensible judgments. That is why we have been doing the joint study with the Commonwealth: to understand the case, the timelines, the preconditions, and the circumstances that would justify that further link. That work is underway. We remain very committed to pursuing it.

Ms COURTNEY - You talk about renewable energy in future policy mixes. What work is the Government doing, and what would it look like in future?

Mr GROOM - We are doing a series of things. We are doing the joint study with the Commonwealth on the second interconnector. We are participating in the COAG process. This has been a subject of discussion at that level. We have also included this in the Energy Security Taskforce's terms of reference, to look at this as part of the energy risk assessment they are undertaking, what the potential for further renewable development is, and how that sits within some of the other issues I have discussed. It was also part of the energy strategy. We want to understand what the future of renewables is in Tasmania.

Mr BACON - Minister, on 12 August 2015 you issued a press release titled 'Tamar Valley Power Station', and it reads in part:

The Government has today given approval for Hydro Tasmania to decommission and sell the combined-cycle gas turbine. This will allow Hydro to rid itself of a redundant liability and reduced debt.

Minister, did you write that press release?

Mr GROOM - I certainly have responsibility for it. I have been on record in relation to it. It was wrong. I have said that on public record. What was critical, from the Government's perspective, was the decision made. That decision was set out in our letter, which is in the public domain, to Hydro on around 11 August. It set out all of the conditions, which we have been through, on energy security, reviewing prudent water management and the like.

Mr BACON - Did you approve that press release?

Mr GROOM - Yes, I did, and I have been on the public record in relation to it. It was wrong and I wear that on the chin.

Mr BACON - So it was factually incorrect?

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Mr GROOM - It was wrong and I've put that on the public record.

Mr BACON - Why does the press release not mention energy security, not once?

Ms COURTNEY - Point of order, Chair. I don't see what these types of questions have to do with a media release. The minister is talking about preconditions, and I am happy to ask about the preconditions.

CHAIR - I will allow that question and see what the answer is. I think we need to call a halt to it.

Mr BACON - Why doesn't the press release mention any energy security, not even once?

Mr GROOM - I have been on the public record in relation to it; it was wrong. I would like to go through the conditions, because they are important to the Government's decision. Hydro had presented a proposal in relation to the CCGT. The Government had considered that over time and had taken advice in relation to it. We then approved an expression-of-interest process, which was subject to conditions. They included: the sale price of the CCGT be endorsed by the minister and Treasurer, prior to Hydro entering into any sale agreement; Hydro Tasmania be formally provided with responsibility for energy security in Tasmania; Hydro Tasmania is to review its prudent storage management guidelines - that is a very important point - and credible extreme event plans, in the absence of a CCGT, and report the outcomes of this review to the department; prior to the execution of any sale agreement, Hydro Tasmania board will provide written confirmation to the shareholder ministers that the business can meet its energy security responsibility without the CCGT; and any proceeds of the sale would be used to reduce debt.

What you see from that - and that is the decision - the emphasis the Government was placing on energy security. We had contemplated the review of the prudent water management guidelines. What is also important to recognise is that we didn't sell it. It was never pursued and we didn't sell it.

Mr BACON - Do you regret issuing that press release?

Mr GROOM - I think I have answered the question, Mr Bacon.

CHAIR - The minister said it was a mistake and one can assume he would regret it.

Mr BACON - Is that press release still on the government media website?

Mr GROOM - I don't know, but the position the Government is very clear on this. We did not sell the CCGT. The advice we have had, consistently, is that the decision of the Government to allow Hydro to explore an expression-of-interest process had no bearing on the energy security circumstances we confronted. I know you see politics in this, but I believe this is a red herring.

CHAIR - I've tried my best to keep that out of it, but it has failed so far.

Mr BACON - Can you make a commitment, minister, if it is still on the website, that it is taken down?

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Mr GROOM - I can follow that up.

Mr BACON - You will take it down, if it's still there?

Mr GROOM - I can follow it up.

Mr BACON - RTI documents make reference to a media plan surrounding the announcement. Did the media plan mention energy security?

Mr GROOM - I am not sure which document you are referring to. Energy security was at the forefront of the Government's mind. That is evidenced by the decision the Government made. What is also important to understand is that it was not sold. This notion that the decision to allow an expression-of-interest process had an impact on the energy security circumstance we subsequently confronted is not right. I reject it. That is consistent with the advice I have received.

Mr BACON - Will you provide the media plan to the committee?

Mr GROOM - I understand you have requested certain documents through RTI. The committee has made document requests, and we will work through that process. Energy security was at the forefront of the Government's mind. That is evidenced by the decision the Government made. The unit was not sold. The suggestion it impacted on the energy security event is not right. It didn't rain, the link went down, and we responded.

Mr BACON - Energy security was at the forefront of your mind and it was behind the decision, so why wasn't it mentioned in the press release?

Mr GROOM - I think you're going around in circles now.

Mr BACON - I would like an answer on why it wasn't in there.

CHAIR - Order. The question has been asked, the minister has provided an answer and we need to move on.

Mr BACON - That letter was never intended to be made public, was it?

Mr GROOM - Well, we did make it public in order to ensure people understood what the decision was.

Mr BACON - Why issue a press release that did not tell the Tasmanian people what the decision was?

CHAIR - We have been through this. The minister has covered off by saying it was an error and mistakes were made in that.

Mr BACON - Who made the error?

CHAIR - No, it was a media release. Let us move on. Do you have another area you want to into?

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Mr BACON - The Treasurer was asked a question about the expansion of Bell Bay. The Treasurer had not spoken to Mr Mostogl about that but said you had spoken about that since Mr Mostogl -

Ms COURTNEY - Point of order, Chair. The Treasurer said he understood Mr Groom may have had conversations. Mr Bacon is drawing conclusions about what those conversations were about.

CHAIR - The point of order is taken. You need to reflect clearly on what the Treasurer said.

Mr BACON - Have you had any conversations with Mr Mostogl since he gave evidence to the committee?

Mr GROOM - I catch up with major users from time to time and it is on the public record that I recently caught up with Mr Mostogl. We stay in touch with the major users in the state. I know there has been a bit of commentary as a result of some evidence brought before the committee but the Government takes its relationship with the major users very seriously. We maintain engagement with the users, as you would expect us to do. We are very aware of broad circumstances they deal with. They operate in very competitive global environments. They have challenges. We work with them in that context. It is also important to acknowledge that we have broader interests. We have to make sure we are balancing the broad interests of the state and that is what we seek to do.

Mr BACON - Has Mr Mostogl assured you the expansion will still go ahead, given they are still not back to full capacity?

Ms COURTNEY - Point of order, Chair. I am trying to work out how this fits in with the terms of reference.

CHAIR - I understand where you are coming from but this issue has been discussed throughout the inquiry. I will allow the member to continue at this stage but I want to make sure we get onto the terms of reference.

Mr GROOM - I am not going to speak for Mr Mostogl; he can do that on behalf of the company. The Government takes the relationship with the major users of this state very seriously. We were very aware of the circumstances each of them were dealing with as we worked through the energy supply situation earlier this year. I want to reiterate that it was very much at the forefront of our minds. Each of them have different circumstances. I am not in a position to be able to go into the individual circumstance of particular companies, but I can assure you the Government works very closely, largely through the interface of with Hydro Tasmania but also more broadly, to make sure we have the best possible outcomes for the major users for all businesses and all households in Tasmania. That is what we did. Consistent with that, we have also worked with the major users to identify future opportunities and to ensure they have positive future in Tasmania. Notwithstanding the challenges, I believe there is a positive future for major users in this state. We continue to do everything we can to support that, having regard to the broader interests we have to take account of.

Mr BACON - You do not have any reason that expansion will not go ahead?

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Mr GROOM - I am not going to speak for the company, Mr Bacon. We are doing everything we can to ensure there are positive futures for our major users, acting responsibly.

Mr BACON - After Hydro Tasmania came to the Government in January 2015 with a proposal to sell the combined-cycle gas turbine, and before you issued that press release on 12 August, did you discuss with any of the major industrials the proposal to potentially dispose of the combined-cycle gas turbine?

Ms COURTNEY - Chair, I am trying to work out how these fit in with the terms of reference. We have gone over this.

CHAIR - No, this is relevant. We have had a lot of questions in relation to this matter and I will allow the question in line with the way it has been asked.

Mr GROOM - We have ongoing engagement with major users; that is the ordinary business of Government. A lot of that happens through Hydro as one of the key points of interface with the major users but it also happens with government and you catch up with people from time to time. I know the suggestion has been made that this came out of the blue, but I am not sure that is right. There had been references to the potential for the Government to consider it in the public domain as early as the end of 2014, from memory.

What is also important to understand in this is that this is a broader circumstance. One of the reasons this is an interest to major users is because of the gas contract situation and, of course, that is not new. I can remember it from when I was in opposition that as part of the acquisition of the Tamar Valley Power Station there was a gas contract entered into. It is on the public record that that presented difficulties and significant losses were incurred by Aurora as a consequence of that. The former government jacked up power prices to help recover some of those losses so you had households and small businesses paying more for their power as a consequence. The former government also looked at the potential to sell it but then decided to transfer it and that was the significant thing in terms of the gas contract because it changed the nature of the use of that asset. It was the intent of the former government that it be used in the way it has been used, which is to say, sparingly. Consistent with that, the asset first went into dry lay-up in July 2013 and in essence has been ever since leading up to the Basslink outage.

Mr BACON - After the 12 August press release you had redundancies and sacked the workforce at the power station - beyond it being in dry lay-up, as you call it.

Mr GROOM - I think Hydro has been squarely on the record on this.

Mr BACON - There is a difference, though, in that decision and the situation before that.

CHAIR - You need to let the witness answer your first question, when you said staff were sacked from the Tamar Valley Power Station.

Mr GROOM - These are matters of public record, Mr Bacon. Hydro made these positions clear. I want to reiterate that it was under the former government that it was transferred with a view to it being used exactly how it has been used. That was a decision of the former government. It was put into dry lay-up by the former government, so in terms of the gas contract position, that was a material development. The advice we have had consistently from Hydro is that the decision to pursue an EOI process had no bearing on the energy security circumstances.

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That is to say that the time period that it took to get that back up and operating was as a consequence of it being in dry lay-up and not being used for an extended period of time.

Mr BACON - Did Tasmanian Gas Pipelines come to see you and inform you that Hydro Tasmania had told them that they would not be requiring a contract beyond 2017 when the current contract ran out?

Mr GROOM - I am not aware that that has ever been the position. It may have been the position under the former government because I know that under the former government there was consideration given to the mothballing of it, which I do not think has ever been admitted to. My understanding was that Hydro was negotiating for an extension. Obviously when it was transferred across the nature of the use of the gas and the pipeline changed and that was a relevant factor, but that happened under the former government, not under our Government.

Mr BACON - Did you meet with Tasmanian Gas Pipelines and did they tell you that there would not be a need for gas and that Hydro had told them that they would not be entering into your contract beyond 2017?

Mr GROOM - I don't have any recollection of that, but I don't think it's accurate - that's my point.

Mr BACON - You're allowed to say 'no'.

Mr GROOM - I have answered the question, Mr Bacon. It may have been under the former government.

Mr BACON - No, I am talking about a meeting with you and Tasmanian Gas Pipelines.

Mr GROOM - Mr Bacon, one of the points I will make to you on this is that you can't have a conversation about gas and not reflect on your government.

Mr BACON - That is fine.

Mr GROOM - Because the genesis of it was during your government.

Mr BACON - Yes, but did you meet with the -

CHAIR - Order. We are just to-ing and fro-ing. Just ask the question and answer it, if you do not mind.

Mr GROOM - What happened was that a contract was entered into, which is on the public record as being a difficult one - that is to say, it was incurring significant losses. Everyone understands that. Power prices were put up and that happened under your government. The issue around the gas contract existed under your government. You then transferred that across to Hydro which fundamentally changed the profile of the use of that. I can't speak to your government specifically, but under your government there may have been some intention for it to not be extended out. To the best of my knowledge there was always going to be the need for gas going forward in relation to the balance of the gas assets.

CHAIR - I need to move to another person.

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Mr BACON - Chair, the question was whether the Minister for Energy met with Tasmanian Gas Pipelines?

Mr GROOM - I have already answered that question.

CHAIR - We will move on to the next question.

Mrs RYLAH - Minister, can you outline to the committee the steps that the Government took to ensure energy security through the Energy Supply Plan? I also have a follow-up question.

Mr GROOM - I appreciate the question because I think it is really important people recognise how critical the Energy Supply Plan was. We were dealing with a very extreme circumstance that required difficult judgments to be made. The Government determined very early on that in making decisions we wanted to ensure there were no forced power reductions, we kept the lights on, we were protecting jobs and the economy and were doing everything necessary to keep power prices as low as possible.

We were notified of the outage on 20 December. An outage, in and of itself, is not that unusual. The advice we had was that Basslink had to do some further work to determine what exactly that meant. We were advised of that, as was the public, on 22 December, which was when they confirmed it was a major failure of the undersea cable and advised us and the public that there would be a 60-day repair period.

As a consequence of that, I updated Cabinet and we met with the chair and CEO of Hydro and spoke about some of the initial steps that needed to be taken in response to that. I can recall there was discussion about maximising the gas assets, for example. There was obviously some work being done in terms of the initial government response. There was work being done on the Basslink site as well. They made a further announcement on 14 January that there would be a further extension of the outage period. As a consequence of that, we escalated the response. The Cabinet met and formed the view that we needed to establish a specific subcommittee of the Cabinet. That was done and it met the first time the following day. Further steps were taken from that point in terms of the development of the Energy Supply Plan.

That subcommittee met on a weekly basis. There were a series of committees that were put in place to coordinate across government and the independent contractors were secured and an independent advisor to advise the Government. The initial proposal was for supplementary generation of about 100 megawatts and load reductions. Then as circumstances unfolded, we escalated that to what was then publicly known as the Energy Supply Plan, which had the 220 megawatts of supplementary generation, load reduction and a number of other matters.

Mrs RYLAH - What I have learned in the evidence we have been hearing through the inquiry is that the measure the NEM use for determining energy security is very narrow in that it only measures peak demand. I know you recently went to the COAG meeting and South Australia has also had significant challenges with its energy supply. Was the broader issue of energy security raised at COAG, the issue in the NEM and how they look at energy security for the whole national energy network?

Mr GROOM - You are right in saying there are broader considerations. Through the national structure, AEMO, together with the jurisdictional coordinator and the responsible officer,

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obtain advice on supply and demand in the Tasmanian market and provide that information into the market, but there are broader considerations. Some of the circumstances that were confronted in South Australia would be an example of it. South Australia has had a dramatic increase in intermittent generation, substantially wind, but they don't have the advantage we have. In Tasmania, because we have base load renewables, we have a greater capacity to be able to take on other intermittent forms of generation via wind or solar, for example. In South Australia they don't have the same benefit. There have been a number of more traditional generations plants that have been closed down so they have a heavy reliance on interconnection from Victoria and New South Wales to maintain system stability and there have been some issues with that. There were some planned outages for an upgrade that had an impact on their capacity to import across those links. They had an extremely still day or evening -

CHAIR - Try to make sure this goes back to our terms of reference. I am trying to work out how it does.

Mr GROOM - Sure. They had an extremely still day so because the wind wasn't blowing they needed to import and they had some issues which caused the power prices to go up. These are part of the broader considerations COAG is looking at in energy security and strengthening interconnection is one of them.

Ms COURTNEY - I would like to ask about any expectation of forced power rationing for residential or retail customers. We heard evidence from Mr Davy that he had no expectations there would be forced rationing on retail customers and Ms Kardos also gave that evidence in one of our hearings that there would be no need for essential load reductions. On a number occasions we have heard Mr Green talk about potential brownouts, blackouts and power rationing. Was rationing for residential customers something you considered during the energy crisis?

Mr GROOM - Our whole plan was about avoiding it. We were absolutely determined to avoid forced power reductions in Tasmania for anyone. That is what the plan was about and that is why we had to make the decisions we did on supplementary generation, which were difficult judgments to make. It was critical from our perspective because we believed if we faced a forced power rationing scenario it would cause untold damage to the Tasmanian economy. Our plan was to avoid it, but it is true to say the Opposition had a different view on that. At one point Mr Green even called for it, so it is a point of contrast. The point I am making about the Energy Supply Plan is that it was critical. We were dealing with an extreme natural weather event and the link going down. We faced very real risks from a supply situation and we had to act. That plan was about putting in place supplementary generation and commercially agreed load reductions with major users, as well as a number of other factors, to ensure we kept the lights on, avoided forced power rationing, protected jobs and the economy. The other objective we had was to keep power prices as low as possible.

Ms COURTNEY - For all the actions the Government took, were power prices impacted for residential customers? Were residential customers paying more because of this?

Mr GROOM - No. That was a very strong focus of ours. Part of our objective was to keep power prices as low as possible. It has been confirmed by the Economic Regulator that regulated power prices - that is, power prices for the vast bulk of Tasmanians - were not impacted in any way by the energy supply event. Some people have made comments to the contrary, but that was the fact.

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A small number of larger customers had exposures, in various ways. Some were exposed to the spot price and others fell out of contract. The Government has sought to work with affected customers and to address those circumstances. That was a very small number.

The regulated customer base, the vast bulk of Tasmanians, felt no impact as a consequence of the event. Power prices for regulated customers today are still lower than when we came into government, by about 2.4 per cent.

CHAIR - We have heard about the farming fraternity. A lot of those people fell out of contract and are renegotiating their positions - in many instances their energy costs went up profoundly. The suggestion was that the energy situation had caused that situation. What input did you have into that? Do you have any statements to make in relation to that, and the impact on those farmers, who complained bitterly?

Mr GROOM - Through the Government and through the energy business we have sought to work with impacted customers to address those concerns, which includes a number of farmers and other customers. It is important -

Ms FORREST - What do you mean by 'work through it'? You are being very vague about what you have done.

Mr GROOM - To identify the extent to which there may be an averaging out of the price, for the period that they otherwise had an exposure. The Government has sought to work with the energy businesses to deliver that outcome. I can send you an update on that.

CHAIR - Did you discuss the renewal of those contracts with Aurora, and energy suppliers? Did you discuss the increase in those contracts with those farmers, and with the energy instrumentality?

Mr GROOM - The Government engaged to try to understand the ways we could help alleviate impact for those affected customers. That did happen. I can send an update for the committee in relation to it. I am not saying this to dismiss it, because for the affected customers it had an impact, but we are talking about a very small number of customers relative to the total customer base in Tasmania.

The vast bulk of Tasmanians, all households and most small businesses, are regulated. There was no impact for regulated customers as a consequence of the energy security circumstances we were dealing with earlier this year. The Government has been very focused on that. For that customer base, even today, those power prices are about 2.4 per cent lower than when we came into government.

Ms FORREST - Mr Chairman, we are going over what has already been said.

CHAIR - Did you become involved in discussions with any of the farmers whose contract prices increased? Did you raise the issue of increases in their contracts, and that it could be related to the energy crisis?

Mr GROOM - The Government has expressed its concern. We sought to engage with the energy businesses to identify ways where we might reduce the impact on those affected consumers.

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Ms FORREST - Are we are talking about financial support for these people? Are we talking about a concession paid to Aurora to be passed onto these people?

Mr GROOM - It is probably best I take the question on notice and send an update on this because I want to be precise. The Government made efforts, working with the energy businesses to look for ways to smooth out the price impact so it would reduce the consequence for affected consumers. I am happy to provide further information. We are talking about a small number of customers. I am not dismissing it, but it is a small number.

CHAIR - The committee will put the question on notice. This was done because of your undertaking that customers would see no increases as a result of the energy crisis.

Ms COURTNEY - Minister, turning back to some of the conversations we had at the beginning of this hearing around renewable energy and its role in the future. As we saw last year, hydro-electric power is determined largely by the amount of rain we have. Could you tell me what work the Government is doing with regard to climate change and potential impacts it might have, and making sure we are on the front foot with climate change?

Mr GROOM - This is one of the important tasks we have. We have asked the Energy Security Task Force to look into this issue. What we were dealing with was the absence of rain and the link going down. We did not just have a dry patch. This was off the Richter scale. We need to understand the extent to which there are changing patterns of rainfall, specifically to the extent they might impact on inflows into Hydro catchments. We can then factor that into future risk assessments and make sure we are mitigating our planning. That is an important piece of work, and it is part of a function we have given to the Energy Security Task Force.

Ms COURTNEY - Another renewable is solar. A lot of progress is being made on battery storage, and we do not see a lot of it in Tasmania yet, but electric vehicles have potential. Where do you see those playing a role in the future of Tasmania's energy mix?

Mr GROOM - These questions go to future demand, and are relevant to challenges being confronted by the transmission companies, embedded generation and battery storage. There is a lot of technological development. We have asked the Energy Security Task Force to look into this. We are looking at some of these issues through the draft climate change action plan. We have also been working with energy businesses in looking into it.

It is important we look at the potential for electric vehicle rollout in Tasmania. That technology is developing rapidly. There is the argument it is consistent with the Tasmanian brand. We have worked with the energy businesses in exploring it. We will continue to work with a number of interested stakeholders in the potential for further electric vehicle rollout in Tasmania.

CHAIR - We are on energy security here. It would be good to work through that area.

Ms FORREST - I have other areas I want to go to, Chair. I will go to the energy security one first. These are questions we put to the Treasurer and he deflected a number of them to you.

The Tasmanian Government Energy Strategy, published in 2015, did not contain any discussion of security, planning standards, or capability of the Tasmanian system. We note in the

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recent progress report the Energy Security Taskforce, among other things, will review energy security oversight and arrangements, and delivered its final report to Government in mid-2017. I understand, from the Treasurer, the intention is still to transfer the energy security responsibility to Hydro Tasmania. I asked the Treasurer if he was able to provide a draft version of the revised ministerial charter. He was going to check on that. Are you able to shed any light on whether you can provide us a copy of that?

Mr GROOM - In terms of any information requested, my understanding is that we are working through a process with the committee on that. I am certainly happy to look at it in that context. In relation to the proposal to transfer responsibility for energy security, this is another important issue and as with a lot of these things, you have to understand the history of it. Before the NEM, Hydro was the generator and had a statutory responsibility under its licence for energy security in Tasmania to ensure that electricity demand could be met. When they were doing the preparation for entry into the NEM as part of the establishment of Basslink they looked at how that would work because it was understood there would be national regulatory arrangements that were relevant to energy security. NEMMCO, the forerunner to AEMO, had a role working with the equivalent of the jurisdiction coordinator. There was a recognition that that structure would be put into place so therefore it was decided, I think in 2005, to remove the licence requirement under the act. In that sense Hydro went into a different space because it no longer had that formal licence condition.

What is important to understand in that context is that the Labor government at the time did not just leave it at that. What they did, working with Hydro, was to put in place prudent water management guidelines so that Hydro could manage the hydrological risk, recognising that it was the only entity that could effectively manage hydrological risk which is a very central part of energy security. It is not the complete story when it comes to energy security but it is a central part of it. Those plans were put in place and were initially set at 30 per cent on 30 June and then there was a decision to reduce them to 25 per cent in about 2012. In addition to that there were some requirements that operated through the corporate planning process. I cannot be more specific about this but there were some requirements through the corporate planning process that were also removed in 2009 when the Tamar Valley Power Station was acquired. My understanding is that there was a belief at the time that it was inappropriate from a competition perspective that Hydro would still have that requirement in circumstances where another entity had a major generating plant, so that was removed.

When the expert panel looked at all these issues they made various comments and the former government proposed to either sell the Tamar Valley Power Station or transfer it to Hydro. As a consequence of that, the expert panel made a reference to the potential for there to be a return of what it referred to, I think, as 'energy security' to Hydro Tasmania. In its response to that the former government said it would transfer it back but did not. We were aware of this and included it in our conditions when we contemplated the EOI process and are continuing to pursue this. We have been working with Hydro on some updates to the ministerial charter to make sure this is further clarified and we are also going to get advice from the Energy Security Taskforce.

Ms FORREST - Have you had any response from Hydro in those discussions about the revised ministerial charter?

Mr GROOM - We are still working through that. I think there has been some iteration. From our perspective we think it appropriate that we be clearer about Hydro Tasmania having responsibility in that regard. Obviously it has access to Basslink -

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Ms FORREST - Now it owns a power station.

Mr GROOM - Yes, now it has the gas, the water, and indirectly the wind.

Ms FORREST - When would you expect that to take affect, then?

Mr GROOM - We are still working through it, but are keen to do that as soon as we can. We may also look at legislative changes and are getting further advice on it.

Ms FORREST - Will you advise Hydro at the time of the level of security you will expect?

Mr GROOM - No doubt that will be worked through in terms of reliability and standards and the like.

Ms FORREST - The energy security, what level of security you expect from them.

Mr GROOM - In terms of the reliability, yes. They will be issues we will need to work through. Before, because Hydro had access to everything, there was a clear statement in its licence that it had a responsibility to ensure it could meet electricity demand requirements in the state. That is consistent with the intent we would be pursuing through the ministerial charter changes and also potentially through legislative reform and we will get further advice on that.

Ms FORREST - Minister, you have touched on this a bit but I will put this question to you, as I did to the Treasurer, who suggested you should respond to it. The National Electricity Market has a system of independent experts and public hearings to set security standards, so why does the Government consider the NEM arrangements not adequate for the Tasmanian purpose?

Mr GROOM - This is part of the question, but I think they are slightly different things. The national regulatory arrangements are about the market's response to supply and demand. In other words, they monitor supply and demand and put information into the market as to whether they think over the coming period there is sufficient supply to meet demand. That is intended to send signals into the market - for example, if there was a shortage of supply to motivate further investment in supply. That is a market response. In addition, what we have in Tasmania is the need to manage the physical energy - for example, the water. That is not really in AEMO's jurisdiction. At the end of the day Hydro are the experts on management of the water. They have extraordinary expertise on managing water. There is a practical need for there to be a state perspective on the overall energy security matrix.

Ms FORREST - The question is around how you set the security standards.

Mr GROOM - There are reliability standards set under the national framework. As we take advice and work with Hydro on their ongoing responsibilities, we will have discussions about what that obligation means. In essence it is recognising that we probably need something akin to what previously existed prior to entry into the NEM, and that is a recognition that Hydro Tasmania has responsibility for managing its portfolio to ensure electricity demand can be met in Tasmania.

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Ms FORREST - The National Electricity Market process includes public input opportunities so what, if any, public input do you think would be appropriate in deciding the appropriate level of energy security for the state?

Mr GROOM - In the first instance, through the Energy Security Taskforce we would be keen to get people's views and we have made that clear to the Taskforce.

Ms FORREST - That is going to finish its work, though, and I am talking about into the longer term.

Mr GROOM - It may be. That is something we can look at as to how people can contribute their thoughts on it. We can look at the national level, but I have not formed a view on that.

Ms FORREST - Do you think it's appropriate for the public to have some input into this, though?

Mr GROOM - I would need to take advice on it. I certainly think it is important that people express their views on the energy security issues we have as a state. Whether it would make sense as part of some sort of regular review process, I would have to take advice on that.

Ms FORREST - Will you be looking at the decisions Hydro's makes on that to ensure they adopt the least costly means of meeting the security needs of Tasmania?

Mr GROOM - My intent would be making sure they are acting responsibly. The intent is to encourage businesses to be efficient but with a clear focus on their primary responsibility of delivering the electricity requirements of the state.

Ms FORREST - There is a balance and a cost associated with this, so will you require Hydro Tasmania to reconcile its commercial objectives with its traditional responsibility in the interests of the state?

Mr GROOM - Again, I think this is part of the core question and no doubt it is of interest to this committee, the Energy Security Taskforce and the Government in getting that balance right. There are some who would suggest that under the current arrangements Hydro have got no energy security responsibility and they are all about commercial profits. I do not think that is an accurate reflection of their responsibilities at all. I know they do not think that. The truth is that under the governance arrangements they have currently in place they have an obligation to deliver sustainable commercial returns. As a generator of electricity using hydro in the main, obviously that requires you to be prudent in the way you utilise your water. In addition to that, they are required under the act to apply the ministerial charter requirements. The current one references their obligation in terms of prudent water management. They are both examples of where they have obligations to act very responsibly in this regard.

Ms FORREST - How will you check if they are complying? What is the process for that?

Mr GROOM - You have an ongoing engagement. Through the planning process, you reinforce the expectations of the Government and the requirements of the Government. I was just going to complete the point. I do think this needs to be further clarified. That is why the Government has expressed its view on this. It was an issue that emerged out of the expert panel's review. The previous government indicated an intent to address this issue, but they did not.

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Mr BACON - Did you ever receive a valuation from Hydro for the combined-cycle gas turbine of \$75 million?

Mr GROOM - There were a range of valuations that were provided over time.

Mr BACON - Was one of those \$75 million?

Mr GROOM - I do not have that information in front of me obviously, Mr Bacon, but there were a range. I have seen you pursue this line of questioning a bit, this sort of -

CHAIR - If you could just restrict yourself to answering the question.

Mr GROOM - I appreciate that, Chair, but this question goes to this issue of the Government driving the sale of the CCGT through the dividend process, and it is absolutely wrong.

Mr BACON - It is not true?

Mr GROOM - No, and I have said that. In fact, I think every person you have asked the question of has said that.

Mr BACON - Do you accept that it is a little bit difficult to accept that, when Hydro wrote to the Treasurer on Budget day to say that their expectation is that dividends will be zero, and the Treasurer comes back and says on the very same day that it is going to be \$75 million, then both your and the Treasurer refuse to say you have never had a valuation of \$75 million, then what you are saying does not quite add up?

Mr GROOM - There was a range of valuations.

CHAIR - Minister, that is the document that is being referred to. You might have it there. If that helps with answering any of the questions -

Mr GROOM - I am happy to answer the question, Chair. There were a range of valuations. If the suggestion you are making is that the Government drove the sale of the CCGT through its dividend policy, and that is where the \$75 million figure came from in terms of the targeted returns, that is wrong. I have heard you ask this question many times now, Mr Bacon. Every person you have asked has said it is wrong.

Mr BACON - I am not sure that is what has actually happened. In fact, Hydro Tasmania have said that it is from that point forward that they have made those decisions. We have a letter that has largely been read into the *Hansard* from Stephen Davy, the CEO, to Tony Ferrall.

CHAIR - Which letter is that?

Mr BACON - It sets out on 10 February -

Mr GROOM - Is this the letter that was provided to Leon Compton?

Mr BACON - Is that your allegation?

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Mr GROOM - This issue has been raised. It is a fair question -

CHAIR - No, I would prefer that we ask the questions here, Mr Groom. You will provide the answers to the best of your ability.

Mr BACON - This letter sets it all out in black and white that the \$75 million dividend can only be delivered - it has 11 points, as the Treasurer said before, but two of those are that there be no requirement to enter into new non-commercial arrangements with suppliers in Tasmania, including the Tasmanian Gas Pipeline, and the timely closure and sale of the Tamar Valley combined-cycle gas plant. Do you still maintain that it is not the dividend driving the policy?

Mr GROOM - You clearly have a very strong focus on this letter of 10 February and I find it interesting that it has found its way into the public domain. I will make the point to you again that this suggestion that the Government drove the sale of the CCGT through its dividend policy is wrong. You have asked the question many times and everyone has provided you with the same answer. You are flogging a dead horse.

Mr BACON - Have you ever received a valuation for the -

Mr GROOM - You are now repeating yourself.

Mr BACON - I would like an answer.

Mr GROOM - You are repeating yourself. I have answered the question.

CHAIR - Order. We have been down this path. We went down this path this morning and it has been covered off on many occasions. The minister has provided an answer and the Treasurer has provided an answer. We need to move forward and we need to move on.

Mr BACON - You said before, in response to an answer from Ms Courtney, that brown-outs would have untold damage on the Tasmanian economy. When Hydro Tasmania presented this presentation to you on 8 October 2014 about the optimisation of TVPS, which said that the combined-cycle gas turbine plant is not required for energy security, was it your understanding at that time that the modelling was done based on demand-side management across the economy, meaning small businesses and households?

Mr GROOM - I want to be clear about this, Mr Bacon. At all times the Government considered forced power reductions unacceptable. That is why we put in place the Energy Supply Plan. Some people, regrettably, have tried to dismiss this. This was a massive effort right across government to put in place supplementary generation, as well as the negotiated load reductions, to avoid exactly what Mr Bacon is referring to - forced power reductions. Given that Mr Bacon has asked the question, it was his party and his leader that called on the Government to engage in forced power reductions. It was the unequivocal objective of the Government to avoid it. That is why we had the plan. It was a phenomenal effort in putting that plan in place. It demonstrates the commitment of the Government to that outcome. We do not have to deal with hypotheticals. We were confronted with this issue and the Government's commitment is evidenced through the Energy Supply Plan.

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Mr BACON - Hydro Tasmania did come to you in October 2014 with a request to sell the combined-cycle gas turbine, a presentation to prove to you that it was not required for energy security and that included demand-side management across the economy.

Mr GROOM - Hydro definitely came to us wanting to sell the CCGT, as they came to you wanting to sell the CCGT, which is the point I make in relation to this argument about the dividend. The genesis of the desire of Hydro to sell the CCGT happened under your government. It pre-dated our Government, let alone -

Mr BACON *interjecting*.

Mr GROOM - Can I answer the question?

CHAIR - Yes, answer the question.

Mr GROOM - I make that point, Mr Bacon, because you conveniently ask lots of questions about ours but you do not want to reflect on your period of government.

Mr BACON *interjecting*.

CHAIR - Let the minister answer the question.

Mr GROOM - Thank you, Chair. I make it clear that the Government's absolute intent, its commitment, was to avoid forced power reductions. That is why we put in place the Energy Supply Plan. You do not have to have a theoretical discussion about this. We confronted an energy security event because it did not rain and the link went down. The Government's response is there for all to see. We put in place an energy supply plan to avoid forced power reduction. That is what we did. It demonstrates the Government's commitment in this regard.

Mr BACON - Did you make it clear to Hydro Tasmania in that presentation of October 2014 that you would not accept power reductions for households and small businesses?

Mr GROOM - The Government's record in this regard is self-evident because we have been through the circumstance.

CHAIR - Can you answer that question?

Mr GROOM - Yes. We have been through this circumstance and we have made it clear what our commitment is. What we made clear to Hydro in relation to the proposal to sell the CCGT was what was set out in my letter of about 11 August. What that requires is they review the prudent water management guidelines. That is important. The primary method by which Hydro was managing hydrological risk and therefore its fundamental contribution to the management of energy security in the state was through the prudent water management guidelines, through those levels.

Mr BACON - And the combined-cycle unit?

Mr GROOM - In 2012, a decision was made to reduce those levels; that happened on the eve of the carbon tax period. We said to Hydro that if they wanted to contemplate the sale of the CCGT, we wanted assurances on energy security. We wanted to be very clear about their

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obligations on energy security and we wanted them to review the prudent water management levels. The unit was never sold, but had it been sold it would have been in the context of a revised prudent water management level.

Mr BACON - Can you answer the question for the committee: in that briefing in October did you make it clear to Hydro Tasmania that it was unacceptable from the Government's point of view to have power rationing for small businesses and residential customers?

CHAIR - I won't allow that question to go any further. Minister, can you provide an answer to that direct question?

Mr GROOM - That was a briefing by Hydro to me. Hydro then formally requested approval. We contemplated it and got advice on it and then presented our position in writing. We said energy security is critical, prudent water management levels must be reviewed, there must be clarity on energy security responsibility and we want assurances direct from the board. That is what we said. At the end of the day it was not sold and all these questions are premised on a false notion that this somehow contributed to the energy security circumstances that were confronted. All the advice I have received consistently is that that is not correct.

CHAIR - And you made no reference in that document and those answers in relation to residential load reductions.

Mr GROOM - Residential load reductions, from our perspective, were unacceptable, and that is why we had an Energy Supply Plan.

Mr BACON - Did you make that clear in October 2014? To be fair, that is an easy question. He can say no, that's an option for him.

CHAIR - We have gone through this and the minister has provided the answer a number of times today. The question has been asked seven or eight times that I am aware of. Can you answer the question - yes or no, minister?

Mr GROOM - The briefing the member is talking about was a briefing from Hydro to the minister and the Treasurer. The Government made it very clear to Hydro Tasmania that forced power reductions are unacceptable to the Government.

Mr BACON - Was that said in that meeting of October 2014? Why is that question so hard to answer?

Mr GROOM - It was a briefing to me, Mr Bacon.

Ms COURTNEY - Did you approve the unconditional sale of the CCGT?

Mr GROOM - No, and I will repeat the point I've made. This notion of the Government's approving of a highly conditional EOI process impacted on the energy security event is wrong. All the advice I have received is that it did not impact on the energy security event. I know some people struggle with this concept but it did not rain, the link went down and we responded to it. That response was extraordinary and at the forefront of that response was ensuring there were no forced power reductions, we kept the lights on, protected jobs and the economy and kept power prices as low as possible.

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CHAIR - So your answer to that question is no?

Mr GROOM - Yes.

Ms COURTNEY - I would like or some detail around the Energy Supply Plan. You mentioned the unprecedented nature of the events that led up to it, so can you discuss how and when an escalation in the response happened and when it was required?

Mr GROOM - There were a series of escalations. We were notified of the outage on 20 December and because it wasn't unusual for there to be an outage - sometimes there are outages that go for an hour or so - they needed to do some further work to confirm exactly what the effect of that outage was. We received that confirmation on 22 December and I informed the Cabinet. We met with the chair and CEO of Hydro and spoke about some of the arrangements they would be pursuing in response to that news. There were various internal things done within government. For example, WSAC - the Water Storage Advisory Committee - started meeting on a weekly basis and various other committees within government were established or activated in response.

There was obviously some work being done on the Basslink side in terms of responding to the repair requirements. There was a further public announcement on 14 January advising of an extended outage. I think it was going from 19 February to 19 March. In response to that there was a further briefing to Cabinet and the decision to establish the subcommittee, which met the next day, 15 January, and from that point there was a further escalation in relation to some of the plans on temporary generation. There was some further work done in terms of load reductions through the major users. There was then further work done over the coming weeks and ultimately that culminated in the Energy Supply Plan that was made public and contemplated the 220 megawatts of temporary generation, load reductions and a number of other measures.

Ms COURTNEY - Did you get any expert input into the appropriateness of the response that gave you or the Government any more confidence that it was the right thing to do?

Mr GROOM - Yes, we did. We engaged an independent expert to advise the Government and also to scrutinise Hydro's response as well as the response across government. We received a number of briefings over time from that independent expert in terms of their view on the appropriateness of the response. I will say they were very complimentary of the response, including - and I think this is important to acknowledge this - the quality of Hydro's modelling. This has probably not been discussed in the public domain, but some of their forward projections in terms of where the water was going were frighteningly accurate, with the benefit of hindsight. This was an observation made by the independent expert. I think it was quite early on that they had identified essentially where they thought the water would go under various scenarios.

CHAIR - Who was the independent expert?

Mr GROOM - Mr Andre Botha.

Ms FORREST - Who does he work for, and his credentials?

Mr GROOM - I would have to confirm the details. The company is Vector. He has a lot of experience in Tasmania and is highly regarded. Their work was very helpful in reassuring the

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Government that everything that needed to be done was being done. That was a completely independent process happening in real time as the response was unfolding.

Ms COURTNEY - Minister, were any regulatory changes required to implement the plan?

Mr GROOM - There were a number in terms of ensuring we were able to roll out the diesel as quickly as possible. We took advice on that and put in place appropriate arrangements. It was very important from our perspective, from Hydro's perspective and everyone involved that we were being responsible in terms of environmental or other impacts involving local communities. Obviously we had a pretty serious task. It is one of the points I do not think is reflected on enough, if I may say, but we essentially built a major power station in Tasmania in a matter of weeks when it would normally take 18 months or two years to do. It was extraordinary. That has been recognised by independent experts and those involved in the supply of the diesel on how remarkable the speed with which that happened was. That was critical to ensure we were in a position to respond to any of the potential unknowns, such as a further extension of the dry, a further extension of the Basslink outage or some other adverse impact that we would have to deal with. It was a truly remarkable effort.

Ms COURTNEY - Over the past nine months or so through these challenges the state has faced, are you comfortable with the way the Government responded to the challenges?

Mr GROOM - From my perspective I think it was an outstanding response and I am proud of it, I really am. When I think of the effort people put into this, the difficult circumstances they had to deal with, the fact they worked tirelessly - in some instances over months - under a lot of pressure and a lot of public scrutiny, and in some instances a lot of criticism. It was remarkable. It is one of the untold stories of the energy security event.

Ms FORREST - I raised this issue of financial risk with the energy entities with the Treasurer. The energy entities carry huge levels of debt. TasNetworks is operating as a lending facility for the working capital of government. The debt-to-equity ratio is not outside the ballpark, but it is at the upper limit. Do you believe it constrains TasNetworks in running its business, and in looking at innovative options for managing their business? Perhaps they could become involved in things like battery technology, because that poses a significant threat to their ongoing financial sustainability?

Mr GROOM - I do not believe it unduly constrains them, based on the advice I have received. They believe that level of debt is manageable. As you have indicated, it is in the ballpark in terms of similar organisations.

A company like that has to be very mindful of some of the emerging technological developments, such as battery storage. On the positive side, this could potentially be electric vehicles, but there is also a trend toward more uptake of embedded generation.

In some instances these are genuine threats. Some are opportunities. They need to be mindful of it. They are looking of these issues. They have been at the forefront of the Government exploring the potential opportunity of electric vehicles. Senior management at TasNetworks are alert to these issues and pay attention to them. I do not believe it operates as a constraint, which is the advice I have received.

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Ms FORREST - The AER sets prices every five years for TasNetworks and assumes a certain debt-to-equity ratio, which is about 60 per cent at the moment. Doesn't this give the general government a credit limit over that five-year period that can be used for its own ends, rather than giving that capacity to the energy entity, particularly TasNetworks?

Mr GROOM - That is not how we view it. Judgements are made about what an appropriate debt-to-equity level is for a company of this kind. It is a regulated business and it has a lot of certainty, for the reasons you have described, in terms of its revenue. It can typically take a higher level of debt than some other companies can. We are focused on ensuring that business is being run efficiently and sustainably with an appropriate level of debt, and that is consistent with the advice we have received.

Ms FORREST - In other risks to their financial performance, I asked Hydro in a recent appearance about insuring against an event, such as an extended outage of Basslink. They said it was not insured, and they were not looking at insurance. Does that bother you? We have had an event that has been unfortunate in many ways, the drought and the extended interconnector outage. Droughts are part of our landscape in Australia, and it will happen again. We could have an outage of the cable again. Wouldn't you think it prudent to try to look at insurance for such an event?

Mr GROOM - I do not have that information at hand. I will need to take further advice from Hydro as we work through the response to this. These are some of the issues we are keen to work through to understand what the appropriate mitigation is. They do not have complete exposure. Hedge arrangements deal with low inflows. You are right, the combination was an extreme one. We need to understand the best way of managing that from an energy security perspective, ensuring that is done in the most cost-efficient manner possible.

Ms FORREST - Insurance is important. The energy crisis was dealt with at significant cost so that we did not have to turn the lights off.

Mr GROOM - I do not know. I am not familiar with what products might be available, what they would cost, how you could risk assess that and what -

Ms FORREST - Is it not worth looking at that?

Mr GROOM - It needs to be looked at. This is part of the work that we will do through the energy security taskforce. Hydro itself is doing -

Ms FORREST - Is the Energy Security Taskforce looking at insuring against such an event?

Mr GROOM - They are looking at an appropriate response from an energy security perspective. Making sure the business is in a position to do that sustainably would be part of that. Hydro is also working on this. As to your specific question of what is insurable in the event we have just dealt with, I am not familiar with the products. I am not familiar with how they would be risk-assessed or what they would cost. All of those things are relevant in making judgments.

Ms FORREST - Would you expect an extended outage of the interconnector would be considered a key risk for Hydro?

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Mr GROOM - It has to be, yes. The point that I was making before. Learning from this experience and then reassessing risks. Hydro described to us, before this happened, the sequence of events that took place. The record dry, combined with an extended outage, is a one in 1000-year event. It has been described as less likely than that. The base assessment -

Ms FORREST - You would say it would still be one of the key risks you have to consider?

Mr GROOM - Yes, there is no doubt. They -

Ms FORREST - Why does that not appear in the key risks in their corporate plan?

Mr GROOM - I do not have that document. They have to reassess these things. We need to understand the potential impact of Climate Change, what that means for rainfall patterns, and what that might mean for inflows into catchments. You can then reassess the prospect of a reoccurrence of the dry period we experienced, or worse. I cannot tell you what that reassessment might be, but your starting position is that it happened, so you would consider it to be more probable, albeit very unlikely.

Ms FORREST - Surely you expect it to be in the key risks now, if not before the event? It is a bit of a lifeline.

Mr GROOM - They were aware of the potential risk of an outage and a dry. The outage also needs to be reassessed. They will need to make an assessment of what the likelihood is of another extended outage. The combination of that work that informs the risk assessment. You need to make sure you have mitigation plans appropriate to meet that risk assessment.

CHAIR - The Tasmanian Minerals and Energy Council said they are heavily dependent upon the performance of the state energy's businesses. They make the statement:

As such, the absence of a clear set of strategic plans, which moves Tasmania from the current situation of high debt and high charges, to one of sustainable debt and internationally competitive, delivered, contestable loads, remains a priority of TMEC, as it should be a priority for the state Government.

Would you like to comment on that statement?

Mr GROOM - Yes. I understand where they are coming from. What they want to see is greater efficiency in our energy businesses, and so do we. We have made good inroads in this regard. There will always be people who say it should happen faster, and it should be more. You cannot blame them for saying that. We have seen, in the initial endeavours to reduce costs in the energy businesses, recurrent savings in the order of \$50 million. That is a significant saving that now does not flow through to power prices. This is a focus of the Government. What they also acknowledged was they believed the energy strategy was on the right path, and so do we. We think this was a failure previously, so we put that strategy in place and we are continuing to work with the businesses to secure greater efficiencies and make sure we get the best possible outcomes for everyone from a power price perspective. When you think about this from the Government's perspective, we have to make sure we are taking into account everyone's interests, not just big business.

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Mrs RYLAH - Minister, in the Government's submission it talks about the formal handing back to Hydro for their responsibility for energy security. We know one has to get a balance between the lowest cost outcome; it harks back to the efficiency issue you just mentioned. What are we considering in regard to making sure that should Hydro get this energy security responsibility we get the least cost outcome, but it is the least cost outcome and in the best interests of the state? Can you give us some understanding of that?

Mr GROOM - The way you have captured that is right. It is not just about cost. If you literally applied an absolute test saying it is least cost, you might get yourself into a bit of strife. It is least cost, acting responsibly and having regard to the overarching obligation of Hydro to ensure they are in a position to meet Tasmania's electricity demand. That is the concept, a concept that existed prior to Hydro entering the NEM. What happened as a consequence of that was they developed the prudent water management levels and a decision was made to reduce the prudent water management levels in 2012. It is our view - and we have expressed this - that should not have happened. I say that with the benefit of hindsight, but with hindsight we would say that is the case. That is why we have made it clear to Hydro we believe they need to be operating at the higher level - pre-2012 level change - and they agree with that. They have set targets a little over 40 per cent towards the end of the year in dam storage levels. Their target is going to be 30 per cent on 30 June, but I think they are on track to be a little bit over that. Having a proper assessment of what those levels should be going forward is also part of the assessment that is being undertaken by Hydro and the Energy Security Taskforce.

Mrs RYLAH - I note OTTER ceased reporting on dam levels in about 2009 and then we had a period where there seems to be no reporting on dam levels. I know it was not in your term of government but do you know what was happening? When did the prudent water management come in? How did that relate to OTTER ceasing to report, or was that just let go by the previous government?

Mr GROOM - I am not familiar with the history of that, but the prudent water management level guidelines were first introduced, I believe, in 2005. It would have been about then when we entered the NEM. They were reviewed in 2012. We have expressed our view on that and Hydro has adopted the view that they believe it is appropriate they apply a higher level - so something consistent with the pre-2012 prudent water management levels.

As to the publishing of dam storage levels, Hydro does do that. They do it through their website. It is quite sophisticated and detailed, if you look at it. Hydro's expertise in water is quite remarkable. I think we are very fortunate to have the level of expertise that exists within that organisation on this. There are good records and they are made public.

There is also oversight in terms of water levels through the WSAC - the Water Storage Advisory Committee. They get information from Hydro on a regular basis that is also shared with AEMO and the jurisdiction coordinator and the responsible officer. AEMO undertakes a process of making assessments about the supply and demand balance and informing the market. There are risk triggers that WSAC monitors, and they escalate depending on whether those triggers are met. We saw that emerge through the course of this particular event. I believe they met for the first time in response to the water storage situation, and I stand corrected on this, on about 17 December, so before the link went down. Then they met again, I believe - and I stand corrected again - on 23 December, which was the day after Basslink had publicly announced that it was a Basslink cable failure. They then met weekly through the course of the energy security event.

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Mrs RYLAH - Are the triggers you mentioned WSAC operates under dam levels or water storage? Are they the triggers or are there triggers other than the prudent water management levels?

Mr GROOM - Again I stand corrected on this but they are separate to one another, but I think they are sort of related. As I understand it, Hydro has the prudent water management levels and they do modelling and scenario analysis and identify risk bands, and then they establish the prudent water management levels off the back of that. My understanding is that WSAC also have a similar concept where they identify risk bands. I do not think they are completely the same but they are related to one another.

Mrs RYLAH - They are separate? They are separately created?

Mr GROOM - They are separate. WSAC obviously gets their information from Hydro, so they are not completely disconnected. This is part of the challenge we have as a state because at the end of the day Hydro are the experts when it comes to water, and there is no way around that. They do have incredible expertise and we should be very thankful for it. I think it is an important point.

At the end of the day, whether you are WSAC or AEMO, you are going to rely to some degree on the information that Hydro provides. The quality of their information is very high and I think they are widely recognised for that.

CHAIR - You have partly answered a question I asked the Treasurer this morning. Hydro are good managers of water, and I am not disputing that at all, but should there not be this external oversight of Hydro's management of the water - another body there somewhere? I was going to say it is a bit like having the fox in charge of the hen house, but I won't say that. It is a bit like the cat in charge of the rat house.

Mr GROOM - It is not how I would describe it.

CHAIR - I am just trying to make an analogy.

Mr GROOM - I understand the point you are making. We have asked the task force to look at the governance structures. I will make the point that it is very hard to completely replicate the expertise. The expertise that sits within Hydro is globally recognised. It has been built up over a very long period of time and they have very sophisticated modelling. One of the things that was reinforced to us through this whole process, as verified by the independent expert who looked at it, was that the quality of their projections when it came to water were very accurate. They were able to foresee, some period ahead, roughly where it would end. The ultimate low point they identified was 12 per cent and I think it finished at 12.5 per cent.

CHAIR - That is when the public had some concerns, when the accepted level of lakes continued to drop. I think we started at 30 per cent and came down to 25 per cent and then down to 18 per cent and the public was starting to be a bit concerned about what would be the acceptable low level of our lakes.

Mr GROOM - And for good reason. Make no mistake, we were dealing with a risk situation. The Government's response, the Energy Supply Plan, was designed to make sure we

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kept the lights on and were able to continue to operate consistent with people's power requirements. Hydro's capacity to accurately project forward what would happen with water, with a lot of variables, is a reflection of the quality of their modelling and expertise. It is important we recognise that. Through the task force we will have a look at what appropriate arrangements there might be from a governance perspective, but it is difficult to replicate the expertise. It is not a straightforward thing.

Mr BACON - There was a resignation from the Hydro Tasmania board on 16 December last year. What was the reason for that resignation?

Mr GROOM - I couldn't speak to that.

Mr BACON - Who would be the appropriate person I could ask that question of?

Mr GROOM - I don't know the circumstances or what has been put into the public domain. I can follow it up and see what is appropriate in terms of making any public comment on it.

Mr BACON - Was there a reason that wasn't announced at the time?

Mr GROOM - Not that I am aware of.

Mr BACON - Was there a reason it took more than six months to get a replacement director?

Ms COURTNEY - Point of order, Chair. It is quite interesting but I am trying to work out why directorships of Hydro relate to the terms of reference? Why do changes in reasons for director resignations have anything to do with our terms of reference at the moment?

CHAIR - It is a proper point of order because I cannot see where that would have any relevance to any of the terms of reference. Even though the last term of reference says 'matters incidental thereto', I cannot see where that relates.

Mr BACON - You would think the resignation of a director from the board of Hydro Tasmania would be pertinent to an inquiry into Hydro Tasmania.

CHAIR - I don't think it can unless you have other information to suggest it is. I won't allow the question at this time because we need to stick to our terms of reference.

Mr BACON - So we can't ask why it took six months to replace a director of Hydro Tasmania?

CHAIR - No. We are looking at the terms of reference and I can't see it where it impacts on the terms of reference. In moving forward, I was going to ask a question on the other issued I raised before. You talk about Hydro being the experts in water management and so on, but in this instance they got it wrong in a number of areas - the levels of water, recommending the sale of the CCGT, and energy security - so while they are the experts, they did make errors.

Mr GROOM - I guess there were some things you would say weren't quite right. I will take the opportunity to work through this but I want to come back to the base point. What happened with the energy security situation was an extreme dry and the link went down. I know there are these broader theories that there were all these others factors that were causal to it, but that is what

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happened. The response was extraordinary and Hydro was involved in that, as were a lot of other people. I made the point at the outset that the combination of those two things happening was described by Hydro as a one-in-1000-year event. There have been some other assessments that are even less likely than that. I think they would accept that if you were to reassess that, it might not be a one-in-1000-year event; in other words, you are reassessing it. It is with the benefit of hindsight, but I think they would acknowledge that.

CHAIR - The point I wanted to make was that while they are experts in that area, they do not always get it right and they certainly got it wrong here in some areas. That was a big oversight by them. Having done that, back to you, Scott, but I will not allow a question about the resignation of a director because I cannot see how that has any relevance at all right now.

Mr BACON - Unless we find out the answer we do not know if it would, Chair, that is the problem.

CHAIR - Move on.

Mr BACON - No problem at all. Minister, did you ignore Treasury advice before you gave permission for Hydro Tasmania to seek expressions of interest for the CCGT?

Mr GROOM - No. In fact, far from it. We listened carefully to all the advice we received and made sure we put in place appropriate arrangements. Those arrangements are set out in the letter of around 11 August which made clear all of the conditions, including the emphasis on energy security, the review of the prudent water management levels and the clarification of the responsibility for energy security. These were all points that were being made by the Government. I just repeat the point again that we did not sell it, and I reject the suggestion that there is a causal connection between the expressions of interest process and the energy security event. That is based on advice.

Mr BACON - Minister, there have been government claims - and I think Mr Ferguson was most often claiming - that the reason the information could not be released is because it is Cabinet information, when in fact it is contained in a letter from the Treasurer to you.

Mr GROOM - Sorry, what are you referring to?

Mr BACON - This is a letter dated 9 April from Peter Gutwein to you as Minister for Energy about the sale of the Tamar Valley Power Station. The Opposition has received a copy under -

Mr GROOM - Are you talking about the Treasury advice?

Mr BACON - I am talking about the Treasury advice and this letter that goes with the Treasury advice, which has had large parts redacted.

Mr GROOM - The Treasury advice was provided for something that was before Cabinet.

CHAIR - Just a point of order here. We have a question on notice in relation to this very matter that will be provided by the Treasurer and perhaps the minister.

Mr BACON - I have a question for the minister on it, Chair.

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CHAIR - We already have that question on notice. I will let that one go at this stage if the minister can answer it, but we have a question on notice that we will be providing through the Treasurer's office in relation to this very point.

Mr GROOM - Thank you, Chair. I have answered it. The Treasury advice was advice that was provided to the Government for the purpose of something that was before the Cabinet. We were on the public record in relation to this and I think everyone understands our position on it.

Mr BACON - You did not ignore that advice. I think that is the first time you have said that.

Mr GROOM - I certainly did not ignore it, Mr Bacon.

Mr BACON - It supported the position that you took up in that press release that was -

Mr GROOM - I have answered your question, Mr Bacon.

CHAIR - We need to move on to new areas because we have only a short time to go.

Mr BACON - Effectively, you did not ignore the advice that supported the decision of the Government to go to an EOI process for the CCGT. Is that your position?

Mr GROOM - I am not going to go into the advice. That is consistent with the point I have just made. We have made our position clear on the public record in that regard. The notion that the Government ignored advice or did not give due consideration to it is not right.

Mr BACON - You're not saying you followed the advice, you're saying you didn't ignore it?

Mr GROOM - Mr Bacon, I am not going to go into individual pieces of advice. We had advice from all over.

CHAIR - We covered off on this point this morning at some length as well. That is why I elected to take the question on notice.

Mr BACON - We still have not got an answer, though, Chair.

Mr GROOM - I think you do have an answer.

CHAIR - There will be a question on notice to the office so -

Mr BACON - Chair, we also have legal advice from the former Solicitor-General that says we can have access to these documents. He says in his advice that if we cannot get satisfactory answers from people we should adjourn the committee and seek that advice about whether or not we can -

CHAIR - I am of the view that we should wait until we have the answer to the question on notice. It will be provided to the Treasurer's office. There is every possibility we would need to ask the minister to come back again. We have indicated that to the Treasurer. If anything comes from that, you would be entitled to ask questions on it, but at this stage if you could move on to a new area.

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Mr BACON - Minister, when did the Government provide formal advice back to Hydro that the sale of the combined cycle unit was off the table?

Mr GROOM - From my recollection, that was the subject of discussion at about 22 December.

Mr BACON - When was formal advice given to Hydro to take it off the table?

Mr GROOM - As to any formal documentation of that, I would have to take it on notice.

CHAIR - That is a question on notice we asked of the Treasurer.

Mr BACON - Is it the position of the committee that the Treasurer and the minister can't be asked the same question?

CHAIR - No, you can ask the same question. We have decided to take that question on notice to the Treasurer's office. The minister is now aware of what happened this morning.

Mr BACON - What is your understanding of when formal advice was given to Hydro Tasmania that it was off the table?

Mr GROOM - It was made clear early on, I think around 22 December. As for any formal documentation, I would have to take that on notice. Any suggestion we have equivocated on that, I reject. We have made our position very clear on the CCGT.

Ms COURTNEY - I would like to ask some questions on the potential for a second interconnector. I also have one question on future energy mixes. We have talked about that before with renewable energy and the opportunities. Our terms of reference talk about the challenges, what do you think are the challenges going forward with our energy mix?

Mr GROOM - We have challenges, but we also have opportunity. We need to look at energy security issues. There are opportunities for further renewable development that can create investment and jobs.

Ms FORREST - Such as?

Mr GROOM - There are a number of potential wind projects. As the interim report of the joint study indicated, there are up to 1000 megawatts of further renewable development possible in Tasmania. I believe a second interconnector is necessary to maximise that outcome. You still have to make good judgments. You can't act recklessly, without regard to costs. We have asked energy businesses to engage in commercial discussions with potential renewable developers. It is important we have justifiable commercial arrangements in that regard. There are a lot of issues around what is going to happen in the National Electricity Market. One of the mistakes made historically is in imagining that whatever happened over the course of the last five or 10 years is going to happen in the next five or 10.

The true lesson of the energy market is that it almost certainly won't be as we expect it to be, and that presents a challenge. You need to try to understand as much as you can about what those future changes might be, but they will be relevant to us. Part of that will be technology development, whether it is battery storage or imbedded generation.

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Ms COURTNEY - You talked about some of the potential benefits of Basslink. As to the potential costs and benefit of another interconnector, where do you see those costs and benefits lying? Who will benefit from it? Who will bear the costs of a second interconnector, should that happen in the future?

Mr GROOM - We will only do it if it's in the best interests of Tasmania, and that is why we are doing the joint study. We have to look to the future and try to understand, as best we can, how the national market is changing, what our opportunities and circumstances are, to see whether there is an opportunity for us to maximise further renewable development and what role a second interconnector might play in that regard. Obviously that would also be relevant from an energy security perspective. But you have to be informed; you have to do the work to understand what the circumstances are.

I think one of the mistakes is that people jump to conclusions in terms of how something like that might be funded. I think there is a suggestion that Hydro would just fund it, or the Government would fund it. That is not our intent. There is no prescribed formula for how this might be delivered, but obviously there are potentially project proponents that might be interested in funding a project of this kind because they see the opportunity for further development. There is the opportunity through the Clean Energy Finance Corporation for cheaper debt funding to help fund it. There is the issue around whether it would be a regulated asset or not. I made the point before, and people will have different views about this, but I think one of the mistakes made with the first link was the fact that it is not regulated. That at various points has involved cost to Tasmania that might otherwise have been shared with Victoria, for example.

One of the questions is whether you look at a regulated link as a second link and say how that would work. This is part of the work that has been done at COAG to look at the rules that support the interconnection. If we were to have a second link, and it were to be regulated, it raises questions about the first link in terms of whether that might also convert to a regulated asset. These are all questions we have to look at. The most important thing is that we are looking at it; we are paying attention to what is happening in the national market. We are looking for opportunities for Tasmania and making sure we are well placed into the future, and that we are informed. That is what we are doing.

Mrs RYLAH - What are the implications for Hydro and for the Government if the existing Basslink was turned into a regulated asset?

Mr GROOM - That is a big question. If we were going to see a second link, I think it is inevitable that that question would arise. In the context of the second link you would be making a judgment as to whether it would be pursued as a regulated asset or not. The prevailing view seems to be that it would be more likely to be a regulated asset. Therefore if it was, what does that mean for the second link? I do not claim to be an expert in that. There would probably be others who would be able to tell you the pros and cons of those options, but one question would be whether there is a case for the existing link to convert to a regulated asset. That would be one of the questions.

Mr GAFFNEY - I am interested in that because we heard some expert evidence questioning the viability and the need for it, and obviously we have to wait for the report to come back. What would be the process when you receive that review to let people have input into whatever the

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recommendations are? You said to maximise opportunities if there was a second link. What would be the process once the report comes back regarding the pros and cons of a second link?

Mr GROOM - We want to have a conversation with the broader Tasmanian community. This is why we included it in the terms of reference and asked the Energy Security Taskforce to engage with people on their thoughts and ideas on this. A second link has to work for Tasmania. The Government is not going to pursue a second link if it is not in our best interest. It has to work for Tasmania.

Mr GAFFNEY - We had some very strong cases put forward for a second link. It would be very wary -

Mr GROOM - I think you do need to be wary, but I would also argue that you need to be open, because one of the worst things you can do is be blind, to make assumptions about what you think is going to happen in the national market, make assumptions about what you think the potential for further development is, and say, 'No, we're not going to be informed about that'. I do not subscribe to that view and the Government does not subscribe to that view. I think it is important that we are informed.

The people I have spoken to about this have said to me that the national market is evolving very rapidly. I can tell you from the COAG discussions there are some big questions that need to be asked nationally as to our transition to low-carbon generation. It is not easy and there are going to be big calls that will have to be made, and sooner rather than later. The strengthening of interconnection is front and centre. South Australia has raised this issue in the context of their energy security circumstances. There is genuine question to ask as to whether Tasmania has a larger role than we have played historically in the delivery of further renewable development into the national market to facilitate the transition to cleaner forms of energy nationally. There is an argument that says our hydro dams should be viewed as a national asset - essentially a national battery. Ancillary to that is that there would be opportunity for further development in Tasmania. We would be utilising that capacity to feed that clean energy into the national market.

You can't do these things blindly. You have to be informed; there has to be a genuine case that supports it; you have to look at all the different models for how it might be delivered, but it would be irresponsible not to be looking at it. That is why we are looking at it.

CHAIR - Thank you, minister, for your contribution today and the way in which you have answered the questions.

THE WITNESS WITHDREW.