

UNCORRECTED PROOF ISSUE

Thursday 8 December 2016 - House of Assembly - Government Businesses Scrutiny Committee - Hydro Tasmania

HOUSE OF ASSEMBLY

GOVERNMENT BUSINESSES SCRUTINY COMMITTEE

Thursday 8 December 2016

MEMBERS

Mr Shelton (Chair)
Mrs Rylah (Deputy Chair)
Mr Bacon
Mr Green
Mr Jaensch
Ms Woodruff

SUBSTITUTE MEMBERS

IN ATTENDANCE

Hon. Matthew Groom MP, Minister for Energy

Ministerial Office

Mr Michael Connarty, Senior Adviser

Hydro Tasmania

Mr Grant Every-Burns, Chairman

Mr Stephen Davy, Chief Executive Officer

Mr Miles Smith, Chief Financial Officer

Ms Rachel Steven, Government Relations Manager

The committee resumed at 11.11 a.m.

CHAIR (Mr Shelton) - Welcome, everyone. Minister, would you like to make a brief overview?

Mr GROOM - I appreciate the opportunity to appear before the committee to talk about the performance of Hydro Tasmania over the course of the year. It has been a very tough year, and I think we can all acknowledge that, but from my perspective, notwithstanding all the challenges that

have been confronted, Hydro Tasmania has managed to deal with all these issues in a way which is to be commended. They have shown great resilience through it. Working together with the Government and all the energy businesses, we have met our objectives. Our objectives were to keep the lights on in Tasmania, protect jobs and the economy, keep power prices as low as possible, and we have been able to achieve that. Obviously it has had a financial impact. We have had an underlying loss of \$65.4 million. That was a slightly better outcome than was earlier anticipated, which is a consequence of the recent rains, but nonetheless it is a reflection of some of the costs.

It is important we continue to work with the business to ensure it is able to return to a profit situation. I am very pleased with the engagement we have had from Hydro Tasmania in that regard. They are on track to return to profit soon and that is another very positive outcome, and also to reduce their debt. It is important we continue to work together closely, as we are, maintaining our strong focus on energy security and that continues to be the case. I am very pleased with the approach that has been adopted on restoring the dams. We have had very significant rains and there has been a very prudent approach to that and will continue to be the focus going forward to ensure that energy security is maintained for the benefit of Tasmania.

I would like to close before I hand over to Grant by thanking all of the workers for all of their efforts over the course of the year. It has been a challenging one and there has been a difficult broader environment through the course of the year with a lot of criticism and public commentary. It is not easy for people that are at the front line working extremely hard, often in difficult conditions, and it is really important that we acknowledge all of those efforts and I make that acknowledgement.

Mr EVERY-BURNS - As the minister says, it has been a very difficult 15 months for Hydro Tasmania and the state. We experienced exceptionally low rainfall from September 2015 to May 2016.

The Basslink cable failed on 20 December 2015 forcing greater reliance on our energy storages and that pressure continued until its return to service 176 days later in June 2016. At that time, the major unit at the Tamar Valley Power Station, the combined-cycle gas turbine, was brought on at full output in late January 2016. Despite all that, we entered the beginning of this year with a great deal of uncertainty. That uncertainty really was to do with the dual unknowns of when the normal inflows would return, and we found that was obviously quite unpredictable, and we also had an increasing lack of knowledge as to when the Basslink repairs would be effected and as every month went past that became more troublesome for us.

The Energy Supply Plan came into play therefore from February 2016 to ensure Tasmania's energy security. It was a progressive response that evolved and moved to events as they emerged. The major customers cooperated to provide some demand-side relief and rapid installation of supplementary diesel generation was used to boost supply-side security. As well as bringing back the Tamar Valley plant, Hydro Tasmania installed, in total, an additional 220 megawatts of capacity in just a few months. I have said before what that means but on the Hydro system it is capable of about 15 per cent of the system requirements. It is equivalent to a Pacific island nation's power supply in its entirety.

That all of this was possible is a testament to the efforts of our people, our contractors, TasNetworks, as well as a strong collaboration at all levels of government. I am immensely proud of that achievement and the very real measure of additional security that it brought to Tasmania.

As expected, the cost of the response to this challenge was high. Hydro Tasmania bore this cost and in doing so we ensured that serious disruption to the energy supply chain was averted. The situation was essentially resolved by June this year when the winter rains arrived and Basslink returned to service. Therefore much of the financial impact occurred during the 2015-16 financial year, with a small proportion carrying over to this financial year. It is public knowledge we released our annual accounts recently showing an underlying loss of \$65.4 million and that is the comparator we normally use year on year as the underlying performance number.

Today the dam levels are above 45 per cent, which is almost 20 per cent higher than at the same time last year, and energy supply is secure. Looking ahead, even in the face of a very unlikely repeat of the events last spring and summer, energy supply would remain secure.

Hydro Tasmania is on track to achieve a very substantial recovery this year, rebounding strongly from a challenging 2015-16. With a substantial rebuild we will restore profitability and our plan is to reduce debt. We are aiming to finish 2016-17 financial year with our storages above 30 per cent. By the end of this financial year we expect to break even or post a small profit, reduce net debt by more than \$50 million from \$827 million to \$722 million. I genuinely trust we can meaningfully assist the committee today with its deliberations. Thank you very much for the opportunity.

Mr GREEN - Minister, early this week you released a press release stating the Tasmanian Government does not accept Basslink's position in relation to the cause of the cable fall. Did you consult with Hydro Tasmania before issuing that press release?

Mr GROOM - We maintained close engagement in relation to it. You have sought to create some fuss over this, as you have tended to with these types of issues. We maintain ongoing engagement.

Mr GREEN - Did you consult with them before the release went out, that was the question.

Mr GROOM - We were speaking to them in relation.

Mr GREEN - You could have said that.

Mr GROOM - Mr Green, I know you are trying at every point to try to create the greatest political grief that you can. I am trying to answer the question. Basslink provided a report and they presented a position. Their position was they did not believe the cause of the fault could be determined. They were asserting on that basis it constitutes a force majeure event. That has consequences under the contract and the effect would be more money for Basslink and less money for Tasmania. It is not a position the Tasmanian Government accepts. What we have said to Hydro Tasmania is we expect them to continue their engagement with Basslink, with a view to securing an outcome in a timely manner in the best interests of the state. That is what our expectation is and that was the basis for the statements that I made.

Mr GREEN - Hydro ticked off on the release, that is what you have said?

Mr GROOM - No, what I am saying to you is we were speaking to them, yes.

Mr GREEN - You told them what you were going to say?

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Mr GROOM - Mr Green, I know at every juncture you try to create political grief. I am trying to answer the questions. You have asked the question so I will answer the question. We had engagement with Hydro Tasmania, but the statement I made in response to Basslink's statement was the statement of the obvious. They presented a position that was, from their perceptive, they believe a force majeure event existed. That has a consequence, it means more money for Basslink, less money for Tasmania. That is not a position the Tasmanian Government accepts, as there are a number of matters unresolved between the parties. It is our expectation, we have made it clear to Hydro Tasmania that they will maintain their engagement with Basslink to resolve these issues in the best interests of the state. That was the basis of the comment.

Mr GREEN - Did you read the scientific reports into the cause of the cable breaking before making your public statements?

Mr GROOM - With respect, I think you misunderstand the nature of the comment I was making. The comment I was making goes to the assertion made by Basslink that the preconditions to a force majeure event under the contract have been made out. They presented a report, and they maintain that report confirms a cause of the fog is not able to be determined. They draw a conclusion from that, which is that the preconditions to the force majeure event under the contract had been made out. They are asserting in that context that more money should go to Basslink and less money to Tasmania and we do not agree with that. There are issues that the party are working through and the expectation of the Tasmanian Government is that Hydro Tasmania will continue to engage with Basslink to resolve those issues in the best interests of the state.

Mr GREEN - I have asked you three times whether you had consulted with Hydro. You said you would talk with them. Whether you have read the report -

Mr GROOM - There has been communication between our office and Hydro.

Mr GREEN - I asked you specifically whether you had read the report before you made the statement and you didn't answer that, but I can only make the assumption you didn't.

Mr GROOM - Sorry, Chair, I want to be clear about this. I think, with respect, Mr Green does not understand the point I am making, so I will try to explain it again.

Mr GREEN - I do understand.

Mr GROOM - I am not sure that you do.

Mr BACON - You did read the report; is that the misunderstanding?

Mr GROOM - If you want the answer I will give you the answer.

Mr GREEN - You made your mind up without seeing anything. You only knew the bleeding obvious.

Mr GROOM - The statement I made was based on the assertion by Basslink that the preconditions to the force majeure event had been made out. They presented a report. They maintain that report concludes it is not able to determine a cause of the fault. On that basis the preconditions to the force majeure event had been made out. That is not a position the Tasmanian Government accepts. It is not about detailed assessment of the expert report, it is about the

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construction of the contract. They made an assertion the force majeure event had been made out. The effect of that would be to suggest more money for Basslink, less money for Tasmania. Well, we don't accept that. There are a number of unresolved positions.

Mr GREEN - Can I ask the bleeding obvious question off the back of that?

Mr GROOM - My expectation of Hydro Tasmania is they continue to engage with Basslink to resolve these issues in the best interests of Tasmania. Part of that will be for Hydro Tasmania to undertake detailed analysis of that report. The comment I made goes to the assertion made by Basslink in terms of the preconditions of the force majeure event being made out.

Mr GREEN - The question in response to that is that you have asked Hydro to go away and do that work with Basslink, and Hydro have suggested they will look to gain additional information. What would you say to Hydro Tasmania, and Basslink, if they conclude the force majeure has been made out?

Mr GROOM - What I am saying to you is the position that we presented on Monday is based on us not accepting -

Mr GREEN - How do you know?

Mr GROOM - It is about the construction of the contract. Basslink issued a report and they said that based on the report the cause of the fault is not able to be determined and therefore it is force majeure, so more money for Basslink and less money for Tasmania. It is not a position we accept. There are a number of issues the parties are working through as part of this resolution process. My expectation of Hydro Tasmania, I have made clear, is they engage with Basslink to resolve those issues in the best interests of Tasmania.

Ms WOODRUFF - Minister, the energy crisis exposed our vulnerability to cuts in the electricity supply and our increasing dependence on Basslink to provide energy security. Malcolm Eccles, the CEO of Basslink, was on ABC Radio yesterday morning. His comments were that Basslink is not responsible for the energy security for Tasmania, and that is purely a Hydro Tasmania, TasNetworks and state Government responsibility. He was saying what the Greens have been saying for a long time. Relying on a single asset to give us energy security, in this case the Basslink sea cable, is risk management madness. Do you agree it is your Government's responsibility to take care of energy security in Tasmania and the only way we will have that is by being 100 per cent renewable and 100 per cent self-sufficient, 100 per cent of the time?

Mr GROOM - I accept the ultimate responsibility for energy security in Tasmania is with the Tasmanian Government, and with me on behalf of the Tasmanian Government. There are important roles to play and Hydro's role is critical to energy security. There are other roles played in maintaining energy security. I do not agree with the premise of the proposition energy security in Tasmania is based on a single asset. That is not right, it is more sophisticated than that.

Ms WOODRUFF - The point is, that is what they are saying he was saying, that at the moment it is based on a single asset.

Mr GROOM - That is not right.

Ms WOODRUFF - What happened last summer?

Mr GROOM - A whole series of issues emerged last summer.

Ms WOODRUFF - It is exactly what happened.

Mr GROOM - Which the Chair has outlined, and they were extraordinary. I would argue the response has been extraordinary and it should be acknowledged. I disagree with the premise of the question, which is that the energy security of Tasmania is based on a single asset. That is not right. It is a sophisticated portfolio of measures that ensures energy security in Tasmania.

As the Chair has discussed in his opening comments, a very important part of that is managing the water. We have had very significant rains but we have also had the corporation adopt a conservative approach when it comes to rebuilding the dams. I think we can all agree that has also been extraordinary. Just as we saw a dramatic impact from the drought, so too we have seen, on the other side, the dramatic impact of the significant rains. That is a very good example of it.

Ms WOODRUFF - 100 per cent self-sufficiency. Do you agree that is what we need to be energy secure?

Mr GROOM - There are different ways you can achieve it. I know you have a desire for that and I can understand your desire for that. We are very supportive of further renewable development, I make that clear. You asked the question in the context of energy security and I am making the point that it is not as simple as talking about one particular asset.

Mr EVERY-BURNS - I agree with that. It is a portfolio of energy supply and at the moment Tasmania has its water turbines, its Hydro system. Sitting behind that, it has the dams and the dams have very substantial storage in them, which is different from many other assets in the country. That is available. It would be a very risk-averse position to say that having spent almost \$1000 million to have Basslink installed, it wasn't fair to rely on it. Normally you would rely on that asset. Having said that -

Ms WOODRUFF - Not really, that is the whole point, that it was our only reliance, the only thing we had in the bag when it went down and there was nothing else.

Mr EVERY-BURNS - There was, the gas turbines are still here. It is a portfolio effect. If you knew you were not going to have Basslink, then you would have to carry much more water in storage and you would probably have to have other, potentially a fossil fuel-fired plant. You have to have a mix. What has been demonstrated in the states of Australia elsewhere, on the mainland, at the moment is that total reliance on one source is a dangerous place to be.

Ms WOODRUFF - Absolutely, that is right, 100 per cent.

Mrs RYLAH - Minister, can you update us on the storage levels and the changes made as a result of the more extreme inflow and the Basslink outage events? Can you talk about the prudent water management level changes et cetera?

Mr GROOM - Yes. As I have alluded to, the corporation has made a deliberate effort to adopt a very conservative approach to assist in the rebuilding of the dam levels. It is fair to say the results have been very significant. That is as a consequence of very significant rains we have had but it is also as a consequence of the approach that has been adopted.

The latest figure I am aware of earlier this week was 45.1 per cent for the current levels, which is about 20 per cent above where we were this time last year. It is quite remarkable. I can remember, earlier in the year, an independent commentator suggesting that it might take three to five years to see the dam levels return to 'normal levels'. It is a reflection of two things. It is a reflection of the extraordinary weather we have had; and again, the reverse in terms of very significant rains. We acknowledge the impact that has had in certain parts of the state. We are very aware of that but from a dam storage perspective, it has been very valuable to recovering those levels. That has been an important part of it.

Mrs RYLAH - Could you follow up on the prudent water management level?

Mr GROOM - The approach the corporation has adopted, consistent with the Government's expectation, is a position which is akin to the pre-2012 position. The target for the beginning of summer was 40 per cent and we are probably significantly above that. The target for the end of the financial year is 30 per cent and we are well on track to achieve that.

There will be some very important work done through the Energy Security Taskforce. It will be providing advice to the Government in relation to what the arrangements should be for prudent water management level into the future. We will wait to see that advice and reflect upon it. I am sure the corporation will. I do think the approach adopted has been very important and it puts us in a very strong position when it comes to energy security right now.

Mr EVERY-BURNS - Specific measures have been taken to ensure Great Lake and Lake Gordon in particular continue to build in level. That is most important because of the large quantity of energy that is held there. That has required generating substantially from all the other assets, a lot of which have been in spill, so you generate as much as you can. It also means we have been using Basslink. If we are trading energy out, we can bring energy back on Basslink. That is a part of the desired mix. Yes, there are elements of good fortune with the weather but we haven't been burning that water, it has been put in storage. It is quite deliberate. If the water is in storage at the moment, it will give the taskforce room to move in terms of recommendations they might make. As the minister said, whilst some pundits might have said that it will take years to recover, I think the state and Hydro are probably in a position now where recommendations that are brought forward will be able to be acted upon very quickly as a result.

Mr GREEN - Minister, I asked you some very specific questions about your consultation with Hydro Tasmania before you put out your press release out, whether or not you had read the report before you made your public statements. I will read out the first part of your press release again. It says:

The Tasmanian Government does not accept Basslink's position on the cause of the cable fault. It is important that we properly understand the cause of the cable fault. Tasmanians have a right to know.

Minister, you didn't read the report and obviously you consulted with Hydro who may have a view about that. If the Government doesn't believe the failure is effectively a force majeure event, what is your theory for the failure?

Mr GROOM - I am not going to speculate about theories. I know you speculate on theories. I am not going to do that.

Ms WOODRUFF - You have speculated.

Mr GREEN - You made a very deliberate statement.

Mr GROOM - No, I haven't and I am working through this. I am going to allow Hydro Tasmania to engage with Basslink to resolve the issues between the parties and get a sensible outcome.

The point I was making, which I have been through a few times now, is that they were making an assertion in relation to the cause. What they were saying was -

Mr GREEN - It was an assertion.

Mr GROOM - That is right.

Mr BACON - The start of the press release is not about the contract.

CHAIR - Order, the question has been asked.

Mr GREEN - The Tasmanian Government does not accept Basslink's position on the cause of the cable failure.

CHAIR - Mr Green, you have already read that out. The minister is still answering his questions, please do not interject.

Mr GROOM - They were making an assertion in relation to the cause. They were saying, based on their expert's report, the cause could not be determined and therefore it was a force majeure event - that is to say, the preconditions of a force majeure event had been made out. The effect of that under the contract would be more money to Basslink and less money to Tasmania. Our position is that we do not accept that. What we said - and I made the point at the time - is that we expect Hydro Tasmania to pursue and secure the best outcome for Tasmania in relation to the matters to be resolved between Hydro and Basslink, and that continues to be our expectation.

Mr GREEN - So you don't know the cause of the failure?

Mr GROOM - I'm not going to speculate about these things. Information has been provided to Hydro. Again, I have made it clear in my public comments that I expect Hydro to undertake an assessment of the work that has been provided, as I am sure they are. The point I made on Monday goes to the assertion made by Basslink that this satisfies the preconditions of a force majeure event, and I don't accept that.

Mr GREEN - What do you have to say to the CEO of Basslink, Mr Malcolm Eccles, who described your statements as 'misinformed and very irresponsible'?

Mr GROOM - I have had a lot of engagement with Malcolm and he has worked extremely hard; I fully acknowledge that. He is dealing with some fairly significant issues and pressures and I accept and recognise that, so I am going to cut him some slack on this and not engage in personal commentary. They asserted a position and we asserted a position. There are matters to be resolved

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between the parties and it is our expectation that Hydro Tasmania will continue the engagement and achieve an outcome that is in the best interests of the state.

Mr GREEN - You had discussions with Hydro Tasmania before you put the statement out.

Mr GROOM - There were discussions between my office and Hydro, as there are in the ordinary course of events.

Mr GREEN - Your office and Hydro, not you and Hydro?

Mr GROOM - Yes.

Mr GREEN - You have added to your answer so it's a different answer. I made the assumption that you had had some discussions.

Mr GROOM - I was making the point to you that we have ongoing engagement, as you would expect, in relation to these things.

Mr GREEN - Have you taken any advice on whether your statements may impact on any potential legal dispute between Basslink and Hydro?

Mr GROOM - I was asserting a position. Basslink asserted it was a force majeure event and said on the basis of that it meant more money for Basslink and less money for Tasmania. You seem to be wanting to argue the Basslink case. I represent Tasmania, Mr Green, and I am going to stick up for Tasmania. I have made clear to Hydro that that is the expectation of the Tasmanian Government. Hydro Tasmania is engaged on these issues and I have every confidence it will continue to pursue them with a view to getting a resolution that is in the best interests of the state. I find this notion that you think I should side with Basslink farcical.

Mr BACON - Did you take legal advice?

Mr GROOM - We have had a lot of legal advice. We have had ongoing advice.

Mr GREEN - Did you run it past the S-G?

Mr GROOM - Mr Green, we have ongoing advice.

Mr GREEN - By saying that you are effectively misleading the committee. I asked you a very specific question: did you run it past the Solicitor-General before you put it out?

Mr GROOM - I am answering your question. We have had ongoing engagement with the Solicitor-General. I catch up with the Solicitor-General regularly on these matters and I act responsibly in response to that advice, Mr Green, unlike you, who has shown utter contempt for legal advice. I make sure I act responsibly. Basslink had asserted a position we don't agree with.

Mr GREEN - Chair, I asked a very specific question: did the minister take legal advice before he put out the statement?

Mr GROOM - I have ongoing engagement with the Solicitor-General. If you are asking me whether I rang the Solicitor-General before I issued the statement the answer is no, but I have

ongoing engagement with the Solicitor-General and I make sure that I act responsibly, Mr Green - unlike you.

Mr BACON - Did you have any ongoing engagement with the Solicitor-General -

CHAIR - No, we are moving on and Ms Woodruff has the call. Mr Bacon, you can ask that question at a future time. Ms Woodruff has been waiting patiently.

Ms WOODRUFF - Minister, our mostly hydro-powered energy system managed to limp through the protracted drought with Basslink down by using about 300 megawatts of additional gas generation provided by the Tamar Valley Power Station. This suggests that all we need to become 100 per cent self-sufficient and 100 per cent renewable 100 per cent of the time is in the order of that amount of additional generation. For the record, can you confirm the amount of new renewable generation necessary to compliment the existing hydro storages so that Tasmania could be 100 per cent self-sufficient and 100 per cent renewable 100 per cent of the time?

Mr GROOM - I don't have that figure with me. Obviously this is an issue that is being looked at through the energy security taskforce. They are undertaking work on this to identify what the opportunity is for further renewable development, for example.

Ms WOODRUFF - To clarify, minister, are you saying that that work has not been done already and Hydro does not know how much we would need to be 100 per cent self-sufficient in renewable energy? That is the question.

Mr GROOM - They may well know the answer to the question but as a government we are engaging the energy security taskforce to provide us with advice on these things. As I have indicated before, the Tasmanian Government is very committed to further renewable development in Tasmania. We think there is a great opportunity for Tasmania to secure further investment and that can help from an energy security perspective, in terms of the breadth of the portfolio we have available and in terms of jobs, including in regional parts of the state. We have made it very clear to the energy businesses that we want them to be actively engaged with renewable development project proponents in Tasmania with a view to securing that outcome. My understanding is that those discussions are ongoing, but in terms of the exact number, if that is your question, I would have to take that on notice.

Mr DAVY - The calculation we have been using up till now is that the demand in Tasmania is around 10 700 gigawatt hours per year. The long-term planning assumption we are using for hydro power is about 9000 gigawatt hours a year and the existing wind farms produce around 1000 gigawatt hours a year. Without any other form of generation such as gas-fired generation on island or without any imports, the gap is around 700 gigawatt hours per year.

Ms WOODRUFF - That's all it would take?

Mr DAVY - That is the gap between Tasmania's current demand and our current planning assumption around the renewable generation on island. That is taking all the rooftop solar to be subtracted off demand rather than being supply, because it is measured -

Mr GREEN - [inaudible] and build up your water?

Mr DAVY - I'm just answering the question that was asked.

Mr JAENSCH - To the minister and Hydro representatives, I put on the record my congratulations and thanks for your efforts over the last year to manage the situations you have and being in a position to report the way you have today on the result of that hard work under incredible circumstances. Thank you very much for that. I would you to speak to us about Hydro's position with regard to the value of a second Bass Strait interconnector and its role in our energy future.

Mr GROOM - From the Government's perspective, we see a great opportunity for further renewable development in Tasmania. I do not think there is any doubt that if that were to be maximised then you need to consider the second interconnector. It is not to say there could not be some renewable development that happens without the second interconnector, but if it was to be maximised then it is fair to say that is the requirement.

There are other issues at play here. One benefit is it provides redundancy from an energy security perspective. It could also play a significant role in the national market. This has been the subject of discussion. We have seen issues in South Australia recently about the stability of their system. One of the things that they have been really interested in -

Mr GREEN - They've already done a deal with New South Wales.

Mr GROOM - is a strengthened interconnection and this has been the subject of a lot of discussion through COAG. We will be catching up next week to discuss some of these matters. What we have seen with the impending closure of the Hazelwood plant is that some of these issues are now emerging in Victoria. Some would say that South Australia might be at the front of what ultimately will be experienced in Victoria. It is in this context that there is a lot of work being done about what needs to happen to maintain energy security, a stable system, as well as ensuring that we have affordable power for people. This is the work of the COAG ministers. It is also the basis for the Finkel Review, which is a very important body of work, and because a second interconnector may play a role in that it is something we continue to pursue. We have the joint study between the Tasmanian government and the Commonwealth and there have been a number of other interested parties. I know the Clean Energy Finance Corporation, for example, recently commissioned a report that has looked into this particular issue. We will continue to pursue that. Hydro Tasmania has played an important role in supporting some of that work.

Mr DAVY - There is no doubt that Australia faces quite a challenge to replace its coal fleet with low emissions technologies over the coming decades. The second interconnector provides a great opportunity for Tasmanian-based renewable energy to be supplied into Victoria in much greater quantities. The question was asked before about how much renewable energy would be needed in Tasmania to make Tasmania balance, but if we had a second interconnector then the prospects for renewable energy construction in Tasmania would be much higher again. I think a second interconnector from Tasmania to Victoria would be one of many interconnectors and many other investments that would be required across Australia, if we are going to decarbonise the electricity sector in Australia over the coming decades.

Mr JAENSCH - Within that explanation, are there investors or potential partners in further large-scale renewable energy projects looking at Tasmania, but looking for the certainty that a second interconnector would provide as a basis for investing? Is it a precursor to attracting that sort of investment?

Mr GROOM - There is definitely interest from parties about the concept of substantial further renewable development in Tasmania and how a second link might work in that context. I have made the point the Clean Energy Finance Corporation has expressed a very strong position on this. I think it has very recently released a report on it, as I understand it, which is available on its website. That is very much as a consequence of interest in the market about substantial further development in Tasmania and how the second link would work in that context. I think there is the potential for further renewable development in Tasmania, before we get to that.

Mr JAENSCH - Even without it.

Mr GROOM - Yes. There are definitely interested parties in that, you would be aware of, Mr Jaensch. We have made it clear to the energy businesses that we would like them to be very actively engaged with proponents with a view to achieving a good commercial outcome. My understanding is those discussions are ongoing.

Mr GREEN - Chair, I have asked the minister a range of questions, all getting to the point about the press release the minister put out. He has a history of putting out press releases that say one thing and then mean another. For example, the Tamar Valley Power Station. I asked whether or not advice had been sought from Hydro and the answer was that his office had sought advice. I asked whether he has any idea what occurred with the cable. He has not answered that.

CHAIR - That is all on *Hansard*. You need to ask another question.

Mr GROOM - I think you are trying to verbal me now. Do you have a question?

Mr GREEN - I do have a question. Within hours of Basslink putting out their statement, accompanied by a report that went to Hydro Tasmania, you made a statement. In that period between the statement going out from Basslink and the information being provided, that 168 page report to Hydro Tasmania, did you seek any legal advice from the Solicitor-General about your statement?

Mr GROOM - I have made this clear. They issued the report and a statement. I received advice in relation to the conclusions of that report and the statement.

Mr GREEN - Who from?

Mr GROOM - From a range of people within my office in terms of the conclusions. When it comes to legal advice we have had ongoing engagement with the Solicitor-General in relation to these matters. What I have ensured is, we have continued to act responsibly in relation to these matters in the context of that advice. It stands in stark contrast to your position on these things, Mr Green, because you have made it very clear you have contempt for advice and you are willing to engage in relation to these matters without regard to it. I can assure you I have careful regard to the advice we have been provided.

The point I was making was that they had asserted that a force majeure event had been made out, and on that basis there should be additional funds going to Basslink and less funds going to Tasmania. We did not accept that position. That is the position of the Tasmanian Government. I made it very clear to Hydro Tasmania we expect them to continue to engage with Basslink in relation to these matters to achieve an outcome that is in the best interests of Tasmania.

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Mr GREEN - I know that is all on the *Hansard*, Chair, but any fair-minded person could conclude the minister had absolutely no idea what he was talking about.

Mr GROOM - That is not true, Mr Green. You keep verballing, Mr Green. Chair, I will make this point about Mr Green -

Mr BACON - You have to wait for a question, Chair.

Mr GROOM - I am going to add to it.

Mr BACON - I do not know if you can do that, Chair.

CHAIR - Mr Green made a statement rather than asking the next question which has invoked a response from the minister and I will allow the minister to answer.

Mr GROOM - Right through these issues, Mr Green, and we have been dealing with some pretty tough ones, you have taken a deliberate decision to seek to create as much political grief at every opportunity as you can, including seeking to scare members of our community and to mislead people in relation to the circumstances we were confronting and the response to those issues. Mr Green, your Chicken Little approach achieves exactly that, chicken little. We are at the end of the year and you may feel good because you have managed to get a couple of scary headlines in the newspapers. But the fact of the matter is, the sky has not fallen in. We have managed to keep the lights on. We have managed to protect jobs and the economy, and keep power prices as low as possible. I will say this to you Mr Green, I am proud of the efforts of all of the people involved in that. They have shown a lot of resilience, they have dealt with it with calmness, they have dealt with it methodically and they have served the people of Tasmania. Unlike you, who has continuously engaged in rank political opportunism.

Mr GREEN - Is Hydro's refusal to pay the facility fee a tactic to force Basslink into sell the cable or make it a regulated link?

Mr GROOM - That is a ridiculous proposition. Do you want to talk to this -

Mr GREEN - I am asking you?

Mr GROOM - I have answered it.

Mr GREEN - It is not true?

Mr GROOM - It is not true. This is another example, Mr Green, of you seeking to create political grief. What we are dealing with here are issues that need to be resolved between Basslink, Hydro Tasmania and the state of Tasmania. What we are trying to do is serve Tasmania's interests. What you are trying to do is create politics. Your proposition has no basis in truth. Do you want to talk to him?

Mr EVERY-BURNS - Repeat the question and I will answer it straight.

Mr GREEN - I asked the minister specifically and he has thrown you under a bus. Is Hydro's refusal to paid facility fee a tactic to force Basslink to sell the cable or make it a regulated link?

UNCORRECTED PROOF ISSUE

Mr EVERY-BURNS - No, it is not designed to encourage them to sell the cable and it is not designed to encourage it to be a regulated link. We have made a payment recently to them as part of a commercial arrangement.

Mr GREEN - Minister, can you rule out Hydro taking control of the Basslink cable.

Mr GROOM - Again, this is an example -

Mr GREEN - You cannot ask a question without a diatribe. All I am asking you is a very specific question.

Mr GROOM - You are the ones who engage in diatribes.

CHAIR - I will remind the committee we are supposed to be scrutinising financials of the previous 12 months and not asking hypothetical questions of might happen in future. The question can be asked and the minister can answer how he likes but I will remind the committee is what we are here for.

Mr GROOM - It is a fair point you are making, Chair. What Mr Green is seeking to assert is that there is a deliberate plan to try and achieve an objective of regulation or ownership of the cable and it is wrong. It is another example of you making these baseless claims. Even worse than that, Mr Green, you suggest people's power prices are going to go up. Can I make the point to you, we are committed to lower power prices, and you are the one that had the higher power prices, Mr Green, up 65 per cent in seven years under your Government. Do you remember the pain caused to Tasmanian households and small businesses?

Under us, power prices have come down. That is our commitment. You would choose to go out there and suggest to Tasmanians the power prices are going to go up because of some convoluted conspiracy.

Mr BACON - You will not answer the questions. Tell the truth.

CHAIR - Order.

Ms WOODRUFF - The Greens are concerned about energy security your ability, minister, to plan for proper diversification of assets. What we are shown is we have only had one security blanket and that is not enough. Things can happen to that, it could happen to a second one, because we do not know what happened to the cable and that may never be known. We have to move to other forms of renewables and become self-sufficient. I understand the biggest hurdle for a wind farm proponent to start construction is to secure necessary finance from a bank. To do so, banks require them to have a power purchase agreement. This needs to be in place between the wind farm and a company or Government who will guarantee to pay an agreed amount for every megawatt hour of energy the wind farm generates. How many wind farm proponents is Hydro currently in negotiations with about potential power purchase agreements? What are the approximate total megawatts of installed capacity that those projects would represent?

Mr GROOM - I appreciate the question. As I have already said, from our perspective we are very keen to see further renewable participation in Tasmania. We have made it clear to the energy businesses we want them to engage with Tasmanian projects in that context.

UNCORRECTED PROOF ISSUE

Mr DAVY - We have been approached by a number of potential participants in Tasmania. There are three current participants with approved projects. Granville Harbour Wind Farm, which is also called West Wind sometimes, The Cattle Hill Wind Farm and a much smaller project at Low Head. We are in active commercial negotiations with the two larger ones. The total installed capacity of those two wind farms is around 250 megawatts.

Ms WOODRUFF - How long have those negotiations being going on? Why hasn't a power purchase agreement been reached? I understand from some of those proponents it has been a very long time frame for those negotiations. What is holding it up?

Mr DAVY - The conversations and negotiations we are having are pretty well advanced and they are going well. There is nothing in particular holding them up as far as I know.

Ms WOODRUFF - Why has it been so slow?

Mr DAVY - I would not say it has been slow. It has been completely normal.

Ms WOODRUFF - Some of them have said it is slow and it is hard.

Mr DAVY - We are in active negotiations with both major players.

Ms WOODRUFF - Do you have a time frame for when they might be completed?

Mr DAVY - It could happen any time.

Ms WOODRUFF - This financial year?

Mr DAVY - I am hopeful we can conclude those negotiations.

Mr GROOM - In fairness to Steve, he is not the only potential business having discussions. Aurora is also having discussions. There are a number of discussions going on. From the Government's perspective, we are keen to see them advance as soon as is possible and we are very hopeful of getting some good outcomes for Tasmania. We very much support the concept of further renewable development in the state.

Ms WOODRUFF - Other states are pushing this on much faster. The ACT, in the same time some of these wind farms have been trying to get their projects up, have projects up and running. Something is happening in Tasmania that is making it very slow.

Mr GROOM - I do not agree with that. The ACT situation is a very different circumstance. It is important -

Ms WOODRUFF - They have an active target and a minister who pushes it.

Mr GROOM - Also, they are securing, largely, projects outside the ACT.

Mrs RYLAH - Minister, I recognise progress is being made on the renewable energy project on Flinders Island following on from the great example King Island produced for it. I was recently on the Cook Islands and they were talking to me about Hydro being in conversation with them. Can

you outline more on this and the opportunities that have evolved for this type of system for Hydro Tasmania and other Tasmanian companies in renewable energy configurations?

Mr GROOM - I think this is another good example of Hydro being at the front edge of sustainable energy delivery. As you have alluded, the potential for this to be relevant in Australia and in other parts of the world is significant. What they have done on Flinders, as is the case with King Island you have alluded to, is at the front edge. The way they have developed containerised modules to be rolled out in remote locations is remarkable and something we should be proud of. I know they have done a lot of work with local businesses, such as Southern Prospect in Wynyard.

Mr JAENSCH - In Braddon, to bring it back.

Mr GROOM - That is right. We are keen to see Hydro Tasmania participating in these initiatives and helping to share our expertise around the world.

Mr DAVY - The work we have been doing on King Island is world-leading. It was the first site of its kind to achieve 100 per cent renewable generation. It has done that on a number of occasions and we are well on track to getting average renewable energy penetration levels of about 70 per cent, which is outstanding in a system that 20 years ago was running predominantly on diesel power. That expertise has allowed us to grow that particular business unit - the hybrid business unit - and we have gone on to do a similar project on Flinders Island, which has created another advancement, which is that the components are designed and fabricated in Tasmania rather than assembled on-island. That creates a significant manufacturing and then hopefully an export opportunity for Tasmanian advanced manufacturing. In Pacific islands we have an opportunity to be engaged by utilities in the Cook Islands and Samoa to advise on the development of renewable energy systems. They have objectives of achieving 100 per cent renewable energy and there are opportunities for Hydro Tasmania and manufacturers in Tasmania as a result.

Mr GREEN - Minister, has Hydro Tasmania considered ownership of the Basslink cable?

Mr GROOM - Again, just to be clear so you don't suggest some sort of grand conspiracy as you tend to, the suggestion that the Government with Hydro Tasmania is involved in some sort of deliberate attempt to seek regulation or sale is not right. You would expect that Basslink would look at these types of issues, including regulation. I would be amazed if they had not considered that at some juncture. It is very important in that context that Hydro Tasmania is informed about options, as you would expect, but the Government is not pursuing a deliberate plan to achieve these outcomes. It is not our objective to achieve these outcomes; our objective is to resolve the issues between Hydro and Basslink in the interests of Tasmania. I would fully expect Hydro Tasmania would be informed on these issues.

Mr DAVY - That is exactly right, our interest is in solving these commercial issues. There is a disagreement about how the contract works in relation to force majeure and we need to sort through that difference with Basslink. We are engaged in active commercial negotiations to make sure that happens. The ability for Basslink to be regulated is something that has been looked into in the past and from time to time we remind ourselves of the current circumstances in relation to that.

Mr GREEN - Mr Davy, are you considering or have you considered the purchase of the Basslink cable?

UNCORRECTED PROOF ISSUE

Mr DAVY - No, there is no plan to purchase Basslink and there is no indication to us that Basslink is for sale.

Mr GREEN - Have there been any discussions with the Tasmanian Government or the Victorian Government about the whole question of making it a regulated link?

Mr DAVY - The idea is something that is brought up from time to time but there is no plan to regulate the market.

Mr GREEN - Can you confirm Hydro Tasmania has a Basslink steering committee that has been established within Hydro Tasmania?

Mr DAVY - Clearly, we have had an issue with Basslink over the past 12 months and so we have had a steering committee set up to make sure we understand how to navigate our way through the energy supply issues and also through the commercial negotiation we have to have now.

Mr GREEN - Are you telling the committee there has been no discussion about purchasing the cable or no positive discussion about making it a regulated link, or other potential options?

Mr DAVY - All sorts of ideas are discussed but there are no plans to do either of those things.

Mr GREEN - So there is a committee established. Are you telling the committee there are no plans to do any of those things?

Mr GROOM - Mr Green, this is a stretch. There would be speculation, I'm sure, within the Labor Party about who might be the leader at the next election, there are probably documents that speculate about who might be the leader at the next election, but that doesn't mean it is a fact. That does not mean that a decision has been made or it is a specific objective of either the company or the Government. We have answered this question very clearly, that it is not the objective of the Government to seek these outcomes. The suggestion you have made, that it is, is wrong. Also, for you to go out into the public domain and seek to again frighten people in relation to power prices going up with no basis, is another demonstration of you engaging in Chicken Little politics.

Mr GREEN - Can you confirm, minister, and then the chairman, who gave a very specific answer about this a little while ago, that Hydro Tasmania has gone to the extent of using its money, effectively taxpayers' money, to engage an external consultant to provide Hydro with a list of options for Basslink? Can you answer the question?

Mr GROOM - I am going to hand over to Steve in a minute but as I have said to you, the concept of regulation or the potential sale of an asset is a concept that would be discussed from time to time over time. It would have happened when you were in government -

Mr GREEN - So you can't confirm that John Martin from Aquasia has been engaged for this purpose?

CHAIR - Mr Green, sorry, you have asked the question.

Mr GREEN - Well, answer with that additional part then.

Mr GROOM - I am going to answer the question.

Mr GREEN - Turn your mind to that.

Mr GROOM - What you are suggesting is that the Government is involved in a deliberate plan to achieve regulation or sale. The answer to that question is: that is wrong.

Mr GREEN - Has there been a consultant engaged?

Mr GROOM - I am finishing the answer to the question. The proposition that you are putting is wrong. You have heard it from me, you have heard it from the chairman and heard it from the CEO. It is wrong. Of course Hydro Tasmania would inform itself about these issues. I don't know this but I would expect that Basslink would give consideration to regulation.

Mr GREEN - I am asking you as minister.

Mr GROOM - The primary party to give consideration to regulation is the owner of the asset. I would expect that Basslink has considered this so therefore, in that context, I would expect that Hydro Tasmania would inform itself of it. This notion that we are engaged in some deliberate plan, that this is our objective, that we are somehow seeking to achieve this objective through the dispute resolution process as you have asserted, is yet another example of a false assertion by you designed to scare the community and designed to create political grief with no basis.

Mr GREEN - It might be that you are working in Tasmania's best interests as you have just said.

Mr GROOM - It is Chicken Little politics, Mr Green.

Mr GREEN - It really is a very specific question. Have you engaged a consultant?

CHAIR - The question hasn't been answered yet, Mr Green.

Mr GROOM - I am handing over but I am making the point I would expect Hydro Tasmania to be informed.

CHAIR - To complete the answer, thank you, Mr Davy.

Mr DAVY - We certainly do seek to be informed. We want to understand the position that BPL are in and we want to make sure they have the financial wherewithal to do what the state needs for energy security. We want to understand the options that are available to them to ensure their financial security in the future so we have done work to understand that.

Mr GREEN - So you have engaged Aquasia, a company, and despite what you say, you are suggesting you hired these people so that you can look after Basslink when effectively Aquasia is all about acquisitions of major businesses and infrastructure. That is what Aquasia does. You only have to look at their website to see all the significant programs they have been involved in. You have confirmed that you have contracted AquAsia to advise the Basslink steering committee on its options.

Mr GROOM - Right. I am going to be very clear about this again, the suggestion you are making that there is a deliberate objective here to seek regulation or sale is not correct. Do you want to speak to it, Grant?

Mr EVERY-BURNS - I don't want to really cut across Steve but I just make this statement. We have to be very careful what is asserted here because of the interests of Hydro and the people it contracts with. I have previous experience with John Martin and I have previous experience with Aquasia and I didn't use them for the purpose of acquisition or mergers or anything as you have suggested. I did not use them for that purpose. They are very experienced in the electricity market. They are very experienced in the financial markets. They are also able to give advice on issues such as Steve is talking about. One use of that particular consultant or contractor does not necessarily lead to the conclusion that you are trying to draw. That is why I feel like speaking up, because one thing does not lead to the other.

Ms WOODRUFF - Minister, the recent financials for Hydro Tasmania posted a \$65 million loss and the debt increased to \$827 million, which was \$95 million more than projected. Doesn't this precarious financial position constrain it from investing in new renewables? Is what is holding up these power purchase agreements for the wind farms that there is actually no appetite to progress the funding of the diversification into new renewables because there just simply isn't the money?

Mr GROOM - In terms of the latter point you just made, in terms of further renewable development, as you have already alluded to the primary funding of that wouldn't come from Hydro but from the proponents through funding arrangements via banks. What we are talking about here is the negotiation of off-take arrangements. Hydro Tasmania is in a solid position to meet all of their requirements. Part of that is to look for potential further sources of generation, which they have been actively doing.

We are very conscious of the debt issue. That is why the Government has been actively working with Hydro Tasmania to reduce its debt. The former government lumbered Hydro Tasmania with \$205 million of additional debt and we have been working with Hydro to reduce that debt. Over the course of the coming year Hydro is projecting to reduce the debt by another \$50 million down to \$772 million. It is an example of that ongoing effort.

Ms WOODRUFF - As I said before, the ACT and other governments such as South Australia have really been making huge inroads. If the finance is not holding us back I am struggling to find out why we are lagging so far behind the rest of Australia, especially when we have the evidence here about the need to diversify for our energy security. Has Hydro developed its own renewable energy targets? What is the view on reverse auctions as a mechanism? These are the sorts of things

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Mrs RYLAH - It is renewable.

Ms WOODRUFF - It is not renewable, that is the point. We are importing coal-fired power; that is what we rely on and have become increasingly dependent on. I am just trying to find out the halt in the system. It is hard not to see that it is this Government that is holding things back with policies.

Mr GROOM - It is certainly not, because we are proactively involved with the energy businesses to pursue these opportunities. I just make the point, Ms Woodruff, that Tasmania is more than 90 per cent renewable in its generation.

Mrs RYLAH - It is miles in front of any other state.

Ms WOODRUFF - That's not true.

Mr GROOM - This notion that we are somehow massively behind the other states is just completely false.

Ms WOODRUFF - No, it's only when the dams are full.

Mr GROOM - We are at the front edge of renewable generation globally.

Ms WOODRUFF - We were. We're resting on -

CHAIR - Ms Woodruff, please don't interrupt.

Mr GROOM - There are very few jurisdictions anywhere on the face of the planet that have the renewable profile of Tasmania. I make the point that a substantial amount of that renewable energy has been opposed by the Greens from a policy perspective. Nonetheless, we have really significant renewable generation and that is an understatement; we are very close to 100 per cent in our renewable generation. This notion that Tasmania is lagging and somehow we should be embarrassed relative to the ACT and South Australia - nothing could be further from the truth. What is important in that context is an ongoing commitment to continue to reinvest in our existing portfolio. We are keen to see further development. It is important these discussions are afforded the opportunity to happen in a commercial way to ensure we get good outcomes. We have made it very clear to the energy businesses that we expect them to be heavily involved and they are, and I am very hopeful that before too long we will see further significant renewable development in Tasmania.

Mr JAENSCH - With the low storages within the last year, one of the issues of concern was the environmental impacts in the catchments where those water flows were greatly reduced. Could you please outline how those environmental issues have been managed through the dry period and now, as the storages have rebuilt?

Mr EVERY-BURNS - Thank you for the question. The environmental considerations were very important to the board, because there is inevitable tension this year as we start getting lower water storages and lower dam levels in terms of where the energy comes from. We took particular care to seek from management the best environmental outcomes we could. Those environmental outcomes went to great care with the installation of a diesel plant regarding the emissions as well as the use of fuel. The more you use that plant, the less pressure you put on the lakes, dams and creeks in any case. When it came to considering lakes and dams, there was a great deal of consideration given to it. The management advised the board on a number of occasions about the risks we faced and a couple of times we had to consider our own views, values and ethics and look at what we believed was the right thing to do. The decision we took in the end was that the right thing to do was to understand what the environmental issues were and manage around those as carefully as possible. That is what we did in the long run.

We understood if we had to continue drawing on Great Lake in particular, it would have consequences, and we instructed management to all they could to avoid that circumstance. That was quite onerous but that is what was done. We stopped the draw of capacity at Great Lake and

the management team changed what had previously been termed the extremely low levels and raised our view of what that ought to be.

That had consequences in terms of how the plant was operated. We knew by eliminating or greatly reducing an environmental risk in one area we then had to manage the power plant operational risks. They are the issues considered but it took some real courage to sit back and say there is a hard way to do this and an easy way. The hard way was to consider the consequences and then act accordingly.

Mr GROOM - I would like to acknowledge that point. There was a lot of integrity shown by Hydro. You have to remember that this was a very difficult period and there were some tough decisions that had to be made under pressure in a short time. From an environmental perspective, it is a great credit to Hydro Tasmania, the board, senior management and all the staff involved in this information and decision-making, because they remained absolutely steadfast in ensuring they acted responsibly from an environmental perspective.

Mr JAENSCH - For clarity on that, part of the strategy regarding the temporary generation measures taken was to protect environmental values in the catchments and storages, and threatened species are part of that - galaxias and things - in some of those waterways. That was a factor taken into account of how hard and how soon you went into that temporary generation.

Mr EVERY-BURNS - Yes, the species you mentioned in Great Lake were a consideration in their own right. The issues associated with operating a diesel plant and the emissions from that was another issue that required study and modelling so the emission profiles could be understood. It took approvals and then engineering changes to get there. Contractors had to provide equipment they did not initially bring to the site. We had to take care of those issues. When it came to installing the plant, we were particularly careful because the diesels needed to go in existing power stations. Those existing power stations are in what I would call a pristine environment and the risk of loss of any amount of diesel fuel was of great concern to us. That meant installations then had to be bunded and double-bunded, drained and captured. From a governance point of view, we impressed at the highest level upon management that this was a very important consideration for us. We wanted virtually zero risk in that area to the extent we could achieve it.

Mr JAENSCH - That was achieved in weeks?

Mr EVERY-BURNS - It was achieved throughout the months before the first of the main installations went in. I visited Catagunya and saw the first double defence line of how it was not be bunded and caught in case there were any spills and leaks. It had to be monitored. We were quite clear, if there were any issues they had to be reported. We had to be as open as possible.

Mr GREEN - Minister, in the questions I asked earlier about whether a steering committee had been established with respect to Basslink it was confirmed that is the case within Hydro. Can you tell us who -

Mr GROOM - I do not have information on that. It is an internal matter.

Mr GREEN - Mr Davy, can you tell us who the members of the steering committee are?

Mr DAVY - I do not have that information to hand. They are members of the executive team.

UNCORRECTED PROOF ISSUE

Mr GREEN - Members of the executive team. Is there any interface with the Government at all? Any other bureaucrats involved on the steering committee?

Mr DAVY - It is to help guide our commercial resolution of the contractual matters between ourselves and Basslink. It is internal. We have a lot of interface with government advisers about the state's position. As well as Hydro Tasmania having a contractual arrangement with Basslink so does the Government through the Basslink operations agreement. Hydro Tasmania is the state's agent so we keep the Government informed.

Mr GREEN - You keep the Government informed?

Mr DAVY - Through advisers and through the Solicitor-General's office.

Mr GREEN - I asked earlier whether a consultant had been engaged. You made it very clear a consultant had been engaged to look at aspects of the current dispute between Basslink and yourselves. Has there been any other discussion within the subcommittee about the points I raised earlier?

Mr DAVY - You would understand there is a lot we need to keep under our hat in terms of the commercial negotiations we are having?

Mr GREEN - I am not asking specific commercial -

Mr DAVY - I think you are.

Mr GREEN - I am asking whether you have looked broadly at the issues of acquiring the Basslink cable and or regulating?

Mr DAVY - What we are very interested in understanding is what the financial position of Basslink Pty Ltd is and what choices BPL might make in the future as a result of their financial position. We were interested in making sure we understood their financial health.

Mr GREEN - How much is Hydro Tasmania paying the consultant and why does it not appear in this annual report?

Mr DAVY - I do not have the number to hand but I would imagine it is in the annual report.

Mr SMITH - If it is not in the annual report it has not reached the threshold.

Mr GREEN - Is it in the annual report?

Mr SMITH - It is only in the annual report if it is more than \$50 000, I believe. If it is not in there it has not reach that threshold.

Mr DAVY - It must not have reached the threshold.

Mr GREEN - Can you confirm it is \$500 a day?

Mr DAVY - I do not know.

Mr BACON - Can we put that on notice?

Mr GROOM - I am not sure what point you are trying to get at here, to be honest.

Mr BACON - You do not seem to know anything about anything.

Mr GROOM - With great respect. We can engage in the personal gibes if you want Mr Bacon. This is classic Bryan Green strategy where he has speculated about some conspiracy theory that the Tasmanian Government is engaged in a deliberate plan through the dispute resolution process to extract regulation or sale. That question has been answered.

Mr GREEN - You are not even going to answer it?

Mr GROOM - As I made clear it is self evident, I think, Basslink would give consideration to these types of issues -

Mr GREEN - I am asking you not Basslink.

Mr GROOM - I am answering your question. It is self-evident Basslink would give consideration - I don't know that but I am sure they are - therefore it makes perfect sense Hydro Tasmania would understand what that could mean. In the event Basslink sought to get a regulated outcome - and they may seek to get one at some point - it is important for Hydro Tasmania to understand what that means, how they should respond, provide advice back to the Government. Ultimately these issues would be policy positions of the Tasmanian Government. I can say to you the Tasmanian Government does not have an objective of seeking regulation or sale of these assets. Would I expect Hydro Tasmania would inform itself about what that would mean to make sure it could respond appropriately and provide advice back to the Government? Of course I would expect that is the case, to ensure you get good outcomes for Tasmania.

Ms WOODRUFF - A leaked internal Hydro document that was reported in the media said unequivocally that Hydro will struggle to maintain the state's hydro-electricity network over the next decade under its existing maintenance budget. The document said:

Nearly 40 of the 50 major hydro production lines are past their mid-life point or progressing towards end-of-life without major refurbishment.

The asset management plan targets 70 per cent of current production and it said the rest of the assets will, and I quote:

... receive minimal attention and expose the business to increasing levels of revenue variability associated with the decrease in reliability and availability of these production assets.

The plan the referred to says the combination of maintenance challenges are 'combined to indicate both the operating budget and the current capital allocations are providing inadequate to deliver 10-year plan outcomes'. The plan also identified the next three or four years of Hydro as being 'pivotal to the long-term future of the Hydro power portfolio'. Hydro has posted a \$65 million loss and we now know it has an additional \$95 million debt. How is it going to be able to provide a secure electricity supply for Tasmanian households and businesses? Isn't this maintenance problem going to place that in jeopardy?

Mr GROOM - I appreciate the question. It is very important from the Tasmanian Government's perspective that Hydro Tasmania is doing everything necessary to ensure the assets are being maintained in a responsible way from safety and operational perspectives. All the advice I have received from Hydro Tasmania is they remain very committed to that effort. We all recognise there are legacy issues with the Hydro assets. There has been an attempt over probably a decade to seek to address that, which has escalated significantly in recent years under this Government. If you compared, for example, what was spent in 2012 under the former government, including while it was receiving revenue from the carbon tax, the capital allocation in that year, from my memory, was something in the order of \$52 million. Next year it is on target to be something closer to \$87 million, so a significant increase. What is also important to recognise is the risk profile in relation to asset management has come down significantly. That's not to say we are not seeing further issues, we are and we all recognise it, but based on the risk report in 2007 compared to today there has been a reduction of 90 per cent in the high-risk issues over that period.

Mr EVERY-BURNS - I think you've asked specifically whether the operating budget is sufficient to do the maintenance work we need to do. I also think you've suggested perhaps there will not be enough borrowing capacity to do the capital works.

Ms WOODRUFF - I'm reading from the leaked Hydro document; I'm not suggesting.

Mr EVERY-BURNS - I am saying we have sufficient operating funds to do the maintenance program we are required to do. The board have allocated, in my view, sufficient capital works funds to do what is required. That is what is planned for next year and the year after and the year after. In addition to that, debt will be paid down in this year. Far from your concern about debt going up and maintenance not being done, I understand perhaps what you are saying, but that is not where we are at. We have allocated in the budget some funds to the operating expense relating to our plant assets and a capex that is required to do the work. There is probably about a 10 per cent increase in the capex that has been allocated subsequent to that report as part of that approval process so we can go ahead with a higher allocation.

Ms WOODRUFF - Minister, we have two completely different pieces of information in front of us now. Are you confident that Hydro has the ability to maintain these assets? The document that was leaked is very clear that there wasn't enough money, the maintenance schedule was running behind and the allocations the chair has just talked about were inadequate to deal with the 10-year plan that they need to have. Are you confident that there will be no risk to the maintenance of this structure, which once it has gone past its date is very expensive or impossible to get back?

Mr GROOM - My recollection is that the report you are referring to makes observations about the important work that has been done. It also indicates a belief that the company will be able to address these issues going forward. I think it expressed words to that effect. I put it straight out there that the Tasmanian Government expects Hydro Tasmania to act responsibly in the maintenance of the portfolio, both from an operational and safety perspective. All the advice we have received is that that is what they are doing. I have confidence in the board and the company in doing that.

We recognise there are issues that need to be carefully managed. We are dealing with, in some instances, very aged assets so of course there are going to be challenges. The heightened commitment we have seen demonstrated from the corporation in recent years in terms of the capital contribution they have laid out is an example of the commitment they have shown to these issues.

Ms WOODRUFF - Given the stresses Hydro has been under, are you considering removing the 95 per cent requirement for a dividend?

Mr GROOM - It is not 95 per cent. Again, you are going to the capacity of the company to be able to deal with these issues in a responsible way. I was going to make the point that in 2012 there was something in the order of \$52 million spent. My understanding is that next year it will be something in the order of \$87 million.

Mr EVERY-BURNS - On the plant, yes. With respect to the 90 per cent, I have been asked questions about this before in the Public Accounts Committee and have made the point that we have not paid a 90 per cent dividend in any case so far. At one stage I negotiated a different outcome with the Government so the amount that was paid was a lesser amount. In that case I think the Government did better out of it and Hydro did better than expected as well. For the year just passed there is no dividend payable, so it is not a meaningful measure. In the couple of years ahead, the Government has already stated it is not expecting a dividend from Hydro. I have gone on the record saying we are in active discussions with the Government on how we handle the next few years. I think we've all been out there and said it is our intention to regain our financial health and to do that we will reduce debt. That means there has to be accommodation between dividends and debt repayment. That is exactly what the board understands and what the Government is saying. [inaudible] there will be accommodation in that area.

Mrs RYLAH - Minister, I would like to return to the spring of 2015 and get an understanding from you. Was the severity of that spring forecast by the Bureau of Meteorology for the water storages Hydro have in Tasmania? I have a couple of questions on this.

Mr EVERY-BURNS - For an expert opinion we will have to go Steve. The board was very much across the issues; we see monthly reports coming through. I have spoken to a number of members in this room as to how it all unfolded, but we did not know there was any prediction that we would have such a bad outcome. We saw it emerging as it emerged, that is how we knew what was going on.

Mrs RYLAH - How does the spring of 2015 compared with other very low flows or rainfall?

Mr EVERY-BURNS - It was a very significant event. I am on the record in the Public Accounts Committee as saying it was about a one-in-300-year sequence. You would only expect it to happen on a 300-year basis. It was lower than anything Hydro had on its records and the Bureau of Meteorology, as far as I know, said it was lower than anything on their records. We have our inflow records and they have the particular rainfall records and by all accounts it was substantially lower than their records.

Mrs RYLAH - So it would seem that this appears to be quite an elaboration and a variation in what has been recorded. What has Hydro done to change your forecasting to protect us from future events?

Mr EVERY-BURNS - If there is more detail required I would have to go to management, but from the board's point of view the techniques or the estimates being used were not conservative enough. That is self-evident. We did not know it at the time and based on all the evidence before, I was sitting there as a board member and I could not see anything wrong. As I said, we did not expect anything lower than had ever been recorded, but since then we have now taken the view

quite actively that we need to be more conservative in our view but not necessarily permanently so. We need to understand if there are underlying drivers for it.

Those underlying drivers are things that CSIRO and other scientists may understand but we do not. For example, is there a link between El Nino to Tasmania that is subtle and we do not understand? Is there more knowledge about the Indian Ocean dipole than we currently understand? We are interested to find out and we have studies going on relating to the southern annular mode which has to do with the polar weather patterns. It has become evident through having to address this particular critical issue that there may be a body of knowledge out there developing or that could be developed that would tell us a lot more about Tasmania's weather patterns as a result of knowledge about what is going on in the Southern Ocean and the South Pole.

We are studying that because we want to understand is if there is a body of knowledge that can give us a better understanding. If the tail of weather events are much more extreme than we understood, we would like to know that there is a scientific basis for taking that view. Otherwise we or the state could end up taking a view that is too conservative. If it is too conservative you will never have a problem again but you might pay a lot of money to make sure you never have a problem that would never have arisen. In the longer term we want to understand the weather patterns a lot better. We will respond to that in the meantime by having higher storages. On my wish list I would like governments, boards and authorities involved in this to be prepared to review it in five years time. Take a view, be conservative, but also be prepared to have another view and another look because to get it wrong is bad in both directions. To get it wrong can lead to an unnecessary pain in the economy because of the down side, but to get it wrong the other way can mean you spend a lot of money which is a permanent burden on the economy also.

Mr GREEN - I asked the minister some very specific questions about the press release and the decision making around that release and whether he had taken advice. Can I ask you very specifically whether Basslink has been cooperating with Hydro and vice versa with respect to the analysis of the cable and the break?

Mr DAVY - Our own experts, been engaged through our legal team, have been present at a lot of the investigations Basslink's experts have been making. We have had representatives present at the physical investigations.

Mr GREEN - You advised the minister of that?

Mr DAVY - These advisers are engaged for the use of the state and Hydro. Everything those advisers have learnt has been available to the state as well as to Hydro Tasmania.

Mr GREEN - You have that capacity to independently test the theory, as I put it before?

Mr DAVY - No, I would not say that we have that capacity. We have the capacity to be present for the investigations that Basslink -

Mr GREEN - To satisfy yourself for the professionalism I suppose of the -

Mr DAVY - To satisfy ourselves the tests were done in the way they should have been conducted and that we can see all the parts. We have made a number of suggestions about further investigations that could be made, informed by our experts' views. Some of those things have not yet occurred and we are still pressing for some of those investigations to take place.

Mr GREEN - Will it be after then you start to resume paying the facility fee, do you have plans on resuming that process?

Mr DAVY - We made a payment to Basslink this week, so that we can continue these commercial negotiations without worrying too much about the financial situation. We will continue to make those payments while we -

Mr GREEN - You think they are in an awkward position, financially?

Mr DAVY - No, we wanted to make sure we were making payments in good faith while negotiations were going on. We will continue to work with them on the financial side and we will make payments as they are due when we are convinced we understand the contractual basis for those payments. There are disagreements about payments on a number of fronts. It is not only in relation to the [inaudible].

Mr GREEN - At some stage you will refund Basslink Pty Ltd if testing ends up showing it was through no fault of their own. You will refund the funds withheld?

Mr DAVY - I think the minister has made it clear there is an independent issue. What Basslink are maintaining is if the cause of failure is unknown it is force majeure under the contract. The result of testing and the physical investigation is a different issue from the discussion we are having about the cause of failure. If Basslink approves no cause of failure then it will continue to be our position that it is not force majeure under the contract. That is an issue to be solved commercially or by some other means. It is not an issue to be solved by physical testing.

Mr GREEN - The question has to be asked. You have made a decision. You have made a predetermination on what somebody might decide with respect to the force majeure event and who is owed what. You have already made your mind up by withholding payments, haven't you?

Mr DAVY - We believe the way the contract works is if BPL want to maintain it is force majeure they have to prove the cause of the failure is a force majeure event. They have taken a different angle. If we cannot come to a commercial resolution we will disagree about how the contract works and there will still be a gap between ourselves and BPL about how much is due under the contract.

Mr GREEN - The approach is to seek further information from BPL to satisfy yourself. Can you give us an idea what the time frame is?

Mr DAVY - We are reading through the report at the moment. We have over the past months said further tests could take place. We are still working our way through the report, working out, of the additional suggestions we have made and didn't previously know about, what evidence there is those tests had happened. We want to be sure of all the testing that could have been done and the investigations. It is important for the state to understand why the cable failed, if at all possible. That is important. If, after all that, BPL continued to maintain the cause is unknown and no further work can be done to determine the cause, we will have this outstanding disagreement about how the contract works. That is the basis of our commercial discussions.

Mr GREEN - That at least allows me to understand. I think most Tasmanians want to understand this too because accusations have been made with respect to whether this is making it

difficult for Basslink Pty Ltd to remain solvent. We heard what happened with the Singapore Stock Exchange and we have heard what you have had to say about engaging consultants to understand it yourself.

Mr DAVY - Malcolm Eccles has been clear on the public record this week to say there is no possibility of insolvency.

Ms WOODRUFF - Minister, after the energy crisis, the question of the bonuses for Hydro executive has been raised and there was another leaked document, talking about the possibility of bonuses. Can you please provide the following information about who is responsible for setting executive bonus payments, when bonuses will be paid, which positions are eligible and whether there will be or have been any bonuses paid for the last financial year?

Mr GROOM - In terms of senior executive bonuses for last year, there are none. In terms of the decision-making, these are set by the board but consistent with government policy.

Mr EVERY-BURNS - For the leadership team, that is the responsibility of the board. We evaluate that. Last year we took the view Hydro's capacity to pay was dented as a result of our financial position. Irrespective of schemes in place, the senior team was not eligible for the bonuses and none were paid, to my knowledge. That is the way we did it.

In the year ahead, we have again put the bonus schemes in place. They relate to the ability of Hydro to pay in the first place, which is standard commercial practice. In this case, they relate to, amongst other things, there are a lot of KPIs that relate to people's behaviour being the right commercial behaviour and the right ethical behaviour for the corporation. They also relate to profit of the corporation and ensuring we end up with sufficient energy and storage, so there is no prospect of trading off energy and storage against profit.

Ms WOODRUFF - What are the KPIs a person would get a bonus for? Is it delivering a particular outcome?

Mr EVERY-BURNS - There are number of measures, depending on who the people are.

Ms WOODRUFF - Which positions in the company are eligible for bonuses?

Mr EVERY-BURNS - Under my purview it is the executive team. That is what the board looks at in setting targets.

Ms WOODRUFF - It is only the executive team?

Mr DAVY - Executive level employees have incentive arrangements linked to their salaries, which can range between zero and 15 per cent. There is a government cap of 15 per cent on the bonus levels. This year there are the gates of profitability for the corporation and the minimum storage level being achieved at the end of the financial year. The Hydro Tasmania enterprise agreement employees, that is, the rest of the employees not on executive level, have a maximum of 3 per cent. That has the same corporation triggers but is not linked to their personal KPIs.

Ms WOODRUFF - So all other employees have a 3 per cent bonus?

Mr DAVY - Not all other employees, they are the Hydro Tasmania enterprise agreement employees.

Ms WOODRUFF - What are those positions?

Mr DAVY - They are all the staff on the various pay bands - technical, secretarial, clerical. There is also a number of employees under the Entura enterprise agreement and they have a different salary structure that doesn't currently include the bonus arrangements.

Ms WOODRUFF - No bonuses are paid to Entura?

Mr DAVY - To Entura award employees.

The committee suspended from 1.01 p.m. to 1.04 p.m.

Mr GREEN - I was just having a look at what Mr Eccles had to say on the issue of whether Basslink is okay. What he said on radio was, 'Yes, it would be good for Hydro Tasmania to resume payments, but at this moment in time there is no fear of Basslink being switched off'. Minister, has there been any internal advice that Basslink Pty Ltd is at risk of going into administration?

Mr DAVY - There is a quote on the ABC website - which was taken out of context - that calculated there is always a risk and that risk was possible at some point in the future, but it wasn't seen by us to be an immediate risk.

Mr GREEN - You have no internal advice that says there is an immediate risk at all or a risk to administration in 2017?

Mr DAVY - No.

Mr GREEN - Fair enough. In regard to the risk management committee, Janine Healy retired in 21 August 2015 and Stan Kalinko retired on 16 December 2015. Can you confirm whether either of them were on Hydro's risk management committee?

Mr EVERY-BURNS - I think Janine was.

Mr GREEN - I will ask a very specific question whilst you are looking for that, because it might jog your memory. Did either of these directors raise concerns with Hydro Tasmania's approach to energy security, particularly with respect to the sale of the combined-cycle gas turbine?

Mr EVERY-BURNS - Not that I'm aware of, but if you are aware of something, please tell me and I will have a look at it.

Mr GREEN - What reason did they give for their resignations?

Mr EVERY-BURNS - They didn't resign; they retired. Bryan, you are aware that there is normally an appointment term that runs -

Mr GREEN - Don't be smart.

Mr GROOM - Hey, hang on.

Mr EVERY-BURNS - I really was trying to be quite -

Mr GREEN - Well, don't take your lead from him.

Mr EVERY-BURNS - I was trying not to. What I was trying to say was from the time of your office you would be aware that appointments are made and those appointments came to the end of their times, so their terms were up and they retired, so we went through a replacement process.

Mr GREEN - Through RTI we have documents that I am sure you would probably be aware of. We came to understand that a member of the risk management committee raised concerns about Hydro Tasmania's assumptions about the impact of the prolonged failure of the Basslink cable on 15 December 2015. Was Mr Kalinko at that meeting and was he the person who raised the concerns?

Mr EVERY-BURNS - No, I have already said I am the one who made that comment, and I said that in the Public Accounts Committee. It wasn't because I had any concerns at all. I don't want to be smart about this, but I was sitting in a room where we were looking at a number of the risk issues of the company and I made the comment that as we sat there at the particular point in history the pre-eminent concern and risk that we faced would be the failure of Basslink, because we were relying on it heavily at that point for import and we had water storages that were dropping. That is how it came about. It wasn't Mr Kalinko or Ms Healey, to my memory, it was myself. I therefore did what I think any reasonable person would do as a director and asked the management in that meeting what that would lead to. That is the point in time where I think the record shows I was probably given an assurance about the 60-day provision and so on, and it was our belief that we had sufficient contract cover within the Basslink contract for repair. I never took the view that that was an unlikely or unreasonable repair time. I understood there had been very substantial negotiations to get to the Basslink contracts and that is where we were. That is what it was about.

Mr GREEN - Mr Kalinko retired the day after the meeting, obviously a coincidence, but why did it take six months to replace him?

Mr EVERY-BURNS - We are replacing directors periodically as their terms come up.

Mr GREEN - His term had expired, though - you told me that.

Mr EVERY-BURNS - Yes, his term came to an end.

Mr GREEN - The day after the meeting.

Mr GROOM - There was a bit on.

Mr GREEN - That was the reason - you had a bit on?

Mr GROOM - I'm just saying.

Mr BACON - But it wasn't unforeseen. This was before the Basslink cable went down. He had planned to leave on the 16th and then it took six months to replace him, so there wasn't a bit on.

Mr EVERY-BURNS - I don't think it took six months to replace him. I did the interviews and made the recommendations for the replacement directors.

Mr GREEN - I won't be smart either but the Chair has once again reinforced the strategy overall on the combined-cycle unit. That is very important in allowing me to understand how the business is operating.

We have had discussions already about the 10-year asset management plan and the leak of that information. We understand Hydro is currently conducting an investigation into this leak. Does Hydro Tasmania believe that this leak constitutes a breach of the law?

Mr EVERY-BURNS - I can't answer that. I have a view that leaking documents from any company is a very poor activity. The documents that end up outside the company I regard as stolen.

Mr GREEN - So you would say it is a breach of the law?

Mr EVERY-BURNS - I am not saying anything here. There is an RTI process where documents can be made public. Hydro is in a very difficult position because it is operating in a highly competitive market, like other very big, important Australian companies. Big companies are put at a disadvantage when their critical operating information, commercial information or legal information is made public. The thing that concerns me so greatly about this is that the information can be leaked by people who mean well, sometimes, but have no idea of the consequences of what they are doing. They have no idea of the disadvantage it might put Hydro or the state in when you are trying to negotiate. We are trying to negotiate from a position where the innermost thoughts of the company are somehow released and I find that particularly troubling.

Mr GREEN - I am only asking the question, do you believe that it constitutes a breach of the law, but you haven't answered it yet. Has Hydro advised the minister that this leak constitutes a breach of the law?

Mr DAVY - No, we have not provided any such advice.

Mr GREEN - Who is undertaking the investigation into the leak of the business's 10-year asset management plan?

Mr DAVY - We conducted that investigation internally.

Mr GREEN - So you didn't involve the police in the matter?

Mr DAVY - Not to my knowledge.

Ms WOODRUFF - Minister, there were some internal Hydro documents that blamed the increased native fish deaths at Great Lake on the low water levels during the state's energy crisis. Another bit of information obtained through right to information by the ABC found that the retreating water levels left native fish and eggs stranded on dry land and caused the death of underwater plants and invertebrate species. There were concerns raised during the energy crisis by the Tasmanian Conservation Trust and other organisations about the danger to threatened species as water levels were going down very low. Hydro drew water levels down to 11 per cent in March in the Great Lake even though it was home to four threatened galaxias species. What has been the

impact of the drawdown on those species? What is the evidence of that impact and what is the sense of the future for those plants and animals?

Mr EVERY-BURNS - That is one of the issues I talked to in the governance sense, that we had to try to understand what was going on. Our particular concern was exactly as you have stated. We were concerned about de-watering the eggs, knowing that as the waters went down you would expose some eggs, but at that point I had no reason to believe we would continue to take all the eggs out, for example. All we were being warned about was that there was evidence that of that progress beginning. We also were told, exactly as you've stated, that there was evidence of the algal beds or whatever being at risk of exposure. We have worked through that. By reducing the draw on the dam to virtually zero, we then left it in what we regarded as a steady state for a period of time. We did that very deliberately because when we had evidence that there would be problems, we did not want to go any further into that zone. We didn't. The most recent report that I have seen is that the lake has come up something like four metres. It has recovered substantially. The water clarity is quite good, they are reporting to me. They are saying the fish catch has been reported as good.

Ms WOODRUFF - Of galaxias?

Mr EVERY-BURNS - The trout. The galaxias recruited even in the drought period. We had evidence that from the onset of the problem they had still recruited in that particular summer. They had bred but then we had some evidence that not as many bred as would have in the perfect environment. The evidence I have coming through year in very early reports, is that the recruitment of galaxias is good.

Ms WOODRUFF - When you say 'they' have reported it, who is 'they'?

Mr EVERY-BURNS - To my knowledge, we have an internal group of people who study this full-time. They are qualified, environmental people. In fact I have gone out of my way to meet with them and I know the faces of the people. We visited Great Lake at the height of the drawdown because a few of us wanted to see first-hand what it looked like and what the affect was. We have been out and been getting reports again very recently and I have seen the people who are involved in it face to face. We have a genuine concern but at the moment I believe, on the evidence I have before me, that the recruitment recovery is looking quite good. People have said to me prior that it might take a number of years longer than it appears to be taking. It is early days, but it is being carefully watched.

Ms WOODRUFF - That brings me to a supplementary question about the lakes and dams and the effect on them. Has there been any effect on the dam structure? Do our dams have a life span and are they going to have to be closed or replaced? Has there been any effect from these very low water levels in any of the dams?

Mr EVERY-BURNS - Again, if we have to get into dirty detail, we would have to do it in some other way. From the enquiries I have made and my understanding of the assets, no. Most of our dams operate between quite extreme levels. Some don't operate at very large levels but they operate up and down fully in a year or many times in a year. That is what they do. The ones that spill when it rains heavily and are drawn down when we generate, their activity has been normal. Great Lake was the one that we were particularly concerned about because it had a continuing long draw and we took a great deal of care how we managed that. Gordon is a dam that has also been designed to be drawn up and down very substantially and I am not aware of any reports on that one.

Ms WOODRUFF - We don't ever need to close or replace any of our dam infrastructure?

Mr EVERY-BURNS - It is being progressively modernised. I think it was Rowallan that we did a lot of work on recently and got awards for. You have to keep spending the money. You have to target it, which is what the risk management plans are about: simply assessing the ones in the greatest need or the ones where the money will give you the best effect.

Mr GREEN - Except when you have to keep spending your money on the regulator arrangement and the minister accuses you of wasting the money and foisting the burden onto energy consumers.

Mr JAENSCH - Minister, in a previous hearing this committee examined the issue of the emergence of battery and rooftop photovoltaic systems as a new thing in the market and in the energy economy and the challenge of maintaining a system in Tasmania. Can Hydro update us on how you are understanding and monitoring these trends and any implications they have for Hydro Tasmania?

Mr DAVY - We are not the only people using this language. The market has been increasingly characterised by the rise of the consumer having their own energy generation facilities on their house. That began with solar. Across Australia there is a 15 per cent uptake of rooftop solar PB on households. Tasmania is not that high but it still has a substantial uptake of solar. The latest developments are people putting batteries into their households. Are you referring to domestic installation?

Mr JAENSCH - Yes.

Mr DAVY - We are involved through Momentum with some of the potential suppliers of those services and we are currently offering rooftop solar to our customers through a third-party provider. We are also looking at how we can team up with battery providers to be able to provide integrated solar and battery solutions to customers. It is important from that point view we understand it.

Solar and batteries change the demand profile dramatically in the marketplace. In some parts of the national market it is possible during the middle of a sunny day that all the residential demand and quite a bit of the grid demand could be met by rooftop solar rather than by the more traditional means. That is changing the dynamics of the marketplace. Because we participate in the national market by exporting across Basslink when demand is high and importing when demand is low, that will change over time, when the opportunities are for exporting into those high demand and high price times.

Mr JAENSCH - Is it a risk for Hydro?

Mr DAVY - It is a changed opportunity. On balance, the changing market will create more opportunities for Hydro but that view might change in light of further information. We need to keep monitoring how the market is developing.

Mr JAENSCH - When you say you are providing rooftop solar and battery systems to customers, which customers?

Mr DAVY - Residential customers in Victoria and other states are serviced by Momentum if they wish to have those other services.

Mr GREEN - So we get it clear that it is not some conspiracy theory, minister, Janine Healey retired from the board on 31 August 2015 but she had already been replaced on 25 August 2015 by Samantha Hogg. Stan Kalinko retired from the board on 16 December, coincidentally it seems, after the risk committee meeting, but was not replaced for six months.

Mr EVERY-BURNS - I am sorry, I did not understand the question.

Mr GROOM - You are making some implied suggestion that somehow it was something to do with the position he had adopted or whatever. I am sure Grant can talk you through the process Hydro went through. The only point I make is that during that six months we were in an energy crisis.

Mr BACON - Minister, I think the point is that one director left in August and was replaced before they left. The other one left the day after the risk management committee meeting and was not replaced for six months.

Mr GROOM - What are you suggesting?

Mr BACON - What is the difference between the two appointments?

Mr GROOM - I reject the conspiracy theory.

Mr BACON - It is a direct question.

Mr EVERY-BURNS - Janine Healey was chair -

Mr GREEN - I am not worried about Janine; I am worried about Mr Kalinko.

Mr EVERY-BURNS - Janine was chair of the audit committee for about 13 years. It was most important to me that I had a financially skilled direct replacement for Janine, which is what I did. So Sam Hogg was appointed. She immediately came on as a director and chair of the audit committee. In the case of Stan's retirement in December, I had commenced the process of replacing Stan with another director.

Mr BACON - When did that commence?

Mr EVERY-BURNS - I cannot tell you exactly but probably a couple of months before.

Mr BACON - If we put that on notice we can get those answers?

Mr EVERY-BURNS - Yes, I think so. There is no issue. What I wanted to do was replace Stan, who was from a legal background, with someone who had retail, electricity, banking or marketing experience, because at the time that was an area on the board where I felt we were a little bit short and could do with that skill. I interviewed about six people in two different rounds. As you can see the timing crossed the New Year. I wanted to get a good pool to select from. I think it was around that time, when we were finishing up in January, that I became embroiled in what is known as an energy supply difficulty. So I put most of our waking effort -

Mr GREEN - Which you did not conceive when the Government was getting rid of the combined cycle.

Mr EVERY-BURNS - No. I put more effort into working through that problem, as did the Government. When it came to appointing a new director I went through the normal processes, given we were obviously in a time which took all of our effort to move through, and I think all of the Government's effort to move through. Stan Kalinko was an excellent director. He worked for us for seven or eight years. He had a great background, was a good gentleman and a fellow I still see. Really, it is just to do with the timing issues.

Mr GREEN - Thank you, that was a long answer to one question.

Mrs Rylah raised the point about prudent water management earlier, trying to suggest, I think, by her question that the Government has now returned to a more sensible position. Can Hydro Tasmania provide the committee with advice about whether the trading during the carbon price period contributed to the energy crisis?

Mr DAVY - Leading up to the carbon price, which was something that was well foretold, there was considerable political debate. In fact there was a false start before the carbon pollution reduction scheme came and went. We spent a number of years preparing for the carbon price by building up our storage. We built our storage so we were up around 56 per cent full when the carbon price started and then we made sure we maximised the use of water and storage for the benefit of Tasmania while the carbon price was in place.

If you recall, the scheme that was legislated was initially for a three-year high fixed price. So our expectation was we needed to use the surplus water and storage over that three-year period. It became clear during that three-year period that the policy position had changed so that fixed price would only be for two years. Even if the carbon price had remained in place then we had two years to use the water and storage.

Since the carbon price period, each end of June we have had storage levels of around 30 per cent at each point. I do not think the building up of our storages for the carbon price period and using the water and storage was the precursor.

Mr GREEN - Did trading at that time contribute to the energy crisis?

Mr DAVY - I do not see how it could have. At the end of the going price we were still around 30 per cent full and we were 30 per cent full a year later.

Mr GREEN - Did the reduction in the prudent water management level put Tasmania's energy security at risk?

Mr DAVY - Again, the storage level at 30 June 2015 was 29.6 per cent. It was the very dry period and the Basslink outage caused this.

Mr GREEN - Who proposed the reduction in the prudent water management level?

Mr DAVY - The reduction in 2012? It would have been Hydro management.

UNCORRECTED PROOF ISSUE

Mr GREEN - Were you the CFO at the time when you wrote up and drafted the proposal to reduce the prudent water management level?

Mr DAVY - I have never been the CFO. Before being the CEO I looked after the trading area.

Mr GREEN - Did you draft the change to prudent water management level?

Mr DAVY - I doubt that I drafted it but I would have endorsed it.

Mr GREEN - In light of all of that, Mr Groom, what is your view about issues associated with the prudent water management level and the trading through that period, given you have said so much about it politically. You have always accused Hydro of risking our energy security.

Mr GROOM - It is well understood that it is my view the decision to reduce the prudent water management level in 2012 was the wrong decision.

Mr GREEN - Effectively, despite all the praise of Hydro Tasmania you go on about.

CHAIR - Mr Green, you will have a chance to put another question in a moment.

Mr GREEN - You are saying Hydro had it hopelessly wrong.

Mr GROOM - I have expressed a view on this. I think that decision was wrong. Like Grant was saying before, it would be a silly position to have experienced what we have had in the past and not learn from it.

Mr GREEN - It would be silly to chase a \$75 million dividend and remove your own insurance policy in the middle of a drought.

Mr GROOM - It would be a silly position to have experienced what we have over the course of the last 12 or 18 months and not learn from it. I would say, based on everything we have seen, the decision made back in 2012.

CHAIR - Order, Mr Green.

Mr GROOM - I believe, with everything we have discovered, the decision was the wrong decision. Hydro knows that, and I feel pleased the corporation has made a deliberate judgement to adopt a more conservative approach to water and management, consistent with the pre-2012 position. As the Chairman was saying at the start, we now have dam levels at 45.1 per cent, which is about three times your approval rating. We are in a much better position to manage our energy security as a consequence of that approach. We have all learnt from this. I think what is very much to the credit of the corporation is they have acted in response to that and I acknowledge that.

Ms WOODRUFF - Looking at individual cash flow statements for the GBE's is difficult because of equity transfers between companies and new loans. If we look at the overall cashflow statements of our non-financial GBEs, which largely reflect the financial position of our energy GBEs, they largely reflect that because of their relative size and profitability. There is an overall, over our GBEs a concerning trend, a cash deficit in the Treasurer's annual reports shows more cash has been leaving our GBEs, collectively, than they receive and this is a long-term trend. Between

2005-06 and 2014-15 our GBEs experienced a negative cash flow, cumulatively exceeding \$1.58 billion since 2005.

This financial year, the Government is expecting another \$270 million will be leaving the GBEs than they collectively receive. By next year, 2017-18, the cumulative cash leaving our GBEs is forecast to be more than \$2 billion since 2005. That is not necessarily a problem but the question here relates to our ability to maintain long-term infrastructure. We have concerns about how money is being used in Hydro to secure our future assets. This very large amount is a concerning picture for us all.

Can you please provide me with your cumulative cashflow since 2005, conforming to the accounting standard using the Treasurer's annual financial report table, which is labelled 'statement of cash flows by sector'? Could it also be with the loans, equity transfers and other variables that aren't usually reported when that material is removed? In other words, enough information to be able to gain a picture of how Hydro has been tracking?

Mr GROOM - There was a lot in that. First, as to the broad portfolio, the Tasmanian Government takes seriously its responsibility to manage our GBE portfolio. In the context of Hydro's broad position, we have been working closely with the corporation to make sure it is in a good position, can return to profit, its debt levels are coming down and it has a sustainable future. We feel very pleased with the commitment demonstrated by the corporation to that end. As the chairman has indicated as to asset management plans, they are in a position to significantly increase the amount being spent on that, as is appropriate and consistent with the 10-year management plan. Grant has made it clear the company is in a strong position.

Mr DAVY - We can talk about Hydro's position over the last five years but we don't have the 10-year data for the whole sector.

Mr SMITH - The key measure of how strong your cash flow is ends up in your debt number. If there is cash leaving, your debt will go up and if it is coming in your debt will go down. From a Hydro Tasmania point of view, if you look at page 16 of our annual report you can see the net debt figures from 2012. In 2012, the net debt was \$857 million. The next year it was \$866 million, in 2014 it was \$851million, and in 2015 it was \$839 million. In the year in question it is \$827 million. That is a fairly consistent debt level and we expect debt levels to be significantly lower again next year.

Ms WOODRUFF - Is it possible for that information to be provided in the format I asked?

Mr SMITH - This is in the annual report. It is fully audited and complies with Australian Accounting Standards.

Ms WOODRUFF - No, the information I asked for is the cumulative cashflow since 2005 for Hydro Tasmania.

CHAIR - I suggest this annual report has been put out since that period of time and if a member wishes to go back in history we are not here today to put a burden on a GBE to look at 2005 or 2006 figures. We are here to talk about the annual report for this year and we have the benefit of the officers, the CEO and the chair to speak broadly to that. Beyond that I would be reluctant to ask a GBE to go back in history when these committee hearings have been held since that period of time

and there is evidence there. If a single member wishes to go down that track they can by doing some research.

Ms WOODRUFF - Thank you, Chair, but the point is that this information isn't available in the format I was asking for from just reading the annual report, which of course we have done. The format set out in the Treasurer's statement in terms of cashflow by sector is the information we are asking for - is that possible?

Mr SMITH - Cashflow by sector?

Mr EVERY-BURNS - Does that mean just cashflow for Hydro?

Ms WOODRUFF - Just from Hydro for some operating activities.

Mr SMITH - This is in the annual report, the cashflow statement in the accounts, which is page 51. It splits it up as per the standard. It gives you operating activities, which is what the business generates, then it has investing activities, which is where our money that we spend on maintaining the plant goes, and the last section is financing activities. That will tell you how the cash is moved and the debt is the balancing figure for that.

Mrs RYLAH - Minister, can you outline Momentum's performance? We heard it mentioned earlier today as to the impact this has had on Hydro Tas's financial 2015-16 performance.

Mr EVERY-BURNS - In very broad terms, Momentum has assisted Hydro substantially in the last financial year. Its return to profit - \$36 million positive.

Mr JAENSCH - So it's not just a clever name.

Mr EVERY-BURNS - No. It's a very important mechanism to de-risk the business and get Hydro output directly to customers. When you become bound to operate Basslink you need to be able to mitigate risk across that link. It turns out Momentum is particularly valuable to us from that point of view. They are also very agile in the market and have been very good as electricity retailers. In more recent times they have been good as gas retailers and have been able to use the gas retail to leverage the electricity sales, which has been very good for us. From my point of view in a governance sense we are interested that Momentum works properly and meets its requirements in the retail marketplace because there are quite strong regulatory requirements. From a business point of view and the board's point of view we are also anxious to see that it makes money and it has been a very good contributor. In terms of detail, Steve, is there anything to add?

Mr DAVY - It continues to be very successful in the market segments it competes in. As the national market got tougher Momentum started to make a much bigger share of the contribution to Hydro Tasmania. The \$36 million from the 2015-16 year is a very strong contribution. Clearly, if you do the arithmetic, if we did not have a retail business the loss for the 2015-16 year would have been far higher.

Mr GREEN - Minister, did Hydro Tasmania advise you there would be an impact on other gas users if the combined-cycle gas turbine was sold and the gas contracts were not renewed? Did they provide you with that advice?

Mr GROOM - Obviously this is a legacy issue in the sense that there had been an understanding, I think, going back to your government, of all the circumstances that could impact in relation to the gas contracts going forward. When you considered the sale of the Tamar Valley Power Station you looked at that issue. The decision that was made by the former government to transfer the TVPS across to Hydro and for it to be used optimally within that portfolio was another factor. All of these issues were known, but what is important is that we didn't sell it.

Mr GREEN - Were you provided advice? That was my question.

Mr GROOM - I would have been provided broad advice in relation to all of these issues, but these issues were well known. I can remember them in your time in government, Mr Green. You did not provide a resolution to some of these issues then and as a consequence of the decision you made it changed the use of that particular asset and the Tamar Valley Power Station was put into dry lay-up under your government. Obviously your government failed in the rollout of gas into households and small businesses. You had an initial target I think of 100 000 households, which you did not achieve. All of these things contributed. Of course we would have received broad advice in relation to these things but we did not sell -

Mr BACON - No specific advice?

Mr GROOM - It would have been broad advice from different sources. These issues were all well known but what is important is it was not sold.

Mr GREEN - Did you dismiss those obvious concerns in your decision?

Mr GROOM - No. I will make this point again -

Mr GREEN - I have not finished my question yet. Did you dismiss those concerns off the back of the fact that you quite categorically said in your press release that you were getting rid of a redundant liability? More importantly, from what you have said since that time, it was always about energy security. You said you were getting rid of a redundant liability which includes effectively the gas contracts, doesn't it?

Mr GROOM - The question Mr Green is making that the Tasmanian Government was not aware of or concerned about the potential impact of gas arrangements going forward for major users and more broadly in Tasmania is wrong. These issues were well known and are legacies of your time in government. There were discussions in relation to the extent of that contract when you were in government, Mr Green, and you did not resolve it. You made decisions which changed the profile of the use of the assets. You transferred Tamar Valley Power Station specifically for it to be used optimally within the Hydro portfolio. That was a very significant thing. You failed from a policy perspective in the rollout of gas in Tasmania. Something like 100 000 households were expected to get gas under that policy and I do not have the figures in front of me, but the result was a fraction of that objective. All of these factors were well known. From our perspective we were absolutely committed to ensuring that people not adversely impacted. We were very conscious of the need to ensure these issues were addressed appropriately and responsibly in the best interests of the state.

Mr GREEN - When will the gas contracts be renewed?

UNCORRECTED PROOF ISSUE

Mr GROOM - We take this very seriously. Hydro is currently in very active negotiations with a view to delivering an outcome as soon as possible -

Mr GREEN - So they are in very active negotiations at the moment?

Mr GROOM - Yes, in the best interests of the state.

Mr DAVY - We have exchanged proposals and pricing with the owners of the pipeline, if that is what you are referring to.

Mr GREEN - Yes.

Mr DAVY - Meetings are taking place. We would hope to reach a suitable commercial arrangement in time for all concerned.

Mr GREEN - I want to ask a very specific question to give the minister the opportunity to answer it honestly. Did you receive any advice from Treasury warning that the sale of the combined-cycle gas turbine could impact on Tasmania's energy security? Yes or no?

Mr GROOM - You asked this question many times and I have answered it many times. We received advice across a range of different departments, including from Hydro Tasmania, and all of our decisions paid very careful regard to that advice. I have been on the record before about this. Treasury had raised energy security and that is why, when we made the decision to approve the EOI process in relation to the combined-cycle unit, we made it very clear in our approval letter to Hydro Tasmania that energy security was an absolute priority of the Government and needed to be addressed as a precondition. There were a series of preconditions under that approval. Those preconditions were never satisfied and it was not sold.

Ms WOODRUFF - Minister, the preliminary report by the former federal government minister, Warwick Smith, into the feasibility of the second Basslink interconnector made it clear in the report that a second interconnector is not going to be worth the \$1 billion investment, unless there is at least 1000 megawatts of new renewable energy capacity built in Tasmania. Earlier we heard an estimate of 700 gigawatt hours, I think he said, shortfall in generation capacity to make the state 100 per cent self-sufficient. I do not know what it is in megawatts.

Mr DAVY - The shortfall only exists if you don't take account of the gas by generation. The question you asked was a shortfall in regard to renewable energy in Tasmania.

Ms WOODRUFF - Exactly. Why aren't we building renewables today to make Tasmania 100 per cent self-sufficient, renewable and 100 per cent of the time? If we did that, that would be building the case for a second Basslink interconnector, according to Warwick Smith's feasibility report - if the two things are operating together?

Mr GROOM - I thought you were against a second interconnector.

Ms WOODRUFF - You have always misquoted us on that. I have always said clearly we are open to it. The main thing is, we have to have a commitment to renewable energy in Tasmania and we have to be proactively doing that. That has to be our first emphasis. We have never ruled out a second Basslink interconnector.

Mr GROOM - I appreciate the clarification. It is the first time I have heard it described in that way.

I know you are a strong supporter of renewable development, as is the Tasmanian Government. As I have indicated, we are very keen to see further renewable development in Tasmania. I agree with you, if we could see further renewable development in Tasmania it could help in the case for a second link. There are a lot of reasons you might pursue a second link, which I have been through before.

If you are asking me whether the Tasmanian Government supports further renewable development and would we like to see that happen, the answer is yes. That is why we have asked energy businesses to actively engage with Tasmanian project proponents to achieve that outcome. I continue to be optimistic in further significant development.

Mr GREEN - Does it need to be regulated?

Mr GROOM - I am answering this question.

Mr GREEN - Yes, but answer that one while you are at it.

Mr GROOM - I remain very optimistic about the potential for significant further renewable development in Tasmania. I think we will see it. It is good for investment and jobs and it will contribute to the transition to clean energy in the national context. That is a good thing.

Ms WOODRUFF - Why aren't you putting policies in place to make that happen? Unless the Government leads with directions like targets, like setting up some reverse options mechanism directing the GBEs to do that work, there is no incentive for businesses to invest. Warwick Smith is agreeing with the Greens concerns. There are threats to getting a second interconnector if we do not also have 100 per cent renewable energies all the time - such as being flooded with energy we cannot regulate. There are threats if we do not already have self-sufficiency and we have to have the policies in place to drive that process, which is your job.

Mr GROOM - I am a supporter of further renewable development. We have taken specific actions in this regard. We have asked energy businesses to proactively enter discussions. We have been pursuing study with the Commonwealth in relation to a second interconnector, and we have been having active discussions with lots of different parties and entities interested in a second interconnector and further renewable development in Tasmania.

Ms WOODRUFF - There is no market signal there.

Mr GROOM - I am an optimist on this. I feel confident we will see significant further renewable development in Tasmania.

Ms WOODRUFF - Can you see that people in Asia or South Australia can't see your optimism. They need to read it in black and white.

Mr GREEN - You conceded a moment ago, I think for the first time, Treasury showed concern about energy security in their correspondence.

Mr GROOM - That is not the first time I have said that.

Mr GREEN - Can you provide the committee with the advice you received from Treasury?

Mr GROOM - We have already answered this question, Mr Green. You know the position of the Government. It is the same position that would have existed under your government.

When the Government provided approval to Hydro Tasmania for them to undertake an expressions of interest process we made it very clear to them we wanted to be satisfied in energy security. One of the things we discussed was a review of the guidelines on the prudent water management level, which is a very important point for people to understand. There were a number of other conditions.

Hydro did not come back to us with a specific proposal. The conditions were not satisfied. It was not sold. You have asked about a thousand questions on this. They are the same questions. I give you the same answer. You keep trying to make a case that somehow the decision around the EOI had a material consequence for the energy supply circumstance and I disagree with that based on the advice from Hydro Tasmania. What we were dealing with was an extreme -

Mr GREEN *interjecting.*

CHAIR - A moment ago, Mr Green, you indicated you had not finished your question and I allowed you to finish it. The minister has not finished his answer so I am going to allow the minister to complete his answer.

Mr GROOM - What we were dealing with was an extreme combination of circumstances. There was a record drought and it was the first substantive failure of the Basslink cable happening in combination. It was an extraordinary set of circumstances and the response was extraordinary. I am proud of the response. We met all of our objectives. We kept the lights on. We protected investment and jobs. We kept power prices as low as possible and it was a collective effort. It was a collective effort of the Government, Hydro Tasmania, Tasmanian Networks, Aurora, contractors, major industrials, and people across our community. I am proud of that effort. I think it demonstrated resilience. There was a calm, methodical approach to these issues against a carping backdrop from an irresponsible Opposition.

You made the choice to put all of your political eggs in that basket, Mr Green. You chose to do that but you have achieved nothing from it. On behalf of the Tasmanian Government and energy businesses is we did the right thing by the people of Tasmania and I am proud of that effort.

Mr GREEN - You stand by your comment there was no way of being able to predict or understand the energy crisis that came upon Tasmania?

Mr GROOM - At its core.

Mr GREEN - Treasury never provided you with any advice -

Mr GROOM - Are you going to ask me multiple questions?

Mr GREEN - No, I am asking you a very specific question about whether advice was provided to you this was easily predictable?

Mr GROOM - At its core -

Mr JAENSCH - Are you suggesting you could predict the fault of Basslink?

Mr GREEN - Chair. He is not answering the question.

Mr GROOM - At its core, it did not rain and Basslink went down in combination with one another. It was not only a drought; it was a one-hundred-year record low inflow combined with the first substantive outage of the Basslink cable. The circumstances that gave rise to the situation were extraordinary and the response was extraordinary. I am proud of that response, Mr Green. You can carp, you can be negative, you can go out there and try and scare people in our community but it does not change the basic facts.

Members interjecting.

CHAIR - Order. Hansard came to me between sessions to indicate that when people are talking over the top of each other they cannot be expected to put all the words down. We are interjecting over the top of each other and it is making it very difficult for Hansard. I ask the minister to complete his answer and ask members not to interject while he is doing so.

Mr GREEN - Did Treasury provide you advice that this scenario was easy to visualise?

Mr GROOM - As I say, I am not going to go into the details of any advice, but what I will say is we gave very careful consideration to all of the advice we received. I have made this point. Energy security was one of the issues that was raised through that and that is why, when we issued the approval letter to Hydro Tasmania in relation to the EOI, we made it abundantly clear in that letter that we expected Hydro Tasmania to provide assurances back to Government on energy security. We made it very clear that we expected the prudent water management levels to be reviewed as a demonstration of that commitment to energy security. There were a series of conditions. Hydro Tasmania never came back with a specific proposal, the Government took it off the table and the fact of the matter is it wasn't sold. Chair, the fundamental misrepresentation by Mr Green on this issue is that he is suggesting, by virtue of the fact that the Government issued that letter in August, that somehow the rain stopped, the cable went down and we were in an energy crisis.

The truth is we were dealing with extraordinary circumstances from a natural weather event. We were dealing with the first substantive outage of the Basslink cable happening in combination and we have responded in an extraordinary way and I am proud of it.

CHAIR - Order. The time for deliberation of this committee has concluded. Thank you all very much.

The committee suspended at 2.01 p.m.