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THE JOINT SELECT COMMITTEE ON ENERGY MATTERS MET IN COMMITTEE ROOM 2, PARLIAMENT HOUSE, HOBART ON TUESDAY 10 MARCH 2026.

The committee met at 10.02 a.m.

CHAIR (Ms Forrest) - Welcome back to our ongoing inquiry into energy matters. The purpose of this particular hearing and series of hearings we have been having is to look at the whole-of-state business case and the implications of that with Hydro. Just by way of background for those who may be watching, before the last election was called, it was an intention that we would be briefed on the whole-of-state business case, that we would have some information there, and follow that through, but then the election was called so everything was put on hold during that period. We are trying to complete that process so that the committee can then report, so this is predominantly around that matter, but there are obviously other Hydro-related matters that feed into that. That's the key focus at the moment.

I think you all are aware of parliamentary privilege and if you need to discuss anything of a confidential nature, you can make that request to the committee; otherwise it is all a public session being broadcast and transcribed.

I will ask you each to take the statutory declaration and then introduce yourselves. Richard, did you want to make an opening comment?

Mr BOLT - If I could. A few minutes only, thank you.

CHAIR - Yes, sure. If you can do the statutory declaration first and then we will move to that.

Mr RICHARD BOLT, CHAIR, **Ms RACHEL WATSON**, CHIEF EXECUTIVE OFFICER, **Ms ERIN van MAANEN**, EXECUTIVE GENERAL MANAGER STRATEGY and **Mr TIMOTHY PETERS**, EXECUTIVE GENERAL MANAGER FINANCE, HYDRO TASMANIA, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

Mr BOLT - Chair, I appreciate the opportunity to see you again and give evidence again.

I would like to update you on Hydro's priorities arising from the Marinus decision; I think that's the most relevant place to go. Some of this you've heard before, but it's worth repeating.

The construction of Marinus will build on what is now the pending regulation of Basslink to increase the value of our hydro-power assets and business. It will support our move from supplying bulk energy to firming new wind and solar generation as mainland coal power closes. It'll grow the most secure and clean power system in the country, support new industries and jobs and allow Hydro to earn higher revenues by generating at higher prices while importing at lower prices. And, of course, the growth of interconnection has now been locked in by both the Basslink and Marinus decisions, so the benefits can be realised now with the parallel growth in firmed renewable power, and I emphasise that there does need to be that parallel growth. Basslink and Marinus provide the foundation then the growth in power will provide the benefits; and that's what Hydro Tasmania's focus is.

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Specifically, we are investing in our existing assets substantially; working with wind and solar providers to bring on new generation in the state. We are negotiating supply contracts with existing and new industries as users of power and we are continuing to develop robust business cases to inform decisions on new hydro-power works at Tarraleah and Cethana. They are prospective; they're not locked in.

I also wanted to make three points if I could, Chair - only a couple of minutes or one minute's worth of these, about how the market and Hydro work to clarify some points that have arisen in recent debates. First of those is that Hydro is in a sound position to realise the benefits of interconnection. We have a strong balance sheet. We are well managed; as evidence of that, we maintained supply reliability - best in the country - and adequate water storages while returning dividends and tax payments to government through two of the driest years on record.

There will always be volatility in our returns because we have comparatively fixed costs, but revenues, which vary much more due to rainfall and market movements and the odd unexpected contingency, so changes in our revenue have much larger impacts on our margin than the actual percentage change in the revenue itself. That's why the longer-term trend over rain and price cycles is a better guide to our performance than one year's result. Over the last decade, we have returned more than \$1.2 billion to government in dividends, rates and other payments, and the outlook is for average profits to grow.

Second, we do strive to be honest and open in our public reports and statements. Whilst it is true that our accounts are complex, that's due to the complexities of our business, the complexities of the energy market, and of the mandatory accounting rules that we have to comply with. That's one reason we go well beyond annual reporting, to help parliamentarians understand our business, and we only withhold information for legitimate reasons, such as commercial confidentiality.

Thirdly and finally, we do not rely on windfalls to inflate our reported earnings. To clear up a public misunderstanding on this point, the inter-regional settlement residues, which form part of our revenue stream, are integral to the operation of the spot market. They are not a windfall. We can assure the committee that the full value of those inter-regional residues will be available for Hydro to bid for when Basslink becomes regulated; a technical point, but an important one given the debate.

We're happy to clarify those and any other points. There's a lot of expertise at the table. Thank you very much for your attention and we look forward to your questions.

CHAIR - If we can start with that last point, perhaps. Can you, or whoever wants to respond to the question, explain the difference between the 2024-25, 2025-26 and 2026-27 years - because there's been significant change? There was an agreement with Basslink in the first year. There's no agreement with Basslink the year we're in now, finishing 30 June. Then next year, assuming Basslink is regulated, which is the way it appears to be heading and the expectation, how will that work? Explain, so that all of us can understand, how it actually works.

Mr BOLT - While everyone's getting ready, just to make the point, there is an agreement with Basslink for this year, but it does not give us unfettered access to the inter-regional residues, and of course it includes a toll that they provide on the link's flows.

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CHAIR - Can you explain the differences over those, because it's changed significantly?

Mr BOLT - It has, and, as you say, there are two changes - one from last year to this year and then from this year to next year.

Ms WATSON - Erin, I think you're best placed -

Ms van MAANEN - Maybe to start in terms of, at a high level, what is the difference between the arrangements between the three years. That's a good place to start with, and how we refer to that. So FY25, the first year you're referring to there, we still had a holistic agreement in place with Basslink. Under that agreement, we had purchased and had the access to the inter-regional revenues, and the link was bid freely, so without a toll in relation to import and export, and flowed freely based on the bidding optimisation that AEMO does to decide what the link flow is. That's the first year -

CHAIR - And you paid a connection fee during that period?

Ms van MAANEN - Yes, we paid an amount under an agreement with them that included access to those inter-regionals.

CHAIR - That amount is? That's past history now. Can you tell us what that amount is or was at that point?

Ms van MAANEN - Can we just go through the difference between the arrangements between the years and then we can come back to that?

CHAIR - Sure.

Ms van MAANEN - In the current year, as Richard indicated, the link's been operating as a merchant link, meaning that there's not a zero fee in terms of the import and export. Basslink is bidding that commercially and placing a toll in terms of that import and export, and that has impacted, in practice, the level of flow over the link during this year. We have an arrangement with Basslink, but it's not for the full access to those inter-regionals and the details of which are commercial-in-confidence.

In the future year, there will be some similarity to the years prior to now, the current year, because there won't be a toll in place. The link will be freely available to the market. We will see that open access regime and free flow in terms of import and export without a toll, but the inter-regionals will be made available to all market participants to bid for. That's something that we will choose to bid for, if it makes sense and value within our commercial strategy to do so.

CHAIR - Back to the question of the amount paid to Basslink, when you were receiving the inter-regional revenues.

Ms van MAANEN - I don't believe we've -

Mr PETERS - I don't think it's been disclosed.

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Ms van MAANEN - I don't think it's been disclosed publicly. I think that's commercially confidential.

CHAIR - But why is it now? This is all past history. It's not paid anymore.

Ms van MAANEN - There's still information in commercial agreements that can be, I guess, deduced in terms of the value that we place on certain services that we may continue to seek to purchase or to bid for in the future. So, it would be commercial-in-confidence in relation to how that might imply the value we'd place on that in the future, which we will be bidding in a commercial market for those inter-regionals going forward.

CHAIR - I'm not asking for the amount of the inter-regional revenues. I'm asking how much you paid for the privilege of being connected, effectively, because the inter-regional revenues were separate - or part of an agreement, but separate to that amount, weren't they?

Ms van MAANEN - Yes, it's a complex commercial agreement and there are aspects of it that remain commercial-in-confidence.

Mr BOLT - Let's take that on notice and see what we can provide, Chair. I don't think we're in a position to divulge it here, but let's see if there's any reasonable basis to do so.

CHAIR - So then going to the third part, this next financial year, when the link will operate more freely, as you describe, how are the inter-regional revenues dealt with in that situation? When I go to AEMO's site, there's a whole range of steps in that process, so I'd like to know from the beginning to the end, because that's what makes the difference about how much money Hydro can make through this process.

Ms van MAANEN - So I guess there are a few elements to that. One thing we would like to emphasise is that the inter-regionals are an important part of how we trade, particularly across interconnection, and they contribute to the overall outcomes, but they are part of our broader portfolio and commercial and trading strategy. So, they're an important element, but they are not, in their sole right, the determinant of our earnings or our future earnings, so -

CHAIR - I appreciate that. I was asking about that part. This is one part of it.

Ms van MAANEN - I understand. So, with respect to how the inter-regionals will be handled going forward, which we've talked through previously, there will be settlement residue auctions in which market participants will be able to bid for the right to the inter-regional or a proportion of the inter-regional, based on the volume that they bid for. If you are a holder of that right, then you will receive that full IR value for that proportion of the link flow.

CHAIR - When you say the full IR value, are any costs taken out before that point?

Ms van MAANEN - No, in terms of the regulated revenue being paid to the owner of the link, that is recovered from the uses of energy through transmission charges. The proceeds from the SRA auctions reduce that. That is a separate process. But then the inter-regionals themselves that are bid for gives the holder the full right to that IR value, that full difference between the Tasmanian and Victorian price at that point in time. So, there's no deduction from that.

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CHAIR - But there are still costs attributed before that value is set of what the inter-regional revenue - sorry, there's someone knocking above us. When that amount is determined, of how much is available into the SRA process, the residue auction process, AEMO takes out costs and things like that?

Ms van MAANEN - It's the full inter-regional residue between the prices in the two regions at the time of trading.

Ms WATSON - I think it might be helpful to distinguish between the money that participants pay in order to participate in the auction. I suspect if you've read something on AEMO's website about costs coming out, I'd have to confirm this, but I suspect that they'd deduct from those fees the costs they bear in running the auction.

CHAIR - They're not going to do it for nothing, are they?

Ms WATSON - It'll cost something. But those fees - that amount, then, is known, because people have paid to participate in the auctions. That money is - minus whatever costs AEMO might deduct, and I'm just assuming that's the case - but that is the amount that Erin referenced as then being deducted from the amount that - it's distributed to transmission companies and effectively is then deducted from -

Ms van MAANEN - Collected by. The transmission companies need to collect -

Ms WATSON - Need to collect from consumers.

Ms van MAANEN - To cover the revenue.

Ms WATSON - So that offsets, to some extent, the cost, then, that transmission companies need to pass on to consumers to recover their cost base. But that's different to the money that is then distributed through the settlement residues -

CHAIR - Which is the last step of the process.

Ms WATSON - That's right, and that's only known later on, once the market has actually traded and a price separation has occurred between two states.

Mr BAYLEY - Just to follow on, Richard, you mentioned that you're negotiating new contracts with major industrials - that's something that's been in the news before. These inter-regional revenues previously under the contract sort of provided a bit of a cushion - I have had it described to me as a cushion - for those major industrial contracts, increasing exposure to Tasmanian spot prices for those major industrials. So, how will Hydro replace that revenue, the annual inter-regional revenue, that previously supported major industrial contract pricing?

Ms van MAANEN - It might be worthwhile just to understand the question a little better and whether you are referring to something we have said in the past, because I'm not sure we would characterise it in that way.

Mr BAYLEY - Right. As I understand it, and as I have had it reflected by a stakeholder, Hydro previously earned these inter-regional revenues and they now flow to APA, obviously, on Basslink in particular, and once regulated to AEMO's residue pool, so, the industrial users

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once considered that they had a cushion from that inter-regional revenue in their contracts or sort of associated with their contracts, and Hydro losing the inter-regional revenues will increase exposure to Tasmanian spot prices. So, as you negotiate those new major industrial contracts, how do you accommodate for this revenue that's going to be lost by Hydro?

Ms van MAANEN - So, I will probably start by saying in simple terms for us, the change in the interconnection arrangements and how inter-regional revenues will operate going forward doesn't have a direct bearing on our commercial negotiations with major industrial customers. I know there's kind of a reference to them in terms of how they are titled as inter-regional revenues, but in reality, how we operate within our business, they're a hedging tool that allows us to access, yes, the Victorian price at a time when the link is constrained.

When we're talking about our market position and the difference between Tas and Vic prices, it's important to note that, for the majority of time, the link is not constrained and when we look forward to a future where we have Basslink and Marinus Link both in operation, you would expect there would be less time when the links will collectively be constrained. So, most of the time Victoria and Tasmania are following each other in terms of price, and having access to those IRRs allows us to hedge price risk between Tasmania and Victoria in our position. So, yes, it can be termed a revenue, but it's addition to Tasmanian spot price outcomes that forms our overall revenue, noting we have contracts in place for most of our customers, including through the regulated instrument to Tasmanian customers.

So, I guess I would like to emphasise that the IRRs are largely a hedging tool for us and, yes, provide access to Victorian prices when the link is constrained. We have also always paid a price for our access to inter-regional revenues. So, the net outcome is the difference between the price we are paying for them, when we valued them originally, and what they finally settle at. So, I guess, I'd just like to -

Mr BAYLEY - So, as you go into those major industrial negotiations, how does this change affect Hydro's approach to those negotiations?

Ms van MAANEN - I guess we seek to negotiate those contracts commercially, based on the cost of providing that energy to the major industrial customer over time and we need to consider that in the context of the market. I think maybe where we might have talked about that before would be an instance where we see, potentially, a change in the load and the ability to export and import allows us to balance out changes in demand. So, there is a relevance to the access to import and export - to how we think about the opportunity cost, if you like, of major industrial load.

Ms WATSON - I would also add, because I sense in your question there was an implication that major industrials are somehow exposed to the Tasmanian spot price. We give them 10-year fixed-term contracts, so they are no longer exposed to the spot price.

CHAIR - Unless they choose to be, because some are.

Mr BOLT - They can choose to be.

Ms WATSON - Yes, but we're talking about the ones we contract with. So, when they contract with us, we give them a fixed price. You are quite right; they could choose not to be contracted. They could choose to be fully exposed to the spot price -

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CHAIR - Or partly contracted.

Ms WATSON - or partly contracted, but my understanding is that the ones who've contracted with us, contract their whole load and it is fixed for a 10-year period. We then manage the risk of the spot price going up and down because we retain some exposure to the spot price but we try to use our best forecasting ability when we are setting those forward 10-year prices so that we can give them surety of a fixed price over 10 years and we have a responsibility to make sure that's a commercial price. So it does, to some extent, reflect what we expect will happen in the market but if, five years down the track, something fundamentally changes in the market, that doesn't affect the MI's contract. We honour that. We stick to it for the 10 years and that's what we're doing in the background - managing all of that market risk, including through the hedging that Erin's just been talking about.

Mr BAYLEY - I guess the point, though, is that some of that risk will be built into the negotiations and these contracts going forward. Is that fair to say?

Mr BOLT - It always was and it will be in future. I think it's - to reinforce -

Mr BAYLEY - But to a greater extent because you lose the inter-regional revenues?

Mr BOLT - Well, we don't. We can still buy them. We have to bid for them. Whereas up until now we have paid for them as really the only purchaser, now we'd have to bid for them. We may choose to, we may choose not to, it depends on the hedging strategy. That's for the commercial team to work out.

I think that - my sense is that the distinction you're drawing is not as absolute as it's going to be in practice because the biggest benefit of the regulation of Basslink - and Marinus will also be regulated - is that the link is bid at zero. That means it will flow freely and we can make the maximum use of it to sell and purchase to the benefit of our revenues and also the prices we can offer major industrial customers. We can then also bid for access to the inter-regional residues as well. We haven't lost them, but we don't have exclusive rights to them.

CHAIR - You might not get the full value, though, that you have in the past -

Mr BOLT - We may not want it.

CHAIR - is that a fair comment?

Mr BOLT - If there are other bidders, that's possible, but I think the point we're making is that's a strategy we have yet to fully work out and it's not as large a change, from what I'm advised and what I understand, as perhaps it's being thought of in the public commentary to date.

CHAIR - Can you then perhaps explain to us how - one point, I think Erin, you said that you have access to the Victorian price. Can you explain what you mean by that, because aren't all things settled at the Tasmanian price?

Ms van MAANEN - So, I'm talking about - I guess in a holistic sense, once you add the inter-regional revenue to the Tasmanian spot price. As I said previously, when the link is freely

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flowing and it's unconstrained, the prices closely follow, so you generally have a very similar price, noting adjusted for any specific electrical losses across the two regions.

What you have when the price is separated in that particular trading interval; we, in generating in Tasmania, would be paid the Tasmanian spot price for that generation, but if that's associated with export and we have an inter-regional for the same volume as that generation, then that inter-regional price value added to the spot price gives you the Victorian price as the sum of those two things.

It is important to note, however, that, largely speaking, we're not exposed to the Tasmanian spot price, kind of after the fact, because we have contracts in place with major industrials and with other customers in Tasmania through retailers. So, our contract position also needs to be taken into account to understand the full revenue picture.

CHAIR - When we look at the Energy in Tasmania report, out fairly recently - I don't know what day it was - that shows quite clearly in figure 2.2 that the Victorian and Tasmanian prices pretty much sit alongside each other. How will Hydro operate in the future? You've talked about firming new renewables to maximise the return to Hydro, because that's what it's about. It's about making money for the state, as well as providing a service, which Hydro does very well; there's no question about that. It's about the financial impact of these changes on Hydro and the state. So, when we look at that, there's not a lot of separation. I know it's in five-minute intervals, and it can be quite volatile at times, but how will you operate in this new environment?

Mr BOLT - I think the issue, but I'll let the team correct this while they're gathering their thoughts, is that as bulk energy is increasingly supplied by wind and solar, we can move our deployment of water to where the higher prices - just thinking about the price curve, where the higher prices are. They're there now and we could earn them more reliably if wind and solar are picking up more of the bulk energy supply. It's not so much about access or inter-regional residues. It's about being able to operate in a different part of the price curve.

CHAIR - That's assuming that you maximise the revenues from the inter-regional revenues if you're relying on the Victorian price being higher, isn't that right?

Mr BOLT - Only at such time as prices separate and, as I think Erin was indicating, as interconnection grows, particularly with Marinus, we'd expect the amounts of - the times in which there is price separation, where inter-regional residues become an important access or can be an access tool to Victorian prices, they will be fewer.

CHAIR - This is the point - if they're fewer, then where is the money-making capacity for Hydro?

Mr BOLT - In the higher price periods that already exist, but we can now more reliably get access to, because wind and solar are doing more of the heavy lifting for bulk energy supply.

CHAIR - This is just counterintuitive to me. Like, we're saying here that there'll be less separation of prices, but you're going to make money in the higher price periods in Victoria? Both things don't seem to line up for me. If you can somehow explain this to someone who just doesn't get it, right?

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Ms van MAANEN - Let's say, in simple terms, when we're talking about our future profitability, including the uplift we see with greater interconnection, there are a few things driving the increase in value: IRRs and access to IRRs are not a key part of that. The key parts of that are increased volatility in prices that's anticipated in the future versus now, so -

CHAIR - But only if the Tasmanian price goes up?

Ms van MAANEN - No - so, coming back to the part that we talked about, that most of the time the Tasmanian and Victorian price are equal, or roughly equal, and that we can buy the right to access the Victorian price when they're not. So, we're talking about the shape of prices more generally becoming the spread between the highest prices and the lowest prices becoming greater at times in future years, particularly as coal retires in Victoria.

We're not generating into that average price all of the time. We are trying to generate more into the higher-price periods and less into the lower-price periods. We're constrained, to an extent, in doing that today because of constraint of the size of the link, in terms of Basslink, and also because our generation in Tasmania provides a large portion of energy to meet state needs. But we do still produce, run into a higher volume-weighted price than the average spot price, because we're generating more into higher prices and less into lower prices.

So, in the future, as the following things happen, one being more supply coming online in Tasmania - whether that be from solar or wind - that frees us up from running into average prices. The second one being increased volatility in prices generally. So, if the higher prices are higher and the lower prices are lower, regardless of whether there's a change in the average price, that increases the price we capture. The third thing being the increased interconnection that allows us to push even further into the higher proportion of prices.

They are the three things that are really driving our increased profitability in the future. Yes, if we don't have the inter-regional for particular parts of the day, week, month or year, we won't be fully accessing the Victorian price in those periods, but that is not a key determinant of the overall profitability and we can purchase those rights, as we have in the past.

CHAIR - Okay, so because there's an expectation, though - there has been some recent noise I heard in the media about the Australian Government pulling back on supporting development of renewable energy, in terms of a cost saving. I don't know how true that is, it was just a comment in the media I heard and I haven't had a chance to follow it up. I think it was only yesterday. But what I'm hearing from you is it relies on additional on-island renewable generation as well as renewable generation increasing on the mainland, particularly as coal withdraws. Then I thought the chair said that prices will converge more?

Mr BOLT - Between Victoria and Tasmania?

CHAIR - Yes.

Mr BOLT - I didn't say it. That's not to say it's wrong; I didn't say it.

Ms van MAANEN - That is what we expect.

Mr BOLT - We do expect it to happen, exactly.

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CHAIR - You expect them to converge more?

Mr BOLT - Yes.

CHAIR - If that's the case, over time - because wind blows at night sometimes, most often. Sun is only shining during the day, obviously. If you've got the mix of that, and potentially other sources of renewable, who knows - and we're looking to the future here - I'm just interested in where you see these opportunities. Either the wholesale prices are going to need to be higher generally to make money, or there's just not that gap in them. Does that make sense?

Mr BOLT - I understand your question, but I'll repeat and rephrase the response. Prices spread a great deal, so there's an average price, and then there are times in which the supply-demand balance means that the price goes high because it's comparatively tight - you know, when the wind isn't blowing so much and the demand is higher, the sun is not out or whatever. Then there are times when it's quite low because there's an oversupply or a very healthy supply; for example, in the middle of a sunny day, and particularly when there's moderate demand. What we're able to do, the more there is interconnection and the more there is wind and solar that is providing bulk energy, we're released, to an extent, from having to supply to lower-price periods, and we can actually reserve the water. We can import more, store water either generated in Tasmania, through solar and wind generated in Tasmania or in Victoria, imported over the interconnector, and play it back when the prices are higher. We can take advantage of the higher prices. They're already there now and there'll probably be -

CHAIR - They're going to be less, aren't they? Or less frequent, perhaps?

Mr BOLT - I don't think that's the case, no.

Ms van MAANEN - I think particularly over the coming decade, as there are key coal retirements on the mainland, they're expected to be more volatile and that spread to be greater. Probably just to clarify, when I was talking about the spread of price, I wasn't talking about the spread of price between Tasmania and Victoria, just the spread of price between higher prices and lower prices.

Generally, if more storage is added, that certainly helps smooth peaks and troughs, but that is also the business case for storage, so storage will continue to get built -

CHAIR - Including batteries?

Ms van MAANEN - While that price spread is there. Otherwise, there's not an investable case for them to be built. They will only converge so far, and generally, from an economic perspective, they would converge to the point where that meets the long-run storage cost of building a new asset. Otherwise, the market opportunities aren't there to build it.

CHAIR - Which is leading into the withdrawal of coal, for example?

Ms van MAANEN - Yes. On the comment you made about whether there's slower progress on wind and solar, that may well change, I guess, the trajectory of the transition, but the fact that the largest coal-fired assets in the country are reaching end-of-life cannot change. In a scenario where less wind and solar is built, yes, there might be less excess available in

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certain periods of time, but that means that the gap that needs to be filled to firm wind and solar in times when it's not windy and sunny will be greater once those coal retirements occur.

We look at a range of different scenarios for the shape that the energy transition may take, and in all of those scenarios that volatility persists, particularly through that transition period whereby, generally speaking, the spot price is set by the marginal cost of generation of the marginal generator. In times when it's windy and sunny, that marginal cost is relatively low, but when it's storage and/or gas needing to fill those periods, then the prices in those periods will be much higher up to reflecting scarcity pricing. So that volatility, even with average prices unchanged, albeit they will also have upward pressure over time because of new build, we see that spread and that volatility being there.

CHAIR - Can I follow that up a little bit? Hydro has previously told the committee that additional interconnection - which I've been talking about - with the mainland, together with hydro, wind, and solar, would put downward pressure on prices across the NEM and keep downward pressure on power prices in the longer term. They've told us that previously. The Deloitte modelling commissioned by Treasury says Marinus Link would increase Tasmania's exposure to mainland market dynamics, and under one core scenario, result in Tasmanian wholesale prices being about \$40 per megawatt hour higher than without Marinus Link over the 2031 - which is when it starts - to 2050 period.

Why is Hydro Tasmania and Treasury producing such different price projections for Tasmania? Is the difference mainly due to the different assumptions about demand growth, Hydro expansion, bidding behaviour, or how Basslink and Marinus Link will operate? What assumptions should Tasmanians place the most weight on?

Ms van MAANEN - There are a few things to talk through with regard to that. The Deloitte modelling that you're referring to was obviously commissioned by the government as part of the whole-of-state business case. It is important to recognise that it is modelling of the spot price in Tasmania and Victoria under certain scenarios. Just reiterating what I said earlier, for Tasmanian customers, largely the price they pay is linked to Victorian prices rather than Tasmanian spot prices. It's the contracted price for customers that they see. The Tasmanian regulation arrangements for small household and small customers references the Victorian price, and you can see in the Deloitte modelling that that's expected to be lower with Marinus than without. So, that relates to conversation about why there would be downward pressure on cost for Tasmanian customers. Similarly, the contract pricing methodology that we use for the median segment is very similar to the one used for the regulated segment that's published on our website. Also, you know, its methodology references Vic prices. That's one element in that, so focusing on a Tasmanian spot price is not necessarily focusing on the price that Tasmanian customers pay.

The other thing that's important to note in Deloitte's modelling, they model two scenarios, one, obviously with Marinus, one without, but there are other assumptions in that modelling about what occurs in those scenarios. In the 'no Marinus' scenario, there were still assumptions within that of a very high rate of build of new wind or new VRE in the state, leading to an oversupplied scenario for Tasmania in that 'no Marinus' scenario. That suggested much lower spot prices in the 'no Marinus' case than you might get in another scenario if that build of new supply didn't eventuate. Certainly, anecdotally and seeing how the market's progressed, proponents have been looking for Marinus to come in order to give them certainty of, I guess, an end customer for their output.

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If you made different assumptions about the level of wind build in the 'no Marinus' scenario, you wouldn't see that comparison between the two that occurred in that report. So, they're some of the key drivers of why that big step is there, but it doesn't necessarily form, then, a conclusion that prices for Tasmanian customers would be higher with Marinus than without. In fact, the opposite.

Mr BOLT - I guess the low 'no Marinus' scenario, we would see it as unrealistically low because the assumptions behind them would not be realised in practice on our understanding of the way the market's likely to evolve should Marinus never have occurred. Bearing in mind, of course, Marinus is now locked in, but that's the difference.

CHAIR -But we haven't seen a whole heap of new renewables built just recently.

Ms LOVELL - If I can just thank you for that explanation because I'm still getting my head around how all this works. Can I just clarify, Erin, what you're saying is that the modelling with no Marinus, you think that scenario is unlikely because the proponents of those new generation projects have indicated they wouldn't proceed without Marinus. Is that -?

Ms van MAANEN - Maybe not as explicitly as that, but we don't see that the level of VRE build in that scenario as being realistic for a 'no Marinus' scenario.

Ms LOVELL - Okay, thank you.

Mr BAYLEY - Despite the Tasmanian Renewable Energy Target? That won't have an influence - that doesn't override market constraints and drivers?

Ms van MAANEN - I mean the Tasmanian Renewable Energy Target certainly provides an aspiration and is government policy in Tasmania. We're certainly taking steps, as Richard indicated in his opening, to seek to play a role in enabling new VRE in the state, which has led to us entering into one agreement, and we're currently going through a process of market engagement to look at further opportunities in that space, but there are barriers nationwide to wind and solar development; they require an investable case and to reach FID. Certainly, that's something we're seeking to support.

Mr BOLT - In other words, they still have to be commercially viable, which, I think, is the question you're asking, and the answer is yes.

Mr BAYLEY - Because there was discrepancy between some of the modelling that Deloitte did in terms of not assuming the Renewable Energy Target versus some of Hydro's. Is that correct? And why was it the TRET was not imposed as a binding requirement in the Deloitte modelling versus the Hydro? And what are the most material Hydro AEMO assumption deviations that the whole-of-state business case relies on?

Ms van MAANEN - I'll have to think about the specific detail of your question. I guess I would just highlight that our modelling, and any modelling, looks at a range of different scenarios. The ISP itself does in terms of demands and other things. In the current state, the future is incredibly difficult to predict, which is why we use scenario-based modelling in our investment cases and in our forecasts; albeit sometimes we have to put a single-point estimate on the future, it is important to look at the range of different scenarios, which Deloitte did and we do as well. Generally speaking, most of these scenarios come back to ISP-like assumptions

as their starting point with adjustments made where it is reasonable. Generally speaking, sometimes you would put a deterministic assumption in terms of the amount of wind build. For example, if you had a stronger view on that occurring, but it is quite normal in this style of modelling to allow the model to - least-cost modelling - to select the projects across the regions that best meet that future demand. So, it's a relatively normal modelling approach.

Mr EDMUNDS - I'm interested to talk about - because outside this, cost of living is in our terms of reference - about the Renewable Energy Dividend - is it the R-E-D or the RED? I didn't know what to call it. I assume the government wouldn't have chosen 'red' if it was going to do it - anyway, the RED payment is intended to provide cost-of-living relief and ensure Tasmanians share in the state's renewable energy future and the policy is that, whenever Hydro returns dividends north of \$90 million, 50 per cent of the number above that goes back to people via their power bills. Last May, it was \$60, that's correct? May 2025. Do we know what the number is for May 2026?

Mr BOLT - That's really in the realm of policy, not something that we speak for. So, we supply the dividends and government spends them according to their policy, so it's a question best directed to the minister.

Mr EDMUNDS - Okay. So, perhaps a way to frame it is, are you expecting that the dividend figure will be north of \$90 million this year?

Mr BOLT - We have previously flagged that the operation of Basslink has not been to our advantage this year, but I don't want to speculate on what the end-of-year result is going to be. We will report that and I am happy to be scrutinised about that later in the year.

Mr EDMUNDS - Yes. Have you done forecasting over a five-year or 10-year period for what those dividends might be? You sort of spoke about that in your intro.

Mr BOLT - Certainly the business cases and the corporate planning we do in the business cases for our investments do, as Erin was saying, they do model scenarios of what the prices might be. What you can guarantee is, that's a very important guide to decision-making, but every single year's estimate or modelled figure is certain to be wrong, even though it's still useful, if that makes sense to you. Just because of the intrinsic uncertainties of the things I mentioned earlier: how the market is operating at a particular time, what our yield position is like, how full the dams are as a result of that, and other contingencies that can either work to our advantage or disadvantage. I just want to be careful about numbers that are really important guides to decision-making, but are necessarily fraught with a significant amount of uncertainty.

Mr EDMUNDS - Yes, for sure. Do you foresee - I think you talked about this in your intro, but do you expect dividends to be higher with Marinus?

Mr BOLT - Over time, we would expect our profits to be higher, yes.

CHAIR - Just to clarify that, if I might, over time, Marinus is not going to be built until 2030-31. If I can just come to this bit, the transition before then and now - sorry, now and then, whatever - that's a very different kettle of fish, isn't it? Because of constraint to Basslink?

Mr BOLT - Well, Basslink is still the only interconnection we have. It should be free flowing, of course, come 1 July, so that's a tick. Then, I think it's the question of what impact

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the closure of a range of coal-fired power stations in the NEM will have on prices and our opportunity to earn additional revenue from a change in the way the market's operating there because those are big lumps of capacity that will come out of the system. But, to talk about what that's looking like -

CHAIR - Sorry, I'm just interested in the assumptions you've made, to go to Luke's point a bit, what sort of assumptions are you making about that? Because this is critical. The transition period is going to be a really tough time, I think. When Marinus is built, who knows if it'll actually be built in 2030 or not, but that's a different picture then -

Mr BOLT - Yes, it's tough, but it's also potentially advantageous, right? It's both. The uncertainties are great, but the opportunities are also great. As to what our modelling is showing, with all of the caveats I have mentioned about uncertainties, perhaps you can say a bit more about that, Erin?

Ms van MAANEN - Yes, and I think I will just bring it back to the three sources of uplift I mentioned before. Yes, we won't have the third one, which was interconnection, but in terms of expansion of VRE in the state, assuming projects progress to plan, including TasRex's northern midland's solar project, for example, there are other actions that we are taking within our portfolio through our upgrade program to also expand capacity and ensure reliability in the fleet. One particular action we are taking has been around building the level of storage behind Gordon, for example. Holding that at a higher level allows us to generate more energy and more capacity from that station.

So, in terms of the three factors, the first two I mentioned, we're having more energy available on island to free up more of our flexible capacity. So, a level of that will happen before Marinus commissioning and the second one being prices, stemming from NEM prices, where the volatility in that spread is greater, which allows us to increase the value - the price we capture for our output. So, there are some of the factors driving the uplift prior to Marinus connection.

Mr EDMUNDS - Okay, so back to the dividends. In regards to the RED payment, is Hydro expecting to return a dividend above that \$90 million threshold at any stage prior to 2031?

Ms van MAANEN - The simple answer is yes. I understand that the unredacted version of the whole-of-state business case has been made available to the committee; we cannot reference the commercial-in-confidence sections of that here but that would have demonstrated to you that we expect that to be the case.

Mr EDMUNDS - Yes, but this being a public hearing and with the cost-of-living lens on it - okay, how are your expectations for dividends communicated to the government?

Mr BOLT - Well, it's through our corporate planning process in the first instance and that's probably the principal way really. I'm not sure that I have more to say than that. We provide a confidential four-year outlook to the government and we publish in our statement of corporate intent one-year's forward look. There will be more - if any of our major projects get to the point of passing the board scrutiny and heading into parliamentary approval, then our thoughts about our projections of future earnings will then become a matter that will be of

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interest to the parliament as well, in approving or not approving those potential investments. That's well into the future, of course, or -

CHAIR - You're talking about Tarraleah and Cethana.

Mr BOLT - I'm talking about Tarraleah and Cethana, yes.

CHAIR - So now then, is it reasonable to expect that some of this information about the projections and expectations and assumptions about - I think Tarraleah will come to the parliament first, one would have presumed?

Mr BOLT - If it passes the board and if it passes the government, yes. That's right.

CHAIR - That's true, assuming that - well, let's not assume anything, but if it did, that would come first. So, is it likely we will be able to see some of these forward projections beyond just one year in the statement of corporate intent to make those decisions?

Mr BOLT - Well, we have to provide what the government and parliament thinks is sufficient to help you make that decision. I wouldn't want to speculate on what that is because we don't determine that. But, it is clearly going to be central to the value proposition to understand what future earnings will come from these. So, some indication of how those earnings will trend will have to be part of a conversation, I would have thought. In exactly what form, I couldn't tell you now.

CHAIR - Sure, because, with Tarraleah particularly, it's changing the way the system works to a degree, as I understand it.

Mr BOLT - To a degree, that's right.

CHAIR - So, that's a huge capital expense for not a huge uptick in actual generation capacity; it's how you use that capacity. Is that a fair statement?

Mr BOLT - It's a fair - in Tasmania's context, it would be a fair increase in actual generation capacity with about 90 megawatts or thereabouts, which is not trivial.

CHAIR - I didn't say it was trivial. I just said it's not -

Mr BOLT - No, no, I'm sorry. I didn't accuse you of that, I beg your pardon, Chair, but also it makes better use of the water in terms of, you know, one drop of water gives you 30 per cent more energy effectively.

CHAIR - So, looking into the future, which all of this is, with Marinus and everything, how will that change Hydro's behaviour to maximise those returns? Behaviour in an operating sense, you know what I mean.

Ms van MAANEN - I mean, I think principally if the redevelopment were to proceed, it really takes an inflexible asset that provides base-load energy and it increases its capacity from 90 megawatts to 190 megawatts; it increases the energy output by roughly 30 per cent, and it becomes a flexible asset as well. So, when I was talking earlier about our ability to move from achieving an average price outcome to a higher-volume weighted price outcome, it increases

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our ability to do that and to really be providing firming around increasing levels of wind and solar, whether they're built on island or able to be imported from Victoria. It really is consistent with our strategy in terms of getting the highest value from the Hydro assets that are owned by the people of Tasmania.

Mr PETERS - To add to that, the existing Tarraleah asset is 85 years old; it's very inflexible and the time to change water flow from the dam to the station takes about four hours. The idea of the new redevelopment - if it does proceed - is you can turn that on and off. It becomes intraday, intraweek, intraseasonal, and to capture Erin's point, that's where the value is - being able to do that with a station, a newer station, is really valuable to us.

CHAIR - I appreciate that value; I'm asking how Hydro will maximise the benefit of that.

Mr PETERS - The benefit is, instead of letting the old Tarraleah station run, we can turn this one on and off very quickly. We can turn it on to generate into higher prices. At the moment, with the old Tarraleah, it just runs.

CHAIR - This is off in the future when Marinus Link is probably built or being built and soon to be completed and commissioned perhaps. We hear from various parties that the price separations will be less once this all washes through. Won't there be less opportunity to make the money?

Mr BOLT - This goes back to our earlier point, doesn't it, Chair? Because we have more capacity that will be freed up to target the higher-price periods that will still occur and are occurring now, but will probably be accentuated by the closure of coal, if you have a plant that is more dispatchable, you have more ability to zoom in on those and capture them. That's the point, I think. You can earn more.

CHAIR - You only generate for generation's sake? Short-lived, perhaps, high-priced periods.

Mr BOLT - You generate to maximise value to the benefit of the state and then obviously the revenues flow from that and they ultimately benefit the state as well. It's a win-win. All of that is predicated on being free to do that by having more bulk energy supply coming from other sources, assuming that there is a growth in demand, overall demand. But, to have the ability to zoom in on those prices with about 190 megawatts that is not currently available to be dispatched exactly when we want it to be does offer some additional earning opportunities. It comes at a cost and that's the issue that the business case will have to address: is that value worth the cost?

Mr BAYLEY - Can I ask about that? Obviously, significant change, not just through Tarraleah, but Marinus will stimulate significant change in terms of how you manage the resource. You have the water resources, full stop. What commitments do you give to other water users and other stakeholders, whether it be irrigators or recreational users or environmental flow requirements - TasWater, for example. What modelling, what reporting, and what commitments have you made to those other stakeholders in terms of their needs being met under these changed flow scenarios?

Ms WATSON - I think it's really important to be clear that we're not anticipating that we will be necessarily releasing a whole lot more water with Marinus Link. The key, as Richard just mentioned, is generating for value. When we do release water, we're planning to generate at times when prices are higher. We're not going to be able to generate more than we receive in inflows. Marinus Link is not going to make it rain more. We will still be driven by how much yield we get in the system each year. At the moment, I don't see things changing because we have very carefully crafted operating protocols that apply to all our plants that take into account environmental flows. We also take into account irrigation supply, recreational use from time to time, so those parameters have been set, taking all of that into account. I don't see those parameters changing.

Mr BAYLEY - Maybe you could explain that a little bit more. I'm hearing through this presentation, and as I understand it, you may be generating the same amount of power, but you'll do it at different times. I presume it'll be a lot more at night-time if you're going to try to take advantage of spot prices. It will change the hydrological flows of the rivers as you release water, how much water you release and when you release that water will change. What work has been done to model that and what work has been done with other stakeholders and water users around their needs being met irrespective of those changes?

Ms van MAANEN - I guess to expand on what Rachel said, for all of our catchments, all of our stations, we have storage operating parameters that we have in place and they consider what's required in terms of environmental constraints and flow. Things like riparian flow, water agreements with irrigators, which are generally captured in long-term agreements in terms of their water access and any minimum-flow requirements and established practices around recreational releases and the like.

They are detailed for each catchment - each power station we're operating. Yes, there'll be changes in the timing of when we might generate, but when we look at optimising that, we do that taking those constraints as given and see that they will continue to be fit for purpose into the future. If there were additional irrigation or water agreements put in place, they would fold into those storage operating parameters that we operate within.

You're right that extensive work was done around NEM entry and Basslink commissioning in terms of identifying those environmental constraints and the like that we have in place today. We also have the energy security framework, of course, which puts other constraints on how we operate our storages. So, our modelling takes those constraints to meet those varied needs of water in Tasmania as continuing to be given and met. We're not optimising absent of those, we're optimising within those constraints.

Mr BAYLEY - So you don't envisage needing to change those frameworks at all?

Ms van MAANEN - We see that they continue to be fit for purpose, because they pick up all those important uses of water in the state, as well as our environmental parameters.

Mr EDMUNDS - Has Hydro briefed the government about its expectations around dividends over the next five years?

Mr BOLT - Well, we have provided the corporate plan in the usual way. As I said, there's a four-year outlook in that, and that's the primary vehicle through which we interact with the government, on a confidential basis, about our expectations of earnings.

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Mr EDMUNDS - But has there been other advice provided to the government recently about what the expectation might be about those dividends provided by Hydro to the government?

Mr BOLT - Not that I'm privy to or -

CHAIR - When did you provide the corporate plan to the government?

Mr BOLT - We do that every -

Mr PETERS - The last corporate plan was provided at the end of March last year and there will be another corporate plan provided by March this year, so at the moment -

CHAIR - The end of March?

Mr PETERS - Yes, by the end of March.

Mr EDMUNDS - Okay. Is the expectation that that advice will include an expectation that there will be dividends in the next five-year period?

Mr BOLT - I think that's confidential advice from us to government. I think we've indicated what the general direction of earnings is expected to be but with all the caveats that I won't repeat, but they obviously apply here.

CHAIR - When you release your statement of corporate intent, there'll be at least one year's information available to the public that will tell us one year out -

Mr BOLT - Yes.

CHAIR - That's good. When's that going to be released?

Mr PETERS - The process is that we'll submit the corporate plan that has the statement of corporate intent in it. That goes in as a draft. When it's approved by the government, so after that process, then we can release it, but we need it to go through that process.

CHAIR - Yes. I understand that. So, have you completed your part of the process to provide it to the government yet?

Mr PETERS - It's not due to the end of March, so no, we haven't provided it to them yet.

Ms van MAANEN - The statement of corporate intent in relation to last year's corporate plan has been published.

CHAIR - Yes, are they all published?

Ms van MAANEN - Yes, there is a lag between corporate plans issued -

Mr EDMUNDS - I'm interested to know when we'll find that out, because it has been put to me that the government's been given an expectation to not expect dividends.

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CHAIR - This year coming?

Mr EDMUNDS - In the near future. So that has a knock-on effect (a) on the budget, but (b) getting back to the RED payments.

Mr BOLT - So you're talking about with respect to this financial year that we're now in?

Mr EDMUNDS - Okay, well, let's start with that, yes.

Mr BOLT - Well, that goes back to my earlier answer. We'll report that in the fullness of time and welcome scrutiny of it. I don't want to speculate about it now.

Mr EDMUNDS - Fair enough.

Mr GARLAND - What risk management strategies does Hydro have in place in the scenario where dividends are not as high as expected, and profits are not higher but actually lower? Is there a point where Hydro can pull out of trading across the NEM if Marinus Link is built, or will Hydro be locked into trading across the NEM?

Mr BOLT - Locked into trading? I think it's more an opportunity that we would continue to take advantage of, and that's determined by how we bid and how we manage our resources. We trade to the extent that it's valuable. We import where it's valuable, we export where it's valuable. We're not locked into doing so in some way that's beyond our control in terms of the way we bid our assets, and taking into account the potential to import and the potential to export. I don't think I can put it much differently to that, actually. Rachel, anything to add?

Ms van MAANEN - This is on the question of risk-management strategies. I guess we have many. It depends on what is the source of risk that we'd be responding to in terms of our profitability. Some of the key risks that we manage - obviously inflow variability is one and the way we manage our storages over time and use the combination of different assets in our portfolio, including gas, at times, is a key mitigant in terms of inflow risk as well as hedging arrangements with insurance providers. That's one example.

There are a range of other risks that the business is exposed to which we manage through a comprehensive IBM risk-management framework, and have a wide range of mitigations in place within the business to respond to those, including ensuring we continue to run the business as efficiently as possible.

Mr BAYLEY - Look, lots of discussion about uncertainties and forgive me, we've had this conversation across the Estimates table, but not before this committee, so I do want to go there again in relation to inflows and inflow modelling and the work that Hydro has done. Back in 2001, there was a hydrology report in relation to potential effects of changes into Hydro power generation for the Gordon River.

I have asked numerous times about your inflow modelling for the whole storage assets of Hydro into the future. Generation was down by 10 per cent last year, to 6343 gigawatt hours; that's the lowest in 20 years, I think, in part, because of some really dry years. So, I ask again, what inflow modelling has been done, taking into account climate change and the impacts of climate change? What has been released on the public record and what can you release to the

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committee to give us confidence that the data and the inputs that go into your assumptions of profit generation and hydro generation can be sustained because of the inflows?

Ms WATSON - I'd just reiterate the point we made a few moments ago, that we believe that the operating standards that we have in place for our power stations and all the water storages today are fit for purpose and we will continue to run by those guardrails in the future, and Marinus Link doesn't change that. You are quite right that our yield every year is reliant on inflows, which relies on how much it rains. So, we do put a lot of work into climate modelling.

We have got a document that we are prepared to table to the committee today that describes in more detail that inflow modelling that we've been doing over the long term, and shows that we are expecting a very small decline over the long term and then for inflows to stabilise after 2050, once we should reach a more stable climate scenario. We can go into more detail. Do you want to add something -

Mr BAYLEY - Well, for the purposes of the committee and, I guess questioning, we haven't seen it yet. Could you talk us through what it shows, who's done it for you, what are the inputs that go into it?

CHAIR - Forward it to the committee and then speak to it perhaps; that would be helpful.

Ms van MAANEN - Yes, maybe just some high-level points, and I think you have the document ready to table. So, we undertake detailed probabilistic inflow modelling to allow us to plan generation, storage management and market participation across a range of uncertainties. The modelling that we have done uses an extensive database and computer-based modelling. The summary's coming around for you now.

Mr BAYLEY - Just to be clear, is it Hydro modelling or is it a third-party model?

Ms van MAANEN - We've partnered with CSIRO in producing the modelling, and it upgrades the full spectrum of our inflow predictions, including short-, medium- and long-term projections. This paper focuses on the long-term component, introducing our model referred to as TULIP (trend and uncertainty in long inflow predictions, as opposed to the flower) and is the outcome of this collaborative effort. So, the key point within it is that our annual system yield assumption is 8780 gigawatt hours a year and that reflects adjustment for climate-driven changes and operational constraints. The level of decline that is forecast between now and 2050 is very modest: 0.2 per cent. It's 21 gigawatt hours a year, as detailed there in the document. That also talks to the standard deviation of inflows, which is obviously quite significant year to year. We do expect to continue to see volatility in year-to-year inflows, but our modelling suggests that the level of average inflows will remain relatively stable with that small decline.

Mr BAYLEY - Does that take into account the assumed improvements in efficiency of Tarraleah that we just talked about a moment ago - 30 per cent increased generation for every drop of water?

Ms van MAANEN - This is based on looking at the yield and obviously conversion of that to energy.

Mr BAYLEY - That's what I mean; the conversion, does it assume Tarraleah is -

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Ms van MAANEN - This is based on the system as is.

Mr BAYLEY - As is, without Tarraleah?

Ms van MAANEN - When we look at the redevelopment of Tarraleah, we will look at what is the impact in additional energy as part of that business case, so it's not baked in to this projection.

Mr BAYLEY - To your knowledge, is the CSIRO work that underpins this collaboration and this modelling, is that on the public record anywhere? The science that sits behind the assumptions that there will be a modest 0.2 per cent a year reduction? What's that in terms of actual inflows as opposed to yield - water inflows?

Mr BOLT - You mean volumes of water?

Mr BAYLEY - Volumes of water.

Ms van MAANEN - That's not detailed. This is looking at the translation of inflows into the yield number in terms of the numbers that I've outlined, which obviously factors in catchment losses as well as evaporation and spill.

Mr BAYLEY - What's the catchment loss over the period that's been modelled?

Ms van MAANEN - We'd need to look at providing that detail.

Mr BAYLEY - I guess my question is, what is on the public record in terms of the climate modelling and river inflow assumptions that sit behind these yield projections? That's the question that we've been asking repeatedly in committees and in parliament and other places.

Mr BOLT - That's why we've responded with the tabled document. If it doesn't cover every question, then obviously we're happy for you to ask further questions.

Mr BAYLEY - This is your yield projections. With respect, then it takes those inflows and layers a whole range of assumptions over the top of it and you've published some yield projections. We've been asking for the root data, which is the inflow data that's modelled into the future.

CHAIR - Is that more detailed information available, I think what you're asking, Vica, in some respects, particularly there's been some suggestion or commentary on the fact that the rainfall patterns will change? Vica was referring to higher-spill occasions - if the water storage is particularly high and you get a big downpour, then it inevitably you lose some. You see what's happening up in northern Australia at the moment. That's relevant to this. It would be good to see what sits behind this information. This is about modelling your yield, but it doesn't tell us a lot about the actual rainfall and climatic changes that feed into this.

Mr BAYLEY - The CSIRO element of this work is what I'm after.

Ms van MAANEN - We've only just tabled the document and there is significant detail in that. We'd encourage you to digest that and advise of any further questions.

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CHAIR - Does the work belong to CSIRO or does it belong to Hydro Tasmania?

Ms van MAANEN - It's our modelling. That's been done in partnership with CSIRO.

Mr BAYLEY - Let me ask again to be really clear, have you modelled catchment inflows into your storages in volume over time into the future under a range of different climate scenarios and can that be released to the committee for scrutiny?

Ms van MAANEN - Certainly, it's modelled as input into what was summarised in the document. I think we'd need to respond on notice.

Mr BAYLEY - Can we see that as an input?

Ms van MAANEN - Apologies, sorry?

Mr BAYLEY - Can we see that input? It's been modelled as an input into this that you've just tabled. So my question is, can we see that input? Are you able to provide that input?

Ms van MAANEN - I think we're saying we'll take that on notice.

Mr BAYLEY - Okay.

Mr GARLAND - Across all the proposed renewable energy generation projects for Tasmania, excluding Tarraleah and Lake Cethana, the Energy minister usually talks about 7 gigawatts of wind and solar, if they were all constructed. How many gigawatt hours per year would be available to the Tasmanian electricity grid if they were all up?

Ms WATSON - The amount of gigawatt hours that's generated from a renewable energy project is a function of how much resource it has and what's called its capacity factor. So, how many gigawatts hours comes from it is very much dependent on what the mix is of solar farms and wind farms, because they generate two different capacity factors.

To keep it very simple, a solar farm normally generates on average 20 per cent of what its nameplate says it can do because solar only generates when the sun is up and capacity is calculated over a 24-hour period. Wind farms tend to generate more, like closer to 35 or 40 per cent of what their nameplate rating is. So, without knowing what the mix is, it's hard to say what the gigawatt hours generated would be and every project will have a different level of resource available to it. Some wind farms have better wind resource than others, so I'm finding it hard to give a good answer to that question, because it's quite complicated.

Mr GARLAND - Right, so you've done no modelling on what is possibly available with all these wind farms that are being projected to come online. Don't have any idea? Like you have an idea about -

Ms WATSON - We would probably use average assumptions about how much wind and how much solar would be in the mix.

Mr GARLAND - And with all those projects, would this annual amount exceed the legislated 200 per cent renewable energy target, possibly?

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Ms WATSON - Are you saying if every single project that is proposed in Tasmania gets built?

Mr GARLAND - Yes.

Ms WATSON - I'm not sure.

Mr BOLT - That's more a question, Mr Garland, to put to the minister. I think it's probably worthwhile us talking about the role we've been given under our charter and are actively pursuing to bring new wind and solar into the system. Obviously, we're doing that in stages and we have to have an eye to whether there's a market for that, what the price is, whether it's worth proceeding with - all of which will contribute to the achievement of TRET, but we're not really targeting a specific volume of energy because it is very much dependent upon what demand there'll be, what supply options we have, what price we're being offered. But it's probably more useful for us because it's within our wheelhouse to talk about the work we're doing to bring these new renewables to market.

You may be aware, may not be aware, perhaps Rachel can explain the work we've been doing to seek new proposals for wind in the recent past.

Ms WATSON - Yes, we have already signed up a contract, an agreement, to take all of the energy from the northern midlands solar farm when that's built. That was a result of running a competitive process. That was the most attractive project that came forward in that process.

At the end of last year, we launched another expression-of-interest round and got a whole lot of projects coming in expressing their interest again. We're now working through with a shortlist of proponents to sign up a further amount of renewable energy that we will be buying from those projects.

Mr GARLAND - Would we have the ability, if we exceed our 200 per cent renewable target, to pick and choose which projects we should or should not go to? Would we have that ability?

Ms WATSON - Well, as part of our competitive process, we're trying to get the best projects to come forward and be built. In the way the energy market works, the best project is the one that can most efficiently generate power. So when we run these expression-of-interest exercises, that's what we're testing - to see which projects have the lowest cost to build, the best resources available to them, will generate the most gigawatt hours for the amount of capital that's invested in them that then gives the lowest price. That's how we are picking the projects that we are going to support.

Now, the projects themselves have lots and lots of hurdles they need to overcome. They don't all progress at the same rate. Some of them run into difficulties. They're not all ready at the same time. So, we are also looking at what can also come quickly and within the time that we want because it's quite valuable to us to get projects built before Marinus Link comes online. So, that's kind of the matrix of variables that we are looking at in picking projects. But, yes, we are trying to find the most optimum project coming to our energy mix through those EOI exercises.

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Mr GARLAND - So, it'd be fair to say that Hydro's primary focus is on the economics, the most functional; it doesn't take into account environmental considerations or social considerations or aspects of cultural heritage values; it doesn't factor any of that in; it's purely economics?

Ms WATSON - No, that's not - I don't think that's a fair representation because we are looking at the quality of the project overall and a lot of those things that you talked about will hinder a project proceeding to be perfectly honest. So, in terms of which projects are most likely to succeed, they have to be very good at stakeholder relations; they have to be right on top of their environmental obligations; they have to have done really good First Nations engagement. So, we are absolutely also looking at those factors as well and we do want to support projects that are welcomed by the community. We want to be helping Tasmania develop renewable energy in a way that also has community acceptance.

CHAIR - Can I just follow up on a couple of questions? When we are talking about entering into PPAs, we are just talking about just PPAs for the supply of energy?

Ms WATSON - Energy and LGCs to the extent they'll still be available, yes.

CHAIR - That's phasing out pretty soon. That will be here in no time at all really, 2030. Why would we be entering into contracts at this point that include LGCs?

Ms WATSON - Well, it will only include them for as long as the project can generate them which, as you have rightly pointed out, will only be to 2030. It's only for projects online before 2030 would it be producing LGCs.

CHAIR - And the price of LGCs is pretty low now?

Ms WATSON - Yes, it is.

Ms van MAANEN - So, it would only be considered at a commercial rate for those LGCs as you know, which is quite low for the balance of the scheme.

Ms WATSON - The main focus is to acquire the energy.

CHAIR - So, why wouldn't you just go into an agreement with just energy or electricity then?

Ms WATSON - Well, if there's value to be had in the LGCs, we would buy them.

Mr BOLT - It might be marginal but still, you would add it to the mix.

CHAIR - Well, the price is not expected to get higher between now and 2030.

Mr BOLT - It won't be huge.

Ms WATSON - It's not, but as a former renewables developer, you're trying to find every little piece of value you can extract from your project and if your project's coming online in 2029, you have one more year to generate LGCs and sell them; even at a low price, you will want to find a buyer for those LGCs. So, as part of trying to help renewable projects come

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online, I fully expect that, if they are still able to generate LGCs at a price that we think is reasonable, I don't see why we wouldn't contract to buy them as well as the energy.

CHAIR - So, how will Hydro report these agreements on your balance sheet, as financial assets or liabilities, or are they to be treated as off-balance sheet agreements? I'm just interested in how we are going to see these going forward.

Mr PETERS - So, the energy part of the agreement is for a PPA; they will be reported as the financial assets or liabilities. I guess that's per the other agreements that we do. So, the energy component goes through those energy derivatives, for lack of a better term.

Ms WATSON - We already have existing PPAs, so there's no change-

CHAIR - Yes, I understand that, but one is the CSO, one's not - the Granville one is treated as a CSO, isn't it?

Mr PETERS - Yes, that's correct.

CHAIR - Yes, so it doesn't appear in the same way, or does it?

Mr PETERS - No, it does. So, there's still a derivative component of the Granville one, but there's also an extra disclosure requirement because it is a CSO.

CHAIR - Another question's gone right out of my head, sorry.

Mr PETERS - We're happy to move on, so it's okay.

CHAIR - The changes to the standards of the Australian Accounting Standards Board - in 2029 from memory - require more break-up of assets and revenues. As I asked for in our GBE scrutiny committee, when you adopt those, will it be easier to see these different power purchase agreements and the impact they have? Will we be able to get a breakdown?

Mr PETERS - I think from the conversation we had when yourself and John came into the office, you asked a question about the implementation of AASB 18, which is the new standard for presentation and disclosure of financial statements. We've done some digging into it since we had that meeting and our initial or preliminary view is it will break up the front page of the profit and loss statement into operating, investing and financing activities.

It will look a little bit more like the cashflow statement; it will have some of those categorisations in it. Part of those disclosures is to make comparing one entity to another entity more relevant, so it's easier to compare. Will it give you some of that extra level of detail that I think you're asking for? Our preliminary investigation is we don't think so.

CHAIR - There won't be notes to support some of these changes? Is that what you're saying? Or there will be, but not much detail?

Mr PETERS - Anything that's material on the balance sheet or the P and L will have an explanatory note around it. A number of years ago they had the introduction of AASB 15, which is around revenue for contracts. That created a new note around how we disclose some of that revenue, so we did that. Our preliminary investigation into these ones is that it will

provide a little bit more information on categorisation. I don't believe - from what we've read at the moment - it will provide a level of detail around PPAs, for example.

CHAIR - But it will give greater clarity on categorisation of different revenues?

Mr PETERS - It's more about the categorisation of expenses.

Mr BAYLEY - Just going back to the inflow modelling and having read your briefing paper a little bit on the fly here, I'm interested in the TULIP model that you've used. I wanted to challenge my questions that you took on notice in relation to releasing this. This briefing paper says, 'this allows TULIP to produce ensembles and more realistic projections of future floods and droughts, enabling Hydro Tasmania to better plan for the long-range sustainability of this system'. This is exactly the kind of information we've been asking for for a couple of years in the leadup to this Marinus Link discussion and decision to allow for better scrutiny of some of the assumptions and profit projections and so forth. Why is it that you can't commit now to releasing this model and its results as opposed to taking it on notice?

Ms van MAANEN - To emphasise a couple of points about CSIRO's involvement and then the model itself, towards the bottom of page 2, we've referenced the breadth of some of the work that CSIRO has previously done evidencing the kind of expertise they bring to bear in providing input on our modelling. They have been involved, as I said, through partnership in the development of our modelling, which further takes into account a greater focus on our catchments, and some of the things that it incorporates are outlined at the bottom of page 3. We have had appropriate expertise involved and we have socialised our approaches at an international level from a peer perspective as well. We think the methodology that we've followed is very appropriate. As evidenced here, we're very happy to provide relevant input and visibility around this. We'd like to understand, perhaps, what particular information you'd be seeking to understand from us providing more detailed information and how we might best provide that to you. The models themselves are detailed models that are in a kind of data and computing environment. They're not generally easy to share in that format, so we would look to produce summaries or, I guess, summarised output to provide you the information that you would like to understand better. So, perhaps if -

Mr BAYLEY - Well, look, I guess our questions have long been anchored in the projections around inflows into the storage systems. You know, this paper says that TULIP allows for more realistic projections of future floods and droughts. As a bare minimum, I guess, that's the kind of information we're really interested in, and, again, the assumptions and the inputs that go into that.

Mr BOLT - We will come back to you.

Mr BAYLEY - Okay, thank you. Can you explain as well, just quickly, on this paper:

Key findings include an average system yield of 8780 gigawatt hours a year for 2026.

What does that mean - an average system yield for 2026? For example, last year the yield was 6343 gigawatt hours. It hasn't been - well, in 2021 it was 8177. This is an assumption that's higher than even that. What does that first dot-point mean in terms of an average?

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Ms van MAANEN - It's really saying from, I guess a probability, it's just that that's the expected value for 2026, and each year that expected value will reduce by the 21 gigawatt hours, and the standard deviation around that expected value in a given year is the 1330 gigawatt hours.

Mr BAYLEY - So, just taking, for example, the trends over the last few years, as per the Office of the Tasmanian Economic Regulator (OTTER) report 2024-25; the report's just come out - 6343 gigawatt hours, lowest in 20 years, and it's 10 per cent down on last year.

Mr PETERS - Are you talking generation or are you talking yield?

Mr BAYLEY - Generation. Different?

Mr PETERS - Yep.

Mr BAYLEY - Okay. Maybe you could just explain that difference for the purpose of the committee and *Hansard*.

Ms van MAANEN - I guess inflows is at one level, then to yield is what we could produce if we generated exactly what we received in yield, and in every given year we may build or draw on storages. So, that's the difference to generation. Because we've been in a period, for example, recently, with more constrained import and export, at times we would reserve the water in storage rather than generate it at the time, then that has a future value. Unfortunately, the value of our water in storage doesn't sit on our balance sheet in that way, so it's a future value.

Mr BAYLEY - Thank you.

CHAIR - Have you got anything else you want to go to?

Mr BAYLEY - I don't think so.

CHAIR - Can I just go back, about the price convergence and issues around mainland storages. I take on board the point you made about - it has to be a commercial reason to build more battery storage, et cetera. That's the case at the moment. It may not be forever, if I'm to understand what you said earlier.

Ms WATSON - I think, Erin, you made the comment about battery storage. Batteries will always rely on there being differences in price they can take advantage of, so they can charge when the price is low and discharge when the price is high.

CHAIR - Which is a bit like Hydro being a battery, some people call it the battery of the nation, anyway.

Ms WATSON - Yes, except that we're not charging in the same way that a battery is charging, because when we're charging, we're taking water in, not energy in, so that's why we're different. In terms of will the battery case ever disappear, I mean, where we're heading for in the transition is a system that will be dominated by wind, solar and hydro, rather than black and brown coal. Batteries will have an enduring role to play in that kind of system, because

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they deal with the variability that is inherent in wind and solar generation. When you said the case for batteries will disappear - was that your question?

CHAIR - No, I just sort of said that there'd be a period where it wouldn't economically stack up for them to - that's what I thought someone was saying.

Ms van MAANEN - To clarify, I think what I was intending to mean is that price spread wouldn't be expected to neutralise beyond the point that would continue to make the case for new and continued new build of the storage requirements. In the long run, in the market you'd typically expect to see prices set by the long-run - storage cost or the long-run LCOE of a new entrant, so -

CHAIR - LCOE being?

Ms van MAANEN - Levelised cost of energy. Essentially, the level of revenue that a project needs to earn over its life to make the business case stack up when they make the investment decision. Batteries and solar, for example, being built today will have a life of something like 15 or 20 years. We need to continue to invest in the system over time, so you would expect price signals to converge to the point where they attract that new entrant, but not further.

CHAIR - Do you see that once all the coal is retired out of the system, that there'll be a sort of levelling, if you like of - I mean, we're talking a long way out here.

Ms van MAANEN - Yes, but the assets are being progressively built over a 10-20-year period to fill the gap being left by coal, and they will need to continue to be replaced or reinvested in to continue to meet future energy needs.

CHAIR - As we see batteries becoming cheaper and more efficient and able to operate for longer, does that pose a threat - threat's not the right word, perhaps - a challenge to Hydro in being able to maximise those high price periods that you rely on for making the returns that the people of Tasmania expect you to?

Ms van MAANEN - I guess in the overall supply mix there's the need for different lengths of storage duration. Certainly today, batteries are largely providing two to four hours. That is getting longer. Batteries tend to cost twice as much for thrice as much storage, though, in terms of duration. If you're looking at Hydro assets, our existing assets are already built so we're, you know, recovering reinvestment costs but not an initial cost. Pumped hydro, for example, as you scale it, you're not doubling the cost as you scale the length of storage. So, in shorter durations, batteries are generally more competitive. In longer durations of storage, other assets, including pumped hydro, are more competitive at this point in time. We need to continue to monitor that, and that would be a key aspect we will need to look at as we progress the business case for Cethana as well. The reality is there will be periods where you need to store energy between seasons and even between years due to hydro variability, and that's not a job that batteries are likely to take over in the foreseeable future.

CHAIR - Acknowledging the points that the chair made earlier about some of these matters, we acknowledge that there's major capital investment being considered at Tarraleah and Cethana - prospective, I think you called it - but you've also got a lot of old assets that have served the state very well, but they don't last forever either without significant expenditure.

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Particularly in this transition period, where there are a lot of additional pressures on Hydro to be all things to all people - which is a little bit of an unfair task, in my view, but there you go - are you confident that you can maintain the assets that you've got, Tarraleah and Cethana aside, to ensure that we can continue to operate in an effective and profitable way?

Ms WATSON - Sustaining our existing asset base is a massive focus for the organisation, and we have been increasing, in recent years, the amount of capex that we spend on the existing asset base. Typically, hydro plants about halfway through their life - at about the 40-year mark - need a major equipment upgrade, and we've had a bunch of hydro stations that have reached that point, as well as the older stations that you referred to, and Tarraleah is the prime example. We're about halfway through a major 10-year campaign to refurbish our big power stations. We're in the middle of doing one at Gordon, we're in the middle of doing one at Poatina, we're working our way over to the west coast. Lemonthyme's underway, John Butters is on the cards. We've got a very large campaign of sustaining capex that we are working our way through.

In my view, that's an enormous privilege for Hydro Tasmania. When you look at the other energy generators of comparable size to Hydro in the rest of the Australian market, other than Snowy Hydro, they're all looking at shutting down their generation assets because they're coal-fired power stations and they're basically planning to run them to failure, because they don't have a future beyond the 2030s.

CHAIR - I appreciate that. My question is more - to being all things to all people - it's really important that Hydro invests in these assets and update them and keep them going more efficiently, one would expect. That's the whole purpose of it.

Ms WATSON - Completely, and that's the whole philosophy behind what we're proposing to do with the Tarraleah redevelopment.

CHAIR - How much pressure is that putting on the current Tarraleah - let's leave the new project out of it for now - is it reasonable that Hydro can do this work and still return dividends to the government when this is critical work to ensure the longevity of Hydro?

Mr PETERS - If I may - prior to starting the Tarraleah and Cethana projects - over the previous 10 years - the investment or the reinvestment of those assets has always been handled by Hydro internally. It's been able to manage its debt limits. We see that continuing into the future. One of the issues with the major projects, subject to them going ahead, is that has increased our debt limit. On a standalone basis where Hydro operates in a normal year, it will be able to maintain its assets and deliver on its 10-year asset plan. It's proven it can do that over time.

CHAIR - I know the chair likes to talk about 10 years, the last 10 years, but we know the last two years particularly have been very challenging. The need to invest in the business hasn't gone away.

Mr PETERS - In those last two years - last year they would have spent over \$170 million on major refurbishments. In the year before that, they would have spent \$150 million on major refurbishments as well.

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CHAIR - Yes, but I go back to the point that when you're having to invest in this without the revenues coming in, and particularly in this transition period where things are different with your access to the inter-regional revenues this year, for example, when it's a very different arrangement to previously and will be different to what happens from 1 July -

Mr PETERS - Our outlook in a normal operating year is that Hydro can maintain and keep maintaining its existing asset space. The issue that we currently have is around the money that we choose to set aside for the major projects. If we weren't doing the major projects, would the Hydro portfolio continue to be maintained? Absolutely.

CHAIR - Can you say that again, sorry, Tim?

Mr PETERS - In a normal year when we're getting normal, average revenues from the portfolio, the spend that Hydro generates, we would be able to maintain our existing assets over that future 10-year period. There is no plan to increase our borrowings based on our current level of operations for our existing portfolio.

CHAIR - So in the - I won't say the foreseeable future because who knows what that is - but in the next couple of years, when the challenging two years wash through, if you like, is it likely that Hydro is going to need additional financial support from the government to ensure that these major capital refurbishments and works can continue?

Mr PETERS - Over a period of time, Hydro might have to get more borrowings one year, but on average, it should be able to pay for itself. So, in the next couple of years, we might have to borrow a little bit more than we'd expect, but we don't see that as a long-term thing. The longer-term borrowing commitments are around the major projects, not the existing asset base.

CHAIR - Cethana and Tarraleah, you're talking about?

Mr PETERS - Yes, that's correct.

CHAIR - Yes, but that's a separate question, obviously. I think there's some expectation that the Clean Energy Finance Corporation may assist with that. Am I right?

Mr BOLT - There is, but there's still a substantial cost to be met if we proceed with them. As I said before, prospective, but still not decided. But yes, that's right, they will be part of the solution is our expectation - at least Tarraleah.

CHAIR - In terms of the challenge that we're currently seeing, is there a risk of you breaching any of your financial covenants with TASCORP to deliver the work that you've committed to?

Mr PETERS - No, I don't believe so.

CHAIR - And you've still got some headroom in the debt that you've got now?

Mr PETERS - We enter into a borrowing program every year with TASCORP, and that's what we think we can sustainably use on our asset base. We will do that. We've done that every year with TASCORP and that's signed off by Treasury. For our existing asset base, I think,

again, there will be ups and downs in the short term, but over a longer period we think it'll be okay.

CHAIR - It may mean Hydro having to borrow a bit more in some years, obviously, and then - I mean, it all washes out through how much you end up paying dividends to the government. At the moment, the budget's in the world of pain, and not your fault. You've done your best to not make it like that. This is a concern for the state.

Ms van MAANEN - I think focusing on our capital adequacy and our balance sheet strength is important. As we've outlined, that's quite robust. If you think about profit and cash flow, which aren't necessarily, you know, one-to-one in the profit figure, there's an allowance for depreciation. Yes, the amount we spend on actual capital works from a cashflow perspective might vary from that depreciation figure, but that provides, before dividend is paid, an allocation of cash, if you like, that can be used for capital without increasing debt levels.

I think it's also important to note that we did, despite this period of lower inflows, we have built storages significantly above what we budgeted. So, that's future value that's available in the business and can be used to support - you know, once that's generated and that value realised - it can support reduction of debt in future years as well. We are holding that in reserve above what we expected, which makes us more financially robust as well.

CHAIR - There's an expectation that money in the dams, which is effectively what it is, will be predominantly used to pay back debt rather than to prop up the state? Pay dividends to the state. I shouldn't have said that.

Mr BOLT - I think that Erin's point was more that we have the capacity to cover the costs of our refurbishment of existing assets because the depreciation line is effectively pretty well matched to the amount we need to spend, which you'd expect it should be.

Mr BAYLEY - And that asset management plan and projections include not just the power generation infrastructure, the power stations, it's the dams themselves, those that are needing structural integrity works?

Ms van MAANEN - Yes.

Mr BAYLEY - I have a question in relation to competing objectives. Obviously, Hydro needs to maintain storages, support renewables, deliver dividends, manage drought risk and fund major projects. Some stakeholders are concerned that they may be more vulnerable to prioritisation whether it be through contract negotiations or whether it be compromising environmental flows. When there is a conflict between competing priorities - generating money versus looking after power prices or managing environmental flows - how do you prioritise? Do you have a matrix and a process by which you make decisions to prioritise one objective over another?

Ms WATSON - As we were talking about earlier in relation to flows, those guardrails we have put in place around how we operate the power stations to protect flows for all the other purposes you touched on before, they are set in stone. They do not get compromised to make money or do anything else that might be opportunistic. There are some absolute fundamentals that don't change in the business, and I think it's fair to say that that's one of them.

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Another one that's very fundamental is protecting storage levels. Before we think about profit, we have to make sure that we keep the dam levels within the limits that have been set in the guidelines. In fact, last year, I think our results spoke to this point: we did not make as much profit because we had very low inflows and we were watching storage levels more closely perhaps than we were trying to generate profit. Obviously, we're still watching profit.

I had to smile when you listed those pressures. I mean they exist in our guidance that we have in our ministerial charter; the obligations we are bound to under the GBE act. These are all things that we have to balance. You're right, sometimes they can come into competition with each other, but making sure that we are operating the power stations within the system that we've set up and that we are very closely keeping an eye on storage levels, they are two very fundamental things that do not change, and that can impact profit, as we saw last year.

Mr BAYLEY - If they do come into conflict, like some are set in stone, I hear you say that, but others aren't, be they contract prices with major industrials, be they dividends, how do you make decisions about which one you will prioritise?

Mr BOLT - Broadly speaking, and I think what the team does and with the board's involvement in some cases, is analyse carefully where the risks and costs and opportunities lie, negotiate, engage and prioritise based on the circumstances. It's very difficult to give a single answer there.

Mr BAYLEY - You have no set sort of matrix or process by which you weight -

Mr BOLT - We have to optimise it really, don't we? Well, we do have to optimise it, I won't ask you the question. We have to optimise because it is somewhat context dependent.

CHAIR - You wouldn't have any choice on how you operate, like Basslink was out again for a period?

Mr BOLT - There are some absolute hard lines that you have to deal with and there are some where you have to exercise judgment, and that's where management exercises judgment and where the board is relevant. It oversees what advice is coming forward and makes decisions. I know that sounds a bit vague, but the reality is that we can't just churn these - we don't have a formula for doing it that is predetermined. It is too much in the moment.

To the chair's earlier point, it is a complex business. There are lots of constraints and lots of different things to juggle it; it makes the business interesting and rewarding. It motivates our people. It is tricky. There's no doubt about that, but that's not to say it's tricky to the point where we can't do it. I think we pride ourselves on -

CHAIR - I'd never suggest that you can't do it.

Mr BOLT - No, no, but we have to deal with those realities. We are managing a major resource. It's got uses other than for power. Power is our main business, but it's not the only thing we provide value to. So, we play the hand we have been dealt, and it is complex. I don't think we can say more than that.

CHAIR - Did you want to say something?

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Ms van MAANEN - Funny, because Richard finished with 'we can't say more than that,' so I -

Mr BOLT - Oh no, no. You can say more on that, Erin, if you wish.

Ms van MAANEN - I think it was just agreeing that when you talk about criteria, it is really coming from the GBE act and the ministerial charter are the key guiding sources for that, particularly from the GBE act, to operate in accordance with sound commercial practice and as efficiently as possible, achieving a sustainable commercial rate of return that maximises value for the state in accordance with its corporate plan and having regard for the economic social objectives of the state. I think in that we really are a long-term business. We have existed for over 100 years. When you think about what's sustainable in the long term, that often helps resolve those conflicts. If you look in the shorter term, you might have a commercial outcome that seems preferable, but if that starts to undermine economic and social objectives of the state, it presents risks for us in the longer term. So, for me personally, that helps if you think in that longer-term sense and you can start to differentiate between those objectives to guide that decision.

CHAIR - So, there's no set response. You have to assess the situation that you are presented with, is that what you are saying?

Mr BOLT - I am, taking into account all those things that Erin just mentioned; they're all relevant and Rachel also went through the various considerations in terms of contracting wind and solar. We take that all into account, but which of them weighs most heavily on a particular decision is dependent on the issue at hand; that's what I'm trying to say. I know that sounds - I apologise for sounding a little bit vague and like it's all discretionary, but it does involve judgments because every circumstance is different.

Mr BAYLEY - In the context of the negotiations you flagged in your opening remarks with the major industrials, there's obviously a significant amount of uncertainty there at the moment in terms of their power demands, long-term longevity, et cetera. How are you approaching that contract negotiation? What can you tell us, obviously outside the commercial sensitivities that you would be cognisant of, about how you are approaching those renegotiations with the major industrials, and not necessarily just the four major industrials, let's call them major industrial customers.

Mr BOLT - I might say broadly - and I think it's better that Rachel takes the question - we need to get as much financial value to the state for the prices that we strike. On the other hand, we have a charter obligation and a general duty to ensure that we support the state's economic development. It's another case in point where every circumstance is different, every MI is in a different situation, but we look to negotiate to achieve that balance of value to us financially, to the state economically. Again, a very general statement. I don't know what more you can say.

Ms WATSON - Well, I was going to start by saying that nothing's really changed. We will still continue to engage with the major industrials the way we always have. We've got a really long history of supporting the state's economic growth by being able to support industry in the state. That's part of the reason, I think, why the Hydro came into being in the first place. So, we've always taken the approach, as Richard said, that we have to balance a really good commercial outcome for Hydro to make sure we're maximising the value of what we're

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delivering back to Tasmania with the obligation to support industry and economic development. Those two things can compete. We've managed to resolve it in the past and it comes out through tough commercial negotiations, and that is the approach that we'll continue to pursue.

Mr BOLT - On the point about 'we do land deals' - not land deals, but we do manage to get agreements reached. The one-year extension on Bell Bay Aluminium is a case in point. Liberty Bell Bay, yes, now in trouble but not because of anything we did, and we managed a 10-year agreement with them. We mentioned northern midlands solar earlier. So, there are real examples of things actually being achieved out of those tough negotiations. It's not an endless negotiation, but there are tensions to be managed on the way to a good deal.

CHAIR - So, when striking the deals for the power purchase agreements (PPAs) with new generation, what lessons has Hydro learned from Woolnorth, which is quite a historic agreement now, in many respects, and Granville, which is much more recent?

Mr BOLT - That has stumped us.

CHAIR - It's thought-provoking.

Ms van MAANEN - I mean, Woolnorth itself obviously has a long history. Bluff Point originally commenced construction wholly owned by Hydro Tasmania and went through a period - but I think you may be referring more to the offtake agreements themselves. I think it really comes back to a similar approach to what Richard and Rachel have been talking about with respect to MIs. We have, with respect to our kind of broader considerations, a driver to support a new VRE being built, provided it can be commercial and that it makes sense. In the terms of the other factors that have been mentioned, to enable that to occur, the price has to be both commercial to the project to underpin their business case and commercial to us in terms of entering into that agreement. I'm not sure what we can offer beyond that.

Mr BAYLEY - Does that mean you've ruled out kind of onerous contracts when it comes to those power purchase agreements? Do you no longer enter into onerous contracts, as a rule or a principle?

CHAIR - Unless the government directs it to.

Mr BOLT - We have an obligation, I think, to do our best not to do that. I wouldn't want to suggest that we will enter into an agreement with all the best information in the world that is profitable and then markets move in ways we don't predict and become onerous in future. That can happen. I have had that conversation before. But our obligation is to enter into commercial agreements and, unless we're directed, as the Chair is saying, as it's a community service obligation to enter into an adverse agreement or an onerous agreement.

Mr BAYLEY - Are you subject to any directions at the moment from the government to do so?

Mr BOLT - Yes, historical ones.

Ms WATSON - Historical ones, nothing new.

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Ms van MAANEN - I think it's that point that contracts are stuck at a point in time where you believe it's commercial entering into it. That doesn't mean a contract can't become onerous in the future, as Richard mentioned.

CHAIR - Or the opposite in the Granville Harbour case.

Ms van MAANEN - Yes, it becomes less in its onerousness, if that's the word. Coming back to the words we referred to earlier in terms of our objectives to achieve a sustainable commercial rate of return, that's our focus in entering into agreements.

CHAIR - Can I ask, then, if Marinus is built and there is a delay to the roll-out for some of the matters that you raised, Rachel, about challenges for getting renewable energy built, if it doesn't proceed at scale, we don't get the 800 megawatts of new generation, what impact will that have on Hydro's capacity to behave in the way it's anticipating in the new Marinus Link world?

Mr BOLT - If I can start this reply by saying - in fact, it relates to a question that Mr Garland asked earlier, in which I might have sounded a little indifferent to the opportunity that Marinus provides. We're not indifferent; we think it's actually very valuable - but it has to be made valuable. To go back to my introductory remarks, the benefits have to be realised actively and we have to play our part in bringing those new projects to market.

CHAIR - But you're not the problem that these projects don't get away for a whole heap of other reasons -

Mr BOLT - No, that's true. It's not entirely within our control.

CHAIR - Then what impact does that have on Hydro and your capacity to operate in the way you've talked about? Like, is it rather than an energy producer predominantly, but more a firming company predominantly?

Ms van MAANEN - I think it comes back to the three contributing factors I was talking about earlier. There not being build of new renewable energy in the state wouldn't mean that we wouldn't realise any uplift from Marinus's commissioning. Just the level of additional import and export that can be supported allows us to move up the price curve, as we talked about earlier, as well as the opportunities presented by volatility and price spread over the transition, but realising a greater uplift or the uplift is supported by that additional build on-island. So, having a good level of new renewables built in the state certainly supports maximising that benefit, but it's not the only driver of it.

CHAIR - If it wasn't built, though, Hydro may need to generate into a not-favourable price structure, and therefore -

Ms van MAANEN - Relatively speaking, we'd be generating more to meet Tasmanian demand as opposed to generating flexibly. That's really the difference, but we're certainly taking -

CHAIR - Which then goes back to what the Tasmanian price is, doesn't it? Because if you're generating for the Tasmanian demand, you're not getting that extra revenue -

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Ms van MAANEN - Then that comes back to our contracted price to Tasmanian customers, yes. Not purely the spot price.

CHAIR - Yes, which is a solid figure, but you lose the benefit potentially of inter-regional benefits that you can get, if you don't have that additional renewable.

Ms van MAANEN - Yes, but not from the IRR specifically. It's less movement up the price curve, relatively speaking, but would still be a significant value case for us from Marinus.

CHAIR - Would that be because the wholesale price in Tasmania/Victoria was generally higher at that point? Is that the expectation?

Ms van MAANEN - It's more about, as we talked about earlier, being able to access the times when prices are higher, noting that there would be a level of increase in average prices over time.

CHAIR - Yes, that's not the point I'm making. If there was a lack of renewable generation built, it's sort of anticipated in the whole-of-state business case, then it may mean the wholesale prices are generally higher, as an average. Is that likely? Because you wouldn't have that renewable energy pulling the price down.

Ms van MAANEN - Perhaps all else being equal, yes. It doesn't mean that there won't be new renewables built in another region, for example, because it is an overall system cost.

CHAIR - Yes, I was talking about not just here but the mainland - like, if it didn't get built at the rate that is sort of anticipated.

Ms van MAANEN - Yes, and that's kind of how the market works. If it's not being built at the rate you expect, price moves upwards and that then helps the business cases get locked in and that generation be built. So, there is a kind of transitory element of that as well.

CHAIR - Chicken and egg, isn't it, really?

Mr BOLT - Now that the financial close of Marinus is being reached, the market, you'd expect - and we've indicated that's already happening - will respond. We'll play our part in that, but not the full answer. Yes, the benefits have to be realised by further investment, but the conditions for that investment have now been laid. It's now possible for it to proceed, and so it's something we will just prioritise playing our part in.

Marinus is now a looming reality, in a good sense of the word - an opportunity for us and an opportunity for investment in the state and for revenues to Hydro, and our priority is to play a part in making sure they're realised.

Mr BAYLEY - Do you see any risks in Marinus not proceeding, or have you modelled any risks?

Mr BOLT - Of Marinus not actually proceeding?

Mr BAYLEY - Yes. Political risks on the mainland.

PUBLIC

Mr BOLT - It's not really for us to speculate on that. I mean, you know, it's for governments, the three shareholders and an organisation that's got delivery responsibilities, and we have great faith that they'll deliver.

CHAIR - Better for the minister, that one. Okay, we are out of time. Is there anything you wanted to finish with before we wrap up?

Mr BOLT - I hope that's been useful to you.

CHAIR - It has. Thank you. We do appreciate the time and effort. As we've all agreed, it's a complex area, and it's helpful for everyone to try to understand it better, for all of us.

Mr BOLT - And we appreciate the depth of your questioning. It's been probing, and it's been good to be part of. Thank you.

CHAIR - Thank you.

The witnesses withdrew.

The committee adjourned at 12.00 p.m.