THE PARLIAMENTARY JOINT SELECT COMMITTEE ON ENERGY MATTERS MET IN COMMITTEE ROOM 1, PARLIAMENT HOUSE, HOBART ON MONDAY 26 OCTOBER 2026.

ENERGY MATTERS

The Committee met at 9.46 a.m.

TASCORP

CHAIR (Ms Forrest) - Welcome, Gary and Heath, to our public hearing on the Energy Matters Committee. As you're probably aware, we've changed our focus a little bit from looking at the Whole-of-State Business Case and the FID to actually looking at the impact of some of the changes in the energy space directly on our government businesses. Obviously, we're not interested so much in your view on the new load that's coming in, except that it might create pressures on our government businesses. That's the area of expertise we've asked you to appear before the committee on.

It is a public hearing. Everything you say is covered by parliamentary privilege that may not extend beyond the room. It is being broadcast and transcribed, and will form part of our parliamentary record. If there were matters of a confidential nature you wished to share with the Committee, you can make that request. Otherwise, it is all in public. Do you have any questions before we come in?

Mr SWAIN - No.

CHAIR - I'll ask both of you to take the statutory declaration. There's one sitting there in front of you, Gary, and then introduce yourselves. And did you want to make some opening comments?

Mr SWAIN - No, I don't think so. Or maybe just one.

Mr GARY JOHN SWAIN, CHAIR, AND Mr HEATH KEVIN BAKER, CHIEF EXECUTIVE OFFICER, TASMANIAN PUBLIC FINANCE CORPORATION (TASCORP), WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

Mr SWAIN - The only comment I was going to make was I'll try and delineate between my TASCORP and Treasury roles because obviously there will be things with my Treasury hat on, which I know but shouldn't be talking about with a TASCORP, appearing as a TASCORP chair today.

CHAIR - There's a chair that you could move to for me. I appreciate that. We have this challenge all the time.

Mr SWAIN - Yes, and I'm trying to keep them straight.

CHAIR - When we had TasNetworks before the Committee, Mr Mc Goldrick said that TASCORP had to be comfortable with the CEFC funding agreements. From your perspective

as the chair of TASCORP, can you outline specifically what TASCORP needed to be satisfied about, and were there any concerns unresolved at financial close?

Mr SWAIN - To my knowledge, this is the first time that TASCORP had been involved in a lending position where it wasn't the only lender. It already had very significant lending to TasNetworks, and there was also the prospect of further CEFC arrangements down the track. So, this was really about making sure that TASCORP's overall risk position wasn't increased and, specifically, that it didn't end up in a subordinate position to CEFC when it came to the debt, our respective lending, and the adequacy of security wasn't eroded. The CEO may want to talk to those issues in more detail but, in essence, it was very new and all of this had to be worked out the first time. Now that that's happened, I think we've ended up in a position where we're pretty comfortable.

CHAIR - Do you want to speak further to that, Heath? I'm particularly interested to understand the concern that TASCORP could end up in a subordinate position to the CEFC, how that's prevented and what that would look like if it did, and the matters around the security.

Mr BAKER - That has all been finalised now. We have managed to negotiate equal ranking security with CEFC. We now share the same security that CEFC do. We are not subordinated. The other key part of the process that we went through, and this was over an 18-month period it took to finalise the negotiations with CEFC and TasNetworks, was to ensure that there was no transfer of risk over that period as well. The CEFC funding was designed to amortise in line with the useful life of the asset, and that was long-term funding being provided. So, we, (a), wanted to make sure that the financial monitoring showed that TasNetworks was receiving the appropriate amount of revenue to be able to service the debt, and make sure that that risk wasn't being transferred back to the state more quickly, or not in line with the original memorandum of understandings.

CHAIR - When you say that there's an equal ranking with the security, where's the security for the CEFC and where's the security for TASCORP?

Mr BAKER - When we talk about security, we have a charge over TasNetworks' revenue. That is the formal security that we have when lending to TasNetworks. We, as part of this process, allowed CEFC to have equal ranking security against that cash flow. In the event of default, we would have access to the future cash flows of the companies to service our debt.

Ms LOVELL - We're trusting that they exist.

Mr BAKER - That is proportioned in a manner equal to the debt outstanding.

Mr BAYLEY - Is that equal just for the North West Transmission Developments contribution, or do they now have an equal stake in TasNetworks, full stop, and its entire business?

Mr BAKER - It's a charge over TasNetworks' full receiver books.

Mr BAYLEY - Do you see that as a concession of some of your superiority when it comes to debt security?

Mr BAKER - No, this would be a very standard commercial practice. It's an equal ranking. They are providing a significant amount of funding. It is very hard to isolate the revenue of a specific project in this company and ring-fence, and do project finance. In the end we went through all this process, looked at all the options and we were comfortable with the final position.

Mr SWAIN - Just from a client point of view, we also couldn't offer finance at the same rate. There were two things: Yes, we have a shared security position, but we're not providing a big piece of debt now. Somebody else is carrying that risk, the CEFC. But from a client perspective, we couldn't offer the rate at that concessional level that they could get from the CEFC which was really, I suspect, around decisions that were made some time ago, that they had some access to low-cost finance from some decisions that were made some years ago that we just could not have matched. There was that aspect as well.

CHAIR - You've also got the backing of the federal government.

Mr SWAIN - Yeah, but they would have at some point, they'd be backed by bonds that were issued in a different market at a different time, I'm expecting. We are also trying to support clients in our role. In this case the client was potentially able to access very low-cost finance.

Mr BAYLEY - I guess my point is that you've obviously offered finance for a range of the rest of its network and the construction of the rest of its network. It's now this one project and its ability to access concessional finance. It feels to me, but I accept you don't accept, that it's kind of compromised your status when it comes to your equity or your loans in the context of the rest of the network.

Mr BAKER - There's two things. As I say, it is proportionate to the amount of debt outstanding. The CEFC debt is - I should remember - let's say $1.2 billion. Our on-lending to TasNetworks at the moment is about $2.2 billion. We will get a greater share in the unlikely event of a default, we will get a larger share of the revenue to service our debt.

The other point that I will make is that we, TASCORP, also benefits from a guarantee from the Treasurer in regard to all TasNetworks borrowings. That guarantee was not provided to CEFC from the government to the CEFC, so we have a superior overall security position -

Mr BAYLEY - Guarantee from the Treasurer to you, TASCORP?

Mr BAKER - Correct.

CHAIR - Does the CEFC have any sort of guarantee from the federal government?

Mr SWAIN - I'm not aware what they do or don't have, but they obviously don't have anything from the Treasurer.

Ms FINLAY - How often do you assess your level of comfort or that risk to TasNetworks? And in terms of a line in the sand where you would need to call on the government to have that security? How do you measure that and how do you report that, how close you are to that moment?

Mr BAKER - If we look at the North West Transmission Developments project, there were seven papers that went to the board over the last 18 months to get the final approval from the board and the comfort from the board. Under our client lending policy, we're required to review all our exposures to our government businesses on an annual basis.

Ms FINLAY - Only annually?

Mr BAKER - Yeah, annually. Or if we see a market event, or if a client requires additional borrowings. But at a minimum, you know, we will review both their actual performance and their forecasts on an annual basis.

Ms FINLAY - What are the triggers or measurement to knowing when you're getting to a point where you need to take a different action?

Mr BAKER - It differs for all clients, but in regards to TasNetworks, it is how, essentially, they're operating in line with the regulator's assumptions. Being a regulated entity, there is a very good framework around what the leverage of the business should be and, you know, to 60 per cent RAB, debt-to-RAB, and all the other revenue is on a building blocks basis. So, it is easy to benchmark how they're performing against the regulator's assumption.

Ms FINLAY - What are they at the moment with that percentage to RAB? I don't have that in my head. Are they at, or beyond, or just below, 60 per cent?

Mr SWAIN - I don't know that off the top of my head.

Ms FINLAY - Are there instruments for exemption on the 60 per cent?

Mr BAKER - Businesses can operate outside the 60 per cent. That is more just a benchmark. A lot of the commercial operators, private operators on the mainland, operate at closer to a 70-80 per cent debt-to-RAB.

Ms FINLAY - Would you be willing to take that on notice?

Mr SWAIN - Sure. But Heath's right. The RAB is the regulator's view of what the prudent level of debt is. I think most of the private operators would argue that that is conservative, and the return on equity is typically higher than the return on debt. So, the owner can increase its profitability by having less equity in the play.

Ms FINLAY - Do you have a board policy or an internal policy around your level of comfort, conservative or otherwise, around that benchmark?

Mr SWAIN - No. We have ratios that are used for different businesses as indicators of their ability to service debt and their financial health, but we wouldn't be that prescriptive with decisions that should sit with the board of that business.

Ms FINLAY - A response to that would be great. Are you in any or early conversations or progressed conversations with TasNetworks about further borrowings at this time?

Mr BAKER - No, nothing being considered at the moment.

Ms FINLAY - Informal or formal?

Mr BAKER - Obviously, we have regular meetings with TasNetworks. As I say, they would have flagged some other potential projects that may be coming online, but not at a point where there is a business case for us to formally assess it.

Mr SWAIN - I believe there's about - I could be wrong on this - but there's about 15 or 16 wind and solar developments at different levels of maturity that TasNetworks is talking to. But none of them are at the point that there's an immediate loan application. We did explore a little bit with TasNetworks, did have a conversation with the chair some time ago, about a kind of standing facility that would allow them to move into that space. They already have a maximum loan amount which goes up to a predetermined level. I think where we got to was, 'No, that you should operate within your overall cap, and if you can't go operate within the cap, you would need to come and talk to us separately about what your needs are.'

Ms FINLAY - And there's been no early developments on a conversation to extend the cap?

Mr SWAIN - Well, as I said, I think that was very informally explored a year-and-a-half, two years ago. At the time, it was when some of the fiscal challenges of the state were taking off more with the Treasury hat. I was saying, 'Well, if you think about that, we wouldn't want to allow businesses to have uncapped facilities because that's not - that's a very good signal to the rating agencies'.

Ms FINLAY - In terms of the risk of TasNetworks extending themselves, how quickly do all your measures and protections come into play if TasNetworks find themselves where revenues drop, exposure increases and they are at risk financially at an enterprise level? How quickly do your triggers for going back to Treasury, ascertaining those annual intermittent reviews, how quickly and protectively do those mechanisms work?

Mr BAKER - Good question. One would say TasNetworks, being a regulated business, their revenue is pretty certain, so it would take an unexpected, and it would be a very widely known event for something to have an impact on the revenue streams of TasNetworks going forward. If I flip it around, under the Master Loan Facility Agreement, TasNetworks have an obligation to advise us if they believe that they will be in breach of any of our financial covenants -

Ms FINLAY - How far in advance?

Mr BAKER - As soon as they become aware.

CHAIR - They're not in breach of any currently?

Mr BAKER - No.

Ms FINLAY - Have they, in the recent 12 to 24 months, got to that point where they've had to advise a potential breach?

Mr SWAIN - Not that I'm aware of.

Mr BAKER - Not in the last 24 months. There has been occasions previously where there's been an interest coverage ratio. But no, not in the last 12 to 24 months. My docs go back to February 2025.

Ms FINLAY - Does modelling predict where it gets pretty close, so as these projects roll out and Marinus comes on and they're rolling out different parts of their projects, does future modelling predict that that moment might happen, and when does that look like?

Mr SWAIN - When there's a new loan process, we would do sensitivities. We would stop short of doing our own scenarios, because we don't know the business in the way that they should know the business. But we might say, 'We think that all your assumptions are a reasonable base case, but we'd like you to model a downside scenario and see what that looks like'. And that can happen.

Ms FINLAY - Have you done that?

Mr SWAIN - For TasNetworks, I don't -

Mr BAKER - Yeah. That was one of the biggest issues with TasNetworks was getting that long-term model.

Ms FINLAY - And what did that reveal?

Mr BAKER - It revealed that over the longer term, as any business model will show, that they've got sufficient capacity to service and retire that debt over that 40-year period. But it took iterations of the business model, and as TasNetworks got a better understanding of how the concessional finance would flow through to the end consumer. The key is when we look at these projects, these are large single projects, so we have a closer look and a more detailed look around the forecast. We just don't rely on actual performance and their corporate plan, which is a two- to four-year horizon. We actually ask for full long-term financial models. And in part of those models, we look at what covenants are going to come under pressure, whether that's the leverage ratio, interest coverage ratio and things like that, so we do a very robust modelling. As you say, it is a model. A business model, 99 per cent of the time will show, and that's the reason we run sensitivity -

Ms FINLAY - That's the purpose. That's why you run them.

Mr BAKER - That's why we run sensitivity analysis, especially on interest costs, you know, retirement of debt, to ensure that not only the interest can be serviced but the debt can be repaid over the useful life of the asset.

CHAIR - The FID Assessment Report forecast about $93 million in lost TasNetworks returns during construction and $205 million over the first 20 years of operation. Looking at that longer-term forecasting, has TASCORP assessed whether those losses will put any of the covenants at risk?

Mr SWAIN - Can I have a go at that first? My understanding of when the whole-of-state business case was done, that was a 'point in time' analysis and some of those arrangements were further refined post the Whole-of-State Business Case, so I think -

CHAIR - I'm not referring to the whole-of-state business case. It's the FID assessment report.

Mr SWAIN - Yes, I'm just thinking about -

CHAIR - When they went to FID.

Mr SWAIN - Was there still - what I was going to say, broadly, was those decision processes probably sharpened TasNetworks' focus on some issues, and I'm not sure that the end position exactly aligns with that.

Ms FINLAY - Could you take that on notice?

Mr SWAIN - Well, that's probably a question for TasNetworks.

CHAIR - So, the $345 million Australian Government grant to sweeten the situation of the whole-of-state business case situation, does that, from your perspective, mitigate some of these risks?

Mr SWAIN - That benefits the business and it benefits the end customer. It doesn't necessarily -

Ms FINLAY - It doesn't reshape the lending?

Mr SWAIN - No, it doesn't benefit the owner. I don't think it benefits the lender either because, effectively, it translates to revenue reductions because the benefit of the cheaper finance passes through to the customer.

CHAIR - So, those risks still remain in terms of their borrowings? Is that a fair statement?

Mr SWAIN - Those risks would be taken into account when the assessment's done. It's not like TASCORP would say the CEFC funding improves the lendability of TasNetworks because it's essentially a benefit that passes through to customers, so they still have to stand alone in the assessment. They still have to pass our assessment process.

Mr BAYLEY - Just going back to the cap and the debt availability for TasNetworks, obviously they've entered into a significant new agreement in relation to the CEFC funding. Was there a need to approve a higher borrowing limit? Or is that what I heard you say: there wasn't a need to amend that?

Mr BAKER - Their borrowing cap at the moment is $2.5 billion, and that was reviewed and assessed as part of this whole process. That $2.5 billion is forecast to meet their requirements over the next two to three years as they finalise the construction of the North West Transmission Development.

Mr BAYLEY - What's the current cap - $2.5 billion, is that what you're saying?

Mr BAKER - $2.5 billion is the limit and the current exposure is roughly $2.2 billion, so there is $200-$300 million worth of headroom in their current limit.

Mr BAYLEY - When was that last increased?

Mr BAKER - That was increased as part of the final approval of the North West Transmission Development.

Mr BAYLEY - Okay. So, the Treasurer approved that increase to the borrowing limit?

Mr BAKER - Yes, that would all be subject to an update of the guarantee from the Treasurer.

Mr BAYLEY - And from what to $2.5 billion? And when was that approval by the Treasurer made?

Mr BAKER - I'll have to take that on notice because I don't go back that far in the information that I've got in front of me. It's more the recent reviews.

Mr BAYLEY - I'm keen to understand what it was previously set at, what was the request from TasNetworks and what was the final decision by the Treasurer in terms of that approved higher borrowing limit. I'm keen to move to Hydro.

CHAIR - We are going to go to Hydro.

Mr BAYLEY - Well, let me go first. Let me just ask an equivalent question in relation to Hydro. Where is their debt availability at, and when was that last increased? And what's the status of that, given we know there's some challenges in that space as well?

Mr SWAIN - In relation to Hydro, there's work underway in relation to Tarraleah, which has not yet - although TASCORP has had a briefing on Tarraleah, it hasn't yet got a lending request. So, there's been some work over recent months looking more at Hydro's core business and its borrowing limit in relation to its existing fleet of assets and the capital that it needs to spend on that.

There has been an increase recently approved for Hydro's total debt that would take it from $1.2 billion to $1.43 billion, but over some different tranches, subject to different conditions being met.

Mr BAYLEY - When was that approval made?

Mr SWAIN - The board decision was at the end of April this year, so that would set up, then, a process of correspondence with the Treasurer around guarantees. So, that'll take -

Mr BAYLEY - And the Treasurer has approved that increase to $1.43 billion?

Mr SWAIN - It's actually subject to a number of conditions and it's not a single increase; there's an increase that is sort of automatic for -

CHAIR - Can you go through the conditions, Gary?

Mr SWAIN - Yeah, there's an increase that's $50 million. That's just subject to increase in the Treasurer's guarantee. There's an increase of a further $136 million, which is subject to

a further increase in the guarantee, a shareholder approval of Hydro's corporate plan and Hydro providing quarterly financial performance reporting, which is part of that process under the MLFA. And then there's a further $41 million which is subject to, as above, a guarantee extension, shareholder approval of a revised Hydro corporate plan, Hydro agreeing to the quarterly reporting and Tasmanian government approval of the business case for Tarraleah.

So, there's a component of an uplifted maximum debt which would relate to Hydro taking Tarraleah through to FID. But the conversation at the TASCORP board was that it shouldn't get ahead of the government's decision-making. So, the government first had to consider whether it was comfortable for Hydro to take the next step, which is going -

CHAIR - Has to come to parliament, too.

Mr SWAIN - Yeah. So, there's two. There's a decision to go to early contractor involvement which is, among other things, around testing the market, getting a more market-based pricing of the capital cost, and then at some point there's also a requirement to come to parliament, which is a decision for the government -

CHAIR - As to when it comes?

Mr SWAIN - As to when it comes.

CHAIR - It's a decision of parliament whether it proceeds or not.

Mr SWAIN - Yes

Mr BAYLEY - Was that $1.43 billion - or increase to $1.43 billion, was that what was requested by Hydro? Did the Treasurer approve everything that was requested by Hydro?

Mr BAKER - Yes, that was the request from Hydro at April 2026, was to increase their limit from $1.204.4 million to $1.431.4 million.

CHAIR - So what was the basis for the request for the additional?

Mr BAKER - The basis, if you split it into its component parts: the $50 million was required because, for the financial year 2026, obviously their operating environment was a little bit more challenging during that financial year, so they needed a more urgent increase to their borrowing limit; the $136 million relates to their financial year 2027 borrowing requirements. So, that's their core standard borrowing requirements for CapEx for their existing; and as Gary mentioned, the $41 million was in relation to progressing Tarraleah to final investment decision.

Mr BAYLEY - As part of that approval, what was the status of the $407 million Marinus, let's call them super profits in relation to the decision-making on approving that increase to borrowings?

Mr SWAIN - Yeah. So firstly, that was an on-average, nominal figure, that was based on modelling. So, it's not revenue that -

CHAIR - Can't count your chickens?

Mr SWAIN - Yes, you can't count your revenue until it is there.

Mr BAYLEY - You can't. Others seem to.

Mr SWAIN - I mean, it's a base scenario. That was a base scenario in the whole-of-state, but it's not the only scenario. And there's been a lot of discussion around variability, and variability year to year. I think we've just seen with Hydro in connection with rainfall and the operation of Basslink, in a given year you can have a disruption to their revenue forecast -

Mr BAYLEY - What consideration in this approval was there for Hydro contracting hundreds of megawatts to AI infrastructure? Was it part of those deliberations?

Mr SWAIN - I can't answer that. I don't know whether the first Firmus operation would have been in their revenue forecast because it's effectively advanced. But it's again -

Mr BAYLEY - But they haven't contracted, apart from to Aurora.

Mr SWAIN - Yeah, I mean, we'll be looking at what their revenue is and then having to make some judgements about what revenue you count for the future, as a general comment. You will have businesses that you can't say only what you've got contracted is what you count, otherwise you wouldn't provide for any growth. So, if you look at something like TasPorts, who largely, you would think, would grow with the economy, that would be a very, very conservative position to adopt. But neither does TASCORP say if there were 10 clients, all with potential revenue, you're not going to bank them either.

Mr BAYLEY - Does the notion of effectively Hydro having to - we don't fully understand how it's going to work, but someone like Firmus, for example, has said, 'We'll contract two for one; every one megawatt we use, we will' - they've said everything from build two megawatts to contract two megawatts.

CHAIR - Underwrite the delivery of it. They're not going to build it.

Mr BAYLEY - Well, I know they're not, but they do say that they will. How does that influence the decisions and the considerations of TASCORP in terms of borrowings going forward? Does that sit as a significant liability? There's uncertainty as to how that works, but what's your understanding about those arrangements? And how do you treat them, given the uncertainty?

Mr SWAIN - I might make some general comments and ask Heath to jump in. The data centre price point, potentially, is a revenue uplift for Hydro, so they're less price-sensitive, or appear to be, than some other customers.

Ms FINLAY - If they're realised.

CHAIR - That's right.

Ms FINLAY - They're chickens.

Mr SWAIN - On the other hand, they'll also represent credit risk to Hydro. I think TASCORP would be asking questions of the business, Hydro or whoever it was, about if it is a large component of their future revenue - not, you know, one of 100 clients, but if it was a large component, we would be wanting to understand what work Hydro had done in relation to that credit risk. Which might be their own due diligence and it might also be they've entered into security arrangements or negotiated security arrangements with potential clients. So, we would explore that as part of the lending process.

CHAIR - Can I just ask if there's any exposure at all to TASCORP through Marinus Link?

Mr SWAIN - Only through the GGS. Some of the equity contribution to TasNetworks has translated into lending through TASCORP for the general government sector. But, as you know, the equity position has been capped out, so we're not - as a state, we've got a limited exposure.

CHAIR - So, there's no further exposure you're expecting from that because that's capped out. Any other questions? We will have you back in a couple of months anyway more broadly. First cab off the rank.

Mr BAYLEY - Can I just add, both of those businesses, are there other debt availability increases pending?

Mr BAKER - No, other than what we talked about Hydro, which has still got one pending. The TasNetworks facilities are all in place now.

CHAIR - Thanks very much, both of you. I know it was a pretty quickfire session, that one. Thank you, we appreciate your appearance and we'll follow up with those questions on notice that we've alluded to during the session.

The witnesses withdrew.

The Committee suspended from 10.18 a.m. to 10.29 a.m.

Hydro Tasmania

CHAIR - Thank you, Richard and Rachel and your team for appearing before the Energy Matters Committee again.

You'll probably be aware that we've narrowed our focus a little bit now to two particular terms of reference related to the government-owned businesses and matters flowing from the decision, the FID on Project Marinus broadly, stage 1, and also the emergence of new load with data centres and potentially our major industrials, which has obviously been a pretty publicly interesting topic of recent as far as Hydro's role. So, that's the focus. It's not a broad inquiry at this point - any broader than those particular matters.

It is a public hearing. Everything you say is covered by parliamentary privilege and that may not extend beyond the hearing. If there were matters of a confidential nature you wish to share with the Committee, you could make that request. Otherwise, it's all public. Do you have any questions? You're seasoned campaigners; you should be right. I will invite you to take the statutory declaration and introduce yourselves. Richard, did you want to make some opening comments at the outset?

Mr BOLT - I do have some.

Mr RICHARD BOLT, CHAIR, Ms RACHEL WATSON, CHIEF EXECUTIVE OFFICER, AND Ms ERIN VAN MAANEN, EXECUTIVE GENERAL MANAGER STRATEGY AND COMMERCIAL, HYDRO TASMANIA, WERE CALLED, MADE THE STATUTORY DECLARATION AND WERE EXAMINED.

Mr BOLT - Thank you to the Committee. A few remarks. I guess I'll start by saying that, first of all, we welcome the opportunity to be here. Obviously, the energy system in Tasmania is entering a period of major change. That's not news to any of you. We do have existing major industrial customers. They're operating ageing facilities in challenging market conditions. And, of course, there are new industries such as data centres, particularly, but not just them, that are seeking opportunities here.

Understandably, there's public interest in how Hydro Tasmania does respond to requests for energy supply. I have three basic points I want to make about that. First, of course, we acknowledge we have a unique and important role in the state's industrial development, but there are limits to that role. We take our responsibilities under the GBE act and our ministerial charter very seriously. The act requires us to operate commercially and sustainably. The charter, in addition, requires us to support economic growth, jobs and the lowest possible power prices for Tasmanians. Naturally, there are inherent tensions between these two objectives, but they can be resolved in the specific and unique circumstances of each negotiation, and they are all different.

We go about it by negotiating in good faith with customers, existing and prospective. We work with government where our negotiations or where a particular development, existing or new, has industrial policy implications. We work with government, and through doing that we can deliver serious value to Tasmanians, but we don't do it solely as Hydro being in charge of the full policy remit. We employ skilled negotiators to do this, and they engage very closely with our management, with the board and, in turn, to repeat, we also engage, where appropriate, closely with government.

On that point, we don't determine industry policy. Some of the debate would imply that we do. That is obviously a matter for government. Our role is to support, but not decide, the state's industrial development goals, which means - I'll get on to exactly what that means in terms of the approach we take. In fact, I'll say it now, which is that we seek to be commercial, but we seek to be commercial in a way that facilitates development and provides a base, or a baseline for government to decide whether - if a commercial offer from us is not enough to get an industry to continue or to land in the state, it's then up to government to work out whether it wants to provide some supplementary and complementary assistance to make that possible, right? So, that's -

CHAIR - Just on that, Richard, if I might, assuming - do you have other comments you wish to make?

Mr BOLT - Yes, if I could. Can we come back to that point?

CHAIR - Yes. I'll raise it with you and come back to it. Where is that - how do you draw that line? If you can come back to that.

Mr BOLT - Yeah. I'll take that as your first question.

CHAIR - Yeah, we'll come back to that.

Mr BOLT - Okay. The second point I wanted to make is that major increases in demand for power must be accompanied by new supply. It's just a guaranteed necessity that no system has a lot of spare capacity sitting around idly, speculatively waiting for new industries to come and use it. And so, when we do get a substantial step change, a prolonged step change in power, there will be new supply to back that up. And that is something that we can also, I'm sure, explore through this.

To that end, we are planning to grow the state's power supply. That is a role we're well and truly in the middle of, to meet those emerging opportunities, while maintaining reliable and secure supplies to existing users. And we've invited proposals, which you're probably aware of, to bring forward new renewable generation; not owned by us but contracted to us through long-term contracts. We're giving those bids careful consideration and, in the meantime, also developing our own hydropower projects, with which you're generally familiar - Tarraleah being the most proximate of those - that will increase our ability to firm additional wind and solar supplies. So, we're looking to go on this growth journey and give the state those opportunities. We're looking to do that in a staged, controlled and responsible way, which is quite important, so that we, on the one hand, make it possible for the state to grow, but on the other hand, don't end up with a lot of surplus that is not adequately utilised. And that's a balancing act, which we can also explore, if you wish, in this hearing. The point of this all is to preserve and grow Tasmania's renewable energy advantage over the long term.

I think it's also worth making one final point here, if I could, which is that we are a business that supports jobs and economic growth in our own right. We're a substantial business, to say the obvious. We have 1400 people - we're one of the state's largest employers. We spend more than $150 million each year with Tasmanian businesses and so our ability to fund our own development, the refurbishment of our assets and even generating revenue from exports

as well as, of course, from Tasmanian customers all goes to being able to build our own business and that in itself has its own benefits to the state.

We certainly have a place, a high priority, in attracting new industries to the state on commercially sound terms. On the other hand, it's also true that electricity exports can benefit the state economy by funding those asset upgrades and also providing, over the long-term, funds for government services. That's enough from me. I can start - we can start with your question, if you wish, which is that balancing act.

CHAIR - Yes, we can go to that first, perhaps, and then there'll be others, no doubt.

Mr BOLT - Maybe I should get Rachel to start.

Ms WATSON - Can I just be clear about what the question, sorry, to start?

CHAIR - The chair was talking about - I can't remember the exact words that were used now - but about, there's a level at which Hydro can meet a customer. Beyond that it's the government's role. So, how is that bar considered and derived, and I assume an individual approach is taken, but I'm asking you to explain to the committee how you decide what the best offer is, if you like?

Ms WATSON - Yes.

Mr BAYLEY - And the transparency around that.

CHAIR - Yes.

Ms FINLAY - And the process when you breach it - and then what happens next?

CHAIR - Well, they're not breaching it, they're saying the government's got to step in.

Ms FINLAY - No, that's why I re-said it - 'breach' wasn't the right word.

CHAIR - But, when the government is required to step in.

Ms WATSON - I'll start then. I might hand to you, Erin, to fill in some of the more technical details. So, we have a pricing methodology and an approach we take with all of our customers. In the case of our major industrial customers, our existing customers, we try to get them the best possible price that we can that is still commercial for Hydro Tasmania, and we take a very sort of favourable approach to the ways in which they help support the energy system. A lot of them have - in fact, all of them have got arrangements for reducing load and turning down their demand at times of high demand in the system and we give them full value for that. That really helps to keep their energy prices as low as reasonably possible, so we think we do, you know, as tight a job as we possibly can, pricing off the market, but also giving them the full benefit of all of the things that they're able to provide in terms of support services to the system, so that they get the most advantageous price. Of course we're looking at over a long-term horizon for those customers as well. Typically, major industrials sign up for a longer-term deal, between five and 10 years typically. We're looking at a long-term price benchmark that we need to sort of benchmark ourselves against.

CHAIR - Five years is not very long. You call that long term.

Ms WATSON - I'd call that more medium term maybe, but typically they've been 10 years. We have a forward projection where we take our best understanding of where the market's likely to move in that time and price accordingly. Erin, what would you add to that?

Ms van MAANEN - Maybe just to round out one point, which I think Ms Finlay was asking about, which was around how do we know when we're approaching that point and hence engagement with government is required? It comes back to the obligations that Richard was talking about in terms of to act commercially and to provide a long-term sustainable return back to the shareholder on behalf of Tasmania. Really that point would be where we've explored all the avenues we can to reach a lower price or a more acceptable price to the counterparty on commercial terms.

If we're approaching the point where essentially going lower would trade off future returns from Hydro Tasmania in terms of where that energy would go if it didn't go to that customer - once we're getting to the point where we're actually trading off a future return and would be accepting a lower dividend essentially through to the government, that's the point where that's not a decision for us to make to do that for one specific counterparty. That involves engagement with government to understand from a policy perspective where they might be able to play a role where we're essentially forgoing value that would otherwise accrue to Tasmania. That's -

CHAIR - Does the 90 per cent dividend policy make that more challenging?

Ms van MAANEN - No. I'm really using the dividend to emphasise the real impact that has in terms of value returning back to Tasmania. It's really where we're forgoing future revenue and that would impact on our sustainability. There's a portion of that that stays in the business - noting that it's the smaller portion - and a portion of that which goes to government dividends. It's where we're forgoing that future value that really that's a role that government needs to come in and it's a policy question as opposed to a decision we can make unilaterally.

Ms FINLAY - There's some very specific terminology used in the descriptions here, and I'm interested in your definition of 'commercial'. What does it take for a price to be commercial in Hydro's definition?

Ms WATSON - We're not operating in a bubble. We're operating in the National Electricity Market. That's why I referred to benchmarking where we believe the market price will go. As Erin has referenced, what we think about is what would we be giving up if we were to cut a price below a certain level? That's judged by what we think the market would deliver us otherwise.

Ms FINLAY - But when I'm hearing language like 'forgo dividends', you know, compared to another, I'm wondering how many layers are in your matrix of consideration that determines a price is commercial or not, whether it determines whether you're forgoing dividends to government. It appears to me from the definitions or from the descriptions that there's a range of considerations, both market, internal and external to government, that define what you call commercial. In all of these conversations around AI and also major industrials, people use the word 'market', they use the word 'commercial', and actually to everybody that

means something different. I'm wondering specifically to Hydro, how do you define 'commercial'?

Mr BOLT - First of all, there's not a kind of algorithm where you can simply, say, just feed in the characteristics of the load and end up with the price. What we do is look at, as Rachel said, what would the market otherwise reward us with to sell that power not to that customer. We look at what particular services they're prepared to offer that we can actually give them full value back to them for, that would support our system, but they actually get the full reward of that in most cases. We attempt to be facilitative, you might say, of their investment, particularly for existing customers. That basically defines the benchmark that the management team looks at, that the board looks at, to ask ourselves are we doing something which on the one hand obeys commercial principles, but errs towards being supportive of particular existing customers continuing. That's the essence of it. Where we do have reference to those external prices, we make, generally, assumptions in favour of the existing customer where we have discretion about parameters that feed into that judgment. And then, if they can offer us particular services, then we provide substantial value back to them for those services, and that defines our offer.

Ms FINLAY - Have we had conversations with the government around the updated charter and the intentions and, again, the multi-perspectives and definitions of what that actually means - because that means different things to different people when you read it - and the tensions between what's in the GBE act? And was there an error in the government in updating the charter but not reflecting that in the GBE act?

Mr BOLT - I'd say no, definitely not an error, because they're intrinsic, these tensions. If the government hadn't said, 'We want you to be economically responsible and aim for the lowest possible prices to government as well as being commercially sound', we would've acted that way anyhow. I think we're kind of obliged to. We're government-owned; we have an accountability to the public of Tasmania. There are things we might do if we were privately owned that would be not as facilitative of existing investments. We don't consider doing that because of who we are. And that means you've always got to reconcile these things, because, ultimately, if we're sacrificing revenue to government beyond a certain point of reasonableness, then we're spending dividends for government, and that's not our role - that's overreach on our part.

On the other hand, if we're being overly commercially aggressive, well, naturally we're going against the idea that we're actually a member of the Tasmanian community and that we've got economic responsibilities. That means that there's no, as I said earlier, there's no absolutely clear line as to, you know, when you cross it, you're on one side of those principles. But we do find a way of reconciling those tensions which involve doing this analysis, providing the value back to the proponents. And then, in the end, if we just can't get a deal done, we say to government, 'it really is for you to close this from this point on,' which is exactly what we saw happen in the Rio case.

CHAIR - Can we move on from this one? I think we're going to get bogged down.

Mr BAYLEY - Yes, I have a line of questioning around data centres, if I may, and particularly the Firmus relationship. Given Firmus is not currently sort of funded as per its IPO a few weeks ago, how does that change the conversation with Hydro, and what of the

444 megawatts that it's seeking in a contract? Are you still on track to resolve this by the end of the year, in your minds?

Ms WATSON - I heard the evidence given by Firmus in this committee last week, which lines up with our understanding that our due diligence has shown that they have got funding for the first couple of data centres they're planning here in Tasmania, and I think that's independent of the funding that they were planning to raise through the IPO. We're doing a wide-ranging exercise of investigation into Firmus, and as a result of that, we're weaving into our negotiations with them various sort of safeguards and protections against the fact that they are a new entrant, basically.

Mr BAYLEY - What are they? What sort of things are they -

Ms WATSON - There's various contractual mechanisms we can negotiate with them, which is still under discussion, but things such as providing security - so actually having money on deposit that we could call upon if they fail to meet their obligations to buy electricity at the price they've committed to, and for the volume that they've committed. And getting those price and volume commitments from them, so that we're then supported by having that financial security as part of the contract. So, that's all still under discussion, but those are the kinds of terms that we're landing on as a result of the investigations that we're doing into their status.

Mr BAYLEY - Your submission to, well, certainly the AI inquiry, identifies that there's sort of two potential contracting models for Firmus: one is directly with renewable generators and you do the firming - that's pretty understandable; the second is contracted directly through Hydro, that I take it, is the model that you're talking about now?

Ms WATSON - That is.

Mr BAYLEY - That is.

In that model, I guess I'm interested in exploring the two-for-one - you know, two megawatts of generation is going to be brought on for the one that it buys with you. How, from a practical contracting perspective, does that work? Do they pay you more per megawatt to be able to incentivise a developer to bring their development on? How does it work? Can you unpack that for us?

Ms van MAANEN - Yes, happy to. So essentially, we're looking at an overall arrangement where we'd be looking to enter into contracts to give revenue certainty to the new variable renewable projects, and then for that to be combined with our hydro firming to provide fully firmed renewable supply to Firmus. So, yes, we'd be looking to enter into contracts with those solar and wind projects, solar and/or wind - we're obviously assessing both - and that's already been a feature of our business model in that we're looking to bring on that supply, but this allows us to do it directly to a new customer. Then overall, when we look at it commercially, to come back to that word, we're looking that Firmus will essentially need to be paying a price which allows us to both cover the costs of entering into those arrangements with the new projects and provide an appropriate return for our own generation, which we're using to firm that, and to manage the risks inherent in the contract as well.

Mr BAYLEY - Just to explain, you don't enter into an arrangement with that new generator for twice as much energy as Firmus requires. So how does the two-for-one actually work?

Ms van MAANEN - Sorry, I understand the question now. If they reach their full ambition of 444 megawatts, that's maximum capacity, they wouldn't run 24/7 at 444 megawatts, so it's kind of in the higher 300 megawatts, let's say. With wind and solar, the capacity factor of that, depending on what type of project it is, could be 30, 40 per cent, so you've got 1 megawatt of wind, it's not running all of the time, so you're getting a lower level of generation. So, the two-for-one is to that maximum capacity, but the amount of energy we would expect to be delivered from those megawatts of generation is equivalent to the amount of consumption of Firmus. So, it's not double the consumption; it's double the installed capacity of the projects.

Mr BAYLEY - In terms of the two-for-one, then, it's simply by bringing on a 200-megawatt wind farm, for example, or making a contribution to that by virtue of a power purchase agreement?

Ms van MAANEN - Yes, so essentially, you need a much higher number of megawatts of the new wind and solar to match the consumption of Firmus.

Mr BAYLEY - Why do you see your role as funding private development on Firmus's behalf?

Ms van MAANEN - I know this distinction came up in previous hearings. We're not funding it in terms of the capital investment of the project - we're entering into an arrangement to give revenue certainty for that project, and that allows the proponents to invest in it. We had previously entered into a similar arrangement with the Northern Midlands Solar Farm, as an example, and have been going through a process of seeking further expressions of interest from projects to do that, because we see value for the state in playing a role in enabling new wind and solar to be built to add to energy supply in the state.

Mr BAYLEY - And so what happens if that energy demand that's contracted for Firmus isn't actually used and you need it for another proponent or another load?

Ms van MAANEN - To clarify, do you mean if we've contracted with that supply and then Firmus isn't consuming?

Mr BAYLEY - That's right. With Firmus, they're not consuming it. But is there, like, take-and-pay provisions or do they - you know, and some other customer actually needs that power?

Ms van MAANEN - Yes. We'll obviously caveat because we're still very much working through the assessment and have not reached a decision to enter into that arrangement, but essentially, as Richard or Rachel indicated, we'll be working through: what are the mechanisms that we can use to manage those risks? So, in the first instance, at the front end, that would be: when do we make that commitment? At what point do we have sufficient certainty of Firmus's load coming online for us to take the decision to actually write the PPA with the wind and solar project in the first place, and how do we sequence that if a decision is made as all the stages of Firmus's development become more certain, for example.

CHAIR - Do you know how much, how many megawatts Firmus require in firming energy? Because that's what Hydro's bid is - that's what you said earlier - that you'll be providing the firming energy from the variable energy as part of the contract with Firmus.

Ms van MAANEN - It can't be measured in quite the same way, because with the bringing on the new wind and solar, as we discussed earlier, you'd be trying to match that in volume so you're getting the right amount of megawatt hours overall. It's just that they're not coming at the right hours of the day. So, you'd have more wind and solar than is needed for Firmus in some periods and vice versa. The firming is about balancing -

CHAIR - Which I'm asking, how much is that gap? How much do you expect the firming capacity that would be required to meet their needs?

Ms van MAANEN - There would be times when, you know, there'd be minimal to no wind and solar generating in that particular five minutes, for example, and we'd need to provide the full amount from -

CHAIR - Over the life of the contract. I'm just trying to get an understanding of how much - because if Hydro is going to be acting as a firmer, particularly, which is what we're hearing in this new world, then what -

Mr BOLT - How much energy would we be generating to match the hours?

CHAIR - That's right, because that comes down to the hydrological conditions and other things. I'm interested in trying to understand what you know about that bit, just that bit.

Ms van MAANEN - In average terms it's neutral. It is zero, which means from an inflow perspective we can hold energy in storage and we're using that to balance it, but you need to have that amount of capacity available for the full 444 megawatts, for example, but it's not being used to back it all of the time.

Mr BOLT - But the percentage of our output, of their consumption that we'd be providing from our facilities, I think is your question.

CHAIR - That's the question I'm asking.

Ms FINLAY - It's the offset of the capacities, or isn't it?

Mr BOLT - I don't know that we've come with a figure that we could actually cite.

Ms WATSON - That's where we're saying the reason we're sizing that Renewables portfolio that we would like to contract with to back the Firmus load is being sized on this two-to-one basis so that the amount of energy overall that those solar and wind farms provide over the course of the year would pretty much be equal to the amount of energy that Firmus uses over the course of the year. The firming role is that we come in at time -

CHAIR - Yeah, that's not the question. The question is how much does Hydro expect to need to have available for firming just for Firmus, let alone all the others?

Mr BOLT - Because it's energy neutral, but there's a time mismatch, and I think you're saying what are we doing to fill the gaps, I don't think we've come equipped with the ability to give you a number, and it would vary depending on hydrological conditions, market conditions as you said. There's no single number we could provide. We'd probably have to take that idea on notice.

CHAIR - Like a percentage, an estimate, I'm just trying to understand what's going to be required of Hydro.

Ms van MAANEN - Maybe just to confirm part of what I just said, in an individual moment it might be the full 444 megawatts. We need to have that capacity in our system.

CHAIR - I'm not talking moment by moment.

Ms van MAANEN - On average, it's actually zero. It's neutral.

Ms FINLAY - Could I understand it in another way? Is it - and this is my own clarification - is it that Hydro needs to have sufficient storage in the system to be able to firm Tasmania's full load in any moment -

Ms van MAANEN - Yes, exactly.

Ms FINLAY - and so it doesn't matter where the load's coming from, at any moment, if all of the wind and the solar shuts down and you guys aren't generating, you need to be able to firm the Tasmanian load.

Ms van MAANEN - Maybe to give you some ideas around the volume and capacity of that, in Tasmania's system we have around 2300 megawatts of maximum hydropower capacity. Average demand is around 1200 megawatts, so there is a large buffer there, and then maximum demand generally on a cold winter morning is around 1800 megawatts. There is a significant buffer there in terms of capacity available in the existing system. Obviously, we have outages for upgrades -

CHAIR - For fires.

Ms van MAANEN - for unforeseen circumstances. The gap isn't always fully available, but to give you an understanding of there is a level of capacity in the system that allows us to play that firming role more so than we do today. We've talked about that for some time around our strategy seeking to shift to use the hydrogeneration when it's really most valuable for that firming as opposed to more of a base-load style of operation.

CHAIR - That can't be sold into the market either - the firming energy that's needed to deal with on-island demands, isn't it?

Ms van MAANEN - And it is used and is monetised by export as well where it goes over and above what's needed -

CHAIR - But you need to look after Tasmania first.

Ms van MAANEN - That's correct.

Mr BAYLEY - There's another gap, I guess, if I may.

CHAIR - I want to go to Casey in a minute.

Mr BAYLEY - Just quickly then, the other gap that there is obviously - and you name it up in your submission and it's obvious - no new generation that's reached financial close at the moment. You identify - and the system isn't in balance; we're actually net importing the last few years. There's a real energy challenge here. Have you signed any power purchase agreements or MOUs with new generation recently such that you can go into the conversation with Firmus? How do you bring it together, the demands of Firmus? Is it still 444 megawatts or are they only negotiating with you for the approved stage 1, St Leonards? How do you square this circle and bring it all together when we don't have financial closing, we've got no-one building new renewable generation as it stands at the moment?

Ms WATSON - We're doing those two things in parallel. December last year we launched an expression of interest process to get new renewable proponents to come and show us what they could do. We've been using that information and negotiating with those parties in parallel with the negotiation with Firmus.

Mr BAYLEY - Is anything signed there or an MOU or anything?

Ms WATSON - No, on neither side. But we are deep in the weeds at the moment, negotiating both ways, both with Firmus and with the -

Mr BAYLEY - Is Firmus still chasing the full 444 megawatts.

Ms WATSON - Yes, yes, that's right.

Mr HISCUTT - This is sort of coming off the back of the statement in your submission that you've not yet made a decision, but you expect to be in a position to finalise the assessment by the end of this calendar year. Obviously, there's currently, out there at government, a document from the government for the expectations of data centres. I don't know the exact title of that, but that is also expected to be done by the end of the year. If that is not out and completed, are you considering what's in that document? Will you make an agreement with Firmus before that document comes out if it is delayed by any reason, or are you waiting for that to come out before you make - or is that influencing your decision?

Ms WATSON - We're not waiting, and we've been very conscious all the way along that the government's stated position, both state and federally, actually, is that data centres should pull through new renewable energy projects. So, we've always approached this deal on that basis and that's our preference is to do it that way. So, the statement of expectations, we're very lined up with it, we've given a lot of feedback on it, so wherever it's at in its timing is kind of -

Mr HISCUTT - Does that mean that your decision that you make for any future agreement with Firmus will include that as a clause, independent of it being - you would expect that to be the case, anyway?

Ms WATSON - You're probably better placed to speak to that.

Ms van MAANEN - Yes, I think what we're saying is that the way we're approaching the assessment, and how we would contract, is in alignment with those draft expectations. So, the key requirements in those, including for it to be backed by new renewables in the longer-term, we expect those renewables to be in Tasmania - I know that's been a topic of conversation as well, that that would be firmed supply, and that it's not negatively impacting existing customers.

Mr HISCUTT - So therefore, I mean if it's not legislated but just in a document, it would be enforceable under the agreement that you would strike with -

CHAIR - Contractual.

Ms van MAANEN - Yeah, so what we reflect in the contractual arrangements that is in alignment would then be enforceable through those contractual arrangements, but the expectations themselves, they're in-principle in nature.

Ms FINLAY - Can I ask two questions on that: yes, the matter about it being on-island, you said, is expected or required. Is it absolute for Hydro Tasmania that the new renewable energy is on-island?

Ms WATSON - Yeah, we would always want to bring new renewable energy for the purpose of backing a Tasmanian load, we would want it to be in Tasmania.

Ms FINLAY - Yeah, and so that's an absolute: it has to be. You wouldn't consider it anywhere else?

Ms WATSON - No, not for a load in Tasmania. No. It wouldn't make sense.

Ms FINLAY - Excellent. The other word I talk about matching; I hear the word 'sequencing'. I'm really interested in the sequencing between new load and new - because you said in the long-term, with generation. We heard some evidence last week around the modular nature of AI infrastructure and we talked about finely balanced in your introduction. Can you talk to us about your expectations and how you want contracts to look in terms of that sequencing of load and generation?

Ms WATSON - So, there is a timing issue here, really, because Firmus have already got their St Leonards facility close to complete and we're expecting that online early next year. There won't be a new renewables project up and running by that date, so there will be a period where Firmus is running a bit ahead of bringing on the new renewable generation. So, we've been doing a lot of work to try and work out - can we safely supply Tasmania and keep the system in a secure position during that period. So, we've been doing a lot of analysis about what that means for our portfolio, for how we would use Basslink, what else we might need in the system. So, we're also looking at batteries now needed potentially in Tasmania to help support -

Ms FINLAY - So, the base question remains, but can I ask on that: you've said you are looking at, you are considering, but Aurora's already entered into a retail agreement backed by you.

Ms WATSON - Yes.

Ms FINLAY - So, while that's still under consideration, agreements have been done. That worries Tasmanians - it worries me - in terms of how this matching is done sensitively. So, can you talk to the committee around specifically what you imagine will happen in keeping that matched? You talked about batteries. Is Dilston a proposed site for a battery farm?

Ms WATSON - Dilston?

Ms FINLAY - Is that something under consideration for this balancing?

Ms WATSON - I'm not familiar with Dilston, doesn't ring a bell.

Ms FINLAY - I've just been asked by that locally in the -

Ms WATSON - Oh okay, sorry, I don't even know where Dilston is.

Ms FINLAY - It's a town in the Tamar Valley where there's been some local concern around –

CHAIR - On the east Tamar?

Ms van MAANEN - We'd have to confirm that.

Ms FINLAY - Yes. Are there other locations in Tasmania for battery -

Ms van MAANEN - But we won't be able to name specific projects that we're looking at this point in time because we are in that active process, as Rachel mentioned, the shortlist EOI for, and have shortlisted proponents in terms of the potential supply, so we wouldn't be able to name that in the public hearing.

Ms FINLAY - How many proponents are there for battery farms in Tasmania?

Ms van MAANEN - We're working with a number of known projects but, again, as we're working through that process, we would really look to announce the outcomes of that when we get to the point of making a decision.

Ms FINLAY - Beyond the 104 that are currently in the Aurora agreement, so to enter into an agreement for Wesley Vale or for Long Reach, what certainty do you require before you enter into and announce any agreements around that sequencing and matching?

Ms van MAANEN - I'm just trying to understand if you're talking about the sequencing on the Firmus side or the VRE side, or both?

Ms FINLAY - Both, so any new load that comes into the system and then any generation that comes in.

Ms van MAANEN - With Firmus specifically, and understanding there has been the short-term agreement for the initial phase, they've been quite clear that, you know, that is a shorter-term agreement and in the longer term that would be replaced by an agreement that's based on new renewable supply, as it would be for the full ambition, if that's reached, so we

would be intending that any agreement reached, if we get to that point, would be specifically backed by new renewable supply.

The level of certainty we get over the staging of that is something we need to work through, so we talked about the funding earlier, as Rachel mentioned, the St Leonards site and stage 1 of Wesley Vale are fully funded, so there's more certainty over those, although for Wesley Vale, the development approval process is still ongoing, so we would be looking to sequence our commitment to the developments on both sides as they progress.

Mr BAYLEY - Can I just ask on that, if they're fully funded for construction - I accept that evidence from Firmus, but there's certain significant financial uncertainty about the future of the company full stop at the global level. We're talking about a contract in the long term to supply energy, not the funding for the construction, so I guess how do you resolve the financial risk in relation to Firmus given global uncertainties and the failure of the IPO?

Ms WATSON - I was going to say there's possibly two parts to that answer. One is that the construction funding is the big chunk of the commitment that you need to see to make sure the project is real.

Mr BAYLEY - That's not your interest. Your interest is the ongoing revenues and contract.

Ms WATSON - Yes, but once the project's built, I mean the AI scene at the moment seems to be a real race to the start line, and we see that there's actually genuine advantage for a company that can get a data centre up and built ahead of the rest. So a proponent that's actually got a data centre where the construction is funded, it's all permitted, it's underway, it's, you know, close to being done, that really does give them an advantage in the market of securing their customers to make sure they've got business and activity and contracts for compute power for that data centre, so that helps us, sort of, feel more confident about that.

CHAIR - Presuming that you can get new renewable built and underwritten to facilitate the next bit, which is the problem. Surely, that must be a huge risk.

I don't know whether you looked at the evidence we received from Firmus at the outset and Aurora. There's a three-year contract, because by then there are certain commitments about new variable renewable. We know there hasn't been much delivered just recently and so, surely, if there's going to be a new contract, what happens if they come back - three years and nothing new has been built? Then what?

Ms van MAANEN - I think that's a big part of why we're seeking to complete this assessment and reach an outcome by the end of this calendar year, so if that were to be the case that a commitment is made and a contract entered into, then the underwriting comes from those contracts that we would enter into with the wind and solar projects at that point, and that allows them to get on with finalising the development and then constructing those projects.

CHAIR - What transparency will be available? What will we be able to see? Because people are very sceptical. Not about the Hydro but about what's coming online.

Mr BOLT - Surely, we will be - first of all, I'd just like to go back a step. From the board's point of view, we want to see all of the realistic contingencies, the risks as you

mentioned, properly evaluated, costed, so that - we can't enter into any scheme with no risk. If you want to grow, you take risk on growth, right? What you can do is look very carefully at all of those risks, see how big they are; if combinations of circumstances go against you, how much will that cost you, and then, on the other hand, of course, if things go all your way, what's the upside? The reason we're going down this track is that it's commercially, potentially, very attractive. At the end of all of that we have to make a judgment on balance about taking risks that we've mitigated as far as we can, but they're worth it based on what we're going to see.

CHAIR - The question was around the transparency, Richard.

Mr BOLT - On the transparency: the idea that we'd put all of the documentation that is commercial out in the public domain, that's not our practice. But the idea that we would say these projects at that time with these risk mitigations broadly described, that I think you can expect to see.

Ms FINLAY - And have entered into agreements with a certain project?

Mr BOLT - Yes, that's right.

CHAIR - Where will we see that, where and when?

Ms van MAANEN - We'd have to announce it.

Mr BOLT - We'd have to announce it, yeah. We want to maintain the confidence of the parliament, the public. This is a Tasmanian state development project. This is something the public has a great interest in understanding, so of course we'd want to put it out there.

Ms FINLAY - Can I ask the question about the scale of the megawatts, so 104 at St Leonards and 52 at Wesley Vale first?

Ms van MAANEN - 26MW in stage 1.

Ms FINLAY - For the first stage, okay, that's even more to my question then. The scale of a new renewable project to come online, so certainty through a power purchase agreement at 444MW is far more likely to underpin a development than 26 and 104. If for instance, Firmus having fully funded -

CHAIR - Up to 104, it will be a while to get there.

Ms FINLAY - But, if Firmus are unable to proceed at Long Reach and they only have 26 and 104, is it the mind of Hydro that that is sufficient to enter agreements to underwrite new generation?

Ms van MAANEN - I think I'll just preface again with, obviously, we haven't made a decision yet, so I'll talk conceptually about the answer. At the point that we were to enter into a contract, if that comes to pass, there'll be a level of certainty on the stages of development for Firmus at that point in time and that will give confidence to enter into the VRE projects with other risk mitigations in place. Credit support is obviously an important feature in any arrangement like this, where that would be in place from Firmus to really back their commitment to being there to take that energy and pay for it in the future, there will obviously

be broader contractual arrangements in place that help us manage that risk of not having perfect alignment of certainty of the load with certainty of the VRE project. That is part of the role we'd be playing in that aggregator role in the middle but managing those risks as best we can.

Mr BOLT - If I could, though, quickly just to augment the point: you can have an agreement in which there is a contingent decision to build additional VRE depending on what load is subsequently financed and built. That's obviously an option that would be a risk mitigation and would be very sensible for us to be exploring with Firmus.

Ms van MAANEN - It won't be one single VRE project that is signed up to back that.

Ms FINLAY - Sure, I get that.

Mr HISCUTT - It's sounds very much as a chicken and egg situation. That seems like the hardest point that something needs to follow something needs to follow something and it keeps going back. I guess my question is: we've received in evidence that we haven't had a major renewables energy production in Tasmania since 2020. From your view, why has that been the case? Why have we not seen other energy projects come online, although we've heard about lots that haven't actually got to an investment decision?

Mr BOLT - Which is partly a national phenomenon and I think and others - obviously Rachel and Erin should pick this up - but the broad point nationally appears to be, certainly with wind farms, is that they simply - partly because of the uncertainty of coal closure dates, partly because of some other factors including cost rises - wind projects cannot predict that they'll capture from the market enough to make them actually viable to proceed with. And there is a chicken and egg problem on the mainland with the various factors that mean that, for the time being, investment has been somewhat stalled and then you throw in permitting delays and things of that nature. There's a basket of reasons why.

In our case, I think what we're suggesting is that the opportunity to at least break that chicken and egg problem by doing the kind of deal that is commercially attractive and sufficient to underwrite wind and solar in the right kind of mix that will allow Firmus to proceed and for us to move to the role we want to play in the market, we think that's prospective if everything lines up in the negotiations we are having.

Mr HISCUTT - So, other than energy users, have there been other reasons why - major reasons - why energy production has not come off in Tasmania? So, does this solve the only problem, or does it solve one of the problems for proponents to decide to -

Mr BOLT - It's probably fair to say that it could, if everything goes right - to the point that we haven't yet landed negotiation, no decision's been made - I would surmise this solves the major problem.

Ms van MAANEN - Yeah, and it is really one of the key attributes that's attractive for the state in this opportunity with Firmus. In their hearing, Paul said specifically that they're willing to pay a price that will be at a point that does provide that revenue certainty to projects to proceed.

Mr HISCUTT - So this gives that certainty, but other than that, there's not major - obviously, there's a myriad of major things -

Ms van MAANEN - There's things that take time, connections -

Mr HISCUTT - planning, all those sorts of things like that, but that's the thing that you think has been -

CHAIR - Another GBE in the middle there, too.

Mr BOLT - Can I also just make the point, the team is looking very closely at the risks of those projects, too.

Ms FINLAY - Sure.

Mr BOLT - To make sure that, if we do actually do a deal, which has all those back-to-back issues and the residual risks that go with that, that we're choosing the best prospects that have the most likelihood of actually proceeding.

Ms OGILVIE - Thank you. In a similar vein, and my question has two parts to it: we're hearing a lot about the confluence between the energy market and the market for new data centres and AI. There's a little bit of a fever around it at the moment, and I think the early movers will get the advantage, including for Hydro and others. I appreciate deeply what you've said about the investment that they can bring, which will hopefully enable projects that have been, perhaps, in contemplation for a while to move to the next stage. It seems to me that, and I think - this is the question I want to ask - you mentioned something about, in your due diligence regarding Firmus that they are bringing commercial customers with them. So, their business case, I think, is fairly robust with those back-to-back arrangements. I know it's been in the paper, but I won't report who these customers are.

In your thinking about these long-range energy projects and the investment that, say Firmus is going to bring, are you front-loading those projects - requesting investment to front-load the projects, or are you seeking some sort of ongoing base investment through the life cycle of the project that is then back-to-backed with the revenues that we believe Firmus, through its customer contracts, its own customer contracts, will bring in? What does that look like?

Mr BOLT - It's probably fair to say as a matter of principle that we recognise that it's an uncertain industry -

Ms OGILVIE - It's moving fast.

Mr BOLT - It could go gangbusters, there could also be disruptions, and our preference would certainly be to take as little risk as possible on long-run revenue certainty. The more front-loaded it is, the better for us -

Ms OGILVIE - I feel like that in my own house.

Mr BOLT - the more attractive it will be for the board to say that is actually a risk worth taking. I mean that's the point about there being a lot of risks that we're looking to manage -

Ms OGILVIE - Yeah, so that's the balance you're making.

Mr BOLT - And we've got a very skilled team that has - and it's well advised, and we're in a situation now where I think we're covering - we're looking very hard at that particular point to see how much of that certainty can we gain.

Ms OGILVIE - Yeah, and then the second part to the question, which is the layer about benefits and risk and how you measure those, and this is at the other end of the technology spectrum, you're an engineering business, lots of tech, lots of IT, lots of capability. Is there a scenario in which your arrangements with an organisation like Firmus and its customers might actually provide benefit to your business by way of providing additional compute or AI capability applications? Do you have a team thinking about that?

Mr BOLT - Well, we certainly have a team thinking about AI and its value to the business but not specifically connected to the Firmus deal.

Ms WATSON - No, and my understanding is that Firmus, they're like a wholesaler, they're selling compute capacity to hyperscalers who then deal with people like us. So, we're not changing our usual suppliers around our AI capability. So, no, really is the answer to your question.

CHAIR - I want to go to a different area, okay? We've spent a fair bit of time on Firmus. We had TASCORP in for just a little while this morning. I'm not sure if you were watching, maybe, maybe not? They did say that in 2027 there'll be a $36 million increase in borrowings, subject to government guarantee. For what purpose do you need that additional borrowings?

Ms WATSON - We have an ongoing capital improvement program running, which is really running over a 10-year period of quite intensive capital upgrades to our existing plant. We've got major refurbishments going on at our two biggest power stations right now, Gordon and Poatina, as well as at Lemonthyme. We've got a whole slate of work to do the west coast power stations as well. Hydro plants at about the 40- to 50-year mark need a really big injection of capital, and we've got a whole bunch of assets that are in that age range. We're in a bit of a hump at the moment of really investing back in the current hydro equipment. Partly it's so we are really ready for everything that's coming down the pipe as the energy transition progresses and we move into that more flexible and firming role that we want to play.

CHAIR - What I think you've said is that it's for capital expenditure and maintenance works on current assets, is that correct?

Ms WATSON - Yes. I wouldn't say maintenance because that sounds like the stuff we do on a day-to-day basis, which we fund out of our regular revenues. It's more the special-case capital upgrades that we're doing to really lift the standard of our existing kit.

CHAIR - OTTER has a heap of information around energy prices, et cetera. In 2026-27, hydrogeneration was 171 gigawatt hours, 9 per cent higher than the year earlier, and the generation weighted price fell from $97.91 to $62.94 megawatt hours, about 36 per cent, and indicative generation value fell from about $190 million to $133 million. That's available if you trace the information on OTTER over the last three years. Is it reality at the moment that the starting position for your profitability is getting materially weaker with the falling prices, which is what was predicted in some respects in the wholesale price in the whole-of-state business case?

Ms WATSON - I think what's more - where we capture value is in the variation of price. Even if the wholesale price overall comes down a bit, this switch of our role to doing that - what we're calling firming - where we are generating into the higher prices and then importing when prices are lower, that opportunity still exists. Erin, would you -

CHAIR - But aren't you generating more at lower prices? It's a bit like the more you generate, if the price is not high overall - like you have to generate when NEM tells you to, when AEMO tells you to, don't you?

Mr BOLT - Based on your bids.

CHAIR - Yeah, yeah, based on your bids.

Mr BOLT - And also the long-term contracts, of course, which are somewhat immune to those movements, so that's the other aspect of our revenue so you have a fair bit coming in simply in long-term contracts that isn't affected by fluctuations in the wholesale price of that short-term nature.

CHAIR - But we've had this discussion about the way you're going to get to an average of $470 million returns per annum to the state that'll rely on selling into high price periods, but if the overall price is coming down, which means the higher prices are going to be lower, the high highs will be lower? And that's showing through in the data to date. We know we've had three different operating systems in the last three years for Basslink, but now it's regulated and changed.

Ms van MAANEN - I'd just make three points in relation to that, Chair. The first one, which is kind of alluded to around - that's referencing spot market price outcomes and our revenues are predominantly driven by contracted prices. For our major industrials, which is kind of half of our Tasmanian customer base, they're in longer-term agreements, so they're not impacted by those year-to-year variations.

Secondly, even below that level, if you look at how contract prices are set for the residential portion of the segment, that's an averaging over multiple years. You do see, even though there's ups and downs, you see a more stable level of contracted revenue.

The third point is what Rachel's speaking to in terms of that average price is not what we receive for our generation. It's based on the periods of time where hydro is generating, which will be generally into the higher prices and including the export value that we are able to achieve as well. We see over the longer term a significant, I guess, opportunity for our revenue to increase over time. And our forecasts show that, as you mentioned, with the Basslink arrangements changing year to year, this will be our first new normal year, I guess, in the year that we're in now. And yep, in terms of considering year-on-year change, we see real positive outlook for our revenue generation. The debt increase that you've mentioned, it's a modest amount in the context of our overall capital asset portfolio, which has a much higher value in that future market.

CHAIR - But that's very stable. The long-term power contracts you've got and that sort of thing, that's the base, isn't it? That's set and reliable?

Ms van MAANEN - Yes.

CHAIR - It's the other bit I'm interested in, the bit that we say is going to be significantly positive. But if the prices are generally lower, then it just seems that both things can't necessarily be true.

Ms van MAANEN - Yeah, and it's hard to look at a single-year change. One of the things that will happen over time, the mainland National Electricity Market is going through this transition in terms of needing to replace coal. We're in a period now where significant new investment has occurred, particularly in short-duration batteries and also in solar, so that's brought additional storage and generation in. But that next big coal departure hasn't happened yet, so there will be these periods where you start to see some oversupply because that's been built in anticipation of that departure. Then the departure will come, and then you'll see relative undersupply in that period.

CHAIR - But that would then settle out again, won't it? Because when coal withdraws, there has to be new renewable come in, or new energy sources come in.

Ms van MAANEN - But you're going to be over just ahead, and then under just after.

CHAIR - That's right. Well, there might be some benefit there.

Ms van MAANEN - Yes.

CHAIR - But then that'll even out, surely?

Mr BOLT - It'll take a while. Don't forget the two biggest coal plants that are now due to close by the end of the decade constitute 4.5 gigawatts, I think it is, capacity in New South Wales and Victoria. And obviously that's a very large amount of power relative to the state, and also to just their own loads. They're also experiencing data centre demand as well. And they've, certainly in the case of New South Wales, their big smelter, constituting, I think, about 10 per cent of their load, has been underwritten to continue with federal subsidies and state subsidies. So, they're not getting a demand reduction due to the prices making those uneconomic. The consequence of all of that being, you would expect to see significant and possibly quite sustained price increases on the mainland, and they should benefit us.

CHAIR - I know the whole-of-state business case is not your document, but you did have input into it. That relied on, as I understand it, for 800 megawatts of new renewable energy on-island in Tasmania, and it didn't contemplate new big load coming in like data centres. Has Hydro modelled, from what we can ascertain - Yep?

Mr BOLT - You keep going, sorry, I shouldn't anticipate your question with my -

CHAIR - Yeah, you shouldn't roll your eyes like that.

Mr BOLT - No, I didn't mean to roll my eyes. Disrespectful, sorry. I withdraw the eye roll.

CHAIR - Since there's been the emergence of these new loads to a degree that there has been, has Hydro undertaken any further modelling to look at what it means for the

whole-of-state business case, and the projections and the modelling that Hydro fed into that, with the requirement for 800 new megawatts of renewable generation on-island, plus the requirements for the new data - well, let's say new load, whatever, to be delivered to make it work?

Mr BOLT - We're always refreshing our view of the future impact and what kind of loads, new supplies, prices, impact on our revenues are going to come. We don't just sort of ground ourselves in a 'point in time' assessment and say, well, that's the future.

As to what new loads were modelled or we're now modelling, we're clearly looking at all of these developments that we're now potentially going to enter into and asking ourselves, well, what does that mean for our revenues and our outlooks?

CHAIR -So, you've done some modelling? What's it showing?

Ms van MAANEN - On the whole-of-state business case, there was a level of load growth within that, but it was more modest than Firmus's, I think, 140 megawatts or something. I would have to confirm that. What really drove the uplift in revenue that was modelled in input we gave to the whole-of-state business case, from a Hydro earnings perspective, was around with increased interconnection and some level of new renewables certainly forming part of that, but the bigger driver being around that time of generation of the hydro generation. So, reserving it even more for higher price periods than we're able to with just Basslink in operation.

When we're assessing the Firmus opportunity, it actually does something quite similar in terms of what we're able to do with our generation. If you have new load in Tasmania and you're bringing on VRE to supply that, that is also allowing that hydro generation to shift to that higher-value period.

There may be a difference in terms of import and export flow between a Marinus case with or without that level of load growth. But we are still very much looking at how we can still maximise the export opportunity and value that that has to the broader NEM in that period. And things like demand side, management arrangements with a load like Firmus still allow significant export capacity to be available when it's most needed in the market as well. So, we're very much looking at: how can this be upside to the level of forecast revenue in the whole-of-state business case?

Mr HISCUTT - Just because the island uses the same amount as it produces, or the island uses more than it produces, does not mean that we can't still export?

Ms van MAANEN - That's correct.

Mr HISCUTT - That's a true statement. So, we could import 100 per cent and export 100 per cent for those timing, especially once Marinus is on, so you've got two cables going.

Ms van MAANEN - Yes, because it's always been about a two-way relationship. That's correct.

Mr BAYLEY - Just coming back to data centres, the 440-megawatt load is a significant one, but that's obviously not the only one. We know from information from the

Coordinator-General that there's another two projects between 200 to 300 megawatt of new load. One, it was revealed last week, was in Sheffield, and the information here says that, 'OCG has facilitated introductions to potential energy suppliers'. Have you had conversations with that data centre proponent?

Ms WATSON - We've got conversations open with proponents, some of them introduced to us by the OCG. No one is as advanced, in my understanding, as Firmus is. So, typically, our conversation starts with someone approaching us and asking for some indicative pricing, as an input to their business case usually, and then they typically go away and go on a bit of a long journey to actually prove up a business case and -

Mr BAYLEY - Putting aside Firmus, how many of those early approaches have you had?

Ms WATSON - My understanding is we've received a pricing request for another 50 megawatts of data-centre load.

CHAIR - From one customer?

Ms WATSON - Yes.

CHAIR - Or one proponent, sorry.

Ms WATSON - From one proponent, yes.

Mr BAYLEY - Is that the Sheffield proponent? Our information's -

Ms WATSON - I'm not sure, actually. I don't know.

Mr BAYLEY - You don't know? You haven't had conversations about an extra 200-300-megawatt load from any proponents?

Ms WATSON - Not at that point where we would then be asked to offer pricing. They may have been introduced to someone at Hydro and an initial contact made, but as far as I'm aware, we haven't progressed to that sort of first step, which is they ask us for some energy pricing.

Mr BAYLEY - Are you able to say where that 50-megawatt proposition is?

Ms WATSON - Geographically?

Mr BAYLEY - Geographically, yes.

Ms WATSON - I actually don't know. I think while we're in exploratory discussions, that that may not be appropriate to share because there's a competitive environment for these proponents as well. And so that's something we'd have to take on notice to confirm whether we could share.

Mr BAYLEY - In terms of these contracts and these discussions, the data centres are obviously expected to pay commercial rates. We've heard that from you, we've heard that from

them. Firmus has already dealt with Aurora and got a three-year contract. Wouldn't Aurora, as a retailer, be a better place for them to have these conversations and lock in long-term contracts?

Ms van MAANEN - In a Tasmanian context, generally speaking - we obviously have long-term arrangements and have historically, with the four major industrials in the state, and that's been due to the scale of their size - most customers, in the first instance, should talk to a retailer about supply. However, when we're talking about these significant large loads, then that's been a space where Hydro's been in a position of having direct conversations.

Mr BAYLEY - What's the large load threshold? We've just heard that 50 megawatts has approached you. Is that large load?

Ms van MAANEN - I guess the existing major industrials are very large. Obviously, Liberty's no longer consuming in the state, but those other three major industrials have been around that 100-megawatt size. There's not a formal definition, per se.

Mr BOLT - As much of it is about, though, if new renewables have to be pulled in to supply that load, then the ability to aggregate and firm is something we're much better placed to do than Aurora is. Aurora doesn't do that kind of thing. They would have to contract with us to get our firming support and then build a portfolio of renewables around it, which is a very inefficient way to go and one in which they're not experienced. They're a very competent retailer, don't get me wrong. That's not a slight at them. It's just this is our core business.

Mr BAYLEY - I've just got one more on the risk issue. I think we've identified large amounts of power - significant amounts of risk, we have heard, and you're in the business of trying to mitigate that risk. Why don't you allow Firmus to contract directly with those new generators? That would help bring them on as well, minimise the risk to Hydro and then you enter into the firming arrangements to assist that contract? That seems to be a lower risk for the shareholder - us, collectively.

Ms WATSON - We're not preventing Firmus from taking that approach. That was absolutely open to them. If that had been their preference to contract directly with the renewable proponents and come to us for the firming aspect, we would have happily talked to them about that. But as the discussions have evolved, it's been the preference of all parties - Firmus, the renewable proponents, and us, that we actually play that aggregator role. As Richard was just saying, that's kind of our core business. We've got a whole portfolio of assets we can help absorb that extra energy into. We've got the whole trading capability so we're able to do this trading over the interconnectors when it's favourable for us to do that. In our minds, we're well positioned to do that, and Firmus and the renewables proponents both seem happy with that approach being taken. But it's not something we're insisting on. Not for a minute.

Ms van MAANEN - Can I just add one thing to the answer which I think is important, because I think you implied that taking the firming role only might be lower risk to us. I think there's different risks in each model, but being in the aggregator role allows us to have more direct control over how the arrangements come together and actually manage a number of the risks as well. So, if we think about the risks around the sequencing and the chicken and egg, if you like, in terms of ensuring the assets come online, we can have contingency plans if projects were contracted or not proceeding, or don't look like they will be delivered. So, it puts us in a position to be able to better manage some of those risks, particularly around ensuring this

energy system is secure, which is not something that Firmus might be as incentivised to do so, or have the role and the capability to do so.

CHAIR - I just want to ask one question related to what Vica was asking. Do you have a current arrangement with DAME Energy, a power purchase agreement with them or some arrangement?

Ms van MAANEN - We do not have any direct arrangements with any other data centre loads, is maybe how I'd answer that question.

Ms FINLAY - My question's around sequencing, but I have a clean-up question from Vica's as well. I think the question was specifically about AI infrastructure loads. Are you in progressed conversations beyond that price inquiry and with progressed business cases? You talked, in your introduction, specifically about new loads and new industries. What other new loads or new industries outside AI infrastructure are you in conversations with?

Ms van MAANEN - I think I can say we've been in some early-stage conversations with other potential new large loads, but none that have progressed to the point that the Firmus discussions are.

Ms FINLAY - But are they progressed beyond the price inquiry, with progressed business cases, and come back for that second phase?

Ms van MAANEN - I think they're in various stages.

Ms WATSON - They're mostly early-stage discussions.

Ms FINLAY - Thank you. Could I ask what constitutes the large load in a different way? If you had an inquiry for a small load, when would you turn someone away to go and talk to Aurora or someone else? How small a load is too small for you to enter into conversations with?

Ms van MAANEN - Certainly, anything under 50 megawatts we wouldn't have historically engaged with -

Ms FINLAY - So, give or take 50 megawatts could be the difference?

Ms van MAANEN - And it's really where the retail market is positioned to offer that arrangement in the normal course.

Ms FINLAY - So, when we're considering our inquiries, around 50 megawatts is around that sort of - ?

Ms van MAANEN - I think it's not a hard number, but about that.

Ms FINLAY - That's a good rule of thumb?

Ms van MAANEN - Yes.

Ms FINLAY - Excellent. Sequencing: can we just have that conversation again around sequencing? I'm really interested in how new load comes into the network and the generation, and what happens in between. I'm interested in what you see as a short-term - you talked about mid-term before when you talked about generation coming up short-, mid- and wholly - insert your own word here - long-term. What are those timings specifically? And specifically what do you see happening in the interim to keep that system in balance?

Ms WATSON - Typically, I think someone mentioned earlier, that when we're looking at these VRE projects to come on to support the Firmus load, we're prioritising projects that are well advanced so they can start construction as quickly as practicable. But even those, a solar farm will take up to two years, maybe even towards three years to really get to full operation, and a wind farm would be a couple of years longer than that.

So yes, there's going to be a bit of a timing gap if you, say, assume St Leonards is on from January, which is what Firmus is planning as I understand it. We've been looking at our own portfolio and how well we can manage that. We're starting the year in really good shape as far as our storages are concerned, so that puts us in a good position to be able to rely on some more of our hydro generation to back that.

Ms FINLAY - That changes over time, though, doesn't it?

Ms WATSON - It does change over time, but at least we're starting from a strong storage position right now. Obviously, we'll be utilising Basslink where we can, where that makes sense. What else do you want to add to that, Erin?

Ms van MAANEN - Yeah, I think it would be - you asked more specifically about the potential length of the period. When we're assessing the mix of projects we'll use for the backing, that's one of the considerations: that solar, having a shorter lead time, can play a different role in reducing that bridging period; whereas wind, generally you're getting more energy in when you're progressing a wind project, other than solar. So, that will be one of the considerations.

It won't be, obviously, the full 444 megawatts of Firmus up-front, so it'll be a level of that volume that will require bridging in practical terms, given those timeframes between two to three years. And during that period, we'll need to look at what additional hydro generation we can use from storage, increasing imports over Basslink and then some use of gas generation.

Ms FINLAY - In your modelling, what sort of mix do you see between Basslink, gas and your hydro capabilities? And is there an upper limit to the amount of megawatts you can manage in bridging? So, if the 444 for Firmus come on, another 200 or 300 get contracted in Sheffield, and then another new load comes in because that generation, even the new generation, is still going to take the same amount of time, have you contemplated how much megawatts in new contracts you can enter into while you're still bridging?

Ms van MAANEN - There's obviously a number of different scenarios within that. There's also, is there any change in underlying demand, whether that's organic growth or changing the existing customer base? We're still working through our assessment of this, but we're looking at different scenarios for how quickly does Firmus come online, how quickly can the VRE projects come on, and what other different, what other low growth might be in the system, as well as contingencies around our asset availability.

So, it's not one single case and one single mix, and we are still working through it. It's something that we can certainly provide more information on, if it -

Ms FINLAY - If the unicorn lands and they can bring on Long Reach, and so it's the full 444, are you at the point where you're comfortable that you can bridge 444 megawatts over a two- to five-year period?

Ms van MAANEN - I think it's too early to fully answer that question. We'd be certainly wanting to have a level of the VRE coming in while Firmus is progressing there.

Ms FINLAY - That was one of the questions that was posed to us in evidence last week: that AI infrastructure develops in modules, so it's easy to actually package out increasing megawatts. Have you contemplated in your agreements staging of load entering the system and generation coming on? And how does that look?

Ms van MAANEN - The short answer is yes, but we're still working through the detail of how it looks.

Ms FINLAY - Is there an amount of years that's too long to bridge, so solar being able to come in two to three years, wind a few extra years on top of that? At what point is bridging too long?

Ms van MAANEN - I'm not sure that - it's kind of a -

CHAIR - It depends on the weather.

Ms van MAANEN - I mean, there's significant generation that can be sourced from imports and gas, but we would really be wanting to minimise -

Ms FINLAY - Price is a problem then, though, isn't it?

Ms van MAANEN - It can be, but that obviously depends on the commercial appetite.

Ms FINLAY - Well, with gas, at least, the price is a problem. With the increasing requests for borrowings and within your own financial capabilities, how long can you sustain high bridging generation like gas? Has there been contemplation for that as well, because gas has been running a lot lately.

Mr BOLT - Generally speaking, to give a single number for any of these things, because of the number of different contingencies, is too hard. But what I'd say, the board will get advice on a range of scenarios and we'll, again, as I said earlier, we'll check the manageability of those, and whether or not we're exposing ourselves to manageable cost or too much cost, too much risk. And that'll be a factor of at what price, what revenue hit, for how long, things like that. It's not really easy to give a single answer to that question. But to assure you that we really get that there's a large upside opportunity, quite a lot of risks and we're looking at as many scenarios as realistic, and we'll make a decision only then.

Ms FINLAY - You talked about contingencies earlier in terms of you've entered into an agreement. It's had all those risks and contingencies included in the negotiations. Load is

entering the system and the wind project doesn't come off, it falls over, and so that generation is no longer available. What sort of contingencies are in for that scenario?

Ms WATSON - If we sign up a supply contract with a renewable energy project, we will have commitments from them in there around achievement of milestones and there'll be long stop dates and there are consequences for them if they fail to achieve that. So, they'll have financial incentive to make sure they do actually deliver on their project.

CHAIR - It might not help if they go broke.

Ms WATSON - Which is why we do due diligence on these people as well. But the other thing is, we're trying to foster a bit of a pipeline of projects, so we looked at a wide range of projects in putting together this proposed transaction for Firmus. Now we've shortlisted some, but that doesn't mean we're not trying to keep some of the others kind of warm and in the wings so that if something like that happened, we'd be able to fairly quickly pivot. But it would infer some delay. It couldn't happen -

Ms FINLAY - In terms of agreements and language, would it be fair to say that Tasmanians can feel secure of generation coming in to match new load coming in at the point that a power purchase agreement is entered into? Is that the gateway of confidence? So, it's beyond the timing of, say, development approvals, their own financial close and entering into the - because a power purchase agreement obviously is critical to those. Is that the point where confidence is reached?

Ms WATSON - Most purchase agreements will have conditions precedent on them so that they will only become binding once they've, say, achieved financial close. And so, you incrementally build your confidence as the project evolves. So, signing the agreement, absolutely, that then gives them the confidence. They have something they can take to the bank. They can then get to financial close. That normally is a condition for triggering the agreement actually becoming live. Now, as you pointed out, Chair, there's risks that these projects fall over. But once they've reached financial close, they have investors putting hard money in and you get increasing levels of confidence as they go through that process that the project then gets built and delivered.

CHAIR - We heard pretty emphatically from Firmus some time ago that the retail services agreement was at commercial rate and Aurora basically confirmed that they're buying energy from Hydro at a commercial rate.

Ms WATSON - This is the three-year St Leonards?

CHAIR - Three-year retail. As we move to the next part where Hydro are looking at entering into agreements, we know and you've spoken about in your opening comments, I think, Richard, was with our major industrials - you did too, Rachel, there are provisions in that for load shedding, helping them to play a part in stabilising the system. And they're financially rewarded for that? Okay. The rhetoric in the community is that Firmus are going to pay full tilt for their energy. In this process they'll be entering into in the new contract, is it fair to assume that they may get lower than full commercial rates if they agree to load-shed and things like that? Or are we looking at entering into agreements that are full commercial price and they won't be required to participate in that way?

Ms van MAANEN - I think the role that those services will play in a contract with Firmus will be quite different. And it's different because it's an existing load question versus a new load question. Firmus have been very clear that they're willing to pay not only a commercial rate in terms of current market pricing, but a higher price that enables new projects to be built and pay for the firming. It's actually a higher price for new generation coming online for firmed new renewables than, say, the existing rate card that Paul referenced in their hearing.

The role that the services that Firmus can provide - and we're certainly looking at those - what can they do around tripping demand-side response and other mechanisms? - are less targeted at getting a lower price and more targeted around ensuring we can manage the energy system securely for a load of that size. That will play a key part during the bridging period where supply is tighter. If there are periods of relative scarcity, how can we use their flexibility to help manage those? That's about enabling a contract to be workable and sustainable, as opposed to enabling a lower price.

CHAIR - On that, we know that in the DA, et cetera, there's diesel generators. Paul assured us that was just backup. But what does backup mean like this? If there is a real peak in demand and you're asking them, 'Hang on, no, we just can't supply you at the moment' to Firmus, does that mean that they will go offline and use diesel at that time? Or is diesel just when all things go pear-shaped? This is a concern in the community that we're going to see a whole heap of diesel generation as backup because they're paying full market price and they're not being required, as the MIs are in their agreements, to load-shed or reduce their load, whatever.

Ms van MAANEN - They're still working through that process in terms of the DA for Long Reach and the appeal around that, so I won't comment on that directly. We'd expect it to be in limited circumstances. In terms of our portfolio, we manage contingency in the system already in terms of making sure we have capacity in reserve to manage an unexpected outage and whatnot. This would kind of be after that, if you like, where there might be periods of particular system stress. That would be in limited circumstances.

Mr BAYLEY - Have you modelled that at all in terms of your expectation?

Ms van MAANEN - We are doing modelling around what is the probability of those events occurring and the likely duration of that. There are a lot of scenarios we're looking at and we're still working through that modelling.

CHAIR - So, it is fair to say that they could be using diesel generation in circumstances where Hydro is unable to deliver the energy they require. Maybe it's, God forbid, another fire or something like that, something that would seriously impact Hydro's capacity.

Ms van MAANEN - Yeah, but a single event wouldn't normally impact that capacity. It would be more limited circumstances where that contingency has been exhausted, if you like.

CHAIR - In a period of high demand, you wouldn't expect them to need to use diesel in that?

Ms van MAANEN - I mean, we manage the system to cope with the normal level of peak demand in the winter, for example.

Mr BAYLEY - I'm still struggling, I have to admit, to properly understand how you can deliver energy for Marinus and make the kind of super profits that underpinned the business case, and deliver this new huge load. I invite you to unpack that and help me more, but I can go back and review the transcript.

I also want to ask that question in the context of Cethana; an update on Cethana, and how much that is critical in terms of being able to meet the very, very long-term demands that you are expecting with both Marinus and the need to export and trade and so forth, and also potentially supply 400 megawatts for Firmus, 300 for someone else, another 300 for someone else. How critical is Cethana? And where is it at in terms of costs, timelines, decisions, et cetera?

Ms WATSON - There's a lot in that. Marinus - I think you nailed it before, Casey, when you talked about the fact that even if you had a neutral, totally balanced power system - you took it to the extreme and said export 100 per cent at a certain price and then import 100 per cent at a certain price and then import 100 per cent at a much lower price, and you'd make money on the differential. Marinus, in my mind, is not about that Tasmania's got surplus energy to sell to the mainland, necessarily. It's great when we do, but it's about taking the opportunity. And, if we've got more generation on-island in the form of more renewable energy projects as well as more load, then that means more of both-way traffic across Marinus, in my mind. So, you can imagine a scenario where the price in Victoria gets really, really low because they've got loads of solar and the wind's blowing hard, and we've got even more load in Tasmania because there's a data centre or two here that can actually draw that, and so you'd see even more usage of Marinus. So, it's about the back and forward as much as it is about us actually having any kind of surplus.

Cethana's storage doesn't add extra energy into the system overall but, again, it helps us do that trading. So, it may well be times where, if Cethana was built, it's charging because you think of it like a battery charging, pumping water uphill, using cheap energy from Victoria to do that. Again, Cethana sort of amplifies that capability to trade energy backwards and forwards. A storage facility like a battery or like pumped hydro is all about taking those low-price advantages and then shifting that energy into a time of day when it's more needed and, therefore, more valuable.

Mr BAYLEY - Where is it at in terms of cost and timelines?

Ms WATSON - The latest costing was a year or so ago, I think.

CHAIR - We saw one on the mainland cancelled because of cost increases just recently.

Ms WATSON - We did. We still believe that, in the realm of pumped hydro projects across the nation, Cethana should be down the lower end of the cost curve. We've already got the lower reservoir in the form of Lake Cethana. We think that there's a really nice height that we can gain between upper reservoir and lower power station to really maximise the power. So, in terms of bang for your buck, we think Cethana is well positioned in terms of cost compared to other pumped hydro projects. We haven't updated the costing since 2024 because we're still working through the commercial how we would run it, what does the commercial case look like, what would the operating conditions need to be for Cethana?

Mr BAYLEY - And contingent timeframes, what can you tell us about time?

Ms van MAANEN - So, yeah, I mean we're working through development phase. We kind of, in rough terms, if we were to continue proceeding at pace with the development, we might see a final investment decision in 2028. So, it's not proximate. As Rachel said, we're working through the significant questions - and you mentioned the project on the mainland, about recognition, through the integrated system plan and other documents, that long-duration storage such as pumped hydro is really needed, but what's the right model to see that progress? We've talked about barriers to wind investment. Pumped hydro faces some barriers in terms of how to make the business case certainty stack up as well. That's a key part of what we're working through at the moment.

In terms of approvals, we have EPBC referrals in for Cethana, so we're very much wanting to see that as an option to proceed when the circumstances are right. But we don't have an imminent final investment decision planned as part of backing the Firmus load, for example.

Mr BAYLEY - Given the uncertainty of Firmus's business model, its capital raising and so forth, what does due diligence look like in terms of its financial sustainability and capacity to deliver on any contracts it signed? Like, what are you actually doing? It's mentioned in your information several times. What does that look like? What access to information are you getting from Firmus?

Ms van MAANEN - We are doing what you'd expect in the ordinary course of financial due diligence, looking at publicly available information. However, their plans are very much about future plans, as opposed to past financial performance. So, we're going through a process of requesting information from them that allows us to build out our picture of that revenue certainty or what's their financial creditworthiness and then, hence, how much credit support and other features would we like to see included in the contractual arrangements to manage that residual risk. So, it's quite a detailed process that we're going through.

Mr BAYLEY - And has that process been forthcoming?

Ms van MAANEN - They're certainly actively engaging with us in terms of that due diligence.

CHAIR - Okay, we'll wrap it up. I know there's probably a thousand other questions. You've got GBEs coming up, you guys.

Ms FINLAY - It'll be too late then. You'll have the contract by then, won't you?

CHAIR - Anyway, let's finish up because we do need to have a discussion before we finish, and there's pressing commitments.

Mr BOLT - We don't know.

Ms FINLAY - Earlier, you did say that you expect it to be this year.

CHAIR - That's in your submission. You put that in the -

Mr BOLT - Yes, but not guaranteed, right? It's not guaranteed. We'll make a decision when the time is right and we're convinced it's the right decision to make.

Ms FINLAY - That's more comforting.

Mr BOLT - We're certainly looking to do it as soon as is reasonably - as soon as we can get that confidence. So, don't mistake any lack of urgency. But we're not hastening just to make a decision for its own sake.

CHAIR - Thank you very much for your appearance before the Committee. We will write to you with a couple of questions that you've agreed to take on notice. We appreciate your time today.

Mr BOLT - Thanks for having us.

The witnesses withdrew.

The Committee adjourned at 11.59 a.m.