

Speech for Tasmanian Energy Conference- Hobart

26th November 2008

Good morning ladies and gentlemen and thank you for that very kind introduction

It is a pleasure to have been invited to speak with you today.

Having reviewed the agenda that has been prepared for the next three days I know that I can say with confidence that you have a full and very informative program ahead of you.

I am especially pleased to have the opportunity to explain the State opposition's views regarding the current state of play in the Tasmanian energy market as well as our view on the challenges we face from a public policy perspective.

What I would like to do today is first outline our view of the current circumstances that we find ourselves in and the challenges that Tasmania faces moving forward.

I then want to share with you the 5 broad principles that we are using to guide and inform the development of the energy policy we will take to the next election in just over a year's time.

And following that I will take some time to discuss and explain our thinking in each of these areas.

However before I do that, as this is the first opportunity that I have had to speak to you as the alternate Minister for Energy and also as the alternate treasurer I want to take a few moments to introduce myself more fully and to outline my background.

One day there may be an opportunity to drop the 'alternate' from the titles and should that occur I would like to think that those of you in this room who hold significant roles in the energy sector as many of you do, would have at least a rudimentary understanding of who I am and what my background is.

Therefore without repeating too much of what was said in that kind introduction I would like to explain a little bit more about myself.

I have spent around half my working life involved in the financial services sector. I was recruited out of my university electrical engineering studies by the National Mutual and fast tracked into management.

I worked with National Mutual on the mainland for around 5 years holding a number of management roles before returning to Tasmania where I became a partner in a Launceston based financial planning business.

My partners and I built this business until it was one of the largest privately owned financial planning practices in the country. In 1993 we sold the business to the AMP and I took on the Regional Managers role for AMP for the North of the state.

I remained with the AMP until I entered the political arena for the first time when I was recruited to Canberra as an Adviser to Cabinet Minister Senator Jocelyn Newman. My main role was to advise on the then \$15Billion in outlays that the country paid to retirees and pensioners.

I worked in Canberra for two years before moving to Europe where I took on a role with a Canadian multinational insurance company as the manager responsible for the Southern region of Ireland based out of Cork City in County Cork.

In late 1999 as my contract neared its end I accepted a position as the manager of the newly formed investment and insurance arm with the Bank of Kuwait.

Fortuitously there was a coup in the bank in late 1999 and I was not able to take up the position. As the Gulf war erupted in early 2001 the fact that a cousin decided to overthrow his uncle as the chairman of the bank could not have been timed better for my career or in hindsight my own and my wifes personal health.

We left Ireland and returned to Australia in mid 2000.

The opportunities for senior management roles in the financial services industry in Tasmania were limited and rather than live and work again on the mainland as my wife and I wanted to begin a family in Tasmania near our own families, we opted to buy into a business which we still have an interest in the North of the State.

In 2002 I was asked to stand for the Liberal Party and I won a seat in the state parliament which I was privileged to hold again at the last election in 2006.

In my time in parliament I have held the Shadow Ministries for Education, Infrastructure and Sport and Recreation.

I am currently the Shadow Treasurer and the Shadow Minister for Energy.

Now to begin my formal presentation to you I would like to start with a brief discussion of the current circumstances that we find ourselves in.

I firmly believe that on the one hand we are faced with enormous challenge, however on the other we are faced with enormous opportunity.

The challenge we face today relates primarily to climate. Both globally and locally Governments response to the climate challenge will determine our future economic social and environmental outcomes.

At a local level without doubt the natural enemy of the Hydro based generation system that we rely upon is climatic change and specifically changed precipitation patterns.

I have long argued that the Tasmanian Governments current energy strategy has left Tasmania exposed to either power rationing or lost revenues to Hydro due to the significant costs of importing increasingly larger amounts of coal fired sourced electricity from Victoria. In both scenarios there is a considerable opportunity cost to be worn by the Taxpayer.

Nearly three years ago I first raised the concern that as a result of the lack of other developments planned by the Government to manage the impact of the drought 'Praying for rain of biblical proportions was the only strategy that the Government had apart from relying on the trading link Basslink for increasingly higher levels of imports.

That Basslink was not delivered within the cost envelope first established has been and still is a major concern especially as the annual costs to Hydro and therefore the taxpayer this year alone will be nearly \$100M, nearly double the previously estimated value back in 2002.

Basslink was proposed and sold to the Tasmanian public as a trading link designed to allow Tasmania to benefit from the sale of Hydro generated power at peak prices whilst correspondingly allowing us to purchase low priced power at off peak times.

It was never proposed though that Basslink would operate in the manner in which our lack of rainfall has demanded that it be operated.

Our challenge moving forward is to make the right judgements about what we can reasonably expect the short, medium and long term precipitation outlook to be.

We need to answer the question:

Will Tasmania in the next few years receive sufficient rainfall, taking into account the extra generating capacity expected from Tamar Valley Power and our existing wind generators, to rebuild our hydro storages?

Firstly to a sufficient level to guarantee energy security and secondly to allow Basslink to trade in a way that will enable a profitable outcome for Hydro and a dividend to be returned to the Tasmanian taxpayer.

Now today I do not propose to attempt to provide an answer to this question. What I do want to do though is to highlight the key reasons that we need to answer it and the challenges we face.

It is a matter of public record the very concerning downward trend in relation to the amount of stored energy we currently have in our hydro dams which necessitated in the last financial year alone around 35% of our energy needs being met from non hydro sources.

Most of you would already know that at full storage levels our dams can store some 14437 (GWh) in energy.

As of Monday last week the 17th of November we had 4228 GWh of energy stored in our dams. This is significantly less than the situation we were in only 6 years ago.

On Monday the 18th of November 2002 our dams held 63% more energy than they did last week.

According to Transend in the last financial year Basslink imports were 2509 GWh and the Bell Bay thermal units produced 1169 GWh of electricity. The balance was generated from Hydro sources 7186 GWh (well down on last year 8322GWh) with a small but increasing amount from wind at 384GWh.

Transend highlight the major challenge that Tasmania faces in their annual report when they said and I will quote directly *'Unlike other regions in the NEM, Tasmania is at risk of energy constraints due to the reliance on hydro generators. This means that even with sufficient installed capacity to meet peak demand, the Tasmanian power system may not be able to meet energy needs due to the unavailability of water'*.

Tasmania's forecast electricity consumption is expected to grow at an average rate of 1.9% between 2008 and 2022. Maximum demand will be an average of 2.2% over the same period.

This means that as our yearly consumption is currently around 10,500GWh according to Transend we can expect the base case over this period for total energy consumption to grow to nearly 14,000GWh.

And therein lies the problem.

Hydros own analysis of changes to rainfall patterns over what they consider to be a statistically significant period forecast that we can expect inflows in future to be equivalent to around 9000GWh per year.

Tasmania is primarily reliant on a Hydro based generation system that, in the context of the climatic changes we have witnessed to date has been unable in recent years to meet demand.

In addition on the basis of the Hydros own forecasting in the future we will increasingly need additional energy generated from non hydro sources to meet domestic demand.

Therefore whilst Tasmania's situation improves once the now Aurora owned Gas fired generators come on line we remain in the short term reliant on the Bell Bay thermal units and increasingly Basslink for our energy security.

It would be reasonable and prudent to ask the question: what happens if inflows overtime reduce to less than that which current Hydro modelling suggest they will. I understand that average annual inflows now for the last 7 years have been around 9000GWh and some would argue that 9000GWH of inflows is a reasonable and prudent level upon which to set our expectations moving forward. Others however would not.

This then poses the next valid question:

What if Hydro storages receive inflows around the levels that have been experienced in more recent years - which I understand have been less than 8000GWh and what if these low inflows were sustained over a number of years.

That's not going to happen I would expect most of you here to suggest.

However let me put this scenario to you. No one thought that the All Ordinaries index would fall from a high last November of 6800 points to 3300 points as it did last week.

In fact I would hazard a guess that many of you in this room felt so sure that it wouldn't fall as far as it has, that you bet your retirement savings on it.

My point is that in the context of ensuring that Tasmania firstly has energy security and also that the Tasmanian taxpayer receives a reasonable level of return for their long held investment in our generation assets the worst case scenario or at the very least the unexpected scenario is one that increasingly needs to be planned for.

This is the enormous challenge we have on the one hand to face up to whilst on the other there is also enormous opportunity.

I want to speak briefly about the opportunities as I see them.

The Carbon Reduction Pollution Scheme better known as the ETS provides enormous opportunities for Tasmania. Professor Garnaut even states this in his final report.

However I suspect that Professor Garnaut views our publicly owned renewable assets through the 'what is good for the country' prism as opposed to the 'what is good for Tasmania' view that as a State politician I am obliged to take.

Whether the Federal government subscribes to his view only time will tell.

However what is indisputable is that even though we are hydrologically challenged at the moment our significant hydro generation capacity supplemented by the new gas base load generating capacity on the Tamar river places us in a most enviable position in the context of an increasingly necessary carbon constrained world.

Theoretically the ETS should be good for both local domestic consumers and also for our export opportunities into the National electricity market.

There are some critical matters that are outside of the control of the state opposition and our publicly owned generation, retail and transmission entities.

These relate firstly to the final design of the ETS. And importantly how Prime Minister Rudd and his Minister Penny Wong envisage treating our renewable assets;

and how some of our major industrial companies may be affected and whether or not the fact that that they will be in the unique position of using mainly renewable energy in their businesses will be taken into account is another key question that needs answering.

Secondly the timing and implementation of an extension to the MRET scheme and how it interacts with the ETS are significant matters that must be understood.

These critical matters are for the State Government and specifically the Premier to negotiate outcomes for Tasmania that are of lasting long term economic benefit to the State.

After a period of silence, the Premiers recent statements however are encouraging and I support his comments last week in the Tasmanian Parliament when he said,

"I think at the moment Penny Wong and Kevin Rudd have it wrong in the green paper because they are penalising companies such as Nyrstar when any emissions they make of course are largely based on renewable energies from our hydro power".

Furthermore he went on to say;

"I do not think it is good enough that the Rudd Government have not yet legislated their election promise for mandatory renewable energy targets. They must get on with this, particularly at a time when we are facing economic and financial challenges".

This is a pivotal point, and the state opposition has offered bipartisan support for a joint approach to Canberra before decisions are taken by the federal government which may have a detrimental effect on Tasmania.

The opportunities are there for Tasmania as we enter the brave new emissions trading scheme world of the future we must though position ourselves as effectively as we can.

Of key importance however regardless of whatever the final outcome the ETS delivers and whether or not mandatory renewable targets are continued is that Tasmania first and foremost has security of supply.

Therefore let me now outline the 5 broad policy principles that we are using to guide our policy development framework moving forward:

1. Energy security has to be the primary concern of a Government tasked with providing for those who live in the State and to ensure a predictable economic environment exists
2. Tasmanian residential consumers should receive a benefit for the significant public investment that has occurred over nearly the last 100 years into energy assets in this state
3. Tasmanian business customers should receive a competitive advantage over those in other states as a result of the significant public investment in renewables already made prior to the development of the Emissions Trading system
4. Energy efficiency must be a significant consideration in all policy development
5. Transparent governance and planning is of paramount importance

I want to deal with each of these broad principles in turn.

First Energy security.

This must always be the primary concern for any state government. Power rationing has not occurred in Tasmania since 1967 and it is the intention of the Tasmanian Liberal Party that it will not occur again under our watch into the future.

As I have already pointed out Transend has already flagged the problem facing Tasmania into the future in its annual report this year when it pointed out that,

“Unlike other regions in the NEM Tasmania is at risk of energy constraints due to the reliance on hydro generators. This means that even with sufficient installed capacity to meet peak demand the Tasmanian power system may not be able to meet energy needs due to the unavailability of water”.

The State Government appears from the recent comments of the energy minister to have already flagged their support for Transends proposed solution to this problem which appears to be a second basslink.

In the context of ensuring Energy security is achieved the State Opposition are prepared to consider this as an option moving forward.

However we do have concerns that relying on the coal fired generators of Eastern Victoria for our future energy security poses significant inherent risk.

Firstly in relation to the fact that NEMCO’s forward estimates already suggest that Victoria’s growth in energy demand may place that state in a situation of energy shortages in 5-7 years time.

And secondly as the ETS framework currently under construction is intent upon ensuring that Coal fired generators are one of the major industries targeted by the ETS this will ensure that even with Government support that Energy prices from this generation source will only head one way.

The impacts of both of these concerns need to be fully tested and understood before Tasmania commits its energy security strategy to this option.

On our side of politics we want to see a full cost benefit analysis of this option to test the veracity of this course of action against the option of increasing our own on island generation capacity as a first step.

Now that Tasmania through Aurora owns once again the Tamar Valley Power station site we believe that a cost benefit analysis must assess whether increasing the generation capacity installed on this site is an option that should be fully considered over the option of a second Basslink.

Furthermore the extension of the MRET scheme would guarantee we believe further investment in wind and allow the potential of geothermal to be fully tested and on this issue we fully support the State Government in its endeavours to gain a commitment from the federal government.

On this issue as so much of the necessary legislative framework to bring about a scheme is outside the jurisdiction of the State Parliament we hope, that the new found Rudd version of federalism where Federal/State relations we have been told will vastly improve will deliver to Tasmania the result that I am certain many in this room hope for.

However whilst Increased investment in wind and other renewables is obviously popular and will undoubtedly become increasingly more attractive in the current context of the finalisation of the ETS and the need for Tasmania to ensure its energy security, the opportunity to further develop Natural Gas base load generation assets on the Tamar valley site is an option that must be fully explored.

The second principle is one that I am certain very few Tasmanian residential consumers will disagree with.

We believe very firmly that Tasmanians should expect to receive a benefit for the significant public investment that has occurred over the last 100 years into energy assets in this state

That being said there are two ways that this can be achieved.

Either consumers receive their energy at a reduced cost compared to that which consumers in other states that rely on primarily coal fired generation pay, or there is sufficient enough of a dividend returned to the state for consumers to feel that their long term taxpayer funded investment in Tasmania's electricity assets is paying off.

As an ETS will ensure that electricity sourced from coal fired generation will increase in cost it seems quite unfair that Tasmanians with the majority of their energy requirements sourced from predominantly renewable sources would suffer any increase, in prices as a result of the ETS.

We believe very firmly that Tasmanian consumers quite reasonably should expect to be able to receive a benefit for the significant public investment that has already been made into the energy assets of this state.

The third principle that we will employ is that Tasmanian business customers should receive a competitive advantage over those in other states as a result of the significant public investment in renewables already made prior to the development of the Emissions Trading system.

For the reasons I have already set out regarding Tasmania's historic investment in renewables and the expected treatment of renewables under an ETS Tasmanian businesses should have a competitive advantage once the framework is finalised.

Let me make this point in summing up our thinking in this area.

Had Tasmania instead of adopting the Basslink strategy, invested instead in increased combined cycle gas generation on the island, it would be hard to argue that the impact of a national ETS on power prices should flow through to Tasmanian customers in the same way that Victorian customers reliant on coal fired generation will be affected.

The fact that we have up to a 600MW link with the mainland should not prohibit our businesses from receiving a competitive advantage and that is why we support the Premier when he argues that Prime Minister Rudd and his Minister Penny Wong have got it wrong as far as Tasmania is concerned.

The fourth principle Energy efficiency is a significant consideration in all of our policy development.

On this issue I need to make the point first and foremost that our view is that the government's current approach to energy efficiency and energy conservation is ridiculously inadequate.

Let me make the point that my comments should not be interpreted in any way as an attempt to denigrate or belittle the efforts of Aurora in this area but really how could any objective observer take seriously the Governments attempts at energy conservation and efficiency when the state owned agency tasked by the Government with assisting Tasmanians to reduce their energy use also has as its first responsibility the task of selling them more power.

Aurora in my opinion is hopelessly conflicted in this particular circumstance.

The Government must accept that this is the case and stop defending the indefensible.

We have already announced that we would establish a more independent alternative in this area.

One option would be to transfer the responsibility to the Climate Change office, establish a unit under the Minister for Community Development that would be responsible for assisting households and businesses to improve their energy efficiencies. Another would be to seek assistance from the private sector.

On other matters relating to energy efficiency the Opposition has already made a number of significant announcements in our response to this year's budget.

We have announced that we would make available \$7.5M in recurrent funding to assist in improving the energy efficiency of Tasmanian homes.

Tasmanians need to be empowered and encouraged to take a real interest in their energy use and to consider investing in energy saving measures for their own homes.

We announced nearly 6 months ago that a Liberal Government would assist Tasmanians by providing additional rebates of up to \$1000.00 for households that invested in and installed either solar hot water or reverse cycle hot water systems as well as up to \$500.00 towards the cost of insulating their homes.

Recently you would be aware that the State Government has announced an inquiry into the rate and level of a feed in tariff for Tasmanian businesses and homes that want to sell into the grid excess electricity.

Whilst we welcome this initiative the following point must be made. That is, it seems quite extraordinary that for a state challenged as we so obviously are, because of our heavy reliance on Hydro generated power and in the grip of the worst drought this century, that it is only now that the Government moves to encourage alternate household generation opportunities.

And furthermore quite simply it is an incongruous situation that exists currently in which Tasmania the most exposed state as a result of the effect of the drought on its generating assets pays one of the lowest rates to customers who invest their own capital to generate their own power to sell back into the grid. This situation must be addressed.

The 5th and final principle is that there must always be transparent governance and planning in any process concerning our energy GBE's and their future strategic plans.

This I know will be difficult as the environment that these companies must operate in is an increasingly competitive one. However this must occur. Shares held by Ministers in these GBE's are held on behalf of the public of Tasmania and the public expect their tax dollars to be fully accountable.

On occasions the point has been made, and in many cases by the media themselves, that too often under scrutiny by the GBE estimates committee information has been difficult to prise from companies and especially from Shareholder Ministers.

A case in point would be the almost torturous journey over a number of years as an understanding was sought by members of parliament on behalf of taxpayers about the true cost of the initial development of Basslink and its expected costs into the future.

The point must be made that a public company when faced with significant increases in either project costs or time frames that will materially affect the company's performance or there is a major variation expected in relation to earnings it must notify its relevant stock exchange within a legislatively prescribed timeframe.

Government owned GBE's report yearly to the parliament but at other times only at the relevant Ministers discretion.

This is not good enough.

This level of accountability is not sufficient nor is it contemporary practice within corporate Australia and we believe that that a review needs to be undertaken to strengthen the governance and reporting requirements for our Government owned Business enterprises and companies.

Now ladies and Gentlemen to conclude my remarks to you today I want to leave you all with the following very clear message:

The State Liberals are committed to ensuring that Tasmania maximises the opportunities that we are faced with but also just as importantly addresses the challenges that we face.

We are committed to doing this in a transparent, accountable manner and on that note I would welcome feedback on any aspect of what I have spoken to you about today, so please contact my office.

We are prepared to listen. We are prepared to take on board ideas.

And importantly we will ensure that not only do we keep the lights on in Tasmania but that Tasmania takes a leadership role in ensuring that renewable energy increasingly keeps the lights on everywhere.

Thankyou for your time this morning.