

# A Vision for the Future



As featured in  
*The CEO Magazine*

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With CEO of Hydro Tasmania Roy Adair moving on from his position, the organisation remains focused on its next phase of growth.

Images courtesy of Hydro Tasmania

Following the completed transfer of the Tamar Valley Power Station to Hydro Tasmania as a material element of the implementation of the Tasmanian Government's electricity industry reform process, CEO Roy Adair and the Hydro Tasmania Board agreed the time was right for him to move on from the corporation's top office, allow new leadership to take Hydro Tasmania through the next stage of the post-reform period, and enable him to face a new set of sustainable-energy challenges.

Technological developments and increasing environmental consciousness have brought renewable natural resources to the forefront of people's minds.

With 100 years of expertise in development and operation of hydropower assets, Hydro Tasmania is ideally placed to lead the way in innovative delivery of renewable energy. Its development of wind farms and integrated renewable-energy solutions further enhances its position in the national energy sector.

Hydro Tasmania generates hydropower and wind power across Tasmania, and trades electricity and energy-related

environmental products, such as renewable-energy certificates, in the National Electricity Market (NEM). Additionally, Hydro Tasmania is the largest water manager in Australia. As the country's largest generator of clean energy, Hydro Tasmania is spearheading the development and use of renewable energy.

"The corporation is now positioned to ensure it continues to capture its growing share of the energy market through Tasmania's foresight in building Basslink and our acquisition of our retail arm, Momentum Energy," said Hydro Tasmania Board Chair Dr David Crean.

"The changing market conditions in the Australian energy industry will test the industry's mettle over the coming years, and Hydro Tasmania is now looking for a new, long-term leader who can take the business into the future in a united and cohesive manner."

David noted that the company has enjoyed numerous successes under the guidance of Roy, including the completion of several significant projects.

"In his three years at the helm of Hydro Tasmania, Roy has led the business to record levels of profit, and raised the level of

performance such that it is well placed to deal with the many challenges ahead," he said.

"Roy leaves a legacy of a well-run business, having steered Hydro Tasmania through the Expert Panel Review and the electricity reform implementation process, as well as making significant progress in achieving our key strategic goals as an integrated energy player in the National Electricity Market.

"As CEO, Roy has presided over some significant events that have changed the face of Hydro Tasmania, including a profit of over \$100 million in both of the past two years. The business is on track to more than double that annual profit in the financial year 2012-13."

This success has been supported by the introduction of a price on carbon, but it is also strongly attributable to the strategy of the business, designed to maximise Hydro Tasmania's competitive advantage as Australia's largest clean-energy business; making considerable efforts to minimise costs to remain a low-cost producer of electricity; and reducing capital expenditure to minimum sustainable levels.

In addition, Roy oversaw the building of the Musselroe Wind >



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## UTILITIES AND INFRASTRUCTURE DEAL SUCCESS

 <p><b>AUD394 MILLION</b></p> <p>Adviser on 75% divestment of the Musselroe Wind Farm</p> <p><b>Hydro Tasmania</b> Financial Adviser FEBRUARY 2013</p>	 <p><b>AUD282 MILLION</b></p> <p>Adviser on 75% divestment and parallel debt refinancing of Woolnorth Wind Farm assets</p> <p><b>Hydro Tasmania</b> Financial Adviser FEBRUARY 2012</p>	 <p><b>AUD2.4 BILLION</b></p> <p>Australasian Syndicated Loan</p> <p><b>Origin Energy Limited</b> Mandated Lead Arranger &amp; Bookrunner OCTOBER 2012</p>	 <p><b>AUD430 MILLION</b></p> <p>AUD Medium Term Notes</p> <p><b>SPI Electricity and Gas Australia Holdings</b> Joint Lead Manager FEBRUARY 2013</p>
 <p><b>AUD400 MILLION</b></p> <p>Australasian Syndicated Loan</p> <p><b>United Energy Distribution</b> Sole Lead Arranger APRIL 2013</p>	 <p><b>AUD1.89 BILLION</b></p> <p>Privatisation of the Ports of Botany and Kembla</p> <p><b>NSW Ports Consortium</b> Mandated Lead Arranger MAY 2013</p>	 <p><b>AUD750 MILLION</b></p> <p>Australian Syndicated Loan</p> <p><b>Energy Australia</b> Joint Lead Arranger DECEMBER 2012</p>	 <p><b>USD410 MILLION</b></p> <p>US Private Placement</p> <p><b>ElectraNet Pty Limited</b> Co-Placement Agent MAY 2013</p>

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Farm and the sell-down of Hydro Tasmania's existing wind assets while managing the many challenges faced by the business.

Hydro Tasmania's strategy is to mitigate strategic risks the business is exposed to, strengthen its core position in the NEM, and improve financial strength to increase the quantum and stability of returns to the Tasmanian Government. It will continue to pursue mainland retail growth to provide a more diversified customer base and an alternative path to market for electricity generated from Hydro Tasmania's existing generation assets, increasing robustness to downside risks in the Tasmanian market.

Roy said it had been an honour and a privilege to work with such a talented, passionate, and committed team of people at Hydro Tasmania, Momentum Energy, and Entura—Hydro Tasmania's energy and water consulting business. He also acknowledged the significant support and excellent relationship he had enjoyed with the chairman and the board of Hydro Tasmania.

*The CEO Magazine* spoke with Roy one last time before his departure to discuss Australia's energy market, as well as Hydro

Tasmania's future sustainability and role within the global market.

***The CEO Magazine: You've got quite the pedigree within international power generation with international experience. What were your personal motivations to run Hydro Tasmania?***

**Roy:** I've always known that renewable energy will have a growing role in the way energy is supplied to customers in the future. The study into climate change and the consensus that climate change is a phenomenon that society has to deal with has featured prominently in my thinking. The need to change the energy links in certain countries around the world in order to achieve a reduction in greenhouse gas emissions is essential so that we can influence the potential consequences of climate change.

If we want to have an impact on global warming so we can ensure the world's overall average temperatures do not increase by more than two degrees Celsius this century—at current emissions levels, that increase is likely to be doubled—then we clearly have to undertake a significant amount of

work. That work is really focused on the use of less carbon-intensive energy provision. Therefore, renewable energy is part and parcel of this solution together with gas and nuclear power. There's no doubt in my mind that the fuels of this century, in energy terms, will be the increased use of renewable energy, gas, and nuclear power. While it's controversial, nuclear will play a significant part. Obviously, any progress that can be made on clean-coal technology will be helpful.

I wanted to be involved with Australia's leading clean-energy provider. I wanted to make a substantial contribution to ensuring the provision of sustainable energy throughout both Australia and the world.

**How important is Australia's role in the fight against climate change? Australians only account for a small percentage of carbon emissions, while fracking and the use of shale gas in the United States have actually decreased a lot of the carbon dioxide emissions.**

America's position has changed dramatically because of its access to shale gas. The shale gas >

**"There's no doubt in my mind that the fuels of this century, in energy terms, will be the increased use of renewable energy, gas, and nuclear power."**

- Roy Adair

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dynamics mean that the US, which was heavily dependent on carbon-based fuels, is now in a position where it is almost changed from an importer to a potential exporter given the development of shale gas. Shale gas has been a game-changer for the US, and we've seen a significant change in emissions as a result of that.

This was very much the case in the UK and Europe with the discovery of North Sea gas, where the UK electricity and generation industry was heavily dependent on coal-fired generation and some oil-fired generation. With the advent of North Sea gas, we saw a prominent role being played by gas-fired generation. With gas-fired generation at half the carbon intensity of black coal and about one-third the carbon intensity of brown coal, it was clearly going to have a strong role.

**Why is it so important to keep investing in renewable energy like wind, solar, and hydro power when new gas fields have been discovered that could pose a solution to the climate-change debate?**

These fields are still thermal-generation gas and they're still depleting a fuel source. The beauty of renewable energy is you're not depleting a fuel source. When you look at your energy mix and energy policy, the countries that get this right have an alignment between their economic policy, their energy policy, and their environmental policy—you've got to get the alignment of the three E's.

One of the problems we've seen with the Kyoto Agreement is that we've been blinded by the global recession. The economic policy is very much focused on survival and its ability to afford an appropriate environmental policy, and an energy policy consistent with that environmental policy has been severely compromised.

**How do you see Australia's energy market shifting in coming years when you take into account the political climate?**

The Liberals are committed to a repeal of the carbon tax and a program of direct action in terms of combating greenhouse gas emissions, so there is a high degree of uncertainty, and the energy sector would like to see that uncertainty addressed as a matter of urgency.

There is bipartisan support for the Renewable Energy Target, which seeks to change the energy mix of Australia by ensuring that at least 20 per cent of electricity consumed by Australians in 2020 is from renewable-energy sources. Now, that is what I would call an investment quality policy.

It is a framework of certainty against which investors can make decisions to invest in renewable-energy technology because you'll be looking to get your money back over quite a long period. If you're doing that, then you do need to believe there is going to be some certainty of government policy.

The shape that direct action will take will be very interesting indeed. But does everybody believe in climate change? I think the answer is yes. There are a few well-known doubters. We are dealing with a phenomenon in terms of global warming. Action in the shape of mitigation and adaptation is absolutely essential.

The science is pretty clear. One of the most compelling pieces of literature was *The Economics of Climate Change* by Lord Nicholas Stern, commissioned by the UK Treasury. There aren't too many people who disagree with the outcome of that study. It's the largest economic challenge we'll face. It's so important that we get the fundamentals right so we are leaving the right sort of legacies for our children and grandchildren.



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- Roy Adair

**Moving on to Hydro Tasmania's projects: Why is the Musselroe Wind Farm project so vital to the company's vision for Australia's energy future?**

Wind is a proven renewable-energy technology, and the Musselroe project is a class-one wind farm, which means it has an excellent wind regime, so it would always be economically feasible to build Musselroe.

The reason why there's been relatively slow progress on Musselroe was the need for the Renewable Energy Target to be improved, from an additional 2 per cent to 20 per cent, so that was a critical figure. On that basis, we looked into how we provided our renewable energy.

Initially, Hydro Tasmania was part of the Roaring 40s joint venture with the CLP Group, but it decided it would be better to go our own ways because the pace and direction of our wind-development progress could potentially be different, given that we are competitors in the National Electricity Market.

We came to a very amicable disaggregation of the Roaring >



40s joint venture, took the Tasmanian assets, and proceeded with development of Musselroe.

At the same time, Hydro Tasmania implemented a new model of ownership with wind energy resources. Hydro Tasmania does not need to own 100 per cent.

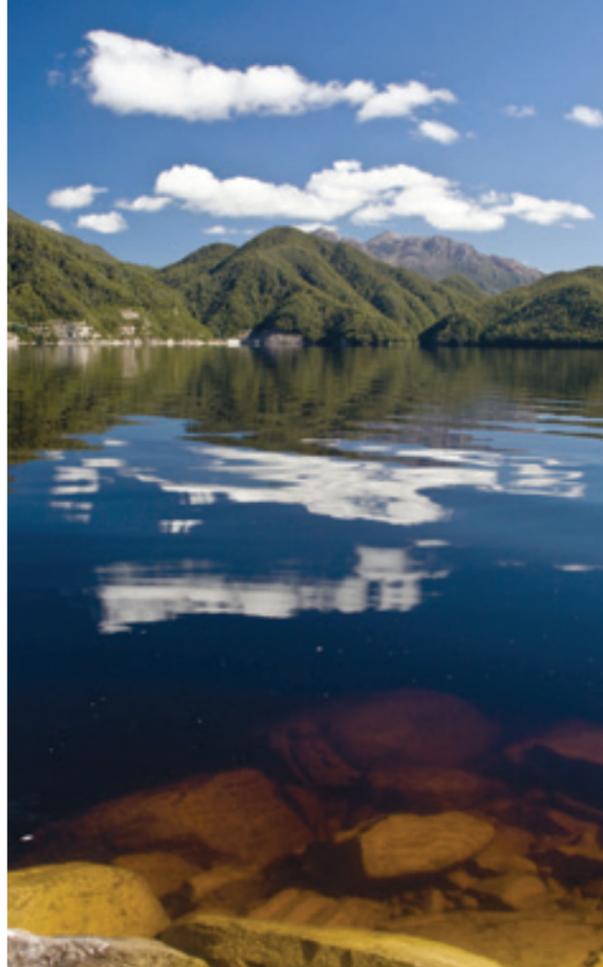
The first wind farm we sold—Woolnorth, comprising the Bluff Point and Studland Bay wind farms—enabled us to go through a selection process where there were a significant number of potential investors. Through that process, we ended up selecting Shenhua Clean Energy Holdings, the Chinese energy company, who were very keen to get into Australia. Shenhua took a 75-per-cent equity stake in Woolnorth, and Hydro Tasmania retains a 25-per-cent stake.

One of the major advantages of this business model is that

Hydro Tasmania is able to enjoy a broad range of benefits of ownership of wind farms without having to provide 100 per cent of the cost.

The 25-per-cent equity stake represents an optimal holding for Hydro Tasmania and enables it to use its scarce capital resource for maintenance of its core hydro-generation asset base, and for augmentation of its renewable-energy portfolio.

Hydro Tasmania took the same approach with the newly finished Musselroe Wind Farm, with 168 megawatts of top wind-generation technology. Musselroe is very important because it allows the business to be able to meet its need for renewable-energy certificates under the RET scheme through projects we've been able to develop and build ourselves. Musselroe was also a massive boost to the local economy during construction, and will bring significant benefits to the people



of Tasmania who are the shareholders of Hydro Tasmania.

**What's your approach to securing support among the communities and getting local people involved?**

Musselroe has been a real role model for community involvement. Hydro Tasmania sees working with the community as absolutely critical to the success of its projects. Hydro Tasmania involves the community on a participatory and inclusive basis so that they're well aware of what is potentially happening and when.

**What can you tell our readers about the King Island Renewable Energy Integration Project?**

The King Island Renewable Energy Integration Project [KIREIP] is significant for many reasons.

The challenge of energy supply on King Island is that the cost of providing electricity is expensive, as it's a remote area and it's not connected to the grid. That has changed with the introduction of wind and solar power.

Hydro Tasmania has developed a renewable-energy integration project for King Island that utilises a federal government grant to support the development of new, innovative technologies. KIREIP has achieved significant displacement of diesel-powered generation. The island has gone from predominantly diesel-powered generation to one-third diesel powered. That's a large saving in terms of carbon emissions and costs.

In pulling this together, we were able to bring our intellectual capabilities into play. Our tagline is 'The power of natural thinking', and we've been able to apply that thinking to the King Island solution. We've introduced intelligent software to the way we operate this system so we can operate it optimally and ensure that any diesel generation that is used is of an absolutely minimal nature.



Hydro Tasmania has not only put in a very cost-effective solution for King Island, but it also has a demonstration project that the world at large is very interested in. Out of 7 billion people, 1.5 billion don't have an electricity supply; here is a way of providing sustainable electricity generation for these people.

The beauty of the KIREIP solution is that it can be broadly containerised to allow it to be rapidly and cost effectively deployed.

We are able to provide a menu of renewable-energy technology solutions, such as utilising mini-hydro, solar, wind, and, instead of having to burn diesel fuel, you can use biodiesel to ensure that the provision of energy services would be 100 per cent based on renewables.

The emergence of good storage technology means that you're able

to store and cover the episodic nature of some of the renewable-energy technologies. We are coupling advanced lead-acid batteries with our own innovative enabling technologies, such as control-and-demand management, to further increase the contribution of renewable generation.

Hydro Tasmania has a facilitator and an enabler in terms of the expertise in its consulting business, Entura, so it's able to offer these solutions to customers within Australia and to target markets regionally.

This is one way that Hydro Tasmania is looking to commercialise the intellectual property created with KIREIP, to replicate the solutions developed for King Island for other off-grid customers. The market opportunity for diesel displacement is vast. For example, countries such as Indonesia spend \$7 billion a year to subsidise the cost associated with >

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diesel-powered generation in their remote communities. Hydro Tasmania's hybrid off-grid solutions could be a big part of reducing that cost burden and providing energy security to these communities.

**Hydro Tasmania's suppliers clearly enjoy working with the business. However, other companies have said that they don't enjoy working with state-owned organisations. What has Hydro Tasmania done to change that mentality?**

Hydro Tasmania is owned by the government of Tasmania, but the company is run as a commercial enterprise. This is a merchant risk business; therefore, it is operated as a merchant risk business. You can't operate it as a civil service government department. Fundamentally, Hydro Tasmania is run according to all the standards of a commercial energy business.

My experience comes from working in the private sector and

running energy businesses, so the practices I used in those companies were applied here as well. However, the management and board of Hydro Tasmania do recognise that the business is accountable to its owners—the state government—and therefore to the people of Tasmania. Just because you're government owned doesn't mean that you can't be run on a very efficient, effective, and commercial basis, which is true for Hydro Tasmania.

**What has been the approach of Hydro Tasmania to nurturing future talent within the company?**

I think Hydro Tasmania has a very inclusive, participatory style. Management and staff are briefed constantly and engaged on the direction of the business so they are aligned to business targets and understand how they contribute to the sustainability of the company.



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The approach is about providing good career opportunities for development and advancement within the industry, as well as ensuring they are a real part of what is a very successful organisation.

I think the business has very high levels of engagement. There is real passion within the company, and I was proud to have led an organisation that has such talented and committed people. It is a real privilege to have worked with them and led them in a very competitive marketplace.

The secret is in ensuring that you pick well in terms of future talent and provide opportunities for extremely interesting careers. The energy industry is a terrific industry. We produce something that everybody needs. It's an essential part of society, and it's really the lifeblood of society. Without energy, we'd all be in serious trouble.

We can clearly identify with the product we provide. We can identify with providing that to our

customers in a commercial and partnership style, and one that shows we are interested in providing value to them so they can build their own businesses and power their homes.

**How do you step away from the office after a hard day's work and unwind?**

I think having a family with interests is very important. For example, my eldest daughter is involved in rowing, and I take an interest in her progress. She was selected for the Victorian Youth rowing side for the Youth Olympics that was held in Sydney earlier this year. Actively supporting her through that process was great.

I think your family keeps you secured on strong foundations. Without them, I wouldn't have that bedrock I needed to carry out my role. I have a very understanding wife who realises the demands of such a role and that it's not a 9-to-5 role. She also fully supports me in terms of what I'm doing.

A lot of CEOs seem to find it difficult to find the time to do something out of work.

It is. But that's why I think time is such an essential commodity; and it's about the quality of the contact you have, not the quantity.

**Any final thoughts?**

Fundamentally, I have loved the role of CEO, and it is immensely gratifying to have been able to make a solid contribution for the owners of Hydro Tasmania. It's wonderful to feel that I have made a contribution for the people of Tasmania and seen the advancement of this business. We're seeing advancement at a time when renewable energy is very much at the forefront, and it should be an essential part of a sustainable future. For me, it has been absolutely enthralling to have been an integral part of such a vision. I wish the business and its entire staff a very successful and prosperous future. ●

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- Roy Adair