

10 February 2011

Mr John Pierce
Panel Chairman
Electricity Supply Industry Expert Panel
GPO Box 123
Hobart TAS 7001

Dear Mr Pierce

Re: Statement of Approach – Hydro Tasmania Submission

Hydro Tasmania welcomes the opportunity to contribute to the Expert Panel's deliberations and will work closely with the Panel to help it achieve its review objectives. Our comments on the Statement of Approach are outlined in the ensuing paragraphs.

Overview

Hydro Tasmania supports and welcomes the Panel's emphasis on giving more weight to facts and evidence and the Panel's desire to separate the material from the immaterial as there is much to investigate given the scope of the review. We believe this is an appropriate way for the Panel to achieve its key objectives, ensure broader community understanding of the issues and challenges and derive a clear plan for the Tasmanian electricity sector into the future.

The Terms of Reference necessarily have a very Tasmanian focus. Hydro Tasmania's vision is to be a sizeable integrated National Electricity Market (NEM) business from which the people of Tasmania derive pride as well as value. Although we are a NEM participant, we recognise that our participation in the Tasmanian electricity supply industry will always be a significant component of our business. We believe it is very important for the Panel to view its work in the context that the energy businesses are competitors in a national electricity market. Its recommendations need to be couched in terms of maximising the long-term value for the State of Tasmania as owner of these NEM businesses.

We understand that the review will involve a context-setting stage and a forward-looking focus to guide and inform the development of a Tasmanian Energy Strategy.

Any such forward-looking analysis should consider the long-term sustainability of the electricity businesses, including consideration of the environment in which the businesses will operate (NEM), the long-term strategies of the businesses and key market developments such as climate change (with the attendant recognition of a carbon price).

Scope

Hydro Tasmania acknowledges that the Expert Panel has a difficult and complex task to undertake. The Terms of Reference provided to the Panel are very broad and the Panel's time and resources are limited. The scope of the Terms of Reference has been mandated

pursuant to the Panel's enabling legislation. If the Terms of Reference are to be addressed adequately in the time allowed for the review it is imperative that the Panel adheres to them.

Hydro Tasmania particularly supports Terms of Reference 7 which requires the Panel to provide actions to guide and inform the development of a future energy strategy for Tasmania. We look forward to the Panel's advice on the framework for a future energy strategy and contributing to the development of the major tenets of such a strategy.

Benefit

The Panel has indicated that it will consider structural reform options including changes to the State's ownership portfolio (for example, the possible reunification of networks noted at page 8 of the Statement of Approach) and will explore the costs and benefits of this restructuring opportunity.

Hydro Tasmania notes that any change in portfolio structure should deliver a clear underlying net benefit in terms of returns to the people of Tasmania as owners of the energy businesses and in terms of value to customers. This is a critical criterion to apply in considering any potential structural changes.

Reporting Date

Hydro Tasmania urges the Panel to seek an extension of time, as the six months left between submissions on the Statement of Approach and the final report in August is insufficient to address the range of issues raised in the Terms of Reference. Of particular concern to Hydro Tasmania is the lack of a definitive timeline on the Panel's outlined Review Road Map. Hydro Tasmania believes that the timing of the final report and the Review Road Map therefore, needs to be resolved by the Panel as a matter of urgency.

Noting the public concern about some of the issues raised and therefore the depth of analysis required, we support the Panel's proposition of addressing Terms of Reference 1, 2 & 3 in the first half of the review period as these may be particularly amenable to accelerated consideration. Although some of the Terms of Reference can be dealt with outside the draft and final report timelines it is important that they are addressed in some form in these reports to provide a complete and concise response to the Terms of Reference to ensure it is a valuable reference document in the future.

Social Responsibility

The Statement of Approach understandably takes a strongly market, and competition, based approach to the Terms of Reference. This analysis will be critical to the Panel's response to its Terms of Reference, but the Panel will also need to consider social welfare issues, arising principally from community concern about electricity prices. There may be a risk that economically efficient sector outcomes are insufficient to meet community expectations. In this regard, we consider it is important that social welfare concerns on which the Panel is deliberating are dealt with separately to market issues to ensure transparency and to avoid distorting market outcomes

Bell Bay Power Station

We note that the Panel has taken "major infrastructure development decisions" to encompass looking at the future of the Bell Bay Power Station (BBPS). Bell Bay Power Pty Ltd surrendered the generation licence for BBPS effective 18 December 2009, having ceased operation of the power station on 1 April 2009. The Australian Energy Market Operator finalised the de-registration of the two BBPS generating units on 14 November 2009. There are considerable costs involved in making Bell Bay physically work including fixing one unit

which suffered a major failure prior to the de-registration. However, even if it were to become operational, it would not be allowed to connect to the NEM as it has now forfeited the derogations which allowed it to run in the first place. Thus there would appear to be no point in any such evaluation of future use.

Governance

We note that, in the Statement of Approach, the Panel refers in numerous areas to governance frameworks. It is unclear from the Statement of Approach as to the Panel's intention in this regard. We have taken the references to be to the arrangements whereby the Government exercises control of the State-owned electricity businesses.

In reviewing the governance arrangements, Hydro Tasmania is concerned that there is a potential overlap with the current review being undertaken by the Department of Treasury and Finance of the conversion of Government Business Enterprises into State-owned Companies. We suggest the Treasury exercise should be informed by the Panel's recommendations but the Panel will need to align its approach to this issue with Treasury.

Gas

Hydro Tasmania concurs with the Panel's view that consideration of the gas sector should be limited to inter-fuel competition and the role of gas as a fuel source for electricity. We do believe however that the complexity of this task will demand considerable resource and effort.


Terms of Reference 8

In relation to Terms of Reference 8, we note that the Panel will consider whether further investigation is required by the Panel following the release of the Auditor General's Special Report 94: Election promise: five per cent price cap on electricity prices. We are unclear as to how the Panel sees the intent of Terms of Reference 8 and would recommend that the Panel provide advice on its understanding of the objective of this Terms of Reference.

In conclusion, Hydro Tasmania is supportive of the Panel's approach and as mentioned, is keen to assist the Panel throughout its deliberations. The management and staff of Hydro Tasmania are committed to assisting the Panel in addressing its Terms of Reference and will make themselves available to ensure a smooth and timely process.

If the Panel or its Secretariat would like to discuss any of the matters we have raised in this submission, please contact Rachel Steven on 6230 5471 or via email on rachel.steven@hydro.com.au.

Yours sincerely,

A handwritten signature in blue ink that reads "Roy Adair". The signature is written in a cursive style and is followed by a horizontal line.

Roy Adair
Chief Executive Officer