

D.R.Stringer

30 January 2012

Electricity Industry Panel – Secretariat  
GPO Box 123  
HOBART Tas 7001

via email: [contact@electricity.tas.gov.au](mailto:contact@electricity.tas.gov.au)

**Submission by D.R.Stringer on  
“An independent assessment of the Tasmanian Electricity Supply Industry”**

Dear Expert Panel,

Whilst I have only read the “Summary Report” and therefore apologize if any of the issues I raise here are addressed in the main report, I have a significant concern about the Panel’s key findings and recommendations.

Specifically, the Panel’s recommendations appear overly concerned on attempting to create a more competitive electricity market. This emphasis fails to allocate appropriate weight to the particular electricity supply issues of Tasmania (which the panel appears to be aware of as it includes several relevant quotes). This concern with competition appears inconsistent with the Panel’s terms of reference, and specifically terms of reference 7 (cost of living issue). Rather the Panel seems to have reached the (unstated) conclusion that competition is the only means of increasing efficiency (no matter the cost?).

The Panel has come up with some innovative (and probably expensive) means to attempt to artificially create a competitive market. However, the report appears to acknowledge the fact that the Tasmanian electricity market lends itself to a natural monopoly (small number of generators, small market).

I believe the Panel should reconsider their recommendations without the blinkers of “competition is king”.

The former HEC was split into the current 3 companies years ago on the premise of COAG commitments to economic reform (and claims of billions of dollars of economic benefits and the promise of additional Federal funds). However, there is no apparent benefit from having three organizations, the conservative Tasmanian electorate is unlikely to support privatisation, and there are immediate benefits in putting the three organizations back together as a Government monopoly.

Those benefits include:

- 1 CEO and associated administration and office costs instead of 3;
- the 3 current companies work cooperatively together to focus on overall efficiency instead of maximizing/minimizing transfer prices;

- the gas fired power station at Bell Bay is run by the same people that run the hydro assets to maximize efficiency;
- if there is an economic rent generated by the monopoly provider then it mainly flows to the people of Tasmania through either higher dividends or higher levels of employment of Tasmanians (with associated multiplier effects in the economy); and
- electricity pricing would still be subject to regulation as at present, although the task would be made simpler as the regulator need only be concerned with final prices to consumers.

On the point of price regulation, the electricity market in Australia remains highly regulated, even with so called "competitive markets". Thus a regional monopoly supplier can be just as easily (or more easily) regulated that a series of suppliers.

I therefore urge the Panel to reconsider its position in its final report, to more closely consider the unique circumstances of the Tasmanian electricity market. Any such consideration should put forward as a realistic option the reformation of a single State owned electricity company to generate, transmit and sell electricity. If that is too much of an ask for the economists on the panel then at least they should consider the additional costs their current preferred proposal would entail, the political reality that privatisation is unlikely, and the likely cost/benefit analysis.

Yours faithfully,



Darrel Stringer