

Electricity Supply Industry Expert Panel
GPO Box 123
Hobart Tasmania 7001
Contact@electricity.tas.gov.au

27 February 2012

Dear Sir/Madam

An Independent Assessment of the Tasmanian Electricity Supply Industry Draft Report

The Private Generators Group, whose members are listed on the side bar, represents businesses with substantial private investments in electricity generation assets in the National Electricity Market. The Group is engaged in activities related to electricity and gas markets, environment and work health and safety. The Group strongly supports competitive wholesale and retail electricity and gas markets in Australia.

Overall, the Expert Panel has completed a comprehensive review and has clarified a number of issues in the Tasmanian market. The main issues are:

- Major industrial consumers are not being subsidised or being cross-subsidised by other customers;
- Non-contestable customers are not paying for Basslink;
- Clarity around the transactions relating to Tamar Valley Power Station;
- Identification of the “lower dividends in exchange for concessions” arrangement between Aurora and the Government; and the
- Value of Basslink to Tasmanians in a dry year.

Low levels of Retail Competition are a Reflection on the Tasmanian Wholesale Market Arrangements

The Panel has correctly identified that the lack of choice of counterparties in the wholesale market creates additional risk for retailers. It is clear that some retailers have been able to manage this risk by entering into short term (1-3 year) contracts with customers and exercising the option to exit the market at the expiry of the customer contract (or using the threat of exit). Most retailers would not consider this a viable long-term strategy.

Such a strategy may well be viable in Tasmania when managing discrete large loads but not for a mass-market load where retailers need to commit to the market for an extended period of time. Therefore, the threat of exit is not a viable tool to manage ongoing negotiation with the available single counterparty and exit is not an option without significant brand damage and the requirement to find an alternative financially responsible market participant. Hence, limited choice of

Private Generators
Group:

AGL Energy

Alinta Energy

Energy Brix

International Power
GDF-Suez

InterGen

LYMMCo

NRG Gladstone

Origin Energy

TRUenergy

PO Box 5003
Alphington
Victoria 3078

counterparties in the long term increases business risks significantly for mass market retailers and is the key impediment to retail competition.

Preference for Market Based Solutions

We believe that it is genuine competitive tension between privately owned businesses that delivers economic efficiency and gives customers real choice. We favour market based outcomes over regulated outcomes and encourage the Tasmanian Government to replicate the reform paths that have been adopted in other NEM states to deliver genuine competition and customer choice.

While there is an expectation that organisations can enter markets and develop instruments that address market risks, the management of regulatory risks is a significantly different value proposition. In the worse case under a regulated regime, the transfer of the monopoly pricing power simply moves from Hydro Tasmania to the Regulator.

Improved Governance and Accountability

The Private Generators Group appreciates the focus by the Panel on improving governance and accountability for Government owned entities – as this improves transparency and reduces “sovereign risk” and/or moral hazard when the Government seeks to intervene in markets via its commercial entities in order to progress other policy objectives.

Retail Competition and Retail Price Deregulation

Although not specifically mentioned in the Draft Report, the Private Generators Group believes that competition in Tasmania will be enhanced by the introduction of full retail contestability, and eventually retail price deregulation. There is a significant risk that retailers may perceive that they will get “squeezed” between wholesale purchase costs and fixed regulated retail prices. This may act as a deterrent to potential retailers.

We suggest more effective competition will be delivered through the complementary measure of a breakup of the Tasmanian generation assets.

We also recommend the Panel make clear recommendations in relation to the existing Government owned retail assets of Aurora. Government owned retailers should not continue if an appropriate reform package is implemented.

Members of the Private Generators Group appreciate the opportunity to provide a submission to the Review Panel. If you have further queries, please contact Harry Schaap (03 9499 4249 or 0413 623 043, Harry.Schaap@tpg.com.au) in the first instance.

Yours sincerely



(Dr) Harry Schaap, for the Private Generators Group