

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

### **Tasmanian Independent Electricity Market Review**

Loy Yang Marketing and Management Company Pty.Ltd. (LYMMCo) welcomes the opportunity to provide the following submission on the Electricity Supply Industry Expert Panel's *An Independent Assessment of the Tasmanian Electricity Supply Industry – Draft Report*, released on 15 December 2012.

LYMMCo trades the largest privately-owned generator in the National Electricity Market (NEM). In total, LYMMCo trades in excess of 2,200 MW which is approximately one third of Victoria's electricity needs and more than 8% of the total generation for the south-east of Australia.

LYMMCo positively acknowledges the depth of the Panel's investigation into the structure, conduct and performance of the Tasmanian electricity supply industry.

In our previous submission to the Panel on the *Tasmanian Electricity Supply Industry Expert Panel Issues Paper* (sent 22 July 2011), we noted, amongst other issues, that:

- Hydro Tasmania's dominant control over the regional reference price – and of the Basslink inter-connector – ensures Hydro Tasmania is the price setter in nearly all circumstances;
- Basslink acts as a generator bidding into the Victorian market, with no competition behind it, and with a bidding advantage in the dispatch engine (when the northerly Basslink flows are bid at a negative price by the market network service provider – Hydro Tasmania); and
- entry into the Tasmanian market is restricted because of the market dominance of Hydro Tasmania and because of the difficulty in accessing inter regional revenue.

In relation to the issues raised by LYMMCo in its initial submission, the Panel concluded that the:

- current Tasmanian structural and regulatory arrangements are not economically or financially sustainable in the longer term; and
- that the Panel's preferred option for reform [to address the unsustainable structural and regulatory arrangements] is by creating competition in the trading of energy produced by Hydro Tasmania by establishing independent trading entities.

LYMMCo is disappointed that the Panel did use the opportunity available to it to explore our concerns regarding the negative bidding of Basslink by Hydro Tasmania and the impacts that this behaviour has on market outcomes – including on merit order dispatch. LYMMCo would appreciate the Panel clarifying why this matter was not addressed in the draft report.

In order to address the identified structural and regulatory issues, we support the introduction of competition in Tasmania via the establishment of independent trading entities

From LYMMCo's perspective, the other options identified by the Panel are burdensome (in the case of regulated auctions of capacity) and administratively complex (in the case of combining the Tasmanian and Victorian regions). Furthermore, combining the two regions would also disconnect Tasmanian prices from the Tasmanian supply/demand balance. This would likely distort Tasmanian customers demand preferences as they would be directly influenced by price outcomes in Victoria.

LYMMCo also acknowledges that the break up of Hydro Tasmania may also go some way to addressing its concerns regarding the manner in which Basslink can be bid into the NEM.

Finally, LYMMCo considers that any measures to protect low income and disadvantaged customers from higher electricity prices – whilst important – should not be a deterrent to fostering competition in the market.

If you have any questions in relation to this submission please me on (03) 9612 2236.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Simon Camroux', written in a cursive style.

Simon Camroux  
Manager Regulation and Market Development