

13 January 2011

Dear Sirs

I am writing to comment on the Expert Panel's Statement of Approach, in accordance with the invitation published on 18 December 2010.

#### SUGGESTION

I suggest that the Panel's Statement of Approach should explicitly state that the Panel will look into the arrangements whereby certain heavy industrial users of electricity are supplied with power at prices well below the retail price, and publish figures for the aggregate levels of subsidy.

#### BACKGROUND

In my view these contracts are important to any overall examination of the Tasmanian electricity industry, as the aggregate annual subsidy to these industrial users is (reportedly) a very large sum of money, and the amount of power concerned amounts to a significant proportion of total Tasmanian generation. While provision of the subsidy may be instrumental in persuading the industrial users to remain in Tasmania, so protecting some jobs and skills, I suggest that it would be desirable at least to consider whether the subsidy could be better used in other ways.

To illustrate the scale of the issue, an article in the Mercury on 19.9.2009 estimated the subsidy at \$250 million per year. On 16 December 2010 it was reported that the renewed contract to sell cheap power to Rio Tinto Alcan accounted for about a quarter of Tasmania's electricity usage, with suggestions that the pre-renewal price paid by Rio was a little over one tenth of the retail price.

These arrangements were set up when Tasmania had an excess of power generation over demand, so that it made sense to sell surplus power at marginal rates. The case for continuing this practice is now very much weaker, given:

- the growth in general electricity demand in Tasmania;
- longterm reduction in rainfall, affecting generation capacity; and
- the introduction of Basslink.

The subsidy could be calculated by comparing the actual price paid by the industrial users with an estimate of the price which the same electricity could realise through being sold via Basslink (or utilised to reduce the need for imports over Basslink). The calculation should of course take into account any premium for the renewable nature of the power. It would also be useful to calculate the annual subsidy for each job kept in being by these arrangements; there could be cheaper ways of creating and maintaining employment.

There has been very little informed discussion about these important industrial contracts, largely due to the decision by all concerned to treat them as "commercial in confidence". I suggest that such an approach is both unnecessary and, as a matter of public policy, undesirable. I would hope that making mention of the need to examine these contracts in the Statement of Approach will make it easier for the Expert Panel to overcome any reluctance to provide it with the relevant information. When the time comes to publish the Panel's report, I would hope that issues of confidentiality can be overcome by publishing figures about the contracts as aggregate numbers, rather than customer by customer.

Yours sincerely  
Robin Maguire