

Thursday, 4 January 2001

Mr Paul Bilk
Acting General Manager
Regulatory Affairs - Electricity
Australian Competition and Consumer Commission
PO Box 1199
DICKSON ACT 2602

Dear Mr Bilk

TASMANIA'S ENTRY INTO THE NATIONAL ELECTRICITY MARKET (NEM)

General comments

Origin Energy welcomes the opportunity to comment on the proposed Code changes to facilitate Tasmania's entry to the National Electricity Market (NEM).

It is acknowledged that the Australian Competition and Consumer Commission (ACCC) is currently concerned with Code changes and vesting contracts needed to facilitate Tasmanian entry and not the issue of whether Tasmania enters the NEM. However the Code changes must be looked at in the context of Tasmania's entry. The derogations inserted into the Code will impact on Tasmanian electricity consumers because it essentially opens up Tasmania to the NEM.

Origin has no specific comment on the derogations, which seem to be no more than a mechanism to allow Tasmania entry into the NEM. However Origin's biggest concerns about the Tasmanian electricity NEM arrangements are whether it can be constructed in such a way that

- Generation is competitive,
- Other retailers are free to enter, and
- There is freedom of electricity flow in both directions across Basslink.

Specific comments

The Tasmanian Government Information Paper “Meeting Tasmania’s Energy Needs for the 21st Century” outlines the framework and arrangements for Tasmania’s entry into the NEM. Origin’s comments on the key elements of Tasmania’s entry to the NEM are as follows.

- ***Basslink operating as a Market Network Service Provider (MNSP)***

Origin supports Basslink operating as a MNSP, but it must be remembered that an MNSP can bid in such a way to open or close the flow. The link can achieve the Basslink Service Agreement’s 97% availability and never be dispatched.

The Tasmanian Government wants Basslink bid at zero to keep it open and allow competitively priced Victorian generation to flow into Tasmania. However it is well within the terms of the Basslink Service Agreement for Hydro Tasmania (HT) to direct a non-zero bid. HT has the incentive to lift the Basslink bid (Victoria to Tasmania) to restrict Victorian power flow into Tasmania and lift the Tasmanian RRP beyond a competitive outcome.

The Tasmanian Government has stated that HT will sell down the right to receive Victoria/Tasmania Basslink inter-regional revenue, which lessens these concerns but it is not clear that the purchaser of the residue will have any ability to ensure Basslink is bid in a way to maximise the interregional settlements residue.

Origin has contemplated a plausible scenario where HT may bid negative on Basslink (Tasmania to Victoria) allowing power to flow to Victoria at prices lower than the Tasmanian Regional Reference Price (RRP). HT would receive for example \$60/MWh for generation and pay -\$20/MWh in interregional settlements thus receiving \$40/MWh for generation above its local load plus \$60/MWh for its local load net of contracts. It would be detrimental to non-tariff Tasmanian consumers because higher pool prices would be reflected in higher contract prices. There would also be a cross-subsidy from Tasmanian electricity customers to Victorian electricity customers. This could only occur because HT controls all Tasmanian generation and Basslink.

- ***Hydro Tasmania retained as a single hydro generation business in Government ownership***

Origin does not believe that Tasmanian electricity consumers will benefit from NEM entry if Tasmania becomes a region dominated by one monopoly

generator controlling all generation as well as Basslink. Entry into the Tasmanian electricity retail market by electricity retailers such as Origin by will be impossible without the backing of Hydro Tasmania (HT).

- ***The creation of additional generation competition through conversion of Bell Bay Power Station to gas and its separation from HT.***

The Tasmanian Government is setting up Bell Bay as a separate Government owned entity to improve competition in the Tasmanian generation market. Whether it is truly competitive will depend on whether Bell Bay is fully contracted to HT.

- ***Encouraging the development of competing wind power projects.***

The promotion of renewable projects by the Tasmanian Government is to be commended. Whether this will increase competition is not clear given HT is the logical owner of these facilities. Variable wind generation is very compatible with a hydro storage system.

- ***Retail contestability being phased-in over a four year period.***

60% of energy sales is consumed by five major industrial customers (MI customers) who will not become contestable unless new demand is created by these customers, their current long-term contracts expire, or both parties agree to terminate contracts. This gives a limited retail electricity market with a long phase-in period.

As previously stated any retailer trying to enter the market will require a hedge to protect their exposure and HT will be the sole supplier of Tasmanian hedges and inter-regional hedges. A retailer may not be able to competitively access Victorian generation via inter-regional hedges to supply Tasmanian customers and may also not have a competitive hedge price in Tasmania.

Alternatively a new retailer may choose to build gas-fired generation to bypass HT. While the contestable market is relatively small this may not be a viable option. Also the cost of future delivered gas in Tasmania is believed to be more expensive than Victorian gas. A gas-fired generator built in Victoria would possibly make more economic sense but it would not assist Tasmanian retail entry.

- **A vesting contract between Tasmania and Aurora Energy Pty Ltd to underpin energy sales for non-contestable customers**

Origin has no real concerns about vesting arrangements other than to state that vesting set at \$39.675 without volume risk, without force majeure and with flexing seems under market given the cost of fixed volume hedge in Victoria for Calender 2001 is about \$43/MWh with volume risk, with force majeure and without flexing. This should be viewed in the context of the Tasmanian Government's claim that the Tasmanian price will generally track the Victorian price.

If you have any questions regarding this submission or wish to discuss Origin's position in more detail please do not hesitate to call Keith Latty on (023) 9220 6482.

Regards

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