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September 21st 2001.

Draft Determination for Tasmanian Vesting Contract and Derogation.

Dear Michael,

Origin Energy welcomes the opportunity to comment on the Tasmanian vesting contract and derogation draft determination. Origin is a vertically integrated energy company with a major gas and electricity retail position throughout Australia. We are actively involved in the energy market in Tasmania with an LPG distribution and retail operation. As the electricity market deregulates we are seeking to provide value to the Tasmanian consumers. However we believe that the proposed market structure will hinder this desire.

Sub section 90(6) of the trade Practices act provides that the Commission shall grant authorisation only if it is satisfied in all circumstances that:

"The provision of the proposed contract, arrangement or conduct would result, or be likely to result in a benefit to the public...."

The proposed market structure should be of significant concern for the ACCC, as it will not create an environment of competition and thus any benefits for the end user.

Competition generally requires many buyers and sellers, a scenario that will be difficult to establish in Tasmania given the dominant incumbent position of both Hydro Tasmania and Aurora. Claims by some Tasmanian representatives that the construction of the Basslink inter-connector will

create competition are both misleading and shows a lack of understanding of risk management requirements.

As a result of the one retailer one generator structure and therefore the high financial risks that any non-incumbent retailer would face, it is clear that the initial vesting contracts, various derogations and the operation of the Basslink inter-connector under the terms of the Basslink Services Agreement achieve little in the way of providing competitive benefits to the end user.

Retail Competition

It is Origin's opinion that retail competition will not result from the proposed arrangements. Although the Commission has requested the acceleration of the contestability timetable and to reduce the volume of load covered under the vesting arrangements for the non-contestable load, this will do little to create competition.

Retail risk management often requires appropriate hedging contracts to support any retail contract. Without a 100% load following contract to manage both volume and seasonality risk it is unlikely that any mainland retailer will seek retail customers in Tasmania. Retailers often structure retail portfolios so as to manage risks, this will not be possible in Tasmania due to the slow contestability timetable and because the largest customers representing almost 30% of the market are not contestable for many years beyond the contestability timetable.

Operation Of Basslink

The decision by Hydro Tasmania to offer access to the southwards flows creates no more than a speculative trading product rather than a means by which retail competition can be fostered. Only legislated and codified operating guidelines as to how the link will be bid will ever provide the assurances required by market participants attempting to use the Basslink to compete in Tasmania. Such guidelines must dictate the bidding methodology of the link in both directions. To codify southward flow bidding protocols would be useless if this still allowed for negative bids in a northerly direction to offset any southward flows. It should be recognised that governments and management do change, thus only codified guidelines should be acceptable to the Commission.

While the Basslink Services Agreement is a commercial document, it is clear that its terms will without doubt impact on the operation of the link and the advent of competition in Tasmania, thus the Commission so as to make an informed decision must seek out the details of this agreement.

The Settlement Auction being proposed for the southward Basslink flows are different to all those that are currently run by NEMMCO as the Basslink ones would not be a single clearing price, also the bidding dynamics for northward flows are not consistent. Of greater significance is that these products will be non-firm and thus will have little value as a retail product.

The Commission should be aware that the current Basslink arrangements that have been made public would prevent any form of competition in the electricity markets in Tasmania.

Conclusion

Origin Energy is currently actively involved in the energy market in Tasmania and would welcome the opportunity to increase its presence by offering electricity products to the people of Tasmania. However the proposed market structure, operation of the Basslink and the contestability timetable make this a risky proposition. Origin Energy accepts market risk when all the factors are known and that risk can be valued. However the confidentiality of the BSA and the lack of any codified guarantees as to the operation of the Basslink make the risks of entering the electricity retail markets in Tasmania an unmanageable proposition.

We therefore request that the Commission does not authorise the proposed arrangement.

If you have any question regarding this submission please do not hesitate to contact the undersigned.

Yours sincerely

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