

GOANNA ENERGY CONSULTING – FEBRUARY 2012 NEWSLETTER

TASMANIAN ELECTRICITY PRICES CONTINUE TO RISE

As it turns out, the first half of 2011 appeared to mark the bottom of the forward contract market in Tasmania, with prices edging their way up in an erratic yet undeniable trend since this time. For us optimistic “Glass Half Full” types, the good news is that we remain a long way off the record high price levels reached in 2009, even including the fact that the contract pricing we are dealing with today includes the “Cost of Carbon”. Which leads onto our next story.

THE CARBON TAX AND MY ELECTRICITY COSTS FROM 1 JULY 2012

From 1 July 2012 “around 500 of the biggest polluters in Australia will be required to pay for their pollution under the carbon pricing mechanism.” Which includes Electricity generators, who will be “Liable businesses (&) will need to buy and surrender to the Government a permit for every tonne of pollution they produce.” “In the fixed price stage, that runs from 1 July 2012 to 30 June 2015, the carbon price will start at \$23 per tonne and rise by 2.5 per cent a year in real terms.”¹

The average Carbon Dioxide Equivalent emissions intensity (CDEI) of Australia’s National Electricity Market (NEM) is around 0.9 - 1.0, meaning a \$23/Tn Carbon Tax translates to around \$22/MWh or 2.2c/kWh. Whilst the average Intensity factor for the Tasmania jurisdiction over the past few months has been much less at around 0.2.²

On the current Tasmanian residential and small business electricity tariffs of 25c/kWh a National 2.2c/kWh Carbon cost translates to an almost 9% price rise, on top of other increases to the Tariff scheduled for 1 July 2012.

Tasmania is unique in that most electricity produced is “low carbon” Hydro generation. However, this energy is largely *contracted to the contestable business customer base*.³ Whilst the Aurora Energy Tamar Valley (AETV) Power plant is gas fired and expects to incur a \$14M Carbon Tax impact⁴ in 2012/13 with a carbon intensity of around 0.5. AETV is reportedly contracted to the non-contestable residential customer base.⁵ So the question is, from 1 July 2012, what will each of the Tasmanian customer classes have passed through in terms of the Carbon Tax? In the end, “it will come down to what intensity factor ultimately is decided”.⁶

¹ <http://www.cleanenergyfuture.gov.au/clean-energy-future/carbon-price/how-a-carbon-price-works/>

² <http://www.aemo.com.au/electricityops/cdei.html>

³ http://www.electricity.tas.gov.au/draft_report

⁴ <http://www.parliament.tas.gov.au/HansardHouse/isysquery/c5856e9c-ce9f-4a1f-8db5-57153172eb1a/1/doc/>

⁵ ESIRP Draft Report 2011 http://www.electricity.tas.gov.au/draft_report

⁶ <http://www.parliament.tas.gov.au/HansardHouse/isysquery/c5856e9c-ce9f-4a1f-8db5-57153172eb1a/1/doc/>

TASMANIAN ELECTRICITY INDUSTRY FUTURE - THE BIGGEST GAME IN TOWN

Way back in 1994 during privatisation of Victoria's electricity supply industry, to explain the forces at work during the carve-up, my boss used a metaphor which revolved around the notion of, "***a large pile of cash on the table***" with "***stakeholders seated around the table, lobbying hard for their share***".

18 years later are we watching another large energy game start to unfold, this time in Tasmania? On top of the table are the three State owned electricity businesses, Hydro Tasmania, Transend, Aurora Energy and their various offshoots. Seated around the table are the Government owners, politicians, electricity customers, industry bodies, energy company executives, employees, unions, plus a range of advisors and observers.

Whilst competitive tensions and postures are always at work among and between these stakeholders, the combination of the State's financial position combined with delivery of the Draft Electricity Supply Industry Expert Panel report⁷, mean these players can smell the winds of change blowing stronger by the day. The ESIRP Final Report is due for Release in late March and if you are not convinced of the significance of this, try reading the Hansard transcript from the GBE Scrutiny Committee Hearing into Aurora Energy, in which the "Panel" is referenced about 36 times!⁸

The ESI Review Panel has announced another round of Public hearings, which will be held in Launceston on 1st February (subject to interest) and confirmed for Hobart on Thursday 2nd February 2012, with written submissions to the Panel requested by 17th February 2012. For more information & registration visit

<http://www.electricity.tas.gov.au/>

ENERGY USERS ASSOCIATION – TASMANIAN ENERGY FORUM

The EUAA will be holding its annual Tasmanian Energy Forum at the Hotel Grand Chancellor in Hobart on Thursday 1st March. Mark your diaries now and follow Marc on Twitter at <http://twitter.com/MarcBWhite> to be notified when the program is published.

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⁷ ESIRP Draft Report 2011 http://www.electricity.tas.gov.au/draft_report

⁸ <http://www.parliament.tas.gov.au/HansardHouse/isysquery/c5856e9c-ce9f-4a1f-8db5-57153172eb1a/1/doc/>

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