

LARGE TASMANIAN ELECTRICITY USERS PARALYZED BY DETERIORATING CHOICES.

Most of Tasmania's 330 Tranche 3 Energy Users (sites greater than some \$80,000 pa) remain frustrated in their attempts to negotiate competitive electricity contracts, before their regulated Tariffs expire on 30 June this year. Since being notified of their "Contestable" Status in September 2007, it has appeared to many of these businesses that the contract prices (which make up over half of the average bill) have continued on an upward trajectory to a point now well and truly above their current Tariffs.

With Tasmanian contract electricity rates for the 2009/10 Financial year at record highs but the historical long term Tasmanian spot electricity market prices averaging around \$50/MWh (half that of the future contract rates currently on offer), many end users appear compelled to consider the high risk spot market or "Pool Pass Through" type products, such as the Deemed Fallback Contract which will apply to Tranche 3 Users who fail to execute a contract by 30 June 2009.

A note of caution, as the disclaimer reads "**Past performance gives no indication of future results**". If you thought the share market was volatile, January 2009 saw Tasmania, Victoria and South Australia provide some sobering reminders of just how violent gyrations in the electricity spot price can be. These recent events demonstrate how the National Electricity Market (NEM) has earned its reputation as "*the most volatile commodity market in the world*".

2pm on 29th January saw the Tasmania-Victoria Interconnector Basslink "trip out" halting Tasmania's export of electricity to Victoria as Temperatures at George Town reportedly breached the 35 Degree operating limit.¹ January 29th and 30th saw Tasmania experience extremely volatile Pool prices, gyrating between \$6,880/MWh (about 100 times the energy rate in a Tasmanian Tariff) at one settlement interval and plummeting to the floor of -\$1,000/MWh at other times, overall contributing to a "Load Weighted Pool Price of around \$80/MWh for the month of January.

On the 2nd of February Tasmania's Hydro Electric storages were reported at 27.9% and falling² and January's spot market volatility appeared to flow rapidly into the February market price for 2009/10 financial year contracts. This contract price spiked up well above its previous upward trajectory, to set new and unpleasant records at some 50% above the energy only cost contained within a current regulated Tariff.

¹ <http://www.wattclarity.com.au/Public/Article.aspx?aid=66>

² <http://www.hydro.com.au/storages/storage.pdf>

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Not only are most Tranche 3 users now facing significant electricity price increases for contracts commencing on 1 July 2009 but any of the original 65 Tranche 1 and 2 users (sites greater than \$400,000 pa) who opted for short term contracts way back in 2007 or 2008 are likely to find themselves re-contracting in a very challenging market.

It is likely that only a small percentage of the most active 330 Tranche 3 users have entered into contracts for supply commencement on 1 July 2009. So the remaining 250 business users appear to face an unenviable dilemma of either committing their businesses to significant electricity cost increases or taking on the Russian roulette type risks of the Spot market.

Only four months now remain for these users to issue tenders and negotiate contracts by 30 June, before their regulated "Safety Net" Tariffs expire and they are exposed to the Spot market anyway via the Deemed Fallback Contract.

Despite the significant price rises, it is encouraging to note that well prepared electricity tenders have yielded competitive outcomes. A number of Tranche 3 users have seen price differentials between competing Retailers in the order of several thousand dollars and more over an average two year contract.

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WHAT TRANCHE AM I IN?

Tranche (App. Sites)	Annual Consumption	Approximate Annual Spend	Date Contestable	End date of Grace Period
T1 (19)	>20GWh (Consume >60% total)	>\$2,000,000	1/7/2006	30/6/2007
T2 (46)	>4GWh	>\$400,000	1/7/2007	30/6/2008
T3 (330)	>750MWh	>\$80,000	1/7/2008	<u>30/6/2009</u>
T4 (1,375)	>150MWh	>\$25,000	1/7/2009	<u>30/6/2010</u>
T5 (261,481)	<150MWh Remainder	<\$25,000 & Residential	2010*	???

Source Aurora Energy Annual Report 2007/08.

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