

## **GOANNA ENERGY CONSULTING – JUNE 2009 NEWSLETTER**

What a difference a day makes! On Monday 4<sup>th</sup> May 2009 The Rudd Governments announcement deferring the Emissions Trading Scheme (ETS), caused an immediate impact on Tasmanian (and wider NEM) electricity prices. Drops of several dollars per MWh were recorded, mainly on Peak rates, for 2009/10, 10/11 and 11/12 financial year electricity contracts. This change seemed to confirm end user suspicions of a double whammy in previous proposals. Where users seeking longer term contracts felt little choice but to pay both a perceived risk premium for ETS, in the raw energy cost, and to acquiesce to contracts with triggers for full 100% Carbon price pass thru.

Of particular note was the fall in 2009/10 Peak rates across the NEM, as this period wasn't previously exposed to the ETS. One possible answer lies in the increasing role played by financial Intermediaries and speculative traders in the electricity market. Where these participants bring increased liquidity and transparency to the market, the position taking (and in some cases "unwinding") can also produce volatility from seemingly unrelated events.

By Tuesday 26<sup>th</sup> May '09, Tasmanian 2009/10 Peak rates had fallen to levels near the lows of the past 12 months and aligning near Victorian Peak rates. Several users moved quickly to secure these rates, whilst still others, yet to lock in, looked on, cast with uncertainty of what the future would bring.

The experience summed up in one market participants' comment, unreliably edited and extrapolated by us to read, "*What we saw in May is no different than what we have seen in the NEM over the past 15 years. Sudden seemingly inexplicable movements in price are common. Every week customers are faced with the dilemma of when to lock in, only to be held to account by stakeholders who inevitably will hold the benefit of hindsight*".

May '09 also saw a flurry of Tasmanian Wholesale counter-party activity, as the introduction of "Hydrological inflow risk sharing", worked its way into Energy Traders and Retail Pricing Managers list of volumetric weather related variables. The initial end user impact was a brief but disconcerting hiatus during the busiest contracting period of the year. The market change appeared to force retailers to pause and consider their own unique positions before returning to the market with a vengeance, in what we have seen as some of the most closely contested tenders to date, resulting in increased retail "churn" ratios.

Whilst end users inevitably bear the cost of low hydro inflows, they are arguably an "unnatural" owner of this risk. Leaving us with a new MBA case study on "strategic intent", with Basslink importing at or near capacity, a Natural Gas solution appears

logical to make up any supply shortfall. However this case study is more interested in examples of how competitive market dynamics can lead to ingenious value transfers.

May 2009 also saw the emergence of renewed speculation about the rise of the “Gen-tailer” (combined Generation and Retail businesses), a stance that appears consistent with trends in both Australia and overseas deregulated energy markets, as Total Shareholder Returns (TSR) and risk management imperatives, drive a range of commercial responses such as Vertical Integration.

Tasmanian Hydro storage levels finally rose in May '09 to their current level of 26.9%, as reported on 25<sup>th</sup> May 2009.<sup>1</sup> The Tasmanian Pool Price experienced some mildly volatile periods from 17<sup>th</sup> to 21<sup>st</sup> May with prices moving between negative \$165/MWh and positive \$265/MWh, below those \$300/MWh Caps. However, on Friday 29<sup>th</sup> May Tasmania's spot market reached \$1,788/MWh for one half hour trading interval. Whilst month to date (29<sup>th</sup>) Tasmanian Load Weighted Prices were averaging \$48.60/MWh.<sup>2</sup>

May 2009 saw many of the remaining Tranche 3 contestable sites enter into fixed price/fixed term contracts, for supply to commence on 1 July 2009. This means that the majority of Tranche 3 sites have now locked into contracts, with their Tasmanian “Retailer of Choice”.

Aurora Energy submitted its Retail Pricing Proposal to the Regulator on 18<sup>th</sup> May '09 for prices to apply from 1 July 2009 to 30 June 2010. Business tariffs are proposed to increase from 1 July '09, by between 7.2% and 15.1%. With the Regulator due to approve these new bundled tariffs by Mid June '09. The Regulator is also due to approve the underlying Network Tariffs for 2009/10 (known as Period 3). These monopoly “Use of System” tariffs or Haulage costs are itemized in contestable market invoices, and bundled into the Retail tariffs, with some energy component increases proposed of up to 21%.<sup>3</sup>

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Dated 31<sup>st</sup> May 2009

<sup>1</sup> <http://www.hydro.com.au/storages/storage.pdf>

<sup>2</sup> <http://www.nemmco.com.au>

<sup>3</sup> <http://www.economicregulator.tas.gov.au>