Hydro Tasmania
the renewable energy business

31 July 2009

Ms Naomi Bleeser
Committee Secretary
Senate Select Committee on Fuel and Energy
PO Box 6100
Parliament House
CANBERRA ACT 2600

Email: fuelenergy.sen@aph.gov.au

Dear Ms Bleeser

Re: Senate Select Committee on Fuel and Energy –TCCI Evidence

Thank you for the opportunity to provide this letter of clarification to the Senate Select Committee on Fuel and Energy inquiry into the challenges of ensuring secure, reliable and affordable fuel and energy supplies in an environmentally sustainable way.

In our recent discussions with the Fuel and Energy Secretariat and an examination of the Hansard record of the Committee's proceedings, it has been noted that a number of matters relevant to Hydro Tasmania were raised in the Tasmanian hearings of 9 July 2009 by the Tasmanian Chamber of Commerce and Industry (TCCI). We believe Hydro Tasmania's view on or clarification of these matters would be informative for the Committee and in the public interest.

We have attempted to summarise a number of the key elements discussed during the Tasmanian hearings and to provide our consideration against those elements as outlined in the attachment to this letter. Please note that Hydro Tasmania has also provided a separate and comprehensive submission to the inquiry.

Hydro Tasmania is planning to meet TCCI principals on Monday 3 August 2009 to discuss these and other issues they raised in evidence before your Committee about the Tasmanian electricity market and Hydro Tasmania's operations in it.

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We welcome the opportunity to provide the Senate Select Committee with further information about these complex energy market matters or any other issues about which it wishes to be informed. Should you have any queries or require further information, please contact Mr Kane Thornton, Senior Advisor Renewable Energy Policy (email: kane.thornton@hydro.com.au or telephone: 03 8628 9735)

Yours sincerely

Andrew Catchpole
General Manager
Communications & External Relations

TCCI Issue	Hydro Tasmania clarification

There is no risk management in Tasmania's energy supply, leading to supply shortfall and periodic blackouts.	• Hydro Tasmania conducts prudent water and risk management of all energy generation infrastructure. Fundamental to securing Tasmania's long term energy supply was the development of Basslink, which has been essential to protecting supply during ongoing drought conditions. This has ensured no customers were constrained off even when faced with recent low storage levels.
	• Blackouts where they have occurred have been due to storms or local issues and are not due to failures in electricity supply. Through a combination of on island generation and Basslink imports there is currently no supply shortage in Tasmania.
	• There have been no interruptions to supply due to supply incapacity, since 1967.
	• Reliability in the National Electricity Market (NEM) is expressed in terms of Un-Served Energy, (USE). The national USE target is the long-term average of 0.002% of demand lost through lack of generation capacity. In Tasmania this has been zero for the last few years, and therefore as low as any Australian state.
	• Diversification of Tasmania's energy supply also contributes to energy security. This is occurring through the following:
	    ○ The development of gas fired generation in northern Tasmania.
	    ○ Investigation to improve the efficiency of current generation assets and increase generation output.
	    ○ Development of new wind projects through Roarings 40s and other proponents.

Hydro Tasmania is a monopoly provider of base load energy in Tasmania.	• The Aurora Energy Tamar Valley (AETV) power station will be 'baseload' when commissioned. • Victorian generation can (and recently has) supplied baseload power through Basslink.
The CPRS as currently designed will disadvantage Tasmanian industry relative to other states.	• An emissions trading scheme (ETS) will impact electricity prices in all states and should not unduly disadvantage Tasmania. Tasmania has always competed with mainland states (and internationally) to attract industry and this will continue under an ETS. • An electricity price that includes the costs of carbon is essential to incentivise investment and deployment of zero and low emissions energy sources. Not including the price of carbon in Tasmanian energy would effectively impede further investment in renewable energy and also distort price signals that will otherwise provide incentive for energy efficiency and demand side responses. • An objective of an ETS includes improving the competitiveness of zero and low emission energy generation sources. This will change the commercial drivers, future commercial negotiations and market dynamics of both fossil fuel and renewable energy generators throughout each Australian jurisdiction.
The CPRS will disadvantage renewable energy and not incentivise additional energy development.	• Introducing a price on carbon and internalising the cost of carbon from fossil fuel generation will correct the environmental market failure that currently exists in the generation sector. This price of carbon will provide greater incentive for developing renewable energy. • It will take some time for the ETS to mature and reflect the full cost of carbon into the wholesale electricity market. Until then, the expanded Renewable Energy Target (RET) is essential to

	immediately realise investment and development of renewable energy both in Tasmania and throughout Australia.

There is no additional renewable energy development being undertaken in Tasmania.	• Hydro Tasmania has a portfolio of projects that will ensure additional renewable energy generation in Tasmania. This includes:
	    ○ upgrades and enhancements of existing hydro power generation (such as the Lake Margaret power station)
	    ○ development of new renewable energy projects such as Musselroe wind farm through Hydro Tasmania's joint venture in Roaring 40s.
	• These projects also assist in providing a more diverse and secure energy supply.
	• There are also other proponents pursuing additional renewable energy projects in Tasmania.
	• All of these projects are however dependent on a stable long term policy support, underpinned by the legislation of ETS and the expanded RET.

Tasmania is 95% hydro power.	In FY 08/09, hydropower provided 66% of Tasmania's energy supply, gas provided 7%, wind provided 4% and Basslink provided 23%.This breakdown is based on metering by Transend Networks Pty Ltd.
Basslink is driving higher electricity prices in Tasmania.	• Connection to the NEM through Basslink has created a competitive electricity market in Tasmania. • As part of the NEM, generators are able to sell excess generation into the spot market and/or supply contracts to the retail and wholesale markets. • Basslink provides both the opportunity to export renewable energy and to import at times of constrained supply. This contributes to balancing supply and demand risk for the State and maximises the value of Tasmania's hydro power assets. • Hydro Tasmania operates in a competitive market which drives dynamics in Tasmania as with elsewhere in the NEM. This puts upwards and downwards pressure on all participants throughout the NEM. • The supply from Basslink is from the NEM at competitive prices. • The result of reduced inflows has meant that net Basslink flows have been importing mainland electricity. With the commissioning of the AETV and significant renewable projects including Roaring 40s' Musselroe wind farm and hydro power enhancement projects, Hydro Tasmania expects to maintain and build dam levels in the short to medium term.