

National developments and Tasmanian issues

Information seminar for major and large
industrial customers:
Session IV, 20 August 2004



Welcome and introduction

Richard Sulikowski
Director, Energy Markets
Department of Treasury and Finance



Seminar objectives

- To provide information on:
 - National energy market policy processes
 - Interaction between NEM operations and end-users
 - Further explore customer options and opportunities in the energy market
 - Updates on retail competition and changes to the Tasmanian Electricity Code for NEM entry
- Agenda largely reflects your suggestions
 - We always welcome your input



Today's agenda

- Overview of national energy market reform program
- Retail competition update
- NEM entry Tasmanian Electricity Code changes
- Operating the electricity system and customer impacts
- Customer involvement in the market



Basslink Status

- First cable laying campaign completed June 2004
- Civil works on converter stations underway
- Overhead transmission line clearing progressing
- Basslink expected to be in service November 2005



Gas Status

■ Distribution

- Stage 1 of distribution network to be completed by Powerco by January 2005
- Stage 2A to commence by February 2005 and be completed by April 2007
- Powerco and Aurora Energy have been granted licences to sell gas



Wind Power Status

- 65MW Hydro Tasmania Woolnorth wind farm (stages 1 and 2) in service
 - Further developments proposed for Woolnorth Stage 3 (75MW) and for Musselroe (120MW)
- Impact of Commonwealth's MRET policy in White Paper
 - No material impact on Hydro Tasmania in short to medium term (i.e. next 3-5 years)
 - Existing and planned wind farms will still be viable
 - Further developments after 2009 remain in doubt



NEM Entry Arrangements

- NEM implementation on track with strong NEMMCO interface
 - 121 preconditions in MOU with NEMMCO
- Separation of Bell Bay Power from Hydro Tasmania
- Alignment of the TEC with the NEC
- NEM entry in May 2005
- Consultation on retail competition regulations



Key Timelines

- Nov 2004: Power system security transition commences
- 29 May 2005: NEM Entry
- 29 Nov 2005: Basslink in commercial service
- 1 July 2006: Retail contestability commences (first tranche)



National energy market reform program

Drew Clarke

Head of Division, Energy and Environment
Department of Industry, Tourism and Resources



Retail competition update

Sue Morrison
Assistant Director
Energy Markets Branch



Overview

- The aim of this briefing is to
 - Provide an update on the consultation process
 - Give feedback on submissions
 - Outline further steps



Retail Competition Benefits - recap

- The aim of introducing competition is to encourage:
 - freedom to negotiate supply arrangements with the retailer of your choice;
 - price competition between generators and between retailers;
 - better customer services;
 - a wider variety of more innovative energy services; and
 - ability to enter into a single supply contract covering contestable sites throughout the NEM.



Customer Contestability Timetable

Date	Power Consumption (GWh pa)	No. of Installations in Tranche
1 July 2006	>20	19
1 July 2007	>4	41
1 July 2008	>0.75	293
1 July 2009	>0.15	1233
1 July 2010	<0.15	244 000

Indicative Customer

July 2006	electricity bills of \$1 million + per annum – mineral processors, heavy manufacturing plant.
July 2007	electricity bills of \$250,000 + per annum – food processing plant, multi storey office complexes
July 2008	electricity bills of \$75,000 + per annum – supermarket, engineering workshop



Consultation

- Information Paper — released in April
- Business forums — in Launceston and Hobart in May
- TCCI briefing — June



Specific questions on information paper

- Views on Customer/Retailer/Distributor models
 - Triangular model
 - Linear model
- Retailers to offer Standard Terms Contracts approved by Regulator
- Deemed Fallback Contract
 - Which retailer?
 - Pricing structure



Current Thinking

- Linear v Triangular Model
 - No model mandated for larger customers
 - NB Transmission customers still need to contract with TNSP
- Requirement to offer Standard Terms contracts
 - Only to smaller customers
- Deemed Fallback Contracts
 - With last retailer to have supplied customer
 - Pass through for larger customers



Other Issues Raised

- Aggregation
 - Customer interest in wider opportunity for aggregation across geographically diverse sites
- Additional Load
 - Can customers contract with other retailers for additional loads?
- Deemed Fallback Contract and Customer Protection



Aggregation

- Current thinking — no further extension of approach
 - Need for an orderly transition
 - Not too many customers becoming contestable in early stages
 - Incumbent retailer has predictable load for remaining non-contestable customers
 - Timetable, including tranches, approved by the ACCC as being in public benefit.
- Customers can still negotiate with Aurora for a contract that suits their needs



Additional Loads

- Current thinking — clarification of options
 - Once a customer is contestable at a site, additional loads at that site are part of the customer's contestable load
 - If additional load is on a separate meter, can have a separate retailer for each meter
- One meter, one NMI, one recognised connection point for NEMMCO
 - Customers can have off market arrangements.



Deemed Fallback Contract

- Covers situation where contractual relationship has terminated/expired, but electricity has not yet been disconnected
- Not intended primarily as a customer protection measure (should not be confused with a standard terms contract)
- Will be of short duration
- Pass through of spot price for larger customers
- Different arrangements will be developed for smaller customers



Further Consultation

- Response to submissions — September
- Draft Regulations — October
- Retail Contestability Regulations finalised — December 2004



Negotiating a Retail Electricity Contract For Large Energy Users

Mark Searle

Principal Consultant

Key Energy & Resources

Marks@thekeygroup.com.au (03) 9885
2633



Key Energy & Resources

- Energy Consultants
 - Energy Purchase
 - Energy Management
 - Greenhouse

- Broad Client Base
 - Across Australia
 - Government, Semi- Government and Private Sector



Agenda

- ❑ Background
- ❑ Consumer Options
- ❑ Contestable Electricity Accounts
- ❑ Strategies for Negotiating Best Value Outcomes
- ❑ The Negotiation Process



Background

The Deregulated Electricity Market



Deregulation

- Separate sale of energy from delivery
 - Retailers sell energy
 - Distributors (poles and wires) distribute energy
- Objectives
 - Introduce Choice
 - Stimulate competition
 - Increase efficiency
- Status
 - Jury is still out
 - Savings in Melbourne, Sydney and Brisbane
 - Problems in SA and FNQ



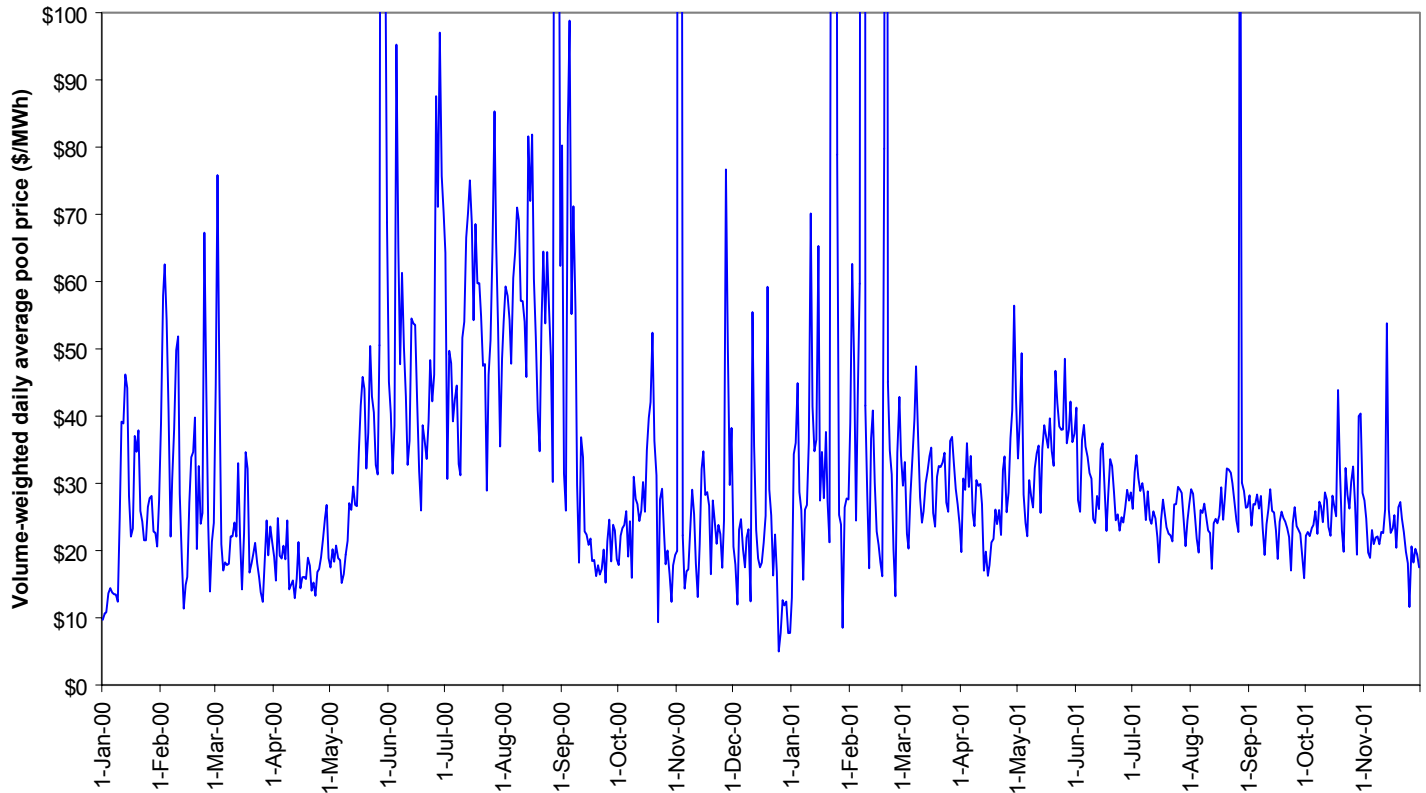
Deregulation

- HEC separated into competing units plus monopoly Transmission and Distribution providers
- Competition generators bid for the right to supply electricity
 - Bids accepted in order of 'least cost'
 - Half hourly pool price
- Monopoly Transmission and Distribution providers deliver electricity for regulated prices
- Competing retailers bid for your business
- Retailers manage the price risk to deliver price certainty to consumers



Deregulation- Pool Price

Victorian Average Daily Electricity Pool Prices
(1 January 2000 to 30 November 2001)



Deregulation- Before & After

■ Before: Franchise Customer

- Franchise tariff to local franchise supplier
- Common across Victoria

■ After: Contestable Customer

- Regulated Network Use of System (NUoS) fees to Local Network Service Provider (LNSP) or Distribution Business (DB).
 - Location Dependent
- Market Participation fees
- Metering Fees
- Retail Rates
 - Negotiated or 'Pool'
 - Adjusted for location dependent loss factors



Consumer Options

Retail Contracts Vs Pool Exposure



Two Options

■ Standard Retail Contract

- Minimum Risk
- Cost certainty
- Minimum management overheads

■ Pool Exposure

- Significant risk if unhedged
- Unknown costs
 - Potential Savings
- Management overheads
 - Load shaping & derivatives
 - Simpler for known load shapes



Pool Exposure

■ Pool is very fickle

- Victorian VWA last 12 months = \$27.78/MW
- Max price past 12 months = \$3,240.94/MW

■ Upper limit (VoLL) is \$10,000/MWh

- One hour p VoLL will increase average price by \$1.14/MWh

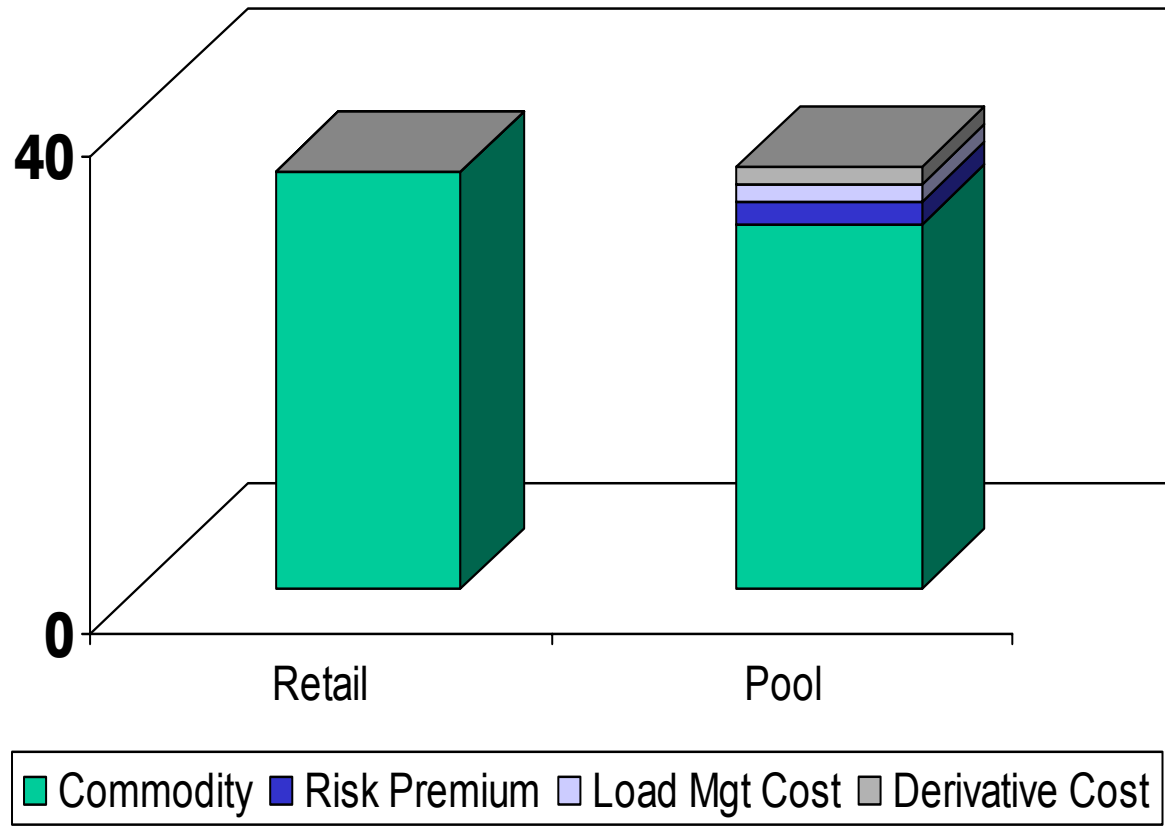
■ Pool price next year?

- Put your bets on the table!
- Risks are managed by electricity traders
 - Cocktail of hedges and diversity



Compare ??

Standard Retail Contract compared with Pool Exposure.



Retail Contract

- Price

- Price Path

- Contract Terms

- Risk

- Value Adding

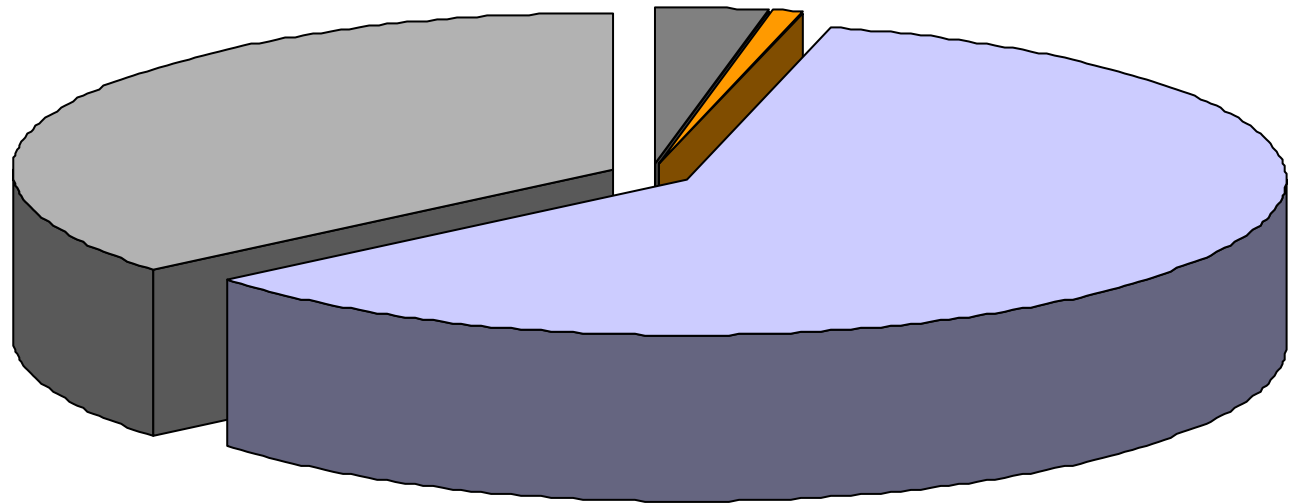


Contestable Electricity Accounts

The Key to your costs



Contestable Electricity Accounts



■ Market Fees ■ Metering ■ Retail ■ NUoS

Market Fees

- Paid to Market Administrator
- Include
 - NEMMCO Regulated Charge
 - Ancillary Services Charge
 - Expect about \$0.45/MWh pool fees plus \$0.50/MWh for ancillary services



Retail

- Negotiable
- Contestable
- Some Interesting Marketing Strategies
 - Confusopoly
 - Stickiness



Metering

- Half hourly data
 - Consumption
 - Voltage, kVA, Power Factor, Power Quality?
- Remote Reading Capability
- \$800 to \$1,200 per annum



Network Use of System (NUoS)

- Transmission Use of System + Distribution Use of System
 - TUoS + DUoS
- Several Components
 - Capacity, Volume and Standing
- Regulated
 - Choice of tariffs
 - Smaller users only
 - Voltage and location dependent



Negotiating Strategies

For Best Value Outcomes



Negotiation- Best Value

■ Strategies for 'Best Value' outcome

- Cost
- Risk
- Commercial terms
- Value Adding Services

■ Will mean different things to different people



Price

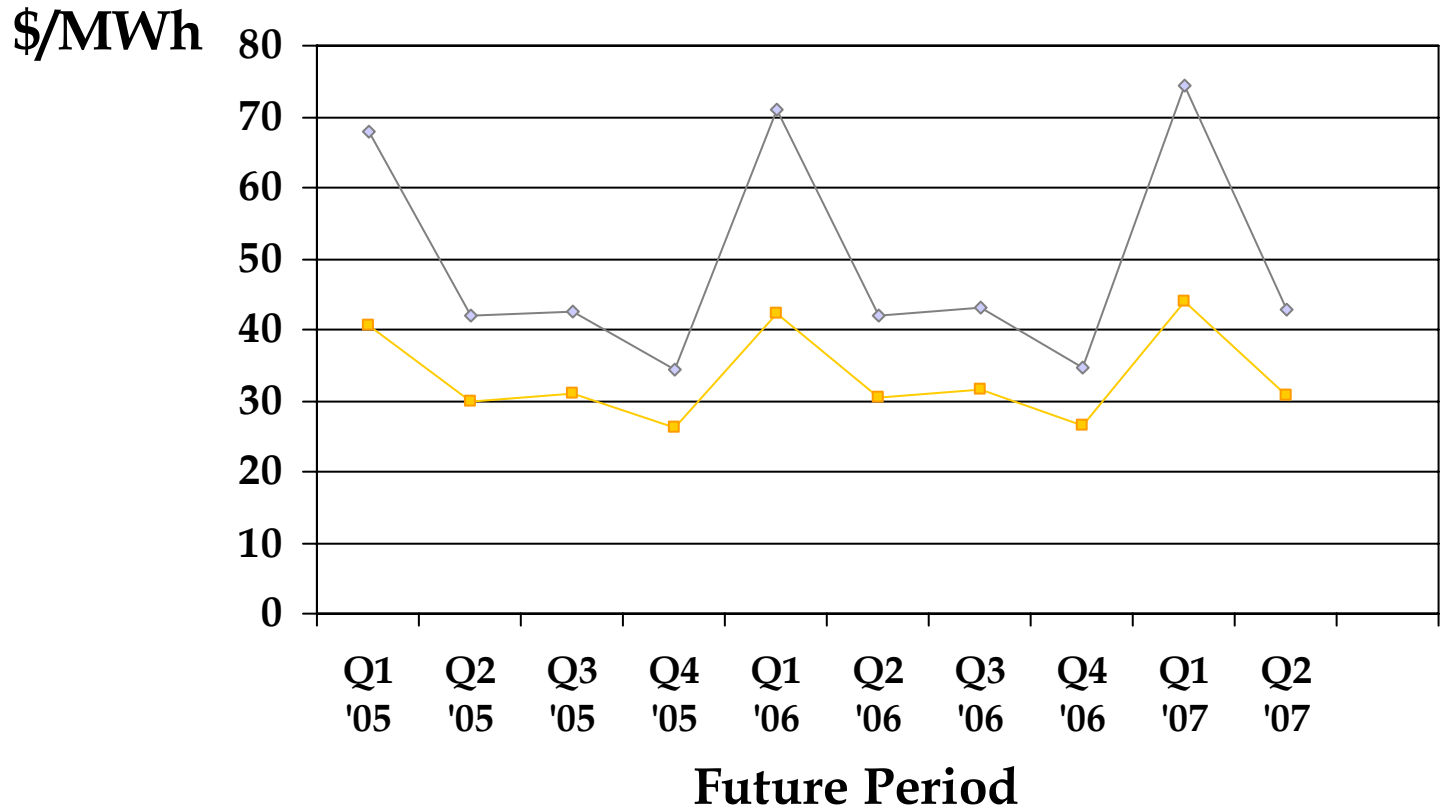
- Compare price path with AFMA curve
 - Same slope?
- Escalation
 - Why is it there?
 - Is it clear?
- Evergreen
 - Roll over



■ Meet-the-Market

Forward Curve

Future Price Curve- Victoria



—◆— Peak Load —■— Flat Rate



Risk

- Force Majeure

- Volume Variation

- Take or Pay
- Upper limit


- Transfer In

- And transfer out




Force Majeure

- Generator Force Majeure
- Transmission Force Majeure
- Industrial Relations Force Majeure

- Regardless
 - Leads to high prices
 - Are risks understood?
 - Are 



Volume Variation (Retail)

- Annual or Monthly
 - By tariff band
 - Based on MD
- How are they being measured and reported?
- How are they being charged?
 - Pool based?
- Notice 



Transfer

- Who will arrange process?
- Metering
- Exit Strategy
- Risk of "default"
 - la [REDACTED]



Dispute Resolution

- Efficiently resolve dispute
 - Avoid undue cost
 - Avoid undue 'ill feeling'

- 'Ring fence' the dispute

- Obligation to negotiate
 - Not disconnect
- Lawyers, arbitration or mediation
 - Ombudsman?



Contract .. The Quandary

■ Their Contract

- Strong on Energy Law
- Favoured by 'retailers'
 - Better prices, stronger retailer interest?
- How will it deal with your interests?

■ Your contract

- Cost to draft
 - Compliance with energy law
- Cost to negotiate with Retailers
 - Long and windy path
- Impact on liquidity



Solution – Retailer Contract

- Check the contracts
 - Understand strength and weaknesses

- Watch out for 'Mergers' clause
 - Whole of Agreement

- Develop Schedules to protect your interests
 - These schedules are available
 - About 20 special clauses to protect your interests



The Negotiation Process

A Few Simple Steps



Step 1- What Do I Need To Know?

- How much electricity?
- What value adding services
 - What is of value to me.
- FLEXIBILITY!!!!
 - Opportunity for Win-Win.



How Much Electricity Do I Want?

■ Peak

- Typically 7.00am to 11.00pm Monday to Friday

■ Off-Peak

- All other times

■ Demand

- Max. 15 minute demand

■ Load Profile

■ More information

- Shoulder
- Seasonal variation etc.



Value Adding Services- Examples

- Quality of supply.
- Load profiles.
- Energy management.
- Predefined billing periods.
 - Synchronise with your accounting periods.
- Flexibility with demand charges.
- Benchmarking.
- Payment terms.
- Consolidated accounts.
 - Several sites.
- Account management.
- Emergency 24 hour contact.
- Assistance with supply upgrades etc.
- Contract conditions.
 - Negotiable.



Flexibility

- Load shifting
 - Peak to Off-Peak
- Demand Control
 - Reduce your Max. Demand
- Curtailability
 - During periods of high pool price. (High SMP- System Marginal Price)



What Type Of Deal?

- Firm price
- Exposure to Pool
- Length of supply contract
- Future cost escalation



Step 2- Request For Quotations

- Clearly define your needs
- Highlight value adding services that you want
- Identify all retailers that you wish to include
 - About 10 retailers across the NEM
 - Tasmanian retailers ?
- Confidentiality



Request For Quotations

- Background
 - Who are you?
- Site(s) details
 - Addresses, account, current supplier
- Type of contract
 - Firm, exposure to pool, flexibility etc
- Value adding services
- Historical billing information and load profile
- Standard load scenarios
 - Compare apples with apples!



Step 3- Evaluation

- Are they all quoting to the same load?
- What are they doing with NUoS (Network Use of System) and Pool charges?
- Are they giving you the value adding services that you want?
- How do the costs compare?
- Does the retailer understand my business?
 - Do I feel comfortable with the retailer?



Narrow it down!

- Usually narrow it down to two or three retailers
- Do you want a 'Dutch auction'?
 - If they didn't provide a good price at first...
- Focus on the key issues
 - Not just the price



Step 4- The Decision

- Meet the retailers of interest
- Can they answer your questions?
- Do they have the expertise to deliver the value adding services?
- Does their account manager have the ability to make a real contribution?
- Do you like/ trust them?



Further Gains

- Are further gains possible?

- How can they be made?
 - 'Screw' retailer on price
 - Margins are low
 - 'Screw' retailer on value adding services
 - OR
 - Work together to identify areas of further gain



Remember!!

- There will be winners and losers.
- Winners
 - Well prepared
 - Get in quick
- Losers
 - Not prepared
 - 'Hope it will go away'



Conclusion

- Range of options
 - Retail contracts are generally preferred
- Multiple Retailers will bid for your business
 - Utilise the competition
- Not all retailers are the same
 - Different service levels, different costs and different view of risk
- Second Tier retailers can be viable



Questions and Discussion

Mark Searle

(03) 9885 2633

Marks@thekeygroup.com.au



NEM entry changes to Tasmanian Electricity Code

Craig Henderson
Director

Office of the Tasmanian Energy Regulator



Introduction to the NEM

Chris Deague

Head of System Operations Planning and Performance
National Electricity Market Management Company

