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Welcome

I am pleased to introduce the first issue of *NEM Notes*. The newsletter will be published on a regular basis to inform interested parties of:

- key developments in the Tasmanian region of the National Electricity Market (NEM); and
- progress with the implementation of electricity retail competition.

A significant work program remains in front of the Energy Markets Branch of Treasury as well as the electricity businesses to ensure that Tasmania becomes a fully participating interconnected region of the NEM via Basslink.

I look forward to the challenging tasks ahead and continued interactions with interested stakeholders in the Government's electricity reform agenda.

Richard Sulikowski
Director
Energy Markets Branch

NEM Entry

Tasmania became a participating jurisdiction in the National Electricity Market (NEM) on 29 May 2005.

This was the culmination of a five year project by Treasury, the Energy Regulator and the three State-owned electricity businesses (Hydro Tasmania, Aurora Energy and Transend Networks) to establish the necessary legislative, regulatory, market structure and technical arrangements required for participation in the NEM.



Joining the NEM and connection to the mainland by Basslink will benefit Tasmania by:

- providing certainty of electricity supply giving investor confidence, thereby creating an environment conducive to future jobs growth;
- helping to drought proof Tasmania's electricity system by allowing the purchase of energy from interstate;
- allowing the export of energy to the mainland at times of high mainland prices;
- stimulating business growth in Tasmania;
- introducing competition and alternative power supplies; and
- encouraging full development of our renewable energy resources.

Tasmania's NEM entry was managed by Memoranda of Understanding between NEMMCO and Tasmania and between Tasmania and the three electricity businesses, and required the completion of 121 Preconditions to establish Tasmania's readiness to enter the market.

NEM Entry *cont.*

While the NEM regulatory arrangements now apply in Tasmania, physical flows of energy between Tasmania and Victoria will not commence until the commissioning of the Basslink interconnector.

The period between NEM entry and Basslink will allow the electricity businesses time to test systems and be better prepared for operating in an interconnected market environment.

For further information on Tasmania's entry to the NEM please contact Dale Hickman on telephone (03) 6233 5139 or email: dale.hickman@treasury.tas.gov.au

Basslink Timetable

The final stage in Tasmania becoming a fully participating interconnected region in the NEM will be the commissioning and bringing into commercial service of the Basslink interconnector. While this was originally scheduled for 29 November 2005, damage to six of the converter transformers has resulted in a delay until the end of April 2006.

While the end of April 2006 still remains the realistic expected date for completion of commissioning, Basslink Pty Ltd has indicated that it is possible that commissioning tests could start as early as late December 2005 if the remainder of the manufacturing schedule, the freighting arrangements and the installation of the transformers on the sites all go particularly well.

Apart from the delays with the transformers, the remaining aspects of the project remain on track.

The third and final section of the undersea cable is currently being laid. The final part of the cable laying operation will be the Tasmanian shore crossing where the cable ends will be brought on shore through the surf zone by a combination of divers and small boats. The cable bundles will be then laid in a trench in the beach and led up through a directionally drilled conduit that

transects the beach dunes to a jointing pit where the cables will be jointed to the land cables.

It is currently expected that the completion of the cable laying campaign, including burial of the cable will be achieved by 20 August 2005.

The Basslink project is complex and involves activities by a number of entities including Basslink Pty Ltd and its contractors Hydro Tasmania, Transend Networks, NEMMCO, Vencorp and others. As a result, NEMMCO and the Tasmanian jurisdiction have established a coordination group to ensure that all involved entities coordinate their collective efforts towards ensuring the project is delivered in accordance with the requirements of both NEMMCO and Tasmania.

For further information on Basslink please contact Dale Hickman on (03) 6233 5139 or email: dale.hickman@treasury.tas.gov.au



Contributions to NEM Notes on any subject relating to electricity reform in Tasmania can be forwarded via email to chris.warr@treasury.tas.gov.au

National Reforms

A range of reforms for the national energy market have been underway since the release of the Parer report in December 2002.

On Friday 1 July 2005, a significant milestone was reached with the commencement of changes to the National Electricity Law (NEL). These changes include the establishment of the Australian Energy Regulator (AER) and the Australian Energy Market Commission (AEMC).

Under the new arrangements, the AER is the statutory body responsible for economic regulation and rule enforcement. Mr Steve Edwell has been appointed as the full time Member and inaugural Chair of the AER.

National Reforms *cont.*

Mr Edward Willett and Mr Geoffrey Swier have been appointed as full-time and part-time Members respectively. The AER website is www.aer.gov.au

The AEMC will have responsibility for rule-making and market development. Dr John Tamblyn has been appointed as a full-time Commissioner and inaugural chairperson of the AEMC. Ms Liza Carver and Mr Ian Woodward have been appointed as part-time commissioners.

Another significant change is that the National Electricity Code no longer applies. Instead, the new National Electricity Rules govern operations. Unlike the Code, the Rules have a legislative basis, and because of this have the force of law. The Rules commenced on 1 July 2005.

Copies of the new Rules can be found at www.aemc.gov.au

The consolidation of functions in one national regime is intended to replace some of the diverse arrangements that previously applied. This will reduce compliance costs for business, barriers to entry and encourage competitive outcomes.

The reform process at a national level is still proceeding, and periodic bulletins providing an update on progress can be found at www.mce.gov.au.

For further information on national reform issues please contact Sue Morrison on (03) 6233 2431 or email: sue.morrison@treasury.tas.gov.au

Seen recently on a transmission tower:

DANGER!
TO TOUCH THESE WIRES
WILL RESULT IN INSTANT
DEATH. ANYONE FOUND
DOING SO WILL BE
SEVERELY PROSECUTED

Upcoming MI Information Seminar

The sixth Information Seminar for major and large industrial consumers of electricity in Tasmania will be held on Friday 14 October 2005 at the Hobart Function Centre.

A range of topics will be covered at the Seminar, including: Tasmania's participation in the NEM; an update on Basslink; national energy reform developments; and retail competition.

As with the past two Seminars, an "external" presenter will form part of the day's agenda covering aspects of the NEM from a customer perspective.



A copy of the Seminar agenda will be emailed to interested parties as soon as it is finalised.

For further enquiries to Chris Warr at the Energy Markets Branch on (03) 6233 3044 or by email: chris.warr@treasury.tas.gov.au

Electricity Prices in the NEM

On 29 May 2005, Tasmania joined the National Electricity Market (NEM). Since then the price for electricity in Tasmania has been set via Hydro Tasmania offering its generation to the market operator (NEMMCO) who then dispatches appropriate generation to meet demand.

The electricity price for June in Tasmania averaged \$79/MWh, compared with \$25/MWh on the mainland.

Electricity Prices in the NEM *cont.*

The current contractual arrangements between the Tasmanian energy businesses in the transition period since NEM entry ensures that there will be no impact on customers of fluctuations in prices. In the longer term, electricity prices are expected broadly to track those in Victoria.

The table below indicates the average price for June since 2000 compared with the June 2005 price.

Region	June Average	June 2005	Deviation
Qld	\$41.16	\$21.71	▼ 47%
NSW	\$41.32	\$26.35	▼ 36%
Vic	\$36.61	\$23.54	▼ 36%
SA	\$39.53	\$27.95	▼ 29%
TAS	N/A	\$78.63	-

Electricity consumption on the mainland for the 2004-05 financial year increased by over five per cent. New South Wales recorded the highest consumption growth with an increase with an increase of 14 per cent to 6 633 GWh. June 2005 also brought new maximum winter demands set in each region of the NEM (except South Australia). Tasmania set a new record demand on Monday 27 June with an average of 1 718 MW (excluding any wind generation).

For further information on the NEM and electricity prices visit www.nemco.com.au or contact Michael Statham on (03) 6233 3216 or email michael.statham@treasury.tas.gov.au

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 To subscribe or unsubscribe from *NEM Notes* contact Chris Warr at the Department of Treasury and Finance on (03) 6233 3044 or e-mail chris.warr@treasury.tas.gov.au.

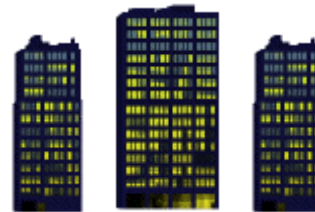
Retail Competition

As part of its arrangements to enter the National Electricity Market, the Government has given a commitment to introduce contestability within the Tasmanian electricity retail sector.

Contestability means the removal of the exclusive franchise that Aurora currently holds, and allowing new electricity retailers to compete with Aurora for customers, giving Tasmanians a choice of electricity providers. This choice is already available to customers in Victoria, New South Wales and South Australia, and for larger customers in Queensland.

In a manner similar to that which occurred in other NEM jurisdictions, the introduction of retail contestability in Tasmania will be phased in to ensure a smooth transition to a competitive retail market.

Retail contestability will commence in July 2006 - almost 12 months after the State has joined the NEM. Contestability will initially be introduced for larger customers and phased-in for other customers over a four year period.



The State has reserved a final decision on whether contestability should be extended to the final tranche of customers (households and small businesses) until an assessment is made of the costs and benefits of extending competition to this customer class.



TASMANIAN RETAIL CONTESTABILITY TIMETABLE SUMMARY

Date	Power Consumption (GWh/yr)	Approx no of eligible installations as at 30/06/2003
1 July 2006	Above 20 GWh/yr	19
1 July 2007	Above 4 GWh/yr	41
1 July 2008	Above 0.75 GWh/yr	293
1 July 2009	Above 0.15 GWh/yr	1 233
1 July 2010	Under 0.15 GWh/yr	244 000

The *Electricity Supply Industry (Contestable Customer) Regulations 2005* will come into effect on 3 August 2005 and prescribe the manner in which the principles agreed upon in relation to retail competition will apply in the context of the Tasmanian framework. Specifically the regulations prescribe the determination of contestable customers, retailer of last resort arrangements and fallback contractual arrangements.

Further information on the retail competition in the Tasmanian electricity supply industry in Tasmania visit www.treasury.tas.gov.au and click on the *Energy Markets* tab.

Useful Links

The following websites provide useful information in relation to energy in Tasmania

www.treasury.tas.gov.au

www.nemmco.com.au

www.basslink.com.au

www.auroraenergy.com.au

www.hydro.com.au

www.transend.com.au

www.dier.tas.gov.au

www.energyregulator.tas.gov.au

www.energyombudsman.tas.gov.au

www.aer.gov.au

www.aemc.gov.au

www.mce.gov.au

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