

ELECTRICITY SUPPLY INDUSTRY AMENDMENT BILL 2010

SECOND READING SPEECH

Mr Speaker

Division 3 of the *Electricity Supply Industry Act 1995*, includes a number of special provisions relating to the bidding of Basslink into the National Electricity Market by Hydro Tasmania.

The way Basslink is bid, which operates very much as if it were a generator, influences the direction of electricity flows across Basslink and the spot market prices, especially in Tasmania.

The provisions were established as part of Tasmania's arrangements to enter the National Electricity Market.

They were taken into account by the Australian Competition and Consumer Commission, which considered the provisions to be significant when it examined Tasmania's market arrangements.

This Division allows the Minister responsible for this part of the Act, currently the Treasurer, to establish, by way of a Ministerial Notice, principles to be followed by Hydro Tasmania in the bidding of Basslink and the making available of revenues from the transfer of electricity between Tasmania and Victoria through Basslink.

The Division also requires Hydro Tasmania to provide a compliance plan to the Minister in each year that a Ministerial Notice is in force.

Mr Speaker, these provisions are designed to promote opportunities for more competitive outcomes in the Tasmanian electricity market and prevent unnecessarily high spot market prices in Tasmania.

Without the provisions, Hydro Tasmania would have an unrestricted ability to control inter-regional trading between Tasmania and the rest of the National Electricity Market, while also being able to bid in its own generation plant and Basslink in a way that could lead to higher spot market prices in Tasmania.

The principal restriction currently in place is to prohibit Hydro Tasmania from making negative bids for Basslink, except in exceptional circumstances, and from making positive bids for Basslink for southward flows.

Mr Speaker, this Division is scheduled to expire on 31 December 2010 as it was expected at the time of market design that competitive market arrangements, including those involving Basslink, would be in place by that time.

Mr Speaker, the level of competition in the electricity market in Tasmania is not as strong as was expected when the Division was inserted into the Act.

In particular, Hydro Tasmania retains a significant level of market power and continues to have control over the bidding of Basslink. Retail competition has also not been as strong as anticipated.

It is therefore not appropriate to remove the restrictions on Hydro Tasmania's bidding of Basslink.

Parliament has very recently approved the legislation to establish the Expert Panel Review of the Tasmanian electricity supply industry.

This panel will examine the current regulatory framework as part of the review, which is expected to include the wholesale electricity regulatory arrangements, including inter-regional trading opportunities.

The review is scheduled to be completed by August 2011. It would therefore be premature to allow Division 3 of the Act to expire in December 2010, as set out in section 37A of the Act, before the completion of the review.

The *Electricity Supply Industry Amendment Bill 2010* contains only one substantive clause, which repeals section 37A of the Act.

This Bill therefore retains the legislative power to place restrictions on Hydro Tasmania's operation of Basslink.

Mr Speaker, I commend the Bill to the House.