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letters to the editor

Snowy constrained as it is

EDITOR: Snowy Hydro is not unassailable in its position in the National Electricity Market (NEM).

In fact it is facing genuine threats which will have negative repercussions for the company, its employees, and the region if they are not addressed now.

The state's newest power station is a fast-start, gas-fired power station at Tallawarra, which will compete directly with Snowy Hydro when it is commissioned in a couple of months time.

It is owned by Chinese interests through TRU Energy.

To keep up with growing peak electricity demand, at least one of these new power stations has to be built every year in the NEM, otherwise widespread blackouts will begin to occur.

In fact this is forecast to occur in Victoria in as little as three years time.

Within a few years, the need for new peak electricity generating capacity will be at least as much again as the entire Hydro Scheme.

In combination with this, once the NSW electricity generators and retailers are privatised, they will construct their own peak power stations.

Snowy's major customers such as Energy Australia will rely less and less on Snowy's energy derivative products because they will be part of a company that will provide its own peak generating capacity.

These are genuine, significant threats to Snowy Hydro's income and therefore the business, not to mention the wider regional community which derives many benefits from a prosperous Snowy Hydro.

We cannot cross our fingers and hope that the status quo will survive, because it clearly will not.

Nor can Snowy Hydro rely on a shining knight in the shape of carbon credits to save it.

It is quite possible that the same rules will apply as for Renewable Energy Certificates, where Snowy cannot claim for its baseline production (or roughly speaking, its average).

This is to prevent it dominating the market and thus discouraging new entrants such as wind or solar.

Fortunately the Board, CEO and Executive of Snowy Hydro have anticipated this and are attempting to address these threats, and are doing the right thing by taxpayers, employees and the community despite being unpopular for it.

The question is, does the community want a home-grown champion like Snowy Hydro to seize the opportunities now available, or do we want to let the Chinese do it?

Yet Snowy is constrained by its current ownership structure, and it cannot get access to funds to compete.

At the time, many fears were held for the prospects of other national champions like Qantas and the Commonwealth Bank when they were privatised.

Yet they have gone on in leaps and bounds, far surpassing their roots.

And as a customer of both I am pleased (and even occasionally delighted) by the service I receive.

We should unshackle Snowy Hydro in the same way and allow it to really thrive, and fend off these threats to its future at the same time.

By remaining in the past we are blinding ourselves to the future, with its opportunities on one hand and threats on the other.

Richard Clarke
Cooma

From Powerhouse to Museum in the Mountains - NEVER??

I REFER to the Letter to the Editor by Mr Talbot published in the Express dated 15 January 2008.

Mr Talbot either does not understand electricity market fundamentals or chooses to ignore them. His opinions that Snowy Hydro does not risk losing market relevance are wrong.

Firstly, Mr Talbot asserts that Snowy Scheme occupies a unique niche in the market. Having being responsible for Snowy operations and trading in the Electricity Market for over 10 years since the market inception, I can attest that this is simply false. Snowy Hydro does not occupy a unique nor unassailable position. A competitive marketplace, new technology and power system growth has now changed this. More gas fired plant built by our competitors means we have no competitive advantage.

Peaking generation is provided by a variety of plants including other hydro generators and gas fired generation. It is reasonable to expect that all new specialist peaking generation in the National Electricity Market will be open cycle gas turbines (as has been over the last ten years), this effectively competes with hydro generation in the 'peaking' sector. Gas Turbines can be started in about 10 minutes versus about 5 minutes for Hydro.

Five faster minutes means nothing in the market.

The bottom line is with each new gas fired generation plant installed in the electricity market, the Snowy Scheme's market relevance declines.

Mr Talbot claims that an Emission Trading market will make new gas fired generation less competitive. This is simply not the case. Rather gas fired generation will be more competitive. Gas fired generation is much less carbon intensive than coal, hence it is generally expected, and independent market modelling shows, that new gas fired generation will substitute coal generation to reduce CO2 emissions despite the increased carbon costs.

Most of Snowy Hydro's current value however is obtained by providing electricity price risk hedging contracts to electricity market participants generally and retailers in particular such as Country Energy and Energy Australia. This is the segment of Snowy Hydro's business most at risk by the decision to privatise the NSW generators. It will eventually be lost.

What has happened to date in our electricity market (and has happened in all other open electricity markets around the world) is consolidation and in particular vertical integration of market participants (mergers between retailers and genera-

tors). These vertical integrated entities achieve scale and scope benefits, have more pricing power, and achieve lower cost of capital. Accordingly, large retailers (such as AGL, Origin, TRU) are highly incentivised to either build or acquire generation (especially peaking generation). Should the NSW privatisation plans proceed and Snowy Hydro be unable to participate, it is highly likely that the existing industry vertical integration process will accelerate, with the direct consequence of dramatic erosion of Snowy Hydro's customer base. The end result may well be that in the near future the Snowy Scheme will be absorbed into one of those large vertically integrated energy companies.

Mr Talbot should also know that Snowy Hydro does not own any water.

Inaccurate comments that purport to be facts are not appreciated by current members of Snowy Hydro. It is important the community understand the negative effects on Snowy as a result of the privatisation of the NSW electricity sector. It is vitally important the community not get misled by opinions of a few that reflect an era that is well past.

Roger Whitby
Executive Officer - Trading, Snowy Hydro Limited

letters to the editor

Gas-fired can compete: Snowy Hydro claims revisited

EDITOR: I am writing in relation to some claims made by Mr Max Talbot in a letter published in your publication on 15 January.

Firstly I should state that I am currently employed by Snowy Hydro and have 20 years experience with numerous types of gas turbines throughout Australia and New Zealand.

The following comments are my opinion only and do not necessarily reflect the position of Snowy Hydro.

Mr Talbot states that it is not possible for gas-fired plants to match Snowy Hydro's fast start generation, which is misleading.

Gas-fired plants can encompass gas-fired boilers similar to a conventional coal-fired station (e.g. Newport Power Station Victoria), combine cycle gas turbines to fast start open cycle gas turbines.

A fast start open cycle gas turbine is essentially a jet engine, similar to what you find on commercial jets, which is connected to a generator.

These type of units are ideal for peak generation due to their very fast capability and can typically be generating electricity in approximately five minutes.

They have significantly lower emissions than coal-fired generation and are thermally more efficient to operate than conventional coal (the current main source of electricity for Australia).

Fast start gas fired generation can and does effectively now compete with hydro generation in the National Electricity Market.

The growing use of fast start gas turbines by Snowy Hydro's competitors is a very real threat to future viability of Snowy Hydro's operations. Competitors such as Origin Energy, AGL, Tru Energy, Newoen, Babcock & Brown and Trans-

field already have gas turbine generation and have plans to build a lot more. Why? Because they are relatively cheap and quick to build and fulfil the key requirements of peak generation in that they are fast to start and operate reliably (typically > 96% reliability).

A look at the previously mentioned companies websites will show how serious they are about gas turbine generation and Mr Talbot will then have his answer as to who the competitors to Snowy Hydro's provision of peak generation are. It is also important to realise that competitors such as Origin and AGL also own and operate their own gas supply assets.

They are therefore effectively hedged against any future increase in gas prices and supply.

Gas prices (like any commodity) are subject to inflationary and demand pressures and it is misleading to imply that gas plants will become less competitive due to rising gas costs.

Yes, gas prices will likely increase but what Mr Talbot fails to state is that the value of water is also likely to increase (and has done so already) and that the availability of water for hydro is reducing due to environmental reasons - which I am sure Mr Talbot is already fully aware of considering his previous involvement with the Snowy Scheme.

The water used by Snowy Hydro to generate electricity is not free. Currently coal-fired electricity is relatively cheap but I expect that as the true cost of coal-fired generation is realised the use of gas-fired generation will become even more competitively priced and viable.

Especially in view of the fact that there are very large reserves of gas in the form of coal seam methane, offshore fields (Thylacine, Bass Gass, Timor etc) and reserves still held in the Cooper Basin.

I expect that as new fields come online the price of gas should remain relatively stable.

The decision by Snowy Hydro to invest in gas turbine generation is in my opinion an extremely prudent and far sighted decision that will guarantee the future viability of the company and more importantly secure, protect and maintain the future operations of the Snowy Scheme.

Paul Hill
Melbourne