

Welcome

Marc White

TASMANIAN ENERGY FORUM

*SECURING OUR ENERGY
INTO THE FUTURE*

Tuesday 22 March 2016
Hobart





Goanna Energy
Consulting Pty Ltd

Draft

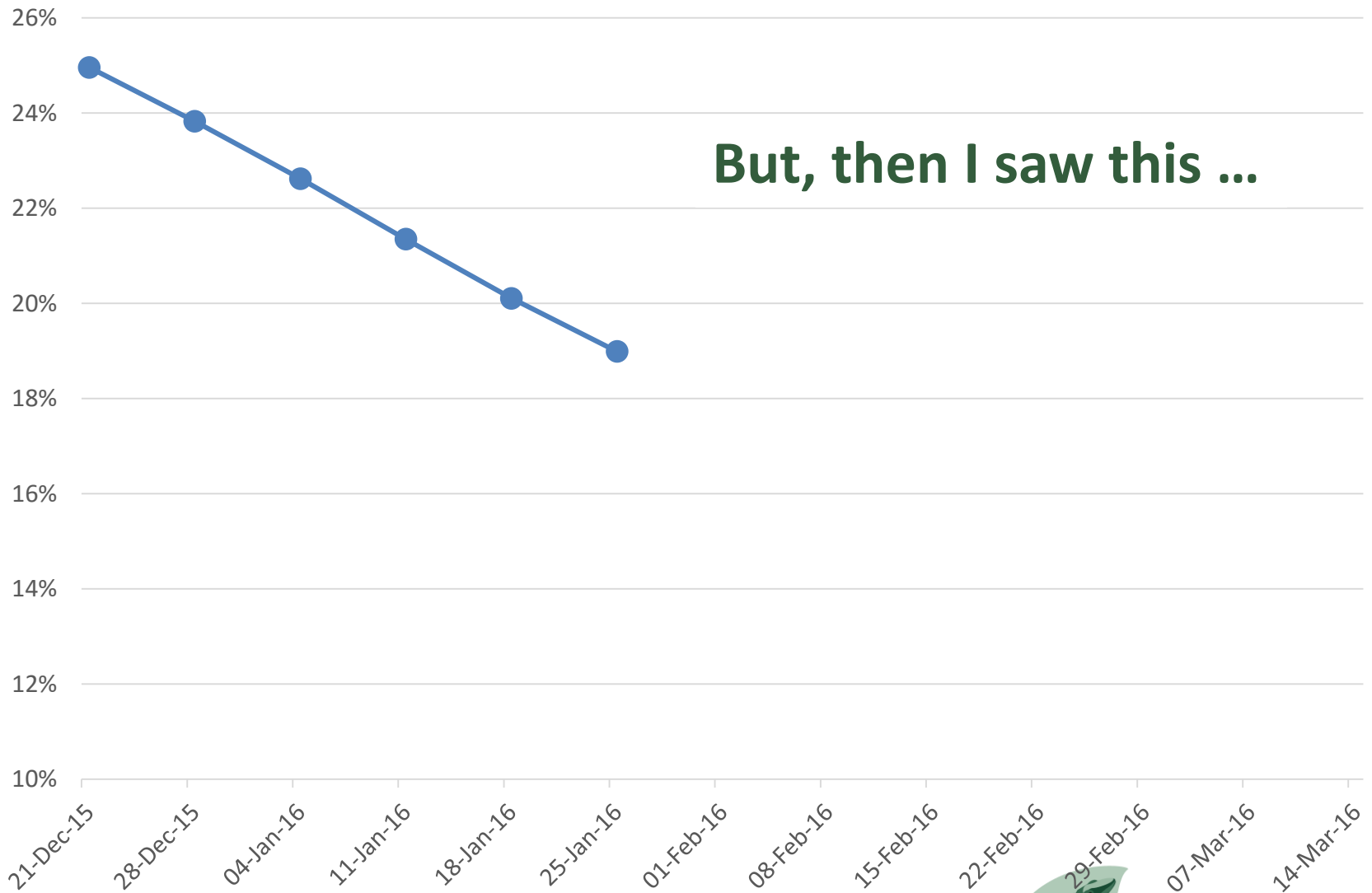
“How to save a \$1M in energy costs”

Marc White



Goanna Energy
Consulting Pty Ltd

Hydro Water Storages



“How businesses can manage their way through Tasmania’s energy crisis”

Marc White

Hydro Water Storages



and things continued to worsen ...

Tasmanian Energy Forum

“Myth busting Tasmania’s energy crisis”

22 Mar-16

Marc White

MYTH BUSTING AGENDA

A total of 6 myths relating to:

- a) Energy strategy
- b) Risk management
- c) Customer impacts and responses
- d) Long term impacts



Myth: 1

Tasmania has kept well away
from any Energy Casino

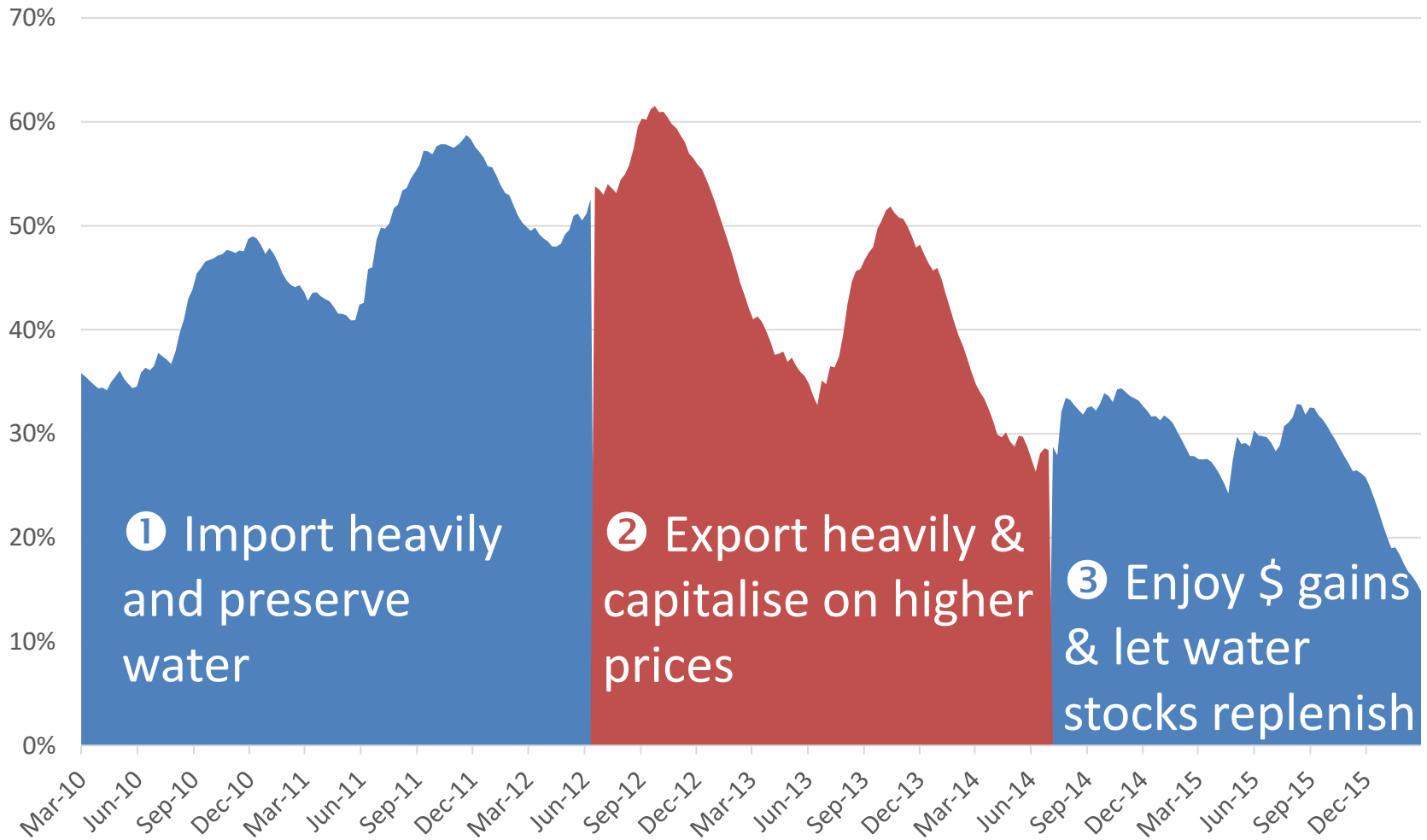
The Government's Energy Strategy

May 2015

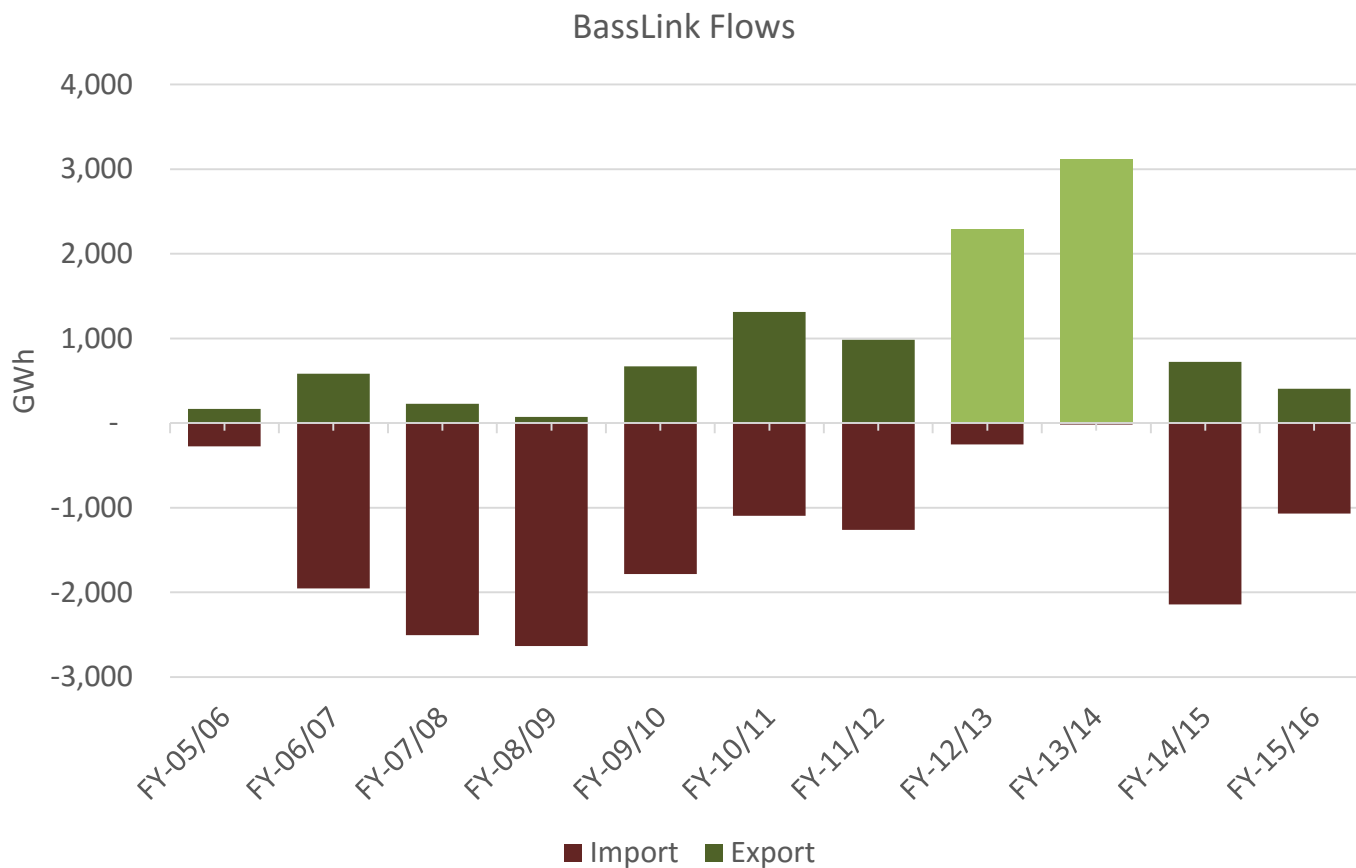
- **Action 23:** Clearly set out roles and expectations of the Government's energy businesses, **with risk appetite statements set accordingly.**



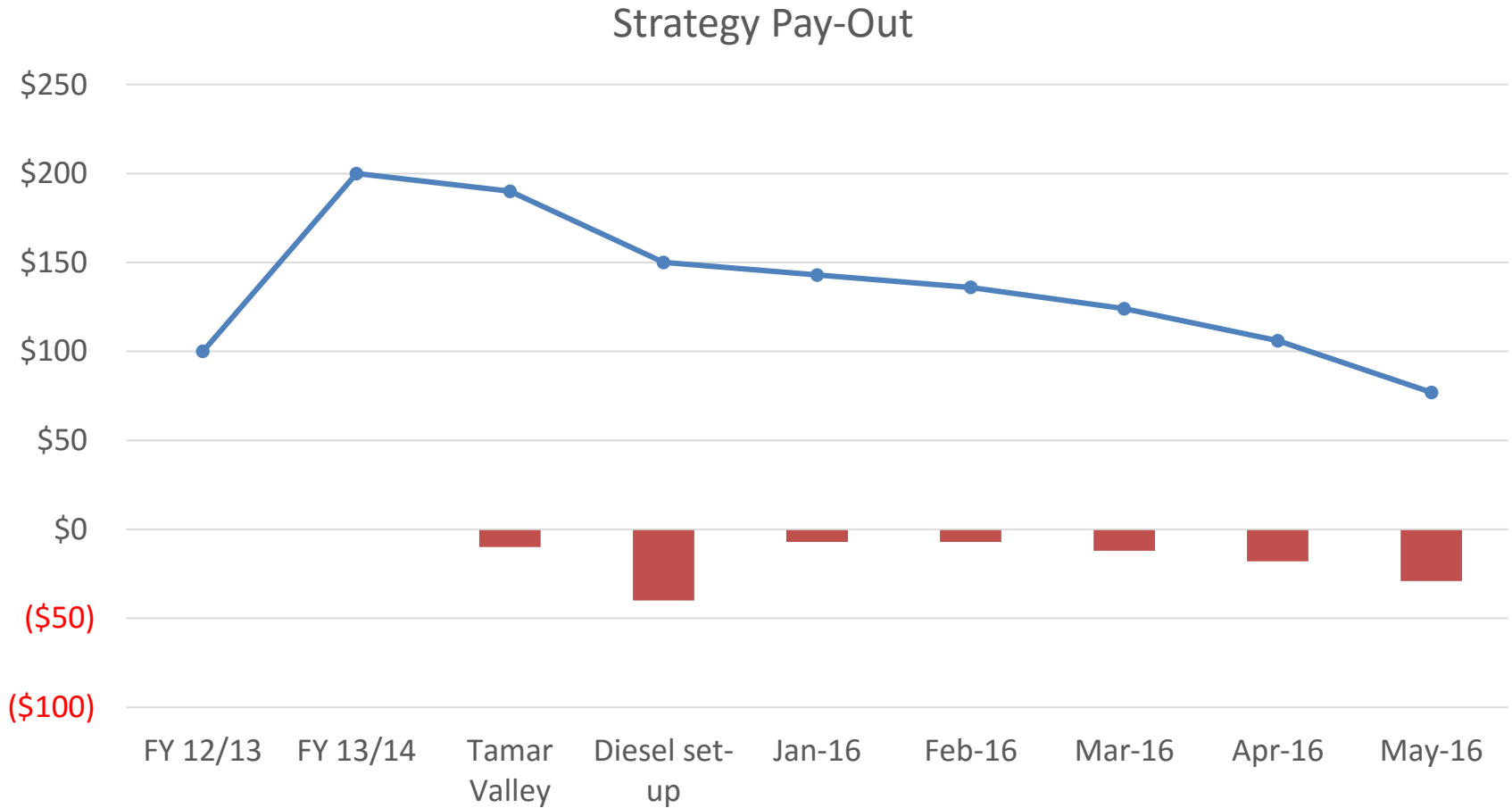
Energy Strategy at work ...



Basslink flows

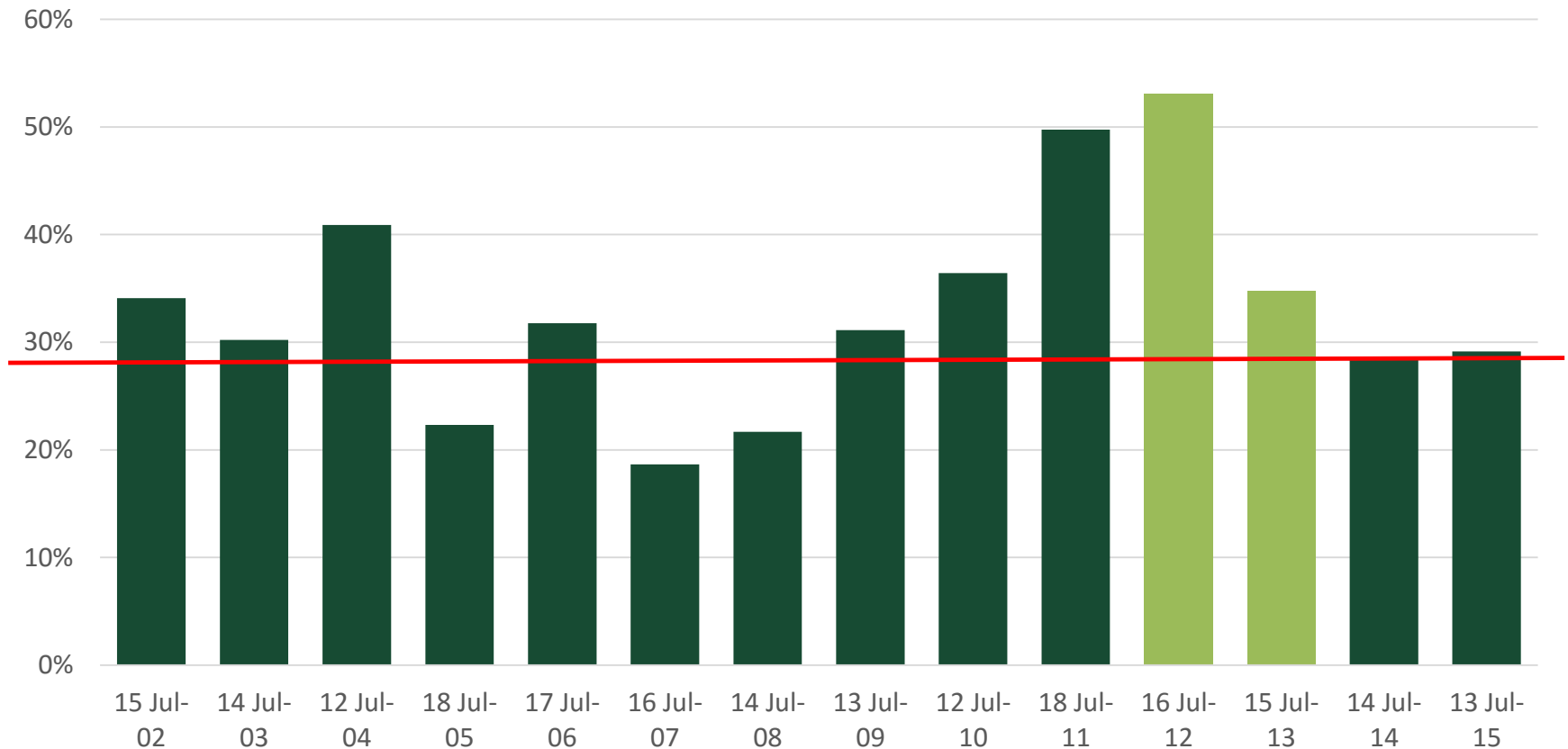


Hydro Tas Strategy Pay-out



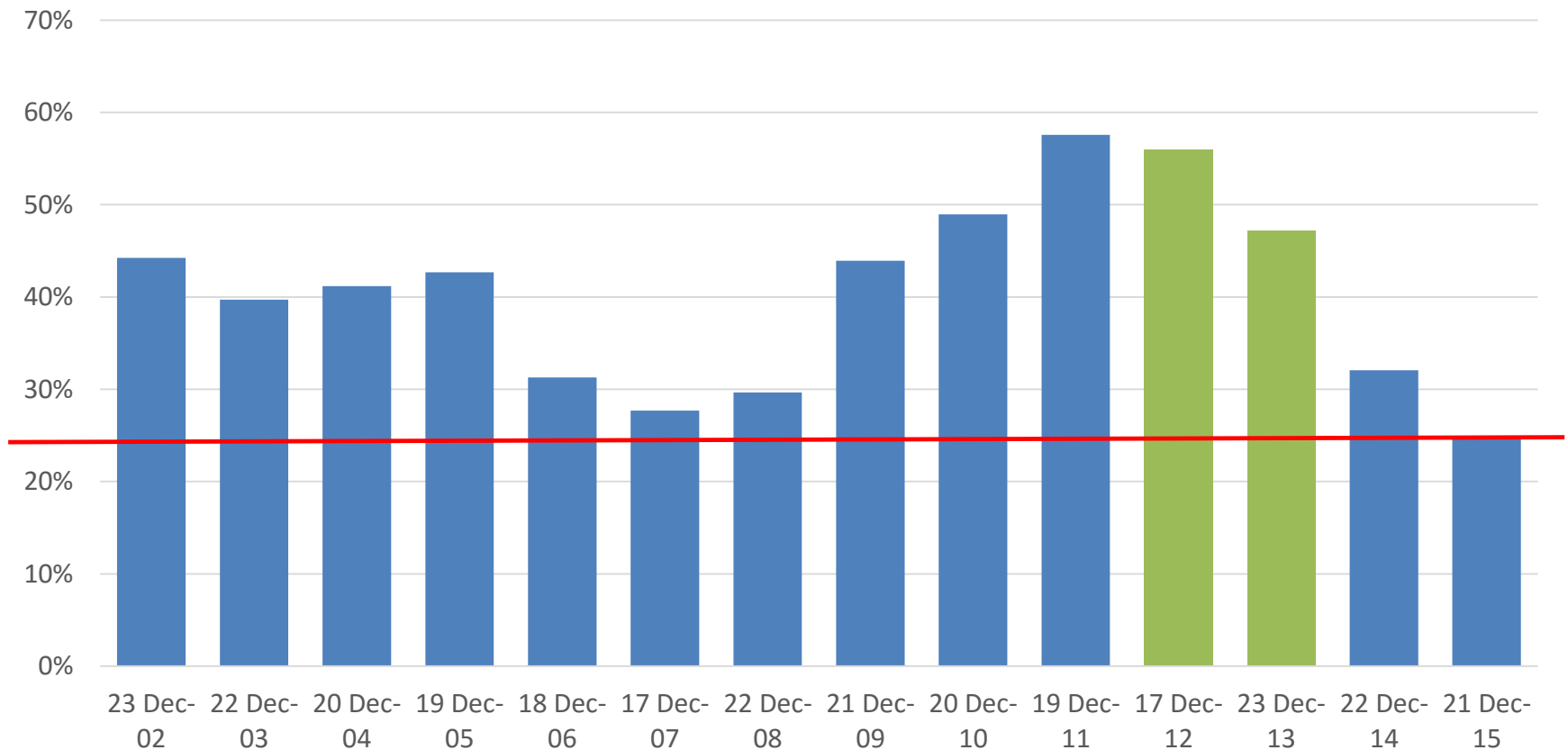
After the Carbon years, storage reduced to low levels...

Capacity as at July Each Year



When BassLink failed, storages at record low level...

Capacity as at Dec Each Year



Conclusion



- We have been down at the Energy Casino
- and ... nobody asked us if that was okay



Myth: 1

Tasmania has kept well away
from any Energy Casino

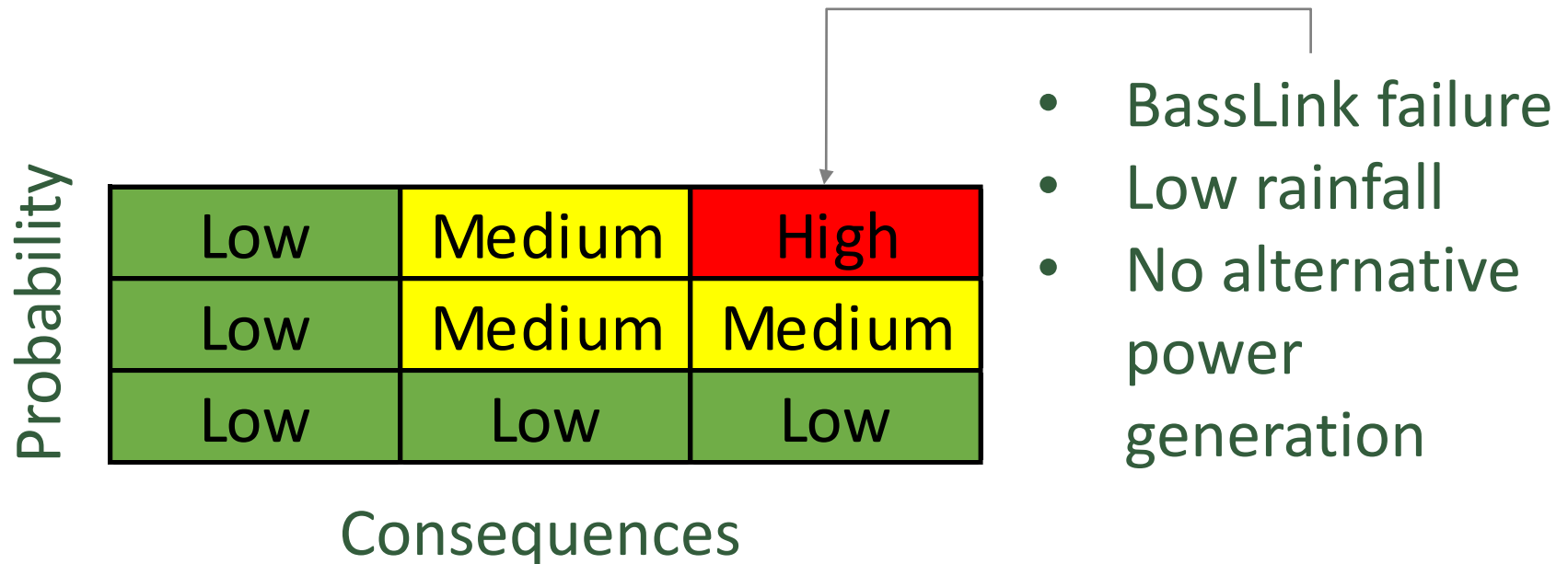




Myth: 2

Risk management practices
have protected us

Typical Risk Management Practices



Steps Undertaken

- Deliberately chased the higher yield carbon years
- In doing so, deliberately reduced the water levels
- Removed significant redundancy power generation (Tamar Valley)

Is there a structural problem?

①

Hydro Tasmania adopted a strategy of maximising short-term profits

Is there a structural problem?

①

Hydro Tasmania adopted a strategy of maximising short-term profits

②

Is the risk-adjusted strategy appropriate for a Government Authority

Is there a structural problem?

①

Hydro Tasmania adopted a strategy of maximising short-term profits

②

Is the risk-adjusted strategy appropriate for a Government Authority

③

How have we impacted our international investors?

- Already taken some pain
- How much pain is to come?
- Reputation damage?

Is there a structural problem?

①

Hydro Tasmania adopted a strategy of maximising short-term profits

②

Is the risk-adjusted strategy appropriate for a Government Authority

③

How have we impacted our international investors?

- Already taken some pain
- How much pain is to come?
- Reputation damage?

④

Are the KPI's set correctly?
Is the risk management framework ...

- appropriate?
- operating correctly?

Conclusion

- It appears:
 - we have a structural problem regarding short term performance measures
 - the risk management practices are not appropriate for a Government entity

Notes:

- a) These observations are not politically aligned nor directed at an individual.
- b) It is likely that these issues have been in existence for many years with many Executive Management teams, CEO's, Boards, and several Governments.



Myth: 2

Risk management practices
have protected us





Myth: 3

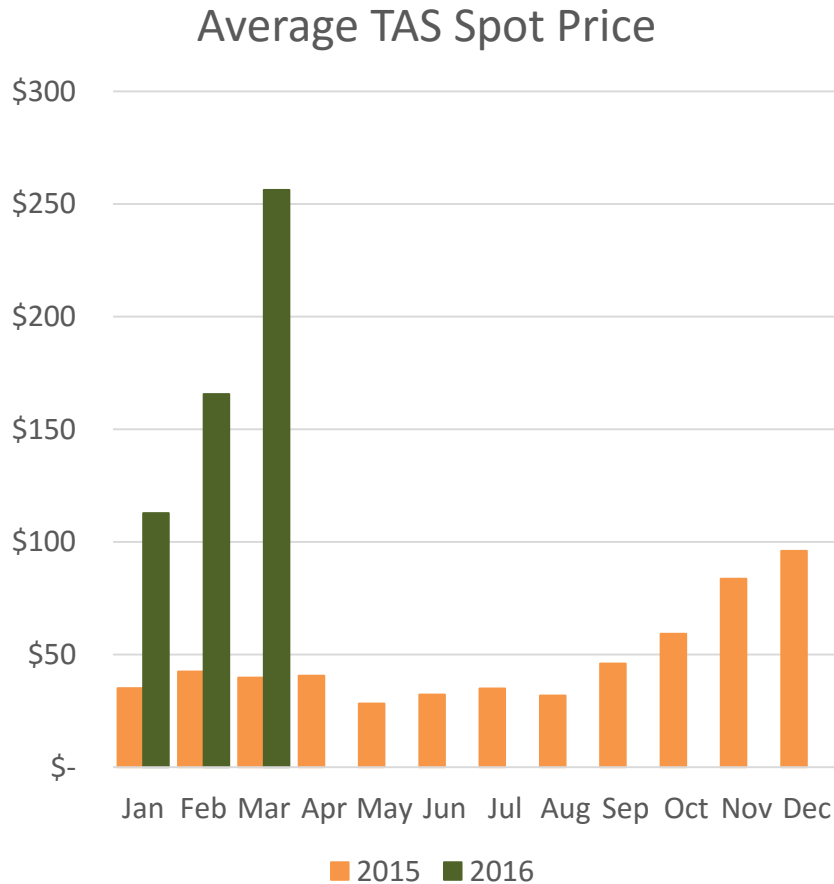
All customers are affected
equally by this crisis

Large industrial consumers



- Some industrials have:
 - volunteered to reduce load
 - reached a commercial agreement to reduce load
- Clearly these customers have been impacted

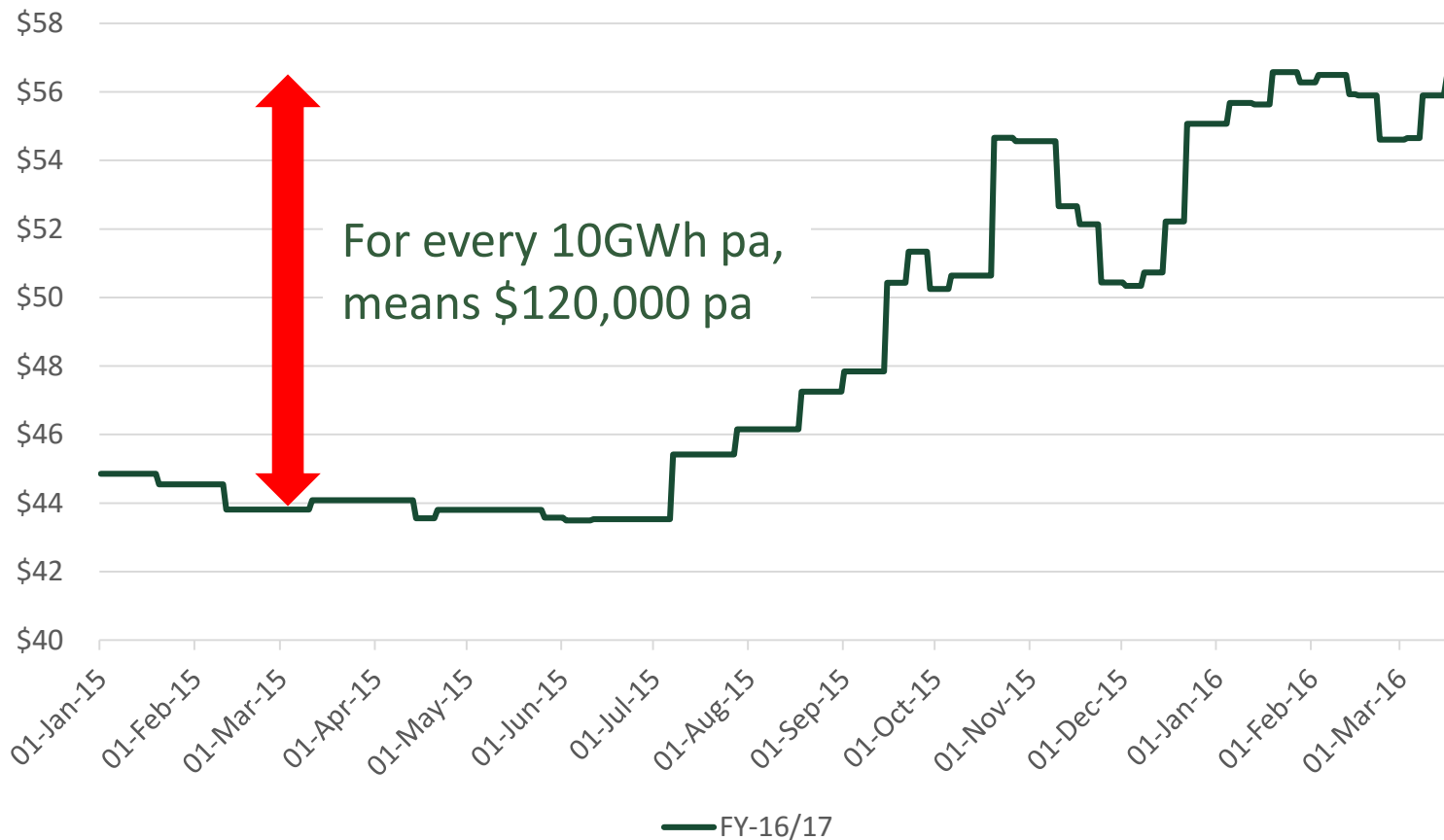
Spot market exposed customers



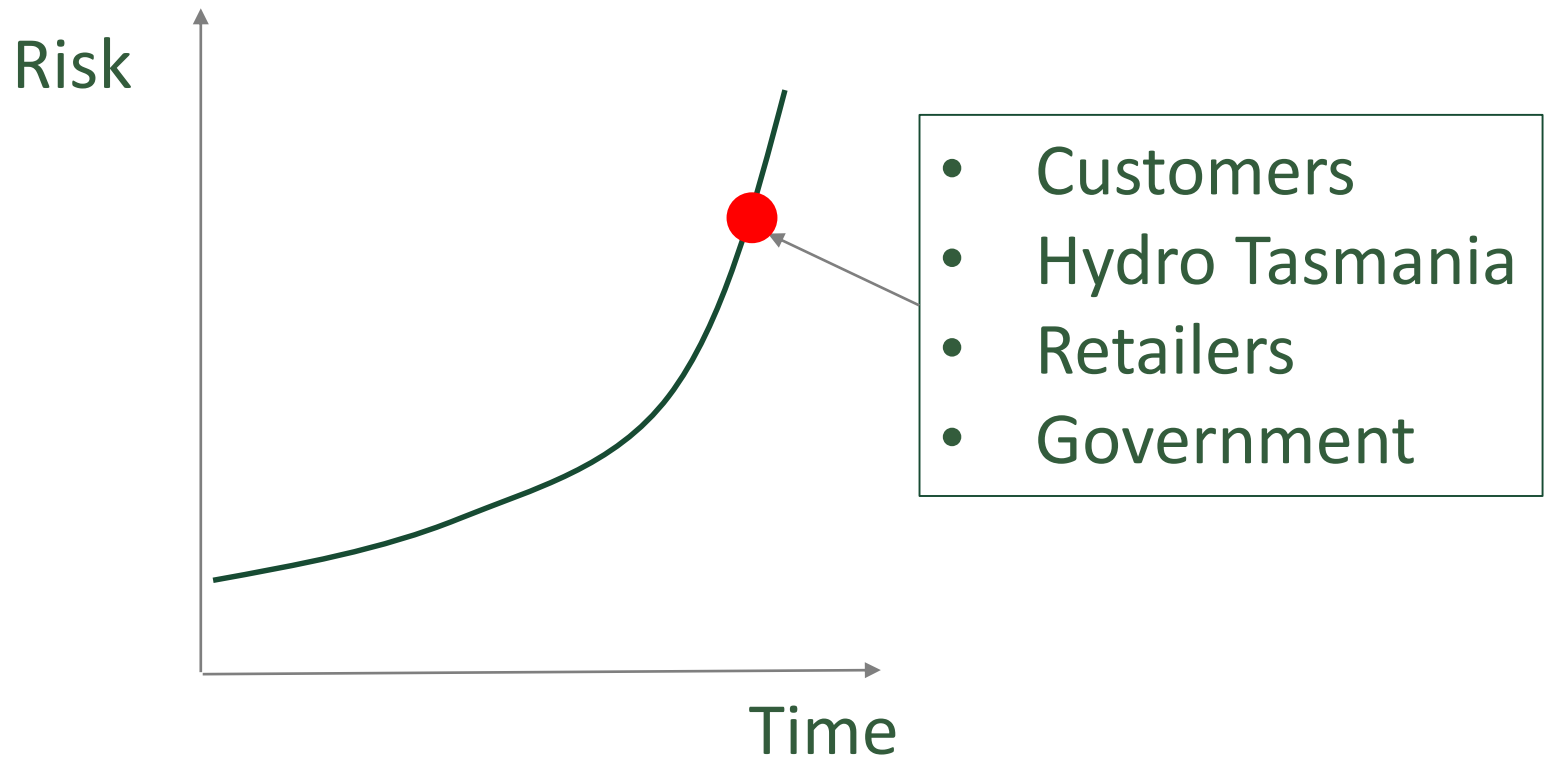
- For each flat 1 MW exposed, an extra cost of almost \$250,000 (Jan–Mar)
- Say 10MW, this means \$2.5m over 3 months

Customer Impact

TAS 2016/17 Wholesale Forward Price



Increased Risk



Conclusion

- Businesses have already been affected quite differently
- It is now possible, that neighbouring competitors will have starkly different input energy costs



Myth: 3

All customers are affected
equally by this crisis



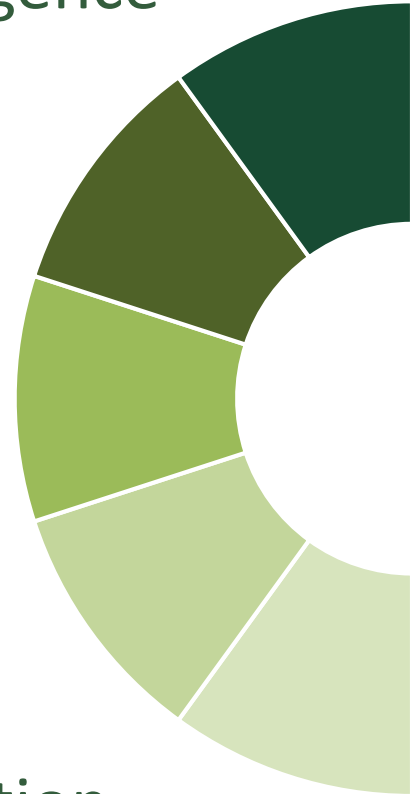


Myth: 4

There is nothing a Tasmanian businesses can do to mitigate this risk

Control Levers

- ① Business Intelligence
- ② Procurement Model
- ③ Network Tariff Reviews
- ④ Energy Efficiency
- ⑤ On-site Generation



Control Levers

① Business Intelligence

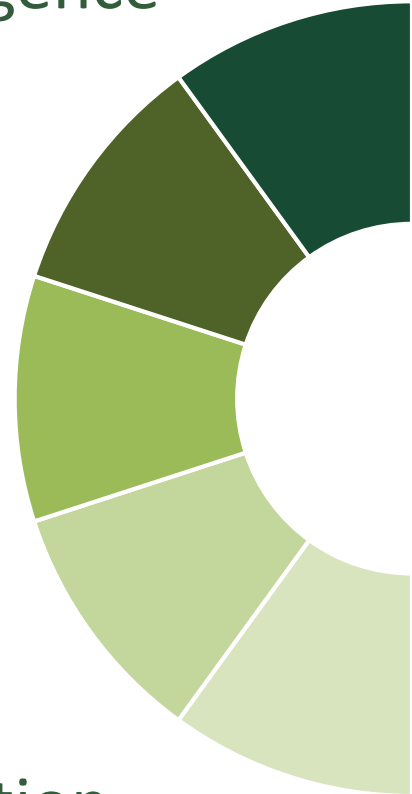
What's happening in the market?
What's driving my energy cost?

② Procurement Model

③ Network Tariff Reviews

④ Energy Efficiency

⑤ On-site Generation



Control Levers

① Business Intelligence

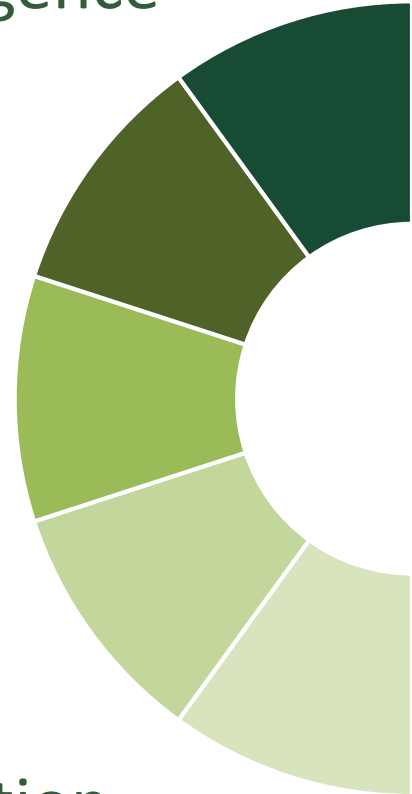
② Procurement Model

What's best practice?
What's are the options?

③ Network Tariff Reviews

④ Energy Efficiency

⑤ On-site Generation



Control Levers

① Business Intelligence

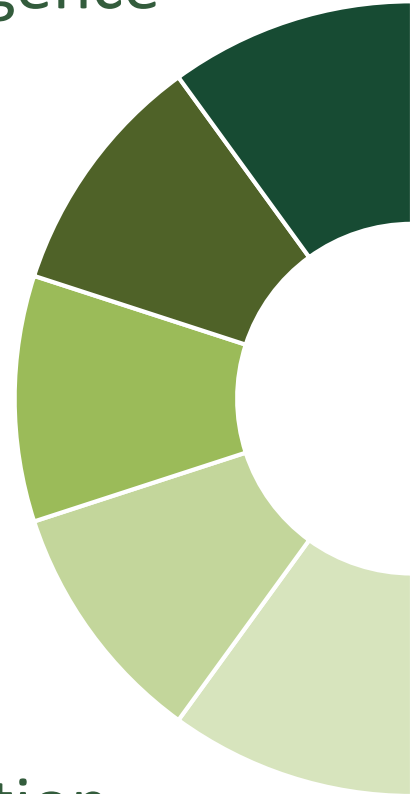
② Procurement Model

③ Network Tariff Reviews

What's coming?
Is my current tariff the best?

④ Energy Efficiency

⑤ On-site Generation



Control Levers

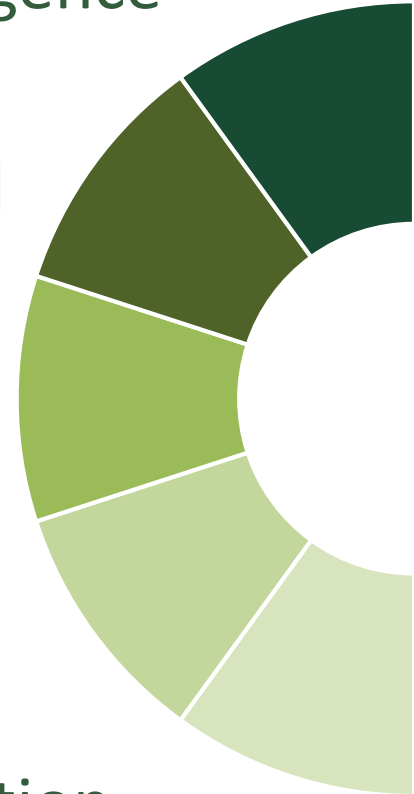
① Business Intelligence

② Procurement Model

③ Network Tariff Reviews

④ Energy Efficiency

⑤ On-site Generation



Has the Business Case changed?
Maximising investments

Control Levers

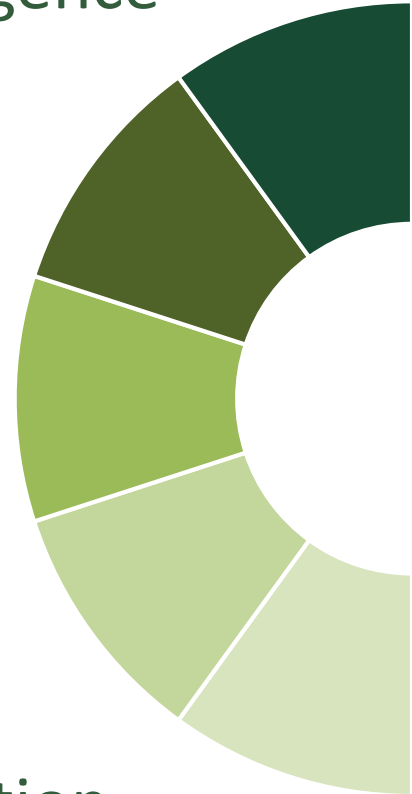
① Business Intelligence

② Procurement Model

③ Network Tariff Reviews

④ Energy Efficiency

⑤ On-site Generation



What options are there?
What is the best Business case

End Goal for Energy Users

“If it wasn’t for the BassLink failure back in Christmas 2015, we would still be stuck in our old ways”



Myth: 4

There is nothing a Tasmanian businesses can do to mitigate this risk





Myth: 5

Tasmanians are the ones that
are going to pay for this crisis

No doubt TAS customers to pay ...



but also ...

Mainland shares in the pain

**Tas Hydro offers
generation higher than
Victoria**

**Tas wholesale prices
impacted by higher
Vic forward prices &
low storage levels**

**Elevated Vic spot
prices, push-up Vic
forward prices**



**Encourages BassLink
flows from Victoria,
and water storages
begin to recover**

**Increased load on
Victoria, pushes up
Vic spot prices**

Review of Wholesale Prices



**Tasmanian Small
Business Council**
Uniting Small Business

Office of the Tasmanian Economic
Regulator

Review of the Wholesale Contract
Regulatory Instrument – Issues Paper

Submission

Goanna Energy with
the Tasmanian Small
Business Council has:

- called for a review
- offered to help



Myth: 5

Tasmanians are the ones that
are going to pay for this crisis





Myth: 6

The cable will eventually get fixed, and things will return to normal

Major events have long lasting impacts

Examples

- Tasman bridge collision
- Global Financial Crisis
- Delays in Qld inter-connector
- Business practices and mindset arising from power events in 2007

Resolution of Crisis

- How long?
- Litigation?
- “Walk away” scenario
- Cost impacts



Myth: 6

The cable will eventually get fixed, and things will return to normal



Conclusion

Government/Regulation

Items need reviewing are:

- measures of 'success'
- risk management framework, and/or implementation practices
- wholesale market price setting mechanism

Customers

Time for change:

- access Energy Business Intelligence
- review procurement strategies
- review energy efficiency opportunities
- review business case for supply solutions

Thank you

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