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Inquiry into the Economics of Energy Generation
Questions on Notice

TRUenergy welcomes the opportunity to provide response to the questions on notice.

1. *Can you please provide an updated version of the Generation Capacity and Forecast Demand graph on page 3 of your submission?*

   TRUenergy regrets the error made in the graph – which was the result of an incorrect transposition of data. We have amended the graph as well as updated the data to reflect the recent Electricity Statement of Opportunities which shows a slight reduction in expected demand.

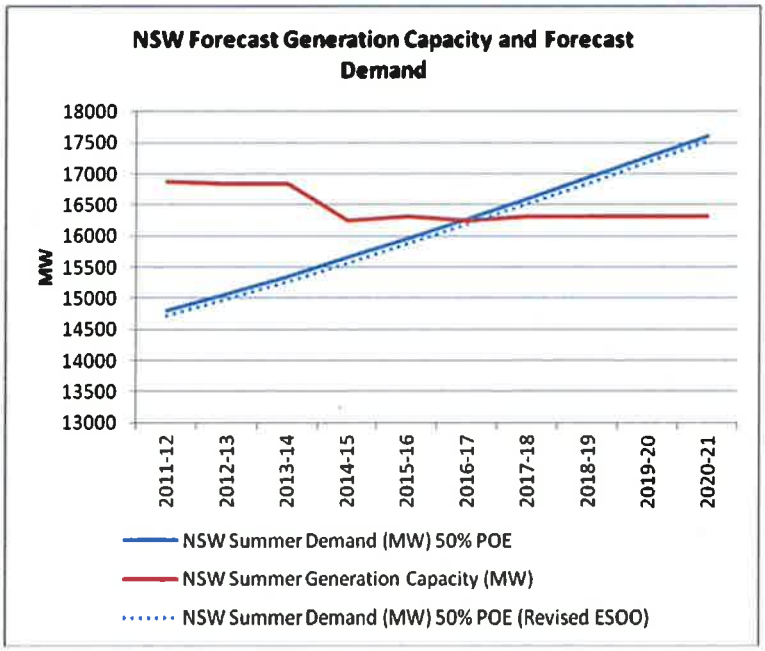

Figure 1: NSW Generation vs Demand Forecast Source AEMO ESOO 2011

However the change in data does not amend our previous points that NSW is reliant on generation from out of state and that energy policies need to be cognizant of energy developments in other States, most importantly Victoria and Queensland.

We also note comments from the AEMC that illustrate the importance of inter-regional electricity transfers.

> "As would be expected in an interconnected market such as the NEM there is significant inter-regional trade and inter-dependence. Table 2.1 below shows the net and total exports and imports of electricity across each of the interconnectors in the NEM in 2008-2009. There were significant imports to New South Wales from Queensland and to Tasmania from Victoria.
>
> *Table 2.1: Imports and exports over the interconnectors in the NEM in 2008-2009*

Interconnector Transfers	**Net imports**	**Total imports**	**Total exports**
2008-2009	**(GWh)**	**(GWh)**	**(GWh)**
Heywood – Victoria to South Australia	393	829	436
Murraylink – Victoria to South Australia	-166	52	218
Terranora – New South Wales to Queensland	-712	6	718
QNI – New South Wales to Queensland	-4199	124	4323
Basslink – Tasmania to Victoria	-2570	74	2644
Victoria to New South Wales	941	2099	1158

> ... reinforces the trends that can be observed in the previous table with Queensland and Victoria generating substantially more electricity than they consume, while the other three states all consume more electricity than they generate. There will be some year to year variations in the absolute magnitude of these trends, but broadly they reflect the differences in resource costs for generation across the NEM, with those states that are relatively lower cost for generation tending to generate more than they consume and vice versa."[1]

2. *How can the New South Wales Government appropriately encourage investment in alternative forms of energy generation? Should New South Wales take a lead in developing alternative energies or leave it to other States?*

In terms of encouraging investment in alternative forms of energy generation we strongly urge the New South Wales Government to consider measures that streamline the development approval process and provide a stable regulatory environment that does not favour any form of technology over another i.e a wind farm must meet the same standards as a gas generator, as would any other "newly" developed technology. When the regulatory environment favours technology outcomes it can create a "boom-bust" cycle when the regulatory environment is inevitably changed. In the long term this does not provide the industry with confidence and impedes investment.

As developers of both generation options (renewable and thermal) as well as demand side products we take on a large number of risks associated with the development such as:

- Market risk – where future revenue and costs vary from forecast;
- Technology risk – where projects become obsolete due to newer and more efficient forms of technology;
- Fuel risk – where fuel inputs are not available as forecast, for both renewable and thermal projects;
- Construction risk – unplanned delays and expenses associated with the development of projects; and
- Funding risk – where the costs of funding and the availability of funding change significantly post construction.

[1] AEMC Strategic Priorities for Energy Market Development Discussion Paper, March 2011 pg 17

These risks are present in all generation developments including alternative energy. As a business we seek to actively manage these risks and it is appropriate that we do so – our return is based on our success in managing risk. However, to a certain extent, our ability to manage the risk of regulatory intervention is out of our control. At best we can do is engage with the Government of the issues associated with particular policies. What we are seeking is a policy environment that seeks to progress energy reform on a consistent basis with a minimal level of abrupt changes that are implemented within a short period of time.

With regard to New South Wales taking the lead in developing alternative forms of energy we recommend you consider the wider economic benefits to the State against the costs of development; as well as the opportunity cost in not proceeding with other demands on State funds. There maybe merits in considering opportunities that seek to utilise local manufacturing and businesses; local research and development; and academic institutions particularly in regional centres of the State, however we are indifferent on what specific opportunities the State should consider, provided a net benefit to the State can be established. Our major concern would be any policies or programs that unintentionally create perverse incentives or impose other externalities on the energy market more generally.

3. *Are there any regulatory impediments in new generation projects?*

One of the main regulatory impediments is the lack of retail price de-regulation in NSW. Regulated retail prices act as a constraint at the end of an energy supply chain. The ability for parties to be able to pass through costs is important for developers of any type of electricity generation projects; because if the downstream purchaser (retailer) is constrained in the amount they can pay for purchasers then the developer may not be able to make the required investment.

Short term mechanisms that seek to restrain retail prices ultimately create supply scarcity issues in the long term, because investment will be inhibited.

We would also like to note that competition is an important element in a de-regulated price environment. Any retailer that seeks to extract excessive profits will be the target of competition from other retailers. This serves as an important protection feature for customers.

Our experience in NSW since the sale of the energy retail businesses is that competition has significantly increased within the State and we believe that the Government should consider planning how to de-regulating retail prices.

4. *What do you think are the most successful examples of emerging electricity generation or demand side projects?*

As noted in our earlier submission, projects that have been successful have utilised the natural resources of that particular geographical area.

Significant development of wind projects emerged in New Zealand in the 2000's. Many of these projects have capacity factors that exceed international averages. Additionally these projects were developed without financial support from government policies.

There are a number of large scale solar projects in Spain that are progressing the technical aspects of solar design, although these do rely on various policy mechanisms to provide sufficient revenue. We are also aware of tidal energy projects in the United Kingdom that take advantage of significant tidal variations.

A good example of well run demand side projects is the energy efficiency work initially performed by the New Zealand Electricity Commission and then transferred to the Energy Efficiency and Conservation Authority. One of the key factors for success for these programs has been the emphasis on measuring delivered benefits, and subsequent value for all energy consumers.