

15 September 2009

Mr Glenn Appleyard, Regulator,  
Office of the Tasmanian Economic Regulator,  
GPOBox770,  
Hobart,  
Tasmania 7001

Dear Glenn

### **Declaration of Electrical Services**

Thank you for allowing us to make a presentation to you on 10 September explaining the material contained in our submission of 28 August 2009.

To reinforce our answer to an important matter on which you sought clarification, Hydro Tasmania's concern is not just with regulation but also with declaration itself and specifically the message to the market that declaration sends. One of the complexities of modern electricity markets is that industry regulators become part of the market themselves and their statements and signals influence market participants as much as market events.

Through the Tasmanian Frequency Operating Standards Review, market participants became fully aware that there was an FCAS shortage issue and that new entrants must provide or procure additional FCAS as an integral part of entry. If regulators are now sending a message to the market that the issue is instead a "monopoly provider" problem and that the solution is regulation, then market participants, particularly new entrants, will adjust their plans accordingly (and indeed may already have started to do so).

In particular, new entrants responding to the regulators' message will be encouraged not to bother providing or procuring additional FCAS as an integral part of entry. Thus, the assumed new supplies which justified changing the Tasmanian Frequency Operating Standards may not be delivered. And as foreshadowed in the Tasmanian Frequency Operating Standards Review, this would result in higher energy supply costs in the long run which will be borne by consumers, an outcome Hydro Tasmania has consistently sought to avoid.

In the interests of transparency, we confirm that we are happy for this covering letter and the following documents to be placed on your website:

- 1) attached copy of our presentation slides;
- 2) attached copy of our speaking notes; and
- 3) attached copy of index to accompanying information pack.

If you have any further queries, please contact the undersigned.

Yours faithfully

A handwritten signature in black ink that reads "D. Bowker." The signature is written in a cursive style and is underlined with a single horizontal stroke.

David Bowker

Manager Regulatory Affairs