

Date: 21st August, 2009

The Director
Office of the Tasmanian Economic Regulator
GPO Box 770
HOBART TASMANIA 7001

Dear Sir,

Re: Notice of Intention to Declare the Supply of Raise Contingency Control Ancillary Services by Hydro Tasmania as a Declared Electrical Service

Gunns Limited is pleased to support the Regulator's timely proposal to limit the price paid by alternative generators in Tasmania for raise frequency control services. Your Issues Paper provides an accurate and revealing summary, as far as we know, of the issues under your consideration.

The situation in Tasmania is unique in the market, as it is based on the possibility that FCAS will not be able to be sourced from any supplier other than Hydro Tasmania. This gives Hydro Tasmania the opportunity to exercise its market power in a way that is truly anti-competitive, as was demonstrated in April this year.

Gunns Limited is proposing to install a steam turbine generator fired by waste products from the pulp manufacturing process, and is likely to be the next significant supplier of both electricity and FCAS in Tasmania. As such, it does not wish to be placed in the situation where it has to supply ancillary services even during machine trials in order to connect to the grid. In fact, as its raise services will be based on its ability to shed load, it is unlikely that this will be available when the machine is first commissioned.

One issue that concerns us is the proposed duration of the declaration. We understand that significant competition in the FCAS market in Tasmania would make the declaration unnecessary, but suggest that placing a three year limit will not achieve the desired result if the monopoly situation remains the same at the end of that period. The time limit may be a trigger for a review, but the declaration can always be revoked if the stated conditions for revocation are met.

The other issue is the example given as the first condition for revocation. We believe that only the presence of "actual" effective competition for raise services should be the trigger. If the declaration was revoked due to a "prospective"

competitor, prior to that competitor being able to provide the services, they could face exactly the same anti-competitive behavior until they were in the position where they could compete in the market.

Thank you for the opportunity to comment on the proposed Declaration.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Les Baker". The signature is fluid and cursive, with the first name "Les" and the last name "Baker" clearly distinguishable.

Les Baker
General Manager – Bell Bay Pulp Mill Project
Executive Director