

“In Support of Progress” Newsletter

In this issue:

Power

Health Negotiations

Government contracts

Education

Date: 11 October 2013

The Power saga

After all the brouhaha about energy retail contestability, and how consumers were going to benefit from the competition (“Prices to fall”, trumpeted the headlines) in the end no-one wanted to buy Aurora's book. *Quelle surprise!* Actually there is no surprise. There's no secret here. The reality is it has no value.

The wholesale price is regulated, the market is small and fractured, the returns are miniscule, and the retail price would have inevitably attracted a regulatory component to it. Why bother?

Customers were never going to benefit. For a start, there would be two administrations rather than one to fund. Second, there was not going to be any real contestability anyway, at least not for a period. Third, all the expensive “bits” such as poles, wires and metering were going to be rolled into the new company Transnet, and would still have to be paid for by the customer. Fourth, the few large customers would be cherry-picked by others. Fifth, a third of the customer base is on government support, and the market would need to be subsidized for the new entities to make any money, and on it goes.

Who provided advice to the government that this would be a good idea? What market research was done? And how much money has already been spent on this futile exercise? Some say over \$36 million and still counting! I think there is a serious accountability issue here, and it is not just a government bash. Whoever advised the government must be held accountable for their advice.

The real story is that Aurora's retail arm is not where the cost savings can be made anyway. Figure 1 (attached) shows where the money goes – over 90% is going to generation, transmission and distribution. And all with regulated pricing. Only 5% is in the retail space.

Now I believe there is a significant argument to be mounted regarding the management of the 90%, and it has in the past been incumbent on the economic regulator an onus to carry out his duties properly. And in that regard I believe he has failed, and I have covered this matter in some detail previously (#1306, 1314, 1315). Figure 2 shows where the growth in costs have occurred, and the real question is why? Regulated entities have been protected from having to face the harsh commercial realities of their customer base, protected by the regulator, and the time has now come to redress this matter.

The Greens' plan to split the Hydro is a **dumb** idea. It will provide NO benefit, create unviable enterprises and cause a significant increase in cost. Instead of creating a competitive environment, it will ensure both are unviable. The loss of income from the repeal of the carbon tax will be significant, and Hydro will need to trade even more efficiently and effectively across BassLink to hold its position. Note that most of Hydro's profit comes from this interstate activity, and not from within Tasmania. This is a good thing.

The pressure is on Hydro Tasmania and its new CEO. It is also on the new entity *Tasnetworks* and its new CEO to drive a commercial reality. Their owners (ie the government) should be insistent that this is so.

The Nurses' Pay Deal

I noticed in the media the nurses' spokesperson complaining that the Health Department were putting conditions on any pay rise deal. How dare they? This was not fair, said the spokesperson, and if the offer was not amended the nurses would take industrial action.

I also noted the Minister's comments:

"It is entirely appropriate for the union to mark their territory, it's entirely appropriate for the department to look at what they think is affordable.

"What happens in a negotiation is that everybody puts their endpoint on the table and then move slowly into the centre."

She is not really describing a negotiation at all – it is a haggle. And one thing is for sure – it will be a lose-lose situation. Neither party will be happy. And relations will sour. She continued:

"These are the normal processes for negotiations and I'm confident we'll reach a resolution because the parties are negotiating in good faith."

It sure doesn't sound like it. I don't sense much good faith here. Maybe there should be. Negotiating is an art form but it can and should be managed in a far more sophisticated and less brutal way than this.

Government Contracts

There have been three incidents that have crossed my desk in recent days. The first is the contract for the hospital development. The contractors have been appointed but as yet no work has commenced because they are still negotiating the scope of the work. A strange way to run a business. Surely the scope should be settled first! Wasting time, wasting money.

The second is a comment made by the Minister for Community Services, explaining the blowout in the budget for the redevelopment of Stainforth Court, in Newtown Hobart, from \$5 million to \$8.5 million. Asked why the budget had blown out so significantly she responded:

"We didn't blow the budget - we changed the scope".

Really! Well, if you are going to tell a whopper, it might as well be a big one!

And third, the Government has taken action to improve the levee infrastructure in Launceston, enabling a major development to proceed. It is exactly what they should have done. Well done!

Education

Literacy and numeracy, and bullying

These are really important matters, and they should be front and centre in the forthcoming State election campaign (see previous newsletter). They cannot be ignored.



This newsletter is supported by Tasman Management Services.
Further information is provided at www.julianamos.com.au

Disclaimer: All details in this Newsletter are the opinion of Julian Amos. Should you wish to stop receiving this email you can visit the website and press "unsubscribe" in the newsletter menu.

Figure 1 - Allocation of Aurora Energy's Tasmanian customer revenue 2010

from p 212 of Final Report Vol 1

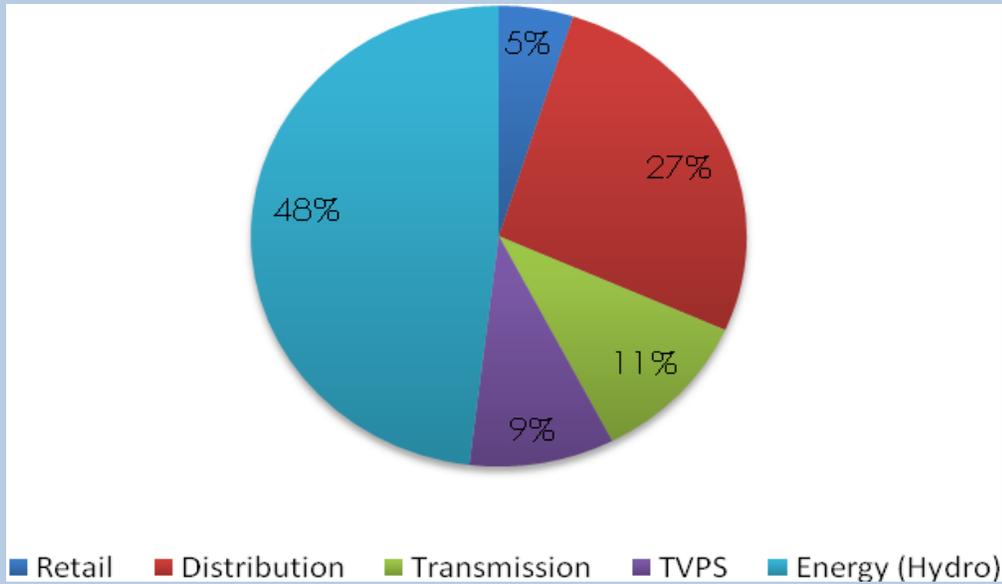


Figure 2 - Price Changes over a 10 year period

Components of Aurora Energy's revenue allowance (c/kWh, nominal)

-derived from Table on p163 of Final Report Vol 1

