

## *The big power subsidies the free-marketeers won't talk about*

Bob Burton. Picture: A potline at Comalco, Bell Bay

11.03.10 4:30 am

[48 comments](#)



**Last week, the Melbourne-based think tanker, Julie Novak, made a splash with [866-word column](#) on The Mercury's opinion page railing against the economic credentials of the Greens and expressing alarm about the prospects of an increased vote for the Greens. Amongst other things Novak, who is a Research Fellow with the Institute of Public Affairs (IPA), complained about the Greens commitment to substantial cuts in greenhouse gas emissions, support for demand management polices and their promotion of renewable electricity.**

It was notable that there wasn't a single aspect of any of the policy commitments made by either the Labor or Liberal Party that Novak criticised. But the IPA has form. As a corporate funded think-tank the IPA is more akin to a non-profit PR firm which wraps PR messages for sponsors in a veneer of pro-business, free-market, soft-libertarian rhetoric. It's sponsors have ranged from the tobacco industry to mining, logging and power generation companies. Oh, and, for a while, Rupert Murdoch's News Limited.

For decades the IPA has fulfilled the role of being a free-market policy ginger group and training ground for Liberal Party career aspirants. It's leadership

has <http://tiny.cc/DHaiC> had close ties to the Liberals spanning back to its foundation years in the 1940's. The IPA's current Executive Director, John Roskam, is a member of the Liberal Party and has had several unsuccessful pre-selection bids in Victoria. His predecessor, Mike Nahan, is now a Liberal Party Member of the Legislative Assembly in Western Australia.

### **Cuddling up with sponsors**

Back in 2006, when I was researching my book *Inside Spin*, IPA Executive Director, John Roskam, explained to me that the relationship with sponsors "can get very up close and friendly". He insisted, though, that the IPA didn't let sponsors determine the outcomes of its research. How close does the IPA get to its sponsors? A freedom of Information request to Telstra, which was part publicly-owned at the time and was a sponsor of the IPA, revealed that in mid-August 2005, Roskam met with Telstra's Group Manager of Regulatory Public Affairs, Julia Foley, to discuss the think tank's work plan. The following week Roskam sent her a copy of the IPA's work program for the telecommunications and media unit. It was, Roskam noted, "derived from the things that we talked about." Needless to say, it was Telstra-friendly. (See "[Line rental](#)" for the full account of the IPA/Telstra deal).

The IPA has also been a beneficiary of logging industry largesse. For the first half of this decade the IPA ran what it referred to as the "NGO Project" which argued that non-government organisations (NGO's) such as The Wilderness Society and Greenpeace should be stripped of its tax-deductible status. The project was largely sponsored by companies such as Monsanto and Gunns. Not surprisingly though, many of the tests the IPA advocated be imposed on others it failed itself.

### **Turning a blind eye to corporate welfare**

The IPA, which has long been funded by various companies with fossil fuel interests, has been notable for its decades long support for the climate change skeptics.

So Novak's opinions on the Greens climate change policies come as no surprise.

More surprising was her complaint that "the Greens intend on the one hand to reverse energy demand growth through demand management practices (read: price hikes), while on the other subsidise renewable energies that presently lack the capacity to provide sufficient base load power."

While "demand management" can include price increases, though most commonly for loads at specific times, it is usually associated with a broader package of energy efficiency measures and strategies by utilities to align loads to capacity and avoid investments in expensive additional generation capacity. So to attempt to dismiss demand management as constituting "price hikes" alone is simplistic in the extreme.

Nor does Novak's line about "base load power" make much sense in the Tasmanian context where the system is overwhelmingly hydro-based, which can meet either base load or peak load demands. Even though wind farms only generate power when the wind blows or solar panels when the sun shines, they not only provide electricity but they help drought-proof an otherwise climate vulnerable system.

But the elephants in the room when it comes to any discussion of base load demand, energy efficiency or power pricing in Tasmania are the three largest bulk power consumers, Comalco, Temco and Nystar. The three consume two thirds of the state's electricity while employing just 1400 people. (Comalco is a wholly owned subsidiary of Rio Tinto, Temco is 60% owned by BHP-Billiton and Nystar is a Belgian company created from the merger of Zinifex and Umicore.)

So the biggest gains in terms of efficiency and avoiding the expense and environmental impacts associated with additional supply side measures—or imports of dirty brown coal power from Victoria—hinge on the re-negotiation of the bulk power contracts. The prices can be

increased when they expire or, as happened in the late 1970's in New Zealand under the National Party government of Robert Muldoon, the contracts renegotiated ahead of schedule.

Last year, Professor Jonathan West proposed in his *Innovation Strategy for Tasmania* that as the bulk power contracts were coming up for renewal in the near future, the power currently dedicated to the big three consumers should be auctioned off to either other Tasmanian buyers or exported at higher prices via Basslink. He estimated that selling the power via Basslink for an additional 1 cent per kilowatt hour would yield the state an additional \$43.8 million per year or as much as \$219 million a year if a 5 cents per kilowatt hour premium were achieved. West noted that the subsidy could represent as much as 8% of Tasmanian government expenditures.

The magnitude of the subsidy has prompted the normally reserved Hydro Tasmania to note in its 2008 annual report that “the average cost of generation was significantly higher than the prices received under existing long-term contracts with major industrial customers.” Comalco's Bell Bay smelter alone consumes approximately one-quarter of Tasmania's entire electricity production, which it gets at heavily subsidised prices under a secret bulk power contract. Back in 1982 copies of the bulk power contracts and the details of the prices paid under them were leaked to The Wilderness Society. Analysis of the power prices revealed that the largest subsidies went to Comalco, even though it was least labor-intensive of the big power consumers. The magnitude of Comalco's subsidies is testimony to the gullibility of past governments and the desperation of the HEC in flogging off potentially embarrassing surpluses at ludicrous prices in order to breathe life into new dam-building proposals. To subsidise Comalco, all other power consumers—but particularly small business customers and households—pay far higher power costs than they otherwise would. The

reality is that the massive subsidies to Comalco and the other big power users cost jobs elsewhere in the economy. If the big three bulk power consumers are charged more and they stay, there will be considerable incentive for them to be much more efficient in their energy use. If they refuse to pay more and leave, Tasmania would be financially far better off, even after funding retraining programs for those affected who want to remain in the state.

To principled free-marketeers, subsidies are anathema and secret ones doubly so. In their lexicon, subsidies smack of rent-seeking protectionism that supports one company at the expense of others. Secrecy, they argue, insulates the rent-seekers from real world political accountability and demands by other industries to level the playing field. In effect, the subsidies to the big power consumers are a tax on all other electricity customers. But when it comes to the bulk power subsidy, it is a tax that the IPA won't broach. Peculiarly, Novak doesn't mention the Comalco, Nystrar or Temco at all in her column.

While the IPA doesn't disclose which companies fund it, back in 2006 Roskam confirmed that Rio Tinto was one of its major supporters. When contacted for this article, Roskam did not respond to a question on whether BHP-Billiton and Rio Tinto are current funders of the think tank.

While Novak was silent on the issue of the bulk power contracts, the Liberals have recently been busy defending the existing contracts.

Last weekend the Liberals' Shadow Treasurer, Peter Gutwein, complained in a Press Release ([HERE](#)) about the Greens support for "renegotiating corporate bulk electricity contracts in line with the national market." This, Gutwein stated, "is Green code for forcing major employers such as Nystrar and Rio Tinto to pay more for their electricity, and would place hundreds of Tasmanian jobs at risk."

Gutwein's line is breathtakingly simplistic. The cost of subsidising Comalco, Nystar and Temco's power bills is a drag on the other more labour-intensive sectors of the Tasmanian economy and a form of corporate welfare that is due for an overhaul. After all, if the power prices and the contracts are such a good deal for Tasmania, why are they secret?

Why won't the Liberals, Labor or the IPA champion the cause of this micro-economic reform?

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1. The most destructive form and lucrative form of crime by far is the procurement of subsidies and other legislative favours through a quasi-legal form of bribery known as political donations.

Its takings are limited only by voter awareness of the racket, which depends largely on a critical media and a functional opposition. Where neither exists, a government can freely sell the state out to its biggest donors, or to donors able to blackmail government officials who have been tempted into criminal collusion. QED.

It's all very simple, as the quality of our politicians fulsomely attests.

John Hayward

Posted by john hayward on 10/03/10 at 02:53 PM

2. Bob is it possible to do the maths and work out an approx subsidy cost per job?

Posted by Counsellor on 10/03/10 at 03:17 PM

3. Good on you Bob.

Interesting when the national media comments on the Australia Institute, they usually label it as an 'environmental' group. Well it certainly has environmental leanings but it's their way of saying 'beware this research think tank is not neutral'.

By contrast the IPA is virtually never labelled for what it really is - a hard core right wing think tank. Institute for Public Affairs sounds so proper and bipartisan.

On the pricing issue, interesting that Tasmanian householders (although they may make noises about sharp electricity price increases) don't seem concerned about a bulk industrial pricing system that hedges those large businesses from Hydro's real costs, leaving them to pick up the tab.

Maybe the bulk subsidy issue has been around for so long it is regarded as being immutable?

The Hydro itself is fully aware that the historic bulk pricing system now prejudices its ability to trade efficiently on the national market, but its freedom to move is inhibited by not only contractual commitments but by a political agenda to keep the status quo as it is when contracts come up for renewal.

Bulk power pricing is Tasmania's sacred cow.

Posted by Chris Harries on 10/03/10 at 04:49 PM

4. Does anyone know how much of the 'base load' requirement is created by these energy intensive industries?

Posted by Mike Bolan on 10/03/10 at 05:24 PM

5. Rio Tinto-Alcan (once called 'Comalco') uses one quarter of all the electricity generated in Tasmania. BHP-Billiton's 'Temco' is also classed as 'electro-metallurgy'. Actual price per megawatt is a very closely guarded secret. Possibly 10% of what Tasmanian households are paying.

Posted by no pulp mill on 10/03/10 at 06:13 PM

6. Basically, Mike #2,  
Being mostly electro-metallurgical processing their load remains constant throughout the year thus requiring year round base load power supply.  
Tasmania's large hydro storages – such as great lake, and lake Gordon – have been built in order to deliver

this base load supply, which has to be sustained over the summer months.

By contrast the retail load (domestic and small business) peaks in Winter and this load being relatively small can largely be met from run-of-the-river hydro schemes.

Posted by Chris Harries on 10/03/10 at 06:50 PM

7. I'd have to agree. It's very sad that a State that could supply all its core needs from hydro power is forced to import power because of ridiculously low prices being charged to a few large consumers.

As I mentioned on another thread, never forget that the rent of Basslink is about \$10,000 every hour, 24 hours a day, 7 days a week. Just so we can import power? That's about \$0.02/hr for every man, woman and child in Tasmania.

Work it out. I give my daughter \$2/week pocket money, by my reckoning she should be paying me a bit over \$1/week to cover her Basslink debt!

Posted by Steve on 10/03/10 at 06:56 PM

8. Bob Burton dismissively says that if the three big energy users left the state we would be better off. Has he done an economic analysis of this?

On Bob's figures, we would lose 1400 direct jobs. But how many are indirectly employed by these companies? And what of the flow-on cost? These are all export jobs and we all know - or should - that export jobs are economically more valuable to a community than jobs in service industries, for example.

So, ok, we lose all of these jobs. How will we replace them? How do we attract new industry to replace those we've just lost?

There is nothing unusual or sinister about the agreements these companies have to meet their electricity demands. I would think it's rather common for large energy customers to lock in long-

term contracts. I fail to see why a bulk user shouldn't be able to negotiate for itself a discount.

If I walk up to the cheese factory up the road I'm going to pay the retail price at their little shop out the front for the same cheese that they are selling to Woolworths for a fraction of the price. Same principle.

Posted by Red Bob on 10/03/10 at 07:29 PM

9. Thanks Bob for this concise and lucid summary. I don't know how you explain this to the Tasmanian population at large, maybe we need some very clever educators and marketers to assist. It's simple arithmetic, and has been evident for a very long time, yet just lurks in the background without our supposedly intelligent politicians taking even a casual interest. In common with a number of other corporate welfare scandals, with which I won't muddy these waters, there seem to be some vested interests that pull the right strings in this state. How do you bring this to full public notice - our newspapers, though improved in recent years, still won't thoroughly pursue these long standing issues. We need an Institute of Tasmanian Affairs?

Posted by Mark Hanna on 10/03/10 at 08:48 PM

10. Sounds like think tank is spin doctor by another name. We have had enough of those in this state!

Posted by salamander on 10/03/10 at 08:53 PM

11. Hear Hear Red Bob,  
Having worked at Comalco many years ago and being from George Town I say thank god that these companies are there.  
For over 40 years these companies have provided employment for thousands of workers, generated close to billions of dollars for the state, and generally provided a economic foundation.  
Far far much more than any small vineyard along the Tamar that produces nothing more than wine thats

tastes like vinger or green con collar jobs will ever provide.

What you people don't realise that Comalco have spent millions on electricity converters so that the bulk power can be transformed to a voltage that can be used to generate power.

This power needs to be constant and reliable for aluminum to be created.

That factory and BHP are worth millions to this state.

Something that you people never state.

It's a sad fact that the Greens destroyed the once great Hydro, the source of reliable power that could have been provided, the loss of thousands of highly skilled and wide range of employment.

Wind power is a con. It is never reliable, constant nor cheap per watt produced. Solar in this state is not even worth talking about. The 1kw of power produced on your roof is not even close to power the toaster.

Bob Brown and all the green cronies have a lot of answer for.

Posted by Sam on 10/03/10 at 08:57 PM

12. Somewhere somehow someone has to be able to do the mathematics on this diametrically opposed system of electricity supply to the 2 sets of electricity consumers in our Tasmania?

The formula could be as follows:

A. This would suggest the gross annual revenue to government from the highly subsidised industrial heavyweights, Vs

B. The domestic consumers paying top dollar for a far smaller usage within the domestic market.

C. Then to quantify the cost of Basslink to ensure enough electricity for the domestic market.

Next is to subtract C from A to arrive at some figure to compare against B.

[Let's not have politicians poking their proboscis into this matter, so as not to confuse this already difficult

matter with their preferential complicities and allegiances multiplying or dividing the status of the common man on the street?]

Unfortunately this has to be, because the present Lib/Lab politicians generally sell their souls to the highest bidder, so therefore they cannot enter into this equation.

The end figures may surprise us all and actually defy the political logic of continuing along with their biased ignorance toward the domestic consumer?

Posted by William Boeder on 10/03/10 at 08:59 PM

13. Hi Red Bob,

There's a number of points to respond to but, as it is getting late, I'll start with just one query to see whether it is a point of agreement or not.

Do you think the details of the bulk power contracts and the power prices charged under them be secret?

If so, why?

Posted by Bob Burton on 10/03/10 at 09:08 PM

14. Re: 13, I have no issue with the contract between two commercial entities being kept confidential. The fact of the matter is that Hydro et al have to operate as commercial enterprises, so simply because they are publicly owned is no reason to require them to release all information publicly on their commercial transactions.

One of the salient points I didn't comment on earlier is your assertion that somehow Tasmanian residential customers are being ripped off and/or subsidising the big customers.

I believe it has been well established that Tasmania's residential electricity prices are comparable to those interstate?

Posted by Red Bob on 10/03/10 at 09:28 PM

15. Red Bob and Sam both reflect the government position: crippling the Hydro's finances is a necessary price to make sure we retain the Comalco's and the zinc smelter in Tasmania.

Okay, it could be that is a real choice that the majority of Tasmanians would make, if they were asked to choose. They never are.

That policy choice is never questioned. It is hidden behind a veil of secrecy and under-the-table commercial dealings.

In a supposed democracy, when politicians don't speak to their electorate about certain things you can't blame anyone for smelling a rat in the cellar.

Posted by Chris Harries on 11/03/10 at 08:08 AM

16. Maybe Bob Burton hasn't heard of "volume discounts". For those who don't know of this term, it is the reason a sack of rice is cheaper (at a unit rate) than a 1 kg bag and a ship load is cheaper than a container load.

Why give volume discounts? I'll leave that for the reader to work out. Hint: it's pretty obvious.

Posted by slaked lime on 11/03/10 at 08:22 AM

17. Readers of Bob Burton's article and the comments it has generated may be interested in my earlier article on the ongoing mismanagement of the Tasmanian community's electrical energy resource - Hydro Past Constrains Future:  
<http://tasmaniantimes.com/index.php?/article/professor-west-reminds-tasmania-that-hydro-past-constrains-future/>

I stand by what I wrote in October last year:

"Whatever else Tasmanians agree or disagree with in Professor West's report, they should be grateful for this timely reminder that hydro-industrialisation continues to impose heavy costs on their state. In dollar terms alone, the sale of electricity to these industrial users below cost and way below potential value is costing the State Government up to \$220 million in revenue every year... Professor West's recommendation serves to remind Tasmanians that what had become the political, social, economic and environmental nightmare of hydro-industrialisation

did not end when the High Court ruled out the construction of the Gordon-below Franklin dam in July 1983. More than 25 years later, Tasmania - Australia's poorest state - a rich island full of relatively poor people - continues to bleed revenue and incur household and business energy costs, social costs, environmental costs and opportunity costs resulting from the excesses of hydro-industrialisation."

Red Bob asks: "Has he [Bob Burton] done an economic analysis of this?"

I would like to ask you, Red Bob - have you done an economic analysis? I am pretty sure you haven't; and I believe that if you did do one, you would become Purple (with rage) Bob, because it would demonstrate to you the extent of the exploitation that has been going on for over 80 years.

One other point Red Bob: I think many Tasmanians feel they have to defend the status quo because they don't want to admit to themselves that the politicians (who they trusted and elected) have allowed Tasmanians to be taken for a ride by the energy intensive metallurgical companies.

If it's any comfort to you Red Bob, you may be interested to know that 25% of Victoria's electricity is consumed by aluminum smelters, again at giveaway prices, subsidised by all other Victorians. The situation is similar in New South Wales. In fact in NSW the contracts are so bad that there was talk last year of the electricity suppliers having to compensate the aluminium smelters. This was because of a clause in the contracts stipulating that if the price of aluminum fell to a certain level (which it nearly did, post-GFC), they were entitled to seek compensation from the electricity supplier.

Red Bob this is a national problem. The best place to start fixing it is in Tasmania, the state that has been ripped off the longest by the metallurgical companies,

the poorest state, and the one that can least afford to allow the exploitation to go on any longer.

Posted by Peter Fagan on 11/03/10 at 08:28 AM

18. I completely agree with the article. The difference between the rate per unit that the big three use pay and that we could sell for to the Mainland is probably more than 5 cents, particularly during periods of peak power use, so the annual cost to Tasmanians is probably well over \$200 million. In response to Red Bob, you need to consider the alternatives. The government could probably spend a much lower amount to subsidise other industries to come to, or stay in Tasmania and create far more jobs.

Posted by Tom Nilsson on 11/03/10 at 12:34 PM

19. In reply 18, Tom Nilsson says the Government could 'probably' spend a much lower amount to subsidise other industries . . . and create far more jobs.

Probably Tom? That's lovely. You can say that to all of the hundreds upon hundreds of people who would lose their jobs at those three companies and then the even more jobs that would go with the flow-on effect. The Government will 'probably' find you new jobs. Hooray.

Re: 17. No Peter Fagan, the onus is not on I to do any economic analysis of the benefits of the current arrangement. We already know that there are more than 1700 jobs directly at stake. Bob Burton told us that himself. The assertion being made is that if these agreements were torn up, then somehow Tasmania would benefit more than it would lose. I think it reasonable to challenge this proposition for evidence. And, by the way, none of the critics have addressed the point that I and now slaked lime in 16 have made about volume discounts.

Posted by Red Bob on 11/03/10 at 01:05 PM

20. #16..... On the issue of 'volume discounts', to my knowledge nobody has ever challenged the premise that high voltage supply should be sold at lower price than than low voltage supply. But 4 to 5 times the price?

Yes, of course there is a cost attached to the 'poles and wires' street distribution system. But there are also significant add-on costs in establishing the dam infrastructure that can deliver high volumes of power throughout the summer months to industrial customers, so the real cost structure goes both ways. No mathematical juggling can show the investment in low voltage distribution is 4 times greater than the investment in building of the dams and high tension pylons.

Posted by Chris Harries on 11/03/10 at 01:06 PM

21. Not that long ago in New Zealand Comalco - who enjoy the same sort of sweetheart deal they have here in Tasmania - went to the then government and said ' Even though we pay five fifths of f\*\*\* all for our power unless you subsidise our operation even more we're gonna go somewhere else'.

'Oh noes' said the pollies until some bright spark figured out that if Comalco actually did piss off and free up all that electricity generation the kiwis would make on the deal.

And that was after all the workers had been assisted into other employment.

Didn't hear too much more from Comalco after that.

Posted by Chad C Mulligan on 11/03/10 at 01:15 PM

22. Chris (#20) Not sure that LV versus HV is completely what volume discounting is about. It's also about the total quantity of energy you take. More deserves a discount compared to less, independent of the voltage.

Posted by slaked lime on 11/03/10 at 01:18 PM

23. Okay Slaked, then just tell us precisely what that favourable discount should be.

And should there be any public debate at all about that issue? We are talking about public assets, after all.

And if somebody suggests that there should at least be a public debate about this, then should we bite their heads off? We are supposedly a democracy, after all.

Posted by Chris Harries on 11/03/10 at 01:30 PM

24. An aside from this serious debate.... the one abiding memory I have from working at Comalco is the tiny puddle of aluminium that each of these big potline furnaces produces in a day. You can measure it in teaspoons.

That's why they call aluminium 'congealed electricity'.

If the industry had to pay the real cost for all that power (the industry is universally subsidised) then we wouldn't be buying throw-away containers made out of the stuff.

Posted by Chris Harries on 11/03/10 at 01:44 PM

25. Taking from one and giving to another delivers both advantages to the receivers and disadvantages to those paying the price.

The scale of total subsidies could easily act to disadvantage other industries who do not enjoy those advantages by increasing their prices and diminishing the number of jobs that they can offer.

A subsidy of \$100 million works out to a cost of \$200 dollars for each person (man, woman and child) in Tasmania.

The power subsidies have been reported at \$200 million per year [e.g. #18]- whether that's the official figure I don't know. Pop the \$200 million plus that goes to prop up the forestry industry on top, and add another \$50 million (roughly) of lost income from Federal Hotels gives a grand subsidy total of \$450 million.

That works out to around \$900 per year in extra costs (taxes, power bills, prices etc) that every Tasmanian must suffer to maintain that subsidy. A 4 person household would theoretically pay \$3,600 per year for those 3 industries (charities?).

But those charges are post tax, in other words to earn that \$900 many people have to earn \$1,200 or more because the rest goes in taxes. That 4 person household now has to earn around \$4,600 per year to pay the subsidies.

No surprise that many Tasmanians are struggling. Naturally those areas and industries that benefit are in favour of the subsidies and opposed to change.

Surely those who must find the money to pay these subsidies are entitled to a say in the matter?

What is really required is full disclosure of the total costs of these subsidies to Tasmanians, and what options exist for change.

Posted by Mike Bolan on 11/03/10 at 02:04 PM

26. In 25, Mike Bolan tries to make the argument that every Tasmanian man, woman and child is paying the cost of what he claims are taxpayer-funded subsidies paid to three large energy users.

Well, no.

Taxation would not change appreciably whether the `subsidies' were being paid or not. The State Government's major revenue is from the GST. We don't often hear it said but we get a share greater than is collected in Tasmania. i.e. Other states are subsidising Tasmania to some degree.

If the state-owned electricity companies tore up the contracts with their three biggest customers, then what would happen? The big three would pack up shop. Then what happens to those who lose their jobs, what about the payroll and other taxes paid by those big three companies, what of the flow-on effect in the community?

It was suggested that the Hydro could sell the power the big three formerly used on the national grid. That is true. So it improves the Hydro's bottom-line and maybe the State Government gets a bigger dividend. That's a maybe. Then maybe the State Government - whatever persuasion it might be - could use that money to provide other services, or lower certain other taxes and charges. Neither would benefit everyone. And let's not forget we just lost hundreds upon hundreds of jobs.

And we will have taken another step down the road of exporting all our downstream processing jobs offshore, making us a producer of raw materials alone.

Re: 23, I don't see anyone biting anyone else's head off in this thread. People are free to debate ideas and put forward different opinions, and for a change, on this thread at least, everyone seems to be staying on topic and avoiding personal attacks.

Posted by Red Bob on 11/03/10 at 03:37 PM

27. Chris (#23) Don't get crabby - not sure who is biting whose heads off. Debate is fine.

The answer to your question about the discount is simple - it should be set by the market. Power generation shouldn't be a public asset in the first place and we should all have the choice of who we buy power from.

The price a bulk user like Comalco pays for electricity should be a negotiated outcome with a an electricity producer. The aluminium producer will know the maximum amount he can afford to pay for power and still be in business, while the generator will know what the minimum price is that he will go down to secure a bulk buyer and all the convenience that brings. If there is an overlap, they do a deal. That seems to be what happened in the NZ example Chad quotes (#21). I have no idea what the discount should be as I don't do the negotiation but if it's a 4 to

5 times reduction on the domestic tariff, I have no problem.

Bulk wheat is about 20 cents a kg (\$200 per tonne). A kilogram purchased from a healthfood shop is over \$3.00. That's a 15X difference.

To call what is essentially a volume discount a "public subsidy" (#25) debases the debate.

Posted by slaked lime on 11/03/10 at 03:42 PM

28. That's all very well Slaked (#27), but the bulk power price is NOT set by the market. It's set by a secret government-to-industry deals.

Problem with free marketeers they only believe in the market when it suits them.

If any industry really does need hand-outs to survive then that's fine too, but those handouts should be above board for all to see and make a judgement upon.

Corporate welfare can at times be justified, but taxpayers need to approve of its true value.

We are talking about good old fashioned democratic principles here, nothing else.

Posted by Chris Harries on 11/03/10 at 03:59 PM

29. On the issue of discounts last time figures were available

High Voltage customers were paying \$130 per kilowatt year.

Domestic Customers were paying around 12cents per kilowatt hour which equals \$1051 per kilowatt year.

So the discount was a factor of 8.08.

My problem with this is the fact that our government keep saying they want a user pays system. So what we get is that the small user pays for the large user.

It costs a motza to build dams, power stations and transmission lines and to maintain them. Then we give the power away cheaply to the people who use the most.

I know that Red Bob and Lake Slime think this is fine.

These companies make Millions in profits, they aren't doing this for altruistic reasons, and I reckon that some of the profits should be used to pay for the costs of making them.

Sure they create jobs, mostly pretty dull jobs, but they also take away barrow loads of cash.

They don't freight bauxite all the way to Tassie to melt it down because they like us.

Posted by Pete Godfrey on 11/03/10 at 04:52 PM

30. Pete (#29) You are probably correct, I was using a factor 4 - 5 to be on the conservative side.

Red and Slaked are obviously quite nervous about their contracts but I don't think they need to be. That system has been in place for some 50 years and it's not likely that any Tasmanian government any time soon would want to touch it. (Unless the Hydro goes belly up.)

To be more correct, it is Treasury officials who call the shots when those contracts are drawn up and no government department has more control over executive government than does Treasury.

We'll probably be debating this same issue again in 2020 and the same arguments about the need for secrecy will prevail. Yawn!

Posted by Chris Harries on 11/03/10 at 05:11 PM

31. If the state-owned electricity companies tore up the contracts with their three biggest customers, then what would happen? The big three would pack up shop.

And what would happen if all the other states also tore up their agreements, where would these power intensive companies go?

Our state government has a long history of underpinning large industrial firms at the expense of the public. It is amazing, that although they claim to be socialists, they are far more akin to extreme capitalists in their actions.

If you need water, farm land, electricity, forests, infrastructure, rather than pay for it at commercial prices, all you have to do to acquire it cheaply is to make large donations to party funds, host a few dinners and overseas trips, and our complicit government will throw both the taxpayers money and the State assets right into your lap for an absolute song.

Democracy only exists in the short period between elections, and when the baby-kissing-hand-shaking-hospital-visiting-pensioner-coddling period is over and the results are in, they revert to form and back to spreading the largesse towards their industrial sponsors. Three years on, they will be saying, “let’s forget what happened in the past, don’t look behind, let’s only face forward to the future.” And they will promise to fix education, (again) housing, (again) the health system and hospitals (again)they will come up with a plan for the forests, (again) infrastructure and roads, (again) and all the old favourite chestnuts and hope that the public memory is short enough not to realise the deceit that is being perpetrated upon them,(again)!!!

Posted by Gerry Mander on 11/03/10 at 05:56 PM

32. It’s about time all those employed by right wing think tanks re-read their Ayn Rand and Ludwig von Mises.

Free enterprise originally meant not only freedom from government interference but absence of government hand-outs. What kind of mongrel economy do the laborials think they’re running? An E.E.E. (Electoral Enterprise Economy)?

Posted by Dismord on 11/03/10 at 07:03 PM

33. I am surprised some do not get the idea of volume discounts. Not only are these three companies buying substantially greater volumes of electricity than residential customers, they are also locked into a regular supply. That means the supplier

knows they have a buyer for their wares, week in, week out, into the long term - a guaranteed revenue stream. So, yes, substantial discounts will be given. This is not unique to Tasmania either, with the same practice seen interstate and around the world. The only argument here seems to be that we - Tasmanian voters - should have a say in the contracts because our Government owns the energy company. Well, there's a good argument for selling the Hydro. But putting that aside, why should we expect to even see the contracts? The Government appoints a board to run the Hydro and legislates for that board to be run as a commercial enterprise - like any other business. Expecting that board to then make public its commercial arrangements with its major customers would be trying to have your cake and eat it too.

Posted by Red Bob on 11/03/10 at 07:03 PM

34. But putting that aside, why should we expect to even see the contracts? The Government appoints a board to run the Hydro and legislates for that board to be run as a commercial enterprise - like any other business. .... Red Bob

Unfortunately it is NOT like any other business. If it were, they would be expected to return a profit, not live off perpetual subsidies. They are also playing with OUR money, not their own, and all this 'commercial-in-confidence' rubbish is a sure sign that something unsavoury is afoot. By not allowing their contracts to be seen is only to protect their own backsides and to hide what they are doing for their cronies.

Posted by Gerry Mander on 11/03/10 at 07:18 PM

35. Dear Oh dear Red Bob, the government apologists must be working overtime.

Posted by Ian Rist on 11/03/10 at 07:24 PM

36. Regarding 34 and 35, out come the conspiracy theories right on cue. Yes, yes, Tasmania is corrupt.

Anyone who doesn't agree with you is in on the conspiracy. Corrupt, corrupt, corrupt. Say it as many times as you like, it doesn't make it true.

Posted by Red Bob on 11/03/10 at 07:45 PM

37. #26 - Red, the point is that ordinary Tasmanians have to pay extra for services when money is diverted into subsidies. It's called cross subsidisation and that's a hell of a lot of money to exact from taxpayers just for the few 'jobs' delivered. Also volume discounts are a bad idea when what is being discounted is a valuable resource that can easily be sold for full price. It's like giving a volume discount for buying gold - dumb.

Posted by Mike Bolan on 11/03/10 at 08:14 PM

38. #36 Red Bob - actually, you are the first person on this thread to use the term "corrupt". You then attribute this to others you disagree with and then claim that they are promoting "conspiracy theories". But since you have introduced the term "corrupt" to the debate, it reminds me of the statement by Norm Sanders (I think when he was a member of the Tasmanian House of Assembly between 1980 and 1982) that (and I'm paraphrasing just a little) "Many people say Tasmanian politicians are corrupt. I don't believe it: they are so dumb they do it for free".

Posted by Editor on 11/03/10 at 08:46 PM

39. 36.Regarding 34 and 35, out come the conspiracy theories right on cue. Yes, yes, Tasmania is corrupt. Anyone who doesn't agree with you is in on the conspiracy. Where do you find that these are 'conspiracy theories'? These are not theories, these are observations! As you say, 'Yes, yes, Tasmania is corrupt.' The conspiracy is for all the government stooges to combine to deny this.

Posted by Gerry Mander on 11/03/10 at 09:04 PM

40. Red Bob:

“If the state-owned electricity companies tore up the contracts with their three biggest customers, then what would happen? The big three would pack up shop. Then what happens to those who lose their jobs, what about the payroll and other taxes paid by those big three companies, what of the flow-on effect in the community?”

Bob no one who wants change, and a fairer deal for Tasmania, advocates tearing up contracts and having the big three pack up shop immediately with instant substantial job losses, depletion of tax revenue etc.

What we want lies somewhere in the spectrum of:

- \* higher prices to the big three, reducing the damage they inflict on the Hydro's finances (and ultimately the Tasmanian taxpayer)

- \* higher prices that compel the big three to invest in new, more energy efficient plant, or close down the oldest, least energy efficient parts of their operations

- \* higher prices that give any of the big three that won't pay and won't invest a clear signal that the rorting has to end.

And there would have to be effective programs throughout to help displaced workers to retrain or retire with dignity. In other words, a carefully managed program of structural adjustment.

Red Bob:

“I am surprised some do not get the idea of volume discounts.”

We do get it Bob, and there is nothing in what we have written to suggest we don't. We just don't think a volume discount of factor of 8.08 (source - Pete Godfrey #29) is a deal for Tasmania.

As you think bulk discounts are terrific, I have a question for you - what level of discount would you find UNacceptable - a factor of 10? 15? 20? Another question: do you have any idea what level of discount the number crunchers at the Hydro find unacceptable? I would suggest to you that they find

8.08 to be commercially unacceptable - and a very significant burden they dearly wish they could lift off their shoulders.

Red Bob again:

“The only argument here seems to be that we - Tasmanian voters - should have a say in the contracts because our Government owns the energy company.”

Bob that is not the only argument. In fact it is not even the core argument. There are lot of arguments in and around this thread and I suggest you read some of the posts more carefully to get abreast of them. Here are some points for you to consider:

- \* if Tasmania experiences more prolonged droughts, Hydro will have to import more and more power at greater and greater cost from Victoria to fulfil its contractual obligations to gift bulk electricity to the big three consumers. This could cost you and every other Tasmanian a lot of money.

If one or more of the bulk contracts was substantially revised in Tasmania’s favour or even terminated:

- \* a great deal more of the hydro electricity generated could be sold at peak times and peak tariffs via Basslink to mainland Australia

- \* electricity production could be reduced whenever the hydro storage reservoirs were depleted by drought, restoring some degree of energy security to the system

- \* the ability of the hydro system to make electricity available instantly could enable integration of substantially more eco-friendly wind power into the Tasmanian and national grids

- \* the inevitable increases in domestic and general business electricity tariffs could be moderated, for the benefit of all Tasmanians.

Posted by Peter Fagan on 11/03/10 at 09:07 PM

41. At \$0.05c per kwhr, about 1/3 of the domestic retail price, the power used by the bulk consumers

mentioned would provide each of the 1400 employed with an annual payment of \$156,478.00.

It's not about abolishing the jobs, its about a fair price for the investment made by Tasmanians. If Carbon is priced or taxed the bulk users in Tasmanian will make a windfall profit. Hydro power has an intrinsic unrealized value in the nature of its emissions post construction that should not simply be absorbed as a windfall by these corporations.

As pointed out above who is the seller here. Tasmania has a resources attractive to energy intensive industries in a carbon constrained world and if such a world does not appear no job will be worth having. Therefore Tasmania can negotiate a price increase when the contracts become due and if the big users decide that elsewhere is cheaper then someone else may want Hydro power provided the rain keeps falling into the future.

Posted by phill PARSONS is beyond salvation on 11/03/10 at 09:17 PM

42. #37 Mike Bolan. A most succinct answer to the entire of this article.

The greater the bottom line result after a year's trading, (heavily discounted energy costs,) the greater volume of gold that can then be purchased.

Posted by William Boeder on 11/03/10 at 09:41 PM

43. Re: 38, you might wish to read the thread a little more closely Lindsay. I assume it's Lindsay and not someone calling themself `Editor'. How are you by the way Lindsay?

While I may have been the first in this particular thread to use the word `corrupt', you can't say others haven't alluded to that in this thread and that the word is not commonly found on other threads.

In post 1, there is a reference to a form of bribery; post 9 refers to vested interests pulling the right strings; post 12 said the current Liberal and Labor

politicians generally sell their souls to the highest bidders - need I go on?

The fact is it would be intellectually dishonest to deny that several posters on this thread have suggested that there is corruption afoot.

My `conspiracy theory' comment was in relation to comment 35 by Ian Rist, who was suggesting I am a Government apologist - not a new claim that he has made against me or others. On a number of occasions, if Ian does not agree with someone he has claimed that they work for the Government or otherwise have an interest. This is specifically in relation to the fox issue. But now he has extended it into this thread. So for having a different opinion, I am clearly part of the conspiracy.

I would generally agree with your quote of Norm Sanders. If the question is whether a politician is corrupt or stupid, it would more likely be the latter. But, on the whole, I have a much positive view of our politicians - from all sides.

Posted by Red Bob on 11/03/10 at 09:50 PM

44. There are two conversations that stick in my memory from the late 1980s about the secret deals the Hydro Tasmania has with the bulk power consumers.

The first was with an employee of a major Australian energy consulting firm who introduced himself after I gave a presentation at a seminar critiquing of the HEC's power forecasting and pricing policies. He explained that part of his job for corporate clients was to work out to a high degree of precision the cost of power supplied to their commercial rivals so that they could benchmark their comparative cost structure.

A year or two later I ended up sitting next to the managing director of one of the Tasmanian bulk power consumers on a flight to Melbourne. (Yes, a corporate executive traveling in economy class!). The

conversation turned to the bulk power contracts and the secrecy surrounding them. I asked him if it was true that companies could find out their commercial rivals power prices with a high degree of precision via energy consulting companies. I put it to him that if this was true, then the secrecy over the bulk power prices had nothing to do with protecting the competitive position of companies but everything to do with preventing the Tasmanian public from gaining a better deal for the sale of their resource. To my astonishment he agreed with me. He explained that after he started in the job, which was at a time when the debate over the contracts was prominent in the Tasmanian media, he hired an energy consultancy company to tell him how much his company was paying under its bulk power contract with the HEC. "It was out by only a fraction of one percent," he told me. He explained that he personally agreed that the contracts should be made public.

Twenty years later the same debate continues. Defenders of secrecy suggest that there is no need for the public to know the details commercial agreements. "Trust the government/Hydro Tasmania to do the right thing by us", the storyline goes. But we shouldn't. The secrecy surrounding the bulk power contracts is all about preventing the Tasmanian public making informed decisions about the sale of public resources. Secrecy is dressed up as a virtue and corporate self-interest equated with the public interest. The reality is that the secrecy surrounding the bulk power contracts and prices is all about keeping out of public view the biggest rent-seeking scam around.

Posted by Bob Burton on 12/03/10 at 04:51 AM

45. Red Bob I suggest YOU read # 35 again - carefully.

What I said was THE "the government apologists".

Where did I say specifically “you” ?

Where did I use the word  
corrupt”?

Where did Gerry use the word “corrupt” in #34?

Now come on [redbananas1928@hotmail.com.au](mailto:redbananas1928@hotmail.com.au)  
try and be specific.

When the Editor corrected you on the word “corrupt”  
in # 38 you were actually commenting on three  
separate threads...all a bit confusing for you is it Red  
Bob?

Posted by Ian Rist on 12/03/10 at 05:53 AM

46. Beautiful! Editor, #38, ain't that the truth. Too stupid to ask more than their salaries for their acquiescence, and, over the years, too many of them too stupid to earn any more anywhere else. Do we really expect them to understand what they're actually voting for? Many of them have not one clue about the purpose of their election as our representatives, let alone the impact and import of the legislation they agree to on behalf of someone. Just got a copy of Norm Sanders' book “A Time To Care”, which I will now re-read 30 years later. I expect a distinct lack of change to be evident.

Posted by Mark Hanna on 12/03/10 at 11:08 PM

47. Red Bob(#33) “I am surprised some do not get the idea of volume discounts. Not only are these three companies buying substantially greater volumes of electricity than residential customers, they are also locked into a regular supply. That means the supplier knows they have a buyer for their wares, week in, week out, into the long term - a guaranteed revenue stream”.

With some volume discounts, yes. With “Comalco” (et al) and the Hydro, no. What the Hydro knows is that they are locked into a guaranteed NEGATIVE revenue stream. Bleeding, week in, week out. Forced to spend heaps on almost continuous imports from Victoria. Compelled to drain Great Lake dry when

they could be banking up the resource for a non-rainy day.

There was once a time when the *raison de etre* of the good old HEC was build! build! dams, dams dams. And of course it seemed to make sense to have someone big to sell all that energy to, to justify their own existence.

Not any more. Small wonder that as quoted in Bob Burton's article "the normally reserved Hydro Tasmania (noted) in its 2008 annual report that "the average cost of generation was significantly higher than the prices received under existing long-term contracts with major industrial customers."

And we could be exporting our clean energy at a decent price. Or even encouraging a diversity of less power-hungry industries to set up here.

Just amazing.

Posted by Neil Smith on 12/03/10 at 11:08 PM

48. Bob Burton - you say that energy consultancy companies can effectively calculate the price paid for electricity by bulk users, and your inflight neighbour tells us that when he did just that the price they calculated was out by less than 1% of the true figure. So what is stopping anyone - TasTimes readers, for instance - from coming up with the \$\$\$ required to hire an energy consultancy company, contract them to work out a few prices, and publish those prices for all to see?

Posted by Abe on 13/03/10 at 02:13 AM

- See more at:

<http://tasmaniantimes.com/index.php?/weblog/article/the-big-power-subsidies-the-free-marketeers-wont-talk-about/#sthash.9IgXiJns.dpuf>