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HD **ACCC pulls plug on AGL expansion**

BY Brian Robins

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Energy - Sales of state plants now in doubt

The decision by the competition watchdog to block energy giant AGL's purchase of Macquarie Generation, the largest generator in the national electricity market, may limit future government sales of large electricity plants.

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"Government can't sell remaining [electricity] assets," one industry consultant said on Tuesday, following the decision by the Australia Competition and Consumer Commission. "The exchange of assets is now problematic."

The decision prompted the NSW government to withdraw Macquarie Generation from sale on Tuesday.

Buying Macquarie Generation for $1.5 billion would have resulted in AGL's generation capacity matching its market position, making it more valuable to AGL than other bidders. Low bidders included ERM Power, which has a smaller market position.

Power generators and retailers are seeking to merge to remove market risk as state governments quit the sector, Professor John Quiggin of the University of Queensland said, with private monopolies emerging to replace public monopolies.

Splitting the generators from the retailers "created risks that didn't exist before", he said.

"The market reform process was misconceived from the start. We need to abandon the notion that the market can do all of these things."

Buying Macquarie Generation would have resulted in AGL owning the largest generators in New South Wales, Victoria and South Australia.

As a result, ACCC chairman Rod Sims said he was concerned about the "likely competitive impact of the proposed acquisition in one or more of the wholesale electricity markets in these regions".

The deal would "prevent vigorous competition with AGL, Origin and EnergyAustralia", he said.

In NSW alone, these three would have controlled as much as 80 per cent of generation capacity if the sale went ahead.

The three already control as much as 95 per cent of market demand for electricity.

"This is likely to raise barriers to entry and expansion for other electricity retailers in NSW and therefore reduce competition," Mr Sims said of the proposed deal.

NSW Treasurer Mike Baird said the government could break Macquarie Generation in two. But a spokesman for Mr Baird said "there is no Plan **B** although a **sale** may be looked at again in a year or so, if asset values change".

The government is also seeking to offload its remaining power generators - Delta's central coast **operations**, along with a clutch of renewable generators.

Macquarie's Bayswater and Liddell stations can produce a combined 4.64 megawatts of electricity, equal to 40 per cent of NSW's total demand and 15 per cent of the national electricity market. They are the lowest-cost generators in NSW.

Earlier, Origin **Energy** bought Eraring, which has 2.88 megawatts of capacity, from the NSW government, while **Hong Kong**-owned EnergyAustralia acquired Mount Piper (1.4 MW) and Wallerawang (1 MW). One of Wallerawang's two units has already been idled due to weak demand and low prices, with the second to be turned off at the end of the month.

The ACCC said the AGL deal would cause a "significant reduction both in hedge market liquidity and the supply of competitively priced and appropriately customised hedge contracts to second tier retailers competing in NSW.

"In particular, it does not appear likely that the remaining non-aligned generators in NSW, Delta Coast and Snowy Hydro, would be able to provide a sufficient quantity and type of hedge cover to be able to adequately service the requirements of second-tier retailers," Mr Sims said.

AGL undertook to ensure that during times of high electricity demand, some capacity would be provided to smaller retailers, but this was insufficient to offset the ACCC's competition concerns.

CO macgen : Macquarie Generation | agkega : AGL Energy Limited

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