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HD **Blocked MacGen deal stymies NSW sales**
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Electricity - ACCC scuppers AGL bid

The decision by the Australian Competition and Consumer Commission to block the **purchase** by AGL of Macquarie Generation, the largest generator in the national electricity market, may limit future government sales of large electricity market assets.

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"Government can't sell remaining [electricity] assets," an industry consultant said on Tuesday, following the ACCC's decision.

The competition regulator's decision prompted the NSW government to withdraw Macquarie Generation from **sale** on Tuesday, although it may reassess a **sale** in a year or so if asset values change, an official said.

Buying Macquarie Generation for \$1.5 **billion** would have resulted in AGL's generation capacity matching its market position, which made the deal more valuable to AGL than the other bidders.

Professor John Quiggan, of the University of Queensland, said power generators and retailers were seeking to **merge** to remove market risk as state governments were quitting the sector.

Splitting the generators from the retailers "created risks that didn't exist before," he said. "The market reform process was misconceived from the start."

Buying Macquarie Generation would have resulted in AGL owning the largest generators in NSW, 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 AGL bought Macquarie Generation. They already control as much as 95 per cent of the 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 split Macquarie Generation. However, a spokesman for the Treasurer 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 sell its remaining power generators - Delta Electricity's central coast **operations**, along with a clutch of renewable generators.

Origin **Energy** earlier bought Eraring (2.88 megawatts of capacity) from the NSW government, while **Hong Kong**-owned EnergyAustralia acquired Mt Piper (1.4MW) and Wallerawang (1MW), although one of its two units has already been made idle because of weak demand and low prices. The second will be turned off at the end of the month.

The regulator 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 ... 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 had said it would provide some capacity to smaller retailers during times of high demand, but this was not enough to offset the ACCC's concerns. "When the ACCC approved AGL's **purchase** of Torrens Island [in South Australia], no one thought AGL would exercise market power, which it has," an industry observer said. "The ACCC has learnt its lesson."

CO macgen : Macquarie Generation | agkega : AGL Energy Limited | auccc : Australian Competition and Consumer Commission

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