

18 September 2012

Committee Secretary
Senate Select Committee on Electricity Prices
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Dear Sir / Madam

Re: Senate Select Committee on Electricity Prices

Hydro Tasmania is the largest clean energy producer in Australia and, as a material participant in the National Electricity Market (NEM), has a significant interest in the work of the Senate Select Committee on Electricity Prices.

Hydro Tasmania would like to make the following high level observations that are relevant to the inquiry and its broad terms of reference:

- Decarbonisation of the electricity sector and behavioural change amongst electricity consumers are key elements of Australia's transition to a low carbon economy. For both of these to occur, it is critical that electricity pricing reflects the cost of environmental externalities.
- We believe there is significant opportunity to develop market based demand side mechanisms which can significantly reduce peak demand and hence reduce network investment. The most fundamental of these is time-of-use tariffs and overseas experience should be considered so we can learn from the experience of others.
- Improved energy efficiency has a key role to play in mitigating the impact of rising electricity prices. Appropriate market driven measures that overcome the well documented barriers to the uptake of energy efficiency measures, and that facilitate the entry of competitive energy service businesses will be important in achieving this outcome.
- Realising opportunities and removing barriers is an essential role for policy intervention. This is particularly important to ensure the deployment and uptake of existing and emerging technologies that empower consumers, constrain peak demand and support a significant increase in renewable energy generation in the NEM (for example, Distributed Generation, Demand Response, Smart Meters, Energy Storage). The current carbon price, RET and complementary funding streams (such as ARENA) that span the clean energy innovation spectrum are key measures in this regard. The stability and certainty of such measure is vital to investment.
- The National Energy Customer Framework (NECF) provides the mechanism for a single set of laws and rules governing energy retailing in Australia and therefore represents an important milestone in the deregulation of Australia's energy industry. Hydro Tasmania supports the full implementation of the NECF across all NEM regions as soon as practical since this will provide small energy consumers with increased consumer protection and the ability for retailers to have common contracts and processes across multiple regions.

- It is critical that the interests of vulnerable electricity consumers are protected as the electricity market evolves. Energy retailers, such as Momentum, play an active part in helping customers to manage their energy bills through, for example, the provision of energy efficiency advice, referral to third-party financial counselling services, the offering of payment plans, supplying customers with information about government concessions and subsidies for medical equipment. While Hydro Tasmania acknowledges the essential nature of energy, we believe that energy affordability is a shared responsibility between government, energy market participants and the community. Electricity markets should contribute lowest sustainable cost energy. Policies to address customer welfare concerns should be made outside of the market since these policies can be effective in providing support to particular customer segments without distorting market dynamics and investment signals.
- Any support for small scale technologies should be nationally consistent and compliment funding mechanisms such as ARENA.
- For many years Hydro Tasmania has acknowledged the need for carbon pricing and emissions trading in order to support clean energy development and deployment. Carbon pricing and emissions trading will, however, be insufficient to drive the scale of investment needed in clean energy technologies to transition to a low emissions economy. In the short to medium term, complementary measures such as the national Renewable Energy Target (RET) along with investment in research, development and demonstration will also be essential.
- A number of studies have clearly demonstrated that Government support for clean energy has not been the main driver of recent increases in electricity prices. Independent analysis commissioned by the Clean Energy Council notes that Government support for renewable energy makes up 7.8% of an average household electricity bill; this compares to 41% related to network charges. And by 2020, the relative contribution of Government support for renewables in a household's annual bill is expected to decrease to 3.8%.
- The Productivity Commission noted in their review of network regulation that "rising network costs have been the primary driver of electricity price increases over the last five years." Reviews currently underway on network arrangements (including the PC review and the AEMC) may provide recommendations on ways to further improve network pricing outcomes for consumers. We suggest that the Committee waits for the conclusion of these reviews before recommending further policy changes.
- Wholesale electricity spot prices are not a driving force behind increases in consumer prices. Wholesale spot prices are lower today than they were at the beginning of the NEM (AEMO data).
- Australia is increasingly becoming linked to global energy markets; this will make Australia's market more influenced by international market dynamics, which may lead to increases in national electricity production costs in the years ahead. Governments and regulators accept that the price consumers pay should reflect production costs. Established market mechanisms offer the most efficient way to ensure that the price consumers pay as a result of production cost pass-throughs is the smallest possible. Government interventions that seek to suppress the efficient pass through of costs will have negative impacts on investment, and consequently on electricity supply outcomes.

We welcome the opportunity to provide the Committee with further information about the contents of this submission or any other issues.

Yours faithfully

Kate Gillies
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