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Tasmanian
Government

17 SEP 2012

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



Dear Committee Secretary

On behalf of the Tasmanian Government, I am pleased to make this submission to the Senate Select Committee on Electricity Prices.

The Tasmanian Government considers that all Australian governments must be vigilant as to the effectiveness of regulatory and market arrangements in the electricity sector, to ensure that these arrangements continue to operate in the long term interests of consumers. Recent rises in electricity prices have brought these matters into very sharp focus.

Tasmania has acted decisively in recent times to address rising electricity prices.

In 2010, the Tasmanian Parliament established an Expert Panel to consider a range of issues in the Tasmanian electricity market, including:

- the efficiency and effectiveness of the Tasmanian energy industry, with particular reference to the existing regulatory framework and the cost and operation of the energy industry elsewhere in Australia;
- the primary factors that have driven recent increases in small customer electricity prices in Tasmania, including the impact of major infrastructure development decisions;
- the competitiveness of small customer electricity prices in Tasmania compared with those in other states;
- the implications of Tasmania's market and regulatory arrangement for electricity prices over the coming years; and
- actions that would guide and inform the development of a Tasmanian Energy Strategy particularly in relation to the Government's primary objectives of minimising the impact on the cost of living in Tasmania and ensuring Tasmania's long term energy sustainability and security.

The Expert Panel reported to Parliament on 29 March 2012 and I, in my capacity as Minister for Energy and Resources, announced a reform package in response to the issues raised on 15 May 2012.



The key features of the reform package are:

- full retail competition will be introduced from 1 January 2014;
- the Government will sell and transfer Aurora Energy's retail customers in blocks to new, competing private sector retailers, from the start of FRC on 1 January 2014;
- Aurora Energy's distribution system and Transend Networks' transmission network will be integrated to form a single combined network business. The businesses will be merged from 1 July 2014; and
- independent regulation of Hydro Tasmania's wholesale market activities by the Tasmanian Economic Regulator from 1 July 2013.

In addition to these significant reforms, the Tasmanian Government and the electricity businesses that it owns have taken a series of decisive steps to provide price relief to Tasmanian electricity customers from 1 July 2012.

The Tasmanian Government has changed the way the Tasmanian Economic Regulator calculates regulated maximum prices for households and small businesses. This reduced the price increase on 1 July 2012 by seven percentage points on average, at an annual cost to the Tasmanian Government of \$37 million. This will be funded from the proceeds that Hydro Tasmania is expected to make arising from the introduction of the carbon price.

Tasmania's government-owned electricity distribution and retail company, Aurora Energy, has adopted a vision of ensuring that Tasmanian electricity customers experience no avoidable price increases. The submission that Aurora Energy made to the Australian Energy Regulator in relation to the regulation of its distribution services for 2012-2017 included a significantly reduced capital program compared to that proposed for previous regulatory periods. Over the past decade, Tasmania has completed a significant replacement program of ageing distribution assets and the scaling down of this program has allowed Aurora Energy to develop a more modest capital program into the future. The business is also finding efficiencies in its operating and maintenance costs and corporate overheads.

Further, Aurora Energy asked the AER to smooth the under-recovery of its distribution services revenues from previous years, arising from lower electricity consumption than forecast, which reduced the price increase on 1 July 2012 by almost two percentage points on average. This provided price relief to households and small and medium businesses in 2012 and avoided a potentially counter-intuitive outcome where prices may otherwise have increased substantially in 2012 and then decreased almost as substantially in 2013.

The result of these decisions is that the AER has approved revenues for Aurora Energy's distribution services that will increase prices to customers by three per cent in 2012 and then decrease in real terms for the next four years. I am advised that Tasmania will be the only state or territory in which distribution prices are forecast to decline in real terms.

In addition, Tasmania's government-owned transmission services company, Transend Networks, has elected not to increase revenues by the extent allowed by the AER and will only increase revenues by 0.5 percentage points less than the increase in the Consumer Price Index. This reduced the potential price increase on 1 July 2012 by more than three percentage points on average for households and small and medium businesses. This was also important for some major industrial customers that have expressed concerns over sharply rising network costs in recent years.

While the Tasmanian Government and the Tasmanian government-owned businesses have acted decisively and effectively to place significant downward pressure on electricity prices, I remain concerned that these actions have relied on the good will of the businesses themselves and their willingness to accept lower revenues than those that may have been allowed under national regulatory frameworks.

For this reason, Tasmania is keen to share its recent experience and will continue to participate actively and willingly through the Standing Committee on Energy and Resources in examining further actions that may assist, particularly in regard to reforms to the national electricity market and national regulatory frameworks where it can be demonstrated that these actions are in the long term interests of consumers.

Tasmania has been an active participant in national energy market reforms. The most recent example of this was the commencement of the National Energy Customer Framework in Tasmania on 1 July 2012. This suite of reforms removes the requirements for retailers to hold separate licences in each jurisdiction, and reduces compliance costs while maintaining a robust regulatory framework for customer protection. Adoption of the NECF by all participating jurisdictions will deliver improved capacity for competition and reduced compliance costs, both of which will benefit customers. Tasmania has already seen new entrant retailers into the Tasmanian electricity market, immediately following the commencement of the NECF. We would urge other jurisdictions to join Tasmania and the ACT in adopting the NECF to ensure that the benefits of a single regulatory framework can be maximised.

Owing to climatic and other factors, Tasmanian customers are relatively more reliant on electricity for household space heating. Given this, the Tasmanian Government provides a generous annual electricity concession for those who are most vulnerable in the Tasmanian community. For 2012-13, the concession is around \$450 per eligible customer and in total \$152.5 million over four years has been committed for the concession to support low income households.

With the Government's support, Aurora has also recently convened a Vulnerable Customer Stakeholder Reference group to inform the work of Aurora and the Government in supporting those most in need. This group has been formed in addition to the Customer Consultative Committee that advises the independent Tasmanian Economic Regulator, who has responsibility for the regulation of electricity retail prices for small customers in Tasmania. Tasmania thus has strong advocacy channels for consumer representation in the electricity industry.

The Tasmanian Government has also provided funding of \$5 million over two years to help ease cost of living pressures for Tasmanians most in need. This will support: a house warming program that can build on existing energy-efficiency initiatives for draught-proofing homes (including curtains and insulation to eligible households); energy-saving advice and help with the cost of heat pumps and other energy-efficient appliances; and an emergency relief fund so Tasmanians on low incomes can receive financial counselling and help to manage rising household costs.

The Tasmanian Government has also committed \$6 million over the next two years to support improvements in energy efficiency for public housing tenants.

Finally, I would like to reiterate the Tasmanian Government's position that its core hydroelectric generating assets and its transmission and distribution infrastructure will remain in public ownership. The success that the Tasmanian Government has had in placing significant downward pressure on electricity prices has depended heavily on the public ownership of these assets.

Thank you for providing the opportunity to make a submission to the inquiry and I wish the Committee well in this important work.

Yours sincerely

Bryan Green MP
Acting Premier