



Enquiries to: Scott Morgan
☎: 6238 2901
✉: morgansj@hobartcity.com.au
Our Ref: 10-45-1
SJM:JAH
(o:\infrastructure services\letters
\professional services\independent review
of tas electricity sector - response to
issues paper 10 aug 11.doc)
Your Ref:

10 August 2011

Electricity Industry Panel – Secretariat
Electricity Supply Industry Expert Panel
GPO Box 123
HOBART TAS 7001

Dear Sir/Madam

INDEPENDENT REVIEW OF THE TASMANIAN ELECTRICITY SECTOR: ISSUES PAPER - COMMENTS

The opportunity to comment on the Issues Paper prepared by the Panel is appreciated.

The following comments have been prepared at the officer level of the Hobart City Council.

Council officers only have limited knowledge in some of the areas that the Issues Paper covers and comment is only provided where it is considered that there is enough information or experience available to provide informed statements. For instance in areas such the wholesale electricity market the Council has no direct involvement.

It is also noted that these comments have not been reviewed or endorsed by the Aldermen.

The comments are listed under the questions raised within the Issues Paper in the order the questions appear in Appendix 3 of the Paper.

1. Retail Sector

For contestable customers, how has the move to contestability impacted on electricity purchasing decisions, for example:

- *Changes in pricing levels, and how each part of the supply charge is contributing to these changes.*



Gold Award 2008

HOBART COUNCIL CENTRE, 16 ELIZABETH STREET, GPO BOX 503 HOBART TASMANIA 7001
TELEPHONE: (03) 6238 2711 TTY (03) 6238 2187 FAX (03) 6234 7109 AUSDOC: DX 198
E-Mail: hcc@hobartcity.com.au Internet: <http://www.hobartcity.com.au>
ABN 39 055 343 428



ISO 9001
CERTIFIED
QUALITY
MANAGEMENT SYSTEM

- *Pricing predictability.*
- *Contract duration.*
- *Spot market exposures.*

Having the supply charges split into several parts has provided options to investigate reduction in costs through such actions as the transfer of load from peak to off-peak period, though there is only a small potential to do so because of the nature of Council's operations.

Pricing has become somewhat more predictable for contestable sites, given that contract rates can be obtained for 2 or 3 year durations, while there have been some significant increases for non-contestable sites in recent years.

Based on two tenders to date, the preferred period for contract duration has been 2 years, in both tenders the charges for the 3rd year were priced significantly higher apparently due to risk considerations.

The Council has no exposure to the spot market, but through an agreement with its retailer it can share savings during periods of high spot prices through load shedding.

What have been the implications of these changes for business decisions?

The main issues which have been considered are the peak and off peak split in usage and potential for load shedding on request. Opportunities for energy efficiency and maximum demand reduction have continued to be sought, but these tend to be more related to the overall cost of electricity and maximum demand charges rather than any changes caused by contestability.

The ability of a retailer to contract with parties that have generation located in other NEM regions.

There haven't been any impacts obvious to the Council which are related to this issue.

While not specifically related to this issue, the fact that Tasmania is part of the NEM through Basslink will likely mean a flow through the higher electricity prices resulting from the proposed carbon pricing scheme, even though much of Tasmania's generation is based on renewable energy.

The effectiveness of retail participation and competition for larger commercial and industrial customers (Tranche 1 and 2) – what level of competition exists between the 5 licensed retailers and how has it changed since contestability has been introduced.

The Council has a total contestable load of about 11,000 MWh per year including one Tranche 2 site. Electricity supply has been tendered for twice and on each occasion two bids were received one from Aurora Energy and the other from ERM Power. There has been no contact from any of the other three licensed retailers and no changes since the introduction of contestability.

The effectiveness of retail competition for smaller commercial, industrial and business customers with the two existing active retailers – have customers observed strong competition on a consistent basis?

Unable to state whether there has been “strong” competition, but in tender submissions received pricing has been reasonably close on each occasion with some differences in terms and conditions. The second contract was awarded to a different tenderer to the first contract.

On the item about “*potential barriers to effective retail competition*” Council officers are unable to comment on detail about the issues noted.

One factor which has made the decision difficult as to whether to move a site to a contestable contract has been the time taken to install time of use meters. To obtain useful information about which is the best tariff to be on and whether one retailer’s charges are cheaper than the other the split between peak and off peak usage needs to be known. If it is not known and there is no suitable meter in place the customer either has to make a guess as to the split or install a temporary meter. This is expected to be a one off issue as it is presumed that potentially contestable sites will all have time of use meters installed.

In what ways has the regulatory framework delivered retail costs that are higher than would be delivered by a fully competitive retail market in Tasmania?

Unable to provide comment as have not reviewed information in sufficient detail.

The experience of contestable customers during the roll-out of retail contestability and outcomes of alternate retail options. What changes have customers observed?

Some changes that have been observed are:

1. The improved availability of detailed site usage information through web portals (made possible by the new time of use meters), which has assisted in analysing usage for potential savings and identifying issues (eg lights being left on at multi-storey car park during daylight hours following maintenance works) ;
2. Provision of information comparing tariff options, particularly where there is an alternative cheaper tariff available; and
3. Offers in regard to load shedding to save charges during high spot prices.

What customer outcomes have influenced contestable customers switching retailers?

The Council assesses the tenders from a cost, benefits and risk perspective through a detailed evaluation process. Two of the major issues outside of price are the risks associated with the terms and conditions such as “take or pay” provisions and provision of other services such as access to site usage data, etc.

Stakeholders' views on the proposition that weighting should be placed on potential value implications on Aurora Energy's retail business from the introduction of FRC, rather than on outcomes for customers.

Not enough detail is known about this to comment specifically, but in general terms it is considered that customer outcomes should be the main focus for any services provided by government or its businesses.

How can the ability of customers to participate in the market be improved through the way information is provided?

HCC sought third party advice when its Tranche 2 site became contestable, which, given the quantum of electricity being purchased was considered cost effective. However, for smaller electricity consumers this may be considered an excessive cost.

One way in which it may be able to help customers is to have a guide with a comparison of the terms and conditions of the standard agreements with each retailer. This may better allow customers to evaluate the non-price components of retailer offers.

Whether it is the role of the Government or the market to provide information for customers to make informed electricity purchasing decisions?

In the initial phase of the introduction of contestability it is considered that the Government would be the appropriate entity to provide information to customers to alert them to the issues and pitfalls in moving to a contestable arrangement. Over time it is considered that this should transition to the market as customers build up an understanding of issues as for other purchases of goods and services.

What forms of improved customer-related information could increase the overall effectiveness of retail contestability (e.g. Understanding of network prices, the ability to compare offers)?

While the Council now has the knowledge and capability to understand the cost components and has set up spreadsheets to compare offers, including estimates of risk, it is likely that customers with smaller usage may not have that capacity. It is considered possible that some simple tools could be made available to assist those customers in that situation.

2. Pricing

Whether it is the principle of a fixed daily charge or its level that is the major issue?

For large consumption sites the fixed daily charge is a relatively small component of the overall cost and it is thus not a major issue for such sites.

For small usage sites, it is acknowledged that there is a large fixed component to the cost of providing an electricity supply service and it is considered not unreasonable to have at least some level of fixed daily charge. The quantum of that charge is

considered to be largely a policy issue – a smaller fixed charge and higher per unit charge does provide a greater incentive to reduce usage.

The impact of the current tariff structure on demand management, energy efficiency and affordability.

Where variable costs are a higher proportion of the overall tariff there is greater incentive for energy efficiency and to manage demand than if fixed costs were the major component. It also allows users to reduce their bills by a higher degree by conserving electricity.

One issue that could perhaps be considered is the issue of whether it could be more effective to charge energy usage by unit of kVAh rather than kWh, where meters which can measure this are installed. While there is a requirement for the power factor to be maintained above a certain level such as 0.8 there is still significant inefficiency in using electricity if close to 0.8. The only price signal currently to improve power factor is through the maximum demand charge on some tariffs.

What examples of cross-subsidies do stakeholders think exist in the market and how do they arise?

It is difficult to say what cross-subsidies exist. There is a general perception that very large consumers get to pay significantly lower prices than other users, but whether this constitutes a cross-subsidy would need a detailed investigation of all cost inputs and how they are allocated.

There are obviously cross subsidies for remote areas at the extremities of the network and also perhaps for areas which have higher reliability supplies, but these are no doubt a policy decision about all users of a particular class paying the same tariff for the same usage.

3. Wholesale

As the Council is not a participant in the wholesale market it is unable to provide comment on the issues raised in this section.

4. Wholesale Pricing for Non-Contestable Customers

Again as the Council does not operate at the wholesale level it is unable to provide comment on these issues.

5. Network Issues

The Council is unable to comment on a number of the issues raised in this section, but there are comments in regard to some of the dot points as noted below:

When reliability standards are being proposed, how are pricing consequences considered? See below as response is for both questions.

Do customers recognise changes in service quality have pricing implications and how could the link between prices and standards be made more transparent?

Most customers would recognise that a higher level of service will cost more to provide. When consumers are being asked about what reliability standards should be applied to their sites, information on the cost implications also need to be provided for them to be able to respond reasonably. In some instances the Council has surveyed its ratepayers in regard to providing new services or a service to a different standard and has provided the change in costs that would apply. In these instances the responses have shown customers want best “value for money” in having preferences for a specific level of service and cost combination.

Given that the additional costs for higher reliability are dispersed across different tariffs and classes of customers it may, however, be difficult to provide information that customers can accurately gauge.

Most customers would no doubt prefer a higher service standard, and unless they are going to bear the full cost of that higher service standard directly they may well agree to higher reliability standards, because they are receiving the benefits without necessarily seeing the full costs.

6. Value Considerations of Major Investments

The extent to which the anticipated benefits of Basslink to Tasmanian electricity customers are being delivered and the value placed on those benefits by customers.

The main benefit of Basslink to date appears to have been ensuring sufficient electricity is available to customers during years of low inflow to the hydro storages. This has resulted in benefits of reliability of supply and no need to ration usage etc. If Basslink had not been installed there would have been a need to install additional generating capacity in Tasmania.

There has been a significant cost in terms of the payments for use of Basslink, when the construction of the link was promoted as providing Tasmania the opportunity to sell electricity to the mainland.

It is considered that the full value of Basslink is yet to be realised and will continue to be the case until additional renewable energy generation capacity is installed in the state.

If a primary role of the Tamar Valley Power Station (TVPS) is hydrological risk management, how should the full costs of the TVPS be funded over time?

In general terms, it is considered that to be equitable all of those users of electricity who would benefit from having a more secure electricity supply as a result of the TVPS should pay for its operation.

Stakeholder views on the trade off between the preservation of value of the TVPS asset and non-contestable customer prices.

This will depend on whether the preservation of value has significant implications such as having an effect on cost of interest or sourcing of funds or if it is solely an accounting issue. Not knowing this sort of information the Council is unable to provide a view on this.

In the event that a carbon pricing mechanism delivers significant increase in the value of Hydro Tasmania, how ought that additional value be utilised?

This is a policy issue, however one of the competitive advantages of Tasmania is renewable energy and it is considered that it would benefit Tasmanian businesses and consumers if any additional income from carbon pricing could be used to reduce electricity costs.

7. Governance

The issues raised in this section are largely seen as policy issues for the State Government as owner of the businesses to determine.

It is noted that the Hydro and the retail arm of Aurora Energy (for contestable sites) are in a different situation to the transmissions and distribution businesses as they are competing in the NEM for customers and thus subject to commercial pressures of the market place. Transend and Aurora Energy distribution businesses are in effect monopolies and this means that their objectives are probably more impacted by Government policy.

The setting of objectives for the SOEBs should be such that they don't impede the improvement of business performance and achieving an economically efficient electricity sector.

A general comment about return on investment is that where consumers are charged more to generate a higher return, then the additional costs will put upward pressure on the CPI both directly and also indirectly as organisations such as the Council have to pass through the higher costs. For many consumers it is probably preferable to have a lower return on the community's investment if it means lower electricity costs.

Other Issues

One issue that the Council would like to have considered is that of permitting contestability in the energy pricing component of streetlighting as provided by Aurora Energy. Under the interpretation of the current legislation each streetlight is considered a separate "site" and thus is deemed to be Tranche 5 and not contestable.

It is a significant issue that streetlights are largely, if not totally, unmetered. However, the hours of operation are largely known and there is a limited number of light types of known wattage ratings and thus electricity usage and time of use can be estimated to a fairly accurate degree.

The aggregate electricity consumption of streetlighting provided to the Council by Aurora Energy is about 3,200MWh per annum, equivalent to a Tranche 3 site.

It is noted that the Australian Energy Regulator will be taking over the role of regulating streetlighting pricing from next year.

It is largely the energy component of pricing that the Council would like to have considered for contestability, given that Aurora Energy is legislated as the provider for lighting on Aurora Energy poles and pricing for other components of the pricing would be regulated.

If you need clarification on any of the points raised please contact Scott Morgan, Group Manager Professional and Support Services on 6238 2901.

Yours faithfully

A handwritten signature in black ink, appearing to read 'N. D. Heath', written in a cursive style.

(N. D. Heath)
GENERAL MANAGER