



Electricity Supply Industry Expert Panel

Statement of Approach
Response to Submissions
March 2010

1. Background

The Panel released its *Statement of Approach* on 16 December 2010. The *Statement of Approach* explained the Panel's understanding of its Terms of Reference and outlined key elements of the Panel's anticipated approach in undertaking its Review.

Submissions were invited in response to the *Statement of Approach*. The Panel's intention was to give interested parties the opportunity to provide feedback to the Panel regarding its interpretation of its mission and its approach, and to identify additional areas of interest that the Panel had not canvassed, but are relevant to the Terms of Reference.

The period for submissions closed on 10 February 2011. The Panel received some 17 submissions, all of which have been posted on its website (www.electricity.tas.gov.au). Submissions were received from:

- ▶ Anglicare Tasmania;
- ▶ Aurora Energy Pty Ltd;
- ▶ DA Consulting ;
- ▶ Derby Products;
- ▶ Energy Users Association of Australia (EUAA);
- ▶ Goanna Energy;
- ▶ Mr Greg Todd ;
- ▶ Hydro Tasmania;
- ▶ Mr Ian Peck;
- ▶ National Electrical Contractors Association (NECA);
- ▶ National Generators Forum (NGF);
- ▶ Ms Penny Cocker;
- ▶ Mr Peter Schulze;
- ▶ Robin Maguire;
- ▶ Tas Gas Pty Ltd;
- ▶ TasCOSS; and
- ▶ Transend Networks Pty Ltd.

The purpose of this Paper is to highlight the broad themes identified in the submissions and to explain the Panel's response to those themes. The paper does not seek to report in detail the contents of individual submissions, or canvass all of the view expressed in them.

In the main, the submissions tended to put forward specific issues that interested parties believe the Panel should address in meeting its Terms of Reference, rather than identifying different interpretations of the intent of the Terms of Reference than that of the Panel.

2. Issues in relation to Scope

The broad themes that stakeholders considered should be within the scope of the Panel's Review included:

- ▶ relevant national and international developments and to be considered as a part of the Review;
- ▶ the potential for the further roll-out of retail contestability, and a review of the current experience of contestable customers;
- ▶ the effectiveness of the current wholesale market arrangements in Tasmania;
- ▶ the impact on shareholder value when of the potential reforms being considered in the Review;
- ▶ the implications of Government ownership of the electricity entities;
- ▶ the drivers of network costs;
- ▶ opportunities for the development of effective inter-fuel competition in Tasmania, particularly natural gas;
- ▶ the structure of electricity tariffs, and their implication for customers and their energy choices;
- ▶ consideration of capacity to pay issues in framing recommendations for reform;
- ▶ the existence, nature and extent of cross subsidies between large and small electricity users in Tasmania; and
- ▶ the circumstances around the 5 per cent electricity price cap commitment made by the Labor party during the 2010 election campaign.

Each of these themes is discussed in more detail below.

Staying abreast of wider developments

A number of submissions (such as Aurora Energy, EUAA and Penny Cocker) commented that while Tasmanian-specific issues are central to the Panel's Terms of Reference (such as the structure of the Tasmanian industry, governance arrangements that are particular to Tasmania), significant national and international developments and changes will have a material impact on Tasmania and its energy sector. Stakeholders noted that the Panel must have regard to those wider forces in considering the nature of issues currently confronting the sector and in framing potential findings and recommendations. For example:

- ▶ Penny Cocker noted that “when reading the Statement of Approach that there seems to be perhaps too much focus on issues of governance etc and not enough on these ‘big picture’, more future-focused issues¹”.
- ▶ The EUAA indicated that the Panel should “have regard to carbon pricing and climate change policy; renewable energy policy; and Federal energy policy directions”.

The Panel agrees with the thrust of these observations. The NEM is a dynamic market, with constantly evolving market conditions, structural changes (such as ownership entry and merger activity) changing commercial strategies and market rules and regulation of networks continuing to evolve.

Accordingly, the Panel’s consideration of potential future Tasmanian arrangements is not against a stationary frame of reference. Moreover, international and national developments including policy responses to key issues such as climate change, carbon pricing and the development of the renewable sector add additional complexity to the Panel’s task.

Some developments will be resolved within the timeframe provided for the Review, whereas others will have longer spans - the Commonwealth Government’s February 2011 announcements regarding a potential future carbon tax, which is intended to transition into an emissions trading regime, is a good case in point.

The Panel agrees with observations that its Review cannot be from a Tasmanian-only perspective. The Panel must take into account relevant national developments in framing its findings and recommendations where practicable.

The general approach will be that the Panel will test its findings and recommendations against reasonably foreseeable future scenarios to establish their robustness. The Panel will also have regard to parallel reform initiatives (such as the recently announced review of the Tasmanian Government business sector by Treasury as a part of the 2011-12 State Budget development process, and the AEMC’s transmission pricing review) in developing its findings and recommendations.

The Panel believes that it can fulfil a useful role in drawing out some of the implications of wider reforms for Tasmania as a part of its Review, within the context of its Terms of Reference. This will inform the public debate regarding the appropriateness and consequences of some policy, structural and regulatory changes confronting the Tasmanian energy sector at the present time.

¹ The submission referred to issues including climate change and its impact on water inflows, the pricing of carbon, increases in the cost of oil and petrol, potential substantial increases in Tasmania’s population, the nature of the demand side of the sector, features of the supply side of the sector and the potential for greater levels of interconnection with the NEM.

Retail contestability and its extension

Several interested parties (including Aurora Energy, the EUAA, Goanna Energy and the NGF) suggested that it was important for the Panel to develop an understanding of the experience of contestable customers in Tasmania through the roll-out of retail contestability.

Suggestions were made that the Panel should examine the potential extension of retail contestability to all customers. The Minister for Energy and Resources wrote to the Panel on 1 March 2011 clarifying the Government's expectation that the Panel would examine the application of retail contestability to domestic customers as a part of the Review, having regard to the cost-benefit analysis undertaken by the Tasmanian Energy Regulator in 2009

As noted in the *Statement of Approach*, while the Panel's Terms of Reference do not explicitly extend to examining the experience of contestable customers or the extension of contestability to the domestic sector, the Panel believes that these issues are central to its work program.

The Panel has now had the opportunity to review the evolving policy framework for the energy sector in Tasmania, and it is clear that the move towards fully competitive arrangements in the electricity retail sector, and open competition with other fuel sources, have been central elements of the reform process from as early as 1994. Reviewing how well these objectives have been achieved is important in framing recommendations for the way forward.

As noted in the *Statement of Approach*, the Panel is keen to understand the level of competition at the retail level in the contestable market, the factors that drive it, and the opportunities to increase it. The Panel will seek to understand the differences and similarities in the outcomes between non-contestable and contestable customers. The Panel will consider a broad range of issues in this context, including the size and structure of the demand and supply side of the industry in Tasmania, the capacity for viable entry of new participants and the effectiveness and implications of the current regulatory and governance arrangements within the sector.

The effectiveness of the current wholesale market arrangements in Tasmania;

The Panel's early investigations have highlighted that the effectiveness of the wholesale electricity market in Tasmania (for example, spot market outcomes and contracting behaviour) is a central aspect of the Review.

This theme emerged in a number of submissions, for example:

- the NGF commented that the Review should examine "the extent to which the Tasmanian region supports and promotes effective competitive outcomes at the wholesale level, and the barriers facing new market entrants"; and

- ▶ Aurora Energy observed that “as the issue of retail competition is inextricably linked to the effectiveness of the wholesale market in Tasmania, the Panel should also consider an analysis of the performance of the wholesale energy market and how it operates as a key input into the Review process”.

In recent times, informed observers have made comments about the efficiency and effectiveness of aspects of the wholesale market. For example, the Australian Energy Regulator has made observations regarding bidding arrangements in Tasmania and the Tasmanian Economic Regulator has recently made a decision to regulate aspects of the frequency control ancillary services market, based on its view regarding a lack of effective competition in that market.

This is a highly complex area, and the Panel will focus on exploring the nature and effectiveness of competition in the Tasmanian wholesale electricity market, identifying the areas within which there are material market power issues and developing recommendations to address shortcomings, which may include, structural, regulatory and/or governance changes.

Shareholder value considerations

The Panel is mindful that as both customers and owners of the State-owned electricity businesses (SOEBs), the Tasmanian community has dual interest in the performance and future of the sector.

Potential reforms that seek to improve the efficiency and effectiveness of the sector may have implications for shareholder value of the businesses within it. Several parties commented that the Panel needs to be mindful of the shareholder value implications of its recommendations. For example:

- ▶ Transend commented that it was “pleased that the Panel’s approach recognises the requirement to balance the needs of investors and customers. To achieve sustainable energy services, shareholders should be able to derive an appropriate return on investment, while customers and regulators should see efficient and cost effective services...”
- ▶ Hydro Tasmania observed that the Panel’s “recommendations need to be couched in terms of maximising the long-term value for the State of Tasmania as owner of these NEM businesses”.

The Panel recognises that shareholder value is an important consideration. The Panel’s intention is to explicitly consider and address the implication of its recommendations on shareholder value. Where possible, the Panel will seek to quantify potential impacts through financial modelling.

The Panel does not see changes in shareholder value as a constraint on the potential reform options that should be considered. Rather, the Panel views the implications on shareholder value as one of the key variables on which interested parties will form views about the appropriateness or desirability of reform options. The Panel considers that those judgements are ones for others to make – its role is to identify the trade-offs in making its case for reform.

The implications of Government ownership

Several parties raised the issue of Government ownership of the Tasmanian electricity businesses and suggested that Panel explore whether ownership arrangements are a material driver of business performance. For example:

- ▶ the EUAA stated that it “has a concern that government-owned electricity businesses should operate as efficiently as if they were in private ownership but that this is very seldom the case. To the extent that this occurs, resulting inefficiencies will be paid for by consumers or taxpayers...”
- ▶ the EUAA observed that the Panel “should include a thorough and rigorous answer to the important question of whether ownership matters to competition in the various parts of the Tasmanian electricity market open to it and whether government ownership of Tasmanian electricity assets is leading to inefficiencies and higher electricity prices.” The EUAA also requested the Panel examine the linkage between dividends and tax-equivalent payments and electricity prices.
- ▶ The NGF observed that the Panel should examine “the extent to which Tasmanian governance arrangements support successful operation of the market. For a market to be successful, it is important for Governments to set up frameworks and governance arrangements and then to let the market work. In this context, the panel should investigate the effectiveness of the existing Governance regime.”

Mr Ian Peck also raised concerns about the efficiency of the SOEBs, stating that he is aware of past examples of performance within the SOEBs that fell well short of world’s best practice.

The Panel will examine in some detail the efficiency and effectiveness of the SOEBs in accordance with Terms of Reference 1. In doing so, the Panel will be seeking to understand:

- ▶ how their performance has changed over time (absolute changes in performance);
- ▶ how their performance compares with relevant like peers (relative performance);
- ▶ the drivers of changing performance standards - external regulatory pressure, internal management direction and/or through shareholder oversight.

A related issue is the practical operation of the governance arrangements by which the Government, on behalf of the Tasmanian community, exercises control and oversight of the SOEBs. The Panel views governance arrangements as central to its work program, from the perspective of understanding:

- ▶ the underlying drivers of performance of the SOEBs;
- ▶ the way in which Government seeks to achieve its policy outcomes; and
- ▶ the way in which governance arrangements might be used to drive reform and change through the sector.

Network cost drivers

The early investigations undertaken by the Panel suggest that one of the principal drivers of higher electricity costs in Tasmania has been the significant investments in the transmission and distribution networks, which is a common experience across Australia.

Several submissions raised the need for the Panel to review the drivers of network costs in Tasmania. For example:

- ▶ the EUAA noted that it considers “that the levels of capex being undertaken by Transend, in particular, should also be examined as this would have a demonstrable impact on prices”.
- ▶ D A Consulting noted that “the efficiency and effectiveness of the Tasmanian electricity industry is constrained by the current business boundary between Transend and Aurora, and that Tasmanian electricity customers are burdened both in a financial sense and in poor service delivery relative to the electricity industry elsewhere in Australia”.

The Panel recognises the need for it to explore and explain what has been driving network prices is a key element of the Review.

As flagged in the *Statement of Approach*, the Panel is aware of calls for the integration of the two Tasmanian network businesses, with a primary driver of the concept being the capturing of efficiency gains through common ownership of both networks.

In regard to the potential merger of the Tasmanian network business, the EUAA observed that the Panel “... should have regard to factors such as efficiencies/cost savings that could be gained, any inefficiencies/cost penalties that would arise, the existing performance of both entities and whether a merger would improve this, merger costs, any disruptions to operations, impacts on customers of both entities, Transend’s ownership of some assets that would be regarded as distribution assets in other parts of the NEM, any impacts on network tariffs (noting that these are already increasing significantly), any reliability issues and impacts on Aurora’s current business structure involving both distribution and retail operations.”

The Panel intends to explore this matter in some detail. The Panel is aware that there is already considerable work being undertaken by Transend Networks and Aurora Energy to capture benefits from closer working relationships and other forms of integration. An important issue that the Panel will examine is the extent to which additional benefits would be available from common ownership of both networks, as well as exploring the costs and risks from this form of structural change.

Competitive energy choices

The Panel noted in the *Statement of Approach* that its view was that the Review is principally about electricity, and will include a consideration of the wider energy sector, particularly gas, as it relates to electricity (eg. interfuel competition and as a fuel source of electricity generation).

This proposal received support in submissions. For example:

- ▶ TasGas noted “a broader approach is required to examine inter-fuel competition, particularly between natural gas and electricity where there is the possibility of direct substitution of gas for electricity, the growing importance of gas-fired generation and the development of more distributed models of generation, particularly around co-generation”; and
- ▶ The EUAA commented that the Panel should “ensure that the scope of its gas remit receives thorough consideration especially barriers to gas competing on a level playing field with electricity”.

TasGas’ submission highlighted the potential for natural gas to alleviate capacity constraints in the electricity system, and commented that “... the delivered price of gas is on average 30%-50% less than electricity. Under these circumstances there are clear opportunities for providing low cost solutions by converting electricity load to gas load. This can avoid expensive electricity system upgrades.”

The Panel is keen to more fully understand the potential for inter-fuel substitution and to establish the short and longer term opportunities for the relatively immature gas sector to reduce cost pressures in the electricity sector. The Panel will also explore the interplay between the gas and electricity regulatory arrangements in dealing with ‘energy’ constraints.

The Panel also observed in the *Statement of Approach* that it intends examining demand side options and the role that energy efficiency could play in both meeting the demand/supply balance and to assist business and households manage the cost pressures arising from increasing energy prices.

This received some attention in submissions, though with some differing perspectives. For example:

- ▶ the NGF commented that demand side issues “have been covered by two stages of a Demand Side Participation review and a third one is planned once the terms of reference are agreed by the Ministerial Council for Energy.

The NGF suggests to the Panel that it should exclude explicit consideration of this issue to allow it more time to focus on the Tasmanian specific issues. The area is very complex and it has, to date, been difficult for any significant progress to be made. Furthermore, there seems little benefit in reviewing this issue outside the pre-existing work plan on demand side participation."

- ▶ by contrast, TasCOSS observed that it "welcomes the Panel's decision to examine demand side options and in particular, the potential of energy efficiency measures to assist households to reduce their electricity use and costs. We believe that energy efficiency has enormous potential in this regard and that it has been largely neglected by government in Tasmania to date."

The Panel notes that detailed work has been completed by others in relation to demand side participation, particularly at the national level. The Panel's intended approach is to review this body of work and to understand how it might apply in the Tasmanian context in framing its findings and recommendations, rather than expending substantial resources exploring new ground.

The structure of electricity tariffs and capacity to pay

The increasing real prices of electricity for households and business in Tasmania is a matter of significant concern within the community.

The *Statement of Approach* noted that concerns have been expressed about the ability of some sections of the Tasmanian community to manage their household budgets to accommodate cost of living increases, including higher energy costs

Anglicare and TasCOSS both expressed the view that the Panel had misrepresented their concern about energy price impacts on low income households by the reference to issues of household budget management. For example, TasCOSS commented "In fact, we are not concerned about the 'ability' of low income households to manage their budgets, we are concerned about high electricity prices, inadequate incomes, inappropriate concessions and tariff structures that preclude savings through decreased usage".

It was not the Panel's intention to misrepresent the views expressed by TasCOSS and Anglicare.

Several submissions raised the desirability of the Panel explicitly considering affordability/capacity to pay issues and developing recommendations in this regard. For example, TasCOSS noted that it considers "it is essential that the Expert Panel investigates, along with the factors contributing to price rises, the issue of affordability of electricity in Tasmania, and recommends strategies that will increase affordability."

Some parties suggested that the Panel consider specific mechanisms to address affordability. For example

- ▶ Anglicare submitted its *Making Electricity Affordable: a four point plan* to the Panel for consideration.
- ▶ The NGF commented that "...to the extent that [concerns about electricity prices for lower income families arise] in the context of the review, we note that it is important to distinguish the need for any support for lower income families to occur outside of the market arrangements."
- ▶ Similarly, Hydro Tasmania commented "... the Panel will also need to consider social welfare issues, arising principally from community concern about electricity prices. There may be a risk that economically efficient sector outcomes are insufficient to meet community expectations. In this regard, we consider it is important that social welfare concerns on which the Panel is deliberating are dealt with separately to market issues to ensure transparency and to avoid distorting market outcomes".

Some submissions suggested that the Panel should review the structure of tariffs in Tasmania. For example:

- ▶ Peter Schulze highlighted that the Panel should analyse the fixed and variable components of various tariffs and compare these with other jurisdictions, as well as examine the profitability margins for different classes of consumers.
- ▶ The structure of tariffs is a key matter raised in *Making Electricity Affordable: a four point plan*.
- ▶ Derby Products submitted "with the introduction of Basslink and the availability of low price electricity we urge the panel to maintain and improve the availability of an off peak tariff."

The Panel acknowledges that affordability issues and the structure of electricity tariffs are important aspects of its work program in the context of its Terms of Reference (for example, the reference to cost of living pressures in Terms of Reference 7).

The Panel's broad approach will be firstly to examine the extent to which Tasmanian prices are 'right', in the sense that they reflect efficient costs and service delivery and send appropriate consumption and investment decisions. Where the Panel discovers shortcomings, it will propose recommendations to provide greater confidence that efficient prices emerge.

The Panel will separately consider appropriate mechanisms that the Government could consider in dealing with the any capacity to pay consequences for low income households that result from electricity prices that appropriately reflect efficient costs and reliable service delivery. As an early step, the Panel will be seeking evidence to establish a better understanding of the extent and nature of electricity affordability issues and to separate 'capacity to pay' concerns from 'willingness to pay' issues.

Cross subsidies between large and small electricity users

Given the State's prior economic development strategy of 'hydro-industrialisation', it is unsurprising that many interested parties have reservations about the relative prices paid by large and small electricity users. Indeed, the Panel's early research discovered that this issue has been controversial since 1916, when there was public debate about the "zinc bargain" (as it was known at the time), which focused opinion on the price at which the Hydro-Electric Department had contracted to supply the new zinc smelter at Risdon.

Robin Maguire's submission highlighted the cross subsidy issue, suggesting that the 'the case for continuing this practice (subsidising large users) is now very much weaker, given: the growth in general electricity demand in Tasmania; longterm reduction in rainfall, affecting generation capacity; and the introduction of Basslink.' The submission suggested that Panel adopt an 'opportunity value' approach to examining the cross subsidy issue, by comparing large user contract prices with the value that the same volume of electricity could achieve via exports to the NEM through Basslink.

The Panel recognises that there is considerable interest in this issue and it is an important consideration in determining the efficiency and effectiveness of the current market arrangements, noting that differential pricing between customer groups does not necessarily imply or reveal cross subsidies.

The Panel plans to approach this task in a number of ways. Firstly, it will examine the framework within which regulated prices for non-contestable customers are determined. To the extent that regulated prices are reflective of efficient costs, it is difficult to see the case that regulated customers are cross subsidising contestable customers.

Secondly, the Panel will develop an understanding of the framework within which these commercial contracting decisions are made within the SOEBs. The Panel believes that a thorough review of the business decision frameworks is the appropriate way to establish whether the community can be confident that fully commercial decisions are routinely being made. The Panel does not anticipate reviewing each and every contract and forming a view on the commercial appropriateness of those arrangements.

Aurora advice to Government regarding the 5 per cent electricity price cap commitment

The Terms of Reference require the Panel to investigate the advice that was provided to Government by Aurora Energy from October 2009 to June 2010. This matter was raised in two submissions:

- ▶ Aurora Energy observed "Aurora understands that the Auditor-General Report directly addresses the issues that were raised at the time that Parliament

included ToR 8 in the Terms of Reference for the Review. Accordingly, the Auditor-General's Report could be considered as already meeting ToR 8".

- ▶ By contrast, Mr Greg Todd raised a number of concerns with the Auditor General's investigation and concluded "because of the obvious limitations inherent in the report of the Auditor General, it is not appropriate in my view to accept it without further examination as a competent explanation of what occurred of the time".

The Panel has considered the Auditor General's report and having reviewed the Parliamentary debate on the Terms of Reference for this inquiry, has a similar view to that expressed by Aurora Energy above.

Nonetheless, the Panel considers that there is merit in reviewing the information provided to Government by Aurora during this period as it provides an insight into the practical application of the governance framework for the SOEBS. For example, it will provide a tangible case study for examining matters such as the nature and timeliness of reporting between management, the Boards of the SOEBs, the bureaucracy and Executive Government.

3. Issues relating to the Panel's proposed methodology

The key broad themes to emerge in relation to methodological issues included:

- ▶ the appropriateness of an evidence-based approach;
- ▶ concerns that the Panel will not have sufficient regard to past regulatory decisions.
- ▶ the importance of the Panel engaging widely and engaging with the community in undertaking the Review;
- ▶ the appropriateness of the proposed timeframes for the Review and the desirability for more time to be provided to more thoroughly examine issues;
- ▶ the desirability of the Panel producing a more detailed timeline for the Review; and

Each of these themes is discussed in more detail below.

An evidence-based approach

The *Statement of Approach* highlighted the Panel's desire to adopt an evidence-based approach to the Review, noting that it will put substantially more weight on, and be more persuaded by, facts and evidence and that it will seek opportunities to test evidence presented to it.

This approach was endorsed in a number of submissions. For example:

- ▶ Hydro Tasmania commented that it "supports and welcomes the Panel's emphasis on giving more weight to facts and evidence and the Panel's desire to separate the material from the immaterial... We believe this is an appropriate way for the Panel to achieve its key objectives, ensure broader community understanding of the issues and challenges and derive a clear plan for the Tasmanian electricity sector into the future".
- ▶ Transend Networks observed it "...welcomes the Review and is pleased that it will focus on material issues, and take an evidence-based approach".
- ▶ The EUAA commented that it "especially supports....putting substantially more weight on facts and evidence, noting that energy users and the Panel itself generally do not have the same access to detailed information about the Tasmanian electricity industry as do the businesses."

Review of past regulatory decisions

The *Statement of Approach* noted that the Panel intends to examine the implications of current regulatory frameworks, not revisit specific regulatory decisions.

This left some stakeholder with uncertainty regarding the degree to which the Panel will form views on the appropriateness and effectiveness of the regulatory framework. For example, the EUAA commented "...we understand the Panel's desire to investigate current regulatory frameworks rather than revisit specific regulatory decisions. Nevertheless, the Panel will need to inform itself as to those decisions in order to establish sound conclusions on regulatory frameworks. This should involve a broader consideration of issues, information and positions than just those put forward by the businesses and the regulator."

Other submissions raised specific regulatory issues for the Panel's consideration. For example, NECA argued that there are perceptions of a lack of independence in the electrical safety regulatory level, noting "the electrical regulator in Tasmania is Workplace Standards. The agency is staffed by Aurora employees. This has the potential to give an impression that the agency is not transparent. If the agency was independently staffed, there would be no chance of a misleading impression".

NECA also raised issues associated with the ability of individual electrical contracts being able to compete on a level playing field with Aurora in supplying electrical service.

The intention in the *Statement of Approach* was to signal that the Panel did not intend on revisiting specific matters arising in individual regulatory decisions (such as “was the weighted average cost of capital determined by OTTER in 2007 for Aurora’s distribution business appropriate”, or “was the estimated of the long-run marginal cost of new generation in Tasmania in the 2010 retail price determination correct”). The Panel recognises that it does need to review the outcomes of regulatory frameworks as a key input into its judgements against how well regulatory objectives are being met.

Engagement with the community

The *Statement of Approach* highlighted the Panel’s view regarding importance of it conducting an open process that provides several opportunities for public involvement. This perspective received strong endorsement in submissions. For example:

- ▶ Peter Schulze commented “ is important that both forms of public hearings are used ie (1) Taking of evidence in the same way as is done by Parliamentary Committees, sworn or otherwise and with transcripts produced. (2) A process similar to that used by the Electricity Regulator wherein both the public can be heard and made listen. The problem with such forums is that they are usually dominated by vested interests and the public interest does not get much of a go...”.
- ▶ Greg Todd observed that “significant effort needs to be expended to ensure that the public are engaged and that they become aware of the opportunity to make submissions ... allowing sufficient time for them to make worthwhile submissions ... over and above any opportunity to attend a public forum.”

The Panel has responded to the views expressed in submissions on the way in which it engages with the community. For example, it has shaped the Panel’s thinking regarding the objects of, the planning for, and conduct of hearings that will be held as a part of the Review process (see below).

Review timeframes

The work program required to meet the Panel's Terms of Reference is very comprehensive, as acknowledged in many of the submissions to the Panel. The Panel observed in the *Statement of Approach* that it would discuss the feasibility of the timetable contemplated in the Terms of Reference (final report by August 2011) with the Government once it had more fully identified the activities required to thoroughly address the issues in a way that allows appropriate involvement and engagement with all stakeholders. It also noted that feedback on the *Statement of Approach* would be a guiding factor in considering timeframes.

The Panel has now had the opportunity to consider timing issues in more detail and considers a longer timeframe is appropriate. Extending the reporting date to enable a thorough examination of the issues was a theme common in submissions. Parties that suggested more time would be appropriate included each of the State-owned electricity entities, the NGF, the EUAA, TasCOSS and Tas Gas.

The Panel has written to the Government, explaining the basis for an extension of time for the completion of the Final Report. Having considered this request, the Government has agreed to a final reporting date of mid-December 2011

The *Statement of Approach* noted that not all issues would need to be progressed on a similar timeline – some of the more factual elements of the Panel's investigation that answer specific elements of the Terms of Reference are foundational pieces upon which further aspects of the work program rest.

Some parties expressed concern about the Panel accelerating aspects of the work program. For example, TasCOSS commented that "...this approach appears to be separating the first three Terms of Reference out as less deserving of full and appropriate consideration than the others. TasCOSS believes that these are as essential as the others and should be afforded appropriate and equal investigation and discussion. The outcome of the investigation of these should also rightly be included in the Panel's draft and final reports.

The Panel considers that it could have been clearer in expressing its intent, which is to ensure that it provides information in respect of the Terms of Reference on a timely basis (particularly factual material that is shaping the Panel's thinking) and ahead of the Draft Report where possible. This is a desirable approach from a transparency and engagement perspective. All the Terms of Reference will be addressed in the Draft and Final Reports.

A more detailed timetable

Several submissions highlighted a desire by stakeholders of a more definitive timetable for the Review than that which was published in the *Statement of Approach*. Given that a revised timetable has now been agreed with the Government, the Panel has been able to establish a clearer timetable for the major phases of the Review. These are explained in Table 1.

Table 1: Review Road Map

Phase	When	Output	Consultation/input
<p>1. Context setting and information gathering</p> <p>Settling the parameters of the Review.</p> <p>Establish a base set of 'facts' on which further investigations will be based.</p>	December 2010 – March 2011	<ul style="list-style-type: none"> • Statement of Approach • Public Submissions • Response to submissions published <p>Panel Discussion Papers:</p> <ul style="list-style-type: none"> • 2010 Tasmanian Energy Market Snap Shot • Tasmanian Electricity Pricing Trends • Evolution of the Tasmanian Energy Market 1995-2010 	<ul style="list-style-type: none"> • Key stakeholder meetings • Submissions on Statement of Approach • Public Forums (Hobart and Launceston) – presentation of some key 'facts' and opportunity for input on key issues
<p>2. Issues identification</p> <p>Having settled the boundaries of the Review, articulating the key issues relevant to each of the major themes.</p>	February - April	Primary Issues Paper	<ul style="list-style-type: none"> • Feedback on Discussion Papers • Public Submissions on Issues Paper. • Key stakeholder meetings.
<p>3. Issues development/ resolution</p> <p>Focussed work programs on material issues.</p> <p>Analytical framework for considering issues and development empirical and other evidence to explore options and support conclusions.</p> <p>Address some factual elements of Terms of Reference ahead of Draft Report.</p>	March – September	<p>Potentially more detailed Issues Paper in specific areas (such as competition, regulation and network pricing)</p> <p>Panel Discussion Papers:</p> <ul style="list-style-type: none"> • The efficiency and effectiveness of the Tasmanian Electricity Supply Industry • The Financial Performance of the State-owned Electricity Entities 	<ul style="list-style-type: none"> • Extensive engagement with key stakeholders on issues. • Industry soundings (market participants outside of Tasmania and regulatory authorities). • Potential stakeholder workshops on specific issues. • Feedback on Discussion Papers
<p>4. Draft Findings</p> <p>Address factual aspects of Terms of Reference not already covered in Information Papers and principally focus on reform options.</p>	October	Draft Report	<ul style="list-style-type: none"> • Public Hearing(s) • Submissions from interested parties
<p>5. Final Findings</p> <p>Refinement of concepts from Draft Report, based on input from submissions and hearing.</p>	December 2011	Final Report	Nil.

4. Next Steps

Having considered the feedback provided on the *Statement of Approach*, the Panel feels that its understanding of the Terms of Reference is broadly aligned with that of stakeholders that have taken an active interest in the Review. In addition, the submissions broadly supported the way in which the Panel plans to approach the Review.

Accordingly, the Panel considers the boundaries of the Review to be settled, and now will turn its focus to identifying the relevant material issues within those boundaries.

To support this process, the Panel will shortly release three Discussion Papers to provide a factual backdrop for the identification of issues. These papers are:

- ▶ 2010 Tasmanian Energy Market Snap Shot – which explains the current structure of the Tasmanian energy sector and provides a comparison of the sector with other jurisdictions;
- ▶ Tasmanian Electricity Pricing Trends – which reviews the profile of prices over the past decade, explains the principal drivers and will identify areas for further investigation and evidence gathering; and
- ▶ Evolution of the Tasmanian Energy Market 1995-2010 – which examines the evolving policy objectives for the Tasmanian energy sector and places context around the major structural and regulatory changes that have shaped the sector.

This last paper will identify the primary objectives established for each of those major ‘waypoints’ and will highlight some early Panel observations on the extent to which those objectives have been, or are being, achieved. Importantly, it will identify areas for further investigation and evidence gathering to better understand the degree to which objectives are being achieved, and to identify the unintended positive and negative consequences of those changes.

As noted above, the Panel is also planning on holding public forums ahead of the finalisation of the Panel’s Issues Paper, which is expect to be released in late April/early May 2011. The objective of the first round of public hearings is to provide the opportunity for:

- ▶ the community to have direct access to the Panel;
- ▶ the community to have input into the range of issues that the Panel needs to consider in conducting the Review and to shape the Issues Paper; and
- ▶ the Panel to gather evidence for its consideration to support positions advanced by participants.

These are planned for late 19 and 20 April 2011, and further information will be made available shortly.

