Electricity Supply Industry Expert Panel

A Synopsis of Submissions on the Draft Report

February 2012

Introduction

On **15 December 2011** the Electricity Supply Industry Expert Panel (the Panel) released its Draft Report for public consultation. The key purpose of the Draft Report is to seek input from interested parties on the Panel's findings and recommendations, including its proposed reform paths.

The Panel called for formal submissions in response to the Draft Report by **17 February 2012**. The Panel has received a total of 27 submissions[1] from a range of industry stakeholders, peak bodies and other interested parties. Three of these submissions have been made on a confidential basis, while the remaining 24 are publicly available to download from the Panel's website. The Panel would like to thank all of those stakeholders who took the time to prepare a submission.

This paper provides a high-level thematic summary of the key issues and responses raised by stakeholders. It does not provide a comprehensive description or analysis of all issues in every submission. Please note too that the summary does not present the Panel's views or opinions on matters raised in the submissions, noting that the Panel's position on, and response to, identified issues will be articulated in its forthcoming Final Report.

List of Submissions:

1. Mr David Asten
2. Australian Energy Market Operator (AEMO)
3. Australian Energy Regulator (AER)
4. AGL
5. Alinta Energy
6. Aurora Energy
7. Australian Power and Gas
8. Basslink Pty Ltd *(Confidential)*
9. Mr Liam Coyle
10. Mr Peter Brownscombe
11. Electricity Retailers Association Australia (ERAA)
12. ERM
13. Electricity Supply Association Australia
14. Hydro Tasmania
15. International Power *(Confidential)*
16. Lake Pedder Restoration Committee
17. Loy Yang Management and Marketing Company (LYMMCo)
18. Mr Michael Lowe
19. Nyrstar *(Confidential)*
20. Origin Energy
21. Property Council of Australia
22. Mr Darrel Stringer
23. TasGas Network
24. TasCOSS
25. Tasmanian Economic Regulator
26. Mr Greg Todd
27. Transend Networks

[1] As at COB 23rd February. Any submissions received after this date have not been included in this synopsis.

Wholesale Competition and Hydro Tasmania's Latent Market Power

The Panel's key finding that the current structure of the wholesale market in Tasmania represents a barrier to effective competition at the retail level drew a range of comments in submissions. Responses were split between a small number of stakeholders who rejected the Panel's analysis (and therefore its conclusions) as flawed and lacking in evidence, and a much larger group of stakeholders who strongly concurred with the basic problem as defined by the Panel and support reform efforts to address it.

Hydro Tasmania, for example, "emphatically rejects" the Panel's analysis of market power, which it suggests is unsupported by substantive evidence. It contends that the Panel's analysis ignores an established history of an efficient wholesale market in Tasmania and the fact that "the nature of commercial constraints on Hydro Tasmania means that regardless of size it does not have market power".

Hydro Tasmania suggests that latent market power is a new or novel concept that represents a theoretical concern about future prices, not current price and has "no technical meaning in competition analysis". Hydro Tasmania also argues that the Panel's market power analysis is inconsistent with that undertaken by the AEMC in response to the current rule change proposal by Major Energy Users Inc. The ESAA also notes in its submission that the Panel's focus on latent market power represents a different approach to that which the AEMC is using under this process.

Given its rejection of the Panel's core findings on latent market power, Hydro Tasmania believes that "there can be no legitimate justification for recommending any structural reform at the generation level regardless of any debate about the existence or otherwise of theoretical barriers to entry".

Hydro Tasmania also contends that contributions from national retailers cited by the Panel are not only unattributed and unsubstantiated, but contradict the evidence (pointing to ERM's participation in the market) and are at odds with Hydro Tasmania's own discussions with retailers, where a lack of declared FRC has been raised as the only barrier to entering the Tasmanian retail market. Hydro Tasmania also argues that the clear message from retailers is that, elsewhere in the NEM, high and volatile spot prices are not a deterrent, but a "normal part of market dynamics".

Hydro Tasmania also contends that the Panel's assertion that retailers cannot take spot market exposure is wrong and points to evidence provided confidentially to the Panel which Hydro Tasmania believes shows that retailers are already taking such exposure presently.

In summary, Hydro Tasmania's view is that "there is no wholesale market problem to solve".

ERM lends some support to Hydro Tasmania's position, noting that: "given our experience in the Tasmanian market, we do not see any barriers to entry for retailers on the wholesale energy procurement side" and "ERM remains confident that the derivative pricing provided by Hydro Tasmania enables us to compete on a level playing field and have not seen the current structure of the Tasmanian electricity sector as a barrier to entry for retailers".

Australian Power and Gas also agrees with Hydro Tasmania that the lack of declared FRC is the main barrier to retail competition in Tasmania but nonetheless notes that structural reform of the wholesale market as suggested by the Panel "is attractive and would ease concerns about current spot market risks associated with Hydro Tasmania".

A significant number of other key stakeholders, including national retailers, contradict the view that there is no wholesale market problem in Tasmania and offer strong support for the Panel's findings.

For example, the Australian Energy Regulator notes that there are problems with the current wholesale market structure and strongly supports the Panel's work on developing reform options. Similarly, Aurora Energy also strongly endorses the Panel's findings with regard to the current inefficiencies in the structure and operation of the wholesale market, contending that the status quo is inherently unsustainable.

Origin Energy notes that the competitiveness of the Tasmanian wholesale market lags behind the rest of the NEM and notes that it is important that market settings encourage new entry for sake of efficiency and meeting the needs of consumers. AEMO similarly notes that Tasmanian customers have not achieved the same benefits of competition as has occurred in other NEM regions.

AGL agrees with the Panel's assessment of the current wholesale market structure as a barrier to entry, noting that "the wholesale market in its current form does disincentivise participants from entering the Tasmanian market" and "In the absence of structural reform, there is relatively little incentive for retailers to enter the market to compete for customers that are currently contestable...or for retailers to consider entering the market should currently non-contestable customers become contestable".

Notwithstanding what they suggest has been a limited exercise of market power by Hydro Tasmania in the past, AGL notes that "a change in policy, strategy or management would always remain more than a theoretical possibility, and hence a risk to entrant retailers".

Alinta Energy also supports the Panel's view that, so long as Hydro Tasmania remains the dominant generator and supplier of contracts, major national retailers will not enter the market. Countering the view that ERM's presence in the Tasmanian market provides evidence that there is no barrier to retailer entry, Alinta Energy suggests that it is important to consider the key differences between commercial and industrial markets and residential mass markets, noting that the latter brings a range of commercial and regulatory risks, in addition to a long-term commitment in order to achieve customer scale. In this regard, Alinta Energy notes that "attempting to rely on Hydro Tasmania for all contractual arrangements, on an ongoing basis, where long-term commitment to mass market customers is required, presents an unacceptable commercial risk".

The Panel's Wholesale Market Reform Paths

The Panel's three proposed wholesale reform paths attracted significant feedback from stakeholders. Comments ranged from general views about the relative desirability and likely effectiveness of the options through to highly specific technical matters for the Panel's further consideration.

Given its strong views on the Panel's analysis of the wholesale market, Hydro Tasmania maintains that the proposed wholesale reforms are unnecessary, give rise to a range of significant and unacceptable risks, are unlikely to achieve their stated objectives and will impact on the efficiency and effectiveness of its trading and generation activity.

Hydro Tasmania believes that the potential value to Tasmanians of future returns from Hydro Tasmania's current corporate (growth) strategy should be more carefully considered in assessing the impact and costs of reform and that the reforms as proposed are value-destructive. Hydro Tasmania goes on to call for a more "measured and commercially pragmatic" approach to reform, but does not explain in any detail what this would entail, beyond suggesting that FRC should be declared as a way to 'test' if there is actually a need for any wholesale market reform.

Scepticism of the tangible benefits of reform to the Tasmanian community was a common theme in a number of other submissions. There is a view by some, including TasCOSS, the Property Council of Australia, and Mr Peter Brownscombe, for example, that the Panel had accepted, as something of an 'article of faith', that increased wholesale and retail competition will deliver benefits to Tasmanian consumers, and that there is insufficient evidence in the Draft Report to support this conclusion.

There was also general view from a range of other stakeholders – including a number of those who are supportive of reform - that the costs and benefits of each of the proposed reform options needed to be more clearly articulated so that they could be plainly understood by decision-makers and the wider community.

With regard to the options themselves, **Reform Path 1** – a regulatory response by way of a contract auction – received mixed responses. The majority of stakeholders viewed this option as a weaker, and less desirable, alternative to a market-based reform model. For example, Origin Energy and the AER both suggest that regulatory 'fixes' of this kind should only be considered where market-based mechanisms cannot work.

A major drawback of the auction model noted by a number of stakeholders is its lack of perceived durability, in that it could potentially be changed at any time by the Tasmanian Government. Both AGL and Aurora Energy, contend, therefore, that a regulatory approach based on auctioning contracts does not provide sufficient long-term certainty for retailers. The inability to provide flexible and customisable products under an auction process was also raised as an issue in attracting new entrants.

Aurora Energy puts forward an alternative reform 'pathway' model whereby a variation on the contract auction model could be implemented as an interim measure while more fundamental structural reform (consistent with Reform Path 2) is progressed. However, Aurora Energy also notes that the success of initial regulatory options (as part of a reform pathway) will ultimately hinge on retailers' confidence that the more comprehensive structural reform will eventually be delivered. Aurora Energy also highlights the risk of reform faltering after the implementation of reform path 1.

General feedback indicates that stakeholders would like to see further detail on how the proposed auction process would work in practice, including the frequency of auctions, reserve price setting and the volume of contracts offered.

A majority of stakeholders indicate a preference for the **Panel's Reform Path 2** – or what has been termed the 'gentrader' model. Supporters of this model include AGL, Alinta Energy, Aurora Energy, Origin Energy, Loy Yang Management and Marketing Company (LYMMCo) AEMO and the AER.

One of the main identified benefits of the model is that it is a market-based mechanism and not simply a regulatory 'fix', meaning that it is likely to be seen as more durable and less susceptible to regulatory and sovereign risk. Identified issues of the gentrader model mostly relate to its inherent complexity. Consequently, a broad range of detailed issues and questions were raised for the Panel's further consideration, including, for example:

- Whether three traders is the 'right' number, in the context of the costs of establishing and running the traders and loss of scale economies and scope the greater number of traders that are established;
- Whether three Government-owned entities relying on the same hydro resource would have the same approach to pricing and hence limit genuine competition between the traders;

- Whether capacity should be allocated 'virtually' or if the traders' generation capacity should be tied to specific physical assets;
- How to efficiently manage the relationship between the traders and Hydro Tasmania as generator, including the management of hydrological risk;
- How to deal with the complexities in managing Frequency Control Ancillary Services (FCAS), the System Protection Scheme (SPS) and transmission agreement arrangements; and
- How Basslink and TVPS 'fit' under the proposed arrangements (e.g. how is Basslink and TVPS' capacity allocated/vested across the traders?).

A number of stakeholders – including AEMO, Origin Energy and Mr Liam Coyle, also suggest that the traders would work best in private ownership, rather than being retained in Government ownership. AEMO in particular notes that this approach may result in integration of trader and retailer positions within national portfolios of NEM players and provide a basis for Tasmanian customers to benefit from competition and scale economies similar to those that already exist for mainland consumers.

Reform Path 3 – establishing a single Victorian/Tasmanian NEM Region – was viewed by many stakeholders as a theoretically sound model that would ultimately be too difficult to implement in a reasonable timeframe. No stakeholder recommended that this option be pursued over Reform Paths 1 or 2 (although Aurora Energy suggested it could be pursued over a longer timeframe, in parallel to other physical reforms). The principal drawbacks identified with the single region model include the Basslink constraint (and its manifestation in the market) and the inability for Tasmania to unilaterally progress the change without the agreement and support of other jurisdictions.

Further, AEMO suggests that the Panel may have underestimated the disadvantages of the single region model. AEMO does not agree with the Panel's assessment that a single region would remove Hydro Tasmania's ability to exercise market power in the spot market and its latent market power, given that it would not change the physical reality of a dominant generator behind a network bottleneck (Basslink). Both AEMO and LYMMCo also believe that Reform Path 3 would disconnect Tasmanian pricing from the prevailing supply/demand balance, thus sending inappropriate pricing and investment signals.

Full Retail Contestability

A small number of stakeholders, including TasCOSS, the Property Council of Australia and Mr Peter Brownscombe clearly remain sceptical of the benefits of FRC to Tasmanian customers, suggesting that these may be outweighed by the costs, particularly given the small and 'unique' nature of the Tasmanian market. For example, TasCOSS believes that there are a number of costs of FRC implementation that the Panel has not properly acknowledged – including marketing and customer acquisition costs – and rejects both the introduction of FRC and the sale of Aurora Energy's retail book.

Aurora Energy does not oppose FRC but agrees that implementation costs should be carefully considered before proceeding down this path. Aurora Energy also contends, contrary to Hydro Tasmania, that FRC should not be pursued in isolation, without first pursuing wholesale reform.

A significant number of other stakeholders - including national retailers and peak associations – support the declaration of FRC and are, to varying degrees, positive about the potential for strong retail competition to develop in Tasmania. Those who were clearly supportive of 'pro-active' FRC - through the repackaging and sale of Aurora Energy's retail business - include the ERAA, AGL, Origin Energy, Alinta Energy, and the ESAA.

For example, Alinta Energy suggests that the Panel should not underestimate the attractiveness of the Tasmanian market for less established (i.e. 'second tier') businesses in the NEM and notes that "If the Government of Tasmania implements the preferred reform path, so that pursuing customers is no less attractive in Tasmania than in other states, then adding Tasmania to Alinta Energy's current retail strategy makes commercial sense".

Similarly, the ERAA suggests that there is evidence amongst its members of increasing interest in the Tasmanian market and that "Given the right market environment, there is good reason to believe competition in Tasmania has the potential to flourish."

Alinta Energy and Origin Energy specifically advocate for the packaging and sale of the retail book over a more 'organic' approach to FRC. Australian Power and Gas notes that such 'pro-active' retail competition may not be a requirement for it to enter the market, but recognise that it may offer advantages to other retailers through increased wholesale market flexibility.

The retailers also suggest in their submissions that FRC should be accompanied by price deregulation, once competition is proven to be effective, suggesting that price regulation is inefficient and may act as an inhibitor for new entrants. A preference is indicated for a 'light-handed' approach where price regulation is retained.

Further, AGL and Alinta Energy both suggest that non-price related regulation and licensing arrangements need to be such that an existing NEM retailer can easily acquire a license and enter the market under arrangements consistent with other jurisdictions, noting that specific rules or regulations applying to retailers servicing Tasmanian customers will likely to act as a significant barrier to entry.

Changes to the Wholesale Energy Allowance

The Panel received some limited feedback on its proposed changes to the methodology for setting the wholesale energy allowance for regulated customers so that the allowance more accurately reflects prevailing wholesale market dynamics and prices.

TasCOSS supports the Panel's findings and sees the move to the recommended methodology as fundamental to fairer regulated prices in the future. The Property Council of Australia also supports the TER adopting a revised approach that better reflects Tasmanian market conditions.

Aurora Energy agrees with the Panel that the changes could deliver price benefits to consumers, but notes that the decision is ultimately a matter for Government, as it would have a range of consequences for profitability and returns of the SOEBs. Specifically, the viability of TVPS and the wider business will be impacted by a change to the methodology. Further, Aurora Energy emphasised that changing the allowance methodology does not address competition issues and should not be considered in isolation, separately from more fundamental reform and putting the TVPS on a sustainable financial footing.

AGL's view is that modelling of LRMC should be based on non-contestable market load on a Greenfield basis. AGL notes that that the Panel's proposed incremental LRMC has the potential to change over time (based on hydrology) and suggests that using an LRMC approach that could change materially within the regulatory period would undermine retailer confidence.

The ESAA's broad view is that any consideration of methodology changes should take into account the Panel's broader reform objectives, including emergence of competitive retail sector in the future.

Tamar Valley Power Station

As noted above, a number of stakeholders raised the future of the TVPS in the context of Reform Path 2, calling on the Panel to clarify how/where its generation capacity would be vested (e.g. with Hydro Tasmania, or one of the traders).

In its submission, Aurora Energy supports the Panel's recommendation that the TVPS must be placed on a sustainable footing, as does TasCOSS.

With regard to the backward-looking aspect of the Panel's work on the TVPS, Mr Peter Brownscombe suggests that the analysis of the TVPS acquisition underestimates the 'cost of the folly'. Mr Brownscombe believes the price paid by Aurora Energy was well above market price and its acquisition not necessary for energy security. Mr Michael Lowe also observes that, given its financial position in the market, the acquisition of the TVPS appears to have been a 'costly mistake'. Mr Greg Todd questions the hydrological risk basis on which the Government made the decision to acquire the TVPS.

Mr Brownscombe suggests that the Panel needs to more clearly articulate how, and through what means, it sees the TVPS being put on a sustainable footing, as recommended in the Draft Report.

Basslink

Very few submissions directly addressed the Panel's findings in relation to the development and commercial operation of Basslink.

Hydro Tasmania supports the Panel's findings in relation to Basslink, particularly the Panel's conclusions that Basslink has been an effective and cost efficient means of ensuring Tasmania's energy security and that non-contestable customers are not paying for Basslink through their electricity prices. Similarly, the ESAA commends the Panel on the 'myth-busting' element of its Basslink analysis.

However, Mr Peter Brownscombe contends that the Panel's statement that non-contestable customers are not paying for Basslink is broad and, he believes is, "not exactly correct".

The Property Council of Australia calls into question the fundamental utilisation of Basslink in the market, including whether it should instead be reserved as a 'back up' source of supply in the event of prolonged drought or infrastructure failure.

Consistent with their earlier submissions to the Issues Paper, both LYMMCo and Alinta Energy comment on Hydro Tasmania's current utilisation (bidding) of Basslink, which they suggest is detrimental to competition in the wholesale market, and ask that the Panel considers this issue further in its Final Report.

Network Pricing and Business Integration

A number of stakeholders raised the issue of network prices in the context of its significant contribution to recent customer price rises. For instance, AEMO contends that the materiality of transmission cost increases puts the onus on the Panel to consider this issue in more detail, particularly in relation to those matters within the Tasmanian Government's control. Specifically, AEMO believes that the Panel should consider options regarding transmission planning and investment, including implementation of aspects of the Victorian model such as independent network planning and procurement, competitive tendering of new transmission augmentations, privatisation of legacy asset owning entity and reliability planning based on assessed value of investment to users (rather than a redundancy standard). AEMO notes that some augmentations that have been done since 2006 may have been deferred if a cost/benefit test had been applied and therefore the Panel should recommend that a strict cost/benefit test be applied to all augmentations as part of the TER's 2012 Review of reliability standards.

In its submission, the AER suggests that there are limited incentives in the current regulatory framework for Network Service Providers to keep within their regulated allowances. The AER notes that it has submitted a rule change proposal to help strengthen incentive for financial discipline. The ESAA and TasCOSS also believe that the regulatory framework itself – and not just the overspending of allowances by the SOEBs – is an issue in driving price increases.

TasCOSS also notes that it is interested in options for structural reform to network businesses, given the potential for savings from closer collaboration. Aurora Energy considers integration of the network businesses to be a 'second order' issue compared to wholesale market reform, noting however that it is open to integration in the future, and in the interim will continue to work with Transend to maximise 'collaboration benefits'. Transend contends that network business integration could dilute its current efficiency focus but if distribution business is separated from Aurora Energy at some point in the future it would 'make sense'.

Mr David Asten raises some specific technical issues that he suggests indicates that a re-examination of the current network operational boundaries between Aurora Energy and Transend is necessary.

Performance of the State-owned Energy Businesses

The majority of feedback on the performance of the SOEBs (covering both efficiency and effectiveness and financial performance) comes from the SOEBs themselves.

With regard to financial performance, Hydro Tasmania suggests that the exclusion of 2010-11 results may have led the Panel to underestimate growing value in the business. Its position is that an assessment of sustainability should take into account current financial performance and, with the Panel's review period concluding with 2009-10 results, its conclusions with regard to financial performance are therefore 'invalid'.

Hydro Tasmania also takes issue with the Panel's finding that investment in 'non-core'/diversification activities have contributed to mediocre returns between 2004-2010, contending that Hydro Tasmania's wind interests, Entura and Momentum are all profitable. Further, Hydro Tasmania argues that operations outside of Tasmania and beyond hydro generation do not result in additional overall risk. Rather, mainland diversifications are described as a way to "simultaneously achieving lower electricity prices for Tasmanians while preserving returns to Government".

Aurora Energy contends that its operational expenditure overspend over the review period noted in the Draft Report was 'not an excessive outcome'. Further, it argues that capital expenditure over the review period was driven by increased demand for new connections and system capacity requirements, which has now reduced with a slowing Tasmanian economy. Aurora Energy notes its efficiency measures, including restructuring and staff reductions and points to the 2011 Reliability Report, which shows that Aurora met supply reliability performance measures across all five categories for the first time in 2010-11. 2010-11 has also seen a 'significant turnaround' in Aurora Energy's financial performance, but the Company acknowledges that wholesale energy arrangements put in place in 2010 under the Price Control Regulations have been a major contributor in this regard.

Mr Michael Lowe observes that the delivery of CSOs and purchase of non-core businesses seem to be used by the SOEBs as an 'excuse' for poor returns. Mr Lowe believes that historically poor financial results in fact provide a compelling case for privatisation. Mr Lowe suggests a clear set of financial and service benchmarks for the TESI should be put in place against which the SOEBs should be held to account.

Mr Greg Todd makes a number of comments with regard to the financial performance and efficiency of the SOEBs. Mr Todd draws particular attention to the cost overruns in the Aurora Energy billing system project Mr Todd broadly supports the Panel's observation that the market and regulatory framework alone will not drive efficiency in the SOEBS and that "rigorous drivers of internal efficiencies are required".

Governance

Hydro Tasmania agrees that the existing SOEB governance framework is in line with 'best practice' and is currently operating efficiently, noting that the Government has undertaken significant reform on this front in recent years, particularly with regard to board selection and appointments. However, Hydro Tasmania does not agree with the Panel's observations in the Draft Report's governance chapter on the risks of diversification strategies, suggesting that its characterisation of some activities as 'non-core' indicates a 'fundamental misunderstanding' of the business model and commercial management of risk – especially the integrated nature of Hydro Tasmania's business. Hydro Tasmania also argues that diversifications are not inherently more risky and have in many instances been pursued to actually *reduce* risk.

Hydro Tasmania also contends that the Panel has overstated the opportunity cost of capital invested in diversifications, suggesting that debt that is used to fund such investments is not doing so at the expense of funds for general government sector service delivery.

Aurora Energy believes that it is already meeting the strengthened governance arrangements proposed by the Panel and working with the Government on reforms in this regard. Aurora Energy notes that greater clarity of legal status/hierarchy of governance documents is necessary so directors are clear on their obligations/duties. Both Aurora Energy and Hydro Tasmania support the view that Shareholder oversight by Government should be restricted to the strategic level, noting that directors should be empowered to run the business within broad strategic parameters.

The ESAA supports the Panel's recommendations with regard to clarifying the Government's ownership objectives and further recommends that the functions of Shareholder Minister and Energy Minister be separated in the interests of competitive neutrality.

Similarly, Mr Greg Todd raises concerns with the potential 'blurring' between the political role of the portfolio Minister and the Treasurer with their roles as Shareholder with responsibility for the oversight of the SOEBS. Mr Todd suggests that some current practices, such as the SOEBs preparing Ministerial correspondence and briefing materials for Parliament, contribute to a conflation of these roles and may politicise the SOEBs.

Both Mr Greg Todd and Mr Peter Brownscombe also raise a range of issues with regard to the frequency and quality of information provided by the SOEBS, as well as the capacity of Shareholders and Parliament to apply proper scrutiny to their performance with the current governance framework. To improve oversight, Mr Brownscombe recommends that the SOEBs be required to report twice-yearly to a special joint Parliamentary Committee.

On a similar theme, the TER suggests that public reporting obligations of the SOEBs could be enhanced through some form of continuous disclosure to "...mimic market requirements in relation to financial performance and shareholder dividend expectations". It is suggested that the TER could be in position to administer this kind of process, if implemented.

Major Industrial Pricing

The ESAA and Hydro Tasmania both note that the Panel's Report usefully dispels some common myths about MI pricing.

It appears, however, that some stakeholders retain a belief that MIs receive an energy subsidy at the expense of non-contestable customers. For example, Mr Peter Brownscombe suggests that the Panel's analysis, while valid, does not fully explain the disparity between MI prices and those paid by small business and residential customers.

Cost of Living/Social Policy Objectives

A number of stakeholders – including TasCOSS, Mr Darrel Stringer and Mr Peter Brownscombe suggest that the Draft Report does not give sufficient focus to options for addressing cost of living pressures associated with rising electricity costs. TasCOSS also contends that the Panel should recognise electricity as an essential service and this should therefore be reflected in the Panel's proposed energy supply industry objective.

However, stakeholders including TasCOSS and the ESAA are broadly supportive of the Panel's position that social objectives and the policy tools to achieve them (including CSOs) should be dealt with separately from price-setting in a clear and transparent manner.

LYMMCo suggested that "any measures to protect low income and disadvantaged customers from higher electricity prices – whilst important – should not be a deterrent to fostering competition in the market".

Natural Gas

Several stakeholders believe that the Panel has not paid sufficient attention to the role of gas in the broader Tasmanian energy market.

TasGas Networks, in particular, suggests that the increased use of gas (either for generation or for end-user applications) would provide multiple benefits to the Tasmanian industry, including reducing average customer energy costs, and reducing peak demand, hence lowering electricity supply costs and increasing reliability of networks.

TasGas Networks recommends an overarching energy policy that integrates gas, supported by the coordination of energy developments that strikes efficient balance between electricity and gas and incentives that ensure Tasmanian electricity businesses examine and pursue non-network solutions to meet demand.

Both Mr Peter Brownscombe and Mr Liam Coyle offer support to TasGas Networks' position, suggesting that investment in gas infrastructure should be more closely considered in any discussions relating to the State's future energy supply mix, due to its potential to reduce demand on the electricity network and need for further expansion.

From a regulatory perspective, TasCOSS suggests that the Panel should also consider the issue of improved consumer protection and price regulation for gas customers, given indications of emerging hardship for these customers (particularly those in social housing).

Tariff Structures

The structure of existing non-contestable customer tariffs was again raised by some stakeholders. TasCOSS, the Property Council of Australia and Mr Liam Coyle all believe that the current fixed-price component is too high and does not allow low income users to achieve significant savings through efficiency measures.

Re-Aggregation of the TESI

Mr Darrel Stringer argues that there are no clear benefits from the disaggregation of the HEC in 1998 and believes that there are immediate benefits in re-aggregating generation, distribution/retail and transmission as a single Government monopoly.

Similarly, the Property Council of Australia believes disaggregation has resulted in "a more complex cost structure, job duplication and reduced economies of scale" and questions both whether Tasmania should remain part of the NEM and whether it requires separate generation, distribution/retail and transmission businesses.

Mr Peter Brownscombe notes in his submission that a number of Tasmanians have the view that an aggregated 'Hydro' is preferable to the current disaggregated model and suggests that the Panel include more of a more compelling 'story' about the clear benefits of disaggregation to dispel this notion.