



10 August, 2011

Electricity Supply Industry Expert Panel  
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Members of the Expert Panel,

The Tasmanian Council of Social Service (TasCOSS) welcomes the opportunity to comment on your *Independent Review of the Tasmanian Electricity Sector: Issues Paper*. We would also like to congratulate you on the comprehensive set of discussion papers produced for the Review and circulated publicly. These papers make an important contribution to the public information base on electricity supply issues in Tasmania in recent years and provide a foundation for constructive discussions on the future of Tasmania's electricity supply.

While the *Issues Paper* presents a comprehensive catalogue of issues that are subject to the Review and seeks comments on all issues, TasCOSS will limit its response to a number of issues that we see as central to low income and disadvantaged Tasmanians whose interests we represent. Most of these issues are related to costs and pricing of electricity supply. We also raise an additional issue – the use of pre-payment meters – which we would like the Expert Panel to consider as part of its Review.

### **Electricity supply industry objective**

We note that the Panel proposes the adoption of a clear electricity supply industry objective by which to evaluate current practice and to guide future reforms. TasCOSS welcomes this but is concerned that the objective proposed by the Panel does not go far enough.

TasCOSS believes that it is imperative that the objective acknowledges the fact that electricity is an essential service which supports individual, economic and societal well-being and development. The inclusion of such an acknowledgment differentiates electricity supply from most other goods and services and underlines the importance of ensuring that electricity prices are not only efficient, but are also affordable.

TasCOSS is a participant in the National Consumers Roundtable on Energy which, in 2008, developed a *Charter of Principles for Energy Supply*, a copy of which we append to this submission for the information of the Panel. The *Charter* provides a list of principles – that derive from the essential nature of electricity – that should apply to energy supply and that we hope will inform the Tasmanian Panel's deliberations in this Review process and its re-consideration of the proposed electricity supply industry objective.

### **Structure of electricity tariffs for non-contestable customers**

TasCOSS has raised this issue with the Panel on several occasions and we wish to reiterate our concerns here.

The two-part pricing structure of electricity tariffs for non-contestable customers comprises relatively high daily standing charges as well as per kilowatt hour charges for energy use. The higher standing charge makes it difficult for households to achieve significant savings on electricity costs by reducing their usage and therefore does not encourage energy efficiency efforts.

Recent publications from the Office of the Tasmanian Economic Regulator (OTTER) note the nature and effects of the tariff structure. In its *Comparison of 2011 Australian Standing Offer Energy Prices* (August 2011), the Regulator illustrates that low consumption residential customers (estimated to use around 50% of the Tasmanian State average consumption) in Tasmania pay an average of between 28.2 to 29.4 cents per kWh, which is considered to be 'in the high range experienced across Australia'. The report continues,

*By contrast, high consumption customers at 200 per cent of the Tasmanian State average consumption, pay an average cost of between 20.7 cents per kWh and 23.2 cents per kWh, which is in the mid range of prices experienced across Australia. (p 9)*

For those customers in receipt of concessions with average consumption, the concession (which effectively covers the daily standing charge of around \$1 per day) lowers the average price to between 18.9 and 20.9 cents per kWh.

In OTTER's recent *Comparison of 2011 Australian Electricity Distribution Network Charges* (August 2011) it is noted that, 'the combination of fixed distribution charges arising under Aurora's residential tariff packages are amongst the highest in Australia' (p 7). The report explains,

*This is partly due to the fact that in Tasmania, residential tariff packages can include up to three separate tariffs, each of which attract a fixed daily charge. (p 7)*

In addition, the report adds

*. . . the declining block tariff structure adds a de-facto fixed daily charge for most customers because even at a consumption level that is between 40 to 60 per cent of average, the first step in the tariff is exceeded (500 kWh per quarter). (p 8)*

We understand that Aurora Energy is planning to flatten its distribution tariff structure and move to time-of-use pricing but there appears to be no plan to alter the balance in the residential tariff structure by reducing the proportion of fixed costs compared to consumption costs.

The figures cited above illustrate that the residential tariff structure effectively increases the cost per kWh for low consumption (non-concession) customers and does not encourage conservation efforts. This, of course, has an impact on demand side responses and puts Tasmanian consumers at a disadvantage in terms of their ability to reduce electricity costs by reducing usage.

We know that many low income households ration their electricity use, particularly in winter months, in an effort to reduce their costs. For many who are not in receipt of a concession, this is not as effective as it could be with a different tariff structure.

TasCOSS does not object to the principle of a fixed daily charge but considers that its level relative to per kWh costs is a major issue that needs to be addressed.

### **Cross-subsidies**

As the *Issues Paper* points out, the level of cross-subsidy, if any, between customer classes in Tasmania is largely unknown – at least publicly. The introduction of contestability in parts of the market further masks price and cost differentials.

TasCOSS supports the most obvious cross-subsidy in distribution services to enable ‘postage stamp’ pricing for small business and residential customers throughout the State. We see this as an equity issue and one which, we believe, is both expected and well accepted by the community.

### **Competition issues**

TasCOSS remains sceptical regarding the potential benefits of competition for the majority of residential customers in Tasmania. Evidence from other jurisdictions indicates that electricity prices continue to rise – and remain comparable to Tasmanian prices – in spite of quite well-established competition in many markets.

One of the key factors that will influence whether or not competition will benefit small customers is the ability of retailers to purchase energy at competitive prices. The 2008 OTTER Report, *Public Benefit Assessment for Electricity Retail Competition in Tasmania* identified the absence of competition in the wholesale energy market as a significant barrier to successful retail competition.

*The Tasmanian wholesale market continues to be dominated by a single supplier, and the potential for new entrant generators to enter the market is limited by slow demand growth and a lack of take-up in inter-regional trading from mainland generators. Competition in the wholesale market is necessary to realise the potential benefits of FRC. (pp 1-2)*

It appears that the entrance of the Aurora Energy Tamar Valley Power Station (AETV) has made little difference to levels of competition in the wholesale energy market in Tasmania.

In addition, it is likely that small customers will incur increased costs associated with competition – these retailer costs will be passed on to customers and include sales and marketing costs; customer acquisition and retention costs; and increased retail margins. On this latter cost we note that the current allowable retail margin for non-contestable customers in Tasmania is 3.7% (on sales), while regulated price margins in competitive mainland markets range between 5 and 5.4% (ESI Expert Panel, *Tasmanian Electricity Pricing Trends 2000-1: Discussion Paper*, April 2011, p 47).

It is likely that small customers will also have increased costs associated with distribution passed through to them as Aurora Distribution develops systems to manage its relationships with multiple retailers.

The 2008 OTTER Report mentioned above estimated that network costs could add ‘around \$20 to \$35 per customer per year’ and that ‘all Tranche 5 customers would pay this additional amount, whether they accept a market contract or remain on the regulated standing offer tariff.’ (p 88). The Report continues,

*Customers who remain on the regulated standing offer tariff would see an additional increase of between \$28.30 and \$46.90 arising from the increased allowed retail margin and cost to serve, or a total increase of \$50 to \$80 per customer per year. (p 88)*

TasCOSS believes that the additional costs of competition are unacceptable without a guarantee of lower prices in a competitive market, particularly in the context of upward pressure on electricity prices from the introduction of a carbon price in mid-2012, increasing Renewable Energy Certificate costs and likely price increases resulting from the AER’s Distribution Price Determination for Aurora Energy (2012-2017).

### **The role of government in price regulation**

TasCOSS notes with interest the statements in the *Issues Paper* relating to the State Government’s role in setting the wholesale energy allowance (and therefore a large component of prices) for non-contestable customers through the *Electricity Supply Industry (Price Control) Regulations 2003* (as amended in June 2010). We are particularly concerned with the fact that non-contestable customers are funding, through regulated prices, the viability of AETV power station (*Issues Paper*, p 40).

TasCOSS believes that this raises the issue of government involvement in price regulation and the importance of balancing the various roles of government in the energy sector. We understand that the State Government is responsible for energy policy, including decisions about the introduction of competition and ensuring access to adequate energy supply; however, it is also the owner of the major electricity supply industry companies in Tasmania.

In light of these roles and the possibility of potential for perceived conflicting interests, it seems appropriate that the Tasmanian Economic Regulator (TER) is given responsibility for setting the wholesale energy price used in future retail price determinations. The TER is aware of the full range of issues relating to electricity

supply in Tasmania and, as an independent regulator, is well-positioned to ensure that all interests are considered in making such determinations.

TasCOSS welcomes the Expert Panel's review of these issues, particularly in light of the fact that:

- (a) dividends (ie a percentage of profits) from the electricity supply companies are a significant source of government revenue, and
- (b) increasing electricity prices represent a major cost of living pressure on Tasmanian households.

State forward budget estimates indicate that the Government is expecting increased dividends from its electricity entities, and, as your *Issues Paper* notes, the Tasmanian Government increased the dividend payment ratio for State Owned Electricity Businesses (SOEBs) in this year's Budget. As your *Issues Paper* also notes, this is effectively 'an equity withdrawal from the electricity entities, which will have an impact on their capital programs and/or debt levels' (p 47); this in turn may lead to further increases in costs and prices.

It could be argued that seeking increased dividend revenue from SOEBs is fair because it is used by the State to provide public goods and services that benefit all Tasmanians. However, if higher dividends for the State contribute to increased electricity prices, it may be seen by some as a form of 'taxation by stealth' and, indeed, as a regressive form of taxation.

### **Carbon pricing**

TasCOSS agrees that it is likely that in future years Hydro Tasmania, as the largest renewable generator in Australia, will benefit significantly from an Australian carbon pricing system. It is also likely that Tasmanian consumers will pay higher electricity prices as a result of that system.

TasCOSS would therefore like to see some of the increased Hydro Tasmania revenue / dividends earmarked for the creation and ongoing support of programs that will make a significant and long-term difference to the energy needs of low income Tasmanian households. We envisage that this would involve large-scale and comprehensive retro-fitting and support programs for low income households, across all housing tenures, to increase the thermal and energy efficiency of their dwellings.

Tasmania has some of the oldest and poorest quality housing stock in the country, particularly in rural areas of the State as recent TasCOSS consultations demonstrated (see TasCOSS, 2011: *Living in the Country: Consumer perspectives on energy supply in rural Tasmania*, available at [www.tascoss.org.au](http://www.tascoss.org.au)). As you are also no doubt aware, Tasmanians have the lowest level of household income and use more electricity than Australians in other states and territories. Electricity costs are therefore a significant source of stress for low income households.

Retro-fitting programs are vital as they have the potential to make a long-term difference to household electricity use and costs. However, as discussed above, current tariff structures must change to enable savings to be made from reduction in usage.

We acknowledge that the Tasmanian Government announced in its recent State Budget funding of \$6 million over three years for energy efficiency programs for low income households (including those in Housing Tasmania properties). However, these funds will not go far and we believe that significant ear-marked funding from future Hydro Tasmania dividends has the potential, through well-designed energy efficiency programs, to make an enormous difference to the quality of life of a large number of Tasmanians.

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I hope that these comments are helpful in your deliberations. Please feel free to contact me if you have any questions about this submission or require any further information from TasCOSS.

Yours sincerely

A handwritten signature in black ink that reads "Tony Reidy". The signature is written in a cursive style with a large, looped 'T' and 'R'.

Tony Reidy  
CEO  
Tasmanian Council of Social Service

# CHARTER OF PRINCIPLES FOR ENERGY SUPPLY

The application of competition principles and the creation of markets for electricity and gas have reshaped these industries, especially their relationships with governments and consumers.

When beginning these processes of change, federal, state and territory governments mandated the following:

“The national electricity market objective is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to price, quality, reliability and security of supply of electricity and the reliability, safety and security of the national electricity system.”

The roundtable supports this objective but to recognise the industry’s importance and complexity suggests the use of the following caveat:

1. In meeting the objective of the national electricity market, all market participants (including governments and regulators) shall have regard to the essential nature of the service, the pecuniary interests of industry, diversity amongst consumers, and long-term environmental sustainability.
2. Energy should be generated, distributed and consumed in a sustainable manner, to meet the needs of consumers whilst affording effective protection of the environment and the prudent use of natural resources. Demand should be minimised and the use of renewable energy maximised to conserve and enhance environmental and social assets.

## What is the Roundtable?

The National Consumers Roundtable on Energy is an informal coalition of advocates for energy consumers. The Roundtable is interested mostly in households and small business.

We consider that the supply of electricity should be regarded as an essential service, on par with water supply and emergency services such as police and ambulance.

We aim to engage with energy market reform and to ensure as far as possible that it does not produce deleterious results for consumers.

## Electricity is an essential domestic service

Electricity supports fundamental human needs including safe food (storage, preparation) and safe shelter (hygiene, lighting, temperature control).

Electricity supports equipment that is critical to wellbeing and independence (health, communication). Beyond these fundamentals, electricity supports community engagement and family life (social interactions, employment, education).

Except in rare and exceptional circumstances, a regular connection to electricity supply is not discretionary or optional. In most instances there is no alternative to electricity.

**A reliable, safe, affordable supply of electricity is a right rather than privilege and access must be guaranteed as far as reasonably possible.**

*This document is specific to electricity, but much of its content is applicable to gas, and some to the provision of water.*

# CHARTER OF PRINCIPLES FOR ENERGY SUPPLY

Energy supply should be:

## SUSTAINABLE

**Sustainability** - Energy supplies should be derived from a secure mix of sources, including renewable energy sources. Energy should be produced, distributed and consumed in an efficient manner so that energy demand is minimised and energy supply provides beneficial social and environmental outcomes.

## ACCESSIBLE

**Equity** – Energy services should be provided to all people equitably so that pricing and service standards do not discriminate against people according to their geographic location.

## AFFORDABLE

**Affordability** - Energy should be affordable for all consumers. Energy supply should not be denied to any consumer on the basis of financial hardship or other circumstances of vulnerability.

## APPROPRIATE

**Quality** - Energy supply should be of a high quality appropriate to the intended purpose at its point of consumption.

**Safety** – Energy consumers should be protected from any dangers in the provision of energy services.

**Reliability** - Energy supply should be reliable and aim to ensure an uninterrupted delivery of supply, as far as practicably possible.

## ACCOUNTABLE

**Respect** – Energy services should be delivered in a way that respects all consumers and their diversity of needs and capacity to participate in an energy market.

**Information** – Energy consumers should have access to information about energy services that empowers them to make informed choices and to negotiate their interests with service providers.

**Rights** – Energy consumers have rights to use energy for ensuring adequate standards of living and social participation. These rights are recognised in international human rights standards.

**Privacy** – Information about consumers held by service providers should be treated with care and shared only with prior permission.

**Redress** – Energy consumers should have access to free, fair and independent services for complaints resolution.

**Representation** – Energy consumers ought to be supported to have their interests represented and be able to participate in consultation and decision-making processes.