

## **Introduction**

- My name is Marc White and I sometimes act as the Tasmanian representative of the Energy Users Association of Australia (EUAA). It is in that capacity that I provide these comments today. I do so on behalf of the EUAA Executive Director, Roman Domanski, who had intended to be here today but unfortunately cannot and sends his apologies.
- The EUAA is the national association of electricity and gas users. It has over 100 members who together account for a large chunk of the nation's energy consumption. Our membership extends to Tasmania, includes most of the State's largest energy users (as well as some who are not quite so large) and we are therefore taking a strong interest in this review.
- We believe that Tasmania is at a virtual fork in the road in relation to its energy intensive business, its ability to continue to hold on to them and attract new investment to the State to help its economy and the standard of living of its population grow. This applies especially to those industries that are in competition with exports or imports. The competitiveness of electricity supply is an important issue in this equation.
- We welcome the formation of the Panel, its independent charter and the fact that it reports to Parliament.
  - This gives users additional comfort that the Panel has a basis from which it can provide fearless advice about the status of Tasmania's electricity sector and what steps need to be taken to ensure it performs better in future.
  - We particularly appreciate that it is not encumbered by having to report only to the Government of the day, although we do appreciate that it is that Govt that ultimately needs to respond to the Panel's report with policy decisions.
  - We strongly encourage the Panel to give its advice independently and fearlessly and take particular account of the issues raised by energy users, the ultimate beneficiaries (or otherwise) of decisions about energy policy, regulation and markets.
- The Panel's formation is timely, given the recent large increases in electricity prices, the sort of business, community and political pressures that these create and the broader (and more deep seated) issues that surround the Tasmanian electricity sector. It is appropriate that its charter includes the examination of these price increases.
  - We note that these energy price issues are not just peculiar to Tasmania but are of concern in all States, with a number of common reasons at play (eg severe network price increases, the impact of the 20% Renewable Energy Target and the prospect of a carbon price) and that they are affecting all electricity consumers (business & domestic).
- We have already provided a response to the Panel's *Statement of Approach* and intent to make further written submissions in consultation with our members.
- We have seen the documents that the Panel has recently released and appreciate from these that the Panel and its secretariat have already put significant effort into this review. We have not yet had time to examine all of this documentation, so the remarks that follow are provided without having had that opportunity.

## **Key Issues**

- The overarching issue for us is that electricity prices in Tasmania have increased significantly in recent years and look set to continue to do so under 'business-as-usual'.

- However, our national work also indicates that this is not inevitable – for example, there is an unfinished energy reform agenda that is outlined in our *Energy Reform Scorecard* released late in 2010, the disturbing northward march of network charges are being affected by a combination of a poor regulatory framework and inefficiency in network monopolies, especially Govt-owned ones, and policies to mitigate carbon, such as the RET and state solar subsidies that come at a high cost for little abatement (the antithesis of what sound policy would suggest should be done).
- Neither is it inevitable in Tasmania, with steps that we believe can be taken to release some of the upward pressure on energy prices, whilst not compromising investment or reliability of supply. We now turn to three of the areas that need to be considered. We expect to address others in our submission.
- *First*, competition in Tasmania’s electricity sector – retail and generation – is weak (some would say almost non-existent) and the Panel needs to examine what can be done to improve this.
  - On the one hand localized factors such as relative isolation and a small market may carry influence here, but we do not accept that this should be accepted just at face value.
  - The scope to increase competition through a set of pro-active policies aimed at structures, ownership and removal of barriers to entry ought to be closely examined with a view to ‘biting the bullet’ on a pro-competitive approach
  - We held our annual *Tasmanian Energy Forum* here in Launceston on 29<sup>th</sup> March and one encouraging sign to emerge from it was that ERM has now established themselves as a new (albeit still small and niche focused) second retailer in Tasmania They have apparently secured some 83 customers and are looking for more. This shows that entry is feasible even under quite adverse conditions. It also raises the tantalising prospect that under more favourable conditions there would be other parties seeking to enter?
  - Of course, this is not simply a matter of securing new retailers, but also turns critically on scope for more competition in the generation sector and what must be done to ensure this. It is well known that generation competition and liquidity is a key to competition in the NEM (and many other electricity markets).
- *Secondly*, the significant northward progression of network charges and the reasons for this are the single most important here-and-now reason for increases in electricity prices in the NEM. They are also foremost on the mind of EUAA members. These make up around half of the typical cost of delivering electricity to end users.
  - We have been closely involved in representing the interests of our members in every major determination so far made by the Australian Energy Regulator (AER), including that for Transend in 2009.
  - Based on what we have observed, we are very disturbed that the current regulatory framework for network regulation under the NEM has fundamental flaws that are combining to allow network prices to etch up unreasonably, to entrench inefficiencies in the network businesses, to provide them with inappropriately high rates of return, to encourage ‘gold plating’, to disadvantage the regulator and to encourage regulatory gaming. All this is contrary to the aims of good economic regulation on network monopolies, is contributing to our poor productivity performance and is a drain on our competitiveness.
  - We have coined the phrase ‘network leakage’ to go with ‘carbon leakage’, signifying that skyrocketing network charges are also a factor that will drive energy intensive businesses to relocate and invest offshore. This includes Tasmanian-based companies.
  - By 2015, Tasmania’s transmission charges will have increased by 109% over their level ten years earlier. This is completely out of proportion and we believe reflects poorly on the regulatory regime and Transend itself.

- Since 2006, average distribution prices have increased by one-third. However, these are yet to be reviewed by the AER, a process that commences mid-year.
- We welcome the fact that the CEO of Aurora recently told our *Tas Energy Forum* that they do not expect to put a proposal to the AER that would result in increases in their network tariffs that are as significant as those in other states. However, we will have to await their proposal before we can comment on this in detail.
- We urge the Panel to closely examine the impact of network charges in regard to its terms of reference and what role they have played in the climb in electricity prices in Tasmania. We also urge you to consider the existing framework for network regulation and its governance structures, as well as the impact that ownership has on the performance of electricity networks.
- We have gathered evidence that shows that the framework for network regulation is in need of serious overhaul, that governance is also in need of reform and that ownership does matter in relation to this.
- We draw to the Panel's attention the views recently expressed by Prof Ross Garnaut in relation to problems with network regulation and his call for an urgent review – now also supported by IPART.
- In order to fulfill its role, the Panel needs to have a close look at this in terms of the impact on Tasmania.
- Thirdly, electricity prices are being pushed upwards by a range of climate change policies.
  - Most immediately, the greatly expanded RET is pushing prices up significantly nationally. This is compounded by a range of state-based subsidies for solar, including here in Tasmania.
  - Our estimate is that in 2011 & 2012, the RET alone will add around \$8/MWh and \$10/MWh to electricity prices. At a time when these prices are already increasing significantly, this is not welcome.
  - Whilst so-called EITE firms, including in Tasmania will receive some compensation, those that do are not fully compensated and there are other trade exposed industries that will not be compensated given the element of 'rough justice' in these arrangements.
  - The carbon price will be an additional impost on Tasmanian energy users. Details are only slowly emerging and it is difficult for us to comment on the Govt's proposed scheme without the detail. Suffice to say that we have concerns about a move to price carbon before there is a global approach.
  - Tasmania's energy users will be vulnerable given their energy intensity, although they do have access to a predominantly, though somewhat diminished in relative importance, hydro based electricity system and some will be partially compensated.
  - It is worth pointing out that any 'carbon leakage' from Tasmania is likely to be result in the loss of investment and jobs in this State that will be substituted in another part of the world that may not have such a greenhouse benign electricity sector.
  - Even though climate change policies are mostly being developed at the Federal level, there are some state policies in place, others may be developed and they can conflict with sound national policy objectives. A review of the Tasmanian electricity supply industry should consider this important set of developments.

### **Final comment**

- We wish the Panel well in its deliberations and welcome opportunities for further interaction and involvement. There are many important issues to consider, some of which we have touched on here today.