



Electricity Supply Industry Expert Panel

# Background and Initial Observations

Community Hearings

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# Three Primary Dimensions

## 1. Where are we now?

- Efficiency and effectiveness of the industry
- Financial position of the Energy Businesses

## 2. How did we get here?

- Impact of major investment decisions
  - Disaggregation of the Hydro
  - Interconnection with Victoria (Basslink)
  - Joining the National Energy Market
  - Acquisition of the Tamar Valley Power Station
- Efficiency and effectiveness of the regulatory framework

## 3. Where do we go from here?

- Regulatory, governance and structural reform options to improve the efficiency of price outcomes, having regard to other objectives - security and reliability of supply and the financial viability of the sector
- Actions to inform an Energy Strategy

# Issues in Scope

- Experience of contestable customers
- Implementation of full retail contestability
- Inter-fuel competition - that is natural gas as it relates to electricity
- Cross subsidies between major industrial customer pricing and small customers
- The effectiveness of wholesale market arrangements in Tasmania
- The practical operation of governance arrangements
- Affordability and capacity to pay issues

# Evolution of the Sector

- Reform framework commenced mid-1990s and driven forward by successive governments
- Three main policy objectives:
  1. **New sources of energy to meet load growth**
  2. **Managing and mitigating hydrological risk ('keeping the lights on')**
  3. **Greater competition and consumer choice – lower prices for consumers and competitive advantage for the State**
- Key reform framework decisions and actions
  - Corporatisation and disaggregation of the Hydro
  - Adopting NEM arrangements
  - Connection to Victoria through Basslink
  - Introduction of natural gas
  - Purchase of AETV
  - Ongoing transition of regulation to independent bodies

# What has Reform Delivered?

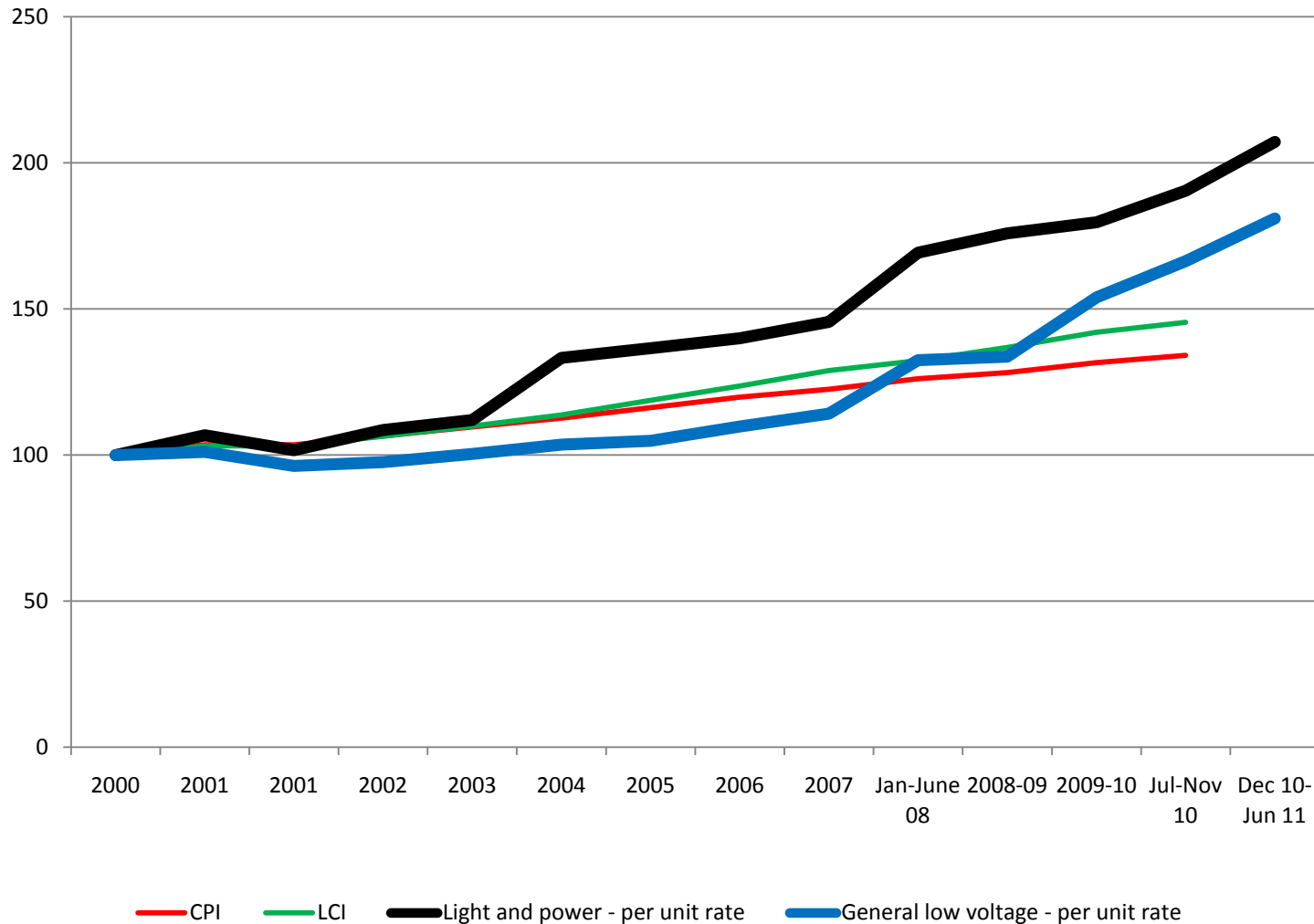
- 5 Years since Tasmania physically connected to the NEM through Basslink – good opportunity to ‘take stock’
- Gas has been rolled out, but uptake relatively low at the domestic level – under 9,000 connections statewide
- Retail contestability introduced, but not for majority of customers (residential and small business)
- Part of the National Market, but still limited competition in generation and wholesale, even with a gas-fired station
- Regulation transferred away from government, yet government still retains high level of control

# What has Reform Delivered?

- Key part of Panel's task is to review the outcomes we see are the outcomes that were intended – if not, what do we need to change going forward?
- Tasmania is unique in the Australian market and the fundamentals have not changed...
  - Hydro generation - energy constrained, not capacity constrained
  - Energy constraints drive policy and decision-making – government involved in risk management and buying 'insurance'
  - Single dominant generator – very little competition in wholesale market, could be impacting on retail competition
  - High electricity use, low levels of gas uptake (potential for greater inter-fuel competition)

# Prices Rises in Tasmania are Real

## Electricity Tariffs Movements, 2000 - 2011



# But We're Not Alone....

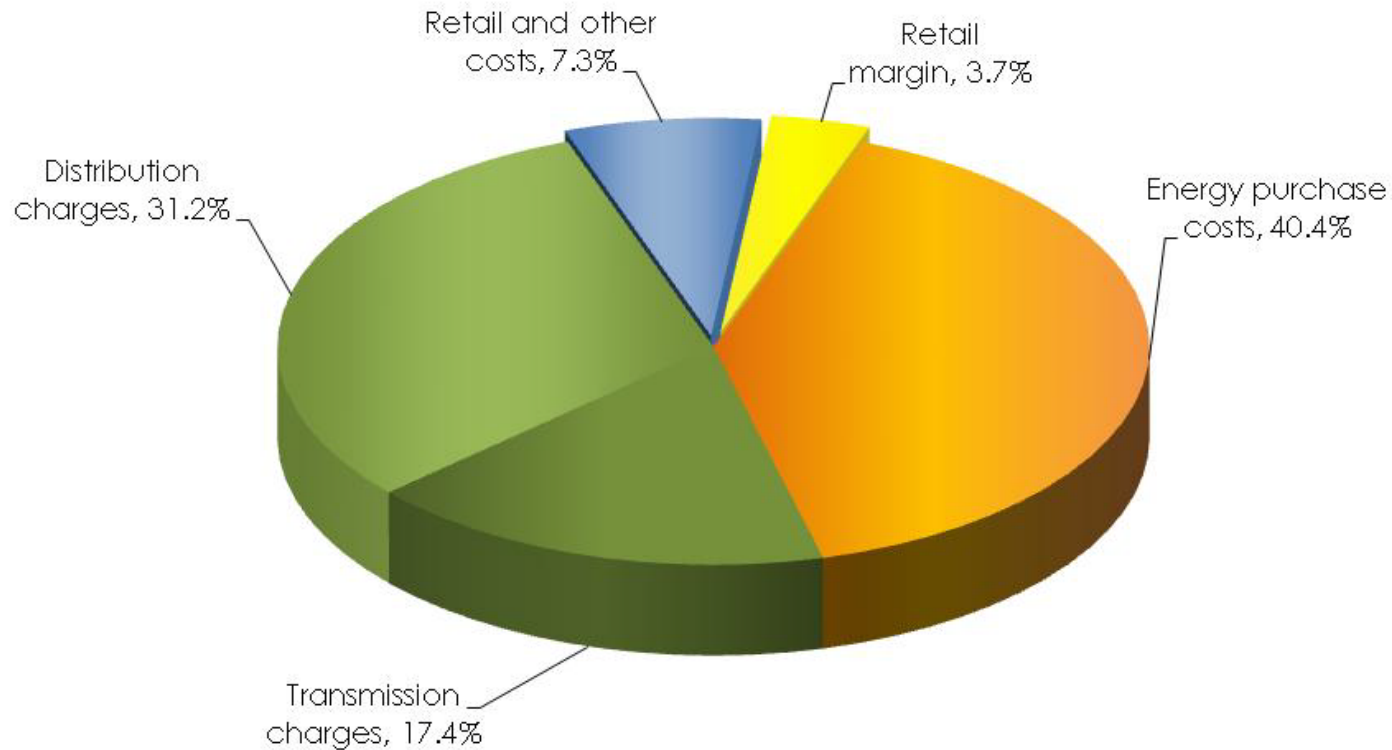
Rate of Electricity Price Increases, by Jurisdiction, 2007/08 – 2010/11

Vic	NSW	QLD	WA	Tas	ACT	NT	SA
53.6%	46.1%	45.6%	42.5%	<b>41.9%</b>	32.6%	30.8%	29.6%



# What makes up our Electricity Bills?

## Components of Tasmanian residential & small business electricity prices, 2010



**Source:** Electricity Pricing - Information Sheet, Office of the Tasmanian Economic Regulator, Declared Electrical Services Pricing Determination, October 2010, Office of the Tasmanian Economic Regulator

# What has Driven the Increases?

Contribution of Supply Chain Components to Electricity Price Increases – 2000-2011

