



Electricity Supply Industry Expert Panel

**Community Hearings:
Summary of Proceedings**

May 2011

Background

The Electricity Supply Industry Expert Panel held its first round of Community Hearings in Hobart on 19 April 2011 and in Launceston on 20 April 2011. The Community Hearings are a key part of the Panel's evidence-gathering processes for the Review. They are designed to provide interested members of the community with an opportunity to raise and discuss issues directly with Panel members in an open and transparent way.

The Hearings were publicly advertised in Tasmania's three daily newspapers and widely promoted to a broad range of stakeholders, including Parliamentarians, local government representatives, industry participants and community and business bodies. The Hearings were well attended, with approximately 50 and 30 attendees at the Hobart and Launceston sessions respectively.

Panel members took questions about the Review and heard a range of comments directly from attendees on the core issues that they believe should be covered in the Panel's forthcoming Issues Paper. The Panel also used the Hearings to share some facts and initial observations on the Tasmanian electricity industry based on its investigations to date, including key findings from the Panel's three initial Discussion Papers.

Interested parties were invited to register if they wished to make specific submissions or presentations to the Panel at the Hearings. In total there were sixteen presentations made; ten at the Hobart Hearing and six in Launceston. The full list of participants who made presentations to the Panel is provided below:

Hobart

- David Asten (DA Electricity Consultants)
- Penny Cocker
- Geoff Fader (Tasmanian Small Business Council)
- Paul Fulton (Joule Logic)
- Simon Himson (TasGas)
- Tony Horsham (Competitive Change International)
- Kath McLean (TasCOSS)
- Des Le Fevre
- Mark Manning (Derby Products)
- Warren Papworth

Launceston

- Dennis Collins
- Neville Dobson (National Electricity Contractors Association)
- Hugh Grimes
- Craig Owens (Hill Michael Associates)
- Ian Peck
- Peter Schulze

The Agendas and Running Sheets for both Community Hearings are provided in **Appendix A**.

This Paper provides a high-level summary of the issues raised by participants at the Hearings and explains the Panel's general views and responses to these issues, including how issues will figure in the Panel's deliberations as the Review progresses. Contributions from stakeholders have been grouped under four main theme headings based around prominent and recurring issues that were raised at the Hearings:

- **Tariff Structures and Capacity to Pay Issues**
- **Structure and Efficiency of the State-Owned Energy Businesses**
- **Competition in the Retail Sector**
- **Cross-Subsidies**

A short section at the end of the Paper captures a small range of other issues that the Panel believes are important to capture but are not strongly linked to any single major theme from the sessions.

More detailed notes from each of the individual presentations are captured in **Appendix B**. Several stakeholders have also provided copies of the presentations that they made to the Panel. Where the authors have consented, the Panel has published these presentations on its website.

The Panel is keen to emphasise that the engagement and consultation process is ongoing and that the recent Community Hearings are not a 'one off'. The Panel will be inviting submissions with regard to both its Issues Paper and its Draft Final Report and expects to hold another round of Community Hearings in relation to its Draft Report in November 2011.

The Panel is keen to hear from Interested members of the community at all stages of the Review process and is happy to accept relevant information and evidence at any time.

1. Tariff Structures and Capacity to Pay Issues

Issues Raised

A number of stakeholders raised issues with the current structure of electricity tariffs for Tasmanian households and smaller business customers.

A dominant theme was that Tasmanian tariffs have a relatively high fixed charge component when compared to other jurisdictions. For a number of stakeholders, this was seen as providing a barrier to achieving broader policy objectives or goals in the sector, including affordability, greater demand management and improving energy efficiency at the household level.

Kath McLean of TasCOSS, Hugh Grimes and Peter Schulze suggested that tariffs with high fixed charge components have a disproportionately high impact on low-use, low-income customers and limit the ability of these consumers to reduce their power bills through the changed usage patterns. These stakeholders also felt that tariff structures removed some incentives for consumers to adopt energy efficiency measures.

Following up on her submission to the Panel's Statement of Approach, Ms McLean's presentation focused on tariff structures as they relate to affordability and capacity to pay issues. In light of what Ms McLean said were rising rates of hardship in Tasmania linked directly to increasing power prices, she urged to Panel to consider the 'four point plan' prepared by TasCOSS and Anglicare, which focuses on restructuring tariffs as well as revising concession arrangements, improving thermal efficiency of the state's housing stock and increasing crisis support.

Dennis Collins raised concerns with the terms of payment for electricity bills, suggesting that a change to two-week terms had impacted on the ability for low-income earners to effectively budget for their electricity expenses.

Paul Fulton of Joule Logic raised specific concerns with regard to the network service charge components of electricity tariffs, particularly for small to medium business customers. Mr Fulton suggested that a lack of transparency and general complexity in the tariff structure means that these customers find it difficult to interpret and respond to price signals, particularly in relation to network pricing, so that they may

optimise their use of tariff options. A further issue raised by Mr Fulton was his view that rules associated with using different tariffs are unnecessarily restrictive.

Mark Manning of Derby Products raised with the Panel what he sees as the underutilised potential for off-peak tariffs in Tasmania. Building on his submission to the Statement of Approach, Mr Manning suggested that off-peak pricing has an important role to play from an affordability and demand management perspective, as well as providing potential benefits in terms of infrastructure savings and better utilisation of existing electricity assets.

Greater transparency in household power bills was advocated by several participants at the Hearings as a means of allowing users to make more informed choices about their energy usage.

The Panel's Response

The structure of non-contestable tariffs has been raised on a number of occasions by a range of stakeholders both in terms of its impact on affordability and energy efficiency.

The Panel will be making comparisons with other jurisdictions and this analysis will extend to looking at the fixed charge components of electricity prices.

The Panel acknowledges that the issue of fixed charges is a complex one in an industry that has high fixed costs and that provides services across a variety of customer classes. The Panel is principally interested in looking at this issue in terms of determining whether the tariffs that are being offered are efficient and fair and will be assessing current tariff structures on this basis.

With regard to the impact of current tariffs on affordability, the Panel acknowledges that increasing real prices of electricity for households and business in Tasmania is a matter of significant concern within the community and was in fact a key driver for the establishment of the Review.

As previously noted, affordability issues and how these relate to the current structure of electricity tariffs are therefore important aspects of the Panel's work program.

The Panel's has said that its 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 signals. Where the Panel finds shortcomings, it will propose recommendations to provide greater confidence that efficient prices emerge.

The Panel believes that it is appropriate that mechanisms to deal with affordability and capacity to pay issues for low income households should be dealt with separately from economic efficiency matters. It is important that community service obligations that are delivered by Government for social policy objectives are designed and provided in a transparent way.

In response to specific concerns raised by stakeholders in relation to the amount of time allowed for the payment of electricity bills, the Panel notes that the Ministerial Council on Energy (MCE) has developed a National Energy Customer Framework, which provides national consistency around a range of customer protection matters, including customer terms of payment. Following an extensive consultation process, the legislation to implement the Framework was passed by the South Australian Parliament (as the 'lead jurisdiction') in March 2011. The MCE has agreed that all other states and territories, including Tasmania, will apply the Framework on a uniform date, scheduled for 1 July 2012.

In relation to the specific query about time to pay, the National Energy Retail Rules provide that the pay-by date for a bill must not be earlier than 13 business days from the bill issue date. Tasmania's current regulations specify that the due date must be at least 10 days from when a bill is given to a customer.

Further information on the Framework can be found on the MCE's website at: <http://www.ret.gov.au/Documents/mce/emr/rpwg/default.html>

The Panel also acknowledges the important role that transparency of tariff information has in ensuring that consumers can interpret and appropriately respond to price signals and will be open to considering reform options in this regard where it believes they will have a positive effect on transparency.

2. The Structure and Efficiency of the State-Owned Energy Businesses

Issues Raised

A number of stakeholders raised concerns with the overall efficiency and productivity of the three State-owned Energy Businesses (SOEBs).

Ian Peck and Tony Horsham both suggested that, based on benchmarking work they had done on the sector, the efficiency and productivity across the SOEBs compares poorly with the private sector. Issues identified by Mr Peck and Mr Horsham included what they perceived as a 'cost plus mentality' in the businesses, outmoded or inefficient business systems and costly 'expression of interest' procurement processes. Both believed that significant cost reductions were achievable through a range of potential productivity improvements.

Dennis Collins questioned efficiency within Aurora by pointing to the recent introduction of Aurora's computerised billing system. Mr Collins questioned the need for the system, was critical of cost overruns and suggested that project outcomes were symptomatic of a poor standard of governance and accountability within the business more generally.

Ideas and suggestions for more efficient utilisation of the state's existing electricity assets were posed by several stakeholders. Des Le Fevre, Penny Cocker and Peter Schulze all suggested that Tasmania should be looking to extract additional generation from its hydrological resources, including through exploitation of water being moved for large-scale irrigation.

The current delineation of transmission and distribution network responsibilities was another key issue raised, with David Asten and Craig Owens suggesting that the business boundary between Aurora and Transend Networks was resulting in inefficiencies, particularly at the operational level. Mr Asten also suggested that the current structure is preventing the introduction of innovative technologies like smart meters and is ultimately resulting in higher costs and lower performance to consumers.

Other stakeholders, including Tony Horsham and Ian Peck, also questioned the current separation of generation, transmission and distribution functions, and there was a general suggestion that the Panel may wish to look at whether some functions should be re-integrated to achieve better scale and efficiency.

The Panel's Response

Improving productivity in the sector has been the key driver of reform over the past 15 years. Making an assessment of the effectiveness and efficiency of the sector - both in terms of the SOEBs themselves and the regulatory framework in which they operate - and providing recommendations where the need for improvements in this regard is identified are central to the Panel's Terms of Reference.

As previously stated, the Panel will examine in some detail the efficiency and effectiveness of the SOEBs. 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); and*
- the drivers of changing performance standards - external regulatory pressure, internal management direction and/or through shareholder oversight.*

The Panel will also be considering the link between efficiency of the sector and how it is linked to the performance of the broader Tasmanian economy.

As flagged in its Statement of Approach, the Panel is aware of various calls for the integration of the two Tasmanian network businesses to capture efficiency gains through common ownership. The Panel has said that it intends to explore in some detail the suggestion that the transmission and distribution networks should be integrated, including an analysis of benefits and costs/risks associated with this option.

3. Competition in the Retail Sector

Issues Raised

Competition in the Tasmanian electricity sector was a common theme across a number of stakeholders' presentations, questions and comments. Contributions focused largely on competition in the retail sector, with relatively few issues raised in relation to the wholesale generation market.

There was a general sentiment expressed by a range of stakeholders at the Hearings that the persistence of public monopolies and lack of competition in the sector could be impacting on the overall efficiency of the sector and resulting in higher costs to consumers. Marc White of the Energy Users Association of Australia (EUAA) suggested that Tasmania is falling behind in terms of reform in the sector and needs to 'bite the bullet' in driving forward with a more competitive approach to the sector.

Geoff Fader of the Tasmanian Small Business Council suggested that Tasmania's delayed roll-out of full retail contestability for small and micro business was putting these businesses at a competitive disadvantage relative to bigger industry players, particularly in sectors like food retailing. Mr Fader's view was that small businesses should not be paying different prices to large businesses, who can obtain their electricity in a competitive market, and that full retail contestability should be expedited for small businesses. Mr Fader also highlighted price differences between residential customers and small and micro business customers and questioned the validity of this approach.

Simon Himson of TasGas raised the role of natural gas in providing inter-fuel competition in the Tasmanian energy sector. Mr Himson suggested that gas has the potential to deliver significant savings for consumers and address electricity network capacity constraints. It was suggested that the Government's interest in the performance of the electricity businesses may be impacting on decision-making in the sector and holding back inter-fuel competition.

Neville Dobson of the National Electrical Contractors Association (NECA) raised some specific concerns regarding competition in the retail sector. Mr Dobson raised the concern that Aurora may be using its monopoly distribution network to stifle competition. Mr Dobson pointed to the specific example where non-Aurora electrical contractors are unable to work on Aurora assets and are not permitted to 'energise' new customer connections to the network.

The Panel's Response

As noted in its Statement of Approach, the Panel is very 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.

While the issue did not figure strongly at the Hearings, the Panel is particularly interested in the pre-conditions for effective competition at the retail level, including, crucially, competition in the wholesale generation market.

There is a clear expectation from Parliament that the Panel will examine the application of retail contestability to small and domestic customers as a part of its Review. The Parliament has indicated that it will be referring to the Panel the Bill recently introduced by the Tasmanian Liberals to extend retail contestability to all customers, including households.

With regard to the role of gas in the Tasmanian energy market, The Panel re-iterates its previous position that it is keen to more fully understand the potential for inter-fuel substitution and to look at 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.

In terms of the specific concerns raised by NECA, the Panel will take this information into account as part of its broader analysis of competition issues in the retail sector.

4. Cross Subsidies

Issues Raised

A number of stakeholders raised the issue of cross-subsidies across customer classes. Specifically, it was suggested that Tasmania's four Major Industrial customers are receiving heavily subsidised electricity prices at the expense of smaller consumers.

Warren Papworth, Penny Cocker, Hugh Grimes and Peter Schulze all expressed their belief that such a cross-subsidy currently exists. There was a suggestion by some attendees that electricity may be being provided to the Major Industrials 'at cost or below'.

Ms Cocker and Mr Papworth suggested that there should be more rigorous analysis applied when providing power to the Major Industrials at what they believe is a subsidised price. Both raised the notion of a forgone 'opportunity value'. Some stakeholders believe that electricity that is supplied to Major Industrials could be sold at a higher price if it were instead sold in the national market.

Mr Papworth raised issues with the lack of transparency around the prices that Major Industrials pay for their electricity. Mr Schulze supported the observation and suggested that the Panel should attempt to provide some information on Major Industrial prices, even if this was an average price across all four customers.

The Panel's Response

The Panel recognises both from previous submissions and comments made at the Community Hearings that there is considerable interest in the cross-subsidisation issue and it is an important consideration for the Panel in determining the efficiency and effectiveness of the current market arrangements. There is a clear expectation that the Panel will form a view on this issue.

The Panel expressed the view that differential pricing between customer groups does not necessarily imply or reveal cross subsidies and, therefore, the Panel is not starting from the assumption that cross-subsidies currently exist.

The Panel plans to approach the cross-subsidy issue in two ways. Firstly, it will examine the framework within which regulated prices for non-contestable customers are determined.

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 will be looking at contracts broadly to see if they are consistent with stated business practices, but does not necessarily anticipate reviewing each and every contract and forming a view on the commercial appropriateness of those arrangements.

In terms of some stakeholders' requests that the Panel to release information on average prices paid by the Major Industrials, the Panel will need to make some very careful judgements about the type of information it releases, having regard to the need to balance the public interest and relevant commercial sensitivities and the requirements of its governing legislation.

5. Other Issues

There were a small number of other issues raised at the Hearings that fell outside of the broad thematic categories summarised above, but which the Panel feels should be captured in the summary of proceedings. Provided below is a brief summary of the most substantive of these issues and the Panel's response to them.

The Impact of Broader Contextual Factors, Including Climate Change policy

Some stakeholders, including Penny Cocker, urged the Panel to look at broader influences on the sector and suggested that the Panel should be providing advice on the impact on the sector of the Commonwealth's proposed carbon tax in particular.

The Panel's Response

The Panel agrees with observations that its Review cannot be from a Tasmanian-only perspective. The Panel would like to assure stakeholders that it will take into account relevant national developments in framing its findings and recommendations where practicable.

With regard to the Commonwealth's proposed carbon tax specifically, it is difficult to make judgements and form solid views given that the proposed model is still being finalised. However, the Panel acknowledges that there is an expectation that the

Review will examine this issue and the Panel expects that it will undertake doing some economic modelling on the impact to the Tasmanian sector based on likely carbon price scenarios.

Improving Governance and Long-Term Strategic Decision-Making in the Sector

It was suggested by some stakeholders that there was room for improvement in terms of the Government's long term strategic decision-making and that the proposed recommendations for an Energy Strategy should play a key role in this regard. Stakeholders raised issues with the short-term nature of the political cycle and the Government's financial stake in the energy businesses as factors that have influenced decision-making and governance in the past.

The Panel's Response

A central part of the Panel's role is to provide advice and recommendations to the Parliament to inform a new Tasmanian Energy Strategy. As noted above, the Panel will be making observations and recommendations with regard to the wider governance of the sector with a view to ensuring that, going forward, the community can be confident in the robustness of the decisions that Government makes with regard to major energy projects and investments.

Appendix A

Community Hearing Agendas and Running Sheets



Community Hearings

Hobart, 19 April 2011

AGENDA

1. Welcome

(Mr John Ramsay, Facilitator)

2. Opening Remarks from the Chair

(Mr John Pierce, Chair of the Panel)

3. Review Background and Initial Observations

(Mr Adrian Christian, CEO Panel Secretariat)

4. Facilitated Discussion

- *Prices and Affordability (20 minutes)*
- *Retail Contestability (10 minutes)*
- *Pricing Structures (15 minutes)*
- *Industry Structure, Efficiency and Competition (30 minutes)*
- *Broader Influences on the Sector (10 minutes)*
- *Other Issues/follow-up(5-10 minutes)*

5. Conclusion, Questions and Next Steps

(Mr John Pierce, Chair of the Panel)



Electricity Supply Industry Expert Panel

Running Sheet of Registered Participants Addressing the Panel – HOBART

| | Name | Organisation | Topic | THEME |
|----|-----------------|----------------------------------|---|---|
| 1 | Kath Maclean | TasCOSS | Affordability and capacity to pay issues | Power Prices and Affordability |
| 2 | Warren Papworth | N/A | Methodology for deciding on subsidies to consumers – full cost benefit analysis | Power Prices and Affordability |
| 3 | Geoff Fader | Small Business Council | Retail contestability for small business | Retail Contestability |
| 4 | Paul Fulton | Joule Logic | Tariff complexity and lack of transparency – especially distribution network tariffs | Pricing Structures |
| 5 | Mark Manning | Derby Products | The Future of Off-Peak heating | Pricing Structures |
| 6 | David Asten | DA Electricity Consultants | Concerns that business boundaries between Aurora and Transend are causing delays and inefficiencies in day to day work. | Industry Structure, Efficiency and Competition |
| 7 | Des Le Fevre | N/A | Better use of water in the Hydro system for energy production | Industry Structure, Efficiency and Competition |
| 8 | Simon Himson | TasGas | Gas in the Tas energy market - inter-fuel competition etc | Industry Structure, Efficiency and Competition |
| 9 | Tony Horsham | Competitive Change International | Productivity in the sector | Industry Structure, Efficiency and Competition |
| 10 | Penny Cocker | N/A | Broader influences on the Tas market – climate change/carbon pricing, demography etc. | Broader Influences on the Sector |



Electricity Supply Industry Expert Panel

Community Hearings

Launceston 20 April 2011

AGENDA

1. Welcome

(Mr John Ramsay, Facilitator)

2. Opening Remarks from the Chair

(Mr John Pierce, Chair of the Panel)

3. Review Background and Initial Observations

(Mr Adrian Christian, CEO Panel Secretariat)

4. Facilitated Discussion

- Pricing Structures **(20 minutes)**
- Industry Structure, Efficiency and Competition **(40 minutes)**
- Other Issues/follow-up **(10 minutes)**

5. Conclusion, Questions and Next Steps

(Mr John Pierce, Chair of the Panel)



Electricity Supply Industry Expert Panel

Running Sheet of Registered Participants Addressing the Panel – LAUNCESTON

| | Name | Organisation | Topic | BROAD THEME |
|---|----------------|--|---|--|
| 1 | Hugh Grimes | N/A | Fixed charge components of power bills – e.g. meter rental | Prices and Affordability |
| 2 | Neville Dobson | National Electricity Contractors Association | Power connection 'bottlenecks' for customers. Accountability within Aurora | Industry Structure, Efficiency and Competition |
| 3 | Ian Peck | N/A | Issues with efficiency of the state-owned energy businesses. | Industry Structure, Efficiency and Competition |
| 4 | Dennis Collins | N/A | Concerns with new Aurora billing system | Industry Structure, Efficiency and Competition |
| 5 | Craig Owens | Hill Michael Associates | The network businesses - in particular how the responsibilities and assets are carved up between Aurora and Transend. | Industry Structure, Efficiency and Competition |
| 6 | Peter Shulze | N/A | TBC | Other/Misc. |

Appendix B

Community Hearings: Detailed Summary Notes

Hobart - 19 April 2011

Presentations

Kath McLean (TasCOSS)

- Electricity should not just be viewed as a commodity – it is an essential service.
- TasCOSS made a submission to the Panel's Statement of Approach, focusing on affordability and capacity to pay issues.
- Seeing a lot of hardship linked directly to increasing costs of electricity – rationing, not using heating, not showering, going to bed by 6pm, going without power until next recharge on APAYG.
- Concessions help, but concessions system needs a re-design.
- TasCOSS supportive of the deployment of demand-side options to tackle the affordability issue – energy efficiency, thermal efficiency of housing stock.
- Tariff structures need looking at – high fixed charge components do not reward efficiency.
- TasCOSS has a four point plan for electricity affordability based around tariffs, concessions, thermal efficiency and acute/crisis support. This has been provided to the Panel.
- Supportive of retail competition to the extent that it will benefit low income earners through lower prices. Need to be careful moving away from price regulation.

Warren Papworth

- Two main issues – subsidies for major industrial customers and the need for a forward-looking energy strategy.
- Questioned Panel's assertion that it is difficult to see, *prima facie*, how Major Industrials (MIs) are being subsidised by small customers.
- Lack of published data on prices MIs are paying.
- Assumes there is a subsidy and that there should be a full-cost benefit of providing this subsidy to take into account infrastructure costs and community costs/benefits (indirect as well as direct costs).

- Opportunity cost of electricity sold to MIS should be examined – if power sold into the NEM it could be sold at a higher price than what Hydro Tasmania currently receives from MIs.
- Panel should provide economic analysis of returns/revenue of generation in report.
- A new 'Energy Strategic Plan' should provide the policy settings for future action – inclusive of the community (e.g. Tas Together).
- Nature of political cycle not conducive to long-term strategic planning – need to move beyond this.

Response from the Chair

- Important to note difficulties with comparing prices across jurisdictions – comparisons are made based on standing offers in other jurisdictions, not necessarily prices that most customers in those jurisdictions are paying.

Geoff Fader (Tasmanian Small Business Council)

- Focus on retail contestability for small and micro business, not at the residential level.
- Tasmania falling behind in timetable for full retail contestability (FRC) – this is having an impact on the competitiveness of small businesses.
- Concerned that small business is being directly disadvantaged – e.g. in food retail sector where small operators are competing against larger outlets that are contestable.

Paul Fulton (Joule Logic)

- Focus on distribution and transmission cost component of electricity prices, in particular network use of service charges – charges comprise around 50% of electricity costs to consumers.
- Joule Logic Provides advice to small to medium customers on tariff options.
- Important to understand changes so consumers can respond to price signals – signals need to be there and acted upon to ensure efficiency in the market. Good information is a key part of moving to FRC. This does not appear to be happening.
- Currently a lack of awareness amongst customers about tariff optimisation options.

- A general lack of capacity in small business to interpret and respond to price signals. However, even if there was a level of understanding, consumers still can't and don't optimise their tariffs.
- Contributing factors – complexity in Tasmania compared to other jurisdictions, information is dense and difficult to interpret, rules associated with using different tariffs too restrictive.
- Doubtful that better outcome will be delivered through market forces – needs another solution.

Response from the Chair

- The Panel has been referred the Tasmanian Liberals FRC Bill. FRC is specifically within the Panel's terms of reference. Noted that other jurisdictions still have a fall-back tariff option. Wholesale competition is key pre-condition to effective retail contestability.

Mark Manning (Derby Products)

- Focus on off-peak tariffs.
- Currently competitive outcomes being delivered in other jurisdictions with regard to off-peak tariffs.
- Off-peak tariffs have a role to play in affordability in terms of demand management and planning energy use.
- Business opportunities to use off-peak tariffs.
- Off-peak utilisation currently only around 30% of capacity.
- Benefit of saving on infrastructure costs and better utilisation of existing assets.

Response from the Panel

- Pricing signals only work if people can receive and interpret them. Key question is about what will people 'do' in response to signals if they do actually interpret the signal correctly – behavioural change.

Geoff Fader (Tasmanian Small Business Council)

- Tariff prices for small businesses versus residential customers.
- Questioned why there should be price differences between "...the same product produced and delivered in an identical way".
- Different prices for different customers is "an anomaly".

- Issue of multiplication of input costs for small businesses, of which electricity is one, impacts on competitiveness.

David Asten (DA Consulting)

- 'Dysfunctional' business boundary between Transend and Aurora.
- Transmission business' requirement to share information with distribution business is a distraction for transmission.
- Current structure is affecting introduction of smart metering and resulting in higher costs for consumers.
- Suggested change to business boundary would improve operational efficiencies in both transmission and distribution and improve customer outcomes.

Des Le Fevre

- Need to make better use of our hydro assets – currently wasting our existing water/generating capacity.
- 'No bucket of water should move in Tasmania without its energy generating capacity being utilised'.
- 'If you generate more you can sell it a cheaper rate'.
- Should be looking at what is being done in the US – sophisticated lock systems at Snake River, for example.
- Need to look at the potential to extract hydro generation from movement of water through new, large-scale irrigation schemes.

Simon Himson (TasGas)

- Intermodal interplay and energy substitution.
- Gas and electricity closely linked – combined-cycle gas turbine power stations.
- Gas has an important role in addressing electricity network capacity constraints.
- Average of \$800 per annum saving for average customer after conversion to gas for heating and hot water.
- Tasmanian Government has a vested interest in performance of electricity businesses – Panel should look at how this might be affecting energy policy - e.g. replacement of electric hot water heaters with solar or gas was not considered in Tasmania, despite COAG agreement.

- Broad questions around governance, policy and decision-making – optimal investment decisions for best energy outcomes.
- Regulatory regime should give gas a 'fair go' and focused on achieving the best outcome from an energy perspective, not simply an electricity perspective.

Tony Horsham (Competitive Change International)

- Public sector productivity a problem.
- The Tasmanian electricity supply industry shares with other public monopolies the characteristic that prices are expected to outpace inflation, year on year. This encourages a 'cost plus' mentality.
- Regulators should have a role in setting productivity targets.
- 30-40% cost reductions are achievable.
- Concern that disaggregation has made it difficult to optimally manage the system.
- Major cost driver is businesses recovering cost of capital expenditure – would customers be willing to make a trade-off between reliability and price?
- Peak load growth has also contributed significantly to price increases – potential role for behavioural change/demand management.

Penny Cocker

- Noted in submission to statement of approach concern about the lack of a 'big picture' context for the review – still has this concern.
- Energy security is key. Tasmania should be looking to be self-sufficient from an energy perspective in the context of peak oil and carbon emissions reduction.
- Tasmania has potential to become a 'climate refuge' – population forecasts are not taking this into account at the moment.
- Smelters should not be in Tasmania, especially Rio Tinto. Ms Cocker highlighted some theories around prices being paid by MIs gleaned from information published by Hydro Tasmania.
- Low (subsidised) prices being charged to MIs ignore opportunity value of selling the power elsewhere.
- Need to better utilise water – drought will become the norm, not the exception. Extraction of maximum value from the resource.

- Frustrated by current lack of focus on energy alternatives – e.g. conversion of 52% of car fleet to electric would generate only a 3% increase in electricity consumption.
- Should be pushing for development of 'smart grid' technologies.
- Need to adopt a 'solar mentality' - solar hot water should be on every Tasmanian roof, which would free up hydro electricity to be exported to the national market for a superior return. Ms Cocker questioned why Government did not to adopt policy of replacing electric hot water cylinders.

Closing Remarks from the Panel

John Pierce

Panel is aware of the broader context – energy security and climate change are key. Panel will be expected to look into impact on the sector of climate change policy, including carbon tax. Important to note that consequences of energy shortage are different from energy surplus – risks weighted differently and this affects decision-making.

Jerome Fahrer

Not a lot of discussion about competition issues tonight. Competition is front of mind for the Panel in conducting the Review. Will be talking about MIs and role of gas in the sector.

John Pierce

Issues in scope for the Panel:

- Ability for consumers to respond to price signals
- Affordability
- Competition, efficiency and productivity
- Will need to form a view on cross-subsidies
- Infrastructure utilisation – optimisation. Gas/electricity equation – co-optimisation

Launceston - 20 April 2011

Responses to Opening Remarks and CEO's presentation:

Grayson Genders (TasGas)

- Issue with reference to 'low uptake' of gas – gas uptake has been strong since roll-out five years ago, around 25% of properties that the network runs past. **Adrian Christian** – *more correct to say 'low penetration' in terms of total customer base, especially compared with other states where gas penetration is much higher and inter-fuel competition stronger at the domestic level.*

Richard Nichols

- Questioned increases in price of energy. Hydro gets their fuel 'for free' (water) so how can cost increase? **John Pierce** - *there other costs associated with the production of energy, not just the fuel source. Water is not converted to electricity for free. Panel will be looking at why the cost of wholesale energy has increased given significant rate of increase in the energy component of prices.*

Presentations

Hugh Grimes

- Representative of the 'silent majority' - concerned about costs to low-usage customers
- High-fixed charge component of prices weighs more heavily on low usage customers - i.e. around 1500kW per quarter.
- Unfair allocation of charges to lower income customers in particular.
- When Hydro was retailer, claims were that they had the lowest tariffs in the country. Personal, anecdotal experience that his power bills were double those on the mainland, while energy consumed was equivalent. This is because per kW charge might be lower, but fixed charges are very high.
- Currently insufficient consumer information about components of bills.
- Major industrials – profits go off-shore, so why power subsidised? Believes that MIs are supplied 'at cost or below'.

Follow-up from Peter Schulze:

- Tasmania has double the fixed charges of other states
- This penalises low-use customers and provides disincentive for energy efficiency
- Public monopoly model part of the issue – competitive businesses do not have a two-part pricing model.
- Subsidies to MIs justifiable, but need to be transparent.
- Happy to tender evidence and information in support of arguments

Response from the Panel:

- The Panel welcomes submissions and evidence from interested parties.
- Issue of tariff structures has been raised on a number of occasions both in terms of affordability and efficiency disincentives caused by high fixed charge component.
- Panel will be making meaningful comparisons with other jurisdictions in terms of non-regulated tariffs and this will include looking at fixed charges.
- The Panel is not starting from position of assuming that MIs prices are being subsidised. The Panel will be looking at contracts to see if they are consistent with stated business practices.
- In response to request from Peter Schulze – Panel will make a judgement about what it can publish in terms of MI contracts/average prices.
- Re Fixed charge issue, there is no 'correct answer' from an economic perspective and it is a very complicated area.
- You see fixed charges in some industries (e.g. taxis) and not others
- Is it efficient and fair? This is what the Panel will be looking into.

Follow up from Amy Tyler (Office of Kim Booth, Greens Energy Spokesperson)

- Role of Government in setting social policy through Aurora as a GBE. **John Pierce** – *Government within its rights to offer Community Service Obligations (CSOs), but this needs to be done in a transparent way. Social policy objectives need to be separate from economic efficiency objectives.*

Neville Dobson (National Electrical Contractors Association)

- Aurora is stifling competition in retail sector through decisions taken in the distribution business. Abolition of Authorised Electrical Contractors scheme in 2010 means that contractors no longer allowed to 'energise' customer connections – this is done by Aurora (Distribution).
- This has an impact on competition between Aurora contractors and others but also flows through to broader retail sector - Aurora using monopoly distribution network to stifle competition in retail sector. Only Aurora can work on Aurora assets. Other retailers could potentially put on their own people to connect customers and offer a superior service.
- The regulator is nominally independent (Workplace Standards) but is staffed by Aurora employees and housed in Aurora premises – issue with perception of a lack of independence. Linked to engrained culture of control in the sector.
- Tasmania lagging behind in terms of National Competition Policy – non-compliant in a number of areas and believes progress being stifled by Aurora.

Ian Peck

- Coming from a 'world's best practice' benchmarking model – commercial error of no more than 3%
- Believes that there is an 11-21% error factor in the electricity supply sector. Efficiency of government not very good across the board and this borne out in electricity businesses.
- CPI and cost increase factored in to prices and handed through to consumers ('cost plus' mentality) – no efficiency incentives
- Cost allocation between capital and operating expenses.
- Outmoded and inefficient business systems.
- Expression of Interest tender processes costly and inefficient.
- Mr Peck tendered a written submission highlighting case studies/examples of inefficiency in the SOEBs.

Dennis Collins

- Concerned with inefficiency with Aurora's new billing system.
- Reduction in terms of payment – from three to two weeks, making it difficult to budget. Unreasonable overdue fees.

- Concerns with cost of new system, in particular 'budget blow-out' from \$15 million to \$65 million.
- Questioned why system being used is designed to cover customer base of 2 million given Tasmania's population.
- Who allowed the cost overruns and why no accountability? Potential for improper behaviour, including 'kickbacks'.

Craig Owens (Consulting Engineer, Hill Michael Associates)

- Distribution and transmission network issues – costs account for 50% of price increases.
- Casting back to Hydro days – Hydro was a dam building business, very little customer service focus. Customers should now expect to be better serviced with dedicated retail arm. Disaggregation has served customers well in some ways.
- However, questions whether split between Aurora and Transend is in the right place (all the way to the circuit breakers) – issues with Aurora 'getting things done' under current arrangement.
- Should the network businesses be merged? Scale and efficiency to be gained from re-aggregation.
- 2004 Summerville Inquiry on reliability. Naturally delivered firmer reliability standards, but this drove up costs significantly.
- Argument can be made that reliability was raised to unreasonably high standards – would customers be willing to settle for lower standards if it meant cheaper prices?
- Three main issues driving network price increases
 - Reliability standards;
 - Peak load increases; and
 - Safety expectations (e.g. underground powerlines).
- Pricing – current cross-subsidies with postage stamp pricing. Should we be moving to more cost reflective pricing? Capital expenditure has doubled over the past five years. Should we be looking to have more pass-through of costs to users wanting new connections, particularly in remote areas?

Peter Schulze

- Efficiency of government agencies not good. Lack of competition, love of process, over-regulation, inappropriate common standards, lack of innovation/ingenuity
- Carry-forward of debt related to inefficiency issues going back more than 15 years.
- High debt/equity ratio, therefore return on equity not at commercial levels.
- Benefits of competition not being realised – should be looking at vertical integration (in line with moves in private sector), not disaggregation.
- Inappropriate application of rigid standards – really necessary in many cases?
- Twice the capacity of Basslink in undeveloped hydro resources.

Marc White (Energy Users Association of Australia)

- EUAA a not for profit organisation representing around 100 of Australia's largest energy users.
- Currently at a 'fork in the road' for energy intensive industries in Tasmania.
- Looking at the energy reform scorecard, Tasmania has unfinished economic reform in the sector.
- Inefficiencies in network monopolies. Competition is weak, if not non-existent. Need to 'bite the bullet' on a more competitive approach.
- Concerned about network regulatory framework – high rates of return and incentive to encourage regulatory gaming. Results in poor productivity and performance.
- Positive developments with respect to retail competition - ERM announced at a recent EUAA conference that it has established a customer base of around 80 – approx 25% of contestable market.
- Prices being pushed up by renewable energy targets – from \$8-10Mwh between 2011-12 alone.
- Mr White tendered a written submission from the EUAA.

Comments from the Floor

Marcus Tonelly (TasGas)

- Supported extension of Panel's reporting deadline but concerned that without a final report until December, Government may make 'knee-jerk' decisions around sale of assets in particular. Panel's advice should be feeding into budget deliberations.

Ian Peck

- Disaggregation was done with a view to selling off Aurora and Transend – now that this hasn't happened, should we be looking at re-integration?

Grayson Genders (TasGas)

- Regarding the proposed carbon tax, Tasmanians will face higher prices due to connection national market. Should Tasmania be 'insulated' in some way because of its significant hydro generation?

Response from the Chair

- Commonwealth's carbon price model currently not detailed enough to make precise judgements, but expectation that Panel will provide advice on implications to the sector.
- In terms of tariff structures, issues raised about terms of payment are not squarely within the Panel's terms of reference. There is currently a national framework for consumer protection being developed, which will be looking at these kinds of issues.
- With regard to competition, Panel is looking at both wholesale and retail competition. FRC legislation has been referred to the Panel and the issue of retail contestability is within the terms of reference.
- In terms of efficiency of the sector, the Panel will be looking at the link between efficiency and the performance of the broader Tasmanian economy.
- Panel will not be looking specifically at efficiency of billing systems etc, but will take a broader view of governance and accountability in the sector.
- The Panel will not be looking into the relationship between cost and reliability – answers to these questions will be coming through other channels – the Ministerial Council on Energy currently looking at this.
- The performance of the sector and state of finances more broadly are in scope.
- In terms of issues like Basslink, the Panel will be reviewing the basis of decisions and looking at the outcomes that have been realised/delivered. Interested in looking at what the lessons are for the future.