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Energy Strategy Submissions
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Draft Tasmanian Energy Strategy

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Department of State Growth on the Draft Tasmanian Energy Strategy (the Strategy).

The esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 37 electricity and downstream natural gas businesses. These businesses own and operate some $120 billion in assets, employ more than 59,000 people and contribute $24.1 billion directly to the nation's Gross Domestic Product.

Tariff reform

The National Electricity Rules are underpinned by the National Electricity Objective which states:

"The objective of the [National Electricity Law] 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:

a) price, quality, safety, reliability and security of supply of electricity; and

b) the reliability, safety and security of the national electricity system."

Artificially pushing prices down in the short-term is not in the interests of consumers. The focus on energy policy should be on ensuring prices are efficient. In this context, one of the most pressing issues is tariff reform. A lack of an appropriate price signal has led to consumption patterns that have exacerbated price rises, as the cost of consuming at peak times is muted through current price structures.

Under the current flat tariffs offered, consumers do not face cost-reflective prices. Over time this has lead to inefficient system utilisation. To allow for more efficient use of the electricity network, it is important to encourage the development of, and allow transition to, a new tariff structure that reflects, as far as practical, the true cost drivers of the system. This implies accounting not only for how much energy is consumed from the grid, but also the time and rate at which it is consumed, consistent with the make-up of network costs.

There is a range of tariff structures that can potentially achieve the desired outcome. It must be noted that although time-of-use tariffs are a step in the right direction, they do not necessarily provide an optimum price signal and may only be an interim solution. Tariffs based on capacity rather than consumption are likely to offer more efficient solutions over the long term.

In conjunction with more cost-reflective and flexible tariff structures and market deregulation, advanced metering is an important element of the reform agenda. Advanced metering will enable consumers to realise the full benefits of broader and more diverse product offerings tailored to their particular needs. Wide-spread uptake of advanced metering will also play an important role in driving efficient outcomes across the entire supply chain where electricity tariffs better reflect the costs of energy supply.

Governments have a key role to play in providing the appropriate framework to allow industry to deliver the most efficient long-term tariff solution. This includes enabling the deployment of advanced metering infrastructure and assisting industry with communicating benefits to consumers. We note the Government is investigating if there are any impediments to a customer-led roll-out of advanced metering.

Energy Efficiency

Households and businesses that undertake energy efficiency can reduce their bills. But this does not automatically translate to improved productivity for the Tasmanian economy. We would note that based on the current tariff design, energy efficiency is over compensated. As the volume based retail price is designed to recover both variable and fixed costs, each unit of energy efficiency (kWh or MJ saved) is rewarded as if it results in infrastructure savings.

Under the current market conditions, it is unlikely that all energy efficiency is avoiding infrastructure costs, due to oversupply in the generation/wholesale market and the relationship between consumption and capacity on networks.

If energy consumption was growing, there would be ongoing investment in generation assets. Under this scenario it would be reasonable to assume that a reduction in consumption would contribute to reduced investment in new plant. But this is not currently the case in the National Energy Market. Given these circumstances, any reduced consumption is only avoiding the variable component of generation costs (fuel costs, variable operational maintenance). Given the make-up of the Tasmanian system, this is primarily the opportunity cost of the water used in hydro generation.

Assessing the network benefits of energy efficiency is challenging, as network savings are driven by capacity not consumption and are geographically dependent. Unless energy efficiency investment is concentrated in a given area, and that area is approaching a network constraint, network savings will be negligible. Further, not all types of savings will have a network impact. Only consumption reductions from peak demand should be counted. This, for example, rules out reductions from hot water systems, as they are used in off peak times.

The best incentive for households and businesses to use energy efficiently will be a transition to more cost-reflective pricing. This will give customers the signal they need to determine whether using energy at a particular time is efficient or not. If the Government wishes to provide incentives for vulnerable households to take up energy efficiency to help manage energy costs, it should do so through direct on-budget subsidies, not a white certificate scheme. For all other energy users, information provision would be the most appropriate role for government. This is especially the case for businesses, as the question of whether to invest in energy efficiency measures should be purely a commercial issue.

Government's role in the electricity sector

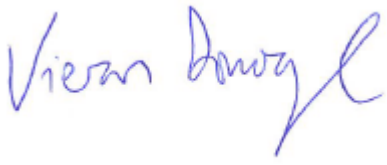
A focus for the Government remains using the energy sector to aid in achieving industry policy objectives. This stems from the fact that the closure of one or more of Tasmania's large energy users would have a material adverse impact on both the electricity supply chain and the Tasmanian economy at large.

Electricity prices are just one component that affects the profitability of business. There are other far more critical elements, such as the exchange rate and level of global supply, which are outside the control of government. The energy businesses themselves remain best placed to manage potential future commercial risks and should be free to pursue commercial strategies to deal with any potential issues around underutilisation.

If the Government wishes to take more direct action to support industry, the esaa would encourage the consideration of budget support to avoid distorting efficient price signals. Ultimately, a dollar from artificially reducing electricity prices costs the Government no more than a dollar of direct subsidy, but by distorting input costs for businesses, the Government will be ensuring a sub-optimal outcome.

If you have any questions relating to this submission, please contact Fergus Pope on 03 9205 3107 or by email to fergus.pope@esaa.com.au.

Yours sincerely



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