

15 September 2014

Energy Strategy Submissions
Department of State Growth
GPO Box 536
Hobart Tasmania 7001

Email: energystategy@stategrowth.tas.gov.au

Dear Sir/Madam,

RE: Energy Strategy Issues Paper

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to provide comments in response to the Department of State Growth's Energy Strategy Issues Paper (**Issues Paper**).

The ERAA represents the organisations providing electricity and gas to almost 10 million Australian households and businesses. Our member organisations are mostly privately owned, vary in size and operate in all areas within the National Electricity Market (NEM) and are the first point of contact for end use customers of both electricity and gas.

The Issues Paper seeks to build upon the structural changes that have been made to the Tasmanian energy market to identify a future pathway for the sector¹. The Issues Paper covers seven topics on key themes for the Tasmanian energy market and the ERAA has focused its submission on a number of these themes.

Sustainable electricity prices

In the current Tasmanian energy market, energy prices are regulated for small retail customers by the Tasmanian Energy Regulator (TER)². The introduction of Full Retail Contestability (FRC) in Tasmania on 1 July 2014 has enabled all electricity customers to select the energy retailer of their choice. Business customers with electricity consumption over 150 megawatt hours per annum and all gas customers are contestable with no retail price regulation.

To support FRC a regulatory framework has been established to support retailers accessing regulated wholesale prices. The ERAA has the view that this regulatory framework should be regularly reviewed to ensure that it is meeting its objective to enable retailers to access suitable wholesale positions. As outlined in previous ERAA submissions, the access to a flexible wholesale market is critical to ensuring that retailers can enter the market with confidence and provide consumers with choice, as envisaged through the introduction of FRC.

¹ Energy Strategy Issues Paper, p.2

² Ibid, p.14



The ERAA's view is that the Tasmanian Government's objective should be to foster growth in retail competition, so that over time prices are set by the market, rather than through regulation. This objective should be reflected in the terms of reference it provides to TER on executing its price regulation function. If after a period of time it becomes apparent retail competition is not developing, the Tasmanian Government should consider further options.

The Issues Paper discusses whether regulated prices provide better outcomes for customers compared to competitive and regulated markets and whether enhancements should be made to the regulatory framework. The ERAA has consistently advocated for deregulation of the retail energy market to drive the best outcomes for consumers. Open, competitive energy markets free from distortions such as retail price regulation naturally encourage prices to be efficient through the development of market offers.

Competition in retail energy markets, as in other sectors of the Australian economy, incentivises businesses to improve service, develop products that meet consumer needs and find ways to lower their costs and to pass these savings onto consumers. Price regulation is an oddity in the Australian economy as it doesn't apply to almost all other contestable goods and services such as food, fuel, telecommunications, insurance and housing.

The ERAA strongly recommends that any Government action to support industry is made direct to industry, to ensure that efficient market based price signals are maintained and free from distortion. This encourages retailer participation in markets, which increases competition to the benefit of consumers.

Consumer protection

Energy affordability is a significant issue for low-income households in Tasmania as outlined in the Issues Paper³. This issue is complex requiring a multi-faceted approach and is not unique to Tasmania.

Ensuring there is a robust consumer protection framework is one important step in addressing affordability and the NECF (introduced on 1 July 2012)⁴ imposes on retailers comprehensive obligations to provide customers in payment difficulties with access to alternative payment arrangements and hardship programs.

However, energy affordability is not an issue that can be solved by energy retailers alone. Genuine remediation of energy affordability issues requires action from other stakeholders such as government and consumer support groups, if customers are to avoid disconnection because they simply cannot afford to pay.

Future preparedness

The ERAA views the market driven rollout of smart meters in the Australian market as a significant development for the energy industry. The ERAA has been a strong advocate for the development of a nationally consistent set of rules that will enable the development of retail markets. Currently, the Australian Energy Market Commission's (AEMC) competition in metering and related services rule change consultation process is underway to determine the rules surrounding a market driven smart meter rollout.

Smart meters are an enabling solution for the implementation of a range of services to be offered to consumers and industry as smart meters can:

- support two way communication with residential and business customers by collecting and displaying real time use data and enabling more cost-efficient remote services

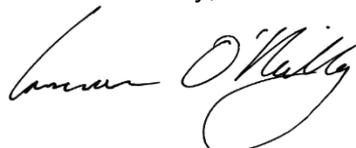
³ Energy Strategy Issues Paper, p.18

⁴ <http://www.stategrowth.tas.gov.au/energy/markets/framework>

- enable remote load management, where this is elected by the customer. This includes remote connection and communication and management of specific appliances (including air conditioners and pool pumps) via the Home Area Network (HAN) for demand response and management purposes.
- quickly assess customer power supply and restoration issues during distribution network outages.

Thank you for the opportunity to provide our view. The ERAA has addressed the questions raised in the Issues Paper in Appendix A of this submission.

Yours sincerely,



Cameron O'Reilly
CEO
Energy Retailers Association of Australia

Appendix A

Question 1

What enhancements could be made to regulatory frameworks to ensure the right incentives for business and consumers are in place?

Tasmania's adoption of NECF is a positive step to opening up the market. However other barriers to market entry remain. These include the issue of non-cost reflective pricing and the continuance of regulated tariffs. This coupled with the generation risk create an unattractive market for new entrants.

Regulatory frameworks need to be amended that support the removal of price regulation and open the market to support retail innovation in product offerings and services. Challenge with this is we are dealing with the AER and not a jurisdictional regulator.

Question 2

Given both the State & Commonwealth Government are committed to reducing red & green tape, and that the electricity market is highly regulated and complex, what opportunities are there to reduce or remove regulation?

A light handed approach to regulation has been a preference for retailers, again given the AER has jurisdiction over the Tasmanian energy sector it is potentially more difficult to open up opportunities that may be unique to Tasmania. However if opportunities are identified they should be followed up.

Consistent with support for a light handed approach to regulation the removal of the continuation of basing regulatory arrangements on the "lowest common denominator" approach is preferable, thereby allowing retailers to develop segmented product offerings to consumers based on their individual needs and preferences.

Question 3

Is retail competition important because of price, choice or for other reasons?

Retail competition is important as it provides consumer benefit in terms of both price and product innovation (choice for consumers). Competition also drives consumer education and engagement through the activities of retailers communicating and promoting their product offerings to consumers.

Question 4

What enhancements or additional information could increase the reporting transparency of the Government's electricity businesses and contribute to improved efficiency?

In terms of Networks it has been documented (in the issues paper) that network costs make up 58.9% of the customer's bill. It therefore stands to reason that there is sufficient opportunity to reduce consumer's energy bills through achieving efficiency gains within the networks and passing these savings on to consumers.

Government should establish a review process for the Networks that set clear (transparent) terms of reference for efficiency reviews and programs to be undertaken with the view of improving the efficient cost-effective operation of the Networks.

Question 5

Do energy intensive and trade exposed business require greater future price certainty to maintain and/or grow their operations?

A review in this area is required to determine the requirement for ongoing assistance, and the ongoing classification of what is considered to be energy intensive trade exposed. Likewise whether consideration is given to the length of time assistance is provided e.g. minimum periods of assistance to allow establishment of self-managed risk strategies for energy management. I.e. support businesses through a period of establishment only and not ongoing.

Question 6

Would you consider accepting slightly lower levels of reliability if this results in materially lower prices?

There is a question of balance here as to the acceptable level of reliability given consideration of the ongoing cost. Views will differ across customer classes; in particular those customers that have the ability to generate their own power (roof top solar) and therefore are less reliant on network reliability would support a reduction in reliability standards if this correlates to a cost reduction. Further, with the adoption of new technologies around battery storage, again removing the reliance on the network would support accepting lower levels of network reliability.

Question 7

Would a review of tariff structures be desirable, in terms of minimising total network costs and allocating costs fairly?

Any review of network tariffs has flow on implications for retailers in terms of system and administrative changes, the costs of which flow through to consumers. Further, communicating the changes to consumers rests with the retailer, there will be winners and losers with changes to network tariffs which need to be managed.

Question 8

What approach, including non-regulatory ones, should Government consider for improving the thermal efficiency of our buildings?

The ERAA has no comments related to this question.

Question 9

What approach to energy efficiency should Government use to help improve productivity for small to medium businesses, and to reduce energy bills for households?

Government could sponsor an education campaign targeting energy efficiency for small to medium businesses. Again retailers should not have any obligation under energy efficiency schemes etc. to provide assistance in this area.

Question 10

What role should Government play in attempting to retain and increase load growth in Tasmania and how should it do it?

The ERAA has no comments related to this question.

Question 11

What further potential is there to develop renewable energy in Tasmania, including wind energy, given there is no unmet Tasmanian demand requiring additional generation for the foreseeable future?

A lack of certainty will stifle any future development / investment in renewable energy in Tasmania, where there is no unmet demand the case for further investment is weak, the potential exception is small scale (e.g. solar roof top) renewable generation. However we would not support subsidies in this area.

Question 12

Is there a further facilitation for Government in gas roll-out, or should Government focus its efforts on examining the costs and benefits of improving minimum protections for gas customers?

Further gas roll out will be influenced by commercial drivers, where there are underutilised gas network assets the network operator should be incentivised to work with retailers to increase the underutilisation of the asset.

Question 13

What are considered to be the key opportunities, and the key issues, associated with possible energy futures?

The ERAA views the following areas as important:

- Technology developments,
- Consumer engagement
- Centralised vs decentralised generation,
- Renewables,
- Energy affordability
- Market model changes (exempt supply arrangements etc.)

Question 14

What could be some outcomes for the Tasmanian Energy Strategy, and what actions can Government, or energy providers and consumers take to achieve them? How could successful performance be measured?

An outcome for the strategy would be achieving a more affordable level of the cost of energy with increased levels of consumer engagement in a market where competition and product innovation continues to develop.