

Submission – Energy Strategy Issues Paper

Submitter: Chris Harries

Thank you for the opportunity to submit to this process. I have had a keen interest in energy policy issues over several decades. In partnership with government and non government agencies, I have played a significant role in educating Tasmanian households on energy their energy consumption issues, including costs and opportunities to save energy. I have also been a member of the Tasmanian Climate Action Council, which investigated and reported on a host of energy issues as part of its mandated role.

Drawing on these experiences, I wish to make some comments first about context, followed by some direct responses to the questions raised in the Issues Paper.

Important context considerations

(The items below also cover questions 13 and 14 in the Issues Paper).

1. Fixation on the electricity sector is not sensible.

Owing to the high profile of dam building in Tasmania's history, energy debates in this state invariably fixate on the electricity sector, despite the fact that electricity consumption represents a mere 40 percent of the states overall primary energy consumption. The liquid fuels sector is largely dispensed with in a few words, on the grounds that Tasmania is a 'price taker' and

therefore can exert little control over prices. This is despite a blunt acknowledgement in the Issues Paper that transport fuels impose a larger burden on households' finances than does electricity. (The same holds true for many small Tasmanian businesses).

I submit that this extrication of transport fuels from this inquiry is not logical and seriously detracts from the integrity of the entire process. With regard to energy demand management and potential for business and household cost reductions there are as many policy opportunities in the liquid fuels arena as there are in the electricity arena. The state has control over many agencies and legislative and educational opportunities to influence liquid fuels policy and impacts on the Tasmanian public.

Surmising that the Energy Working Group has been given a limited mandate to focus on electrical energy, and may thus not be empowered to engage with the liquid fuels policy, it is prudent for the Working Group to at least elaborate on the many important cross overs between energy sectors and to reclassify this twenty-year plan more accurately as a limited exercise.

Surmising that another agency of government may carry the liquid fuels policy sector, I submit that it is not only inefficient to undertake energy planning via individual energy supply sectors, this approach will lead to ill founded and counterproductive conclusions.

2. Omission of climate change is not rational

Climate Change is not mentioned at all in the Issues paper – even in passing let alone as a significant issue that profoundly intersects with energy policy at every level.

This omission is perhaps a calculated one, owing to a broad perception in government circles that climate mitigation policies are seen to generally be economically regressive and may therefore detract from the stated primary goal of pursuing economic growth. This omission may also simply be a reflection that a number of government and agency officers dispute climate change science and therefore discount its relevance.

I respectfully submit that no matter where citizen or decision maker stands on the climate science spectrum, Tasmania's economy, especially with its laudable renewable energy focus, is intrinsically affected by national and global responses to climate change. There are also strong community expectations for this issue to be taken into account.

Further, I submit that for the most part the Tasmanian economy has been a net beneficiary from the growing focus on greenhouse gas mitigation trends. Rather than consider climate change as regressive, it should be fundamentally integrated into energy policy making, even if only for the economic benefits that accrue to the state.

By the time this Issues Paper process is finalized Tasmania will have to grapple with significant losses in revenue as a result of the national carbon price and the Renewable Energy Target. However, this won't be the end of the story. Climate change policy is certain to remain volatile and therefore will remain one of the major fault lines that must necessarily impact on energy policy contingency planning in the coming twenty years.

3. Our ability to successfully & economically compete in the national market is questionable.

Having talked about this problem at length with many people, I note that there is a strong philosophical divide (within the energy sector as well as in the broader community) as to whether Tasmania should aggressively aim to be a major player in the NEM (as a potential major exporter of renewable energy), or whether it makes more economic sense to focus primarily on servicing the state's needs.

This issue represents another major opportunity-versus-risk fault line, owing to the high investment cost in transmission infrastructure and the unpredictability of the national market.

For the time being this is not an issue, as stalled national peak demand has wrecked the business case for the mooted second Basslink cable. Intuitively, this situation is unlikely to change for many years though it would be prudent for the state to be well advanced with respect to technical and planning issues should this situation revert again.

It is perhaps sensible to insert here that the Issues Paper does not project a matrix of possible scenarios (disruptive or opportune) or even the notion of scenario planning. Although obliquely mentioned, the possibility of a bulk electricity user closing down would fundamentally alter the business case with regard to the Basslink 2 project.

Even under this scenario some commentators offer that it would be more sensible, and less risk prone, for Tasmania to energetically pursue new high demand industries, such as call centres, to absorb surplus load whilst providing maximum advantage to the broader economy.

4. Tasmania's 100 percent supply status is very tenuous.

The Issues Paper confidently asserts that "*Tasmania now has enough generation supply to meet expected forecast demand growth for the foreseeable future (possibly until 2030 or beyond)...*". If true, this is a positive sign, seeming to happily negate the need for building costly new supply infrastructure.

In the absence of a major plant closure the most likely disruption to this is a (not unlikely) scenario where Tasmania is plunged back into another decade long drought, with the onset of another El Nino event.

Two years of reasonable rains, along with the national carbon price, have given Tasmania an enviable, albeit brief, respite from harder times. If climate change predictions hold true, though, the likelihood of a return to low inflow into impoundments must be ranked as highly likely.

This high level risk should be seriously taken into account in scenario planning. So long as Hydro Tasmania's long term average yield represents less than 100 % of Tasmanian total electrical demand then the cost of imports from Victoria need to be weighed against the cost of facilitating new renewable power supply capacity – even if we are to ignore the moral imperative of responding to climate change. The take home message here is 'just because the dams are fairly full right now, let's not be complacent'.

5. Uptake of micro / medium scale power protects Tasmania from uncertainty.

The Issues Paper correctly notes in its introduction that diversification of Tasmania's energy supply has reduced Tasmania's vulnerability to debilitating drought.

There is a strongly held view that because the Basslink interconnector has been used to capacity, and also acts as a hedge against future drought, Tasmania is not advantaged by adding any more to the state's renewable energy

capacity. Ministers of the former Labor administration held on to this view strongly, adding further that the government would be detrimentally undermining its own energy businesses if it facilitated new private power generation.

I submit that this economically regressive view needs to be reconsidered on seven grounds:

- 1) The capital costs of rooftop solar and business / farm based small generators is covered, thus alleviating government and the utilities from capital expenditures.
- 2) In the light of the government's express purpose – to build the economy – the micro generation industry is a rapidly growing industry sector in itself, employing significant numbers of electricians and installers.
- 3) The Government's efforts to build the economy and Tasmania's population, if successful, is likely to result in the need to augment augmentation of electricity supply. No energy growth hints at a lack of confidence in government regarding its economic plans.
- 4) Householders and businesses are now keen players in the energy field and this bodes well in future as the state faces various risk and opportunities. In the nation's weakest economy it is only sensible to encourage low-income households and marginal business to defray their energy costs.
- 5) A possible return of drought conditions would result in a shortfall of supply from existing installations.
- 6) In the event that a second Bass Strait interconnector becomes viable and Tasmania becomes a base load supplier, then an augmentation of renewable energy supply will be useful.
- 7) Though perhaps not a priority of government, Tasmanian householders feel that they are playing a tangible and responsible role in Tasmania's climate change mitigation efforts and want those efforts to be appreciated, not undermined.

For all of the above reasons it is prudent for government to encourage and facilitate private and community based power where sensible. In the current political climate it is imperative that the above benefits are not discouraged via regressive or discriminatory pricing policy or regulation.

6. Energy policy must address risk mitigation.

No matter how vigorously the government pursues a robust, growing economy, Tasmania's prosperity can be unraveled in a trice as a result of unexpected events. An energy strategy therefore has to incorporate risk mitigation components if it is to be at all rigorous.

Arguably the greatest risk that Tasmania faces is a potential disruption to oil supply, or a significant increase in oil supply costs, as a result of

geopolitical events that may take place beyond the state's control. Such possible risks have already been highlighted by a member of the government's Energy Advisory Group.

Though the Issues Paper steers away from liquid fuels policy, electricity policy will inevitably play a major role in any strategy to shore up the state's energy security, Tasmanian being totally dependent on the importation of liquid fuels.

Though numbers of submitters will be pointing to ways that government policy may accelerate a transition to electrification of the state's vehicular fleet, this transition will not take place rapidly under any scenario, since the private car market will be the main determinant. (Liquid fuels security is better delivered via a range of efficiency policies.)

However, the government should pave the way for this inevitable transition via judicious purchases of trial vehicles and through deliberately planning for electric public transport as part of the state's twenty-year plan. The twenty-year plan should include reasonable targets so that progress can be measured.

Responses to questions raised in the Issues Paper

Question 1 - What enhancements could be made to regulatory frameworks to ensure the right incentives for businesses and consumers are in place?

- Utilities (public and private) should be required to accept power inputs on offer from small scale generators, including rural properties, subject only to a requirement that the local grid is capable of accepting the additional load in that area.
- In addition, utilities (public and private) should be prohibited from discriminating against any micro generator via prejudicial tariffs and metering (a particular problem that needs to be fixed in Tasmania with regard to the net metering set up).
- Local councils should be encouraged and empowered to take on the role of becoming local generators, using their significant roof spaces and close community connections to facilitate community based power networks.
- A very low cost initiative would be to mandate that all new hot water cylinders that are sold in Tasmania must be 'solar ready'. All cylinder manufacturers market solar ready cylinders and since the additional price is minimal, this would enable all Tasmanian households to opt to include a solar booster if and when they are able to afford it, thus avoiding them the unnecessary cost of a new cylinder.

Question 2 - What opportunities are there to reduce or remove regulation?

Consequent to us physically joining the National Electricity Market via Basslink Tasmania lost some regulatory autonomy and is required to comply with complex sets of national rules and frameworks. Potential economic opportunity has deemed this partial loss of autonomy to be a worthwhile price for Tasmania to pay.

Offsetting this, these market rules sometimes work against Tasmania's best interests, being a relatively small player in the market. This is particularly true of the requirement to introduce competitive retailing, whether or not it was sensible to do so.

Question 3 - Is retail competition important because of price, choice or for other reasons?

In Tasmania's case, competition in the retail sales arena has been forced onto Tasmania as a result of national agreements that all states should go along this path. It is for this reason its introduction here has been delayed for so long. Unfortunately for Tasmania, owing to our small market, retail competition is unlikely to deliver intended results, i.e. lowering of energy prices.

Those in the utility business inform me that a retail utility operating in a competitive environment needs to expend at least 5% of its operating budget in advertising its product and offering incentives to attract customers away from other providers. Thus any efficiency gains brought about as a result of competition must be greater than this figure if there is to be a positive dividend. The feedback that I've mainly received is that this level of higher performance is unlikely to be achieved.

In any event, since retail competition is now partly a reality, there is probably no going back. However, it is prudent for government to do what it can to alleviate the many extra stresses that competitive retailing will impose upon householders, especially vulnerable ones. In particular, persons on low income, lower educational levels and those who have low levels of English literacy are decisively disadvantaged when it comes to making decisions in their own interest in a competitive minefield.

Secondly, it is prudent for government to think about how to minimize inefficiencies that competition (ironically) causes - such as independent retailers independently reading the meters of their random customers. There would be a number of areas where our small market size mitigates in favour of creating close working relationships within that industry sector in order to ameliorate such obvious inefficiencies.

Question 4 - What enhancements or additional information could increase the reporting transparency of the Government's electricity businesses and contribute to improved efficiency?

There is an irony here that if the government wishes to reduce red tape as its top priority then it won't want to impose additional reporting requirements.

However, in the public interest, the government needs to set rigorous bottom line transparency for private electricity retail businesses that enter the Tasmanian market, requiring them to report at the same level as public utilities do.

In the case of public utilities, there is a parliamentary process in place whereby questions are asked of the utility businesses and responsible minister, to help ensure transparency. In a truly competitive environment private businesses should be required to be subjected to the same rigour.

Question 5 - Do energy intensive and trade exposed businesses require greater future price certainty to maintain and/or grow their operations?

This has been a perennial issue in Tasmania, and is not easily answered because the average person has little or no knowledge about commercial-in-confidence contractual arrangements.

Where a breakthrough could be made is in the area of transparency. I believe that most Tasmanians value the existence of established energy intensive businesses, and provided that the profitability of energy utilities are not unduly constrained, most Tasmanians would accept a certain level of public subsidy to retain those businesses here.

That said, the Tasmanian government should not provide price certainty recklessly, especially since the notion of so-called corporate socialism runs against the state government's advocacy of free market competition.

This issue pertains to perhaps four businesses, and although very significant to the Tasmanian economy, these business entities will make decisions based on their competitiveness in the global market place and Australia's place in that competitive arena. Analysis of the aluminium smelting industry is insightful because that market is undergoing such a major global transformation that small sized smelters located in first world nations may not be cost competitive no matter what power supply incentives are made.

I think Tasmania should pragmatically plan its energy future accepting that there is perhaps a greater than 50 percent likelihood of a major plant closure within the 20-year period being planned for.

Question 6 - Would you consider accepting slightly lower levels of reliability if this resulted in materially lower prices?

Yes. For most Tasmanians the reliability of the power network is close to perfect.

However, this is a hypothetical question since most customers are unaware of stresses on the poles and wires in their neighbourhood. I believe most householders and small businesses would be open to schemes that limited their access, say, hot water power during peak load times. Such schemes may be less costly than undertaking grid and transformer upgrades just to cater for peaks.

Question 7 - Would a review of tariff structures be desirable?

Yes, but this would entail an open, independent process to make sure that network costs are real and not inflated or distorted in order to service any particular sectoral interest. Any such exercise would necessarily carry a high level of contention such that it would require the appointment of economists who are shown to be transparently independent from government and industry influence.

Question 8 - What approach should Government consider for improving the thermal efficiency of our buildings?

The government needs to tighten up on home inspections so that newly built homes do actually comply with building code Star Ratings. This is often identified as a short-coming, since builders often take short cuts (often unwittingly).

There is also an urgent need to enhance energy efficiency as an important theme throughout trades education syllabuses - to bring the Tasmanian workforce at least up to the standards of their mainland counterparts.

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?

This is an area that the previous state government did quite well, through its low-income housing assistance program. This model worked so well that it should be extended and expanded to a wider circle of households and also extended into the small businesses arena.

Question 10 - What role should Government play in attempting to retain and increase load growth in Tasmania and how should it do it?

Load growth should not be an aim itself. In fact it is sensible to decouple load growth from economic opportunity, accepting that many successful industry sectors have very lower power requirements.

In a scenario where Tasmania finds itself with significant surplus electrical energy capacity then it will be in the state's interest to make renewable energy an intrinsic part of *Brand Tasmania*, this being seen to be a way that 'clean green' potential business customers can proudly add to their sustainability credentials.

Questions 11, 13 & 14

(I've dealt with these questions in my opening notes.)

In conclusion: during the past two years much work went into development of the 2020 Climate Smart Strategy. Accepting that the state government's focus is on growth and development, most of the line items in that strategy document are totally consistent with reducing energy costs to government and business and thus should be incorporated into the strategy being worked up via this inquiry process.

[**Reference:** For an elaboration on some of the issues raised in this submission, I've summarised them [in this downloadable article](#)]