

I would like to take up your invitation to provide a submission in response to the Energy Strategy Issues Paper ("the paper"). I note that you suggest that submissions should be lodged by Monday 8<sup>th</sup> September 2014. I trust that in good faith you will accept this submission as it is still Monday 8<sup>th</sup> September in Saudi Arabia, where the client I am presently working on is located ☺

With nearly 15 years of experience in the Tasmanian Electricity Market I passionately support the key objective of the Tasmanian Energy Strategy as referred to in the paper and as stated in the Government's election policy document - "Looking to the future with energy", namely:

***"to identify ways in which energy can once again be utilised as an economic driver, including by securing a stable and sustainable price path for power that can provide relief to consumers and help grow the economy and attract new investment."***

Core elements to this objective are:

- Lowest, cost reflective pricing;
- Secure, reliable supply;
- Enabler of long-term economic growth and innovation.

Whilst certainly an option for due consideration, I am concerned that the paper, previously stated government policy, and the terms of reference for the Energy Working Group insist on the continuation of full retail competition (FRC) and sale of Aurora Retail, or its customer base. Such a stance excludes consideration of other models for the Tasmanian Electricity Industry which have the potential to more successfully achieve the stated key objective of the Tasmanian Energy Strategy.

I am concerned about pursuing FRC and sale of the retail customer base in two key ways:

1. that FRC may in fact bring no price relief for those consumers who most need it; and
2. FRC and/or selling the Aurora retail customer base may significantly constrain the ability to achieve otherwise significant cost reductions in the remainder of the electricity supply chain.

With regards to my first concern, as figure 5 of the paper shows, the function of retailing accounts for approximately 13% of consumer electricity bills under the Regulated Retail Tariff from 1 July 2014. Whilst it may be possible for other mainland retailers with larger economies of scale to have a lower per customer cost base than is the case for Aurora Retail business, I believe the following factors have negated FRC delivering reduced prices to the end customer:

- High return on investment required by private investors than that of public ownership;
- This regulated standing offer tariff includes an increased retail margin/cost to serve to allow for factors as market risk and marketing costs ([http://www.economicregulator.tas.gov.au/domino/otter.nsf/LookupFiles/134360\\_134037\\_2013\\_Standing\\_Offer\\_Determination\\_Aurora\\_Energy\\_6\\_December\\_2013.PDF/\\$file/134360\\_134037\\_2013\\_Standing\\_Offer\\_Determination\\_Aurora\\_Energy\\_6\\_December\\_2013.PDF](http://www.economicregulator.tas.gov.au/domino/otter.nsf/LookupFiles/134360_134037_2013_Standing_Offer_Determination_Aurora_Energy_6_December_2013.PDF/$file/134360_134037_2013_Standing_Offer_Determination_Aurora_Energy_6_December_2013.PDF)). Pricing determinations prior to that also included allowances to cover the significant system and process costs associated with preparing for a FRC environment. Ironically, as a result of introduction of retail competition such customers have effectively seen an increase in their prices.
- Being a largely "welfare state" (as the paper states, approximately one in three Tasmanian households receives the most generous electricity concession in the NEM) it is likely that a significant number of consumers will not be offered discounted market contract prices by retailers due to the credit risk they pose - for every 1 customer that doesn't pay their bill a retailer requires ten others to pay just to break even on their gross margin, let alone covering their own internal costs.
- It has been more than 2 months since FRC was introduced and there is no evidence whatsoever of any interest from other Retailers.

More importantly, my second concern is that the introduction of FRC and/or sale of the Aurora customer base precludes consideration of possibly the best model to achieve your policy's stated objective – re-aggregation of the Tasmanian Electricity industry into a single, efficiently run state owned integrated electricity generation / transmission / distribution / retail company.

It is my belief that the existing model of the Tasmanian Electricity Industry (modelled on the National Electricity Market) is unnecessarily complicated (and expensive) in the context of Tasmania's relatively small population base. In addition to electricity retailers, the following separate entities exist, all of which contributing non-value adding transactional costs (ie: all need to contract with, and invoice, retailers) to the electricity supply chain:

- Meter providers – retailers “rent” meters from them;
- Meter data agents – retailers pay them to provide meter readings;
- Distribution (and Transmission with the establishment of Tas Networks) company – recover the cost of maintaining the “poles and wires” by invoicing retailers for every individual customer site, effectively having their own billing system which is equally as complicated as a retailers billing system. Further, both Retailers and Distributors incur the costs of maintaining teams of people and associated systems and processes to cater for (the possibility of) customers churning from one retailer to another;
- Generators – retailers trade with them “off-market” (ie: in addition to market settlement process via AEMO, refer next point) to reduce the risk and volatility of the spot price of energy. Costs of energy trading systems, trading teams (“back”, “middle” and “front” office) and risk premiums factored into contract prices all add to the end cost of electricity to consumers;
- AEMO – Retailers (and other market participants) pay them to oversee the running of the electricity market, including the transactional costs of determining market supply and demand, and for market settlement of retailers paying generators for electricity supplied (in addition for the off-market settlements undertaken directly between Retailer and generators mentioned above);
- Renewable schemes – Retailers have additional obligations under Mandatory Renewable Energy Target to trade with suppliers of renewable energy, further adding to transactional costs.

By maintaining the present model, or indeed pursuing FRC/sale of Aurora's customer base, commits consumers to pay the significant cost of the non-value adding systems, process and labour costs associated with these separate entities merely conducting business with each other. Further, being separate entities, this model incurs the significant costs of duplicated Management, Governance, support services (HR, finance, IT support etc). Combined, these potentially avoidable costs must be contributing significantly to the present price that consumers are paying for electricity – arguably much more than any likely offsetting benefit arising from “competition”.

It should also be noted that by relinquishing ownership of the retail function also means constraining government ability to effectively deliver holistic strategic initiatives which are in the best interests of the state. Retailers have slim profit margins and their primary interest is maintaining a return on investment to their shareholders, which aren't necessarily consistent with the aspirations of Tasmanians as a whole.

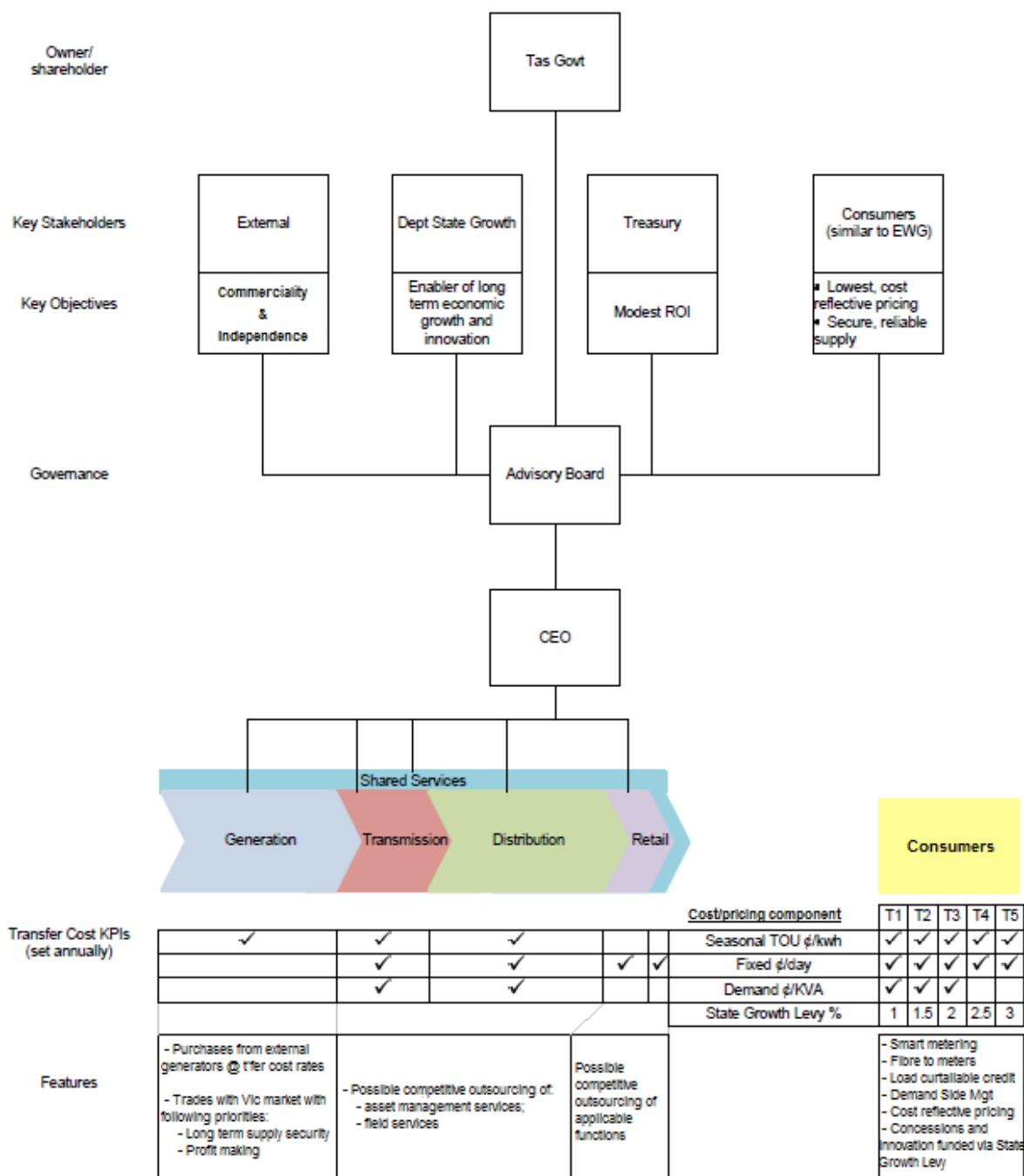
If the Tasmanian Electricity supply industry was to be aggregated into a single, efficiently run state owned integrated entity these costs could be avoided and passed onto consumers in the form of significant price reductions, and therefore “securing a stable and sustainable price path for power that can provide relief to consumers and help grow the economy and attract new investment”. Therefore re-aggregation of the Tasmanian Electricity Industry should be a model for consideration by The Government and the Energy

Working Group. If Aurora or its customer base were to be sold, that option will not be available for consideration. One fortunate benefit of the uneventful introduction of FRC is that it can be abandoned with little impact.

I am mindfully aware of the kinds of arguments put forward against the idea of a vertically integrated government owned utility such as:

- They are inefficient (Really? – and the existing NEM model mentioned above isn't?);
- They are not innovative;
- They have no drive to reduce cost to customers;
- .....and so on...

However I believe that a model such as the one presented pictorially as follows could address such concerns and be best placed to deliver of the stated objective “ in which energy can once again be utilised as an economic driver, including by securing a stable and sustainable price path for power that can provide relief to consumers and help grow the economy and attract new investment”:



Key elements of such a model include:

- A governance structure that is aligned to the objectives of the energy strategy;
- Government maintaining ownership and overall control of the electricity value chain, yet still able to maintain competitive costing by outsourcing operational functions via competitive tendering processes where appropriate;
- Tasmanian longer forming part of the NEM, the exception being the Basslink interconnector into Victoria allowing trading into and out of that jurisdiction;
- Replacing “Market Costs” and national renewable schemes (collectively accounting for 4.1% of electricity bills according to the paper) with a more modest “State Growth Levy”. These funds would be used by the Department of State Growth to invest into energy industry innovations and initiatives that are strategically aligned with the best interests of the State. They could also be used to fund concessions for strategically significant industrial consumers.
- Transparent and aligned costs and customer pricing.

Referencing such a proposed model to the specific questions raised by the paper:

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

This model is largely self-regulating by including key consumer representation (similar to the make-up of the existing Energy Working Group) in the governance structure, transparently aligning costs and customer pricing.

***Question 2 - Given both the State and Commonwealth Government are committed to reducing red and green tape, and that the electricity market is highly regulated and complex, what opportunities are there to reduce or remove regulation?***

As stated above, this structure can be largely self-regulating. Also no longer being in the NEM reduces the need to comply with excessive standards and requirements that lack relevance for Tasmania.

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

Arguably it is not important at all in the context of the Tasmanian Electricity Industry.

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

A key element of the model is a governance structure that includes representation from these key stakeholders. Internal cost KPIs and customer pricing is transparent.

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

Perhaps. The transparent pricing, lack of price volatility associated with the NEM and State Growth Levy can provide that.

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

We could have both.

***Question 7 - Would a review of tariff structures be desirable, in terms of minimising total network costs and allocating costs fairly?***

That is a key element of this proposed model.

***Question 8 - What approach, including non-regulatory ones, should Government consider for improving the thermal efficiency of our buildings?***

Not a key element of this response. However the State Growth Levy provides a possible financial means to help address this.

***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?***

Not a key element of his response. However the State Growth Levy provides a possible financial means to help address this.

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

This model proposes that government maintain ownership and overall control of the electricity value chain – the first and most critical element in being able to pursue such an outcome, if considered appropriate for the state.

***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?***

This implies that perhaps the 3.6% of bills for RET under the existing model are being totally re-invested outside Tasmania. There's an instant 3.6% reduction in energy prices and/or redirection towards a State Growth Levy that could be better invested towards Tasmania's best interests.

***Question 12 - Is there a further facilitation role 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?***

Government had its chance to do this 12 years ago, by funding a connection to the boundary of over 110,000 homes and businesses while the distribution pipeline was being laid. Not to mention significant undergrounding of electricity network and taking fibre to all those homes and businesses (we could have called it "NBN") while the gas trench was open. Or further still, development of CNG for vehicles, starting with conversion of government vehicles and bus fleet. However, the decision was made to entrust the development of the Tasmanian Gas Industry to the hands of private enterprise. The disappointing outcome that we have 12 years later falls significantly short of the amazing potential opportunities that are now forever lost. This is a fine example of why maintaining government ownership and control of the entire value chain of critical infrastructure is a worthy consideration for the best long-term outcomes for the benefit of the State.

***Question 13 - What are considered to be the key opportunities, and the key issues, associated with possible energy futures?***

Many and varied. Most of which we may not even know yet. By maintaining government ownership and overall control of the electricity value chain and having the likes of a State Growth Levy, Tasmanian will be better placed to make informed and well considered decisions as such opportunities arise.

***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 success/performance be measured?***

At the very least the model proposed in this submission should be seriously considered. Please.

A single, vertically integrated energy model is not that radical an idea. It is interesting to observe that after a trend of dis-aggregation and privatisation, many energy industries around the world are slowly starting re-integrate. Many progressive economies around the world have fully integrated energy models. Saud Arabia for instance has an energy industry the size of the entire Australian NEM, yet maintains an integrated model in the form of the Saudi Electricity Company.

I think Tasmania deserves a holistic and well considered approach to determining the best model for our Island State.

I appreciate you taking the time to consider this submission.

Kind Regards

Greg Shaw