COTA Tasmania Submission to the

Joint Select Committee on Energy Matters in Tasmania

February 2024

Background

This submission from COTA Tasmania will seek to address the Terms of Reference for this Inquiry. The Terms of Reference are to inquire into:

(a) challenges related to energy supply in Tasmania
(b) opportunities related to energy supply in Tasmania
(c) the operation of the National Electricity Market
(d) Marinus Link Pty Ltd and associated energy power developments (Battery of the Nation and North West Transmission Development)

In addressing the Terms of Reference this submission will primarily address the provision of electricity in Tasmania. Electricity access and pricing is critically important to older Tasmanians. Two other important sources of energy for older Tasmanians are gas and petroleum products. This submission will make some observations in relation to these products, however, their provision and regulation is less subject to the actions of government.

In addressing the provision of electricity this submission will consider the following factors which impact on the retail price paid by consumers:

1. the market structure of the electricity industry in Tasmania;
2. the regulatory environment within which retail prices are determined;
3. the nature of subsidies which impact on retail electricity prices; and
4. emerging issues which must be clarified to ensure local retail prices remain competitive.

Our submission will conclude that local retail prices for electricity are adversely affected by each of the issues outlined above and that action by the Tasmanian government would result in a significant reduction in the cost of electricity to consumers.

Market Structure of the Tasmanian Electricity Industry

The generation, transmission, distribution and retailing of electricity in Tasmania is dominated by three government owned corporations:

1) Hydro Tasmania;
2) TasNetworks; and
3) Aurora Energy.

The latest Energy in Tasmania report produced by the Office of the Tasmanian Economic Regulator (OTTER) highlights the domination of these three firms.

<u>Electricity Generation</u>

Within the generation sector Hydro Tasmania produces 83.5% of the 11,472 GWh of electricity produced in Tasmania during 2021/22. This is a slight decline from its position in 2019/20 where it generated 86.8% of the total 11,192 GWh of electricity generated in Tasmania.

Of the remaining generators – AETV, TasNetworks, Woolnorth Wind Farm Holding, Cattle Hill Wind Farm, and Granville Harbour – none produced more than 1,000 GWh during the year. Only Woolnorth produced more than 500GWh, with the others producing limited amounts of electricity for the local market[1].

Over the past three years electricity generation from Hydro Tasmania has declined slightly from 9,715 GWh in 2019/20 (86.8% of the total) to 9,581 GWh in 2021/22. Over the same period total generation has increased by 2.5% from 11,192 GWh in 2019/20.

Gas generation by AETV during this period has declined by around 2/3 and wind generation from the Cattle Hill and Granville Harbour windfarms has grown from 146 GWh in 2019/20 to 809 GWh. Between 2019/20 and 2021/22 generation from Woolnorth has declined by 20% to 934 GWh. Overall the contribution of wind to total generation increased from 11.3% in 2019/20 to 15.2% in 2021/22.

Rooftop PV generation over the same period has grown from 109 GWh to 138GWh. While this represents a 26.6% increase in rooftop PV generation, its contribution to total generation in Tasmania has increased by just 0.23%.

The remaining element of the generation sector in Tasmania are net imports over Basslink. For 2019/20 and 2021/22 Basslink net exports from Tasmania to the mainland were 509 GWh and 247 GWh respectively. In 2020/21 net imports into Tasmania amounted to 590 GWh.

Transmission and Distribution

TasNetworks holds a monopoly on the transmission and distribution of electricity between generators and consumers.

Electricity Retailing

There is limited retail competition in Tasmania. Although there are currently 8 retailers according to the OTTER, Aurora dominates the market. In 2021/22 Aurora had a total of 239,821 residential customers (95.1% of the total) and 35,740 business customers (94.5%).

Of the remaining retailers only 1st Energy has a significant number of customers, having 11,057 residential customers and 1,215 business customers. The remaining retailers – Energy Locals, CovaU, Shell Power (ERM), Glow Power and Smart Energy, Flower Power, Future X Power, Macquarie Bank, Delta Electricity – have a very limited presence in both the residential and business markets.

Since 2019/20 Aurora's market share has fallen from 98.6% and 97.1% for residential and business customers respectively. Over the same period the total number of residential customers has increased from 248,244 to 252,170 and business customer numbers have remained static at around 37,900. This data indicates that in a growing retail market other retailers are picking up the market growth at Aurora's expense and customers are also

[1] Information on generation and retailing is sourced from Key Statistics, page iv, Energy in Tasmania Report 2021/22 produced by the Office of the Tasmanian Economic Regulator.

leaving Aurora for other retailers. Since 2019/20 the total number of residential customers has increased by around 4,000 customers. However retailers other than Aurora have increased the number of residential customers by 8,815 and business customers by nearly 1,000.

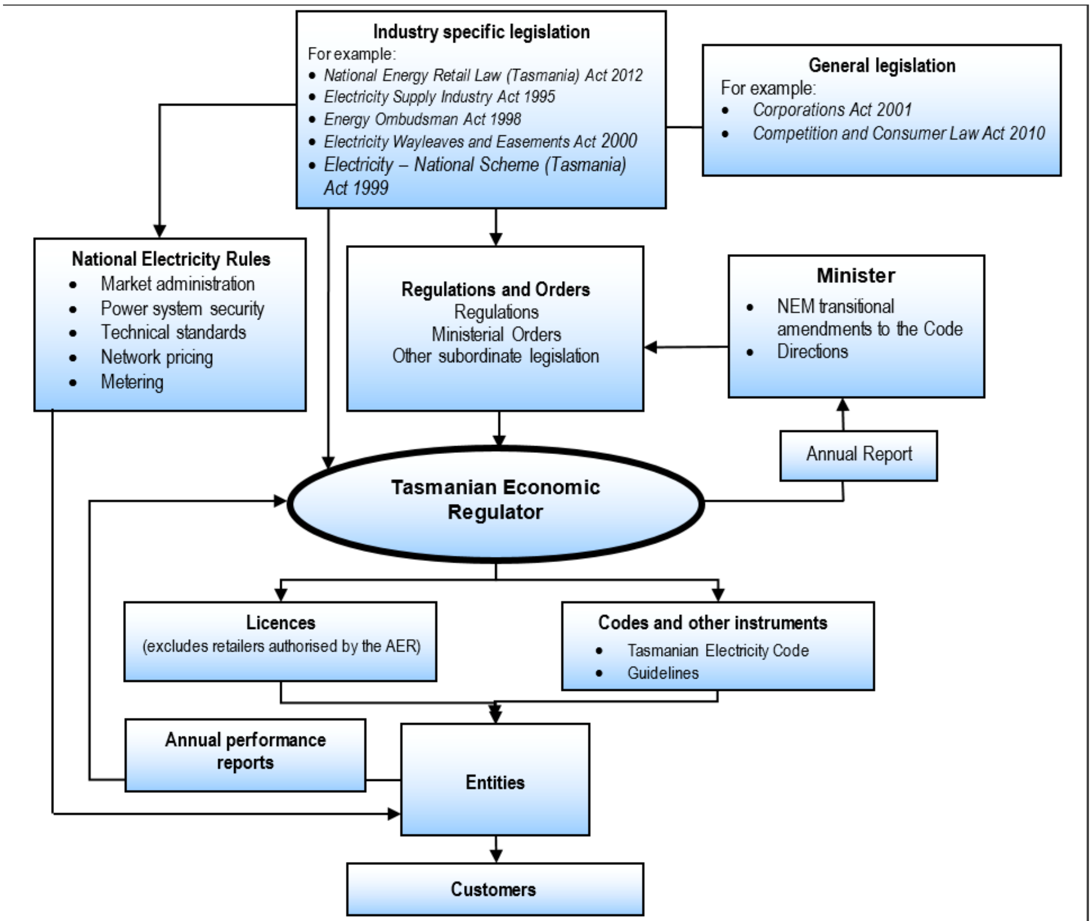
<u>Discussion</u>

Given the dominance of the three government owned businesses within the Tasmanian electricity industry it is critical that the application of the regulatory environment is appropriate to ensure that consumer prices are kept at a level which is reflective of a competitive market price and rent seeking by dominant firms is minimised.

It is also evident from the brief discussion above that both Hydro Tasmania and Aurora are facing increasing competition within their respective market segments. In the presence of increasing competition, if both companies are to remain competitive their efficiency becomes paramount.

The Regulatory Environment and Price Determination

The regulatory environment for electricity is complex as shown in the diagram below.



As shown in the diagram, many separate pieces of legislation impact on the electricity sector in Tasmania, with the primary legislation impacting on prices to consumers and business being *Electricity Supply Industry Act 1995*. This Act requires the Tasmanian Economic

Regulator to determine the maximum prices, or a method of determining the maximum prices, that Aurora Energy may charge small customers under standard retail contracts on mainland Tasmania (including Bruny Island).

The regulator has chosen to adopt a "building block" approach to determining the total costs faced by Aurora Energy, and from that the maximum standing offer retail price it may charge consumers. The costs included in this approach include:

- Wholesale electricity costs;
- Transmission and Distribution costs;
- Renewable energy target (RET) costs;
- Metering costs;
- Australian Energy Market Operator (AEMO) costs
- Aurora Energy retail costs (Cost to Serve); and
- A retail margin.

Some of these costs are set by other processes. For example, the network costs of TasNetworks are approved by the Australian Energy Regulator and the renewable energy target costs are influenced by legislation from the Commonwealth Parliament. Wholesale electricity prices are subject to a Regulatory Instrument which is overseen by the regulator.

Other costs, including the Cost to Serve and the Retail Margin are determined by the Tasmanian Economic Regulator.

Each element of this building block approach and the impact of decisions taken in relation to each block on retail prices is discussed below.

Under the legislation governing the Tasmania Economic Regulator, the regulatory process establishes the Notional Maximum Revenue (NMR) that Aurora Energy can recover, and the maximum retail prices which can be charged to meet this revenue target under the various regulated tariffs offered by Aurora Energy.

In this submission COTA Tasmania will offer comments and observations in relation to each element of the regulator's determination and the relevance of the current approach being taken to the current electricity market conditions within the National Electricity Market (NEM). Many of our comments reflect the position we put to the regulator during the 2022 price determination process.

In making the comments below COTA Tasmania recognises that the Regulator addressed a number of issues in its most recent determination which we had highlighted for some considerable time. We do, however, believe that the regulator could have gone further and made a determination in relation to the NMR for Aurora Energy which better reflected the outcome from a competitive market environment for generation, transmission, distribution and retail services.

While COTA Tasmania supports the building block approach taken by the Regulator, we consider that in applying this approach more consideration is given to the underlying strategic decisions taken by each of the dominant entities to ensure each is delivering outcomes best aligned with a market subject to competitive pressures.

Wholesale Electricity Costs

As outlined above, wholesale electricity prices in Tasmania are subject to a Regulatory Instrument. It is our understanding that that while this Instrument is regularly updated, the last detailed review was undertaken in 2016. It is abundantly clear that the market conditions applying to wholesale electricity prices within the NEM in 2016 were quite different to those applying at present. In the intervening period we have seen:

- major closures of coal fired power stations within the NEM;
- the impact of the war in Ukraine on gas prices;
- renewables increase their presence in the market; and
- finally we have seen legislation passed by the national parliament seeking that renewables provide 82% of our electricity generation by 2030.

Within this rapidly changing environment, where Tasmania is able to supply virtually all its domestic market needs from renewable sources, COTA Tasmania considers there is an urgent need to replace the current framework of the Wholesale Contract Market Instrument. COTA Tasmania considered that no longer should Tasmanian consumers face a retail electricity price which incorporates wholesale prices which are based upon what is happening in the Victorian market. That market is driven by factors which do not impact on the cost of electricity generation in Tasmania. In particular, rising gas prices and reduced availability of coal fired generation capacity which have been shown to significantly increase wholesale prices on the mainland are irrelevant to the cost of generation in Tasmania.

Incorporating these factors into local retail prices is akin to a tax on local consumers. And any tax on energy prices is a regressive tax which falls more heavily on low and fixed income consumers. As such COTA Tasmania considers the current Instrument delivers an outcome which is inequitable. The current instrument also fails to reward the Tasmanian community for the foresight of previous governments to structure electricity generation in Tasmania around renewable sources and the benefits such foresight is now recognised to deliver.

In relation to the wholesale building block COTA Tasmania recommends to the Committee that a review be undertaken of the Instrument with the aim of creating an instrument which reflects the cost structure of Tasmania's renewable energy resources and the benefits which renewable electricity generation delivers.

Transmission and Distribution Costs

Transmission and distribution costs are determined by the Australian Energy Regulator (AER) and adopted by the Tasmanian Economic Regulator as part of the determination process. As such these costs are largely outside the control of the Tasmanian government. But they are not totally outside the government's control.

As is proposed for Marinus Link, where TasNetworks experiences a lower weighted cost of capital than the rate set by the AER, the government, as the owner of TasNetworks, could pass this saving onto consumers.

Secondly, while the 5 yearly reset process is undertaken in a highly transparent and consultative manner, there are some aspects of this process which need strengthening to ensure consumers face the lowest transmission and distribution charges. Over the process, between the release of the draft reset proposal by TasNetworks and now the release of the draft AER determination there has been significant cost escalation. The draft plan presented by TasNetworks indicated that the distribution charges for the reset period from 2024/25 to 2028/29 would decline. When the plan was eventually submitted to the AER this slight decline had been replaced by a steady increase in charges over the period. And now the AER has, in its draft determination, indicated additional costs need to be included, raising consumer costs further.

As a result the draft AER determination proposes a network charge for consumers which is $47 higher than that provided in the draft proposal presented by TasNetworks.

COTA Tasmania considers this escalation in consumer costs between the draft plan and the draft determination to be unacceptable. From our perspective the draft outcome of maintaining consumer costs, a position we supported strongly, should be an overriding principle as the plan progresses through to the final determination. Where cost increases are identified as the draft is finalised and then submitted to the determination process the opportunity should be taken to reassess the proposed program of works and what changes would be required to deliver the same consumer outcome as proposed in the initial draft. This could include a risk assessment of any such changes. The current process leaves the program of works unchanged with cost increases simply passed through to consumers.

This is a significant risk for consumers as the AER process seeks to provide a guaranteed return to a network business while at the same time lumping the risks associated with this return onto consumers.

This risk will only increase given the magnitude of the contingent projects included within the TasNetworks proposal. These projects include both the NW Transmission Development and Marinus Link. A go ahead with these projects will place further cost pressures on consumers, and these cost pressures can only be offset by lower wholesale electricity prices. Given the recent cost escalations for these projects, and scope changes negotiated between the Tasmanian and Commonwealth governments it is unlikely that consumers will receive any significant reduction in wholesale electricity prices as a result of these two projects proceeding, and certainly not the reductions which Marinus Link was initially proposed to deliver.

Many of the contingent projects deliver significant benefits to others within the electricity sector including renewable generators and potential new energy users such as hydrogen production. The extent to which costs will be or can be passed to the beneficiaries is an unknown, but what is known is that under the current rules consumers are very exposed to significant cost increases.

COTA Tasmania considers that the reset process be reviewed in the light of the significant changes taking place within the electricity sector and that where benefits flow directly to other parties from transmission and distribution investments and enhancements, those beneficiaries contribute appropriately to the costs in order to minimise cost impacts on consumers. Such an approach could reduce the retail cost of electricity by up to $47 per consumer per annum.

RET Costs

COTA Tasmania considers that the RET costs fall disproportionately upon those consumers with the least ability to benefit from the installation of a home based renewable energy system. As such this cost element, which makes up around 9% of the consumer bill, represents a highly regressive cost for consumers. Renters and also low and fixed income consumers are significantly impacted by this cost element.

Given that the Commonwealth government has legislated to increase the share of renewables in the electricity generation system from around 19% today to 82% by 2030 there is considerable uncertainty around how RET charges will move over this period. Again, consumers bear this uncertainty.

COTA Tasmania considers that the current approach to the allocation of RET costs potentially represents a significant cross subsidy from those who are able to take advantage of the renewable energy opportunities available to them to those who are unable to take advantage of these opportunities and adds significantly to the bills consumers face.

Metering Costs

COTA Tasmania notes that metering costs for Aurora Energy have nearly doubled over the past 5 years as more consumers have moved to install smart meters and gain better information on their energy usage. We consider that as the penetration of smart meters continues metering costs could be discounted by the benefits which are presumed to flow from the provision of advanced meters. There are many benefits to a retailer from having detailed hour by hour data across its total consumer base. These benefits include the provision of lower cost energy products which lead to operational efficiencies for the retailer and a vastly improved understanding of the aggregate demand for electricity which could be used to secure improved wholesale price arrangements.

While the price determination process only considers the cost side of metering, and passes this full cost through to consumers, retailers are either obtaining a significant benefit to their bottom line by using the data provided from smart meters to improve their operational efficiency or they are being rewarded for failing to adopt the benefits which would likely accrue from smart meters within a competitive retail environment.

COTA Tasmania therefore considers that the benefits of smart meters for retailers need to be considered in the determination process and this building block cost reduced accordingly.

Aurora Energy's Cost to Serve

COTA Tasmania considers that the limited retail competition within the Tasmanian electricity market has permitted Aurora Energy to propose a cost to serve (CTS) which is no longer aligned with the the realities of the NEM. During the determination process the regulator presented benchmarking data which highlighted significant cost efficiencies had been achieved by retailers across the NEM. These efficiencies amounted to a reduction in CTS of around 8% per annum across all retailers, irrespective of their size.

Aurora Energy, a retailer with a dominant market position and a customer base larger than the small mainland retailers, but less than the 3 major retailers, has not achieved CTS efficiencies. Instead it's CTS has grown by around 4% since the last determination by the regulator.

In making its determination the regulator sought advice in relation to the efficiencies achieved by mainland retailers. This advice indicated that a significant proportion of the efficiency gain for mainland retailers was associated with the costs of customer attraction and retention. Excluding these costs left an annual efficiency gain of just 3.5% directly related to the CTS function as defined by the regulator within Tasmania. This efficiency gain has been applied to Aurora Energy for the current determination.

The regulator did not apply any retrospective efficiency in its determination. The impact of that decision by the regulator is to leave Tasmanian consumers around 14% worse off in respect to the CTS when compared to mainland consumers who are currently benefiting from competition induced efficiency – the 4% increase in Aurora Energy's CTS plus the 10% improvement in CTS delivered by mainland retailers.

Had the regulator sought to impose an efficiency catch up which aligned with what is happening in competitive retail electricity markets elsewhere in the NEM Tasmanian consumers could have benefited by around $22 per annum, a small but not insignificant benefit.

aurora+

Also within the CTS component of the determination is the cost of aurora+.

In its final determination the regulator has provided Aurora Energy with an allowance of $9.08 per customer for aurora+. This amounts to a total annual cost of around $2.5 million for Aurora Energy to maintain the app.

COTA Tasmania considers this cost to be excessive and aurora+ should be provided within the CTS component. There is no need to increase the cost to serve as to deliver the CTS function requires Aurora to already produce all the information available via the app. The app is simply an additional channel to deliver information to consumers and simply replaces the previous web interface.

In delivering a consumer support function and also providing a billing service to consumers all the data and services that could be provided by an app such as aurora+ are already in place. There is nothing provided by aurora+ that is not provided via the Aurora Energy call centre service or by its billing system.

As such, the marginal cost to Aurora Energy from a consumer using the app is likely to be lower than had that same consumer made a call centre enquiry. And in addition, Aurora Energy can use the app to offer consumers value added insights into their energy use and which plan may be best for their circumstances.

COTA Tasmania therefore considers that by applying stronger competitive market principles within the determination process the CTS component of the retail price could be significantly reduced by up to $31 per consumer per annum.

The Retail Margin

Similar to the CTS, the market environment faced by Aurora Energy has not resulted in any significant pressure being placed upon the company's retail margin. As a result the retail margin determined for Aurora Energy is approximately double that achieved by retailers operating in more competitive parts of the NEM.

COTA Tasmania considers it is unacceptable that a significantly larger retail margin is simply passed through to consumers given that Aurora Energy has very limited risk exposure Aurora to manage given its market dominance.

We consider the retail margin should reflect Aurora's actual market place performance, not its mere presence and dominance in the market.

We recognize that our market is small, and we recognize that Aurora Energy has, and will continue to have, a dominant market position. We also consider that any potential retailer entering the Tasmanian market will potentially provide electricity products which either match or just undercut the Aurora offering. There is no incentive for them to pass on fully any efficiencies they may have as a result of their size within the national market.

In these circumstances COTA Tasmania considers that the Regulator plays a very important role to ensure that Tasmanian consumers are receiving retail product offers that are highly competitive with those available in other markets and that Aurora is not over-compensated for the risks it faces within the highly regulated Tasmanian electricity market.

The regulator accepts that Aurora Energy faces a substantially lower energy price risk than its mainland counterparts. The regulator also acknowledges that Aurora faces volume related energy price risks that are significantly different from those faced by other retailers across Australia. However, the regulator also acknowledges that as a stand-alone retailer operating only in Tasmania it faces more risks than those retailers that may be part of a vertically integrated energy company.

Taking these three risk factors on board, COTA Tasmania stresses the need for the regulated retail margin to be very price competitive with that applying across the NEM. If the retail margin is not competitive then there is the risk that Aurora's customer base could be eroded by an aggressive national retailer seeking to cherry pick the higher margin available within Tasmania, while not offering prices that are significantly lower to consumers. In effect their entry into the Tasmanian market simply becomes a profit maximizing move on their part. It would not enhance local retail competition, yet at the same time it would likely increase per customer costs for Aurora.

With a retail margin that is $60 per consumer per year higher than that received by mainland retailers, COTA Tasmania considers there is room for a considerable saving for consumers while still providing Aurora Energy with a margin significantly higher than other retailers. Such a change could reduce consumer costs by $35 to $40 per annum. While ever

Aurora Energy is receiving a retail margin more than double that of other retailers there is substantially reduced pressure on Aurora Energy to seek operational efficiencies which mainland consumers enjoy.

COTA Tasmania considers that it is a core role for the Regulator to ensure that where efficiencies are being identified in relation to energy retailing within the NEM they should be made available to Tasmanian consumers. Reducing the retail margin would deliver such benefits to local consumers, particularly those on low and fixed incomes.

Concluding Comments on Retail Pricing

Consumers on low and fixed incomes face power bills that are significantly higher, relative to their income than those consumers on higher incomes. These consumers also have significantly reduced opportunities to offset their power bills by investing in solar panels. They are also more likely to be renters and, as a result, have limited ability to improve the energy efficiency of their home and appliances.

The benefits outlined above would deliver significant benefits to this group without the need for any increase in government support and the processes associated with applying for and receiving such support.

Also, by applying the principles outlined above, Tasmania's three government owned energy companies would be better exposed to the competitive pressures that will be a feature of the NEM as we move towards a market dominated by renewables and more trading of energy between the jurisdictions.

The principles highlighted above also seek to remove the hidden taxes on Tasmanian energy consumers associated with returns to these three businesses which are not fully exposed to competitive market pressures.

The principles would also require the regulator to take on a stronger consumer perspective in making its determinations and perhaps it may be more appropriate for the regulator to be administratively located as an independent unit within the auditor generals office.

While COTA Tasmania has made a number of suggestions in relation to Aurora Energy, we remain committed to working closely with the company and acknowledge the direct support we have received from Aurora Energy in the past. We consider there is a need for a strong on-going relationship between organisations such as ourselves and TASCOSS to ensure the issues faced by those we represent can be effectively addressed. However, many of those issues will be reduced if Tasmanian consumers experience an energy cost that is more reflective of the competitive pressures and the associated efficiencies mainland consumers already experience.

As a final point, the AER recently acknowledged that while a regulated maximum energy price exists for retailers across the NEM, most retailers have product offerings which are at a discount to this regulated maximum. This is not the case in Tasmania where the vast majority of consumers pay the regulated maximum price and price discounting is limited.

Subsidies Impacting on Retail Electricity Prices and Their Impact

As outlined above the retail price of electricity in Tasmania includes an allowance for RET costs. This allowance reflects around 9% of the retail cost of electricity or around $175 per consumer per year. The aggregate cost of the scheme is around $45 million within Tasmania alone. These costs are associated with the cost of subsidising renewable energy under the Commonwealth renewable energy target scheme. At present this scheme requires retailers to purchase around 19% of their energy from renewable generators.

As outlined above low and fixed income consumers face proportionally higher energy bills than those on higher incomes, with low income households spending twice the amount of their disposable income on energy when compared to average income households. They also have limited ability to make investments in things such as rooftop solar panels which both reduce energy costs and also attract funding through the RET scheme.

As such, low and fixed income consumers are doubly impacted by including the RET charge within the retail price. The RET charge as currently structured is a highly regressive charge.

By including the charge within the retail price there is no effective oversight of the effectiveness of this subsidy in terms of both its total cost, who is benefiting and how effective the subsidy is in achieving the scheme outcomes. In fact, recent enquiries to the regulator about the scheme, and how it may develop into the future have not received any effective response despite their being public calls to lift the renewable energy requirement under the RET from the current 19% in a linear fashion to 82% by 2030. It has been suggested that such an increase in the RET would restart the currently stalling investment in renewables to meet Australia's 2030 greenhouse targets.

Despite such calls, it would seem few really understand who is benefiting from the scheme and how much they are benefiting nor are such calls costed as to their impact on retail electricity prices. Additionally, payments made under the scheme are clouded by commercial in confidence constraints.

COTA Tasmania considers that subsidies such as that applying under the RET scheme should not be simply added to consumer energy bills. As outlined above such an approach is highly regressive, falling proportionately more heavily on those with the least ability to pay. They also add considerably to an individual's energy bill.

As we move from around 19% of energy being supplied from renewable resources to 82% in 2030, COTA Tasmania has significant concerns in relation to how this charge will develop over the remainder of the decade.

In the interests of transparency and to ensure such schemes receive the budget oversight they deserve to ensure the schemes goals are being met, COTA Tasmania considers the RET costs should be removed from energy bills and delivered as an expenditure program of government. Such a change would ensure the costs and benefits of the scheme are regularly assessed through the budget estimates process. Such assessment will become more important as more renewable generation comes on stream within the local Tasmanian market.

Emerging Issues

The discussion presented above in this submission considers the situation for consumers at present. It highlights that the lack of competitive pressures in the local electricity market, result in Tasmanian consumers paying higher electricity bills than they should.

However, as indicated the electricity market is undergoing significant change at present. There is a requirement for increased renewable generation, more interconnection of the grid is underway, household demand is likely to increase as more households adopt electric vehicles and more electric appliances. In addition, there is increased digitisation within the electricity system and demand may be better managed by smarter devices. Storage will also play an increasing role in the future.

Each of these developments has price and cost risks for consumers and the sections below briefly outline some of these issues and the risks they bring.

Marinus Link

Marinus Link is an additional interconnection under Bass Strait that will increase the amount of electricity that can flow between Tasmania and the mainland. The initial estimates of the benefits from the scheme indicated 94% of the benefit would flow to the mainland electricity sector. Given that the current approach taken by the AER is to apportion the costs of regulated interconnectors between the two jurisdictions based upon the proportion of the link within each jurisdiction. For Marinus Link approximately 50% of the link is in Tasmania and 50% in Victoria. An initial agreement was reached between governments which resulted in the impost on Tasmania being just 15% of the cost.

At the time it was expected that Marinus would deliver a net benefit of around $60 per annum to Tasmanian consumers. This net benefit was based on the expectation that the link would deliver lower energy prices for Tasmania which would more than offset the cost of the link.

How the remaining 85% of the costs of the link would be recouped has never been clearly outlined.

Recently updated cost estimates have indicated that the initial cost estimates substantially underestimated the cost of Marinus Link. Now only half the capacity of the link can be constructed for the originally estimated $3.5 billion. In light of these updates cost estimates the Tasmanian government has renegotiated its commitment to the link with the Commonwealth government. However, there has been no announcement made on the share of the link's costs which would now be met by Tasmania or an update on the net impact of the link on Tasmanian consumers.

With the recent cost escalation and altered scope for Marinus Link it is probable that it will become a net cost for Tasmanian electricity consumers. Given this likely outcome, COTA Tasmania considers there is an urgent need for an updated impact statement to be made available for consumers. Such a statement should fully describe the cost impacts of Marinus Link on bills and how these cost impacts may be offset by lower wholesale energy

costs. Included in any analysis which suggests a link will reduce wholesale electricity costs must also be a clear explanation of how such reductions will occur.

Regulation of Bass Link

Bass link is an existing inter connector under Bass Strait between Tasmania and Victoria. At present this link is not regulated and its use is fully paid for by Hydro Tasmania under a commercial agreement with the link's owners APA. As such, Tasmanian electricity consumers fully meet the cost of Bass Link through the wholesale price they pay for electricity. APA are seeking to have Bass Link become a regulated link. As a regulated link Hydro Tasmania would no longer have to pay to use the link and Bass Link's costs would be added to consumer bills. In their proposal APA seek to have the regulated cost split 10% to Tasmania and 90% to Victoria. Such a split reflects the energy demand within both jurisdictions and largely equalizes the consumer cost across the jurisdictions.

As Hydro Tasmania will no longer have a cost associated with using a regulated Bass Link it is critical that the full cost savings be passed onto Tasmanian consumers of electricity. For Hydro not to pass on the full cost savings consumers would, in effect, being paying twice for Bass Link. Once in the wholesale electricity cost and again within their network charges.

Provided that the full cost savings Hydro Tasmania receives are passed onto Tasmanian consumer, the regulation of Bass Link will reduce electricity bills in Tasmania. To ensure the full cost savings are passed through to consumers there will be a need for total transparency around existing contractual arrangements between Hydro Tasmania and APA.

AER have an important role to play in determining the cost split between the two jurisdictions as the cost split proposed by APA is quite different to the methodology currently used by the AER. The proposed cost split will deliver the greatest benefit for Tasmanian consumers and COTA Tasmania encourages the Tasmanian government to support the APA proposal.

Should the AER decide to adopt its existing cost allocation methodology individual consumers in Tasmania will pay around 10 times the cost that would be carried by a Victorian consumer due to the significant size disparity between the two jurisdictions.

Additional renewable generation

Given the current policy settings of the Tasmanian and Commonwealth governments it is highly likely that there will be significant expansion in renewable generation capacity within Tasmania over the next decade. This expanded generation will place additional pressures on the grid. As evidenced by the NW Transmission Development project currently being developed on the NW coast, additional transmission development will increase charges for consumers under the current policy settings relating to who pays for transmission and distribution.

Unless such developments result in lower wholesale electricity prices which offset the additional transmission costs consumers will end up worse off. Given low and fixed income consumers are already being disproportionately affected by cost increases, any additional charges will only exacerbate an already difficult position for these consumers.

Clearly there is a need to reassess how enhancements to the grid are paid for and COTA Tasmania would suggest that where renewable generators are the primary beneficiaries of such expansion they should contribute to the additional costs.

Even if such a policy position is not adopted, in order to ensure low and fixed income consumers are minimally affected by additional costs, there will be a need to assess the impact of any developments on the ability of consumers to pay and where the impact is greatest governments may need to give consideration to enhancing support arrangements for low and fixed income consumers to ensure they can continue to afford electricity to sustain their well-being.

Electric vehicle penetration

An electric vehicle which replaces a conventional vehicle will add considerably to household energy consumption. A typical EV battery which is charged once a week from a household supply will require the same amount of electricity as the household currently uses. At a minimum, as EV penetration increases there will be a need to manage when such vehicles are charged. If every household in the street seeks to charge their vehicle at the same time it will likely overload the distribution system.

Even if electric vehicle charging is ideally managed with some kind of technological solution significant enhancements to the distribution network will be required. As indicated throughout this submission additional costs will fall disproportionately upon low and fixed income consumers and these consumers are the ones least able to afford an electric vehicle.

As an example of the impact EVs may have on the grid as they replace existing vehicles in the fleet, it is estimated that a charging station which 15 high capacity chargers will use the same energy as 5000 households. A charging station of this configuration would provide EV owners with a similar level of service as a current petrol station allowing them to charge their vehicle from 10% to 80% in around 15 minutes with limited waiting time to access a free station. As EV numbers increase and more EVs are found undertaking inter city trips in Tasmania such charging stations will be required at strategic points across the state.

COTA Tasmania therefore suggests that the pricing of the grid be changed to account for those who have electric vehicles. Already EV owners benefit by not having to pay fuel excise, a de facto road user charge, and if the impact of their purchase decision is spread across all electricity consumers then this is a double benefit they are receiving at a time when low and fixed income consumers are unable to benefit.

The electric household

There are moves underway to reduce the role of gas as a household energy source. While such moves will help in meeting greenhouse emissions targets and are a low cost option for new dwellings, existing consumers will be faced with a significant cost.

There are recognised day-to-day cost savings from using electricity instead of gas. However, moving from gas cooking, hot water and household heating requires a significant capital investment. To replace cook tops, ovens, hot water heaters and household heating currently provided by gas with high efficiency electric appliances will cost somewhere between $20,000 and $30,000 for a household. The cost savings from the move to electricity do not provide a return on such investment over the life of these appliances. This will particularly be the case where existing gas appliances that still have a useful life left in them are scrapped.

While zero interest schemes have been proposed to facilitate the change from gas to electricity, COTA Tasmania considers that additional capital subsidies will be required to enable consumers, particularly older Tasmanians, to make such a change.

The digital divide

With the move to the delivery of more services via electronic means and a lesser focus on the provision of call centre services, COTA Tasmania considers that there is a need for the Tasmanian government to work actively to close the digital divide.

Within Tasmania there is a significant digital divide and those consumers who face challenges in accessing or using digital services face the risk of being left behind and experiencing higher costs than necessary. This is particularly so in the energy space where tools such as aurora+ can significantly benefit a consumer who has the access and skills to use such tools.

Addressing the digital divide is not just about access. It is also about improving the **energy and financial literacy** of consumers so they can make the best sense of the energy use data available to them and then make the best financial decisions as a result of that data and information.

In the regulators latest determination it has been clearly identified that those consumers with good digital literacy skills and good digital access can avail themselves of services which will allow them to significantly impact on their energy costs. Furthermore, the success of Aurora Energy's YES program also clearly highlights the benefits of providing consumers with improved energy and financial literacy skills.

COTA Tasmania considers that breaching the digital divide is a critical action for government if we are to improve the situation for low and fixed income Tasmanians. We would actively participate in any such programs designed in partnership with government and key businesses in Tasmania such as energy retailers.

The move away from gas and who pays for the infrastructure

As more households make the move to an all electric household and disconnect from the gas network there are significant potential cost impacts for those who, for whatever reason, remain connected to the network. The fixed costs of the gas network will be distributed over fewer and fewer customers.

COTA Tasmania contends that any moves to encourage consumers to disconnect from gas and meet their energy needs from electricity will need to be accompanied by a program that ensures those consumers who remain connected to gas are protected from escalating fixed charges. This may require the Tasmanian government to fund a proportion of the gas network charges that would otherwise be applied to the remaining consumers.

Transmission and Distribution Expansion

As Tasmania moves to its target of 200% renewables and there are an increasing number of all electric households and as more households move from conventional vehicles to EVs there will be a need for considerable expansion of the electricity grid beyond what is currently provided. More renewables, plus the development of industries such as hydrogen and/or ammonia production will also place additional pressures on the grid.

The expansion of the grid to support these developments will impact considerably on consumer prices given the current policy settings of the AER. These policy setting provide that the grid is a general access network which is freely available to any generator and is funded by consumers. At present grid costs associated with the transmission and distribution network in Tasmania already account for around 40% of the consumer power bill. Expansion of the network will therefore add significantly to those bills.

As we have outlined above, any increase in the costs of electricity fall more heavily on those least able to pay. As a result, COTA Tasmania considers that there must be a broader conversation within the community on the impacts of current changes in the generation, transmission and distribution of electricity. While we accept the need to meet Australia's greenhouse gas emission targets, it is important to ensure that those with the least ability to pay are not paying a disproportionate share of the costs associated with the necessary transition taking place within our electricity sector.

COTA Tasmania recognises that as more renewables enter the system studies such as the CSIRO GenCost model predict falling costs for generation as the share of renewables increases. But as we have outlined earlier in this submission wholesale electricity prices represent around just 25% of the retail price paid by consumers.

COTA Tasmania therefore considers that the Committee give consideration to projections for both network costs and wholesale prices as the grid transforms to accommodate more renewable generation. Such consideration will permit the inquiry to provide a clearer assessment of these changes on the consumer's bill, particularly the bill facing low and fixed income consumers.

Battery storage

A grid with more renewable generation will necessarily require more storage as dispatchable sources of electricity, such as coal and gas fired power stations are closed. In this regard Tasmania is extremely fortunate as our dispatchable generation comes from hydro electricity and we have sufficient hydro generating capacity to effectively support our electricity security as we move to the target of 82% renewable generation by 2030.

Given our fortunate situation Tasmania should not have to make major investments in battery storage as more renewable generation comes on stream. Our hydro electric system is the perfect battery.

COTA Tasmania considers that this fortunate outcome for Tasmania needs to be protected and that moves to expand export and import of electricity between Tasmania and the mainland must ensure Tasmania always maintains sufficient storage capacity within its hydro electric system to ensure the security of the local electricity market.

Unlike the mainland Tasmania will not need to install and fund significant investments in storage to support the move to Australia's renewable electricity target.

Conclusion

This submission outlines the dominant position of three government owned businesses within the Tasmanian electricity industry. It highlights how the current regulatory environment for these three businesses is impacting on consumer prices and makes suggestions which could result in both improved efficiency in the operation of these firms and also lower the retail price of electricity in Tasmania.

COTA Tasmania has also highlighted in this submission the impact of the current approach to price setting on low and fixed income consumers for whom electricity costs represent a proportionately higher impact on their disposable income than for household on average incomes.

Given this position, we have concerns relating to the inclusion of subsidies within the retail price determination framework as such subsidies are highly regressive and fall disproportionately upon low and fixed income consumers. COTA Tasmania considers that such subsidies should be met from general government expenditure and subject to close and regular oversight as provided by the budget estimates process.

The submission concludes with a brief discussion of a number of issues which are likely to emerge as Australia and Tasmania move towards their respective renewable energy targets over the remainder of the decade. COTA Tasmania has raised concerns in this part of the submission that low and fixed income consumers may be significantly more affected by the changes taking place within the Australian electricity market and that a fuller community conversation is needed in relation to these impacts.

We have concerns that in the absence of such a conversation, significant proportions of the community in Tasmania will increasingly face increased levels of energy poverty with associated impacts on their health and well-being.

Energy is critical to older Tasmanians and COTA Tasmania considers that the Committee is able to provide important insights into the current and future nature of the Tasmanian electricity industry and provide guidance to current and future governments to ensure all Tasmanians have access to affordable, reliable and safe electricity services.

Submission prepared by the Tasmanian Policy Council, a Sub Committee of the COTA Tasmania Board.