

# **ENERGY FOR THE FUTURE**

**Ministerial Statement delivered by  
Deputy Premier and Minister for Energy and Resources  
Bryan Green MP**

**Tuesday 15 May 2012**

Mr Speaker, electricity is critically important for all Tasmanian households and businesses.

There is a long and significant history associated with the electricity supply industry in this State.

It has made a material contribution to the State's economy over time. It has provided jobs for many thousands of Tasmanians. It has stimulated economic development. Fundamentally, it has made use of our natural resources to deliver economic prosperity and confidence.

As with any industry, circumstances change over time and decisions are often required to adapt and cope with that change.

The current structure of Tasmania's electricity industry has been in place for almost 15 years. Much has changed in that time in the broader economy.

We now have the opportunity to reflect and assess what we can do to improve the future for Tasmanians.

The Tasmanian Parliament can do that now, with the assistance of advice from the Expert Panel which undertook a wide ranging review into the Tasmanian electricity supply industry.

The Panel spent 18 months talking to industry, Government, customers and interested parties, and produced detailed analysis and advice for the Tasmanian Parliament.

What we know is that electricity price rises in recent times have been difficult for many Tasmanians. We also know that our electricity assets are in good condition and will serve us well for years to come, provided we maintain the level of care and maintenance that mark our current asset management arrangements. We have done most of the hard yards to maintain and modernise this vital infrastructure.

The rest of Australia is also dealing with electricity price rises, but many of the other states are facing further increases as a result of infrastructure that requires major investment and the drive to transition to cleaner energy sources. The Federal Minister for Energy, Martin Ferguson, recently stated that a massive \$240 billion investment was needed over the next two decades in gas and electricity generation, transmission and distribution infrastructure.

The Panel has confirmed that Basslink is a sound investment, major industrial customers in Tasmania are not being cross-subsidised by other electricity users, the Tamar Valley Power Station was acquired to avoid an energy shortage in the State, and the Government's recent changes to

governance arrangements for government businesses can be expected to improve the financial performance of the state owned electricity businesses.

What is also clear now, however, is that some aspects of the Tasmanian electricity supply industry have not been working as well as had been hoped when we entered the National Electricity Market in 2005.

There are many reasons for this, most of which have been investigated and reported on by the Expert Panel.

The Panel's work serves as a reminder for us all that the provision of electricity comes with a range and complexity of issues that are interrelated and significant and which require considered and thorough analysis.

The Panel has concluded that maintaining the status quo is not an option, nor can we revert to pre-NEM days. The Government agrees that major reform is needed.

All sides of politics now have a great opportunity to help set the industry up for the next 15 to 20 years.

It is incumbent on us all to consider carefully what action we need to take in the best long term interests of Tasmanians.

As a Government, under the leadership of Premier Lara Giddings, we have been working on this for some time and have determined the framework within which we will address the key issues identified by the Expert Panel and assess all potential reform options.

We have worked closely and cooperatively with our state owned electricity businesses and relevant Government Departments to develop a carefully considered plan for the future that will deliver improved outcomes for the Tasmanian community.

The Government is confident that this plan will lead to better outcomes for Tasmanians in the following areas:

- lower increases in future electricity prices;
- greater customer choice;
- improved energy security;
- continued strong reliability of the electricity supply network in Tasmania;
- reduced risk to Tasmanian taxpayers;
- improved sustainability of state-owned businesses;
- more efficient and focussed state-owned businesses; and
- the creation and maintenance of value from the renewable energy assets that the Tasmanian community owns.

For the Government, any reform must limit future electricity price increases in a sustained and lasting way. It must also provide choice to households and small businesses.

In delivering this, the Government will uphold our longstanding promise to the Tasmanian community not to sell core electricity infrastructure assets that Tasmanians have invested in over generations.

We will not sell Hydro Tasmania, nor will we sell the network of poles and wires that deliver electricity to homes and businesses across the State.

Of course, the provision of secure, reliable, safe and efficient supplies of electricity in the long term continues to remain a priority for the Government. The impact of such outcomes on economic certainty and confidence can often be taken for granted but cannot be overstated.

We recognise that the combination of our State's natural resources, our clean energy generation capacity and our skills and expertise gives Tasmania a distinct competitive advantage in a carbon constrained National Electricity Market.

The Government recognises that we have a unique opportunity to maximise the value of this carbon advantage through any reform to the industry in the State.

As part of our promise to retain ownership of the State's core electricity infrastructure, and with it the responsibility for providing the associated services, the Government is committed to ensuring that we maintain financially viable state-owned electricity businesses.

We remain focussed on ensuring that these businesses run efficiently and effectively and maximise the overall economic benefit to Tasmania.

The Government is also acutely aware that there are issues of cost, risk, timeliness and complexity associated with the implementation of any change.

We have considered these factors, together with the important objectives I have just mentioned, in comparing all credible reform options with the status quo so that we can get the balance right.

This framework will assist us to structure the State's energy sector in a way that allows it to deliver outcomes which enhance the Tasmanian community's confidence in the sector.

We want all Tasmanians to know that their long-term interests are being looked after in a competent and conscientious manner.

Before turning to the detail of the Government's reform package, it is important to acknowledge the good work that the employees of our state-owned electricity businesses do to enable us to switch the lights on in our homes and businesses every day.

On behalf of the Government, I extend sincere thanks to each and every employee in the sector for the important work they do to support the Tasmanian community. I want to make clear to them that reform is needed not because of the way they are doing their jobs, but because of changing circumstances.

I acknowledge that the package of reforms I am outlining today will impact on all three electricity businesses to varying degrees, and therefore employees, but the Government will seek to provide certainty as quickly as we can. We will be working to minimise any job losses.

A key element to the implementation of this reform package will be the optimal redeployment of resources across the newly structured state owned electricity businesses.

In relation to the detail of the Government's reform package, I want to be very clear that we believe an integrated set of short, medium and long term actions is required to pave the way for the future of the Tasmanian energy industry.

Make no mistake, this is a challenging task, but the Government is not interested in knee-jerk, short-term, simplistic or politically opportunistic solutions.

We are determined to do what is right for Tasmanians.

### **PRICES**

Mr Speaker, as the Premier and I foreshadowed just a couple of days ago, the Tasmanian Government's understanding is that electricity prices will increase by well over 20 per cent on 1 July this year unless action is taken.

The Government is taking immediate action to limit the potential price increase as this is a burden Tasmanian households and small businesses can ill-afford to bear.

We are taking action to reduce the increase by around 12 percentage points, with contributions from each of our three electricity businesses.

In looking seriously and sensibly at the limited number of elements of prices that the Government is able to influence, we have taken responsible action that will halve the potential increase which could have flowed through to customers.

The Government's action means that an additional \$200 every year will not flow through to an average customer's electricity bill from 1 July this year.

Prices will still rise on 1 July, however we expect that the majority of the increase will be as a result of Federal Government policies which are outside of the State Government's control.

In relation to what the Government is specifically doing to reduce the potential price increase, firstly, regulations that have the effect of changing the way prices are calculated for customers who are currently non-contestable in Tasmania will be tabled in this place tomorrow.

Simply put, the Regulations will result in an estimated 7 percentage point reduction of the 23 to 26 per cent increase we were expecting on 1 July.

This will come at a cost to the State Budget in the order of \$37 million per annum, through reduced returns from the electricity businesses. However, the Budget impact will be offset by Hydro Tasmania's forecast future returns which are set to increase partly as a result of the Federal Government's carbon pricing policy.

The Government firmly believes that the trade-off between lower prices and lower revenues is in the best interests of all Tasmanians.

Our immediate action on this matter is consistent with the recommendation from the Expert Panel.

Secondly, in March this year, the Government endorsed Aurora's request to the Australian Energy Regulator to smooth distribution charges into the new regulatory period that will commence on 1 July. We are pleased that the AER has listened and we welcome its decision which will result in a further estimated 2 percentage point reduction of the 23 to 26 per cent expected price increase.

On top of this, Aurora will not pursue any further increase in distribution charges above those recently determined by the AER by using the Limited Merits Review regime that is part of the National Electricity Law.

Finally, with the full support of the Government, Transend is also contributing to containing electricity price increases on 1 July this year. The Board has responded to the challenging market conditions that a number of Transend's major customers are facing and taken a commercially pragmatic and long term approach to determining revenue and cost forecasts.

Transend has introduced a new revenue policy that will see the business recover less than the allowed revenue in 2012/13. This will result in a further 3 percentage point reduction of the 23 to 26 per cent expected price increase.

The Government's actions are real and credible, and will immediately reduce the impending electricity price increases. They are not one-off or unachievable promises. They will mean price rises in Tasmania on 1 July will be the second lowest in Australia.

Our direct action to limit price rises is just one part of a wider package of reforms that will deliver lasting benefits to the Tasmanian community. It is not only about limiting price rises this year. It is about next year, and the year after that.

It is about taking action to ensure price increases flatten out as quickly as possible, building on a reduced need for network investment going forward.

We remain concerned about the immediate impact of electricity prices, particularly for those Tasmanians on low and fixed incomes. That is why we have one of the most comprehensive energy concessions regimes in Australia.

The Government already spends in excess of \$25 million on energy concessions from the State Budget and this will again increase next financial year as a result of our continued commitment to index electricity concessions in line with electricity price rises.

We know that the advent of the Australian Government's reforms to place a price on carbon will have an impact on electricity prices in Tasmania, but it is important that this be weighed against the significant compensation that will be provided by the Australian Government as part of its Clean Energy Future program.

As a State, Tasmania will benefit from putting a price on carbon. Hydro Tasmania's forecast revenues and returns to the Government are very strong, partly as a result of the Federal

Government's carbon pricing policy. This will allow more money to be spent on priority areas such as health, education and police.

## *NETWORKS*

Mr Speaker, in relation to network charges, we know that these make up a large component of electricity prices, and we acknowledge that increases as a result of investment in our poles and wires assets over the last decade have been difficult for many Tasmanians.

But because of that investment we have a supply of electricity in Tasmania that is consistently reliable, secure and safe.

In a first world country, such service levels are expected. They have a major bearing on economic certainty and confidence, as well as on our quality of life, which cannot be overstated.

Reliability, security and safety of supply have been key objectives of successive Governments. That is non-negotiable.

Tasmanians now have electricity network assets that do not need the increasing level of investment that we have experienced over recent years to deliver the service levels that we expect.

Going forward, Transend's average capital expenditure is forecast to drop in the order of \$50 million each year off a base of approximately \$120 million, while Aurora's average capital expenditure is expected to drop by around \$20 million each year off a base of approximately \$130 million.

This means that network charges will contribute substantially to electricity price rises flattening out in the coming years. I want to reinforce the point that this sets us apart from other Australian States which still need to invest significantly in the upgrade and expansion of their networks. This is an opportunity we need to use to increase the attractiveness of doing business in Tasmania.

What we want to do now is ensure that network service outcomes are delivered by a structure that is more efficient and simpler. The Government considers that this can be achieved through combining Aurora's Distribution Business and Transend Networks.

In the longer term, we expect that having only one state owned business that is responsible for the transmission and distribution of electricity from power stations to households and businesses will realise annual savings of at least \$8 million.

The Government's expectation is that the merged state owned business will continue to focus heavily on customers and cost management. This will enable us to collectively meet our aim to limit future electricity price rises.

This business will be a monopoly provider of transmission and distribution services in Tasmania and will therefore continue to be regulated by the Australian Energy Regulator.

The combined business is a model that is not unique in Australia, for example SP Ausnet owns electricity transmission and distribution assets across Victoria.

## CHOICE

Mr Speaker, I have already said today that the Government wants all Tasmanian electricity customers to be able to choose their retailer. This is not a new policy position for the Government.

It is something that we have always wanted for customers, provided that we could be confident that it would be to their benefit and not come at a cost.

The Government knows that this issue is highly complex, and that there are costs and risks involved. That is why we have progressively rolled out competition since 2006. Our focus has been squarely on ensuring that the interests of customers are protected.

We have deferred the declaration of full retail competition to households and small businesses until now because the market has not been mature enough, nor structured appropriately, to deliver the outcomes we want for customers.

As part of our consideration of the Panel's work and other potential reform options, the Government has determined that strict and independent regulation of the wholesale energy market, and the prices that can be charged by Hydro Tasmania, from 1 July 2013 is the most appropriate way to facilitate full retail competition in Tasmania.

We are confident that this approach, which provides certainty of wholesale supply and transparency of price, will make Tasmania an attractive place for mainland retailers to do business and give them certainty that they will be able to adequately manage risk.

Further, we consider that it will directly address the key issues identified by the Panel without the complexity, significant risk and material cost associated with reorganising Hydro Tasmania to create three publicly-owned trading enterprises.

The Government therefore does not intend to progress this part of the model in the manner proposed by the Panel. Rather the Government's approach is based on low risk measures designed to achieve the same result.

To further facilitate effective competition for all customers in Tasmania, the Government agrees with the Panel's conclusion that there is a compelling rationale for the sale of Aurora's customer base.

We have taken further advice on the vulnerability of Aurora's retail business under a fully competitive market scenario and agree that it is in the best interests of Tasmanians not to let the value of that business be eroded over time by the private sector.

The Panel's work has shown that the loss of only 15 per cent of Aurora's customers post FRC would make its retail business unviable. This is less than the 20 per cent level of customer switching that occurs every year in Victoria.

The Government acknowledges that sale of the customer base will impact on employees in Aurora's Retail Business. However, the alternative of attempting to maintain an unviable business would inevitably lead to job losses in a manner that would be both challenging and very uncertain for employees.

As I have mentioned, we are seeking to provide certainty to all employees in the sector as quickly as we can. In addition, we are also looking to maximise opportunities for Aurora's retail personnel and assets by merging these with Hydro Tasmania's mainland retail business Momentum.

The detail and mechanics of how the customer base could be sold requires further analysis. Accordingly, a detailed implementation plan will be developed within the next 12 months, as part of the wider implementation of the package of reforms.

This will enable the Government to determine an appropriate number of blocks for sale in the market and to further refine the parameters of sale to ensure maximum value, while delivering competition outcomes.

This is consistent with the Expert Panel's findings.

Irrespective of how this occurs, existing concession, hardship and customer protection arrangements will be maintained and continued with private retailers.

The combination of wholesale regulation and sale of the retail customer base gives the Government confidence that FRC can be introduced by a target date of 1 January 2014, thereby delivering choice to all Tasmanian customers.

This target has been set as early as possible given Aurora's Distribution Business will require further development of its information systems to support FRC. The Government will regularly review progress against this target as it develops the supporting regulatory framework as part of the implementation task.

## **ENERGY SECURITY**

Mr Speaker, energy security has been a key focus of successive Governments. Knowing that we are able to deliver power to our major industrial, business and residential customers provides confidence and certainty to the Tasmanian economy.

It was one of the key drivers that led to the decisions on Basslink and the Tamar Valley Power Station. The very real prospect of power rationing in the State would have put jobs in jeopardy and been disastrous for Tasmania.

In respect of the Tamar Valley Power Station, circumstances have changed since the decision was taken to acquire and complete the Station. The rain we have had in Tasmania since that time has changed the relative cost of hydro versus gas fired generation.

While of course this is good news for our water storages and capacity to generate electricity from our hydro power stations, it has reduced the competitiveness of a fixed cost structure gas fired power station in the short-term.

It has not, however, changed the strategic energy security benefit that Tamar Valley Power Station provides Tasmania. This is a benefit that would not exist but for the exceptional work of the employees in Aurora's Energy Business in completing construction of the Power Station on time and under budget.

The Government's strong belief is that the Tamar Valley Power Station is a long term strategic asset for Tasmania that delivers significant value through providing energy security.

As part of our consideration of the Panel's work and other potential reform options, the Government has determined that the Tamar Valley Power Station, together with its associated assets and gas supply contracts, holds the most value under Hydro Tasmania's ownership.

The Government intends to test its conclusion and will do so by seeking independent commercial analysis on valuations by the end of this year.

Should that advice show that the State will achieve greater value from the sale of the Power Station and related assets without compromising energy security, the Government will explore this further.

Nevertheless, the Government will ensure that the power station is either transferred to Hydro Tasmania, or sold to a third party if the sale price would realise a greater benefit to Tasmania, before 30 June 2013.

Under either of these scenarios, Tasmanian taxpayers will benefit from the most efficient market participation of government owned businesses. They will also have certainty that the Government has acted to maximise value and ensure energy security by implementing strong wholesale regulatory arrangements.

#### **CLEAN ENERGY OPPORTUNITY**

Mr Speaker, the Government's package of reforms seeks to strengthen the State's ability to capitalise on its natural resources, our investment in renewable energy, and our brand and reputation as a world leader in this field.

The introduction of a price on carbon from 1 July this year means that, as a State, Tasmania will begin to see the true value of its renewable energy reflected in the price Hydro Tasmania receives in the national market for its energy.

Hydro Tasmania's subsidiary company Momentum is a retail outlet for some of Tasmania's renewable energy to mainland States. The Government believes that Momentum is the optimal vehicle for the Tasmanian community to realise the value of its investment in clean energy and to capitalise on the brand value of Tasmania.

Not only is Momentum able to realise Tasmania's carbon advantage in the NEM, it can build additional commercial value for the State by leveraging the strong brand of Hydro Tasmania and growing the size of the business in a carefully managed way. It also provides a critical mechanism for Hydro Tasmania, and therefore the State, to extract greater value from Basslink.

Importantly, Momentum enables Hydro Tasmania to diversify its revenue base, meaning that the business can generate stable returns despite inflow and market price variability, loss of load in Tasmania and the potential behaviour of vertically integrated competitors in the NEM.

Ownership of Momentum, and the existence of a retail sales portfolio, also aligns with Hydro Tasmania's wind farm development in Tasmania as it creates a need for the renewable energy certificates generated from those wind farms.

Momentum has experienced four years of material growth and Hydro Tasmania is forecasting that this will continue over the coming corporate planning period. It is expected to return a profit of \$10 million this financial year, and to continue to return profits to the Government over the next four years.

For all of these reasons the Government believes that Hydro Tasmania is well placed to manage and benefit from retaining Momentum and participating in the NEM as a vertically integrated business.

The Treasurer and I, as Shareholder Ministers of Hydro Tasmania, will continue to closely monitor performance of this business as part of the annual corporate planning process.

This is consistent with the way in which the performance of all government owned businesses is monitored. The process will, however, be strengthened by the changes that were recently made to the governance framework for the operation of government businesses.

As a result of the decision to sell the retail customer base, Aurora is likely to have people and assets that can support the growth of Momentum's business and therefore the benefits of our clean energy capacity and capability.

The extent of transfer of these people and assets will be managed through the implementation of this package of reforms. In this regard, we will be working to minimise any job losses from the sale of Aurora's customer base.

The Government's position on Momentum forms an important part of the reforms I am outlining today.

### **ELECTRICITY SUPPLY INDUSTRY LONG TERM STRUCTURE**

Mr Speaker, our state-owned electricity businesses make a significant contribution to the Tasmanian economy through employment, capital expenditure and investment, and the financial returns they provide to Government, as the shareholder on behalf of the Tasmanian community.

The current structure of our electricity businesses has now broadly been in place for almost 15 years. In that time many major milestones have been achieved, including construction and commissioning of Basslink, the Tasmanian gas project and substantial wind development, Tasmania entering the NEM, the progressive roll out of competition and the acquisition and completion of the Tamar Valley Power Station.

The Government wants to make sure that the businesses we own are set up in the most appropriate way to reliably and efficiently deliver electricity services and provide value to Tasmanians into the future.

At a very practical level, reducing the number of businesses will enable us to achieve savings at Board and management level as well as through increased service delivery efficiency. It will also allow for better planning for our future infrastructure needs.

We know there are many highly skilled and motivated employees in the electricity businesses, and we believe that these reforms will provide exciting opportunities in the newly structured state owned electricity businesses.

A key benefit of the new simplified structure is that our businesses will discretely participate in different parts of the electricity supply chain. The new network business will manage all the monopoly network services and will continue to be regulated by the AER, while the Hydro Tasmania group will manage all of the Government's market-facing electricity activities.

The businesses will be set clear objectives and operating constraints by the Treasurer and myself, as shareholders on behalf of the Tasmanian community, with the aim of ensuring improved performance and accountability for delivery of performance targets.

This will be supported by the principles and guidelines that have been established as part of the Government Business reform announced by the Premier in the 2011 Mid Year Financial Report. The Government welcomes the Expert Panel's acknowledgement of the merits of this reform in driving improved performance and efficiency of the businesses.

### **REFORM IMPLEMENTATION**

Mr Speaker, as a Government we wanted to determine a position as early as possible in order to provide certainty for employees working in the sector and so that we can begin delivering improved outcomes and real benefits to Tasmanians.

The reforms are substantial and the implementation task ahead will be challenging.

We have been considered and careful in determining the way forward, but as I have already mentioned there is still much detail to be worked through.

This includes detailed design of the wholesale regulatory arrangements, obtaining a valuation and addressing future transfer and operation of the Tamar Valley Power Station, determining how the sale of Aurora's customer base is best achieved, developing the necessary legislative changes to support the introduction of FRC, and merging the network businesses.

We will also engage with key stakeholders, including welfare agencies, business groups, industry participants and representative bodies, unions, major Tasmanian employers, State and National regulators, and of course employees. Already, the Premier, the Department of Treasury and Finance and myself are in the process of putting briefings in place with many of these stakeholders to discuss the Government's reforms.

Dedicated project management arrangements will be established to implement the package of reforms as a priority. It will be supported by a project governance framework that ensures appropriate input from the relevant government agencies and the state-owned electricity businesses.

The changes will also rely on the hard work and commitment of many of the staff in the businesses and I thank them in advance for their efforts. Their determination to ensuring that Tasmanians pay no more for their electricity than is absolutely necessary is greatly appreciated by the Government.

The Government is committed to these reforms and will communicate with the Parliament and the Tasmanian community regularly on progress with implementation and the achievement of milestones.

## **CONCLUSION**

Mr Speaker, on behalf of the Parliament, I would again like to thank the Expert Panel, John Pierce, John Tamblyn and Jerome Fahrer, and the members of the supporting Secretariat, Adrian Christian, Sophie Reid, Luke Gregory, Scott Lancaster and Lisa Austin for their important contribution through the review. The enormity of the task they were set by the Parliament, and the tremendous complexity of the issues examined in the process, has not been lost on us.

In most respects, the Government supports the findings of the Expert Panel.

What we have done, however, is developed a package of reforms for the energy sector that will enable us to address the key issues identified by the Panel and achieve better outcomes for the Tasmanian community at a lower level of risk, cost and complexity.

I would like to take this opportunity to also thank the Boards, CEOs and executive management of the state owned electricity businesses for the way in which they have each interacted with and assisted the Government to determine its position.

While they have advocated strongly for their respective businesses, they also recognised that the Government is looking to deliver the best possible outcomes for all Tasmanians.

When I introduced the legislation to establish the Expert Panel in 2010 I made it clear that the Government's aim for some time had been to achieve competition that would drive efficiencies and limit future cost and therefore price rises.

We firmly believe we have developed a practical blueprint for the future that will enable this aim to be achieved.

It is the next chapter of energy reform to be delivered by this Government, and is another example of the determination of the Government under the leadership of Premier Giddings to do what is right and what is needed to further the long term interests of all Tasmanians.

This is not a time to throw simplistic, short-term, and politically opportunistic solutions at the Tasmanian community. Tasmanians deserve better.

As I mentioned earlier, the Government is confident that our package of reforms will lead to better outcomes for Tasmanians in the following areas:

- lower increases in future electricity prices;
- greater customer choice;
- improved energy security;
- continued strong reliability of the electricity supply network in Tasmania;
- reduced risk to Tasmanian taxpayers;
- improved sustainability of state-owned businesses;
- more efficient and focussed state-owned businesses; and

- the creation and maintenance of value from the renewable energy assets that the Tasmanian community owns.

The blueprint I have presented today provides Tasmania with the structure of an industry that is fit to deal with the challenges of tomorrow while providing sustainable value to Tasmanians.

We know that it is a significant and challenging task. But we are not afraid of making the tough decisions and seeing them through because we know that it is the right thing to do for Tasmanians.