

## Electricity Reform - General

What is the Government's reform package?

The key features of the reform package are:

- full retail competition will be introduced from 1 January 2014;
- Aurora's retail customers will be transferred to new, competing private sector retailers, from the start of FRC on 1 January 2014;
- to facilitate this, the Government will sell the customer base in tranches, to enable private sector retailers to start operating in Tasmania on 1 January 2014;
- regulation of Hydro Tasmania's wholesale market activities by the Tasmanian Economic Regulator will be introduced by 1 July 2013; and
- Aurora's distribution system and Transend's transmission network will be integrated to form a new combined network business. The existing businesses will be merged from 1 July 2014.

To support the key features, the following actions will be taken:

- Hydro Tasmania's Momentum strategy will continue, with ongoing reviews and relevant approvals;
- Aurora's retail services functions will be merged with Momentum's functions, once the transition of retail customers to new retailers is complete, to optimise the state-owned electricity businesses' previous investments in retail services; and
- an assessment of the Tamar Valley Power Station assets will be obtained and where the strategic value of state ownership of the assets, or parts of the assets, exceeds a sale value, those assets will be transferred to Hydro Tasmania.

Why is the Government pursuing these reforms?

The reform package will facilitate retail competition for all customers, improve the efficiency and security of the

industry and put downward pressure on electricity prices in the short, medium and long term.

Why hasn't the Government adopted the exact model recommended by the Expert Panel?

The Government has very closely considered the Expert Panel's final report and agrees with almost all of the Expert Panel's conclusions relating to issues in the industry and the areas that require reform. The Government's energy reform package is broadly consistent with the Panel's recommended reforms.

The Government has decided to adopt an alternative reform to the Tasmanian wholesale market to that recommended by the Panel. The Government's preferred option is a less expensive and lower risk option that is expected to address the major wholesale market issues and facilitate FRC.

Will the reforms result in more or less competition?

The reforms will introduce competition in the retailing of electricity for small Tasmanian customers, putting these customers on an equal footing with larger customers who are already contestable. The Government is facilitating full retail competition proactively by selling Aurora Energy's customer base to private sector retailers. This will introduce competition in the retailing of electricity from 1 January 2014.

Won't the reform package break the Government's commitment to retain electricity assets in public ownership?

No. The Government's commitment has always been to retain the core hydro-electric generation and network (poles and wires) assets in public ownership. This commitment will not be affected by the reform package and the legislative requirement for a sale of these assets to be the subject of a referendum remains in place.

When will the reforms be complete?

Full retail competition, or FRC, will commence from 1 January 2014. The new merged network business will commence on 1 July 2014.

### Why can't the reforms be introduced earlier?

The reforms are complex and inter-related and it is crucial to ensure that there is sufficient time to implement the reforms properly.

For example, it will take time to upgrade relevant information systems to provide for full retail competition. The reform timeline also provides for a scoping study to be completed on the sale of Aurora's customer base, which is important to ensure that the sale process is undertaken appropriately and that the Government receives maximum value from the sale.

### What advisers have the Government appointed?

The project teams for the electricity reforms will require independent specialist advisers for specific tasks throughout the project. The following key advisers have been appointed:

- *Concept Consulting Group Ltd* - to assist with the design and implementation of the framework to regulate Hydro Tasmania's activities in the Tasmanian wholesale contract market, including the products to be regulated, the role of the Tasmanian Economic Regulator, the basis upon which regulated prices and premiums will be determined and any reporting and/or monitoring functions.
- *Marchmont Hill* - to provide Electricity Industry benchmarks and related information regarding cost to serve; customer churn rates; growth in customer base for small to medium retail electricity providers; cost to acquire and retain customers; customer retention periods; customer retention strategies; and Transfer pricing strategies.
- *Lazard Pty Ltd* - to provide strategic advice in relation to the scoping and structuring of Aurora's retail base for divestment, and prepare for, and undertake, the sale process.
- *Allens* - to provide legal advice in the preparation for and throughout the divestment of Aurora Energy's retail customer base.
- *KPMG and Serviceworks* - to design the functional and structural options for the Transitional Services in a manner which ensures FRC proceeds on time with no major service delivery issues.

- *Marchmont Hill* - to undertake a risk assessment of activities underpinning Momentum's retail growth.

### What systems are required to support FRC – will Aurora be ready?

A program of work has commenced aimed at ensuring Aurora has the appropriate systems in place for the commencement of full retail contestability from 1 January 2014.

Aurora's distribution business will need systems that can interface with several electricity retailers as well as the national market operator and allow customers to switch between electricity retailers in a timely manner.