

ELECTRICITY SUPPLY INDUSTRY EXPERT PANEL BILL 2010

SECOND READING SPEECH

Mr Speaker

A strong, secure and sustainable electricity industry is essential to the wellbeing and prosperity of all Tasmanians.

The Government recognises that energy costs form a significant component of household budgets, and that these costs have risen over recent years and are likely to continue to do so in future years.

Tasmania is not alone in this regard, with all other States across Australia experiencing like outcomes, and there is little that the Government can reasonably do to stop or limit increases in electricity prices that will not come without serious consequence.

The Government does, however, recognise that rises in electricity prices are contributing to increases in the cost of living generally for Tasmanians and that it is critical that this issue is addressed.

Mr Speaker, the Government is absolutely committed to doing what it responsibly can to assist Tasmanian consumers to manage these challenges.

On 16 June 2010, the Premier provided a Ministerial Statement on Energy to this House.

As the Premier outlined in this Statement, over the past decade or so there have been very significant changes in the Tasmanian energy industry.

These changes are a product of the Tasmanian Government's ongoing commitment to the comprehensive National Competition Policy, which was agreed to by all states and territories in 1995, together with its commitment to energy reform more broadly.

As part of these commitments the Government has undertaken a number of key actions as efficiently and economically as possible, that we

believe ensure sufficient and reliable supplies of sustainable electricity are produced and delivered to meet Tasmanian needs. These things include:

- structural reform which saw the separation of a monopoly provider and the subsequent establishment of three businesses that would specialise in the delivery of different components of the electricity supply chain, with each also having a greater capacity to plan, coordinate, and identify and respond to customer needs;
- introduction of a robust and independent regulatory regime;
- construction of the Basslink interconnector, joining Tasmania to mainland Australia and the National Electricity Market and the expansion of the renewable energy industry; and
- providing for competition in the generation and retail segments of the market and the potential for further expansion of this competition into the future.

Mr Speaker let me discuss each of these in turn.

Structural separation of the monopoly electricity generation, transmission and distribution functions, all of which were previously undertaken by the former Hydro Electric-Corporation, was required as a part of Tasmania signing up to National Competition Policy.

In broad terms, the aim of disaggregation was to allow for wholesale and retail electricity markets in Tasmania to become competitive. It was anticipated that the new structural arrangements would contribute to the realisation of benefits associated with competitive markets.

As a result, in 1998 the three separate state-owned businesses we have today – primary generator Hydro Tasmania, sole transmission network service provider Transend Networks, and joint distribution network service provider/retailer, Aurora Energy – were established.

It was envisaged that these revised arrangements would provide new generators with access to the electricity grid without discrimination by the network monopoly. In addition, ring-fencing of the retail and distribution businesses, both of which have direct interactions with customers, was introduced to ensure transparency and prevent the government-owned suppliers locking out new entrant private sector retailers through discriminatory behaviour or through cross-subsidies.

Mr Speaker, in 1998 a Parliamentary Standing Committee of Public Accounts report not only endorsed the direction of energy reform under National Competition Policy, but also strongly supported specific aspects of it, including disaggregation of the Hydro-Electric Corporation.

The Committee found, and I quote, that *"the case for disaggregation is overwhelming"*. It also found amongst other things, and I quote again, that: *"the restructuring is designed to create three soundly structured, financially viable entities that are well positioned to grow their businesses and to meet best practice benchmarks in these specialised areas. The reforms will produce direct benefits through a clearer focus on each core business....."*

Mr Speaker a framework for independent regulation, and planning and system control functions was also established to ensure proper oversight of these important and substantial industry activities.

This independent regulatory process aims to best replicate the outcomes that would be achieved in a competitive market and is a key foundation of maintaining the balance between fair pricing and securing the safe and reliable supply of electricity to support the Tasmanian community.

Mr Speaker, the Parliamentary Standing Committee of Public Accounts also highlighted the role of disaggregation in progressing Basslink and entry into the National Electricity Market.

The construction of Basslink made it possible for Tasmania to connect to the national electricity grid and join the National Electricity Market.

With Basslink came further opportunities and benefits for Tasmania, in particular it opens the door for expansion of the renewable energy industry as well as providing Tasmania with alternative supplies of electricity when hydrological factors may be limiting Hydro Tasmania's generation capacity. Basslink was critical for electricity supply to households, business and industry through the recent drought.

Mr Speaker, considerable public debate and a very large body of work across agencies and within the Government's electricity businesses underpinned Tasmania's decision to join the National Electricity Market in May 2005. We made this decision because the national regulatory framework is designed to promote competition in wholesale and retail markets.

It was envisaged that, over time, wholesale and retail electricity markets in Tasmania would become competitive under the National Electricity Market and associated changes to Tasmania's industry arrangements.

We now have an environment where there are four electricity retailers licensed to provide electricity in Tasmania to many business consumers across the State. In addition, a further group of smaller business customers will become contestable from July next year.

This extension of contestability has been subject to progressive judgements as to the public benefit of extending retail competition to customers with smaller and smaller levels of consumption.

In deciding to join the National Electricity Market, it was also expected that Tasmania's Government-owned electricity businesses would be able to operate on a sustainable basis, either as regulated entities, in the case of the network operations of Transend Networks and Aurora Energy, or as competitors in the generation and retail sectors.

Mr Speaker, notwithstanding all of this, it was always recognised that competition would take time to develop. For instance, the Parliamentary Standing Committee of Public Accounts, to which I referred earlier, noted that there were significant impediments to the immediate development of competition in both the generation and retail sectors of the Tasmanian electricity supply industry.

This was not news to the Government and we knew at the time that the road to reform was going to be long and arduous, but that meaningful change is rarely achieved without significant effort.

The focus has always been on creating the long-term setting that would focus the electricity businesses on their core tasks, but also to promote the maximum opportunity for competition to drive efficiencies and limit future cost and therefore price rises, while maintaining high standards of service and reliability.

A key consideration was on the strong possibility that Tasmania would otherwise miss out on the opportunities that would arise from putting in place bold, nationally agreed reforms that were focused on medium to long-term benefits to the community, delivered through future price increases being less than would have been the case without the reforms in place.

This would not have been possible without a focus on creating a regime in which the businesses are forced to meet best practice efficiency

standards through specialisation and a highly commercial focus. It was always envisaged that this would be achieved through a combination of direct competitive forces and strict regulatory oversight.

Mr Speaker, the Tasmanian market structure has now been in place for a number of years and it is becoming increasingly apparent from the standpoint of both wholesale and retail competition that the market is not delivering the extent of competition that was hoped for under the National Electricity Market framework.

A reliance on regulatory oversight therefore remains in place to ensure price outcomes for households and small businesses in particular are similar to what would be achieved in a more competitive setting.

Mr Speaker, retail competition is being progressively rolled out and by July 2011 all businesses with electricity consumption above 50 megawatt hours per year will be able to choose their retailer.

This has been an important success in promoting a more efficient retail market.

The network functions (that is, Transend's transmission and Aurora's distribution services) are natural monopolies and will continue to be regulated; it has never been envisaged that these sectors would be open to competition.

What is important, however, is that both networks are open to any generators or retailers on terms that ensure that neither Hydro Tasmania nor Aurora Energy can secure preferential terms and thus dampen the possibility of new competitors establishing here in Tasmania.

There are, however, challenges for Tasmania in achieving the degree of competition enjoyed in other jurisdictions because of the difficulties associated with the size of the market in Tasmania and that we are a small regionally separate sector of the national market.

Mr Speaker, insofar as the Tasmanian small customer retail sector is concerned, Aurora Energy is required to sell electricity to residential and small business customers at regulated prices, which are determined by the independent Tasmanian Economic Regulator under the *Electricity Supply Industry (Price Control) Regulations 2003*.

Mr Speaker, there has been a lot of focus on how Tasmania could have fared by remaining separate from the national push for a more cohesive, better functioning and more commercially focused electricity industry.

I do not see this as a useful perspective. In Tasmania, we are not immune to the wage pressures arising from national and international markets in labour costs. We are not immune from the costs pressures affecting plant and equipment, or the large price increases for the natural gas we import into the State. We are not immune to the costs of financing the substantial amounts of capital to maintain and expand our electricity businesses.

We must see our electricity industry sector in a much broader context, and the Government strongly believes that the reforms I have outlined above have helped to transform Tasmania's energy system.

These transformations have been from a small isolated system with a heavy reliance on water inflows alone, to one that is well positioned to take advantage of the benefits associated with participation in the national market.

These include benefits from trading opportunities with the mainland, the transfer of experience and expertise, and developing new markets that will help to build our electricity entities and make them stronger and more efficient.

However, as the Premier noted in his Ministerial Statement, the wholesale and retail markets are not operating as effectively as intended and some major challenges remain.

In particular, the Tasmanian electricity supply industry, like those industries in other jurisdictions, faces very considerable cost pressures and it is clear from the independent Tasmanian Economic Regulator's Draft Report for its 2010 investigation of maximum electricity prices for non-contestable customers that further substantial price increases are inevitable.

At the same time, further pressure on prices is arising from the drive to reduce carbon emissions in the electricity supply sector. The independent Tasmanian Economic Regulator estimates that Aurora will need to spend over \$10 million by 2012-13 on renewable energy certificates for energy supplied to tariff customers, all of which must be recovered from these customers. Further price pressures will arise under an emission trading scheme or a carbon tax.

The level of scrutiny under which our energy sector is coming is not surprising, given the cost pressures on households and businesses.

The Government, and indeed the community, therefore need to be confident that our market and regulatory arrangements are delivering the best possible outcomes in terms of financially sustainable businesses and the lowest reasonable prices for energy users.

Mr Speaker the Government recognises that price rises are hard for families and that it is important to provide practical help to those most in need and under financial stress. Tasmania already has one of the most comprehensive electricity concessions regimes in Australia, however this year the Government also provided an additional \$7.9 million to assist low income Tasmanians with rising electricity prices.

The Government is committed to continuing to address the cost of living, and to this end is not only seeking to address energy prices but is also embarking on an overarching cost of living strategy.

Mr Speaker, with this in mind it is timely to examine whether the energy policies that have transformed the State's energy sector remain appropriate for the future.

It is for this reason that the Premier announced that an Expert Panel would be established to conduct a review of the Tasmanian electricity supply industry, as negotiated with the five Greens MPs.

The Bill before the House today gives effect to this commitment.

The Bill will establish an Expert Panel comprising three independent persons with relevant knowledge or expertise in one, or all of, the electricity industry, the conduct of regulatory investigations in the electricity industry and business and governance.

Suitable candidates have been identified through the Government's well established Business Board selection process. Successful candidates will be appointed to the Expert Panel by the Governor.

The function of the Expert Panel is to conduct a review into the electricity supply industry in Tasmania in accordance with terms of reference issued by the Treasurer.

Mr Speaker, the Expert Panel will be required to consider the efficiency and effectiveness of the regulatory framework in Tasmania and the cost and operation of the energy industry elsewhere in Australia.

The Panel will also examine the factors that have driven recent increases in electricity prices in Tasmania for non-contestable customers.

The review will also include an assessment of the financial position of the State's three government-owned energy businesses.

The Panel is also required to identify actions that would guide and inform the development of a Tasmanian Energy Strategy, particularly in relation to the Government's primary objectives of minimising the impact of the cost of living in Tasmania, and ensuring Tasmania's long term energy sustainability and security.

The Terms of Reference for the Review are included with the Fact Sheet that accompanies this Bill.

Mr Speaker, the Bill will provide the Expert Panel with the necessary powers to conduct the review. This includes the power to obtain information from a person, require a person to attend and give evidence before the Expert Panel and allows the Panel to administer an oath or affirmation.

The Bill establishes as offences the failure to provide information to the Expert Panel, providing false or misleading statements, and hindering or obstructing of the Panel.

These powers have been modelled on similar legislation, such as the *Commissions of Inquiry Act 1995* and the *Economic Regulator Act 2009*.

Mr Speaker, the Bill provides that the Expert Panel is not subject to Ministerial direction or control.

The Bill does allow the Expert Panel to make arrangements with the Secretary of the Department of Premier and Cabinet to obtain services, facilities and persons to assist in the conduct of the review.

This is a similar arrangement to the proven model that supports other independent bodies such as the Tasmanian Economic Regulator and the Tasmanian Planning Commission.

Mr Speaker, the Bill requires the Expert Panel to prepare a Draft Report in respect of its review and make the Draft Report publicly available.

Interested parties will have the opportunity to make submissions on the Draft Report, which the Expert Panel must consider before it prepares its Final Report.

The Final Report will be provided to the Treasurer and the Minister for Energy, with the former required to arrange for copies of the Panel's Final Report to be tabled in each House of Parliament within two weeks.

This is the standard process for tabling major reports that are commissioned by a Minister of the Crown.

Mr Speaker, the Bill before the House today demonstrates the Government's commitment to ensuring that Tasmania can secure the right balance between a secure and reliable electricity network, sustainable and viable electricity entities and the most affordable electricity prices possible.

It reflects a Government taking action to tackle the major challenges being faced by our State, whilst looking forward to ensure future generations of Tasmanians continue to benefit from a strong, sustainable, and affordable energy sector.

Mr Speaker, I commend the Bill to the House.