

19 March 2012

Mr Shane Donnelly  
Secretary  
Select Committee on the Cost of Living  
Parliament House  
HOBART TAS 7000

Dear Mr Donnelly

**Select Committee on The Cost Of Living**

I refer to your letter of 10 February 2012 in relation to the Select Committee on the Cost of Living, and your invitation to Aurora to make a submission to that Select Committee.

The Terms of Reference of your Committee that are of particular relevance to Aurora, and on which comment is provided, relate to:

- (a) The effectiveness of the current concessions system and related services, including social tariffs;
- (b) Alternative models of planning and service delivery of concessions including the option of 'bundling concessions' through a 'smart card system'; and
- (c) The likely impacts in increased contestability policies on reducing cost of living pressures.

Aurora is proud of the role it plays in administering the electricity concession scheme to holders of Pensioner Concession Cards and Healthcare Cards. It is also justifiably proud of its provision of the Life Support discount which is self-funded by Aurora, noting however, that Aurora's preference is for the Tasmanian Government to take over life support discount funding through a transparent Community Service Obligation (CSO) arrangement. Sections 3 and 4 refer.

In addition, the Hardship Policy, implemented and funded by Aurora, is an important vehicle to enable residential customers who are experiencing difficulty in paying their electricity bills on time and were under risk of disconnection, to access financial counselling, repayment plans and financial support. Section 5 refers.

Finally, Aurora also manages a Bad Debtors and Disconnections Policy that aims primarily to provide support services and case management for customers in crisis. Aurora is of the view that disconnection is a last resort, not an immediate reaction to customer non-payment. Section 6 refers.

The combination of each of these 'arms' of concessions, discounts, financial counselling and alternative re-payment options means that those in society who are most exposed to rising electricity prices are protected and assisted in the most generous ways possible.

*From the Office of the  
Chief Executive Officer*

Aurora Energy Pty Ltd  
ABN 85 082 464 622  
21 Kirksway Place  
GPO Box 191  
Hobart Tasmania 7001  
Telephone: 03 6237 3501  
Facsimile: 03 6237 3396

For these, and other, reasons, Aurora is currently of the view that alternative forms of concession delivery – such as ‘bundling’ concessions – may do little to improve the overall efficiency of the concession system relative to how it now operates. Concessions work most effectively if they are directly apportioned to the utility/impact they are intended to mitigate. A ‘bundled’ concession card may well detract from this objective. Section 7 refers.

Aurora is supportive of Full Retail Competition (FRC) to the extent it delivers clear benefits to consumers. Aurora believes that there are a number of significant issues that need to be addressed to give comfort that all customers will benefit from FRC. These issues include the lack of clarity around the impact of higher standing offer tariffs on low income customers, given the expected higher retail margins and FRC implementation costs, and the possibility that only higher income households with good credit histories will be targeted by new retailers and are the primary beneficiaries of FRC. Section 8 refers.

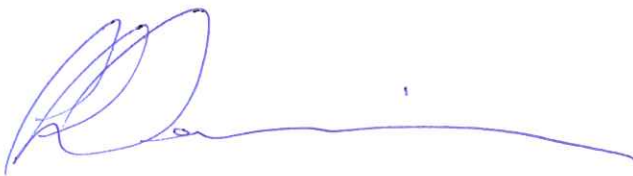
On the overall issue of electricity costs and the impost of electricity expenditures in the overall consumer budget, Aurora has provided a broad over-view of the increase in costs associated with a number of broad ABS expenditure items. This serves to place in context the fact that, although electricity prices have been a key factor in recent cost of living increases, there are other household expenditure items that have also added to this pressure.

In addition, while electricity is a major item of cost for Tasmanian (indeed, all Australian) consumers, it is often the case that the quarterly nature of the bills that consumers receive may tend to overstate the significance of that spending. When considered alongside the average weekly expenditure by consumers, outlays on electricity rank on an equal basis to education and child care costs, clothing and footwear, transport costs and rental expenses. Indeed, Tasmanian consumers actually spend more per week on discretionary goods and services such as gambling, alcohol and tobacco and takeaway foods or the cost of eating out at a restaurant. Section 1 provides more analysis on these issues.

Finally, Aurora believes that its electricity prices compare more than favourably with those available to consumers in other parts of Australia. This fact is supported by the analysis undertaken by the Tasmanian Economic Regulator and under-pinned by the analysis from the Electricity Supply Industry Expert Panel and additional internal research by Aurora. Section 2 refers.

I trust that the information and comment provided by Aurora is of assistance to the Committee.

Yours sincerely



Dr Peter L. Davis  
Chief Executive Officer

## SELECT COMMITTEE ON THE COST OF LIVING

### 1. INTRODUCTION

As a key participant in Tasmania's electricity industry, Aurora Energy is acutely aware of the cost of living pressures being experienced by ordinary Tasmanian families. Electricity price increases are a key contributor to those pressures. However, many other goods and services have also increased in price over the last 12-15 years with some vital services such as hospital and medical costs, and the costs associated with rates and charges, water and sewerage services and urban transport fares all rising well in excess of the Consumer Price Index.

In the following analysis, Aurora has broken up a range of expenditure items into broad categories and examined their rates of increase over the past 15-year period. These categories are:

- (a) Food and non-alcoholic beverages and Clothing and Footwear;
- (b) Housing, Rental and associated dwelling costs;
- (c) Rates and Charges, Utilities costs, Water and Sewerage costs and other household fuels;
- (d) Transport, fuel and public transport fares;
- (e) Communication, postal and insurance services;
- (f) Education and childcare services;
- (g) Medical, hospital, dental and pharmaceutical services;
- (h) Discretionary expenditures:
  - a. Domestic and international travel and recreation, sport and culture;
  - b. Meals out and takeaway food;
  - c. Alcohol and tobacco products.

Each of the categories is compared to the index of electricity costs and the CPI All Groups Index. The resultant Charts are set out in Appendix A to this Paper.

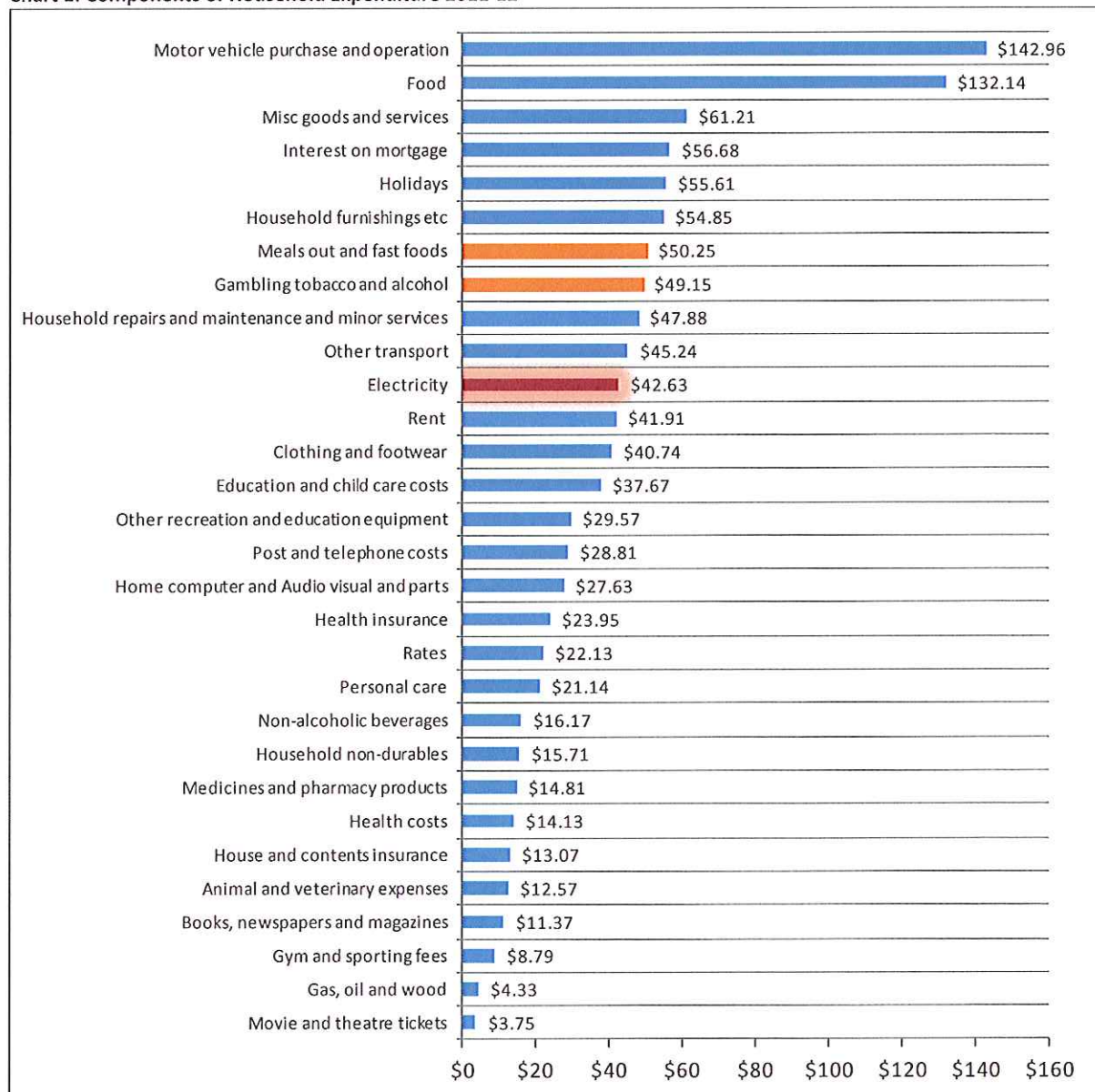
In summary, they indicate that cost pressures above the 'normal' All Groups CPI for Hobart have occurred in a number of expenditure categories:

- i. Basic food and non-alcoholic beverages;
- ii. New housing costs, associated dwelling costs and, in recent years, rental costs;
- iii. Rates and charges, all utilities costs, water and sewerage costs and other household fuels. All these items have increased for the majority of the period at a rate exceeding the increase in electricity costs;
- iv. Urban transport fares and petrol and fuel costs. The latter items have generally exceeded the rate of increase in electricity costs;
- v. Insurance services, which have considerably out-paced the rate of increase in electricity costs;
- vi. Costs associated with the provision of education and, until a few years ago, the costs associated with child care services;
- vii. Medical, hospital and dental services, with dental service costs exceeding the rate of increase in electricity prices, and medical and hospital services increasing at about the same rate as electricity prices; and
- viii. Tobacco products, which have exceeded the rate of increase in electricity costs.

These findings suggest that there have been significant cost pressures in a broad range of both discretionary and non-discretionary expenditure areas that have all contributed to the overall increase in the cost of living. Electricity prices have increased at a rate exceeding most of these items, although the significant upward trend in electricity prices only commenced in 2009.



**Chart 1: Components of Household Expenditure 2011-12**

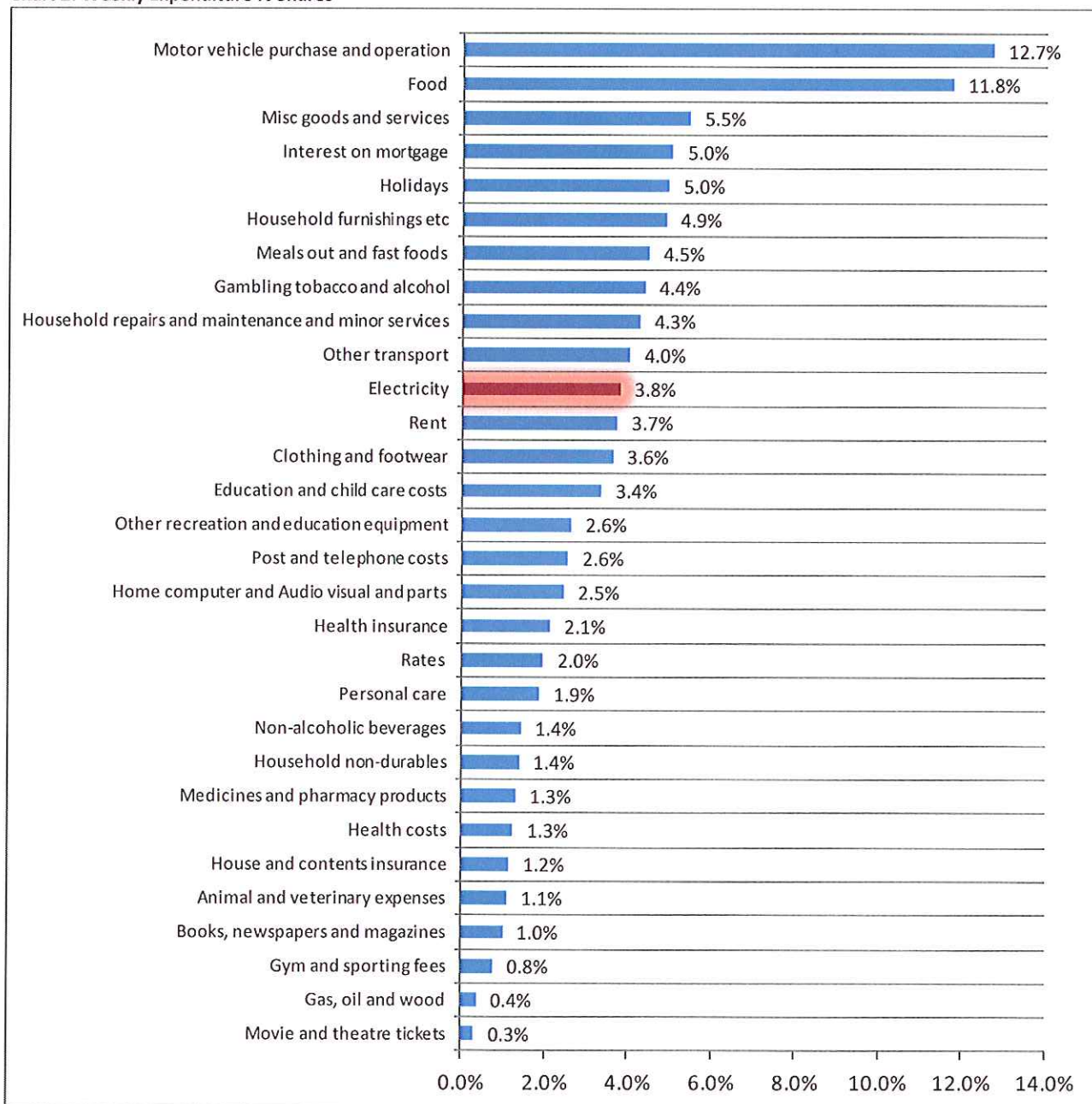


**Source:** ABS Household Expenditure Survey 2009-10 adjusted to 2011-12 values by CPI indexation. Electricity expenditures have been increased by the actual price increase in electricity between 2009-10 and 2011-12. Data has been taken from the detailed Tables available from the ABS.

In addition, while electricity is a major item of cost for Tasmanian (indeed, all Australian) consumers, it is often the case that the quarterly nature of the bills that consumers receive may tend to overstate the significance of that spending. When considered alongside the average weekly expenditure by consumers, outlays on electricity rank on an equal basis to education and child care costs, clothing and footwear, transport costs and rental expenses. Indeed, Tasmanian consumers actually spend more per week on discretionary goods and services such as gambling, alcohol and tobacco and takeaway foods or the cost of eating out at a restaurant. See Chart 1 above.

Electricity costs represent about 3.8 per cent of total weekly expenditure, compared to, say, 4.5 per cent on meals out and fast foods and 4.4 per cent on gambling, tobacco and alcohol. See Chart 2 below.

**Chart 2: Weekly Expenditure % Shares**

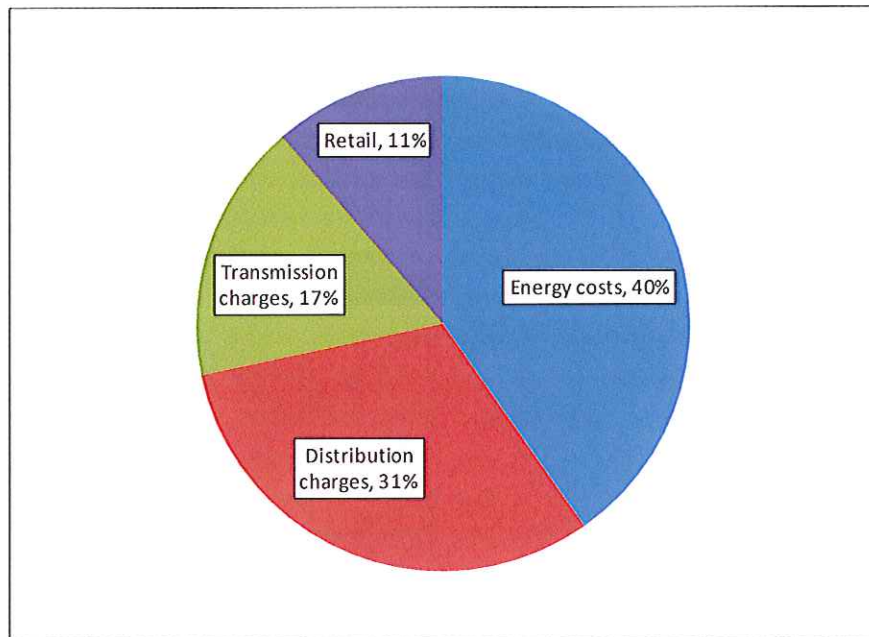


## 2. ELECTRICITY PRICE INCREASES IN TASMANIAN RELATIVE TO THE MAINLAND

It is also important to understand that Aurora does not set electricity prices for residential customers in Tasmania. These are set by State and national regulators. In addition, Aurora only has direct control over about 42 per cent of the costs that comprise a typical electricity bill (retail and distribution). As illustrated in Chart 3, for the average customer on a retail tariff, approximately 40 per cent of the costs are applicable to energy generation, 17 per cent to transmission costs, 31 per cent to the distribution of electricity and 11 per cent to the retailing of electricity<sup>1</sup>.

<sup>1</sup> These numbers are approximate and will vary slightly for each tariff. However, they provide a reasonably accurate indication of the impact that each component has on the average electricity bill. Percentages have been rounded.

Chart 3: Components of average retail tariff

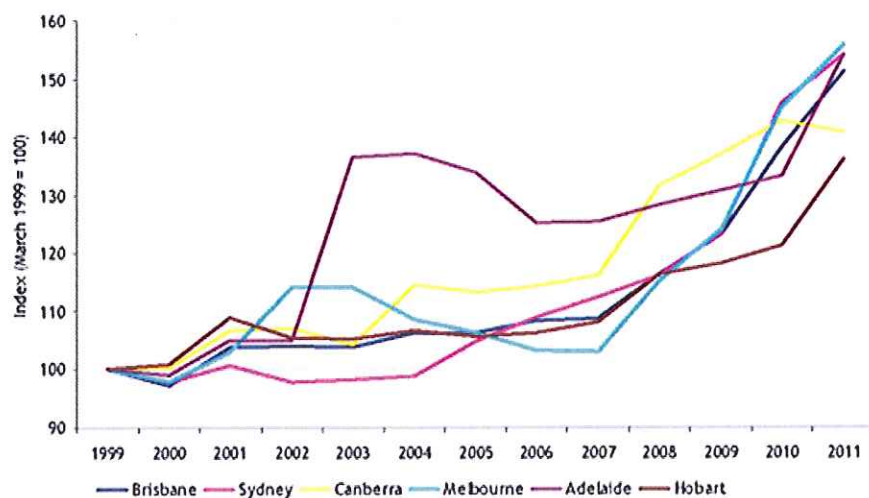


Rising electricity prices are being experienced across all States and Territories, and the price increases being experienced in Tasmania are not out of step with those being experienced elsewhere.

Chart 4 below illustrates the movement in retail tariffs across the six States from 1999 to 2011.

Chart 4: Retail Tariff Index

## Household Electricity Retail Price Index



Source: ABS, Consumer price index, cat. no. 6401.0, various years.

AER AUSTRALIAN ENERGY REGULATOR



A discussion paper published in April 2011 by the Electricity Supply Industry Expert Panel<sup>2</sup> found that electricity cost increases in Tasmania over the 11-year period had delivered pricing outcomes that are 'middle of the pack' when compared with prices in other Australian jurisdictions.

The Expert Panel noted that "while the price rises in Tasmania have been undeniably substantial, they were consistent with or below the rises experienced in Victoria, New South Wales, Queensland and Western Australia, although higher than the price increases that have occurred in South Australia, the Australian Capital Territory and the Northern Territory."

And, "while electricity prices in Tasmania have clearly trended upwards, this trend is consistent with experiences interstate and that, more recently, prices have been increasing at a faster rate in some other states and territories than they have in Tasmania."

In February 2012, the Tasmanian Economic Regulator released its Report that compared standing offer energy prices across Australia<sup>3</sup>.

The Regulator's study found:

- Low consumption electricity customers pay prices that are in the mid to high range of residential prices available in Australia, while low consumption customers eligible for a concession pay prices that are comparable with those available in other states;
- Electricity prices remain in the mid range for customers with average or high consumption, and customers with very high consumption pay prices that are below the national average, although this is largely dependent on the consumption split between various tariffs, such as Hot Water and Light and Power tariffs; and
- Electricity customers entitled to receive a concession pay prices in the mid range of those available in Australia.

Aurora's own internal research (using non-off-peak rates) also confirms that the combination of Aurora's standard Tariff 31 (Light and Power) and 42 (HydroHeat) schedules compare more than favourably with special and discounted offers from retailers in regional areas of Victoria<sup>4</sup>.

Chart 5 below illustrates the average annual electricity cost for an Aurora customer using Tariff 31 and 42 compared to a customer in regional Victoria who has access to a range of discounted offers.<sup>5</sup> An annual usage of 9 500 Kwh is used for the comparison, which generates, for Aurora, the customer's approximate average \$2 200 annual electricity bill.

Chart 5 indicates that, for the 9 500 Kwh consumer, the annual Aurora electricity account would be third lowest in the list of retailers for whom discounted offers are available.

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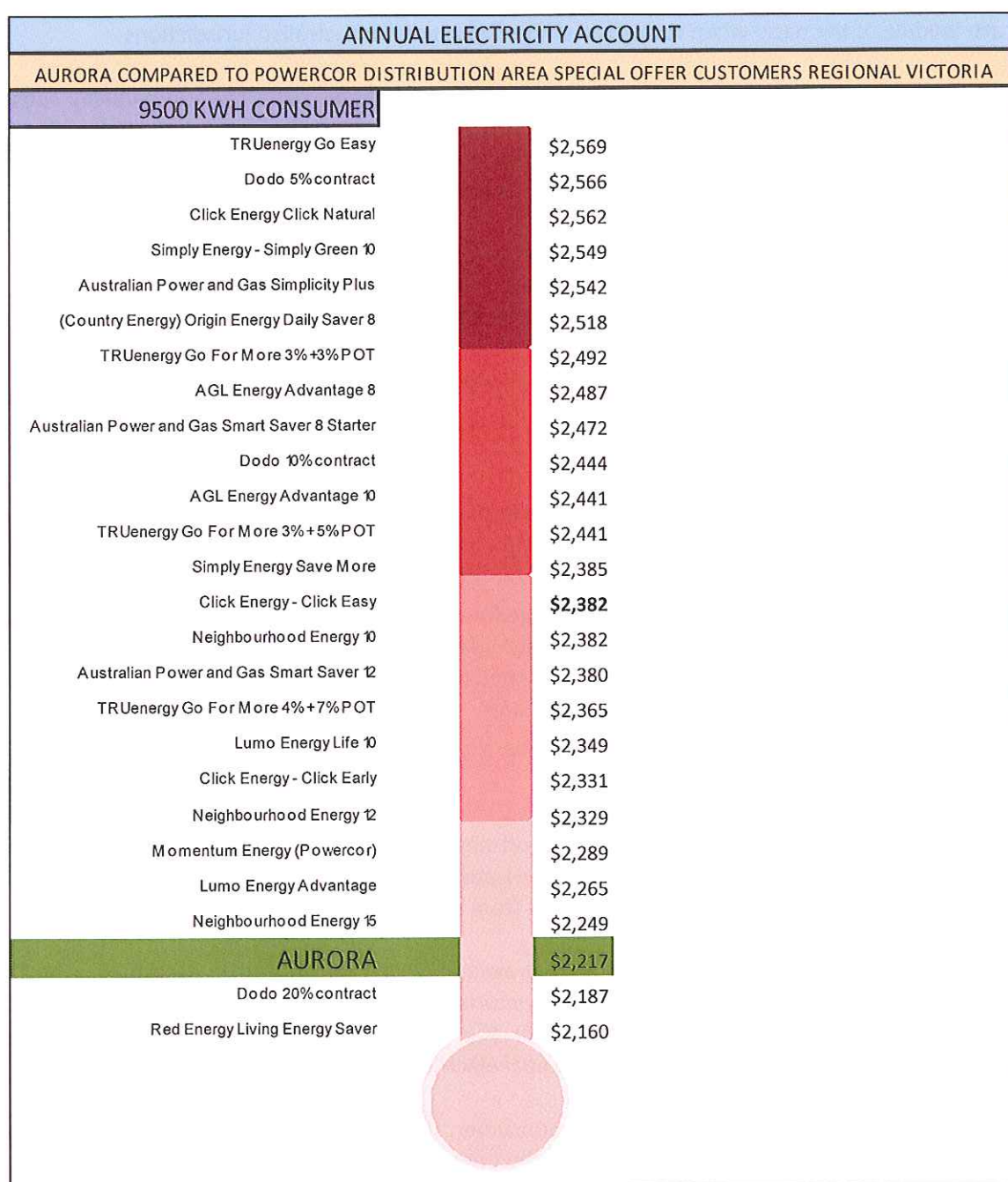
<sup>2</sup> *Tasmanian Electricity Pricing Trends 2000-2011.*

<sup>3</sup> *Comparison of 2012 Standing Offer Energy Prices.* February 2012.

<sup>4</sup> The SP Ausnet distribution area in Victoria was chosen as being the most representative of Tasmania. SP Ausnet distributes in Eastern Victoria across an area of 80 000 square kilometres.

<sup>5</sup> These discounted offers take the form of pay on time discounts, fixed contract terms, use of direct debit facilities, paperless accounts, and payments in advance etc.

Chart 5: Comparison of Aurora with 'special offer' regional Victoria customers in the SP Ausnet distribution area



### 3. ELECTRICITY CONCESSIONS

Under a Community Services Activity Agreement with the Tasmanian Government, Aurora Energy administers a concession scheme to holders of Pensioner Concession Cards and Healthcare Cards, on behalf of the Department of Health and Human Services (DHHS).

The Government reimburses Aurora for the cost of meeting this community service obligation, including any administrative costs involved.

DHHS adjusts the daily concession in line with electricity price increases, and the Government has committed to index these concession levels against actual electricity price increases.



Key statistics regarding the concessions provided on electricity accounts include:

- Since 1 July 2011, eligible customers receive a concession of \$1.117 per day/\$407.70 per annum;
- As at 30 June 2011, 14,067 eligible Healthcare card holders received the concession;
- As at 30 June 2011, 68,919 eligible Pensioner Concession card holders received the concession;
- During 2010/2011 eligible Healthcare card holders received \$4,277,259 and Pensioner Concession Card holders \$22,560,942 (\$26,838,201 in total for the financial year); and
- An additional \$8,318,200 was provided to eligible customers as at 1 September 2010 as a one-off concession of \$100.

In its February 2012 Report, the Tasmanian Economic Regulator examined the range of electricity concessions that were available to Tasmanian consumers, and found that they were amongst the 'most generous' in Australia, with an eligibility that was 'generally broader' than in other States and Territories, with one in three residential customers receiving the all-year concession rebate.

Tasmanian concession customers experience electricity costs that are in the mid-range across Australia at consumption levels that are 50 to 200 per cent of state average consumption. For Tasmanian concession customers with average annual consumption, the concession is estimated to lower the average price to between 18.9 and 20.9 cents per kWh.

Table 1 below compares the range of electricity concessions available by State and Territory.

Table 1: Electricity Concessions in States and Territories

STATE OR TERRITORY	CONCESSION AVAILABLE
Tasmania	111.7 cents per day all year round (from 1 July 2011) up to a maximum of \$407.71 per annum.
Victoria	17.5 per cent discount all year round (from 1 March 2011).
New South Wales	\$200 Low Income Household Rebate (from 1 July 2011) all year round. This will increase to \$235 by 2014.
ACT	Summer rebate of 44.69 cents per day (Nov - May). Winter rebate of 164.34 cents per day (June - Oct) up to a maximum of \$346.20 per annum.
Queensland	Rebate of \$230.46 per annum (from 1 July 2011).
South Australia	Rebate of \$158 per annum.
Western Australia	Rebate on supply charge of 40.14 cents per day.
Northern Territory	\$1.19 per day off the fixed charge, 5.24 c/kWh off consumption charges all year round.

During the past decade, the cost of the Tasmanian Pensioner Concession discounts has totalled almost \$164 million (see Table 2 below). The Expert Panel Report reviewing the Tasmanian energy sector<sup>6</sup> indicated that these funding arrangements have not compromised Aurora's business performance and have had no indirect impact on the prices paid by other customers.

<sup>6</sup> Tasmania's Energy Sector - An Overview - Discussion Paper. April 2011

**Table 2: Cost of Tasmanian Pensioner Electricity Discounts**

Year	Pensioner Discount Costs (\$m)
2001-02	\$ 9.745
2002-03	\$ 13.005
2003-04	\$ 11.319
2004-05	\$ 11.520
2005-06	\$ 11.191
2006-07	\$ 11.775
2007-08	\$ 14.207
2008-09	\$ 22.917
2009-10	\$ 23.151
2010-11	\$ 35.156
<b>TOTAL</b>	<b>\$ 163.986</b>

Note: the 2010-11 figures include the 1 September 2010 one-off concession

It is also worth remembering that the Commonwealth Government will introduce legislation to ensure that pensioners and low and middle income households will get assistance to help manage increases in the cost of living from the carbon price. According to Commonwealth Treasury modelling, households on average will see cost increases of \$9.90 per week, while the average assistance will be \$10.10 per week from direct compensation and tax cuts.

#### **4. LIFE SUPPORT DISCOUNTS/CONCESSIONS**

Aurora Energy customers reliant on life support medical equipment in their homes are granted special reliability conditions to ensure their household electricity supply is treated with a high priority. In addition to these extra supply reliability conditions, a price discount is offered in all states and territories in recognition of the electricity consumed by the various life support machines.

In Tasmania, the Life Support discount is self-funded by Aurora Energy, whereas in all other States the discount is funded by Government.

Aurora acknowledges that the discounts it provides for its life support customers have not kept pace with electricity price increases over recent years and is currently in discussions with the State Government about this issue. Aurora has also been in contact with a number of groups calling for an increase in the value or coverage of the life support electricity discount in Tasmania. Aurora's preference is for the Tasmanian Government to take over life support discount funding through a transparent Community Service Obligation (CSO) arrangement.

It is also worth mentioning that the Australian Government is currently planning to increase payments to people on life support machines in line with the introduction of a carbon price, and has proposed an Essential Medical Equipment Payment of \$140 per year. The wording of the proposal indicates that this payment will be accessible by people currently accessing the Tasmanian life support discount, as well as people with 'thermoregulatory dysfunctions' which would appear to include MS sufferers.

In relation to supply reliability, life support provisions are included in the *Electricity Supply Industry Act 1995*, the *Tasmania Electricity Code* and the *Electricity Supply Industry (Tariff Customers) Regulations 2008*.

These legislative instruments provide special conditions for eligible customers to ensure that life support customers have a high level assurance of supply with limited interruptions. However, there are no regulatory requirements to offer customer discounts on these customers' bills.

Aurora provides and funds life support discounts to 1 885 customers, the majority for positive airways pressure (generally for sleep apnoea) conditions. There are fewer than 100 customers reliant on dialysis machines accessing the discount.

As at late October 2011, the list of approved life support systems in Tasmania and the discounts amounts that apply are as set out in Table 3 below.

Table 3: Aurora Discounts for Life Support Systems

Life Support Machine	Discount per day	Discount per annum
1. Oxygen Concentrator	42.1811¢	\$153.96
2. Peritoneal dialysis machine	31.2958¢	\$114.30
3. Haemo-dialysis machine	31.2958¢	\$114.30
4. Chronic positive pressure & airways regulator	14.9675¢	\$54.63
5. Respirator	55.7880¢	\$203.62
6. OXCP (combine 1 & 4 above)	57.1486¢	\$208.60
7. Phototherapy	79.4888¢	\$ 290.13

## 5. HARSHIP POLICY

In 2004-05, Aurora implemented a Hardship Policy under which residential customers who are experiencing difficulty in paying their electricity bills on time and were under risk of disconnection, are able to access financial counselling, repayment plans and financial support. Aurora has no role in the allocation of funds, with the program being administered by the Salvation Army which distributes the funds either to its own clients or to other welfare bodies.

From 2010-11, \$330,000 will be allocated to the Hardship Policy by Aurora. This allocation will be indexed to increases in electricity prices.

From July 2010 to June 2011, a total of 1 969 payments were made to customer's electricity accounts under the Hardship Policy, with a total value of \$281 435 being made. Aurora also contributes \$14 000 per annum to the Salvation Army to fund the administrative costs associated with the Hardship Policy. Table 4 below indicates that more than \$960 000 has been made in payments under the Hardship Policy since its introduction.

Aurora also underwrites the NILS (No-Interest Loan Scheme) and provides administrative support for this scheme, enabling low-income Tasmanians to purchase essential household essentials, car maintenance, educational essentials, and medical and dental services at no interest.



**Table 4: Payments under Aurora Hardship Policy**

YEAR	No of Payments	Amount
2005-06	857	\$94,461
2006-07	930	\$88,119
2007-08	1069	\$92,541
2008-09	1276	\$134,000
2009-10	2226	\$270,000
2010-11	1969	\$281,435
<b>TOTAL</b>	<b>8327</b>	<b>\$960,556</b>

## **6. BAD DEBTORS AND AURORA'S DISCONNECTION POLICY**

While Aurora has a set concessions policy in relation to electricity costs and benefits for persons using life support machines, supplemented by its Hardship Policy for those in the community who have difficulty meeting their electricity bills (as set out above) Aurora also manages a Disconnections Policy that aims primarily to provide support services and case management for customers in crisis.

As a principle, Aurora regards disconnection as a last resort for those customers who are unable to meet their financial obligations. The following process occurs before disconnection for debt:

- Reminder Notice sent;
- Courtesy call is made;
- Notice of Pending Disconnection sent;
- Hand delivered letter is despatched; and
- Further telephone call to customer day before disconnection is scheduled.

Aurora Energy will always consider a payment arrangement with a customer to assist them to manage their energy bills. Field visits are a key to this approach, with customers being visited personally to advise them of payment options as an alternative to disconnection. In 2011-12, 11,198 Field Visits were carried out.

Payment arrangements include:

- Short term extension of time to pay; and
- A Payment Plan which is a longer term payment arrangement wherein the customer repays a debt over an extended period of time, plus pays for their ongoing consumption for the duration of the plan.

Payment options available to customers include:

- Direct Debit (Debit and Credit Card);
- Centrepay deductions (allowing customers to have deductions taken directly from their Centrelink benefits;
- Bpay;
- Australia Post; and
- Easypay (Bill Smoothing).

In addition, customers in Tasmania have the option of Aurora' Pay-as-You-Go, where customers can prepay for their electricity and use it as it is needed – daily, weekly or monthly. 'Time of use' pricing also allows customers to choose when they wish to use their electricity. They are able to take advantage of different electricity rates at different times of the day, with different pricing combinations for weekdays, weekends and different months of the year.

Disconnection for debt will occur only when all avenues of debt recovery have been exhausted, or where the customer demonstrably refuses to pay their account or enter into a payment arrangement, and/or has received at least two reminder notices and a Field Visit to advise of payment options. In 2010-11 there were 988 disconnections of supply (both residential and business) due to inability to pay.

Aurora also has a commitment with the Tasmanian Economic Regulator in relation to the maximum number of connections that will occur on an annual basis. Current numbers are below that target commitment. In general, the rate of disconnections in Tasmania remains relatively low compared to disconnection rates in other jurisdictions. This is despite the fact that average per capita incomes in Tasmania are lower than in other jurisdictions and interstate electricity accounts are typically smaller (due to lower consumption resulting from a variety of factors including access to gas and milder weather conditions) making them more easily payable<sup>7</sup>.

The introduction of the National Energy Customer Framework from July 2012 will result in the administration of disconnection and hardship policy processes falling under the control and oversight of the Australian Energy Regulator.

#### **7. ALTERNATIVE MODELS OF PLANNING AND SERVICE DELIVERY OF CONCESSIONS INCLUDING 'BUNDLING CONCESSIONS' THROUGH A 'SMART CARD SYSTEM'**

Aurora has not undertaken any specific analysis of the benefits or disadvantages of 'bundling' concessions, defined simply as providing a voucher or 'smart card' for a set amount of concession that could be used where recipients choose.

Aurora is of the general view, however, that any energy concessions should be directly linked to, or represented on, the electricity account at the time of delivery. Concessions should be directly apportioned to the utility/impact they are intended to mitigate. A 'bundled' concession card would detract from this.

Bundling concessions by issuing concession vouchers (or similar cards) that could be applied across various essential services (such as electricity, transport, water and sewerage) could also possibly create hardship and may well undermine the integrity of the concession framework. Direct linkage of concessions, as opposed to a 'bundling' alternative, ensures that there is a proper alignment of concessions and pricing policy to more efficiently achieve government policy objectives for specific concession holders.

Direct linking of concessions to accounts also ensures that concessions can be targeted to particular household needs. On the other hand, concession 'bundling' would tend to transform entitlements into a form of income support that would require concession holders to choose between the various alternative forms of subsidised expenditure to which they have some entitlement.

Finally, Aurora is of the view that 'bundling' concessions will potentially be administratively complicated and inefficient. The application of concessions directly to the relevant accounts is relatively uncomplicated for most households, and ensures that entitlements are directly accessed and recognised by those who are eligible for them.

In expressing these views, Aurora again emphasises that it has not, to date, undertaken any specific research or analysis of the issues associated with this alternative option for planning and service delivery of concessions.

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<sup>7</sup> Comment made by the Expert Panel. See *Tasmania's Energy Sector - An Overview - Discussion Paper*. April 2011. Page 73-74.

## 8. FULL RETAIL COMPETITION

Aurora supports retail competition to the extent it delivers clear benefits to consumers. The Tasmanian Economic Regulator (TER) recognised in its 2008 public benefit test of Full Retail Competition (FRC) that there are FRC implementation costs and aspects of the Tasmanian wholesale energy market that need to be addressed in order to ensure Tasmanians see benefits from FRC.

In particular, the TER noted that the Government should take appropriate steps to ensure that the governance of the wholesale electricity market is conducive to the development of competition, so as to maximise the benefits of FRC, and that the possible negative distributional effects of introducing FRC, particularly transitional price increases for some customers, be appropriately managed by Government.

Of note was the TER's recommendation that:

*"The Tasmanian Government seeks ways to ensure that the governance of the wholesale market is conducive to the development of competition in this sector. At a minimum, this should include a standing terms of reference for an independent review and report on the development of and impediments to competition in the Tasmanian wholesale and retail electricity markets. It may extend to requiring greater transparency in offers of market contracts and inter-regional risk management instruments and other intervention."*

Aurora agrees with the TER that wholesale energy market issues are a key issue that need to be addressed in order to deliver effective retail competition, given that wholesale costs represent 40% of customer prices, compared to much less than 10% for the contestable retail component.

There are also a number of other issues to be considered, including:

- The small size of the Tasmanian market and whether strong retail competition will be established in practice;
- Aurora's cost to serve disadvantages given its small scale versus mainland competitors and the possible impacts on shareholder value;
- Aurora's need to be responsive to shareholder expectations in terms of how Aurora operates and the services that are provided;
- The impact of higher standing offer tariffs on low income customers, given the expected higher retail margins and FRC implementation costs; and
- The possibility that only higher income households with good credit histories will be targeted by retailers and be the primary beneficiaries of FRC.

Aurora again emphasises it does not oppose FRC but is seeking to highlight that there are a number of significant issues that need to be addressed to give comfort that all customers will benefit from FRC.

Naturally, the Expert Panel has considered these and other related issues in its Draft Report. It is clear that the Panel has a strongly held view that FRC will deliver benefits to customers overall, largely through dynamic efficiency gains.

Aurora agrees strongly with the Expert Panel view that the introduction of FRC in isolation is highly unlikely to deliver benefits to customers. For FRC to be effective, it is essential that there is wholesale market reform and that the financial viability of the Tamar Valley Power Station is addressed as a priority reform.



Aurora believes that there is a need to manage customer expectations regarding the price benefit of FRC. Indeed, the Expert Panel notes that a higher risk margin under FRC may have an upward impact on prices. Aurora remains concerned that the introduction of FRC alone (without wholesale market reform) may have unintended price consequences for Tasmanian consumers, particularly low income households.

The Panel also notes that the retail component is only a small component of electricity bills and has been smallest contributor to electricity price increases since 2000.

By far the biggest benefit to customer prices will come from changing the market and regulatory arrangements for wholesale energy. The price reductions identified by the Panel for non-contestable customers (5 – 10 per cent) are driven by changes to the Long Run Marginal Cost energy allowance calculation, not by FRC itself. Further, while customers may be relatively better off, they may see no headline pricing benefit with potential benefits offset by carbon costs, renewable energy certificate costs and other factors.

In the interim, Tasmanian households continue to enjoy the protection of electricity tariffs that are set by an independent Regulator. In fact, under the *Electricity Supply Industry Act 1995*, one of the Regulator's objectives is to 'protect the interests of consumers of electricity'.

A comprehensive legislative framework has also been developed to protect consumers. This ensures minimum standards of service and reliability and the determination of the setting of the maximum prices. Under the legislation, retailers are required to prepare standard customer contracts for the supply of electricity which identify the level of service and standards of supply a customer can expect to receive.

These contracts (standard tariff agreements) are legally enforceable and must first be approved by the Regulator. Contracts are supported by customer charters, which are also approved by the Regulator, providing guarantees of performance.

In addition, the *Energy Ombudsman Act 1998* provides that the Ombudsman receives, investigates and resolves complaints concerning any service of, or relating to the sale and supply of electricity and gas by, an electricity or gas entity.

Further information on this framework and associated matters is available on the Regulator's website.

## ATTACHMENT A

CHARTS OF PRICE MOVEMENTS OF VARIOUS ITEMS COMPARED TO ALL GROUPS CPI AND  
ELECTRICITY PRICES

INDEX = 100 AS AT JUNE QUARTER 1998

(Except for New Dwelling Costs, Water and Sewerage Costs and Property Rates and Charges which  
are indexed at 100 as from March quarter 1999)

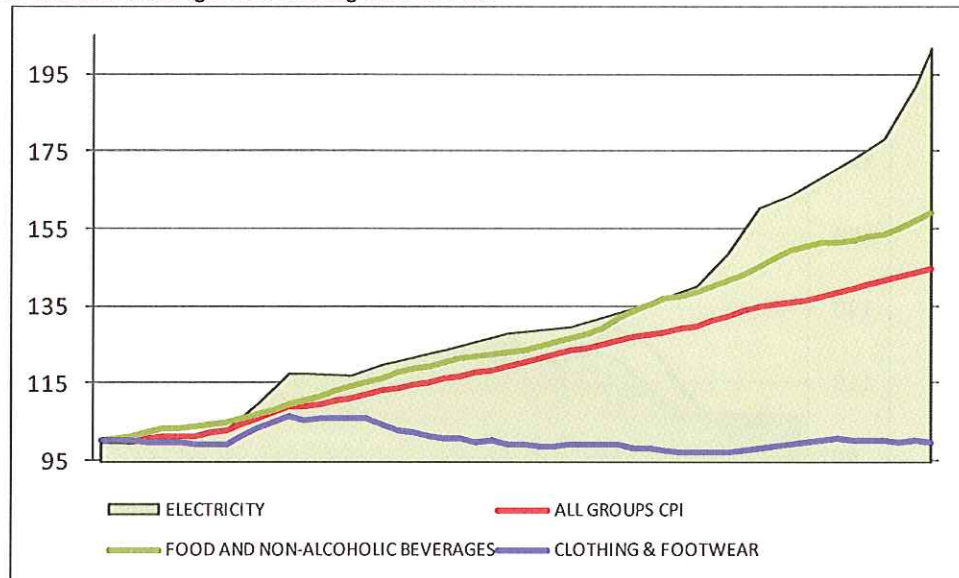
DATA EXPRESSED AS 4-QUARTER MOVING AVERAGES

DATA PERIOD EXTENDS FROM SEPTEMBER QUARTER 1997 TO SEPTEMBER QUARTER 2011

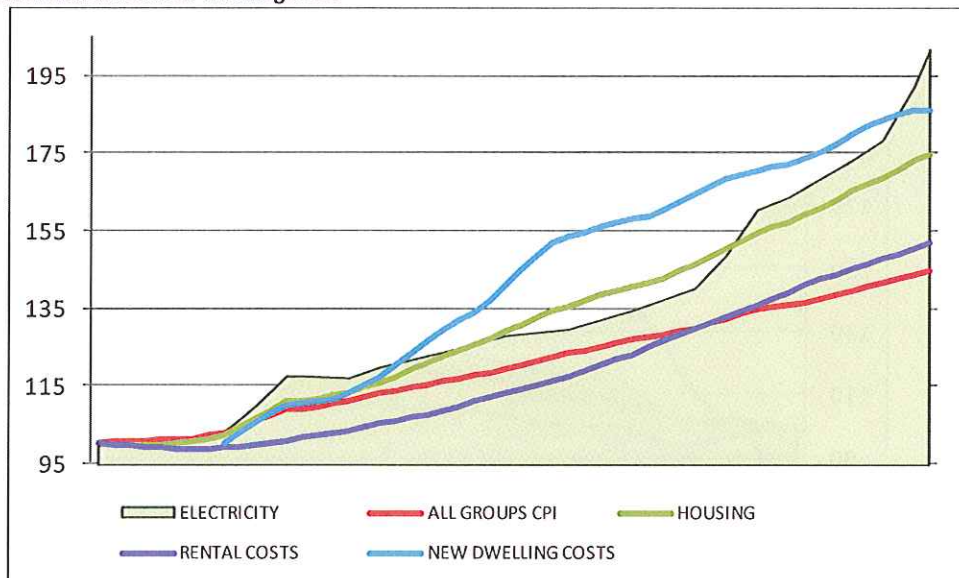
(Except for New Dwelling Costs, Water and Sewerage Costs and Property Rates and Charges which  
are from June quarter 1998)

- Food and non-alcoholic beverages and Clothing and Footwear;
- Housing, Rental and associated dwelling costs;
- Rates and Charges, Utilities costs, Water and Sewerage costs and other household fuels;
- Transport, fuel and public transport fares;
- Communication, postal and insurance services;
- Education and childcare services;
- Medical, hospital, dental and pharmaceutical services;
- Domestic and international travel and recreation, sport and culture;
- Meals out and takeaway food AND alcohol and tobacco products.

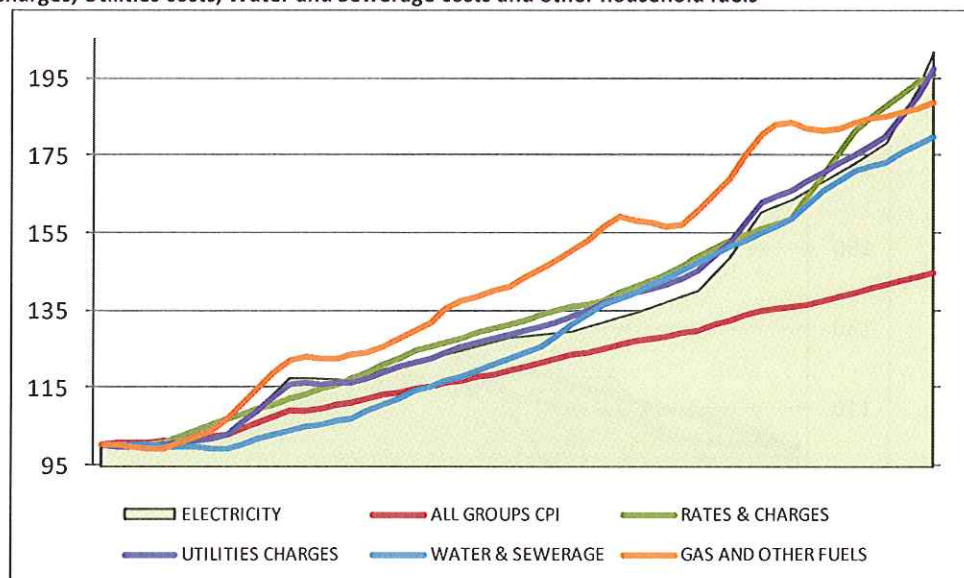
### Food and non-alcoholic beverages and Clothing and Footwear



### Housing, Rental and associated dwelling costs

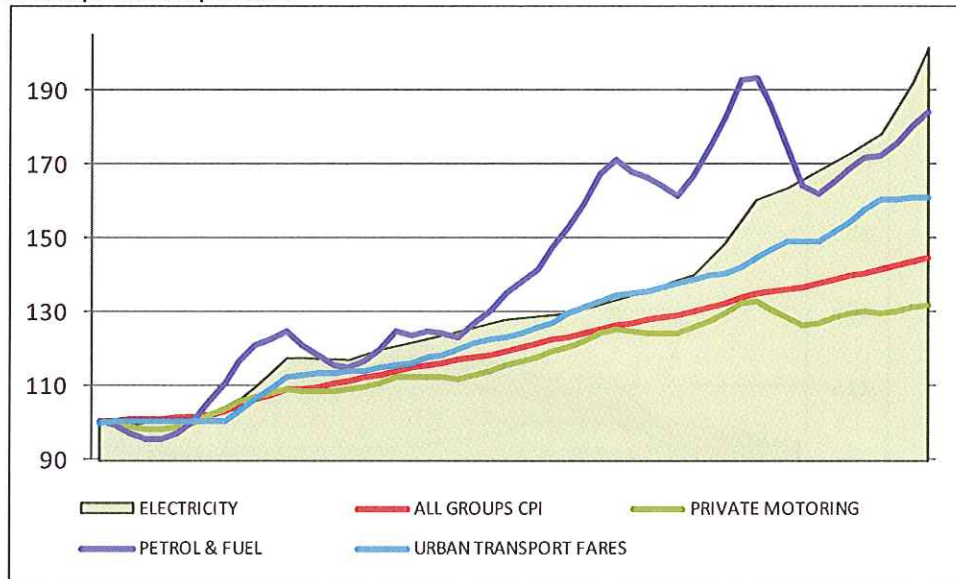


### Rates and Charges, Utilities costs, Water and Sewerage costs and other household fuels

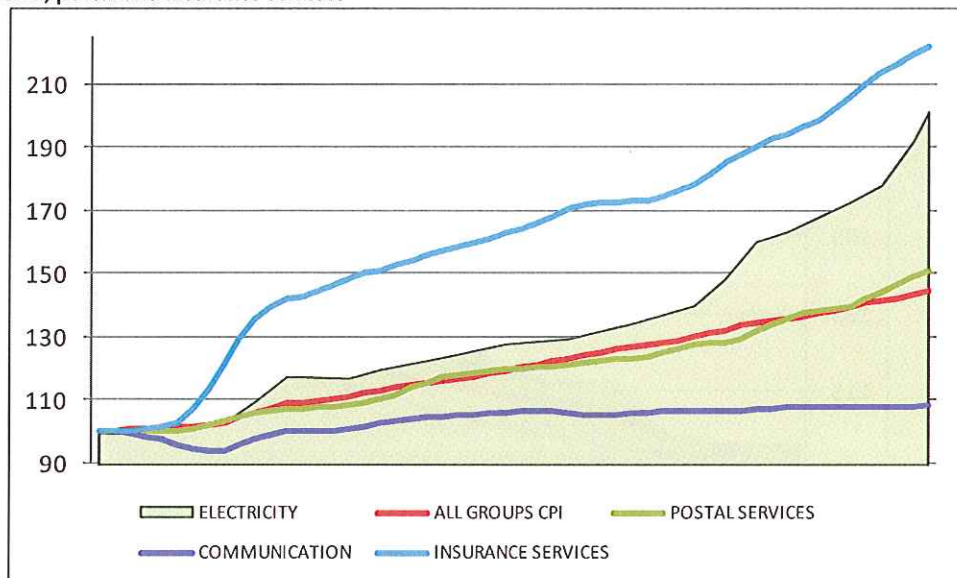




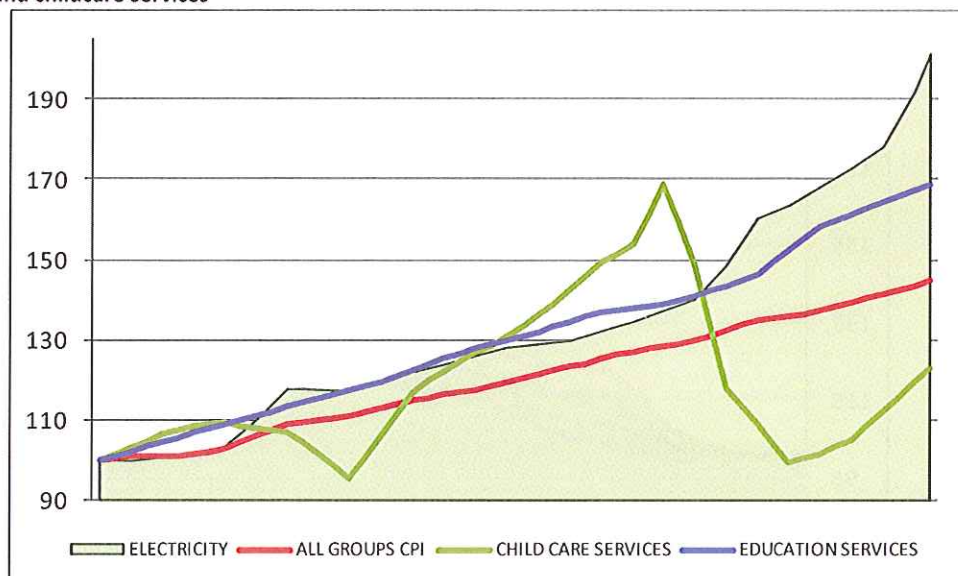
### Transport, fuel and public transport fares



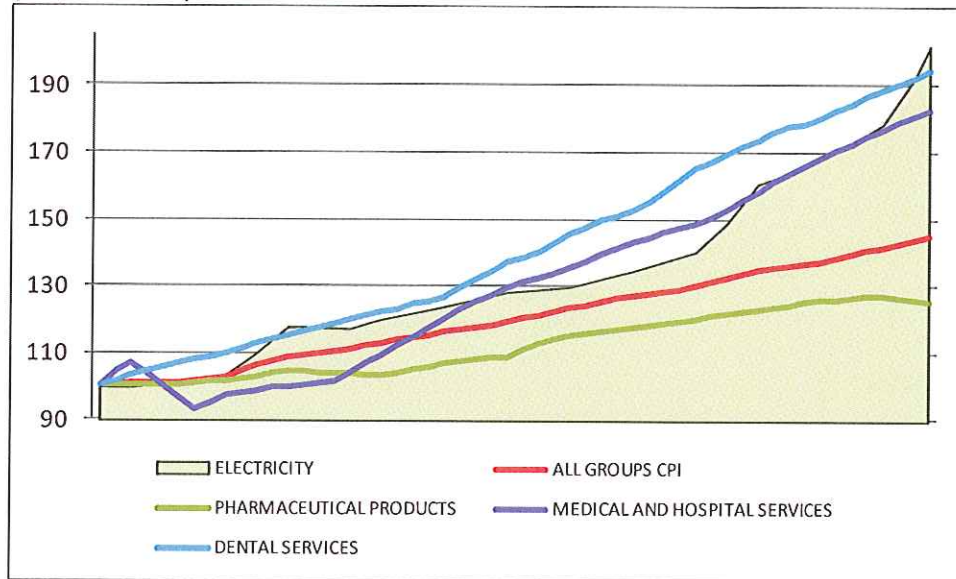
### Communication, postal and insurance services



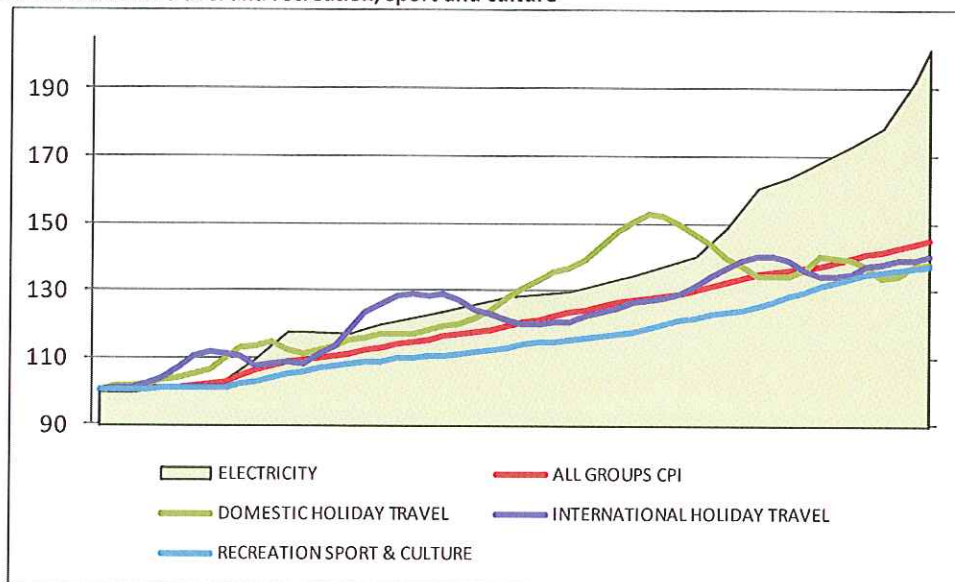
### Education and childcare services



### Medical, hospital, dental and pharmaceutical services



### Domestic and international travel and recreation, sport and culture



### Meals out and takeaway food AND alcohol and tobacco products.

