

## **DRAFT SECOND READING SPEECH**

**HON. PETER GUTWEIN MP**

### ***Electricity Supply Industry Amendment (Pricing) Bill 2017***

*\*check Hansard for delivery\**

Madam Speaker, on 29 May 2005 Tasmania joined the National Electricity Market (NEM) with the State becoming physically connected to the mainland through Basslink in April of the following year. This was a key moment for the Tasmanian electrical system that was developed over decades through policy decisions by successive Tasmanian Governments.

Over recent years the Hodgman Liberal Government has focussed on ensuring that the significant investment by past generations into our State owned energy assets delivers positive and enduring outcomes for current and future generations of Tasmanians through its Energy Strategy.

The Energy Strategy seeks to achieve the following three high level goals in the short to medium term:

- making energy work for people;
- reducing the cost of delivering energy; and
- positioning Tasmania for the future.

At the very heart of the Strategy is a recognition that energy must once again work to the advantage of the Tasmanian people.

In developing the Tasmanian Energy Strategy the Government's vision was to restore energy as a competitive advantage for Tasmania by:

- delivering affordable energy at competitive and predictable prices that are amongst the lowest in Australia;
- empowering consumer choice;
- ensuring an efficient energy sector that is customer focussed;
- utilising energy to facilitate State growth; and
- maximising Tasmania's renewable energy opportunities.

Members would be well aware that the Tasmanian electricity system has been tested over recent times especially through the Basslink outage in concert with the driest spring on record that occurred last year.

However, decisive action by the Hodgman Liberal Government through the Energy Supply Plan ensured that the lights remained on and Tasmania remained open for business.

Having successfully maintained energy security in the State, we are now faced with a new set of wider market factors that are combining to push electricity prices higher across all NEM jurisdictions.

These wider market factors are outside the control of the Tasmanian Government but, as Tasmania is part of the NEM, they are placing upwards pressure on Tasmanian electricity prices under the current regulatory settings.

More specifically over recent times the closure of the Hazelwood Power Station in Victoria and issues related to the reliability of electricity supply in South Australia have combined to drive wholesale spot prices to historically high levels since the beginning of 2017.

Madam Speaker, under the model established by the former Labor- Green government Tasmania's electricity prices are based on prevailing electricity prices in Victoria. Due to Tasmania's physical and market based connection to the NEM through Basslink, Tasmanian wholesale spot prices have been forced higher as they mirror the market volatility exhibited within mainland NEM jurisdictions. It has become obvious over recent months that a serious flaw exists in this framework as households and businesses across Tasmania cannot be insulated from this volatility in wholesale electricity prices under the current regulatory framework.

The Government has been advised that price increases of up to 15 per cent are likely to occur for residential and small business customers on regulated tariffs from 1 July unless action is taken.

These increases are being felt by households and businesses across the country as evidenced by a recent draft price determination in the ACT which indicated about an 11 per cent price increase for average households.

While Tasmanian wholesale spot prices have increased considerably, the actual cost of generating electricity in Tasmania has not increased to the same extent.

Madam Speaker, the Government does not consider it appropriate that Tasmanian electricity customers should be impacted by higher prices resulting from our direct linkage to the Victorian wholesale price which is increasing as a result of factors that are outside of the State's control.

Accordingly, the Hodgman Liberal Government is taking decisive action to cushion the impacts of increasing electricity prices on regulated residential and small business customers.

Given the retail landscape in the State, the Government is moving decisively today to deal with this challenge for regulated customers - households and small businesses.

It is not known how long the current market issues will continue and for how long direct action needs to be taken by the Tasmanian Government. Therefore the mechanisms we are adopting are flexible and can be adapted as market circumstances warrant.

We understand that those customers who contract directly with retailers such as medium sized commercial and industrial customers also face challenges and the Government has with Hydro recently announced a price decrease for these larger customers and we are currently considering options to limit the impact on those customers who have already entered into contracts from the 1<sup>st</sup> of January this year as well.

Madam Speaker, the Bill before the House amends the *Electricity Supply Industry Act 1995* to protect regulated residential and small business customers from electricity price volatility from 2017-18.

The *Electricity Supply Industry Amendment (Pricing) Bill 2017* provides for an alternative method and process to be used by the Tasmanian Economic Regulator in setting regulated standing offer

tariffs each financial year. The amendments will allow the Treasurer, to determine an alternative wholesale electricity price if it is deemed that current market based processes will deliver unsustainable increases to regulated tariffs.

Under the current framework, the Regulator makes a price determination which sets a notional maximum revenue for Aurora Energy. In setting the maximum revenue the Regulator includes various costs including generation, transmission, distribution and retail costs in sending electricity from the power station to homes and businesses.

The Regulator totals these costs to produce the maximum revenue that the retailer should receive from customers. Once this is done, Aurora Energy translates this into the prices it charges for the 12 month period beginning 1 July each year.

The amendments contained within the Bill do not fundamentally change this process. Rather, it enables the setting of a wholesale energy price by Ministerial Order which will override the normal wholesale energy price calculated from the current Wholesale Contract Regulatory Instrument.

The Instrument ordinarily calculates a notional Tasmanian wholesale electricity price by using Victorian wholesale prices as a base then adjusting them to reflect Tasmanian demand and supply conditions, but the Bill amendments will merely allow the electricity price published in the Ministerial Order to override prices calculated under the Instrument as part of the Regulator's calculation of maximum revenue.

By setting the wholesale energy price, the Government can ensure that increases in regulated tariffs are more appropriate in the Tasmanian context. This will translate into lower and more manageable electricity price growth for regulated Tasmanian customers.

Wholesale electricity prices have steadily increased over recent times, but prices experienced a sharp upward trend from the beginning of 2017 as peak summer demand in mainland jurisdictions drove wholesale spot prices upwards.

Current forward Victorian wholesale prices are around \$115 MWh for 2017-18 but prices for 2019-20 fall to about \$85 MWh. This indicates that market participants expect supply and demand pressures in the NEM to ease over time.

It is not known at present, what alternative wholesale electricity price will be published within the Ministerial Order as a number of components that make up the final price are still to be determined. However, it is the Government's intention to keep regulated electricity prices low. Since the election regulated power prices have fallen by 2.4 per cent and we will be targeting an average price increase for 2017-18 of around 2 per cent, consistent with the current Consumer Price Index.

The amendments within the proposed Bill provide that if a Ministerial Order is issued to provide an alternative wholesale electricity price then Aurora Energy and Hydro Tasmania will enter into contracts at that published price for the regulated load. This will ensure that the publication of an alternative, lower wholesale electricity price will flow through to benefit regulated customers.

This outcome will have no impact on Aurora Energy as it will simply purchase cheaper electricity from Hydro Tasmania and pass it through to customers. There is also expected to be no impact

on Hydro Tasmania as it will continue to operate profitably given that it will still receive a reasonable price for its generated electricity.

The reduced revenue experienced by Hydro Tasmania by not charging the market based wholesale price is an opportunity benefit foregone that would have been at the cost of Tasmanian consumers and the massively increased wholesale prices currently on offer were not factored into the businesses forward forecasts.

Madam Speaker, the passage of this Bill is time critical in order to avoid unsustainable electricity price growth for the 2017-18 financial year. In order to ensure a WEP Order can be made that takes effect for the 2017-18 financial year, the Bill will need to be passed by both Houses of Parliament before the end of May 2017.

This is necessary in order to provide sufficient time for the Tasmanian Economic Regulator to finalise and approve lower regulated tariffs to apply from 1 July 2017.

It should also be noted that the final decision released last week by the Australian Energy Regulator on TasNetworks' distribution determination will also result in a reduction in network charges and this will flow through to electricity bills for customers. This outcome will be incorporated into the Tasmanian Economic Regulator's decision on regulated tariffs.

Madam Speaker, despite the introduction of this legislation to reduce price impacts for regulated electricity customers, and the current consideration by the Government on how best to mitigate the impacts for unregulated business customers, questions still remain as to the appropriateness and effectiveness of the current Tasmanian Wholesale Regulatory Framework that seeks to mirror the market movements of the wholesale electricity contract market in the NEM.

While historically, there have been sound economic and financial arguments behind the current settings used within the Framework questions have arisen as to whether it is operating as expected given current volatility, and whether there may be potential for improvements to be made to better reflect the Tasmanian cost of generation.

Madam Speaker, to establish the facts around these questions I have asked the Department of Treasury and Finance to undertake a review of the current wholesale regulatory framework, to be completed during the 2017-18 financial year.

Due to the nature of this review wide-ranging consultation will be required with all key stakeholders, including market participants and regulatory bodies. Following consideration of the review, the Government will consider reform options.

Madam Speaker, the Hodgman Liberal Government is committed to its energy strategy and to ensure that electricity prices are affordable and amongst the lowest in the country. This is why we are taking the steps I have just outlined.

I am sure all Members will be supportive of our intention to minimise any electricity price rises for Tasmanian electricity consumers.

Madam Speaker, I commend the Bill to the House.