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Tasmanian Government

Hon Ruth Forrest MLC
Chair
epr@parliament.tas.gov.au

Dear Ms Forrest

I refer to your letter of 28 August 2023, in which you invited the former Minister for Energy and Renewables to provide a written submission to the Inquiry into Energy Prices in Tasmania being undertaken by the Legislative Council Sessional Committee Government Administration 'A'.

Please find enclosed a submission on behalf of the Tasmanian Government which addresses the Inquiry's Terms of Reference.

I would like to draw your attention to an additional matter. The Tasmanian Economic Regulator is expected to release an updated price comparison report in the very near future. This report addresses issues that are directly relevant to the Committee's Terms of Reference. Once this report is available, the Government will review its submission, in light of the updated information, and may provide an update to the Committee if considered appropriate.

Yours sincerely

Hon Nick Duigan MLC
Minister for Energy and Renewables

Encl
Tasmanian Government Submission to Inquiry into Energy Prices in Tasmania 2023

Legislative Council Sessional Committee
Government Administration A

Inquiry into Energy Prices in Tasmania

Tasmanian Government Submission

October 2023

1. Introduction

Legislative Council Committee A resolved on 23 August 2023 to establish an inquiry into energy prices with the following terms of reference:

> *1. Factors that impact energy prices for Tasmanian household and small and medium business customers, with particular reference to energy generation, distribution and retail costs;*
>
> *2. Opportunities and challenges for the State of Tasmania as owners of power generation and transmission infrastructure; and*
>
> *3. Any other matters incidental thereto.*

This paper represents the Tasmanian Government's submission to this inquiry, which addresses Terms of Reference 1 and 2.

It is noted that there is a significant amount of publicly available information in relation to the issue of electricity prices in Tasmania. In particular, the Office of the Tasmanian Economic Regulator publishes a range of relevant documents which are available at www.economicregulator.tas.gov.au/electricity.

Similarly, national regulatory bodies, including the Australian Energy Regulator, Australian Energy Market Commission and Australian Energy Market Operator also publish a range of relevant documents.

This submission is therefore intended to provide a high-level overview of the factors that impact energy prices for Tasmanian household and small business customers, with particular reference to energy generation, transmission, distribution and retail costs. This includes:

- the recent history of electricity prices in Tasmania, including a comparison with interstate jurisdictions;
- concessions and other assistance available to households and businesses; and
- an outline of the components that determine electricity prices.

This submission also provides a high-level overview of the opportunities and challenges for the State as an owner and operator of power generation and transmission infrastructure in response to the second part of the Inquiry's Terms of Reference.

This submission does not address gas pricing in the Tasmanian market, given that gas represents a very small proportion of total energy usage in Tasmania.

2. Background

Energy is an essential service, that impacts all Tasmanian households and businesses. The Government continues to be committed to maintaining the lowest sustainable electricity prices for Tasmanians. The Tasmanian Government also remains committed to the goal of having the lowest regulated energy prices in Australia.

The Government is also committed to mitigating the impact of electricity prices on those most in need in the community through long established concessions and other short-term support. The 2023-24 Tasmanian State Budget provides $216.1 million in electricity concessions across the Budget and Forward Estimates and a further $45.4 million on Energy Bill Relief. In addition, the Australian Government will match the support from the State, bringing the total level of assistance to households and small businesses to around $90 million. Further information on this support is provided in section 4.

Energy markets are complex and are influenced by a wide range of factors.

In addition to local factors that can influence prices over the short and long term, Tasmania is part of the National Electricity Market (NEM) and subject to developments that are occurring across the country and, for that matter, globally. These developments offer both challenges and opportunities for Tasmania.

In recent years, customer costs across the NEM have increased at a faster rate than anticipated, largely due to the short-term impact from the war in Ukraine and the flow on effects that has had on coal and gas markets. Other seasonal factors and plant availability issues also played a part. However, wholesale forward prices have moderated since they peaked in October 2022.

The *Energy in Tasmania Report 2021-22* issued by the Tasmanian Economic Regulator and available at https://www.economicregulator.tas.gov.au/electricity/reports/performance-reporting provides, among other things, a comprehensive overview of Tasmania's electricity supply industry and a summary of NEM activity for the Tasmanian region. The 2022-23 Report, which will provide more up-to-date data, is expected to be published in early 2024. It is not intended to duplicate that information in this submission.

3. History of recent electricity price movements

As noted above, energy is an essential service that impacts all Tasmanian households and businesses. Given this, concerns relating to electricity prices are not a new issue, and a range of reviews and investigations have been undertaken over time.

Most recently, the Electricity Supply Industry Expert Panel was established in late 2010 under the Electricity Supply Industry Expert Panel Act 2010 to respond to a range of concerns in the electricity sector at the time. Term of Reference 2 required the panel to investigate and report on "the primary factors that have driven recent price increases in non-contestable electricity prices in Tasmania including the impact of major development decisions".

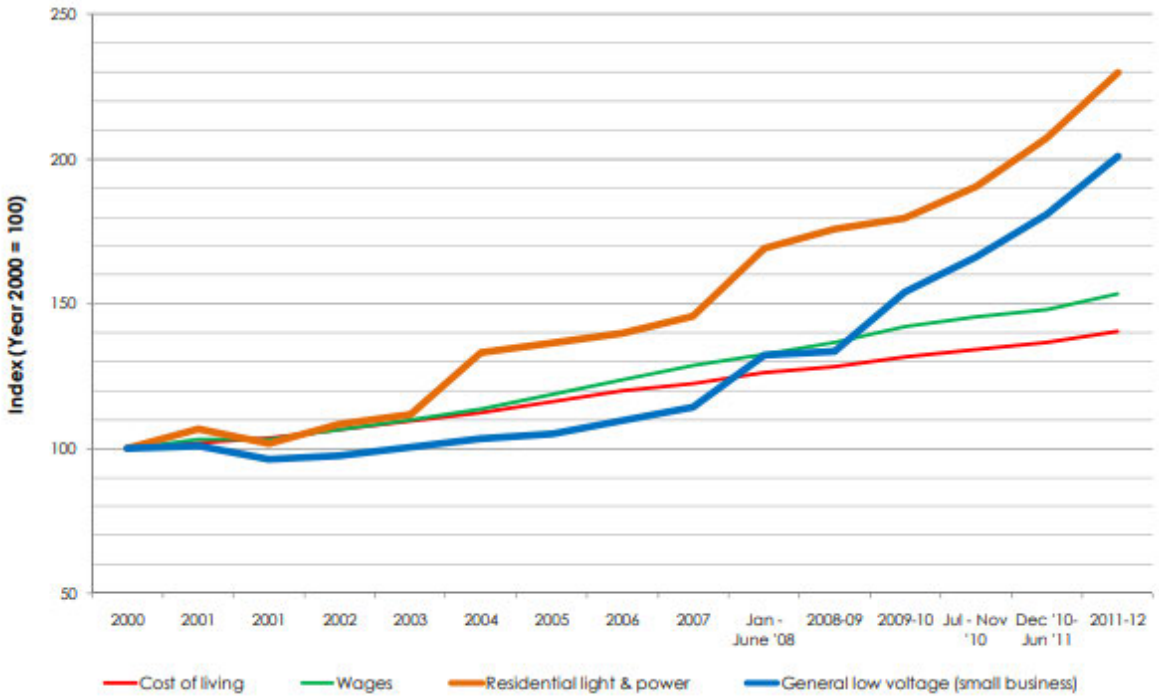
The Final Report issued by the Panel in March 2012, entitled *An Independent Review of the Tasmanian Electricity Supply Industry* indicated that, at that time:

- non-contestable customer prices had more than doubled since 2000 in nominal terms;

- this included increases in the variable component of the general light and power tariff of 130 per cent, rising from 10.935 cents per kWh in 2000 to 25.132 cents in 2012. Over the same period the 'Hydro Heat' combined hot water and space heating tariff had increased from 7.078 cents per kWh to 15.157 cents per kWh, an increase of 114 per cent;
- prices paid by small business customers increased to a lesser extent than prices paid by residential customers, with the general low voltage tariff paid by small businesses increasing by 101 per cent in nominal terms;
- in the period 2000 to 2011, the price of a single kilowatt hour of electricity increased on average by just over 7 per cent each year in nominal terms for residential customers and 6 per cent for small business customers;
- about half of the price increases had been due to costs incurred in running the transmission and distribution networks, with about 40 per cent driven by the wholesale price of energy;
- price rises were broadly consistent with increases experienced across Australia;
- electricity prices, in the absence of intervention, were expected to increase into the foreseeable future, although at the time, carbon pricing was expected to be a new driver.

The changes in non-contestable electricity prices over that period are shown below[1].

Chart 1 - Changes in electricity prices (nominal), wages and the cost of living

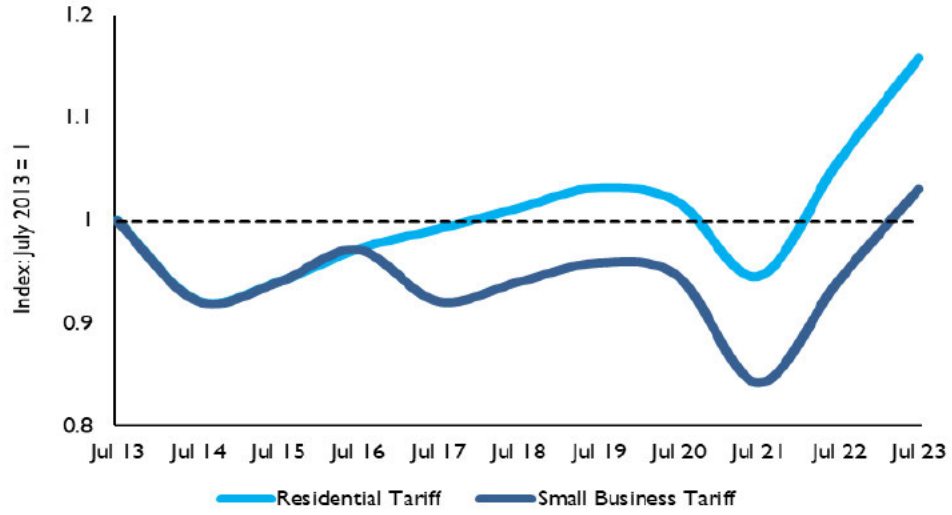


[1] Electricity Supply Industry Expert Panel, *An Independent Review of the Tasmanian Electricity Supply Industry Final Report Volume 1,* March 2012, p. 162

A number of major reforms were introduced in response to the Expert Panel's final report which was tabled in Parliament on 29 March 2012. As part of these comprehensive reforms, the current wholesale regulatory framework was introduced. This is discussed further in Section 5.

Since the implementation of these reforms, electricity prices for households and small businesses have been relatively stable with either negative or moderate increases each year between 2013 to 2021, as shown in Chart 2.

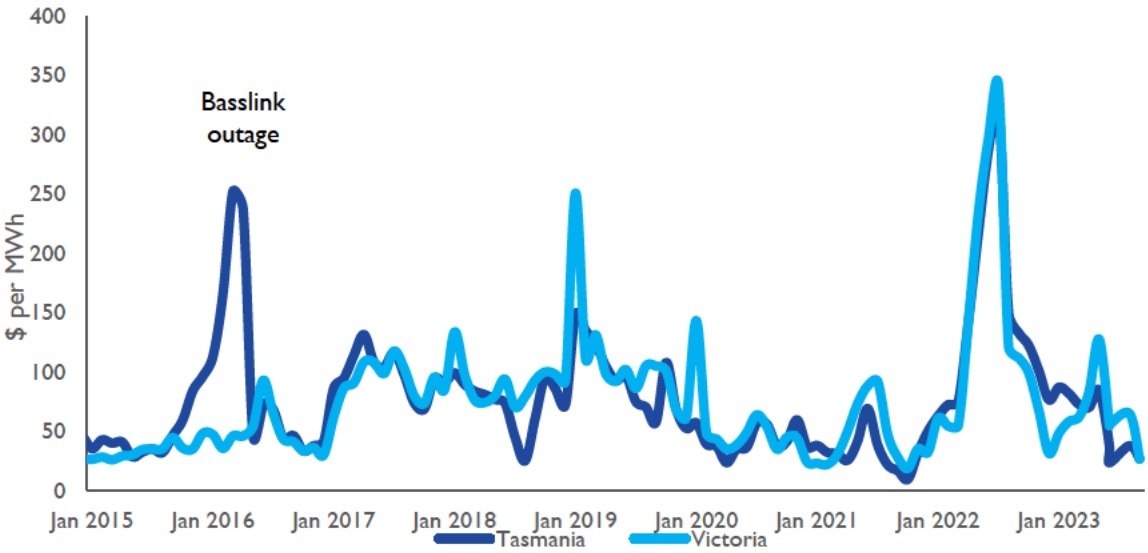
Chart 2 - Electricity Prices from 2013 to 2023



In more recent times, a number of temporary factors have driven higher wholesale prices, including high coal and gas commodity prices arising as a result of the war in Ukraine, seasonal factors and plant availability. While there are long term underlying factors at play, including the transition to a greater reliance on renewables over time, some of the most substantial drivers of recent price increases have moderated.

This impact is shown in the following chart.

Chart 3 - Tasmanian Average Monthly Wholesale Electricity Spot Price ($ per MWh) - January 2015 to September 2023



As shown above, Tasmanian spot prices closely resemble Victorian prices. Forward prices have also fallen, with Victorian annual contracts covering the period from 2024 to 2026 available on 3 October 2023 for between $71 and $75 per MWh[2]. This can be compared to Victorian forward contracts for calendar 2023, which were priced at $188 per MWh at the height of last year's market volatility.

It is acknowledged that this recent variability has impacted electricity prices in Tasmania in the past two years.

The Economic Regulator released regulated prices for 2023-24 on 21 June 2023 with standing offer prices to increase, on average, by 9.51 per cent for residential and small business customers on mainland Tasmania. At the time, the Regulator indicated that increases had "been driven by external factors, particularly wholesale electricity costs which are 24.8 per cent higher in 2022-23 and account for more than 8 percentage points of the 9.51 per cent increase".

The approved prices are expected to increase the annual bill for residential customers with median usage by around $199 - $201, depending on the tariff. For a concession customer on T31/41, the increase was expected to be in the order of $187. For business customers, this increase was expected to range from around $126 - $284, depending on their tariff.

In comparison, the Australian Energy Regulator approved increases of between 19.6 per cent and 24.9 per cent for residential customers in South Australia, New South Wales and Southeast Queensland[3], whilst the Essential Services Commission approved an increase of between 22 and 27 per cent for residential customers in Victoria[4].

Further information in relation to the Regulator's approval of Standing Offer Prices for 2023-24 is available at www.economicregulator.tas.gov.au/electricity/pricing/retail/pricing-approvals.

In addition the Regulator releases a price comparison report each year entitled, *Comparison of Electricity and Gas Prices Available to Small Customers in Australia*, which is available at www.economicregulator.tas.gov.au/electricity/reports/price-comparisons/standing-offer-price-comparison-reports.

In the report, the Regulator compares regulated and unregulated electricity and gas offers in Tasmania against prices offered in other Australian states and territories. The most recent report was released in October 2022 following the price reset for the 2022-23 financial year. This report found that Aurora's standing offer for residential customers was lower than the regulated offers in all jurisdictions except for some offers in Victoria and one offer in Queensland.

A further report with updated comparisons will be released in October 2023.

In addition, and notwithstanding the recent increases, Chart 4 demonstrates that since July 2013, the Hobart CPI has increased by approximately 32 per cent in nominal terms. This is in comparison to nominal increases of approximately 16 per cent and 3 per cent for residential and small business tariffs respectively. This demonstrates that despite larger increases in recent years, in real terms, regulated tariffs have fallen over the period.

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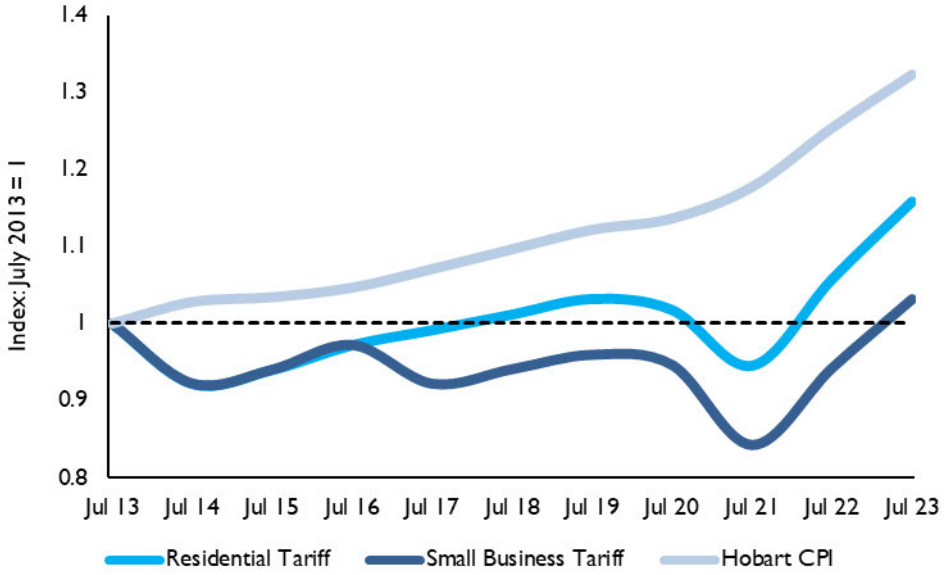
[2] ASX Energy | ASX Energy

[3] Australian Energy Regulator, *Default Market Offer prices 2023-24: Final Determination*, May 2023, p. 5.

[4] Essential Services Commission, *2023-24 Victorian Default Offer - Final Decision Paper*, May 2023, p. 1.

Chart 4 - Electricity prices and CPI from 2013 - 2023



Given the expected increases, the Government has introduced a range of additional concessions and support measures for vulnerable households and businesses, which are expected to offset the impact of the 2023-24 price increase for eligible customers. Concession arrangements are discussed further in the following section.

4. Concessions and other Government Assistance

As noted previously, the Government acknowledges the impact that higher energy prices have on customers, particularly vulnerable customers. It, therefore, provides ongoing and/or time-limited support to certain customers to reduce the impact of electricity price pressures.

As noted previously, the Government has budgeted to spend $216.1 million on electricity concessions over the Budget and Forward Estimates and a further $45.4 million on Energy Bill Relief. In addition, the Australian Government will match the support from the State, bringing the total level of assistance to households and small businesses to around $90 million.

Electricity concessions in Tasmania are among the highest in Australia. Tasmania has committed to provide an electricity concession to eligible customers at a rate of 172.434 cents per day in 2023-24. Over the course of a year this totals just under $630, which equates to 30 per cent of an average bill.

A life support concession is made available as a daily discount to eligible customers who use an approved life support system or who live with someone who uses one in their main home. The discount applied to customer bills varies between 45.350 and 173.156 cents per day depending on the type of approved device being used. A medical heating or cooling concession is also made available to eligible customers who have, or who live with a person who has, a medical condition that requires the heating or cooling of their main home to manage that medical condition, at a rate of 51.648 cents per day.

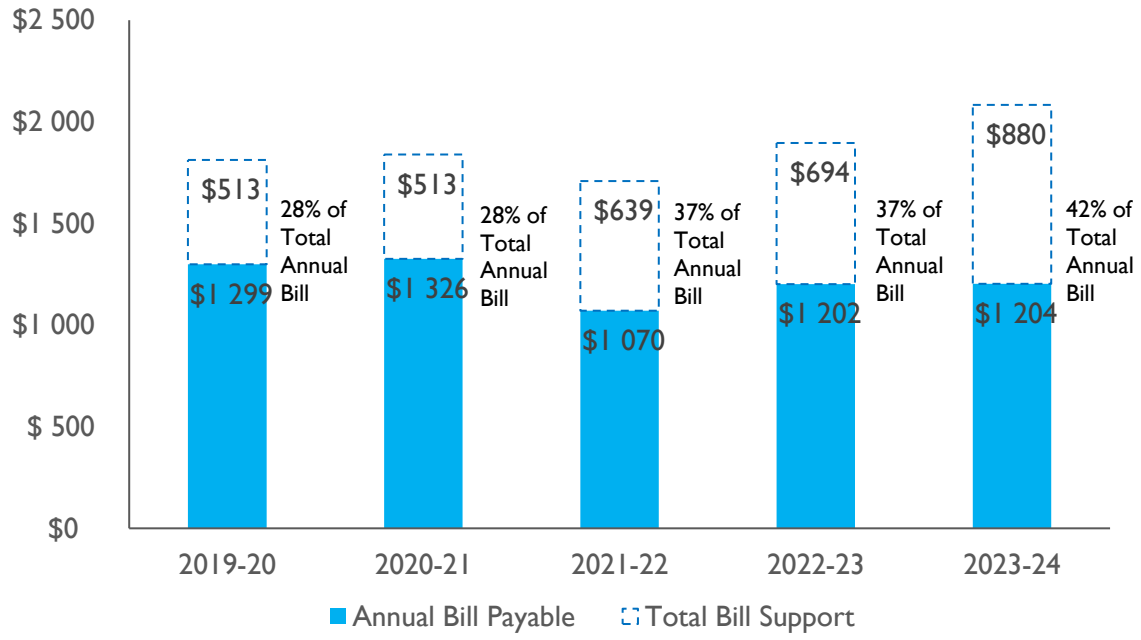
In addition to the long-standing annual electricity concessions, the Tasmanian Government and the Australian Government have recently partnered to deliver additional cost-of-living

relief relating to energy bills with the Energy Bill Relief Fund. Eligible households can receive a total of $500 in electricity bill rebates over the next two years. Rebates of $125 will be applied by retailers to the September and June quarter bills each year to ensure that the benefits are realised when electricity bills are highest.

The Energy Bill Relief Fund program has significantly expanded eligibility from existing customers who receive the annual electricity concession, to also include holders of the Services Australia or DVA Seniors Health Care Card, holders of the Veteran Gold Card, as well as recipients of Family Tax Benefit A and B and Carer Allowance, meaning more Tasmanians can receive bill relief.

The relative level of support provided from both concessions and other sources of once off relief compared to a median concession customer annual bill is shown in Chart 5 below.

Chart 5 - Median Concession Customer Annual Bill and Available Support



Despite the price increases of the last two years, a median concession customer faces a similar cost to last year and a lower cost than they did five years ago due to the increased level of support provided by Government.

Small businesses that consume less than 150 MWh of electricity a year will also receive $650 as a bill discount in 2023-24 through the Energy Bill Relief Fund.

Other cost-of-living related offsets have also been provided by the Tasmanian Government in previous years. Eligible concession and embedded network customers were eligible to receive the $119 Winter Bill Buster in 2022-23 and the $125 Winter Energy Supplement in 2021-22.

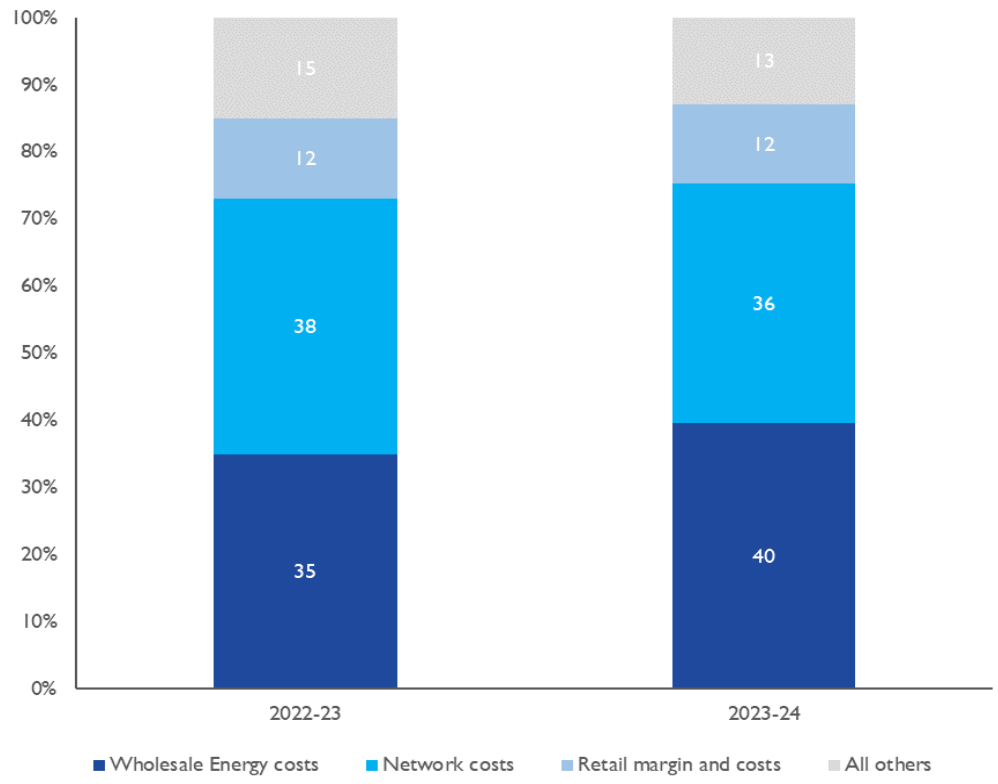
The Government has also made available the $50 million Energy Saver Loan Scheme, providing up to $10 000 for an interest free loan to private residential customers, small business customers and landlords of rental properties to invest in energy efficient products to help them lower their electricity bills.

5. Components of Electricity Prices

The final cost of electricity delivered to customers is made up of a range of different components that make up the total cost of supplying electricity to customers.

This is shown in Chart 6 below.

Chart 6 - Retail electricity price contribution to total cost 2022-23 and 2023-24



The structure of the Tasmanian electricity market varies from other NEM jurisdictions in that for each of the core activities of generation, transmission, distribution and retail, the main entities operating in these electricity markets have significant levels of market power. In addition, these entities are all in Tasmanian Government ownership.

Standing Offer Retail Tariffs

Given these arrangements, residential and small business customers are provided with the protection of regulated (standing offer) tariffs with the independent Tasmanian Economic Regulator setting maximum retail prices each year for the supply of electricity services to standing offer customers. This provides a safety net price for small customers. Aurora Energy Pty Ltd is the only regulated offer retailer in the mainland Tasmanian market.

Tariffs are set at a level that enables Aurora Energy to recover the costs of supplying electricity to standing offer customers. These costs are calculated based on the estimated costs that an efficient retailer would incur and include billing and revenue collection; marketing; providing advice and answering customer queries; contributing to corporate overheads; allowance for bad debt; and regulatory compliance[5].

In addition, the Tasmanian Economic Regulator considers an appropriate level of retail margin to compensate Aurora for the risks it faces in providing standard retail services to its customers. It also enables Aurora to recover financing and depreciation costs that are not included in the cost to serve allowance.

This is consistent with the requirements of Section 40AB of the *Electricity Supply Industry Act 1995* (ESI Act) which directs the Regulator to:

> … take into account the principle that the maximum prices that may be imposed by the retailer under standard retail contracts in respect of small customers are to be such as will enable the retailer, after the operational costs are taken into account, to make a reasonable return on its investment in respect of the provision of standard retail services, taking into account the risk of making that investment[6].

Aurora's current allowed retail margin is set at 5.25 per cent of its approved costs, which is indexed to the Hobart CPI.

A number of other costs including metering costs, AEMO charges and Renewable Energy Target costs, are largely passed through by the Tasmanian Economic Regulator in the final Standing Offer Price Determination, with no discretion for determining those costs.

Customers also have the opportunity to purchase electricity through a retailer under a negotiated market contract. As at 4 October 2023, 94 retailers were licensed by the Australian Energy Regulator to operate in the mainland Tasmanian market (with 11 active in the market according to the AER's latest retail performance data).

As can be seen in Chart 6 above, retail and other associated costs are a very small proportion of the total cost of supply. Changes in wholesale electricity costs and network costs are the primary drivers of changes to regulated electricity prices and represent 76 per cent of the standing offer tariff in 2023-24. These costs are recognised by the Tasmanian Economic Regulator.

The generation and network sectors are highly capital intensive and involve the development of very long-lived assets. There is a high level of maintenance and re-investment required in these assets in order to maintain a reliable, safe and efficient electricity supply system. Based

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[5] Office of the Tasmanian Economic Regulator, *2022 Standing Offer Electricity Price Investigation - Final Report*, April 2022, pp. 19-20.

[6] *Electricity Supply Industry Act 1995* (Tas.), s.40.

on 2021-22 Annual Reports, Hydro and TasNetworks have asset bases in the order of $3.9 billion and $3.5 billion respectively, with annual capital investment of around $150 - $200 million each.

The returns generated from these businesses also provide a necessary source of revenue for the Tasmanian Government, which contributes to the funding of energy relief initiatives for vulnerable customers and core Government services on behalf of the community such as health and education.

Network costs

Network costs are significant and network businesses are highly asset intensive. Given the natural monopoly nature of transmission and distribution assets, the AER regulates network prices in accordance with Chapters 6 and 6A of the National Electricity Rules to ensure that consumers pay no more than necessary for the safe and reliable delivery of electricity services, while also ensuring that important investments are able to occur where and when they are needed.

As noted on the AER's website, it is required to set a ceiling on the revenues or prices that a network can earn or charge during a regulatory period.

In determining these revenues or prices that a network can charge, the AER forecasts how much a business needs to cover its efficient costs, rather than actual costs (including operating and maintenance expenditure, capital expenditure, asset depreciation costs and taxation liabilities) and provide a commercial return on capital.

These regulatory determinations generally occur at five-yearly intervals with the 2024-29 Regulatory Determination for TasNetworks currently underway. The AER released its draft decision for TasNetworks' revenue determination for 2024-29 on 28 September 2023. Information in relation to this determination is available at www.aer.gov.au/networks-pipelines/determinations-access-arrangements/tasnetworks-determination-2024%E2%80%9329.

The outcomes of this process will apply to network tariffs from 1 July 2024.

As well as the price regulation of both retail and network tariffs, a range of non-price consumer protections for small customers are also provided for in the National Energy Retail Rules. The Rules govern the sale and supply of energy from retailers and distributors to customers in New South Wales, Queensland, South Australia, Tasmania and the Australian Capital Territory. Further information in relation to the NERR is available at www.aemc.gov.au/regulation/energy-rules/regulation#:~:text=The%20National%20Energy%20Retail%20Rules,and%20the%20Australian%20Capital%20Territory.

The Tasmanian Economic Regulator is concerned with the security and reliability of the electricity system, the quality of electricity supplied, and the prices and conditions of the supply of electricity and related services. The Tasmanian Electricity Code sets out detailed arrangements for the regulation of the Tasmanian electricity supply industry, including network reliability standards.

To ensure that customers receive a high quality and appropriate standard of service from the electricity distribution network, the Regulator monitors performance standards that:

- ensure reasonable levels of electricity supply reliability;
- define what the community may expect; and
- guide investment in electricity distribution infrastructure to correct those sections operating below standard.

Generation costs

Given the unique nature of the Tasmanian generation market, with Hydro Tasmania as the dominant generator, the *Electricity Supply Industry Act 1995* provides a range of protections to ensure that retailers in Tasmania face similar risks to those in any other jurisdiction in the NEM. The framework established under the legislation is set out in the Wholesale Contract Regulatory Instrument (WCRI), which is administered by the Tasmanian Economic Regulator.

Under the Act, the Regulator is required to make a range of "approvals" in relation to the wholesale electricity market in Tasmania. Specifically, the Regulator must approve: the type of contract; the methodology for determining the price in these contracts; the contract period; the standard form/s of these contracts; and the volume that must be made available under these contracts. This information is contained in the WCRI. The WCRI requires Hydro Tasmania to offer authorised retailers in the Tasmanian market the following four types of regulated contracts: Load Following Swaps; Baseload Swaps; Peak Swaps; and Baseload $300 Caps.

These contracts are offered weekly by Hydro Tasmania and are priced in terms of $/MWh. The WCRI outlines how contract prices are to be calculated each week. The Instrument is highly technical. In simple terms, the methodology used in the Instrument uses Victorian forward market prices as a starting variable and makes a series of adjustments to reflect Tasmanian conditions including Tasmanian hydro storages, Tasmanian wind generation, and Tasmanian electricity demand. Further information can be found at https://www.economicregulator.tas.gov.au/electricity/pricing/wholesale-pricing.

In setting Standing Offer prices, the Regulator derives the wholesale electricity price component from load following swap contract prices offered by Hydro for the eight quarters prior to the four quarters of the year in which the prices will apply in accordance with the *Guideline - Standing Offer Price Approval Process in Accordance with the 2016 Standing Offer Price Determination*.

In the 2022 Standing Offer Electricity Pricing Investigation Final Report, the Regulator considered that this approach for calculating the wholesale electricity price (WEP) best reflects how retailers in other National Electricity Market jurisdictions hedge their exposure to the spot market.

In response to the current approvals in the WCRI expiring on 30 June 2024, the Tasmanian Economic Regulator must conduct a pricing investigation before making new approvals. The Regulator has commenced an investigation which will be completed in June 2024. The objective of this investigation is to inform the Regulator as to whether the approvals in the current Instrument remain appropriate, or whether the new approvals should differ from the current approvals. The new approvals will apply from 1 July 2024.

An investigation draft report and the draft approvals are scheduled to be published by 3 April 2024 and will be made available for comment. The Regulator's final report and a new Instrument containing the new approvals will be published by 30 June 2024.

In addition to the WCRI, the then Treasurer determined the WEP by a Wholesale Electricity Price Order from 2017-18 to 2019-20. The Treasurer was granted temporary powers to cap prices to increases no greater than CPI in order to manage price volatility, largely driven by the disruption caused by the unexpected closure of the Hazelwood power station in Victoria and issues relating to the reliability of electricity supply in South Australia.

With the expiry of the *Electricity Supply Industry Amendment (Pricing) Act 2017* on 2 June 2020, the Treasurer no longer has the legislative power to make a WEP Order.

A number of changes to the Tasmanian electricity market have occurred since that time, which make the idea to re-introduce a WEP Order problematic, with the potential to lead to a range of unintended consequences. These include the fact that there is now retail competition across all customer segments, privately owned wind farms have been established and a large number of additional private sector developers are seeking to add further generation capacity in the State. Increasing supply should put downward pressure on wholesale electricity prices. In addition, the Government has plans to pursue greater levels of interconnection with the NEM through Marinus Link.

6. Opportunities and Challenges

Energy systems in Australia and globally are undergoing a rapid transition away from fossil fuel-based generation to renewable electricity and other low emission energy sources.

This transition reflects an increasing acceptance of the need to reduce greenhouse gas emissions, as well as changing market dynamics which mean that renewables are increasingly the cheapest form of energy available.

The shift in energy markets represents a major opportunity for Tasmania to leverage its world class hydro and wind resources to produce more renewable energy, while also creating a range of challenges for the State. In addition, the dispatchable nature of hydro generation combined with increased interconnection with the NEM through Marinus Link means that Hydro Tasmania will be able to import electricity when there is an excess of low-priced solar and wind generation, and export when NEM prices are high.

Opportunities

Tasmania is the first Australian state, and one of the few places globally, to achieve 100 per cent self-sufficiency in renewable electricity generation - meaning that Tasmania can, on average, generate sufficient electricity from renewable sources to meet current demand. Tasmania has achieved this status in recent years following the commissioning of the Cattle Hill and Granville Harbour wind farms, which have increased the supply of wind and displaced gas-fired electricity from the Tamar Valley Power Station.

Tasmania's 100 per cent renewable status confers a significant brand advantage for Tasmanian businesses and also helps to insulate Tasmania from some of the issues facing mainland states affected by retirements of ageing coal-fired power stations.

As businesses around the world look to decarbonise their operations, Tasmania represents an attractive investment destination with a pathway to competitively priced, reliable and clean energy.

However, Tasmania's 100 per cent renewable status should not be taken for granted and may come under threat without the new generation needed to keep pace with rising electricity demand. Electricity demand in Tasmania is growing, driven by factors such as electrification in the business and transport sectors, green hydrogen production and expansion of industrial load. Improvements in energy efficiency are expected to only partially offset this growth. Investment in new renewable generation is critical if we are to meet future demand without jeopardising Tasmania's 100 per cent renewable status.

The Government has legislated a Tasmanian Renewable Energy Target to double renewable electricity generation (from 2020 levels) by 2040, with an interim target of 150 per cent by 2030. This will help to deliver new reliable and clean energy at the lowest possible cost for Tasmanians, while at the same time, ensuring Tasmania has surplus renewable electricity to share with mainland Australia.

The lack of correlation between Tasmania's and mainland peak demand and supply conditions, combined with the high-capacity factors of Tasmanian wind farms, mean that Tasmanian renewable energy generation and storage assets can play a significant role in enhancing overall system reliability in the National Electricity Market.

Supported by increased wind generation, Tasmania's hydroelectric system is capable of playing a similar role to a large battery, drawing down on reserves to meet Tasmanian and interstate demand at times when wind and solar energy is scarce, and allowing rainfall to replenish dam storage at times when there is sufficient output from other sources (either local wind farms or cheap imported electricity when mainland wind and solar output is plentiful).

Investment in major new renewable energy projects has the potential to benefit all Tasmanians by improving the security and reliability of our energy system and providing broader economic and employment opportunities. This will also lead to new job opportunities in the renewable energy sector, while access to reliable and clean energy will support the growth of Tasmanian businesses which is a key competitive advantage for Tasmania in attracting new industries and jobs to the state.

Significant investment in new transmission is also required if Tasmania is to fully realise the opportunities outlined above. The development of significant new transmission developments, such as the Project Marinus Link and the North-West Transmission Developments (NWTD) project, will more than double the Tasmanian Regulated Asset Base for transmission. While agreements with the Commonwealth and Victoria will defray some of the costs, the remainder will, by necessity, be recovered from Victorian and Tasmanian customers through the network component of customer electricity bills.

As noted earlier in the Submission, managing price impacts on Tasmanian customers is a core objective of the Government. While network costs will increase if these projects are undertaken, the overall impact that major energy projects will have on Tasmanian wholesale prices over time (compared to what prices would otherwise have been) will be carefully considered. Previous independent modelling commissioned by MLPL indicates that power prices will be lower with Marinus Link than without it.

Given Tasmania's small customer base, the development of significant new load opportunities also has the potential to be a positive for the broader electricity customer base. New load customers will contribute to existing and future network costs, potentially lowering the overall costs to the customer base relative to a scenario where the load projects were not progressed.

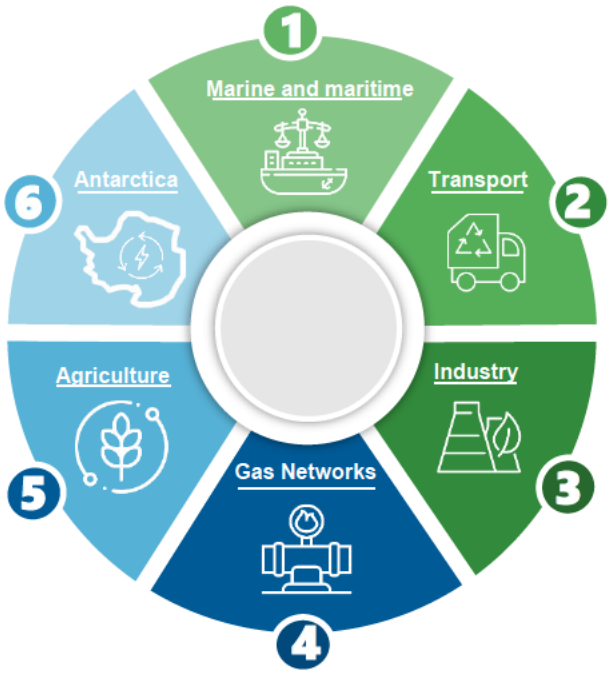
The Tasmanian Government has committed to undertake a whole-of-State business case that considers the financial, economic and social impacts on Tasmania and the Tasmanian community of Project Marinus and its associated energy projects and issues. The impact on Tasmanian customer electricity prices will be an important part of this work. The business case will be completed at least 30 days before a final investment decision is due and will be made publicly available. This work will be led by the Department of Treasury and Finance, and subject to independent peer review.

Tasmania is a potential site to host emerging energy industries like green hydrogen, green methanol, green ammonia and bioenergy options. Several green hydrogen export-sized projects, as well as local domestic hydrogen projects, are under consideration across the State. These projects have the potential to support the transition to zero emissions for industries that cannot electrify, or where green hydrogen provides a more efficient zero emissions energy source.

The Tasmanian Green Hydrogen Hub Project at Bell Bay aims to be the catalyst for the development of the State's hydrogen industry through the provision of open access infrastructure in the areas of electricity transmission, water and ports. Vital to the success of Tasmania's Green Hydrogen Hub is the activation of the domestic market to ensure economic benefits are unlocked in Tasmania and beyond.

Figure 1 outlines the key market activation opportunities in Tasmania:

Figure 1 - Market Activation Opportunities



Challenges

The enormous international momentum to decarbonise is creating challenges to the supply chain of critical resources for new renewable generation and transmission infrastructure, as well as uncertainty around labour availability.

Major economies are seeking to incentivise their own clean energy industries which risks exacerbating cost and supply chain issues as well as increasing competition for clean energy exports internationally. For example, the United States' *Inflation Reduction Act 2022* provides for investments in green technology worth around US$369 billion (as estimated by the US administration). This includes tax credits and other incentives for solar, wind and clean hydrogen production. A range of other jurisdictions, including the European Union, Canada and India have also recently announced measures to encourage clean energy and green hydrogen production. The Australian Government has recently announced a $2 billion Hydrogen Headstart program, which aims to improve Australia's competitive position in response to accelerating global competition to develop new, clean energy industries, such as hydrogen.

Rising interest rates and inflationary pressures are also creating challenges for major renewable energy projects, such as Project Marinus and Battery of the Nation.

Community engagement and acceptance are also essential preconditions for the success of renewable energy and associated transmission and green hydrogen production projects. Concerns about the visual and environmental impact of transmission lines, land acquisition and the need to cut across farming land can significantly delay or disrupt the rollout of major projects. Similarly, environmental approvals can be challenging given the potential impacts of wind farms and related renewable energy infrastructure on flora and fauna. Many renewable energy projects also have interdependencies (for example, the energy from a wind farm project may be required for a new hydrogen-based project and the sequencing of these may be a challenge).

These issues are not unique to Tasmania and are affecting projects nationally and internationally. The Tasmanian Government continues to work with the Australian Government to mitigate supply chain constraints, overcome labour market challenges and address other critical enablers of the Government's renewable energy policy.

7. Conclusion

In summary, the following key points are made in response to the Committee's Terms of Reference:

- many different factors impact energy prices for Tasmanian households and small and medium business customers;
- the largest components of the energy price relate to wholesale and networks costs;
- networks costs are regulated at the national level and are intended to reflect the efficient cost of service delivery;
- the Tasmanian market is unique in the NEM, with Hydro Tasmania the dominant generator. Therefore in order to ensure competitive market outcomes, wholesale costs are regulated and reflect published forward market prices adjusted for Tasmanian factors;

- the Government takes action to mitigate the impact of electricity prices on those in need in the community through long established concessions and other short term support; and
- the Government continues to consider the impacts on customer prices from major energy projects, including Project Marinus, NWTD and Battery of the Nation.