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Tasmanian Greens' Submission to Inquiry into Government Owned Energy Entities

On behalf of the Tasmanian Greens, I would like to thank the Committee for extending to us an invitation to make a submission into the financial position of Government owned energy entities.

Historically, Tasmanian Governments have been heavily dependent on dividends from GBEs to balance their budgets and deliver public services.

In principle, GBEs – as public entities – should be required to return dividends to government to fund public services and public infrastructure. That said, the State's energy GBEs also need to be able to undertake asset maintenance, infrastructure upgrades and to service debt.

Prior to the change of government in March 2014, the Treasury guidelines stated, *"A general target dividend payout ratio is not applied; rather case-by-case consideration should be given which takes into account the balance between the funding needs of the business and ensuring that the State's revenue requirements are met."*

In November 2014, the State's Dividend policy changed significantly. The Greens would argue this has placed substantially greater financial pressure on the State's energy entities.

The current Department of Treasury and Finance 'Guidelines for Tasmanian Government Businesses' states, *"The Government has established a general dividend policy that requires each Government business to pay 90 per cent of* *net profits after tax as a dividend each year, unless a business can justify a lower payout ratio."*

The current dividend policy is placing unsustainable pressure on GBEs, including the energy entities. The pressure to meet the dividend requirements while servicing high debt levels – particularly for Hydro Tasmania – is forcing energy GBEs to make short term decisions that may be in the best interests of meeting the dividend expectations but not necessarily in the best long term interests of Tasmanians.

We submit that the Basslink crisis has exposed significant vulnerability not only to Tasmania's energy security, but to all three public energy entities in Tasmania.

Hydro Tasmania

Despite the drought conditions in late Winter and early Spring 2015, as well as advice from the Australian Bureau of Meteorology that dry conditions were likely to persist and be compounded by a large El Nino weather system and gathering Indian Ocean Dipole, Hydro Tasmania was exporting power to Victoria on Basslink at a profit and trading gas on the mainland spot market rather than running Tamar Valley power station to maintain storage levels.

Storage levels were further reduced by Hydro Tasmanian's decision to export significant volumes of electricity over Basslink, with exports occurring on 16, 17, 18, 19 December 2015 – the four days leading up to the Basslink failure on 20 December. In that same week, Hydro storages were the lowest they had been for that period of the year, for at least the previous eight years, including the drought in 2008. Dam storages were at 21% less capacity than in the same period in the previous year and on a steep downwards trajectory.

On 31 December, eleven days after the Basslink failure, a $25 million dividend was paid by Hydro to Government, which was $11.4 million above the Budget projection.

It has since become clear that the cost of diesel generation during this period prior to the Basslink's cable's repair, will be borne by Hydro Tasmania and therefore, the people of Tasmania.

The pressure on Hydro Tasmania to meet dividends has also created an incentive for the GBE to defend its monopoly generation position in order for it to service its high levels of debt while continuing to pay a dividend to government. It is in the GBE's short term interest to stifle Tasmania achieving a secure, renewable energy future, where medium to large scale generation is provided by investment from other entities and the private sector.

As at 30 June 2015, Hydro Tasmania's debt was $854 million.

TasNetworks

The same pressure to return a high dividend, to deliver equity transfer capacity to cover shortfalls in other GBEs and to service debt, applies to TasNetworks.

It is in TasNetwork's short term interests to maintain the energy transmission status quo at the expense, potentially, of new technologies that would enable a higher level of decentralised energy generation through household solar, and other small to medium scale on site renewables.

Policies such as lifting the fixed component of wholesale tariffs relative to consumption charges create a significant disincentive for households to invest in rooftop solar, other small scale renewable and improved battery storage options.

In the medium to longer term, this strategy has significant potential to drive domestic power users to go 'off grid', increasing the risk and financial burden to the entire electricity system as fewer users pay more to maintain the existing transmission infrastructure.

It is also evidenced by TasNetworks decision to continue to unfairly charge people to use the power they generate from their solar PV systems to heat their homes and water due to TasNetworks' refusal to fix a meter reading software flaw.

TasNetworks' financial sustainability is also placed further at risk by an overvalued transmission and distribution network - its Regulatory Asset Base (RAB) under the Australian Energy Regulator (AER).

The AER determines the RAB, with TasNetworks adjusting its asset value to reflect the AER determination.

TasNetworks RAB currently exceeds $3 billion dollars.

http://reneweconomy.com.au/2016/why-australia-networks-need-to-slash-asset-values-by-nearly-half-96499

The potential for TasNetworks' RAB to be significantly overvalued has implications for its capacity to efficiently deliver its services and poses a considerable risk to the company's financial sustainability: http://reneweconomy.com.au/2016/why-australia-networks-need-to-slash-asset-values-by-nearly-half-96499.

Devaluation of TasNetworks' RAB would have significant implications. The return on capital is typically the largest component of revenue that TasNetworks collects for the use of its transmission and distribution networks from Aurora and major industrials which purchase electricity directly.

The revenue TasNetworks can claim as 'return on capital' is largely determined by the RAB that has been calculated for TasNetworks by the AER. Reduce the RAB and, necessarily, you reduce the largest portion of TasNetworks revenue.

This will have significant implications for its capacity to service its $1.64 billion in borrowings. See: http://www.rba.gov.au/information/foi/disclosure-log/pdf/101115.pdf

If the RAB is overvalued to an extent where we are not seeing an efficient price signal to the market, then TasNetworks is not just overseeing the overcharging of Tasmanian customers, but also creating an environment conducive to adverse impacts, including creating incentives for people to leave the grid to avoid paying these elevated price. This phenomenon has been termed the 'death spiral of the networks' as the networks continually increase prices and policies to try to maintain their revenue only driving more people off grid and into energy self sufficiency.

The problem with State Governments setting unrealistic dividend policies and loading TasNetworks up with debt is that it creates a situation where even a small devaluation of its RAB can create substantial financial risk.

TasNetworks has a strong vested interest in maintaining the status quo; its preoccupation with servicing debt and providing returns to government restricting its flexibility as well as its capacity to be innovative and adapt to a changing electricity market and changes in demand.

As at 30 June 2015, TasNetworks debt was in excess of $1.6 billion.

Aurora

While Aurora is the smallest of the energy GBEs, it has the greatest direct connection with electricity users.

Aurora's small customer base necessarily means it carries less risk for the taxpayer and a significantly reduced debt following the transfer of Tamar Valley Power Station to Hydro Tasmania.

As at 30 June 2015, Aurora's debt was at $160 million.

Conclusion

There are legitimate questions to be asked about the GBE model for the generation and delivery of electricity in Tasmania.

It is difficult to argue that Tasmanian power users are any better off under this structure, and indeed, the gradual escalation of public debt carried by the energy GBEs – much of it due to unsustainable 'gold plating' of the poles and wires and unreasonable government dividend policies - has placed the owners of the GBEs – the Tasmanian people – in a financially worse position.

We urge the Committee to rigorously scrutinise the intersection between government dividend policy, its borrowing policy for GBEs and the difficult financial situation the energy entities are currently in.

Yours sincerely,

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