



20 October 2023

Inquiry into Tasmanian Energy Prices

CEPU Tasmanian Branch Submission

Recommendations

1. Decouple Tasmania's electricity grid from the National Electricity Market and AER regulatory framework.
2. Establish a regulated price setting mechanism to allow the Tasmanian Government to set fair and reasonable power prices.
3. Re-merge Aurora Energy, TasNetworks, and Hydro Tasmania back to a centralised Commission structure

About the CEPU

Tasmanian Branch of the Communications, Electrical, Electronic, Energy, Information, Postal, Plumbing & Allied Services Union of Australia (CEPU Tasmanian Branch) is the principal union for workers in the communications, electrotechnology, and plumbing industries across Tasmania. Our Union represents thousands of critical workers across Tasmania, including those at TasNetworks Hydro Tasmania and Aurora responsible for generating, storing, and delivering power to households and businesses in every corner of the State.

Acknowledgement

In the spirit of reconciliation, the CEPU acknowledges the Traditional Custodians of country throughout Australia and their connections to land, sea and community. We pay our respect to their Elders past and present and extend that respect to all First Nations peoples today.

Contents

Introduction.....	2
Regulatory Constraints	2
Ring-Fencing	2
Revenue Determinations.....	3
Market Constraints.....	4
Management Constraints.....	6
Recommendations.....	7



Introduction

Despite achieving functional energy independence, an almost entirely renewable electricity grid, and maintaining a high rate of public ownership over electricity assets, Tasmanians are still subject to some of the highest electricity bills in the National Electricity Market (NEM)¹. Tasmanian consumers on average have higher electricity usage profiles due to several factors, including:

- Gas consumption in Tasmania is very low compared to electricity consumption and compared to gas consumption in mainland states and the ACT. This is due to the limited gas reticulation network in Tasmania, which prevents many households and businesses from having access to gas supply.
- Tasmanian households have a higher average household electricity usage profile, owing to greater reliance on electrical appliances for space heating, water heating, and food preparation.
- Tasmania has one of the lowest uptakes of solar in Australia, with just 18 per cent of homes fitted with PV systems.

Notwithstanding these factors, there are also several structural factors that also keep Tasmanian electricity prices higher than necessary.

Tasmania's participation in the National Electricity Market has exposed consumers to higher costs through the imposition of regulatory and market constraints and costs on the management of its publicly owned electricity assets, in the process also driving a shift in managerial approaches which serve to exacerbate the problem.

Ultimately the structure, pricing and priorities of Tasmania's energy system is matter of policy choice. Government has chosen the current arrangement and is equally capable and democratically entitled to make different choices. This submission sets out several key opportunities to make much better choices in the interests of providing Tasmanian workers and the broader community with cheaper power, better electricity infrastructure and a more socially useful and democratically responsive essential public electricity system.

Regulatory Constraints

As a participant in the National Electricity Market, Tasmanian power networks are subject to regulatory oversight from the Australian Energy Regulator (AER). The regulatory framework under which the AER manages market participants applies a narrow economic lens to the operation of energy networks under the guise of promoting competition and economic efficiency. Two key elements of this framework that are producing adverse effects for Tasmanian energy users are:

1. Ring-fencing guidelines forcing the separation of direct control services provided by network service providers from other services provided by them or their related entities.
2. Revenue determinations setting a ceiling on the revenues or prices that a network can earn or charge during a regulatory period.

Ring-Fencing

The theory behind requiring natural monopoly network service providers to be functionally separated from any related business carrying out activities in competitive markets is to prevent any cross-subsidisation or discrimination that may distort market outcomes. In practice for Tasmania, this means that entities owned by the taxpayer in the generation, transmission and

¹ AEMC, "Residential Electricity Price Trends 2021" (Australian Energy Market Commission, November 2021)



distribution, and retail space are forced to duplicate resources dedicated to administrative and operational functions that could otherwise be streamlined more efficiently.

This blind pursuit of competition at any cost makes little sense in a market where the vast majority of generation assets, all distribution and transmission assets, and the retailer with 97% market share are all owned by the State Government. Cross-subsidisation and vertically integrated efficiencies in this case would serve to drive down operational costs for the taxpayer funded network service providers and reduce costs across the board for Tasmanians. Importantly, the inability to cross-subsidise means that all network costs incurred within a pre-set determination must be passed on to consumers for recovery in the form of network charges. Where concerns regarding discriminatory practices may arise, the ownership of these assets by a democratically accountable Government as opposed to hands off corporatised structures or private interests means that genuine accountability would still be achievable in the absence of ring-fenced entities. Ring-fencing also drives several wasteful operational inefficiencies for workers on power networks. CEPU members report that when attending a customer's premises to respond to a fault, where a portion of the work required is deemed an unregulated service they are required to leave it unfinished for a third party contractor to perform work despite having all the requisite skills, equipment, tools, and replacement parts on-hand. For customers, this can mean that simple routine works are staggered over 2-3 visits from separate groups of workers instead of being completed in the one go. Not only is this inconvenient and unproductive for customers and workers alike, but it adds an additional and wholly unnecessary layer of costs to maintenance and repair programs.

Revenue Determinations

The AER's revenue determinations are, again, another exercise that makes sense in theory at the surface level but has consistently driven worse outcomes when put into practice. The process of setting acceptable revenue levels necessitates a complex and arduous process of first determining how much network service providers should be able to spend on operational and capital expenses over a regulatory period.

It is the CEPU's experience that electricity companies employ a plethora of lawyers, accountants, marketing specialists and managers in order to participate in the extraordinarily complex regulatory determination process, spending millions of dollars over several years justifying their forecast budgets and all the work they say they will perform over the next five years and then, at the end of this process, there is no regulatory obligation for them to actually do anything they said they would do. Meanwhile the regulator applies ever increasing scrutiny on operational and capital budgets while largely ignoring the burgeoning unproductive overhead costs.

Through applying a narrow framing of short-term economic efficiency, these determinations restrain networks from investing in proactive maintenance, necessary skills investments and timely asset upgrades by only allowing razor-thin budgets for the actual meaningful work that is needed on the network under the guise of saving costs for consumers, none of which the consumer has ever experienced on their actual power bill. Between 2009-10 and 2018-19, Tasmania's TNSP (Transend Networks, and later TasNetworks) had their operating expense budget cut by more than 52%² despite population growth of approximately 8.6% over the same decade.

² Alia Armistead, David Richardson, and Jim Stanford, "Missing a Stitch in Time: The Consequences of Underinvestment in Proper Upkeep of Australia's Electricity Transmission and Distribution System" (The Australia Institute, May 2021).



Privatised network service providers that underinvest in maintenance, upgrades, staffing, and training are routinely held up as examples of best practice management by the AER and used to force a NEM-wide race to the bottom.

This approach is not only short-sighted, but also self-defeating as well. The treatment of training apprentices as an inefficient resource allocation under the AER's methodology, as well as the incentivisation of outsourcing work to contractors offering poor wages and working conditions, has led to critical workforce shortages in critical trade occupations. In driving this manic race to the bottom on costs, the regulatory regime has created a situation where TasNetworks is often reliant on mainland contractors to carry out important work. Spending money on flights and accommodation for a mainland FIFO workforce in order to avoid offering secure jobs and apprenticeship pathways for locals.

The beauty of public ownership and operation of essential services is that it allows Governments to manage them holistically in the public interest, subsidising positive externalities that may not be found on an entity's bottom line but benefit communities nevertheless. Participation in a regulatory system that treats training local apprentices and proactively maintaining infrastructure before it becomes unreliable or unsafe as wasteful spending is fundamentally incompatible with this objective and needs serious reconsideration.

Market Constraints

The interconnection of the Tasmanian and mainland power networks, both physically and through the market mechanisms of the East Coast Grid, have eroded Tasmania's ability to independently act to lower its power prices. Tasmanian electricity prices are no longer just a function of Tasmania's relative electricity supply and demand, they are now intrinsically linked to prices in Victoria and the wider NEM. Even where there may be abundant available resources to supply cheap power to Tasmanian energy users, generators are incentivised to seek the highest price and sell their capacity on the Victorian market, driving up local prices.

In the 5 financial years to 2021-22, Tasmania generated 3.5TWh more electricity than it used, amounting to around 7% of net oversupply³⁴. Despite this excess generation capacity, and the fact that 98% of electricity generated every year now comes from renewable sources³, Tasmanians were still subjected to the same price shocks as mainland customers when coal and gas prices skyrocketed in 2022.

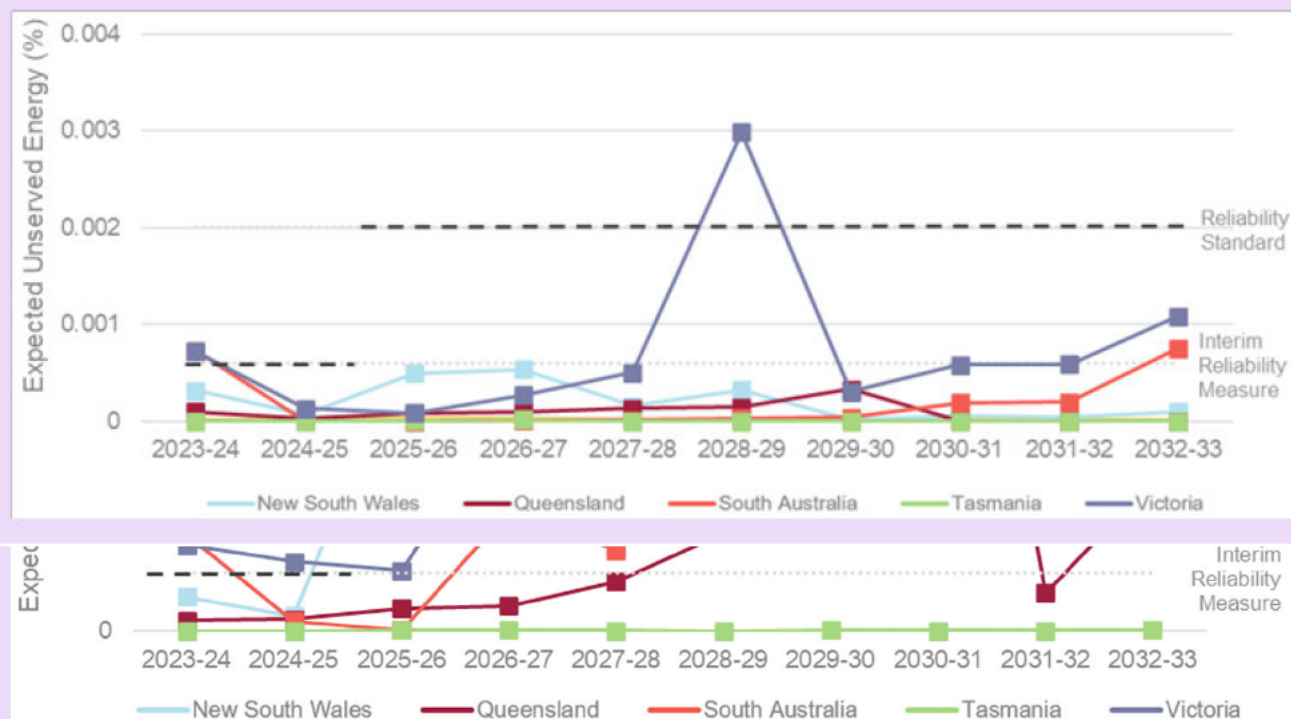
This situation will not be remarkable to Tasmanians who would recall when Basslink failed in December 2015 and was offline for months with the real reason for its failure revealed years later as being caused by overloading. At a time of high energy prices, the Government chose to transfer its state debt onto the energy company and then aggressively pump energy into the mainland for record profits to pay its debt off which in turn meant Tasmanians also suffered the flow on effects of artificially inflated wholesale energy prices. This reckless profiteering put the states energy security at risk, unnecessarily depleted Tasmania's critical water resources impacted tourism and recreational fishers and cost taxpayers millions of dollars in contingency planning. Not a single politician has ever been held accountable for these reprehensible decisions, largely because the energy market is so convoluted and complicated it is nearly impossible for anyone to understand.

³ DCCEEW, "Australian Energy Update 2023" (Australian Government Department of Climate Change, Energy, the Environment and Water, September 2023).

⁴ AER, "Annual Electricity Consumption - NEM" (Australian Energy Regulator, 2023).

Whilst Tasmania's grid long ago completed its transition to clean, cheap, renewable electricity and will not have to face the same demand increases associated with transitioning households off gas, the mainland states are in a very different position. Victoria in particular is facing severe challenges to its energy security over the coming decade as new renewables and transmission projects try to keep pace with fossil fuel generator closures and a shift away from heavy household reliance on gas.

Figure 2 Expected USE, Additional actionable and anticipated developments, 2023-24 to 2032-33 (%)



AEMO's 2023 Electricity Statement of Opportunities (ESOO)⁵ has predicted that there may be up to a 39% chance of unserved energy outcomes in Victoria over the 2023-24 summer depending on the severity of the coming El Niño. Under the ESOO's Central scenario, Victoria is predicted to exceed the Interim Reliability Measure for the next 2 years, and the less stringent Reliability Standard from 2026-27 and beyond.

Even under an expanded criteria designed to account for new government initiatives and growth in consumer energy resources (e.g., rooftop solar), Victoria is expected to be one of the least reliable states over coming decade. The closure of the Yallourn Power Station in 2028 is predicted to drive Victoria outside of the Reliability Standard, with its return to energy security thereafter predicated on the on-time delivery of VNI West and Marinus Link. Given recent form for construction timelines across the energy sector and major social license concerns already causing issues for both projects, it is highly questionable whether the timely restoration of energy reliability will be as forthcoming as projected.

There is a very real concern for Tasmanian consumers that any Victorian price shocks resulting from an inability to get ahead of these predicted shortfalls will have an inflationary impact across the Bass Strait, as was the case in 2022.

⁵ AEMO, "2023 Electricity Statement of Opportunities" (Australian Energy Market Operator, August 2023).



As though the very real constraints imposed by the National Electricity Market were not doing enough to increase local power prices, TasNetworks and Aurora Energy impose further self-inflicted costs in the name of protecting market competition. Competitive neutrality principles require State-owned companies to take steps to ensure that their status as government businesses does not afford them any competitive advantage against potential private competitors. In practice this prevents publicly owned companies from borrowing funds at the cheaper rates available to their government shareholders, forcing them to reflect debt financing at market rates instead. In the context of the current monetary environment with decade-high interest rates, further investigation into the effect of these principles being applied to publicly owned electricity generators, distributors, and retailers is having on energy prices is entirely warranted.

Management Constraints

The decision to operate Aurora Energy, TasNetworks, and Hydro Tasmania as corporatised entities with similar operating styles and management incentives to private, profit-driven entities has also had adverse effects. A 2021 report by the Australia Institute uncovered a nationwide shift in the behaviour of power networks away from hiring and training trades and technical workers and towards a focus on hiring managers and professionals in fields like marketing, sales, and finance at the expense of productivity.

TasNetworks is in the unique position of having a presence in almost every community and household across the State. It should be seeking to leverage this position to generate economic opportunities in every corner of the state, creating apprenticeships and lifelong skilled careers for Tasmanians. Instead, as of March 2023 TasNetworks only had 40 linesworker apprentices across distribution and transmission⁶ a number which could be easily doubled.

The corporatisation of Tasmania's publicly owned entities in the power sector has meant that consumers are charged at rates artificially inflated by mainland market prices, rather than the real cost of generation and supply. Everyday consumers are forced to pay more for electricity to fund the profits of entities that they collectively own, yet rarely receive any tangible financial returns from. In 2022-23, TasNetworks and Aurora Energy earned a combined profit of over \$46million from overcharging consumers to use electricity.

The below table, sourced from the annual reports of all 3 entities, paints a picture of these misaligned priorities. Tens of millions of dollars over the course of a single year has been siphoned out of consumer hip pockets to facilitate a balance sheet that looks healthy by private sector standards – despite every single entity being publicly owned.

	Aurora Energy	Hydro Tasmania	TasNetworks
Executive pay	\$2,341,205	\$4,098,000	\$3,649,000
Director travel	\$270,000	\$437,000	\$435,000
Donations/sponsorships	\$400,000	\$450,000	\$50,000
Profit	\$6,700,000	See note ⁷	\$39,745,000
Dividends to Government	\$1,600,000	\$112,000,000	\$5,122,000
Total	\$11,311,205	\$116,985,000	\$49,001,000

⁶ NCVER VocStats, "Apprentices and trainees – March 2023", 2023

⁷ Hydro Tasmania reported an underlying profit of \$149,000,000 for 2022-23. This figure was left out due to a lack of clarity as to whether this figure was before or after the distribution of dividends to the Tasmanian Government



In addition to the above, Hydro Tasmania also spent a staggering \$70,523,465 on environmental, engineering, legal, and accounting consultants – almost exclusively either from the mainland or overseas. A further \$1.6million was also spent by Hydro to guarantee the profitability of a privately owned wind farm in development.

Altogether, the combined cost in 2022-23 of executive pay, director travel, donations, profits, dividends, consultancy fees, and corporate welfare across all 3 entities adds up to just shy of a quarter of a billion dollars. Divided across Tasmania's 279,000 electricity customers, these expenses collectively account for \$894 on the annual power bill of each and every Tasmanian. Aurora Energy was operating as an absolute monopoly until 2019, to this day it still has a functional monopoly with around 97% market share. Whilst economists and regulators may argue the merits of introducing competition to Tasmanian energy retail markets, Aurora's market power to set prices has not been diminished. What has happened however, is that Aurora is now permitted to pass on the "costs to acquire and retain customers" (marketing and sales budgets) to customers on their retail bills.

Recommendations

1. [Decouple Tasmania's electricity grid from the National Electricity Market and AER regulatory framework.](#)

Decoupling the Tasmanian grid from the NEM and AER frameworks would allow for greater regulatory and pricing independence to be handed back to the Tasmanian government and people. This is a crucial step towards reorienting the incentives of Tasmania's public power companies towards delivering downstream benefits to workers and consumers, rather than some ethereal notion of market competition.

Acknowledging the role that Tasmanian power will likely play in securing the reliability of mainland states, especially with the anticipated expansion of various hydroelectric and wind initiatives, capacity to export excess power should be retained. Strict and clear guidelines should be established to ensure that only excess unused electricity is exported via BassLink and eventually Marinus in order to maintain low prices and energy security locally. Any revenues generated from the exporting of excess power to the mainland should be returned directly to Tasmanian consumers in the form of lower power prices or annual energy rebates.

2. [Establish a regulated price setting mechanism to allow the Tasmanian Government to set fair and reasonable power prices.](#)

Electricity prices should be set according to the cost of supply to the consumer, not in relation to mainland prices as is currently the case. A regulated mechanism for democratically accountable Governments to determine fair prices in line with the cost of supply would keep prices low for consumers and limit the harmful potential of any future shocks to the market. Regulated prices should also factor for a modest regulated rate of return to fund proactive maintenance and grid augmentation activities that improve the performance of the electricity network over the long term.



3. Re-merge Aurora Energy, TasNetworks, and Hydro Tasmania back to a centralised Commission structure

Tasmania should return to end-to-end management of its electricity system, with generation, storage, distribution, and retail functions managed by a central public entity like the Hydro-Electric Commission pre-1998. Central management would allow for cross-subsidisation and the maximisation of operational efficiencies, as well as promote a more active shift away from corporatised management structures and towards public interest considerations like low prices, well-paid secure jobs, local apprenticeships, and proactive maintenance and safety works.