From:	Stephen Durney
То:	EPR
Cc:	Cameron Allen
Subject:	TasCOSS submission to energy prices inquiry
Date:	Friday, 20 October 2023 4:31:04 PM
Attachments:	image001.png TasCOSS Submission - Inquiry into Energy Prices in Tasmania - October 2023 - FINAL.pdf Tasmanian Residential Electricity Price Comparison - Goanna Report - Feb 2021.pdf TasCOSS TSBC joint submission - OTTER Standing Offer Electricity Price Investigation 2022 - FINAL revised.pdf

The Inquiry Secretary Legislative Council Sessional Committee - Government Administration 'A' Legislative Council Parliament House HOBART TAS 7000

Dear Committee

Please find attached TasCOSS' submission to your Inquiry into Energy Prices in Tasmania.

Energy is an essential service, fundamental to the health and wellbeing of individuals, households and our community, as well as to overall economic activity. TasCOSS' interest in energy prices is primarily the result of our interest in matters affecting low income Tasmanians.

Tasmanians living on low incomes are experiencing significant pressures as a result of substantial increases in the cost of energy, far outstripping the increase in the Consumer Price Index (CPI) and wages growth.

All Tasmanian households, regardless of their means, should have access to a safe, reliable and affordable energy supply. However, the reality for many Tasmanian households is that their electricity supply is unaffordable.

Our submission is informed by our research, engagement with our members and the lived experiences of Tasmanian energy consumers.

Please do not hesitate to contact me if you would like clarification on any of the issues raised or wish to discuss further.

Regards

# Stephen Durney



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Tasmanian Council of Social Service Inc.

# Inquiry into Energy Prices in Tasmania

October 2023



# INTEGRITY COMPASSION INFLUENCE



# About TasCOSS

TasCOSS' vision is for one Tasmania, free of poverty and inequality where everyone has the same opportunity. Our mission is two-fold: to act as the peak body for the community services industry in Tasmania; and to challenge and change the systems, attitudes and behaviours that create poverty, inequality and exclusion.

Our membership includes individuals and organisations active in the provision of community services to Tasmanians on low incomes or living in vulnerable circumstances. TasCOSS represents the interests of our members and their service users to government, regulators, the media and the public. Through our advocacy and policy development, we draw attention to the causes of poverty and disadvantage, and promote the adoption of effective solutions to address these issues.

Please direct any enquiries about this submission to:

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## Introduction

TasCOSS welcomes this opportunity to respond to the Legislative Council Sessional Committee *Inquiry into Energy Prices in Tasmania*. Our submission outlines the significant financial pressures Tasmanians living on low incomes are experiencing as a result of substantial increases in the cost of energy, without commensurate increases in income.

Low income Tasmanians are more likely to live in poorly-insulated and inefficient housing stock, and spend a higher proportion of their income on energy than others. They are least able to respond to increases in prices, or to invest in more energy efficient homes and measures.

Given that energy is an essential service, energy price rises leave low income households with little option but to pay the extra and forego other essentials, ration their energy use, or enter into energy debt. Or a combination of these, each of which has a detrimental impact on individuals' physical and mental health and wellbeing.

All Tasmanian households, regardless of their means, should have access to a safe, reliable and affordable energy supply. However, the reality for many Tasmanian households - in particular low income households and customers experiencing vulnerability and disadvantage - is that their electricity supply is unaffordable. This is evidenced by the following Tasmanian data:

- 22.5% increase in electricity prices in two years.<sup>1</sup>
- 29% increase in the number of customers repaying an electricity debt in the past year to 14,675 (127% increase since COVID-19, up from 6,454).<sup>2</sup>
- 50% increase in household energy debt in the past year to \$15.7 million (and 166% increase since COVID-19, up from \$5.9m).<sup>3</sup>
- 13.6% increase in the number of customers entering a retailer hardship program in the last year.<sup>4</sup>
- 92,837 customers on an energy concession (36.5% of residential customers).<sup>5</sup>
- 68% of hardship customers are also concession customers.<sup>6</sup>
- 42% increase in the number of customers accessing Energy Hardship Fund (EHF) payments in the past year.<sup>7</sup>
- 20% of Tasmanians missed a utility bill payment in the last three months.<sup>8</sup>

<sup>&</sup>lt;sup>1</sup> Office of the Tasmanian Economic Regulator (OTTER).

<sup>&</sup>lt;sup>2</sup> OTTER, <u>Projects on the Go</u>, October 2023.

<sup>&</sup>lt;sup>3</sup> Ibid.

<sup>&</sup>lt;sup>4</sup> Ibid.

<sup>&</sup>lt;sup>5</sup> Australian Energy Regulator 2023, <u>Quarterly retail performance report January – March 2023</u>.

<sup>&</sup>lt;sup>6</sup> OTTER, Projects on the Go, October 2023.

<sup>&</sup>lt;sup>7</sup> The Salvation Army, Energy Hardship Fund data, 2022-23.

<sup>&</sup>lt;sup>8</sup> NAB Consumer Insights, Q2 2023.



- 48% of Tasmanian households are more concerned about paying their electricity bill than they were a year ago.<sup>9</sup>
- 72% of Tasmanian households lack confidence that the energy market is working in their long-term interests.<sup>10</sup>

Since the impact of the COVID-19 pandemic in 2020, The Tasmanian Government has taken some welcome action to support Tasmanian electricity customers from the impacts of cost of living:

- freezing prices, waiving fees and charges, introducing a moratorium on disconnections and establishing a \$5 million *COVID-19 Customer Support Fund* during the COVID-19 pandemic;
- introducing an electricity price cap to protect customers from price volatility in the National Electricity Market (NEM);
- funding bill rebates and increased concessions for eligible customers;
- funding for the Energy Hardship Fund;
- additional funding for the No Interest Loans Scheme (NILS);
- launch of the Energy Saver Loan Scheme (ESLS); and
- removing the up-front fee for *aurora+*.

But in the current environment of cost of living pressures and escalating energy price increases, there is more that can be done on prices and affordability to support Tasmanian customers.

This submission focuses more specifically on electricity (rather than energy) prices, as this is the primary energy source for Tasmanian households. TasCOSS' concern regarding escalating gas prices, forecast gas supply shortages and contributions to greenhouse gas emissions, can be found in our submission to the Tasmanian Government's *Draft Future Gas Strategy*.<sup>11</sup>

## **Key Issues**

Energy prices are a top cost of living issue for Tasmanian households. The Australian Energy Regulator (AER) has reported increasing concerns about energy affordability against a backdrop of 1-in-2 households being more concerned about paying their energy bills than a year ago, and the numbers of customers in energy debt increasing since mid-2022.<sup>12</sup>

Tasmanian consumers are under pressure to meet the high and rising costs of energy. The ability for Tasmanian consumers to respond to increases in prices, invest in more energy efficient homes or make

<sup>&</sup>lt;sup>9</sup> Energy Consumer Australia, <u>Sentiment Survey</u>, June 2023.

<sup>&</sup>lt;sup>10</sup> Ibid.

<sup>&</sup>lt;sup>11</sup> TasCOSS (2023), Draft Future Gas Strategy for Tasmania.

<sup>&</sup>lt;sup>12</sup> AER 2023, <u>State of the Energy Market 2023</u>, Australian Government, Canberra, p1.



decisions about their energy usage, is impacted by a range of factors related to Tasmania's higher levels of disadvantage compared to the rest of the nation:

- Tasmanians have the lowest incomes in Australia with:
  - average weekly full-time earnings around 88% of the national average;<sup>13</sup> and
  - average weekly equivalised disposable household incomes around 85% of the national average.<sup>14</sup>
- Tasmanian households use more electricity than households on the mainland.
- Tasmanian consumers living on low incomes are most likely to live in poorly-insulated and inefficient housing stock, and experience higher energy costs due to the need for additional heating and cooling to compensate for the heating/cooling loss.
- Tasmanian households with low incomes are paying disproportionately more of their income on energy than others.
- Rents have risen sharply in Tasmania to be amongst the highest in the nation. Tasmania's median weekly rent has increased by 44% in four and a half years, the highest increase in the country. Greater Hobart is the least-affordable metropolitan area in Australia to rent. Rents in Tasmania are rising at up to 10-times faster than income support payments.<sup>15</sup> According to the Australian Financial Review, 40,000 Tasmanian households are in rental stress.<sup>16</sup>

These factors combine to deliver unaffordable energy costs for many Tasmanian households and electricity bills that represent a significant proportion of household budgets. Reducing energy prices and making electricity more affordable will go a long way to improving standards of living for Tasmanian consumers.

# Factors that impact energy prices for Tasmanian households and small and medium business customers, with particular reference to energy generation, distribution and retail costs.

To underpin our advocacy on energy affordability for Tasmanians on low incomes, in 2021 TasCOSS commissioned research and a report on electricity prices across the NEM to better understand Tasmanian prices in comparison to other NEM jurisdictions.<sup>17</sup> This report is provided at Attachment 1.

This research confirmed that Tasmanians pay the highest electricity bills in the country as a result of our high levels of electricity consumption, driven by factors such as a relatively cool climate, a low penetration of natural gas and older housing stock with poor energy efficiency performance.

<sup>14</sup> Australian Bureau of Statistics (2019-20), <u>Household Income and Wealth, Australia</u>, ABS Website, accessed 10 October 2023.
 <sup>15</sup> Tenants' Union of Tasmania 2023, submission to the <u>Select Committee on Cost of Living</u>.

<sup>&</sup>lt;sup>13</sup> Australian Bureau of Statistics (May 2023), Average Weekly Earnings, Australia, ABS Website, accessed 10 October 2023.

<sup>&</sup>lt;sup>16</sup> Financial Review (2023), Tasmania shows the way for housing solution, accessed 10 October 2023.

<sup>&</sup>lt;sup>17</sup> Goanna Energy Consulting (2021), Tasmanian residential electricity prices: how do they compare?



It also revealed that customers on the mainland have greater access to market offers which result in lower electricity prices than Tasmania's regulated prices. One of the main reasons for the prevalence of market offers is competition in the retail market.

This report also made a number of key findings regarding energy affordability for residential customers in Tasmania relevant to this Inquiry:

- Price is important but there should not be a focus solely on electricity prices. Customers are more focussed on their actual bill, than the price of their electricity.
- Tasmanians pay the highest electricity bills in the country and historically have had high bills. This reflects the high level of electricity consumption in Tasmania, which is driven by factors such as a relatively cool climate, a low penetration of natural gas and energy-inefficient housing.
- The Tasmanian Government's preoccupation with having the lowest regulated electricity prices in the country is not particularly meaningful to Tasmanian households as regulated prices are not a good benchmark for jurisdictional comparisons. Market prices overwhelmingly apply outside Tasmania.
- The Government should be more focussed on having the most affordable or most competitivelypriced electricity in the country, rather than the lowest regulated prices. Energy affordability is discussed further below, under "other matters incidental thereto".
- The Government's residential price cap and approach to regulating wholesale prices was well intentioned and initially benefitted Tasmanians. It worked to protect consumers from skyrocketing prices and delivered more stable prices for customers over price cap period.
- Tasmanians' electricity bills can be reduced through a combination of lower electricity prices and lower electricity use/consumption.

### **Generation Prices**

Tasmania's heavy reliance on older and well depreciated hydro-electric generation plant, which has a low marginal cost of production, suggests that we should have low wholesale prices. However, Tasmanian legislation links wholesale electricity prices with the Victorian wholesale price, meaning Tasmanian wholesale prices are influenced by factors in the Victorian wholesale market, not by Tasmanian costs of production.

This has exposed Tasmanian prices to the volatility in the prices of coal and gas electricity generation on the mainland, even though Tasmanian hydro-electricity generation is not impacted by the same factors. Recent wholesale price volatility in the NEM has been due to events such as the closure of the Hazelwood power station in 2017, and more recently as a result of the war in Ukraine, extreme weather events affecting coal supply and unplanned generator outages.

In 2018, the Tasmanian Government acted to guard against skyrocketing prices in the NEM by capping electricity price increases to 2%. It did this by setting the wholesale price through a Wholesale Electricity Price (WEP) Order. Included in this action was undertaking a review of the Tasmanian Wholesale Electricity Market Regulatory Pricing Framework by the Tasmanian Department of Treasury



and Finance. Upon the completion of this review and the removal of the WEP order, the Government determined not to make changes to the Framework as a result of the improved pricing environment in the NEM that saw wholesale prices falling. The Department of Treasury and Finance stated:

"The Government delinked from mainland wholesale market volatility when it was required by capping regulated power prices through a legislated wholesale electricity price order and through the use of a commercial and industrial customer rebate scheme. In the event of further volatility in mainland National Electricity Market prices in the future, the Government retains the ability to re-introduce one or both of these schemes in order to protect Tasmanian households and businesses."<sup>18</sup>

The then Minister for Energy, Hon Guy Barnett MP, repeated this commitment to cap prices to protect households from price volatility in the Tasmanian Liberals' 2021 state election policy:

"We have successfully de-linked from mainland wholesale market volatility through legislated, capped regulated power prices and the Commercial and Industrial rebate scheme. In the event of future volatility, we retain the ability to re-introduce one or both of these schemes in order to protect Tasmanian households and business from future price hikes."<sup>19</sup>

It is undeniable there has been wholesale market price volatility throughout the past two years. Yet **the Tasmanian Government has not acted to cap power prices and protect households from price hikes, as it said it would**. Neither has it made the case for why it has chosen not to protect households. As a result of this inaction, Tasmanian consumers have been burdened with price hikes of 22.5% in two years.

### **Recommendation:**

1. Protect Tasmanians from excessive price rises by temporarily capping electricity price increases.

#### **Retail Prices**

Tasmanian standing offer prices are set by the Tasmanian Economic Regulator. Retail costs include operating expenses, costs to serve customers and a retail margin.

In 2022, the Office of the Tasmanian Economic Regular (OTTER) undertook a standing offer price investigation and determination process.<sup>20</sup> TasCOSS made a joint-submission with the Tasmanian Small Business Council (TSBC) that is included in Attachment 2. Our submission contended that when benchmarked with Australian Competition and Consumer Commission (ACCC) data:

• Aurora's costs are too high and have not fallen as quickly as retailer costs on the mainland.

<sup>&</sup>lt;sup>18</sup> Department of Treasury and Finance (2021), <u>Review of the Tasmanian Wholesale Electricity Market Regulatory Pricing</u> <u>Framework</u>, accessed 9 October 2023.

<sup>&</sup>lt;sup>19</sup> Tasmanian Liberals (2021), <u>Delivering Affordable, Reliable, Clean Energy</u>, accessed 9 October 2023.

<sup>&</sup>lt;sup>20</sup> OTTER (2022), <u>Standing Offer Investigation and Determination</u>, accessed 9 October 2023.



- Aurora's retail margin is set too high when taking into account the local factors and risks Aurora is exposed to, as well as the advantages of being a government-owned business with dominant market share.
- As a dominant retailer, Aurora is not incentivised to be innovate or efficient and pass on savings to customers.
- Aurora should provide free access to its digital application product *aurora+*.

Our submission noted that retailer costs and margins on the mainland have been falling in recent years, whereas in Tasmania Aurora Energy's costs have been increasing. The Regulator responded by applying an efficiency dividend to Aurora each year for the next three years to account for the productivity improvements mainland retailers are achieving. Further, the retail margins of mainland retailers have reduced due to strong competition, whereas Aurora's have remained stubbornly high at more than twice the mainland average.

The current nature of Tasmania's retail market leaves customers worse off due to a lack of retail competition. Aurora is a dominant retailer with more than 94% of residential customers, all on regulated prices. In a competitive market such as on the mainland, retailers often discount the default market offer (regulated price) to gain market share. Aurora does not have a motivation to do this and as a result there is little downward pressure on retail prices from competition, leaving Tasmanian consumers worse off.

As market offers in Tasmania tend to closely track Aurora's regulated prices, reductions in regulated prices due to lower costs are likely to be matched by lower market offers, leaving all Tasmanian customers the beneficiaries, not just regulated customers.

Our submission to OTTER identified more than \$15 million in savings and efficiencies that could have flowed through to lower electricity prices for regulated customers in Tasmania, compared with Aurora's pricing proposal. The Regulator's final determination still allowed for around \$10 million in higher retail costs that TasCOSS and TSBC argued were necessary.

#### **Green Schemes**

Green schemes impact energy prices Tasmanians pay as the costs of these are passed on to customers. In Tasmania, around 9% of the total electricity bill relates to green schemes and renewable energy charges. For a typical Tasmanian customer, this equates to around \$200 per year.

Green schemes - such as the Renewable Energy Target (RET) - operate to mitigate greenhouse gas emissions and support renewables investment. They have become a feature of the Australian electricity market over the past two decades and exist at both the Federal and State Government levels.

TasCOSS does not question the value, need or importance of green schemes for encouraging investment in large and small scale renewable energy projects. But we do consider they should be funded through government budgets rather than on consumers' bills, or ensure the costs are offset for people on low incomes. The current approach of funding green schemes through power bills is highly regressive, as



the cost of these subsidies are being borne by those with the least ability pay and the least ability to invest in either energy efficiency and/or solar.

### **Recommendation:**

2. Shift the costs of green schemes off energy bills or offset the costs for people on low incomes.

## Any other matters incidental thereto.

## Focus on Affordability, Rather than Price

The Tasmanian Government's aim is to have "among the lowest power prices in the nation."<sup>21</sup> As noted above, while price is important to ensure we are not paying more than necessary for our electricity, of greater significance is having an affordable electricity supply. There are a number of elements of affordability that when addressed simultaneously with price, will result in lower electricity bills for Tasmanians:

- i. Consumption and household energy efficiency.
- ii. Capacity to pay.
- iii. Distributed Energy Resources (DER).

Tasmanians will be paying higher bills, irrespective of the price, if they have high consumption, their house is energy inefficient, they cannot access the supports available to meet their energy needs, or lack access to alternative energy sources.

## i. Consumption and household energy efficiency

Energy inefficient homes are borne out in higher bills. Tasmanian consumers living in housing that is poorly-insulated, in a poor condition or running inefficient appliances, experience higher energy costs due to the need for additional heating and cooling to compensate for the heating/cooling loss.

Low income Tasmanians have little capacity to invest in energy efficiency measures that may save on their power bills. TasCOSS welcomes the Tasmanian Government's current investments to improve energy efficiency through the public housing heating and energy efficiency initiative, NILS Tasmania and the Energy Saver Loan Scheme, that will help make energy more affordable for many households. However, the suitability of these latter two schemes for most low income households is limited, particularly in terms of being able to afford repayments, taking on more debt and access for people who rent.

TasCOSS' 2021/22 Budget Priority Statement (BPS) on household energy efficiency, identified that households can lower their electricity bills by improving the energy efficiency performance of their homes. Our BPS proposed a bold investment in a range of measures to improve household energy efficiency and reduce electricity consumption.<sup>22</sup>

<sup>&</sup>lt;sup>21</sup> Hon Jeremy Rockliff MP, *Tasmanian Liberal Government Cabinet*, Media Release, 2 October 2023.

<sup>&</sup>lt;sup>22</sup> See for example TasCOSS Budget Priorities Statement 2021/22, <u>Household Energy Efficiency Initiatives: creating jobs,</u> <u>stimulating our economy and lowering power bills</u>, noting revised costings would be needed.



The Commonwealth and Tasmanian Governments can make a real difference to Tasmanian household energy costs by investing in household energy efficiency upgrades of existing homes for Tasmanians on low incomes, together with minimum energy efficiency standards for rental properties.

Improving household energy efficiency and minimum energy efficiency standards will create jobs, stimulate our economy, lower emissions and help to achieve the Tasmanian Government's renewable energy goals, as well as reduce household energy bills.

It will also improve the health and wellbeing of up to 50,000 Tasmanian households experiencing energy poverty.<sup>23</sup>

Living in energy poverty forces low income households to restrict energy consumption by avoiding basic activities like showering and using heaters, as well as resulting in high proportions of income being spent on energy and the inability to pay other bills.

Tasmanian households should not be forced to make insidious decisions when it comes to conserving energy, and by improving household energy efficiency standards across the board, households can lower their future energy consumption, save energy and lower their energy bills.

#### **Recommendation:**

3. The Commonwealth and Tasmanian Governments provide investment in energy efficiency, electrification and small-scale renewables for low income housing, including further investment to retrofit more social housing, help low income owner-occupiers, and support states and territories to implement minimum energy performance rental standards.

### ii. Capacity to Pay

A significant proportion of Tasmanian households experience vulnerability, disadvantage or live on low incomes and require support to pay their electricity bills. The main way Tasmanian customers on low incomes are supported to pay their energy bills, is receiving the annual electricity concession.

### Concessions

TasCOSS is concerned the current concession scheme arrangements in place are not fit-for-purpose.

Currently, the energy concession is only available to around 93,000 account holders who are age pensioners, Health Care Card holders and ImmiCard holders, meaning tens of thousands of low income households that do not meet these eligibility thresholds are missing out on necessary support to lower their power bills.

<sup>&</sup>lt;sup>23</sup> Bryant, D et al. 2022, <u>Power pain: an investigation of energy stress in Australia</u>. Brotherhood of St. Laurence found up to 23% of households in Australia experienced at least one form of energy stress, equating to 50,235 households when applied to <u>2021</u> <u>Census data</u> of 218,412 occupied private dwellings in Tasmania.



This shortcoming has been recognised by the Tasmanian Government in the design of the *Energy Bill Relief Fund* that is delivering \$500 electricity bill rebates over two years to around 140,000 customers. Eligibility is being extended beyond customers on a concession to holders of DVA Gold Cards, Commonwealth Seniors Health Cards, Family Tax Benefit A & B recipients and Carer Allowance recipients. However, while the Tasmanian Government has appropriately acknowledged an additional 47,000 customers are in need of bill relief, they do not qualify for an energy concession.

TasCOSS wrote to the Tasmanian Government last year proposing a review of the energy concessions scheme, to consider extending eligibility to all low income households and to ensure maximum support is provided to those who need it most. The review should consider the adequacy, accessibility and equity of the current energy concession scheme, as well as the potential of moving from a fixed daily rate to a payment based on a percentage of a household energy bill.<sup>24</sup> A recent report suggests across the NEM, up to 38% of eligible customers are not receiving an energy concession on their bill. The report found 19% of Tasmanian consumers with an eligible concession did not receive an energy bill discount.<sup>25</sup>

Extending the electricity concession to low income households and applied as a percentage of household energy use, will have an immediate impact in providing energy bill relief to households with inadequate incomes and higher consumption.

### **Recommendations:**

- 4. Extend eligibility for the energy concession to low income households.
- 5. Undertake a review of the energy concession scheme to ensure it is accessible, adequate, well-targeted and equitable.

### Income Support

The biggest challenge facing Tasmanians on low incomes is the inadequacy of income support payments. Electricity prices have increased at a much faster rate than growth in government payments such as JobSeeker and other income support payments.

The single most effective and straightforward action that can be taken to improve energy affordability is to raise the income of those living below the poverty line. The rate of JobSeeker and other income support payments are inadequate to meet basic living costs. It means recipients are constantly forced to decide on a daily basis, which of the essentials they must go without.

It also means the cost of a range of related supports are shifted to other levels of government, including the Tasmanian Government, by having to fund the increased demand for services and support including food relief, energy hardship payments and additional rebates, such as Winter Bill Buster payments and the *Energy Bill Relief Fund*. Tasmanians with insufficient incomes who are unable to pay their energy

<sup>&</sup>lt;sup>24</sup> See report <u>*Reforming Electricity Concessions to Better Meet Need.*</u>

<sup>&</sup>lt;sup>25</sup> Consumer Policy Research Centre 2022, <u>Mind the Gap – Identifying the gap between energy concession eligibility and</u> <u>concessions received</u>.



bills also add additional costs to retailers, who fund customer support programs and bad debts that risk their profitability.

Lifting income support payments to reduce cost-shifting from the federal government should be a priority issue the Tasmanian Government and energy businesses to strongly advocate for.

#### **Recommendation:**

6. The Tasmanian Government and Tasmanian energy businesses endorse the *Raise the Rate for Good* campaign and strongly advocate for a substantial lift in income support payments, including JobSeeker and Youth Allowance, to provide people with sufficient income to access energy as an essential service.<sup>26</sup>

#### iii. Distributed Energy Resources (DER)

The changing nature of the electricity system through increased DER (technologies such as solar power, batteries and electric vehicles) has implications for social equity.

While there are over 40,000 homes in Tasmania that already host rooftop solar and are reducing their energy bills, there are tens of thousands of Tasmanians who are currently locked out of DER.

This particularly affects people on low incomes and renters who have little capacity to invest in DER and are therefore disadvantaged when it comes to accessing alternative energy affordability solutions, such as solar panels and battery storage. Yet they already contribute disproportionately to DER subsidies and system costs through higher bills and a higher proportion of their income on energy bills.

As the growth in DER continues, there is a risk that without significant policy and regulatory reform, the future energy market will create a two-tiered system between those who can access and afford DER and those who cannot. This will result in those without access to DER continuing to pay more for their energy, contributing to energy inequality.

Targeted policy solutions are required to encourage and support low income consumers to access alternative energy options that can shift demand and lower costs. This will ensure that those who cannot afford, or are excluded from access to, DER are not left behind.

#### **Recommendation:**

7. The Commonwealth and Tasmanian Governments include access to energy efficient technologies, such as solar PV, batteries and other distributed energy resources, to disadvantaged and low income households under a program of significant investment in household energy efficiency upgrades.

<sup>&</sup>lt;sup>26</sup> ACOSS, Raise the Rate for Good.



# Conclusion

A safe, reliable and affordable energy supply is critical to the health and wellbeing of Tasmanians. However, Tasmanians living on low incomes are experiencing financial pressure as a result of substantial increases in the cost of energy, without commensurate increases in income.

The combination of high energy prices, poor energy performing homes and inadequate incomes are resulting in unaffordable energy bills and energy poverty for Tasmanians. They have little option but to ration their energy use (i.e. not heating their home in the middle of winter, turning fridges off overnight, reducing showers and not cooking), entering into energy debt or paying the extra and foregoing other essentials, such as food or medicine, all of which have detrimental impacts on physical and mental health and wellbeing.

Energy prices are a key cost of living issue for Tasmanian households. TasCOSS has argued for a number of measures to reduce electricity prices in Tasmania:

- The Tasmanian Government should act to temporarily cap power prices, as it did in 2018 and said it would do again to protect households from price hikes.
- Retailer costs and margins in Tasmania are higher than on the mainland and greater efficiencies would flow through to lower retail prices.
- The cost of green schemes should be shifted off customers' bills and funded through government budgets.

While price is important to ensure we are not paying more than necessary for our electricity, of greater significance is the affordability of our energy bills. A significant proportion of Tasmanian households also experience vulnerability, disadvantage or live on low incomes, making it difficult to afford their energy bills. The single most effective and straightforward action that can be taken to improve energy affordability is to raise the income of those living below the poverty line.

Current concession arrangements are not fit-for-purpose and a review should be undertaken to consider the adequacy, accessibility and equity of the current energy concession scheme, as well as the potential of moving from a fixed daily rate to a payment based on a percentage of a household energy bill. Targeted policy solutions are also required to encourage and support low income consumers to access alternative energy options that can shift demand and lower costs.

TasCOSS also advocates for increased investment in household energy efficiency initiatives to help improve energy affordability for Tasmanian households, especially low income households. Tasmanians on low incomes have little capacity to invest in energy efficient measures that may save on power bills. The suitability of current Government energy efficiency loan schemes for most low income households is limited, particularly in terms of being able to afford repayments, taking on more debt and access for people who rent.



In the current environment of cost of living pressures and escalating electricity price increases, TasCOSS is calling for more to be done on energy prices and affordability to support Tasmanian customers and up to 50,000 households experiencing energy poverty. Tasmanians will be paying higher bills, irrespective of the price, if they have high consumption, their house is energy inefficient, they cannot access the supports available to meet their energy needs, or they lack access to alternative energy sources.

## **Recommendations**

- 1. Protect Tasmanians from excessive price rises by temporarily capping electricity price increases.
- 2. Shift the costs of green schemes off energy bills or offset the costs for people on low incomes.
- 3. The Commonwealth and Tasmanian Governments provide investment in energy efficiency, electrification and small-scale renewables for low income housing, including further investment to retrofit more social housing, help low income owner-occupiers, and support states and territories to implement minimum energy performance rental standards.
- 4. Extend eligibility for the energy concession to low income households.
- 5. Undertake a review of the energy concession scheme to ensure it is accessible, adequate, well-targeted and equitable.
- 6. The Tasmanian Government and Tasmanian energy businesses endorse ACOSS' *Raise the Rate for Good* campaign and strongly advocate for a substantial lift in income support payments, including JobSeeker and Youth Allowance, to provide people with sufficient income to access energy as an essential service.
- 7. The Commonwealth and Tasmanian Governments include access to energy efficient technologies, such as solar PV, batteries and other distributed energy resources, to disadvantaged and low income households under a program of significant investment in household energy efficiency upgrades.

#### tascoss.org.au



# Attachments

Goanna Energy Consulting (2021), Tasmanian residential electricity prices: how do they compare?

TasCOSS/TSBC (2022), *Tasmanian Economic Regulator's 2022 Standing Offer Electricity Price Investigation*, joint response to Draft Report.

## tascoss.org.au

# Tasmanian Council of Social Service and Tasmanian Small Business Council

# Joint-response to the Tasmanian Economic Regulator's 2022 Standing Offer Electricity Price Investigation Draft Report

March 2022





# ACKNOWLEDGEMENTS

TasCOSS and the TSBC acknowledge that we live and work on Aboriginal land, land of the palawa/pakana people of lutruwita (Tasmania). We pay our respects to the Tasmanian Aboriginal community, to elders past and present, and to all who continue caring for country, sharing stories and upholding rights.



We acknowledge the support of Goanna Energy Consulting Pty Ltd (Goanna Energy) in providing technical advice and assistance in preparing this submission, in particular on aspects of OTTER's Draft Report and associated documents including Aurora Energy's Preliminary Submission and the URA and OGW consultants' reports commissioned by OTTER.

Established in 2007, Goanna Energy has undertaken some 40 Energy End User Advocacy projects and submissions, promoting the interests and serving the needs of Tasmania's small and medium sized energy users. Goanna has grown to become Tasmania's most respected energy consultancy as a result of providing independent and unbiased advice that is well researched and fit for purpose.

We also acknowledge this project was funded by Energy Consumers Australia (www.energyconsumersaustralia.com.au) as part of its grants program for consumer advocacy projects and research projects for the benefit of consumers of electricity and natural gas.

Note the views expressed in this submission are those of TasCOSS and the TSBC and do not necessarily reflect the views of Goanna Energy or Energy Consumers Australia.

# ABOUT US

The *Tasmanian Council of Social Service (TasCOSS)* is the peak body for the community services industry in lutruwita/Tasmania. Our Vision is of one lutruwita/Tasmania, free of poverty and inequality, where everyone has the same opportunity. Our Mission is to challenge and change the systems, behaviours and attitudes that create poverty, inequality and exclusion, to ensure all Tasmanians have equal opportunity to live a good life.

Our membership includes individuals and organisations active in the provision of community services to Tasmanians on low incomes or living in vulnerable circumstances. TasCOSS represents the interests of our members and their service users to government, regulators, the media and the public. Through our advocacy and policy development, we draw attention to the causes of poverty and disadvantage, and promote the adoption of effective solutions to address these issues.

The **Tasmanian Small Business Council (TSBC)** was founded in 1973 and incorporated in 2000. It has a history of strong advocacy on small business issues ranging from taxation and workplace relations, through to competition law, retail tenancy and energy related matters. It is Tasmania's peak body exclusively representing the interests of small businesses. Its goals are to:

- Promote and support the development of small business in Tasmania.
- Advocate to advance the interests of small businesses in Tasmania through policy change and regulatory reforms.
- Foster an increased awareness and understanding of the role of and needs of the small business sector among elected government officials, the public service, regulators, large business, the media and the general community.

We engage our members and provide opportunities for them to influence outcomes affecting their business, and their industry. We act as a conduit for information from our members to Government, regulators and other organisations, and vice versa.

We exist because small businesses don't have the time, the resources and often the expertise that is required to be alert to the myriad of legislative and regulatory change that affects them on an ongoing basis. Our efforts are focussed on providing accurate, factually based and timely input into decisions which will affect small businesses.

As peak bodies, TasCOSS and TSBC represent more than 270,000 regulated electricity customers in Tasmania and share an interest in ensuring Tasmanian households and small businesses are able to access an affordable, safe and reliable energy supply.

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# **ABBREVIATIONS**

ACCC	Australian Competition and Consumer Commission
AER	Australian Energy Regulator
Aurora	Aurora Energy
CARC	Customer Acquisition and Retention Costs
COVID-19	Coronavirus disease of 2019 (novel coronavirus SARS-CoV2)
СРІ	Consumer Price Index
CTS	Cost To Serve
DMO	Default Market Offer
Draft Report	2022 Standing Offer Electricity Price Investigation Draft Report
ECA	Energy Consumers Australia
ESC	Essential Services Commission (Victoria)
ICRC	Independent Competition and Regulatory Commission (ACT)
IPART	Independent Pricing and Regulatory Tribunal (NSW)
IT	Information technology
NEM	National Electricity Market
OGW	Oakley Greenwood
OTTER	Office of the Tasmanian Economic Regulator
РРА	Power Purchase Agreement
Regulator	Tasmanian Economic Regulator
RET	Renewable Energy Target
Small Customers	Household/residential and small business electricity consumers
TasCOSS	Tasmanian Council of Social Service
TSBC	Tasmanian Small Business Council
URA	Utilities Regulation Advisory
VDO	Victorian Default Offer
WEP	Wholesale Electricity Price

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# **EXECUTIVE SUMMARY**

The principal pricing issue facing Tasmanian residential and small business electricity consumers (small customers) is the regulated price of electricity as determined by OTTER.

The importance of the regulated (standing offer) price determination is demonstrated by the fact that 97 per cent of Tasmanian households and 84 per cent of small businesses in Tasmania remain on regulated tariffs. This is in stark contrast to other NEM jurisdictions where customers enjoy greater access to market offers.

TasCOSS and TSBC jointly represent more than 270,000 regulated electricity customers in Tasmania and share an interest in delivering affordable and competitively priced electricity for Tasmanian small customers.

## Cost to Serve

We welcome and support the proposed application of an efficiency factor to Aurora's CTS over the next regulatory period. However, there are reasons to suggest that the initial 1.78 per cent proposed by the Regulator in 2022-23 should be higher, while the higher factor of 3.4 per cent to apply in the next two years appears sound.

We are concerned that the Regulator proposes to allow Aurora to recover a CARC allowance (rolled into its CTS). The justification for such an allowance has always been questionable given that Aurora has, until recently, faced only hypothetical (not real) competition and even now retains a dominant market share with limited competition. This does not seem to justify CARC expenditure, certainly not for customer acquisition (which accounts for about 85 per cent of benchmarked CARC).

Aurora has relatively high numbers of customers in debt with a high average-level of debt per customer. Rather than providing for an allowance in the CTS to cover debts, Aurora should be incentivised to find ways to better manage its debt costs and reduce them. The Regulator's proposed application of the efficiency factor to debt costs should assist and we note the ECA's recent call for retailers to improve the ways in which they identify and manage customers experiencing payment and financial difficulty.

The Regulator's proposal to remove the COVID-19 debt premium is supported given that such an allowance was temporary and the ESC and AER do not currently provide a COVID-19 debt allowance.

Labour costs are a significant element of Aurora's retail operating costs. The lack of detail about these costs makes it difficult to properly assess them. However, we support the application of the efficiency factor to Aurora's labour costs.

The Regulator's proposal to switch from the use of national wage and CPI indices to local Tasmanian indices in the next regulatory period will, based on recent trends in both, result in higher annual price adjustments for Tasmanian customers. While it is reasonable to better reflect local factors, the timing of this change is not in the interests of small customers.

The Regulator's proposed use of benchmarks referenced to the CTS of mainland NEM retailers to help set Aurora's CTS is supported. The Regulator should put most weight on the recent ACCC benchmarks, which show quite rapidly falling CTS and evidence of economies of scale. These show a CTS in 2020-21 of \$96

per customer for 'Big 3' retailers and \$170 per customer for 'non-Big 3' retailers. On this basis, we believe that Aurora's CTS for the next regulatory period should sit somewhere around \$130-140 per customer.

However, the Regulator is proposing a CTS for Aurora of \$156.42 per customer for 2022-23. We believe that this is too generous, based on benchmarks that are appropriate to Aurora and other concerns about its cost base being too high. Applying our lower CTS would save regulated Tasmanian small customers around \$6 million per annum compared with the Regulator's proposal and between \$9-11 million per annum less than Aurora's ask.

## **Retail Margin**

The Regulator has referenced benchmarks in setting Aurora's retail margin, which we support. Aurora's current retail margin of 5.7 per cent, or \$101 per customer, compares unfavourably with that of mainland NEM retailers (3.4 per cent or \$49 per customer). Moreover, Aurora's retail margin has not fallen to anywhere near the same extent as mainland NEM retailers.

The Regulator has argued that several factors could skew the use of mainland NEM retail margins in setting a retail margin for Aurora. The Regulator refers to the potential unreliability of the difference between electricity retailers' annual revenues and costs, the inclusion of 'Big 3' retailer margins (expected to be lower) and the impacts of vertical integration in reducing mainland NEM retailer margins. We accept the logic in these points, but they should not be exaggerated and it is open to the Regulator to make adjustments (up or down) to Aurora's retail margin to reflect factors specific to Aurora. The Regulator appears to have made an upwards adjustment but has not explained how.

We agree with the Regulator's assessment that Aurora faces less wholesale electricity price risk due to the regulation of wholesale prices in Tasmania, which provides Aurora with more certainty than retailers operating in competitive NEM markets.

We also concur with the Regulator that Aurora faces less volume related wholesale electricity price risk than mainland retailers in the NEM, given Aurora's dominant 97 per cent share of smaller customers and the limited threat to its market share that it faces.

Added to this, Aurora also has other advantages not enjoyed by retailers faced with competition that reduce its risks (and retail margin). It can recover a range of under-estimated costs through annual adjustments, material changes in its costs or taxes, and under-forecast RET costs, and in the next regulatory period its CTS allowance will be able to vary as customer numbers fluctuate.

The Regulator proposes to set the retail margin at 5.25 per cent, which equates to \$96.25 per customer in 2022-23 (in 2020-21 dollars), indexed by the Hobart CPI. We are concerned that this is well above the 3.4 per cent and \$49 per customer recently estimated by the ACCC for mainland NEM retailers and that the impact of this on standing offer customers in Tasmania will be higher electricity prices. The Regulator has used 4.8 per cent as a lower bound in setting this margin, but this is based on a 2019 estimate that does not include further subsequent retail margin reductions captured by the ACCC estimates.

Using the ACCC's estimate of the retail margin of 3.4 per cent as the lower bound and using the Regulator's selection of the mid-point between the lower bound estimate and Aurora's current margin (5.75 per cent), suggests a significantly lower retail margin of around 4.5 per cent, or \$82.50 per customer, for the next regulatory period. This would save regulated Tasmanian small customers more

than \$3.7 million per annum compared to the Regulator's proposal and is around \$8 million less than Aurora's ask.

## aurora+ Costs

We note that retailers in competitive retail markets provide access to digital apps as part of their market offers and have a market discipline to keep the functionality and cost of their apps relevant to customers' needs. The Regulator should seek to replicate this in the case of *aurora+*.

A relatively recent entrant into the Tasmanian electricity retail market, 1<sup>st</sup> Energy is marketing its offers with free access to its app. Competing retailers develop apps to reflect customer needs and fund them by means including the ability of apps to reduce costs and enhance their revenue positions.

We support the inclusion of *aurora+* into the CTS, but have raised a number of questions about the application of these costs across the whole customer base without access to the product, and the lack of transparency and justification for the additional costs.

We note the Regulator's rationale for reducing Aurora's proposed marketing costs for aurora+ by half, but also query if a larger rollout of the app might require additional funding for awareness and digital literacy activities. We also support that Aurora should be asked to justify the high growth it is forecasting for aurora+ take up, which seems quite optimistic.

The Regulator estimates that Aurora's revenue from aurora+ will increase from \$1.5 million per annum currently, to \$3.8 million per annum (assured through inclusion in its regulated costs), at a cost per customer of \$14.15 (currently around \$40). We do not consider the case has been made for this additional cost across the customer base and seek a demonstration from the Regulator of benchmarking with other app costs, beneficial user functionality and efficiencies gained by Aurora from greater digitisation of its services to customers.

## **Recommendations**

- 1. We recommend that the Regulator seek a review of its current information and associated confidentiality provisions such that there is a greater onus on making information public.
- We support the Regulator's proposal to apply an efficiency factor to Aurora's retail operating costs and recommend the NEM-wide factor of 3.4 per cent apply to each year of the next regulatory period. The efficiency factor is based on empirical data and appears to be robust, therefore, we see little justification for applying a lower 1.78 per cent efficiency factor in 2022-23.
- 3. There is little justification in an allocation for CARC (even if rolled into the CTS) other than a 'retention' component, which Frontier Economics estimates to be only a 15 per cent proportion of the allowance. We therefore recommend that, perhaps apart from some modest retention costs, CARC is removed from the CTS given Aurora is unlikely to face strong retail competition over the next three years.
- 4. We support the application of the efficiency factor to Aurora's bad debt expense and the removal of Aurora's COVID-19 debt allowance. We recommend Aurora be expected to identify ways to better manage and reduce its debt costs.

- 5. We recommend the Regulator maintains national wage and price indices rather than moving to Tasmanian indices for annual CTS adjustments, as the latter have recently been significantly higher and will add additional costs to small customers.
- 6. We support the Regulator's proposal to apply benchmarks to Aurora's CTS that reflect both significant recent reductions in the CTS of mainland NEM retailers and economies of scale. We recommend a CTS for Aurora for the next regulatory period somewhere between \$130-140 per customer, rather than the Regulator's proposal of \$156.42 per customer for 2022-23. This would save regulated customers \$6 million per year compared with the Regulator's proposal..
- 7. We consider the Regulator's proposal to apply a 5.25 per cent retail margin, which equates to \$96.25 per customer in 2022-23 (in 2020-21 dollars), is too generous and recommend a retail margin of 4.5 per cent, or \$82.50 per customer. This is based on the relatively low risks that Aurora faces and the lower retail margins in the NEM.
- 8. We support the product fee being removed from the aurora+ digital app but consider the CTS allowances of \$17.33 requested by Aurora and \$14.15 proposed by the Regulator are unreasonably high. We do not believe a case has been made that justifies these costs and recommend the Regulator undertakes a comparison of expenditure forecasts for similar apps, benchmarking of app costs and a more robust assessment of user benefits and experience.
- 9. We recommend that the inclusion of *aurora+* in the CTS is supported by a digital and energy literacy campaign and seek the Regulator's view as to whether the costs of these activities is the responsibility of regulated electricity customers, or if digital inclusion and energy literacy should be funded by the State Government through the State Budget.
- 10. If *aurora+* is included in the CTS, we recommend the application of the allowance be set proportionate to the annual rollout of advanced meters, and/or the uptake of the app. This would provide an incentive for Aurora to ensure it meets its meter rollout milestones and targets, as well as encourage Aurora to support customers to connect to and use the app.
- 11. We recommend the Regulator undertakes additional work to establish that *aurora+* costs are efficient and its functionality is beneficial to customers, as well as require Aurora to demonstrate how it can use *aurora+* to reduce its costs and enhance its revenue to offset its inclusion in the CTS.

# PURPOSE

TasCOSS and TSBC have worked together to present this joint submission representing regulated small Tasmanian electricity customers. Our aim is to ensure the needs and concerns of small customers are at the forefront of regulatory decision-making processes.

We aim to influence OTTER's decisions in relation to the retail electricity prices that small customers will pay over the period 1 July 2022 to 30 June 2025, given that a significant majority of small customers in Tasmania remain on regulated retail tariffs.

We seek to influence the delivery of affordable and competitively priced electricity that will support households to maintain healthy homes and a decent standard of living, and small business to thrive.

For Tasmanian households, electricity bills typically represent the 2<sup>nd</sup>-largest expense, after housing costs. For residential customers on low incomes, electricity costs consume a higher proportion of their incomes than other customers. In a retail electricity market where there is little competition and 97 per cent of households are on standing offers, it is incumbent on the Regulator to ensure that customers with limited market power and limited resources are protected and have access to the lowest possible electricity prices. The Draft Report acknowledges this:

By examining all of Aurora Energy's costs, including allowances set by the Regulator, the Regulator seeks to ensure that customers pay no more than necessary for the services they receive. (p.5)

We support the Regulator in this endeavour and our submission sets out our key considerations for driving greater efficiency and delivering lowers costs, so that households and small businesses in Tasmania benefit from more affordable and competitively priced electricity.

# INTRODUCTION

The principal pricing issue facing Tasmanian residential and small business electricity consumers (small customers) is the regulated price of electricity as determined by OTTER.

The importance of the regulated (standing offer) price determination is demonstrated by the fact that around 270,000 small customers in Tasmania remain on regulated tariffs. This represents around 97 per cent of Tasmanian households (240,000 residential customers) and 84 per cent of small businesses (30,000 small business customers).

This is in stark contrast to other NEM jurisdictions where customers enjoy greater access to market offers, with only 23 per cent of residential customers and 35 per cent of small business customers on regulated prices NEM-wide.

Regulated retail electricity prices in Tasmania are set through a determination process conducted by OTTER. Determinations are made for a period of three years, with annual price adjustments.

Given these circumstances, in the absence of strong competition in the Tasmanian retail electricity market, OTTER determinations have a significant and sustained impact on the electricity prices for small customers in Tasmania.

It is therefore imperative that the small customers' voice is considered in the OTTER regulatory process and for OTTER to respond in a manner that ensures electricity costs are efficient and small customers benefit from the lowest-possible regulated retail electricity prices.

OTTER's 2022 Standing Offer Electricity Price Investigation Draft Report (Draft Report) outlines the "building block" approach adopted by the Regulator to setting retail prices. As some of the cost components of retail prices are set by other processes, our submission focuses on those elements that are approved by the Regulator, with particular reference to:

- Ensuring Aurora's CTS allowance is efficient, noting there is evidence in other parts of the NEM of more efficient costs.
- Ensuring Aurora's Retail Margin is efficient and prudent, noting it appears high compared to other parts of the NEM after allowing for the higher risks associated with competitive retail markets elsewhere and after consideration of what local factors, if any, could account for the (higher) margin.
- An assessment of Aurora's proposed costs for maintaining its aurora+ digital app, and justification for this addition to its regulated cost base.

Given the importance of OTTER's final determination to electricity prices Tasmanian small customers will be subjected to over the next three years, this submission highlights the key consumer issues of affordable and competitively priced electricity.

# CONSTRAINTS

Our ability to assess and comment on the Draft Report has been constrained by a lack of access to important and relevant information. In particular:

- The full URA/OGW report on the CTS commissioned by OTTER has been withheld from public scrutiny on commercial confidentially grounds. Only a high-level (2 page) summary of the report has been published, which provides extremely limited information.
- Aurora commissioned Frontier Economics to provide advice on benchmarking of the retail margin. This advice has also been withheld from public scrutiny on commercial confidentiality grounds.
- The full version of Aurora's Preliminary Submission has been withheld from publication on commercial confidentiality grounds with only a summary being published.

To properly scrutinise all information relevant to the setting of standing offer prices, it is important that all relevant information is made public. Without this, the role of consumers, consumer advocates and other interested parties in the regulatory process is constrained and jeopardises the ability for genuine input.

Figure 7.1 (page 23) of the Draft Report, which shows Aurora's retail operating costs (and its various components) over the period 2016-17 to 2020-21, provides a case in point. Whilst we welcome that the

Regulator has included this in the Draft Report, the decision to withhold dollar amounts makes it more difficult to assess this important chart.





While we understand there may be grounds for withholding some information due to commercial confidentiality (especially in a competitive market), it must also be recognised that Aurora is a government-owned, dominant, retailer in Tasmania that enjoys access to the vast majority of small customers who remain on standing offer tariffs in Tasmania.

Given this position, there should be a stronger obligation to share information with Aurora's customers and their advocates. We believe there is a case for stronger requirements for Aurora and the Regulator to release regulatory information for public scrutiny, similar to the stronger guidelines regarding the release of information for public scrutiny that the AER has in place for network revenue determinations.

### **Recommendation:**

**1.** We recommend that the Regulator seek a review of its current information and associated confidentiality provisions such that there is a greater onus on making information public.

Source: Aurora Energy.

# **RETAIL COST TO SERVE**

# Consultant's Review of Aurora's CTS

We welcome the Regulator's engagement of URA and OGW to assess Aurora's CTS proposal. Adding additional layers of scrutiny and expert advice ought to deliver better outcomes to this regulatory process and greater comfort to consumers, especially as most of the details of Aurora's Preliminary Submission have been withheld from public scrutiny.

However, equally important is the reassurance that the approach taken is rigorous and the findings arrived at are substantiated. Unfortunately, the Regulator has only published a high-level summary of the consultants' report with the main report kept confidential. This adds to the difficulty for consumer advocates to assess and interrogate the validity of information that is made available.

Within these substantial constraints, we have examined the URA/OGW summary and the Regulator's commentary on it. In relation to the consultants' findings about Aurora's treatment of costs, we are concerned that:

- Aurora does not have a documented process setting out how shared costs such as labour, communications and IT are allocated between Aurora's regulated and unregulated activities. Although the consultants comment that, in the absence of this data, they found that the application of cost allocations based on billing outcomes and customer numbers was conceptually appropriate and based on data, it remains a concern that Aurora, as a regulated business, is not required to separate shared costs between its regulated and unregulated activities, as is the case in some other regulatory determination processes.
- There was insufficient activity level cost data over recent years to assess whether Aurora's base year costs are efficient. Instead, the consultants assessed base year costs against (less precise and specific) publicly available costs for retailers across Australia to reach 'a high level' finding on the efficiency of Aurora's costs.

This formed the basis for URA/OGW's "on balance" conclusion that Aurora's costs were "reflective of efficient costs". This amounts to a qualified assessment, which is a less than complete endorsement of Aurora's costs as efficient.

By contrast, in other regulatory determination processes (such as those of the AER) regulated entities are required to provide standardised cost data based on Regulatory Information Notices, which are publicly available.

## **Productivity Improvements**

The Regulator has formed the view that an efficiency factor should be applied to Aurora's CTS over the coming regulatory period, noting that there have been significant reductions in retailer costs per customer over recent years and that this has not been reflected in Aurora's CTS for this period. This difference has resulted in higher electricity prices for small customers in Tasmania.

Aurora did not propose explicit productivity gains for CTS expenditure in its Preliminary Submission (other than allowing for labour cost savings). Using ACCC retail cost per customer data for the period 2017-18 to 2020-21 for retailers other than the 'Big 3' as a proxy for productivity, URA/OGW observed that this increased by 3.4 per cent per annum and recommended that the Regulator apply this approach to Aurora.

We welcome and support the Regulator's draft decision to apply an efficiency factor to Aurora's CTS. However, we note two issues with the Regulator's proposed approach:

- Given that URA/OGW estimated a 3.4 per cent reduction in retail costs per customer, it seems
  odd that the Regulator proposes a much lower efficiency factor of only 1.78 per cent for 2022-23.
  This is not explained in the Draft Report, other than by reference to URA/OGW's recommendation
  (the basis of which is also unclear and presumably contained within its confidential full report).
- Aurora's CTS has not kept pace with the reductions in retail costs per customer observed for mainland retailers. We can see no reason why Aurora has not captured such gains itself, other than not being required to by its regulatory environment. This argues for the application of a higher efficiency factor going forward.

## **Recommendation:**

2. We support the Regulator's proposal to apply an efficiency factor to Aurora's retail operating costs and recommend the NEM-wide factor of 3.4 per cent apply to each year of the next regulatory period. The efficiency factor is based on empirical data and appears to be robust, therefore, we see little justification for applying a lower 1.78 per cent efficiency factor in 2022-23.

## **CTS Components**

## CARC Allowance

The Regulator provided Aurora with a significant allowance to cover CARC for the six years of its pervious Determination. It proposes to allow Aurora to include some CARC costs in the next regulatory period, on the basis that it faces some retail competition, and to roll this into the overall CTS.

We note that this allowance is intended to allow Aurora to retain and acquire customers while operating in a competitive environment. To date, Aurora has not experienced sustained retail competition and even its current competition is limited. In the intervening years, Aurora's regulated customers have provided it with significant revenue through the CARC allowance, which it arguably has not needed. This has increased regulated prices for small customers in Tasmania.

We consider that the Regulator should not provide Aurora with any additional CARC costs until there is a competitive justification for them, which there is currently not given the limited competition it is facing. Given Aurora has previously been in receipt of CARC during periods in which there was no retail competition, it has arguably received money for no apparent purpose.

CARC has previously been provided to Aurora as a separate item in its CTS. This had the advantage of making the CARC allowance transparent to consumer advocates. With the proposal to roll the CARC allowance into the CTS, Aurora will need to manage its CARC as part of its CTS which may have an efficiency benefit. On the other hand, it will make the CARC less transparent, a matter of concern to us.

We note that as a dominant retailer facing limited competition, Aurora is potentially able to use its CARC allowance to fend off its competitors, both existing and potential. We also note that the CARC allowance covers costs for both the acquisition of new customers and the retention of existing ones. In our joint submission to OTTER on its Draft Approach Paper, TasCOSS and TSBC pointed out:

"In addition, regulated Standing Offers generally do not require the more elaborate sales approach needed for market offers and generally focus on retention rather than acquisition costs, which based on Frontier's analysis appear to account for only about 15 per cent of CARC."<sup>1</sup>

This has not been mentioned by The Regulator in its Draft Report in relation to Aurora's CARC going forward.

## **Recommendation:**

3. There is little justification in an allocation for CARC (even if rolled into the CTS) other than a 'retention' component, which Frontier Economics estimates to be only a 15 per cent proportion of the allowance. We therefore recommend that, perhaps apart from some modest retention costs, CARC is removed from the CTS given Aurora is unlikely to face strong retail competition over the next three years.

## Bad Debt Expenses

Aurora has the highest proportion of in-debt residential customers of any retailer in an AER jurisdiction. The average level of debt per customer is also higher (\$1,300 and \$1,000 respectively). However, the proportion of Tasmanian small business customers in debt was much lower than in other jurisdictions, at around half of the overall average percentage and the average debt was also somewhat lower (\$2,400 compared with \$2,500).

The Regulator proposes to accept Aurora's debt expense estimate but to apply its efficiency factor to it on the basis that Aurora expects a significant increase in the take up of its aurora+ digital app and its claims that this will assist customers to better manage their electricity use and costs.

We support the application of the efficiency factor. However, we question whether there are other ways in which Aurora could be reducing its debt expenses.

We note that Aurora's percentage of in-debt residential customers has declined from 5.2 per cent in 2019-20 to 3.5 per cent in 2020-21. Moreover, the Regulator has reviewed Aurora's estimates of its debt costs expenses per customer and considers that they are reasonable but has given little explanation for this finding. A fuller explanation of this finding would be beneficial.

As Aurora has a high level of customer indebtedness, especially for residential customers, it should be seeking ways to reduce this further and have internal incentives to do so. The application of the proposed efficiency dividend provides one form of incentive. It should be noted that ECA has recently called on retailers to do more to earlier identify customers who are financially struggling and offer them assistance. According to ECA, retailers also need to consider options for supporting customers who are struggling to pay their bills before they need or are eligible for hardship or payment schemes, as well as support their customers with access to tools and information available to help them.<sup>2</sup>

<sup>&</sup>lt;sup>1</sup> TasCOSS & TSBC (2021), Submission on OTTER Retail Electricity Standing Offer Methodology Review – Draft Approach Paper, p.10.

<sup>&</sup>lt;sup>2</sup> See <u>http://energyconsumersaustralia.com.au/news/hardship-is-hiding-in-plain-sight-its-time-we-opened-our-eyes</u>

## Bad Debts Associated with COVID-19

The Regulator proposes not to accept Aurora's COVID-19 premium on its bad debt allowance for the next regulatory period, which Aurora proposes to phase down to zero by the end of that period, citing the 2022 VDO determined by the ESC which has removed the temporary COVID-19 allowance.

We support the Regulator's proposal on the basis that:

- Any allowance for COVID-19 related bad debts should be seen as temporary and related to the period covered by the AER's *Statement of Expectations* that ended 30 June 2021.
- The ESC's 2022 VDO no longer includes a COVID-19 debt allowance.
- The AER's DMO determination for 2021-22 reached a view that COVID-19 related debt costs (estimated at \$9 per customer) were not material enough to warrant an additional debt allowance with no evidence that it was materially impacting retailers' financial positions.

We note that at \$4 per customer a COVID-19 debt premium would add over \$1 million to Aurora's CTS in 2022-23 and at \$2 per customer a further \$0.5 million in 2023-24. These are cost levels that Aurora should be able to manage without a need for additional allowances.

## Recommendation:

4. We support the application of the efficiency factor to Aurora's bad debt expense and the removal of Aurora's COVID-19 debt allowance. We recommend Aurora be expected to identify ways to better manage and reduce its debt costs.

## Platform and IT Costs

Aurora is in the process of moving to a new cloud-based billing system (expected to be fully operational by late 2022) and transitioning out of its current Customer Care and Billing system.

The Draft Report notes that Aurora has removed the implementation costs for the migration of the billing system, but appears to have included some costs (licences, support and maintenance) that relate to its legacy billing system. The Regulator considers that these costs should be removed given that the current system is in the process of being decommissioned and will not be in operation for the bulk of the regulatory period.

We support the Regulator's intention to remove these costs from the CTS.

## Labour Costs

Labour costs account for around half of Aurora's retail operating costs (Figure 7.1 above). We have a number of concerns around the size of these labour costs, in particular:

- the lack of detail made publicly available;
- little ability to identify and discuss specific cost drivers (due to a lack of information); and
- justification for increasing labour costs couched in broad terms such as "changes in operating environment".

We support the Regulator's proposal to apply an efficiency factor to labour costs.

## Unspecified Project Costs

Aurora has proposed the inclusion of some costs related to projects that have not been specified. The Draft Report comments in relation to these:

"The Regulator considers that it is difficult to justify allocating costs to, and expecting regulated customers to pay for, projects that are unknown or uncertain at this time. The Regulator therefore intends to not include these costs in the CTS allowance." (p. 31)

We support the Regulator's position and the exclusion of these costs from the CTS.

## **Determining Actual CTS Allowances**

The Draft Report proposes some changes in the way the Regulator will determine annual adjustments to Aurora's CTS allowance. Labour costs will be indexed by the Tasmanian wage price index (previously the national CPI), non-labour costs by the Hobart CPI (previously the national CPI) and an adjustment will be made for changes in customer numbers.

In our joint submission to OTTER's Draft Approach Paper, we did not oppose adjustments based on changes in customer numbers and sought further information on the likely impacts of changes to the indices used for labour and non-labour costs.

Our concern in relation to this proposed change is the timing. The Tasmanian wage price index and the Hobart CPI have been running higher than their national equivalents in recent times and, should this continue, will result in higher annual regulated price adjustments.

While we accept the rationale that these changes in the CTS allowance may more accurately reflect underlying cost changes for Aurora, if the change were implemented in previous Determinations, small customers would have benefited from lower regulated price adjustments.

At a time when households and small businesses are still being impacted by COVID-19 – in particular rising cost of living pressures, escalating supply chain costs and inflation in Tasmania outstripping the mainland – a deferral of this measure would provide some relief to household and small business budgets.

## **Recommendation:**

5. We recommend the Regulator maintains national wage and price indices rather than moving to Tasmanian indices for annual CTS adjustments, as the latter have recently been significantly higher and will add additional costs to small customers.

## **CTS Allowances in Other Jurisdictions**

While the continued use of benchmarking of the CTS as a means of cross-checking the efficiency of Aurora's retail operating costs is not perfect, we support this approach as a means of comparing Aurora's CTS with the CTS of mainland retailers operating in competitive markets.

In the Draft Report, the Regulator has relied heavily on CTS benchmarks obtained from the URA/OGW consultant's report, which drew on recent ACCC data on retail operating costs for the period 2017-18 to 2020-21 for the 'Big 3' and 'non-Big 3' retailers.

This was supplemented by reference to the CTS decisions of other regulators, especially the ICRC and ESC. However, their decisions are older and referenced back to a base established by IPART in 2014, which has been indexed for subsequent years. In our view, this is less relevant – and is becoming more so over time – given both changes in the retail environment since 2014 and the significant cost reductions made by retailers in recent years (referred to in the Draft Report).

The Draft Report highlighted two important findings emerging from the URA/OGW report:

- Retail operating costs for all retailers have fallen significantly in recent years (Figure 7.3). This contrasts to Aurora, whose costs have not fallen.
- Economies of scale are evident in electricity retailers' operations. The average CTS of the 'Big 3' retailers was estimated to be a little more than one half of the CTS of smaller retailers.



Figure 7.3 Average retail and other costs per customer<sup>19</sup>, 2017-18 to 2020-21 (\$2020-21, excluding GST)

Source: Based on information from the ACCC's Inquiry into the National Electricity Market - November 2021 report, pages 34 and 37.

URA/OGW found that Aurora Energy's proposed CTS (\$172.54 per customer) aligns closely with the average costs incurred by 'non-Big 3' retailers (\$170 per customer for 2020-21). However, as Aurora Energy's customer base is around three times the average of the 'non-Big 3' retailers, it provides opportunities for scale economies. Accordingly, the Regulator expressed the expectation that an efficient level of CTS for Aurora would be below the average of the 'non-Big 3' retailers.

We agree with the Regulator's finding and expect an efficient level of CTS for Aurora should be significantly below the 'non-Big 3', given Aurora's customer base is almost three times larger.<sup>3</sup>

# The Regulator's Draft Proposal

The Regulator is proposing a CTS for Aurora of \$156.42 per customer for 2022-23, which represents a significant component of Aurora's revenue and of the prices faced by small customers. This is 9.4 per cent below Aurora's proposal of \$172.54 but over 60 per cent higher than that of the Big 3 (\$96 in 2020-21).

This suggests that the Regulator is being overly generous to Aurora in setting the CTS. The Draft Report says that the CTS estimate of \$156.42 per customer is within the level of CTS allowances in recent decisions by regulators in Australia. However, the ICRC determination in 2020 calculated a CTS per customer of \$127.84 in 2020-21, significantly below the Regulator's proposal.

We consider a CTS that is nearer the mid-range between the 'Big 3' and 'non-Big 3' to be a reasonable allowance, that is, \$130-140 per customer. The difference amounts to around \$6 million per annum compared with the Regulator's proposal and between \$9-11 million per annum compared with Aurora's ask, which is additional revenue for Aurora that in our view is better going in the pockets of small customers in the form of lower regulated prices, rather than to Aurora as a generous CTS.<sup>4</sup>

As further justification for our position, we note that Aurora has the advantage of being an incumbent retailer in Tasmania and retains a dominant market share which is unlikely to be significantly challenged by new entrants over the next three years. Aurora has also benefitted from being in receipt of a CTS allowance in the past that has included costs that were either problematic (e.g. CARC when there was no competition) or set at the higher end of what could be considered reasonable. We note that current maximum market offer discounts in Tasmania amount to only around 5 per cent and that market offers tend to track Aurora's regulated prices closely. Therefore, reductions in regulated prices due to lower costs are likely to be matched by lower market offers, leaving all Tasmanian residential and small business customers the beneficiaries, not just regulated customers.

## **Recommendation:**

6. We support the Regulator's proposal to apply benchmarks to Aurora's CTS that reflect both significant recent reductions in the CTS of mainland NEM retailers and economies of scale. We recommend a CTS for Aurora for the next regulatory period somewhere between \$130-140 per customer, rather than the Regulator's proposal of \$156.42 per customer for 2022-23. This would save regulated customers \$6 million per year compared with the Regulator's proposal.

<sup>&</sup>lt;sup>3</sup> Aurora has a customer base of around 270,000 whereas the 'non-Big 3' have less than 100,000 customers each.

<sup>&</sup>lt;sup>4</sup> \$6m is the difference between our preferred CTS at a mid-range number of \$135/customer and the Regulator's draft assessment of \$156.42. The \$9-11m is the difference between our preferred CTS (using \$130-\$140/customer range) and Aurora's proposed CTS (\$172.54). All numbers are for 2022-23 expressed in \$2021.
# **RETAIL MARGIN**

Aurora's retail margin was \$101 per customer in 2021-22, which is a significant component of Aurora's regulated revenue and therefore a significant component of residential and small business electricity bills. For regulated customers, it is therefore important that the Regulator reach a well informed and robust position on Aurora's retail margin for the 2022-23 to 2024-25 regulatory period.

### **Retail Margins in Other Jurisdictions**

The Regulator has referred to benchmarks in setting Aurora's retail margin. Benchmarks have an important role to play in setting retail margins for regulated entities like Aurora and if used well, help to ensure that customers pay fairer electricity prices.

Of the information set out in the Draft Report, we found the ACCC's November 2021 update of its Inquiry into the National Electricity Market the most timely, relevant and useful in establishing retail margin benchmarks.

The ACCC found that the average retail margin across the NEM was \$49 per residential customer in 2020– 21, which equates to around a 3.4 per cent margin on their actual costs. This compares to Aurora's current retail margin of \$101 per customer or 5.7 per cent (2020-21).

The ACCC also reported that there has been a substantial decline in retail margins from 2016-17, when retail margins peaked at \$137 per average residential customer. This is a decline in the retail margin per customer of around 64 per cent from 2016-17 to 2020-21. The decreases in retail margins were observed for all mainland NEM regions.

Comparing trends in Aurora's retail margin from 2016-17 to 2020-21 (Figure 8.1 Draft Report) with the ACCC's national trends over the same period (Figure 8.2), it is clear that Aurora's retail margin is far higher than the retail margins of mainland NEM retailers and has not seen the same rate of decline.





Source: Aurora Energy's approved retail margin and customer numbers.



#### Figure 8.2 Estimated retail margin per average residential customer in the NEM (\$/customer)

Source: ACCC Inquiry into the National Electricity Market (November 2021), page 31.

Aurora's retail margin per customer declined by 7.5 per cent from 2016-17 to 2020-21, whereas the retail margin per customer of mainland NEM retailers fell by 64 per cent over the same period. Moreover, Aurora's retail margin in 2016-17 was around \$109 per customer, whereas for mainland NEM retailers it was significantly higher at \$137. This has subsequently turned around with Aurora's retail margin of \$101 per customer in 2020-21 comparing very unfavourably with just \$49 per customer across the NEM. This situation is short-changing small customers in Tasmania.

It is incumbent on the Regulator to ensure Aurora's retail margin more closely reflects these downward trends in retail margins.

We note the Draft Report identifies a number of matters which the Regulator considers limit the ACCC's findings in relation to Aurora's retail margin. While the retail margin estimated by the ACCC may not be a perfect benchmark for setting regulated retail margins, the trends are clear and should serve as a useful benchmark. Tasmania's regulated customers should see the same order of magnitude reductions in retail margins as have small customers elsewhere in the NEM.

The ACCC did not separate its retail margin benchmarks into 'Big 3' and 'non-Big 3' retailers, so the average retail margin would be heavily influenced by the 70 per cent customer share of the 'Big 3'.<sup>5</sup> However, the Regulator has not demonstrated how significant this is in setting Aurora's retail margin. We would welcome a further explanation from the Regulator on whether it is material, its magnitude and if an adjustment should be made in setting Aurora's retail margin. The Regulator may consider seeking such a breakdown of the data from the ACCC.

The Regulator claims that vertical integration within mainland NEM retailers is also a factor in lowering risk and hence the retail margin of mainland NEM retailers. However, this overlooks some key points:

• Vertical integration has been a significant presence in the NEM for at least two decades and well before the time of the ACCC's analysis. It is unlikely to have made a significant contribution to recent trends in retail margins.

<sup>&</sup>lt;sup>5</sup> The average number of customers of the largest three retailers in just under two million, whereas Aurora has around 270,000 regulated customers.

- Over the period 2016-17 to 2020-21 there has been a significant deterioration in Aurora's retail margin position when compared with mainland NEM retailers (with retail margins of the latter falling rapidly and much faster than Aurora's).
- Aurora's ownership structure displays elements of vertical integration. Its owner, the Tasmanian Government, also owns Hydro Tasmania and TasNetworks, all of which are dominant players in their respective segments of the Tasmanian electricity market.

### **Discussion of Risks**

We recognise that in determining a retail margin for Aurora there must be regard to the risks it faces or is likely to face.

### Energy Price Risk

The Regulator has determined that, compared to standalone retailers in other NEM jurisdictions, Aurora has lower than average risks relating to the WEP, setting aside volume-related risks. This is based on:

- Extensive regulation of the WEP in Tasmania and the method used being well known to Aurora, who can adopt strategies to manage this and reduce the risks. This contrasts to the riskier market settings faced by mainland retailers in the NEM.
- How the WEP is calculated being well known to Aurora, who can therefore adopt strategies, using the load following swap offers from Hydro Tasmania, to reduce their WEP risk for a specified volume of electricity, such as its forecast total load.

The Draft Report also raises the possibility that Aurora could face the risk of the Regulator changing its approach to calculating the WEP, but largely dismisses this as unlikely and subject to implementation over time.

We agree with the Regulator's assessment that Aurora has lower than average risks relating to the WEP.

#### Volume Related Wholesale Electricity Price Risks

The Regulator has assessed that Aurora faces lower risks than other mainland NEM retailers from changes in the volume of Standing Offer electricity it sells and the number of customers it sells this to. The Regulator notes in the Draft Report:

"Aurora Energy's customers comprise around 97 per cent of all residential and small business customers in mainland Tasmania. This is a much larger share than for all mainland retailers, including retailers with regulated tariffs. The Regulator's draft assessment is that Aurora Energy is subject to less risk (compared to other retailers) of large scale changes in load due to customer switching. It is not possible, for example, for Aurora Energy to experience a large increase in customer load due solely to customer switching, given its current market share. Aurora Energy may also expect to lose a smaller percentage of its customers than many retailers due to the small number of other retailers in Tasmania and their very small market share." (p.44)

We agree with the Regulator's comments regarding the circumstances Aurora faces and consider that Aurora's lower risk should be reflected in a lower retail margin.

#### Other Risks

A range of other risks are identified in the Draft Report that should reduce the retail margin:

- Aurora can recover the difference between estimated and actual outcomes for a range of costs in subsequent years. Market facing retailers do not have this luxury and would need to internalise this difference.
- The Regulator has agreed that Aurora's CTS allowance will be able to vary as customer numbers fluctuate. Retailers in competitive markets that lose market share are less able to increase their prices to recover their fixed costs as this could lead to further losses in market share.
- Aurora can seek the Regulator's approval for an adjustment to compensate for the impacts of a material change in its costs or tax changes.
- The Regulator has agreed to include in Aurora's RET costs, the prices in its long-term PPA with Cattle Hill Wind Farm. While unregulated retailers do enter into PPA's to reduce their exposure to short term RET prices, there is no guarantee that they can recover these costs, if they face competition.

We agree with this assessment.

### The Regulator's Draft Proposal

We welcome the Regulator's draft determination that Aurora's retail margin is too high and not consistent with that of mainland NEM retailers. However, we urge the Regulator to go further than reducing the retail margin from the current 5.7 per cent to its proposal of 5.25 per cent.

The significantly lower risks faced by Aurora overall (as highlighted above) and the results of recent benchmarking of retail margins suggest that this is an inadequate reduction. In particular, we refer to the most recent evidence from the ACCC's estimates from November 2021. This found an average retail margin of 3.4 per cent for mainland retailers in the NEM.

The Regulator has pointed to a lower bound of 4.8 per cent, estimated by Frontier Economics in 2019 (a less recent estimate than the ACCC's and, therefore in our view, less relevant). The Regulator's proposed retail margin does not allow for the further reductions in retail margins experienced by mainland retailers in the NEM, since 2019. This contrasts to the CTS, where the ACCC's most recent data has been used. The more recent ACCC estimate suggests to us that 3.4 per cent should be used as a lower bound and that Aurora's retail margin should be reduced further and significantly to reflect this more recent information.

Allowing for this and the lower risks faced by Aurora compared to retailers operating in competitive markets, but accepting that Aurora has fewer economies of scale than the 'Big 3', suggests to us a retail margin of around 4.5 per cent. This figure has been arrived at by using the Regulator's same approach of taking the mid-point between the lower bound – in this case estimated by the ACCC (3.4 per cent) – and Aurora's current margin (5.7 per cent), which produces a retail margin of 4.5 per cent.

The Regulator's proposal equates to a retail margin of \$96.25 per customer in 2022-23 (in 2020-21 dollars), indexed by the Hobart CPI. We note that this is well above the \$49 per customer recently estimated by the ACCC and that the impact of this on regulated customers in Tasmania will be higher electricity prices. Our derived retail margin would reduce the cost per customer to \$82.50, still \$33.50 per customer above the ACCC's estimate, but well below Aurora's ask of \$111.94 per customer.

The retail margin should also exclude a*urora+* costs if these are added to the CTS. The case has not been made in either Aurora's publically released Preliminary Submission or the Regulator's Draft Report for the

amount of the allowance in the CTS. Further, if *aurora+* costs are recovered across the whole customer base, Aurora is already profiting from those customers that either cannot access it, or choose not to use.

#### **Recommendation:**

7. We consider the Regulator's proposal to apply a 5.25 per cent retail margin, which equates to \$96.25 per customer in 2022-23 (in 2020-21 dollars), is too generous and recommend a retail margin of 4.5 per cent, or \$82.50 per customer. This is based on the relatively low risks that Aurora faces and the lower retail margins in the NEM.

# AURORA+

Aurora has proposed that aurora+ costs, currently paid on a user pays basis, be included in the regulated cost base under the 2022 Determination, such that customers would no longer pay separately for accessing this app.<sup>6</sup>

We agree that customers should not have to pay a separate fee to access the *aurora+* product.

*aurora+* provides benefits to customers with an advanced meter, including greater visibility and control over their electricity usage. It also provides a number of benefits to Aurora, including lower levels of customer debt, improved bill payments, cost savings driven by digital efficiencies and customer retention.

However, there are also a number of barriers to the take up of the app that must be considered in the context of including *aurora*+ in the cost base:

- Tasmania is the most digitally disadvantaged state, meaning we have the lowest levels in the country of digital access, affordability, skills and digital literacy.<sup>7</sup>
- Costs will be spread across all regulated customers, regardless of whether or not they use or value aurora+.
- Around half of the regulated customers will not have advanced meters at the start of the next regulatory period and therefore will not be able to access the benefits of *aurora+*, but nevertheless will be required to pay for access.
- Aurora's own projections estimate that more than half of their customers will not adopt the app by the end of the next regulatory period, but nevertheless will be required to pay for access.

### Including *aurora+* in the Cost Base

We query the level of the CTS allowance both requested by Aurora and proposed by the Regulator. Prima facie, they are an unreasonably high amount.

#### Expenditure Forecasts

The expenditure forecasts for *aurora+* have remained confidential, providing no transparency or opportunity for scrutiny on the proposed expenditure, especially the claim for an allowance of \$17.33 per customer.

As a result, consumer advocates are not able to perform any scrutiny of the proposed allowances and rely on the Regulator to undertake this analysis on our behalf, to ensure the expenditure forecasts claimed by Aurora are efficient, reasonable and provide value for money.

We encourage the Regulator to undertake an analysis of digital apps similar to aurora+ for a comparison or benchmarking of expenditure. The Tasmanian Government may be able to provide details for a number of digital apps it has commissioned, such as the *Check In Tas* app or Metro Tasmania app. Alternatively, information may be available relating to other utility (energy, telecommunications, banking) retailers' costs, or independent advice sought from app developers.

<sup>&</sup>lt;sup>6</sup> Customers using *aurora+* are currently charged 11 cents per day. With Aurora reporting 36,000 aurora+ users in October 2021, this amounts to revenue of around \$1.5 million per annum.

<sup>&</sup>lt;sup>7</sup> Thomas, J., Barraket, J., Parkinson, S., Wilson, C., Holcombe-James, I., Kennedy, J., Mannell, K., Brydon, A. (2021). *Australian Digital Inclusion Index: 2021*. Melbourne: RMIT, Swinburne University of Technology, and Telstra.

As an example, a federal parliamentary committee heard the overall cost for the build and operation of the Commonwealth Government's *COVIDSafe* app was \$7.7 million with ongoing hosting and performance improvement costs of around \$60,000 per month.<sup>8</sup> This app has been operational for more than two years, has been downloaded by more than seven million people and updated at least 17 times.

By way of comparison, Aurora has stated the costs of the initial development of aurora+ were approximately \$4 million. It is currently earning more than \$1.5 million per year in product fees and Aurora is seeking more than \$315,000 every month in maintenance costs to service an estimated 130,000 customers by the end of the next regulatory period.

While acknowledging the different functionality between the *aurora+* and the *COVIDSafe* apps, it is apparent the *aurora+* expenditure forecasts and claims for a CTS allowance warrant some serious auditing and assessment, in particular, an accounting for the value of its benefits to Aurora from efficiency gains, lower levels of debt and improved bill payments. Aurora's claims about the benefits of *aurora+* to its users and their customer experience also need to be assessed more robustly if it is to be included in the CTS and passed on to all of Aurora's regulated customer base.

Small customers are relying on the Regulator to undertake this analysis to ensure they are not burdened with inefficient costs for a product that other retailers are able to provide for free as a service offering.

### Recommendation:

8. We support the product fee being removed from the aurora+ digital app but consider the CTS allowances of \$17.33 requested by Aurora and \$14.15 proposed by the Regulator are unreasonably high. We do not believe a case has been made that justifies these costs and recommend the Regulator undertakes a comparison of expenditure forecasts for similar apps, benchmarking of app costs and a more robust assessment of user benefits and experience.

### Labour Costs

Aurora provided separate expenditure forecasts for *aurora+*, including an allocation of labour costs relating to its customer service centre. However, as commented earlier in this submission, there is not a process for allocating shared costs between regulated and unregulated activities, so the robustness of the allocations for expenditure forecasts appear open to question.

The consultant's review of Aurora's allocation of costs to aurora+ found:

"... the proposed expenditure on aurora+ was separately and appropriately accounted and that Aurora Energy's assumed call rate for aurora+ customers was reasonable."<sup>9</sup>

We note this finding relates to the way *aurora+* expenditure is presented and does not comment on whether the proposed expenditure is efficient or provides value for money. Unfortunately, due to the lack of access to important and relevant information, we are not able to assess or verify these claims and must rely on the Regulator to do so.

<sup>&</sup>lt;sup>8</sup> Official Committee Hansard (2021), *Senate Finance and Public Administration Legislation Committee Estimates*, Parliament House, Canberra, 24 May 2021, p.117.

<sup>&</sup>lt;sup>9</sup> Draft Report, p.29.

#### Marketing Costs

We note the Regulator's finding that a significant proportion of the proposed costs for the aurora+ app relate to marketing. The Draft Report notes:

"A high level of expenditure may have been reasonable when Aurora Energy was trying to encourage customers to take up the app. However, the Regulator considers that the type and overall level of marketing that is needed if an app has a separate cost to customers is different from the marketing needed if the app is free to users." (p.29)

While we acknowledge the Regulator's effort to differentiate between selling and marketing costs, we would argue that a reasonable level of awareness and consumer education is required once the app is available to all customers.

Further, we would consider that including *aurora+* in the CTS should be supported by a digital and energy literacy campaign and would welcome the Regulator's view as to whether the costs of these activities should be recovered from regulated electricity customers through higher costs, or if digital inclusion and energy literacy are broader policy remits of government which the State Government is responsible for funding through the State Budget.

#### Recommendation:

9. We recommend that the inclusion of aurora+ in the CTS is supported by a digital and energy literacy campaign and seek the Regulator's view as to whether the costs of these activities is the responsibility of regulated electricity customers, or if digital inclusion and energy literacy should be funded by the State Government through the State Budget.

#### Rate of Adoption

If aurora+ costs are included in the CTS, at the start of the next regulatory period around half the regulated customer base would face electricity bills that include the aurora+ costs but would not be able to access the benefits of aurora+ due to not having an advanced meter.

The aurora+ cost estimates assume an increasing rate of adoption of the app, from a current level of 40,000 customers to 100,000 customers in 2022-23 to 130,000 customers by the end of the regulatory period in 2024-25. Given the large increase in the rate of adoption, the Regulator is seeking further information as to the plausibility of these projections. Even if these levels are reached, it means that over half of Aurora's customers will not access the app, but will nevertheless be paying for it.

If aurora+ is included in the CTS, we recommend the application of the allowance be set proportionate to the annual rollout of advanced meters, and/or the uptake of the app. That is for example, if half of the customers have advanced meters at the start of the regulatory period, only 50 per cent of the CTS allocation is applied and is adjusted each year to match the proportionate rollout of meters.

Alternatively, if one-third of customers take up the app, then only one-third of the CTS allowance is applied and is adjusted each year to match the proportionate uptake of the app. This would provide an incentive for Aurora to ensure it meets its meter rollout milestones and targets, as well as encourage Aurora to support customers to take up connection to the app.

#### **Recommendation:**

10. If aurora+ is included in the CTS, we recommend the application of the allowance be set proportionate to the annual rollout of advanced meters, and/or the uptake of the app. This would provide an incentive for Aurora to ensure it meets its meter rollout milestones and targets, as well as encourage Aurora to support customers to connect to and use the app.

### Other Considerations

Electricity retailers operating in more competitive mainland jurisdictions provide customers with access to digital apps as part of their competitive market offers. A search on "Finder.com.au" for energy providers with apps, rates 11 brands including Aurora. Of the 11 brands, it notes Aurora's is *"the only app on the list that isn't free"*, as well as identifying other apps with additional functionality, including solar management.<sup>10</sup>

These retailers do not charge their customers for this service offering and use apps as part of their efforts to attract and retain customers. The cost of the service offered by the app is recovered through retaining existing customers, attracting new customers and saving business costs.

It could be argued the development of additional products and service offerings to attract and retain customers is the purpose of a CARC allowance. Aurora customers have already paid millions in CARC allowance, with *aurora+* customers paying an additional product fee as well.

It must also be considered that up until June 2020, Aurora provided an online portal (Aurora Online) that provided customers with **free** access to their personal energy and metering data, including: account details; current bill balance; historic bill information; energy usage and metering data over time; bill estimation; bill payments; and balance and transaction requests.

Aurora Online was delivered under Aurora's CTS but was removed and replaced with:

- an inferior online service that is forms-based, laborious (for both the customer and Aurora), slow and therefore a more costly system, that hinders a customer's ability to access their personal energy usage data conveniently and efficiently; or
- paying an additional \$40 per year in product fees to access the same benefits and features through *aurora+*.

This was a retrograde step that fails to meet the efficiencies and level of service that Aurora understands customers have come to expect:

"Aurora Energy is aware of increasing customer expectations regarding the digitalisation of customer services, particularly within the utilities sector."<sup>11</sup>

Mainland retailers also tailor the functionality of their apps (and costs) to the needs of their customers through their participation in a competitive market. If they get it wrong, they bear the costs of having done so. Competition inhibits them from passing on the costs to their customers. Including the costs of *aurora+* in its CTS allowance would remove the user-pays discipline on Aurora to provide an app that meets customers' needs and keep its costs efficient.

<sup>&</sup>lt;sup>10</sup> See <u>https://www.finder.com.au/energy-provider-apps#which-11-brands-offer-apps-and-what-do-they-do</u>

<sup>&</sup>lt;sup>11</sup> Aurora Energy, 2022 Price-Regulated Retail Service Pricing Investigation – Preliminary Submission, p.25.

In the Tasmanian retail market, 1<sup>st</sup> Energy is currently embarked on an advertising campaign in which it compares itself to its main competitor (Aurora) on a number of measures, one such being its free app. This provokes a number of questions:

- What would Aurora's competitive response be if this advertising campaign was successful in attracting a large proportion of *aurora+* customers to 1<sup>st</sup> Energy?
- Would Aurora maintain, reduce, or remove its app fee to attract and retain customers?
- If it removed the fee how would it then fund its app costs without a CTS allocation? Would it have to look to other efficiencies in order to remain competitive?
- What would 1<sup>st</sup> Energy's reaction be in response to the Regulator's decision to bestow \$11.4 million to Aurora for providing a product/service that it provides for free? Would they feel that the Regulator has granted an unfair competitive advantage to Aurora by including the app in its regulated CTS?
- What would small customers' response be to the Regulator's decision to bestow \$11.4 million to Aurora for providing a service that other energy retailers, utilities and businesses can provide for free?

We urge the Regulator to carefully consider these questions before determining a CTS allowance for *aurora+*.

# The Regulators Draft Proposal

The Regulator's draft proposal will result in aurora+ costs of an average of \$14.15 per customer (\$2020-21) over the next regulatory period (down from around \$40 presently and Aurora's proposal of \$17.33). This proposal will increase aurora+ revenue from \$1.5 million per annum (on current customer numbers) to \$3.8 million per year, assured through inclusion in regulated costs.

We are not convinced that this is a good outcome for small customers, even allowing for the larger *aurora+* user base that is forecast by Aurora and the resultant reduction in costs per customer. Further, we do not believe both Aurora and the Regulator have sufficiently or reasonably justified the cost per customer allowance in the CTS proposed in the Draft Report.

The lack of transparency in the *aurora+* expenditure forecasts makes it difficult for Aurora or the Regulator to justify these costs, or for consumer advocates to undertake any reasonable assessment as to whether the app costs are efficient or comparable to similar products in the market.

Given the concerns we have raised, while we support the product fee being removed from a*urora+* and the app being available to all customers for free, we seriously question Aurora's claim for a \$17.33 CTS per customer and the Regulators proposal of a \$14.15 CTS per customer.

We do not accept the case has been made for this additional cost without the evidence that demonstrates:

- the costs are efficient;
- the costs have been compared and benchmarked with similar apps;
- the product functionality meets customers' needs.

We expect the Regulator to act in the interests of small customers and rigorously interrogate and assess aurora+ costs and functionality, as well as require Aurora to demonstrate how aurora+ can reduce its costs and deliver greater efficiencies from digitalising its product offerings.

**Recommendation:** 

**11.** We recommend the Regulator undertakes additional work to establish that aurora+ costs are efficient and its functionality is beneficial to customers, as well as require Aurora to demonstrate how it can use aurora+ to reduce its costs and enhance its revenue to offset its inclusion in the CTS.



# **Report** for



# Tasmanian Residential Electricity Prices – How Do They Compare?



February 2021

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### Acknowledgement and Disclaimer

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Limitations of Analysis

The analysis provided has a number of inherent limitations, including but not limited to the following.

The analysis is based on historic information. Market, policy and regulatory changes are likely to impact on future energy prices, therefore this analysis has inherent limitations.

All prices are expressed exclusive of GST.

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# **KEY POINTS**

- We undertook an analysis for TasCOSS of Tasmanian residential electricity prices compared to six mainland jurisdictions.
- We assessed seven options to do this and used the AEMC annual price trends reports as it was the best option to meet the project scope in a realistic way. This was an 'on balance' decision as no single series was perfect.
- We found that relying on residential electricity prices alone did not provide a good enough basis for comparison. Electricity bills are equally, if not more, important for advocacy purposes and resonate more with residential electricity consumers.
- Our report shows that Tasmanians have historically had access to among the lowest electricity prices in the country. They currently have the second lowest electricity prices and the second lowest regulated prices.
- So, the Government's promise of Tasmania having the lowest regulated electricity prices in the country by 2022 has not yet been delivered, but it is within reach.
- However, the Government's promise is not particularly meaningful to Tasmanian households. Regulated prices are not a good benchmark for jurisdictional comparisons. Market prices overwhelmingly apply outside Tasmania and, in any case, electricity bills rather than prices are what households are focused on.
- Tasmanians currently pay the highest electricity bills in the country and historically have had high bills. This reflects the high level of electricity consumption in Tasmania, which is driven by factors such as a relatively cool climate and a low penetration of natural gas.
- It would be better if the Government's promise were adjusted to reflect this. In our view the policy should be based around the aim of Tasmania having the most affordable and competitively-priced electricity in the country.
- To reduce Tasmania's high electricity bills requires continued attention to lower prices, as well as lowering consumption through greater energy efficiency.
- Our results show that ongoing advocacy by TasCOSS on all elements of electricity bills – wholesale, network, green scheme and retail charges – will be necessary to focus policy on the delivery of lower electricity prices and bills to Tasmanians.
- The best and most immediate opportunities appear to be attention to focus effort on wholesale and retail charges as regulated wholesale and retail costs are high compared to elsewhere in the NEM.
- The Government's residential price cap and approach to regulating wholesale prices has been well intentioned and initially benefitted Tasmanians. However, with Victorian wholesale market prices having now reduced to record lows, Tasmanians are currently paying far more than if Victorian wholesale market prices applied. Taken over the current policy's four-year life, Tasmanians paid lower electricity prices in the beginning, but are now paying higher prices, although they have had more stable prices.
- Our assessment of Government electricity concessions paid to disadvantaged consumers (we only assessed the main concession), showed that Tasmania has the second highest concession by value and that after the concession is applied, their bills reduce significantly. This bridges some of the gap between high Tasmanian bills and those on the mainland. However, concession holder bills are still the third highest in the country.
- We have highlighted numerous advocacy issues and made 12 associated recommendations for TASCOSS to consider in terms of its electricity advocacy.



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# **EXECUTIVE SUMMARY**

Electricity prices in Tasmania have been a matter of concern to consumers and their advocates for at least the past decade. Cost of living pressures and periods of significant increases in electricity prices, seen by households in their electricity bills, has heightened these concerns, with vulnerable consumers among the worst impacted. To better understand these concerns, TasCOSS commissioned us to undertake an analysis of Tasmanian electricity prices and compare them to those in other parts of Australia.

### Which electricity price series and consumption measures to use

We undertook a detailed assessment of five available measures that allow Tasmanian (Tas) residential electricity prices and annual electricity bills to be compared with those from mainland jurisdictions, namely New South Wales (NSW), Victoria (Vic), South East Queensland (SE Qld), Western Australia (WA), South Australia (SA) and the Australian Capital Territory (ACT). However, none provide a perfect measure, so we had to make an 'on balance' decision about which series to use.

We assessed each series against a common set of criteria that reflected the needs of the study. This informed our decision to rely primarily on information provided by the Australian Energy Market Commission's (AEMC) annual Energy Price Trends Reports, supplemented where relevant by the St Vincent De Paul Society (SVDP) Tariff Tracker and Office of the Tasmanian Economic Regulator (OTTER) electricity price comparisons.

We also discussed the important role that differences in electricity consumption play in influencing electricity bills and favoured the use of jurisdictional specific average annual consumption levels over a uniform level of average household electricity consumption in comparing electricity bills. The AEMC series uses estimated average consumption levels for each jurisdiction. Tasmania has the highest household electricity consumption levels in Australia and this has a significant impact on household electricity bills.

### How Residential Electricity Prices are Set

Residential electricity prices in Tasmania are primarily set by regulation through the independent regulator, OTTER, using information on each component of an electricity bill – wholesale costs, network charges, environmental (green) scheme costs and retail costs. This provides Aurora Energy with an annual maximum revenue allowance, from which it develops retail tariffs for small customers that enable it to collect this revenue.

Wholesale costs are normally set with reference to the Victorian (load following swap) market determined price recognising the strong links between Tasmanian and Victorian wholesale prices. But these prices are volatile. In 2017 Victorian wholesale prices spiked, particularly due to the imminent closure of the large Hazelwood brown coal power station in Victoria. The Tasmanian Government responded by placing a cap on retail price increases of no more than the Hobart CPI and by allowing the Treasurer to step in and determine a Tasmanian wholesale price to be used by OTTER in setting Aurora's revenue for the next year. These arrangements are due to expire on 30 June 2021. In 2018, the Government gave a commitment that Tasmania would have the lowest regulated electricity prices in the country by 2022.



In their first two years (2017/18 and 2018/19), with high Victorian wholesale prices, these arrangements worked to lower Tasmanian household electricity prices. However, Victorian wholesale prices have now softened considerably. With a muted regulatory response to lower Victorian wholesale market prices, the setting of wholesale prices in Tasmania has not worked as well since, with Tasmanian households paying almost the same in 2019/20 and around 10 per cent more in 2020/21 for their power than they would have if the Victorian wholesale market price had applied. However, the policy has delivered less price volatility, which is also important to residential consumers.

This highlights one of the risks for consumers of the Tasmanian regulated wholesale price arrangements. The Ministerial determination of wholesale prices and setting them a year ahead of actual outcomes will not always work to benefit consumers. The wholesale price of electricity in Tasmania also lacks transparency. We have highlighted several other issues associated with the arrangements that would be worth examining further.

In other parts of the NEM, residential electricity prices are primarily set through the market, relying on competition between retailers. However, in NSW, Vic, SE Queensland and SA regulators determine default market offers that each retailer must offer customers. These have replaced retailer determined standing offers. In the ACT the regulator determines the standing offer, whilst in WA the Government sets a uniform retail price. The recent entry of several new retailers into the Tasmanian market has seen market offers of around 5-7 per cent below Aurora's offer being made available.

### **Tasmanian Residential Electricity Prices and Bills**

Tasmanian electricity prices and electricity bills for a typical household increased significantly from 2010/11 and 2012/13 driven by across-the-board increases in wholesale, network and retail costs. The next three years saw significant declines in both prices and bills, after which they began to increase again and have continued to do so until 2019/20. The large spike in prices early in the period continues to be felt by households with annual bills rising from \$1,337 to \$1,945 over the period 2009/10 to 2019/20, a 45 per cent increase, more than double the Hobart rate of inflation over the same period of 22 per cent.

Our examination of the components of Tasmanian residential electricity bills (the bill stack) showed that all four components – wholesale, network, green schemes and retail – have at times contributed to the higher electricity prices/bills. We believe that TasCOSS should therefore focus its attention and advocacy on all four components.

### How Do Tasmanian and Mainland Residential Electricity Prices and Bills Compare?

We undertook a comparison of Tasmanian prices and bills with the mainland jurisdictions of NSW, Victoria, SE Queensland, WA, SA and the ACT. In 2020/21, Tasmania has the second lowest average prices but the highest annual bills, reflecting the relatively high consumption of electricity by Tasmanian households. Bills are what matters most to households and ensuring energy remains affordable. This price-bill dichotomy means that the State Government must have policies that keep power prices and energy use as low as possible to help offset its high consumption disadvantage. Our analysis suggests that they have been partly successful in moderating prices but taken limited action on energy use and energy affordability. Tasmanians would benefit if the Government maintained a commitment to low electricity prices and also focused more on energy use and affordability in future.



Tasmania had the second lowest electricity prices in 2009/10, after which its prices increased markedly until 2011/12, before declining and then increasing again until 2019/20 but at a slower rate. Residential electricity prices in SE Queensland, which declined rapidly from 2016/17, are now lower than in Tasmania. Forecasts suggest that expected price declines in SE Queensland will outpace those in Tasmania over 2021/22 and 2022/23, with the former continuing to have the lowest residential electricity prices.

In terms of trends in annual average residential electricity bills, Tasmania has had the highest bills for most of the period examined, including in 2020/21. Forecasts suggest that the ACT will have higher bills by 2021/22.

OTTER and the SVDP Tariff Tracker rank Tasmanian residential electricity bills in the midrange as they both use uniform consumption levels across all jurisdictions.

### The Story Behind the Jurisdictional Comparisons

The story behind these jurisdictional relativities can be gleaned from the price and bill stack for residential electricity consumers, that is, the wholesale, network, green and retail costs.

Wholesale prices usually make up around 35 per cent of electricity bills nationally and in Tasmania. From 2009/10 until 2012/13 Tasmanian wholesale prices increased rapidly, but since 2016/17 they have consistently been among the lowest of all the jurisdictions assessed, closely followed by SE Queensland. Declines in SE Queensland were particularly sharp and by 2020/21 SE Queensland has overtaken Tasmania to record the lowest wholesale prices.

Wholesale prices across the NEM, including in Tasmania, increased significantly in 2016/17 and 2017/18, reflecting the impact of the closure of the major Hazelwood brown coal power station in Victoria and (in Tasmania) low dam levels and a prolonged outage of BassLink. They have since softened and the outlook for wholesale prices is for a further decline in 2020/21 but an increase in 2022/23 in most jurisdictions, including Tasmania.

Turning to the impact of wholesale prices on electricity bills, Tasmania's ranking has fluctuated from mid- to high-ranking over the period assessed. It currently has the second lowest wholesale costs, but the highest wholesale bill component. The increases in wholesale prices referred to above also impacted electricity bills significantly. Forecast declines in wholesale prices are expected to result in further reductions in the wholesale component of residential bills in most of the NEM in 2021/22, including in Tasmania. Tasmanian wholesale costs are currently around \$280 higher than in Victoria, notwithstanding the regulated nature of wholesale prices in Tasmania and their mandated close links to Victorian prices.

In 2020/21, network charges make up 46 per cent of an average household electricity bill nationally and 40 per cent in Tasmania. Tasmanian network charges were the second highest in the country in 2009/10 (9.80 c/kWh) and by 2020/21 had fallen to the second lowest (9.71 c/kWh). In the intervening period they increased dramatically until 2011/12 but declined thereafter. A range of national regulatory imperfections made a significant contribution to increases in network charges across all jurisdictions immediately after 2009/10. While some have been improved since, shortcomings remain and TasCOSS should maintain strong interest in TasNetworks' next determinations. Looking forward to



2022/23, Tasmanian network prices are expected to increase, with TasNetworks' previous cost reductions abating.

In terms of the contribution of networks charges to bills, Tasmania ranks second highest and is forecast to remain there. This reflects high levels of electricity consumption, a dispersed network and inefficiency within TasNetworks, especially in distribution (as shown by AER benchmarking). Tasmanian residential consumers are currently paying \$304 (40 per cent) more per year than Victorian households for network charges.

Federal and jurisdictional Green Schemes have become a feature of the Australian electricity market over the past two decades. At the Federal level, the Renewable Energy Target (RET) supports large-scale (wind) and small-scale (solar) renewables, whilst all jurisdictions have solar feed-in-tariffs and NSW, Victoria and SA have energy efficiency schemes in place. The cost of these schemes flows through to customers via retailers.

In 2020/21 Tasmania ranks as the lowest jurisdiction in terms of the impact of Green Scheme costs on prices, with scheme costs kept lower by the absence of any State schemes in the AEMC's measurement of Tasmanian electricity prices. However, its high electricity consumption meant that Tasmania ranks second highest in terms of the impact of green schemes on bills. Currently Tasmanian residential consumers pay \$178 annually in Green Scheme costs. Forecasts suggest a fall in green scheme costs over 2021/22 and 2022/23 across all jurisdictions, including in Tasmania.

Retail costs, the final component, which account for 16 per cent of residential electricity bills in Tasmania but only 11 per cent nationally. In Tasmania, the retail component amounts to 3.96 c/kWh in 2020/21, making it the second highest in the country, whilst it contributed \$302 annually to a Tasmanian residential electricity bill, also the second highest. Annual retail costs were as low as \$102 in 2009/10.

While the small Tasmanian market adversely impacts on economies of scale, which are important in retailing, Tasmanian retail costs may also be relatively high due to Aurora's dominant position, and it being allowed a retail margin and CARC more akin to a competitive market. These are issues that TasCOSS could consider examining further.

COVID19 has impacted household electricity consumption and increased bills. Jurisdictions and regulators have responded by providing financial assistance to impacted consumers, boosting concessions, capping electricity prices and through regulatory measures. Tasmanian consumers and concessions holders appear to have received less support than elsewhere.

### Impact of Electricity Concessions on Electricity Bills

Various electricity concessions provided by all jurisdictions are an important way in which the cost of electricity is reduced to vulnerable and disadvantaged consumers. Given this, we undertook an analysis of the impact of the main electricity concessions in each jurisdiction on electricity bills and how Tasmania's concessions compare.

Concessions have the desirable effect of reducing electricity bills for the most vulnerable sections of the community. However, there is quite significant variation in the value of concessions across jurisdictions. Tasmania's main electricity concession is the second highest at \$514 pa, which equates to a 26.8 per cent discount off a typical concession holder's annual electricity bill (this percentage discount ranked as the third highest).



Our analysis also showed that concessions have a desirable impact in evening up electricity bills across jurisdictions, as those with the highest bill generally also have the largest concessions. Tasmania ranks as the jurisdiction with the highest bills before the application of the concession and the second highest post-concession. Its relatively high concession results in a significant reduction in the gap between bills for Tasmanian concession holders compared to all jurisdictions (apart from the ACT).

Our analysis of concessions, whilst useful, would be strengthened if it were extended to several other areas identified in Section 7.3.

### Policy and Advocacy Issues

The Tasmanian Government has made a commitment to have "the lowest regulated electricity prices in Australia by 2022". OTTER analysis shows that it had the second lowest regulated prices in June 2020. This is, however, a commitment with limited value to consumers given that regulated prices in other parts of the NEM are little used by consumers. Market prices are far more common and electricity bills have more meaning to households. While a future Government commitment linked to electricity could be useful to Tasmanian households, one that is linked to the lowest market prices and the annual household electricity bill would be preferable. TasCOSS could usefully focus its advocacy of both bills and prices, as well as improvements in energy use. In our view the policy should be based around the aim of Tasmania having the most affordable and competitively-priced electricity in the country.

The current price cap and wholesale price regulatory arrangements are due to expire on 30 June 2021. It is not yet known what will replace them, or if Tasmania will delink permanently from the NEM wholesale market. Given their importance to household consumers, TasCOSS should advocate on these policy issues to the Government and Treasury, ensuring that its efforts are well informed.

Section 8.3 has identified several shortcomings in the existing available household electricity price comparison series. It would be useful if TasCOSS advocated to close these gaps to improve both the price comparisons and the ability of household and disadvantaged consumers (as well as advocates) to access better and more timely comparative information about electricity prices.

Further work on energy concessions and COVID19 measures focused on their impacts on consumers, along the lines outlined in this report could provide valuable information for TasCOSS advocacy on these areas and help improve its effectiveness.

### Recommendations

We have provided TasCOSS with 12 focused recommendations that emerge from this report (see Section 9.2).



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# ABBREVIATIONS

ABS	Australian Bureau of Statistics						
ACT	Australian Capital Territory						
AEMC	Australian Energy Market Commission						
AER	Australian Energy Regulator						
c/kWh	Cents per kilo Watt hour						
CARC	Customer Acquisition and Retention Costs						
CER	Clean Energy Regulator						
CPI	Consumer Price Index						
DMO	Default Market Offer						
FIT	Feed-in-Tariffs						
Goanna	Goanna Energy Consulting Pty Ltd						
kW	kilo Watt						
kWhpa	Kilo Watt hours per annum						
LRET	Large Renewable Energy Target						
MLF	Marginal Loss Factors						
MW	Mega Watt						
MWh	Mega Watt hour						
NEM	National Electricity Market						
NMR	Notional Maximum Revenue						
NSW	New South Wales						
NT	Northern Territory						
OTTER	Office of the Tasmanian Economic Regulator						
RET	Renewable Energy Target						
SA	South Australia						
SE QId	South East Queensland						
SRES	Small-scale Renewable Energy Scheme						
SVDP	St Vincent De Paul Society						
Tas	Tasmania						
TasCOSS	Tasmanian Council of Social Services						
ToU	Time-of-Use Tariff						
VDO	Victorian Default Offer						
Vic	Victoria						
WA	Western Australia						
WEC	Wholesale electricity cost						
WEP	Wholesale electricity price						



# **1** INTRODUCTION

Electricity prices in Tasmania have been a matter of concern to consumers and their advocates for most of the past decade. Cost of living pressures and periods of significant increases in electricity prices, seen by households in their electricity bills, has heightened these concerns. Electricity prices have placed additional pressure on household budgets. Vulnerable and disadvantaged consumers have been even more severely impacted. These pressures have remained real and foremost in the minds of Tasmanian electricity consumers, notwithstanding important steps taken by the Tasmanian Government to help relieve electricity price pressures.

One question that emerges from these pressures is how do the prices Tasmanian households pay for their electricity compare to the rest of Australia? Are Tasmanian electricity prices fair and affordable, or are they too high? Are socially disadvantaged consumers disproportionately impacted?

Bearing the above in mind, TasCOSS has commissioned Goanna Energy Consulting Pty Ltd (Goanna) to undertake an analysis of Tasmanian electricity prices and compare them to those in other parts of Australia. This report presents the results of our analysis, raises issues based on that assessment and makes a series of associated recommendations for TasCOSS to consider.

The Report is structured as follows:

- Section 2 sets out the scope of the assignment, its objectives and desired outcomes, and notes some limitations on the original scope.
- Section 3 discusses the various publicly available measures of electricity prices in Australia and assesses their usefulness in terms of this study.
- In Section 4, we describe how electricity prices in Tasmania and in other jurisdictions included in this study are set.
- Section 5 assesses and discusses Tasmanian electricity prices and annual bills, their trends over the past decade and their composition in terms of the electricity supply chain.
- We then go on (in Section 6) to place Tasmanian electricity prices in a national context (historically and forward looking), where we compare trends in Tasmanian prices and annual bills with those in other Australian jurisdictions, as well as assessing the contribution of the various supply chain components of electricity prices/bills to changes in jurisdictional electricity prices and rankings.
- The impact of electricity concessions on electricity bills in Tasmania and in other jurisdictions is assessed in Section 7.
- A range of relevant electricity policy and advocacy issues are raised in Section 8, including those related to Tasmania's relative electricity prices/bills, the current Tasmanian electricity price cap and the setting of wholesale prices, electricity concession issues and the need for further work to develop better price information.
- Finally, our conclusions and recommendations are presented in Section 9, including an assessment of these in terms of the study's scope, objectives and outcomes.



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# 2 PROJECT SCOPE, OUTCOMES AND OBJECTIVES

Goanna has been asked by TasCOSS to address the following matters in this report (the **scope**):

- 1. How should Tasmanian electricity prices be measured and compared with those in other parts of the country to obtain a meaningful and robust price comparison?
- 2. Is such a comparison possible using only existing data?
- 3. What are the differences/benefits of current measures such as Tariff Tracker, Energy Made Easy, Energy Compare Victoria, other private comparator sites/tools, Australian Energy Regulator (AER) State of the Energy Market reports, Australian Energy Market Commission annual pricing reports, Office of the Tasmanian Economic Regulator (OTTER) standing offer reports and the like?
- 4. Would Tasmanian consumers receiving the lowest regulated price in the country be better-off than customers on unregulated prices elsewhere in the NEM? Would the outcome of this analysis differ for low income and vulnerable consumers, household consumers in the broad and smaller consumers in general? Are any non-price factors relevant to such an assessment?
- 5. What do the results of the research say about the Tasmanian Government's current policy of capping residential electricity prices compared to alternative approaches?
- 6. Is the current approach of using the wholesale cost of power in Tasmania to set the wholesale price in the best interests of household consumers, or would consumers be better off with an alternative approach, e.g., using the Victorian wholesale market price?
- 7. What avenues and processes might TasCOSS have to feed the research findings into the price setting, policy and regulatory processes both in Tasmania and nationally? What gaps might need to be overcome to make TasCOSS advocacy in this regard as credible as possible?

We previously indicated that the original scope as outlined above will be difficult to complete given the resources currently available for the project, but we have partially delivered on the scope and have used our best endeavours to do so. However, gaps remain. Where this is the case, we have identified a way forward for the scope to be fully completed and raised other relevant issues. In any case, we believe that the contents of this report will be useful to TasCOSS in undertaking initial advocacy on Tasmanian residential electricity prices. TasCOSS can seek to broaden and deepen the analysis to overcome remaining gaps.

Based on this scope, TasCOSS identified the following *outcomes* from the project:

- a. That Tasmanian consumers, the Tasmanian Government and other stakeholders are well-informed of Tasmania's electricity prices relative to the NEM.
- b. That Tasmanian and interstate prices are easily compared using a pricing tool/measure.
- c. That energy affordability is improved by influencing the price-setting process.

The project scope limitations alluded to above also limited our ability to deliver all the outcomes sought by TasCOSS, but we believe that this report at least allows some progress to the made by TasCOSS in pursuit of these outcomes.



TasCOSS set the following *objectives* for the project:

- To use the findings and results of this project to inform its advocacy on energy affordability.
- To ensure Tasmanian consumers are paying the lowest possible electricity prices.
- To provide the evidence-base for TasCOSS to influence government, decisionmakers and key stakeholders.
- TasCOSS advocacy activities will include:
  - participating in the review process for the setting of electricity prices post the removal of the price cap in 2021;
  - o consultations with the community services sector;
  - o submissions to government; and
  - engagement with the Tasmanian Government, Department of Treasury and Finance, and the Tasmanian energy businesses.

We have taken these objectives into account in delivering on the project scope. We believe that our report will assist TasCOSS in pursuing these objectives.

Tasmanian Residential Electricity Price Comparisons Page 17



# 3 ASSESSMENT OF RESIDENTIAL ELECTRICITY PRICE INFORMATION

To robustly determine how Tasmanian residential electricity prices compare with those in other jurisdictions, it is necessary to have a data set that allows such a comparison to take place. We have therefore examined all the relevant publicly available data in terms of their ability to do this.

In summary, the following either make such an assessment or would allow one to be undertaken:

- The Australian Energy Market Commission (AEMC) produce an annual comparison of residential electricity prices and annual bills for all Australian jurisdictions except the Northern Territory (NT) and show trends in prices and bills.<sup>1</sup>
- St Vincent de Paul Society (SVDP) and Alviss Consulting produce an annual comparison of residential electricity bills for all National Electricity Market (NEM) jurisdictions (Tariff Tracker project).<sup>2</sup>
- The Office of the Tasmanian Economic Regulator (OTTER) provide a biannual comparison of Tasmanian residential electricity prices and bills compared to those in all mainland jurisdictions.<sup>3</sup>
- The Australian Energy Regulator (AER) provide information on retail electricity price changes for each NEM jurisdiction in their annual State of the Energy Market Report.<sup>4</sup>
- The Australian Bureau of Statistics (ABS) produces an index of national and capital city residential electricity prices as part of its Consumer Price Index.<sup>5</sup>
- The AER has a retail electricity price comparator web site *Energy Made Easy* that covers New South Wales (NSW), Queensland (Qld), South Australia (SA) and Tasmania (Tas), whilst the Victorian Government has a separate site entitled *Energy Compare*.<sup>6</sup>
- There are various privately operated comparator websites.<sup>7</sup>

We undertook a detailed assessment of each of these measures in terms of their ability to provide the type of information that would allow a meaningful and robust comparison of electricity prices to take place. This is discussed in more detail in Appendix A. It is worth noting, however, that none of the available measures is perfect in terms of the objectives of this project and a choice needed to be made that balanced the strengths and weaknesses of each in terms of the project scope.

<sup>&</sup>lt;sup>1</sup> Australian Energy Market Commission, *Residential electricity price trends 2020, Final report*, 21 December 2020, and various other years.

<sup>&</sup>lt;sup>2</sup> St Vincent de Paul Society and Alviss Consulting, *The NEM – Moving towards a new normal?*, Melbourne, November 2020, and various other years.

<sup>&</sup>lt;sup>3</sup> Office of the Tasmanian Economic Regulator, *Comparison of Electricity and Gas Prices Available to Small Customers in Australia*, Report, September 2020 and various other years.

<sup>&</sup>lt;sup>4</sup> Australian Energy Regulator, State of the Energy Market 2020, and various other years.

<sup>&</sup>lt;sup>5</sup> Australian Bureau of Statistics, *Consumer price index*, cat. no. 6401.0, various issues.

<sup>&</sup>lt;sup>6</sup> Energy Made Easy website (<u>www.energymadeeasy.gov.au</u>) and Victorian Energy Compare website (<u>www.compare.energy.vic.gov.au</u>).

<sup>&</sup>lt;sup>7</sup> For example, Beatyourbill, Compare the Market, Energy Watch, Finder, iSelect are some of the third-party sites and NEM retailers allow consumers to compare their bill to that retailer's market offers.



## 3.1 WHICH COMPARISON SERIES IS MOST FIT-FOR-PURPOSE?

None of the price comparison options assessed provide a perfect solution to the objectives and scope of this project. We show an assessment of each option against key selection criteria in Table 1 below. Ultimately, our choice needed to be made 'on balance'.

Based on the information in the table and the detailed assessment of each comparison option outlined in Appendix A, we have opted to base our comparisons on the AEMC series as the primary source, supplemented where necessary by the SVDP Tariff Tracker and OTTER's comparisons.

We placed most weight on the ability of each series to provide robust, meaningful and reasonably consistent comparisons across as many jurisdictions as possible (using both prices and annual bills), to allow supply chain impacts to be assessed and to allow changes in prices over time to be assessed reasonably consistently. An ability to forecast prices reasonably accurately was also considered useful given TasCOSS and other consumer advocates would be interested in assessing how prices might change in future. It should be noted that further work to include tools allowing real time comparisons, direct user-based price comparisons and other online tools could change this choice.

## 3.2 A WORD ABOUT ELECTRICITY CONSUMPTION

The level of electricity consumption will impact the size of a household's annual electricity bill. Annual bills will generally increase as the (use) consumption of electricity increases. We use electricity consumption numbers taken from the AEMC's reports unless indicated otherwise. Appendix B shows the consumption numbers used for each year of the period assessed and discusses the use of these.

It should be noted that electricity consumption varies significantly from one jurisdiction to another, reflecting factors such as differences in climate, the availability of alternative fuels, such as natural gas and the penetration of small-scale solar installations. This can have a significant impact on electricity bills. Of particular importance for this report is that Tasmania has the highest average electricity consumption in Australia, reflecting its cool climate, and lower penetrations of natural gas and solar. Its average household electricity consumption level is 10 per cent higher than the next highest jurisdiction (ACT) and double that in Victoria (the jurisdiction with the lowest average electricity consumption).

An alternative approach would be to assume a common level of electricity consumption across all jurisdictions. For example, the OTTER report applies the Tasmanian average annual household electricity consumption level across all jurisdictions to standardize bill comparisons. This is a perfectly legitimate approach. SVDP also do this but use a NEM average household consumption level. On the other hand, the AEMC apply a separate average level of household electricity consumption to each jurisdiction. This is also legitimate and provides a truer picture of annual electricity bills across jurisdictions according to how local factors impact bills. Each approach will have its strengths and weaknesses. We have adopted the AEMC's approach of applying jurisdictional average household consumption. Other things being equal, this results in higher Tasmanian household electricity bills.



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#### Table 1: Price Comparison Series Assessed Against Key Criteria

Key Criteria	AEMC	SVDP	OTTER	AER	ABS	Govt Comparators	Private Comparators
Compares residential prices	Average of lowest market offers	Can be derived	Median market offer; fixed & variable charges	Change in prices only	Price index	All retailer public market offers; raw data	Certain offers only; raw data
Compares annual bills	Average of lowest offers by jurisdiction	Average bill for each market network area	Based on median market offers for each network	Based on market offers for each network	×	All retailer public market offers; raw data	Based on certain offers only; raw data
Consumption basis	Jurisdictionally based	Uniform 6,000 kWhpa for all comparisons (with flexible data sheet)	Tas average 8,422 kWhpa (non- concession) and 6,688 kWhpa (concession) used	Jurisdictionally based	×	Vser inputted	Mainly user inputted
Offers included	All published offers (except solar and ToU)	All offers	277 based on Tas tariffs (incl ToU and sloar)	All single rate tariff offers	×	All published	Only certain offers
Market & standing offers	~	~	~	~	X Survey of households	~	Mainly certain offers only
Number of jurisdictions	All except NT (from 2019) & WA (for 2020)	NEM plus some WA and NT data	All	NEM only	All capital cities	NEM only	All with market offers (excl WA & NT)

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Key Criteria	AEMC	SVDP	OTTER	AER	ABS	Govt Comparators	Private Comparators
Concessions included	×	×	$\checkmark$	×	×	~	$\checkmark$
Time series included	~	~	Standing offers only	~	~	×	×
Supply stack included	>	✓ Based on AEMC	×	×	×	×	×
Forecasting	2 years ahead	×	×	×	×	×	×
Real time dynamic prices	×	×	×	×	×	~	~
Controlled- load tariffs included	~	~	~	×	×	~	~
ToU tariffs included	×	~	$\checkmark$	×	×	~	$\checkmark$
Solar tariffs included	×	$\checkmark$	×	×	×	~	$\checkmark$
National price series	~	×	×	×	×	×	×
Workbooks published	✓ Only recent years	~	×	×	×	Not applicable	Not applicable
Online tools	X	$\checkmark$	X	X	X	$\checkmark$	$\checkmark$

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# 4 How Residential Electricity Prices Are Determined

In this section, we outlined how residential electricity prices are determined. We begin by looking at how Tasmanian residential electricity prices are set and then briefly outline how this compares to the other jurisdictions included in this study.

## 4.1 SETTING TASMANIAN RESIDENTIAL ELECTRICITY PRICES

Electricity prices for most residential consumers in Tasmania are regulated. They are normally determined through a public determination process undertaken by OTTER, usually every 5 years, with annual price adjustments in between. At present Tasmanian residential consumers are also subject to a Government price cap, which is due to expire at the end of 2020/21. We discuss this price cap in more detail in Section 4.2.

Regulated prices are set by a building block process, whereby OTTER determines Aurora Energy's regulated revenue by building up a stack of costs that together make up its annual revenue allowance and from which Aurora (the State's only regulated offer retailer) sets its regulated retail prices (known as standing offers). The building blocks used are:

- The wholesale electricity cost (WEC) is determined by OTTER each year using the weekly load following swap<sup>8</sup> prices for Victoria (adjusted for the costs of exporting over the BassLink interconnector and transmission losses);
- Prevailing network charges, made up mainly of transmission and distribution costs, determined by the AER.
- Green scheme costs, which in Tasmania equates to the costs of the Federal Large Renewable Energy Target (LRET) and the Small-scale Renewable Energy Scheme (SRES) obtained through the Clean Energy Regulator (CER); and
- Retail costs comprising a cost to serve customers, including Customer Acquisition and Retention Costs (CARC) and a retail margin.<sup>9</sup>

OTTER uses these building blocks to determine Notional Maximum Revenues (NMR) for each year of the regulatory period<sup>10</sup> from which Aurora set retail tariffs for OTTER approval.

The main tariffs applying to residential electricity consumers are:

- Tariff 31 a general use tariff with a fixed daily and a single variable energy use component.
- Tariff 41 a low-rate tariff comprising a fixed daily and a variable energy use component and used for controlled load situations involving space and water heating.

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<sup>10</sup> Any over- or under-recovery of the NMR is adjusted in subsequent periods.
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<sup>&</sup>lt;sup>8</sup> A contract to trade a fixed amount of electricity for a certain price at all times in a day. Economically, this arrangement results in a perfect hedge of the volumes sold for changes in the spot price as there will never be a mismatch in volumes between the actual volumes of electricity sold into the grid and the notion of the load following swap.

<sup>&</sup>lt;sup>9</sup> The only costs calculated by OTTER during the retail tariff determination process are the retail costs, with the remainder being determined exogenously, as explained above.


• Tariff 93 – a relatively new Time-of-Use (ToU) tariff made up of a fixed daily component and a usage component that varies with the time of day (i.e., peak and off-peak times with a lower rate applying to the latter). Tariff 93 is still in limited use.

#### 4.2 TASMANIAN GOVERNMENT'S REGULATED ELECTRICITY PRICE CAP, WHOLESALE PRICE

#### ORDERS AND LOWEST REGULATED ELECTRICITY PRICE COMMITMENT

On 2 May 2017, the Treasurer introduced legislation that amended how wholesale electricity prices are regulated in Tasmania.<sup>11</sup> These provided the Treasurer with the power to:

- Set the wholesale electricity price that is used in calculating the WEC in the NMR by means of a Wholesale Electricity Price (WEP) Order; and
- Issue a Ministerial Notice specifying the criteria the Regulator must take into account when assessing proposed standing offer prices.

If the Treasurer considers that the market referenced mechanism described in Section 4.1, which normally determines the wholesale electricity price, is not delivering a price consistent with the actual wholesale cost in Tasmania, the Treasurer may issue a WEP Order determining the price to apply, although the way in which this is done and the Tasmanian wholesale costs involved are rather opaque. This enables the removal of external price shocks that may occur on the mainland, from impacting the Tasmanian wholesale price and the WEC. At the time, the Government was responding to large wholesale price increases in the NEM, particularly resulting from the imminent closure of the Hazelwood power station in Victoria, greater use of intermittent renewable electricity generation and uncertainty around the future of base load generation capacity that was expected (at the time) to keep wholesale prices high.

It should be noted that, in more recent times, contrary to the expectation of high prices, the NEM has experienced a period of low wholesale prices. Consequently, the Treasurer did not issue a WEP Order for 2020/21, but instead allowed OTTER to determine the WEP using the Victorian reference price.

A Ministerial Notice was issued on 9 July 2017 requiring that, for a Typical Customer with medium Tariff 3I/Tariff 41 usage, the change in annual bill should not exceed 2 per cent.<sup>12</sup>

Consistent with an election promise the Government made in 2018, on 26 July 2018, the Treasurer extended the Government's commitment to have "the lowest regulated electricity prices in the country by 2022."<sup>13</sup> The was part of an election commitment to act on the cost of living and provided for increases in regulated electricity prices for small customers to be capped at the rate of change in the Hobart Consumer Price Index (CPI). This commitment covers the three years 2018-19 to 2020-21. The legislation requires that OTTER must

<sup>12</sup> Treasurer's Ministerial Notice at

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<sup>&</sup>lt;sup>11</sup> Treasurer's Second Reading Speech, *Electricity Supply Industry Amendment (Prices) Bill*, 2017, <u>https://www.parliament.tas.gov.au/ParliamentSearch/isysquery/7709adc6-43a8-4084-bc5c-acf6ad1a6b40/3/doc/</u>

https://www.economicregulator.tas.gov.au/Documents/17%201649%20Ministerial%20Notice%20pricing%20assessment%20criteria%20for%202017%2018%20standing%20offer%20prices.pdf

<sup>&</sup>lt;sup>13</sup> Treasurer's Second Reading Speech, *Electricity Supply Industry Amendment (Price Cap) Bill*, 2018 at <u>https://www.parliament.tas.gov.au/ParliamentSearch/isysquery/aeb0abb2-ff7b-492e-a7cb-5774826e6660/3/doc/</u>



approve draft standing offer electricity prices submitted to it by Aurora, provided those prices are no higher than the prices for the previous year indexed by CPI.

The Treasurer said at the time that:

# *"Under our Lowest Regulated Electricity Prices in the Nation policy, the Government will break away from mainland electricity wholesale contract pricing."*<sup>14</sup>

Some of the impacts of the WEP Orders and the Tasmanian Government's price capping approach can be seen from Table 2. The issuing of WEP Orders in the first two years of the policy, when Victorian wholesale prices remained high throughout the subsequent year, certainly had the desired impact of keeping Tasmanian electricity prices lower than they otherwise would have been. However, in 2019/20 the regime had the opposite impact, i.e., it kept Tasmanian residential electricity prices slightly higher than they otherwise would have been because it put in place a wholesale price that turned out to be higher than the Victorian spot price for the subsequent year. In 2020/21, this impact is highly likely to be even more pronounced based on the WEP set by OTTER, which is 65.9 per cent above Victorian spot prices to date<sup>15</sup>. Although Victorian prices often reach their highest annual levels during the hotter summer period, on present indications, summer prices are still trending near record lows and are unlikely to significantly alter this result.

Tasmanian consumers appear to have gained from the policy in 2017/18 and 2018/19, almost broke even in 2019/20 and on current indications are set to lose in 2020/21.

Looking particularly at the current year (2020/21) impacts of Tasmanian wholesale price regulation, our market intelligence suggests that Victorian swap contracts were trading in the range 5-6 c/kWh at the time the WEP was set at 7.962 c/kWh, a premium of 30-60 per cent. Using 5.5 c/kWh, the mid-point of this range, the premium would have increased Aurora's 2020/21 WEC allowance by some \$58 million and its NMR (and average retail prices) by around 10 per cent.

This highlights one of the risks and uncertainties inherent in the Tasmanian Government's (well-intended) attempt to keep wholesale prices stable by insulating Tasmania from the upward NEM wholesale price volatility and in the regulation of retail electricity prices more broadly. In particular, the need to determine the WEP in advance, whether by Order or OTTER determination, second guesses what wholesale prices the market might deliver, with upside and downside consequences for Tasmanian electricity consumers. A permanent delinking from the NEM wholesale market, as has been mooted, or continuation of the WEP Orders, would increase the potential for such risks and entrench them in Tasmanian

<sup>&</sup>lt;sup>14</sup> Ibid.

<sup>&</sup>lt;sup>15</sup> It should be noted that the use of a Victorian equivalent wholesale price implies that the electricity involved will be transported over the transmission network to reach Tasmania. This involves losses in the electricity as it is transported, which involves a cost which is added to the Wholesale Electricity Cost in the NMR. The Regulator accepted Aurora's proposed Marginal Loss Factors (MLF) of 0.9989 and Distribution Loss Factor (DLF) of 1.0507, as published by AEMO (see Aurora Energy, *PRICING PROPOSAL FOR PERIOD 5 OF THE 2016 STANDING OFFER PRICE DETERMINATION, 1 JULY 2020 – 30 JUNE 2021*, p. 35) at

https://www.economicregulator.tas.gov.au/Documents/20200618%20Aurora Energy 2020-21 Standing Offer Pricing Proposal%20-%20FINAL%20-%2018.06.20. . . PDF ). This net MLF/DLF impact would result in an increase in the WEP to around 5 cents/kWh.



regulated electricity prices. Consumers will 'win' when Victorian wholesale market prices are higher than expected, but 'lose' when they are lower than expected.

Year	Method Used	Wholesale Price	Victorian Average Spot Price	Tas v's Vic Difference
		c/kWh	c/kWh	c/kWh (%)
2017/18	WEP Order	8.379	9.9	-1.54 (-15.3%)
2018/19	WEP Order	7.968	12.4	-4.4 (-35.7%)
2019/20	WEP Order	8.756	8.4	0.36 (+4.2%)
2020/21	OTTER WEP	7.962	4.8 (YTD)	3.16 (+65.9%)

Table 2: Wholesale Prices Under the Tasmanian Residential Price Cap

Source: Goanna Energy from published statistics

There are several other issues for consumers that arise from the Tasmanian Government's approach to wholesale price setting and its price cap for small consumers. It is beyond the scope of this study to assess all of these as they can be complex, but they would include:

- The limited transparency about how the wholesale price in the WEP Orders is set.
- This includes the critical issue of the wholesale electricity cost in Tasmania and how it is used in the WEP Orders.
- The possible impacts on Aurora's wholesale contracts, costs and profits, although the Government says that the wholesale price agreements reached between Hydro Tasmania and Aurora do not impact their respective financial positions.
- The impact of these controls on further weakening the appetite of potential new retail entrants into Tasmania.
- The limitations WEP Orders place on the involvement of the independent regulator OTTER, and the additional transparency and consultation its processes entail.
- An assessment of the costs and benefits of the controls more generally on small Tasmanian electricity consumers.

In his 2017 Second Reading Speech<sup>16</sup>, the Treasurer also announced a review, to be conducted by the Department of Treasury and Finance, of the current arrangements for determining wholesale electricity prices included in Aurora's NMR, which was to be completed by the end of 2017/18.<sup>17</sup> As it happens, this review is not yet complete. The last activity under the review was the release of an Options Paper prepared by Departmental consultants in March 2019, followed by the publication of submissions. TasCOSS provided

<sup>&</sup>lt;sup>16</sup> Treasurer's Second Reading Speech, *Electricity Supply Industry Amendment (Prices) Bill*, 2017, <u>https://www.parliament.tas.gov.au/ParliamentSearch/isysquery/7709adc6-43a8-4084-bc5c-acf6ad1a6b40/3/doc/</u>

<sup>&</sup>lt;sup>17</sup> <u>https://www.treasury.tas.gov.au/government-businesses/strategic-reviews/review-of-the-tasmanian-wholesale-electricity-market-regulatory-pricing-framework/options-paper-for-consultation</u>



a submission.<sup>18</sup> The Treasury website refers to preparation of "a final report taking into account the feedback received from stakeholders."<sup>19</sup> The expiry of the current legislative amendments giving effect to the retail price cap and WEP Orders at the end of the current financial year is looming and makes completion of the Treasury review more urgent.

#### 4.3 WHAT HAPPENS IN MAINLAND JURISDICTIONS?

It should be noted that in NSW, SE Queensland, and SA, the AER determines a Default Market Offer (DMO) each year. This is a default residential pricing offer that retailers in each jurisdiction must provide to customers that do not take up a market offer and must make publicly available. In Victoria, the Essential Services Commission determines a Victorian Default Offer (VDO) in a similar manner. In the ACT, the jurisdictional regulator determines a standing offer, whilst a uniform residential retail price is set by the Government in WA.

Importantly, in all NEM jurisdictions except Tasmania a competitive retail market provides consumers with a range of retail market offers to choose from. According to the SVDP 2020 Tariff Tracker Report, the introduction of DMO/VDO has led to some significant reductions in standing offers and in 2019/20 these reductions were larger than those for market offers. However, market offers were still lower than the DMO/VMO and most consumers in NSW, Victoria, SE Queensland and SA have taken up market offers rather than the DMO/VMO.<sup>20</sup>

In Tasmania, the retail market is open to new entrants but retail competition for household consumers has hitherto largely been absent.

However, there are some signs of more competition emerging in Tasmania. A cursory check of the *EnergyMadeEasy* website showed that four retailers are currently active in making market offers to residential customers in competition with Aurora Energy, namely 1<sup>st</sup> Energy, Energy Locals, Future X Power and Social Energy.<sup>21</sup> These are all 2<sup>nd</sup> tier retailers. Our market intelligence suggests a price differential of 5-7 per cent less in the Tasmanian market offers.<sup>22</sup>

https://www.treasury.tas.gov.au/Documents/TasCOSS%20Options%20Paper%20Submission.pdf. <sup>19</sup> https://www.treasury.tas.gov.au/government-businesses/strategic-reviews/review-of-the-tasmanianwholesale-electricity-market-regulatory-pricing-framework/options-paper-for-consultation

<sup>&</sup>lt;sup>18</sup> TasCOSS Options Paper submission at

<sup>&</sup>lt;sup>20</sup> St Vincent de Paul Society and Alviss Consulting, *The NEM – Moving towards a new normal?*, Melbourne, November 2020, p. 4.

<sup>&</sup>lt;sup>21</sup> We understand the 1<sup>st</sup> Energy had 4,207 residential customers in the September quarter of 2020, compared to 3,512 at the end of 2019/20. Although this is a 106 per cent increase on the year before, it is still only 1.7 per cent of residential customers. The other three are quite recent entrants to Tasmania and Social Energy focus on solar offers.

<sup>&</sup>lt;sup>22</sup> The SVDP 2020 Tariff Tracker found that the presence of 2<sup>nd</sup> tier retailers (i.e., those outside the 'big 3' of AGL, EnergyAustralia and Origin Energy) was significant in ensuring additional price divergence in market offers. See St Vincent de Paul Society and Alviss Consulting, *The NEM – Moving towards a new normal?*, Melbourne, November 2020, p. 4.



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## 5 TASMANIAN RESIDENTIAL ELECTRICITY PRICES

In this section we provide an assessment of Tasmanian residential electricity prices and their trends. This is based on the methodology outlined in Section 3.1. Consistent with the AEMC's approach, we show both the average combined fixed and variable price, and the annual bill for a typical residential electricity consumer in Tasmania using the average Tasmanian household consumption levels (see Appendix B). We then move to explain how the various components that make up retail prices have contributed to these trends.

It is worth mentioning that the latest actual prices assessed in this report are for 2019/20 with current year (2020/21) prices based on information available at the time the AEMC completed its 2020 price trends analysis and forecasts shown for the subsequent two years (2021/22 and 2022/23). Hence, the latest actual prices (2019/20) and current year prices (2020/21) are somewhat dated and neither necessarily reflects current electricity prices.

#### 5.1 TASMANIAN RESIDENTIAL ELECTRICITY PRICE TRENDS

Figure 1 shows the trend in Tasmanian residential electricity prices over the period 2009/10 to 2020/21. As can be seen, Tasmanian electricity prices for a typical household have followed a gradually increasing trend over the past decade. Prices increased sharply over 2009/10 to 2011/12, then fell sharply over the following period to 2014/15 and have since been increasing gradually.

There was a very steep increases of 60 per cent in electricity prices over the period 2009/10 to 2012/13, with all components of prices rising steeply, including retail charges up by 62 per cent, wholesale prices up by 52 per cent and in network charges up by 41 per cent. At the time, these components made up over 95 per cent of an average Tasmanian household's electricity bill and the simultaneous large increases in all three components proved to be a major drain on household budgets. The increases in network and retail charges would have been particularly irritating for consumers, given these were regulated charges applied to State Government owned monopolies. In the case of network charges, the increases reflected significant elements of regulatory approved gold platting<sup>23</sup> and inherent cost inefficiencies, whilst retail charges spiked in an environment of Aurora as a retail monopoly with rising margins and questionable cost increases, whilst facing little prospect of new competitors. Meanwhile, environmental charges went up more than four and a half time, albeit off a small base.

Then followed a period of significant electricity price decline until 2014/15, after which prices increased again and have continued to do so, albeit at a lesser rate.

The same pattern can be seen in annual electricity bills for a typical Tasmanian household shown in Figure 2. Annual electricity bills initially increased from \$1,337 in 2009/10 to 2,550 in 2012/13, then fell sharply to reach \$1,821 by 2014/15, followed by a gradual increase to \$1,918 in 2019/20.

We now explore the reasons for these trends in more detail.

<sup>&</sup>lt;sup>23</sup> This refers to where a network engages in significant over-investment compared to what is prudent and efficient, leading to higher costs for consumers.



Figure 1: Trends in Tasmanian Household Electricity Prices



3000 2500 2000 \$/year 1500 Tas ······ Linear (Tas) 1000 500 0 2020121 Leurenti 2009/10 2010/11 2016/17 2017/128 2019/19 2011/2012/122012/11012/12012/12012/12012/12012/12012/12012/12012/12012/12012/12012/10 Source: Goanna Energy from AEMC data

Figure 2: Trends in Tasmanian Household Electricity Annual Bills



#### 5.2 THE STORY BEHIND TASMANIAN ELECTRICITY PRICE TRENDS

Firstly, we show the composition of Tasmanian electricity bills (the bill stack) according to the electricity supply chain (wholesale costs or generation, network charges, retail and environmental or green costs) for a typical household for the years 2009/10, 2016/17 and 2020/21 and how this has changed over the past decade (see Figure 3). In 2009/10 wholesale costs accounted for 37 per cent of a household bill, whilst in 2020/21 they make up 35 per cent of a bill (with a significant decline occurring in between). In 2009/10 network charges made up around 54 per cent of a household bill, a similar proportion to 2016/17, but by 2020/21 they have declined to only 40 per cent, due to reductions in network charges and increases in other bill stack components. Federal green scheme costs started the period at only about 1 percent of bills but have since grown significantly to account for just over 9 per cent of a bill in 2020/21. There are no jurisdictional green schemes in Tasmania. The retail component has more than doubled over the period, jumping from 7.7 per cent of a household bill in 2009/10 to 15.8 per cent in 2020/21.



Figure 3: Components of Electricity Bill Stack for a Typical Tasmanian Household

Source: Goanna Energy from AEMC data

Figure 4 below also shows the Tasmanian bill stack, but in terms of the annual value of its components in a typical household electricity bill and the total annual bill for 2009/10, 2016/17 and 2020/21. The increase in electricity bills is apparent, as are the main changes in the components of a household bill discussed in the previous paragraph. Electricity bills grew by \$581 (or 30 per cent) over the period (mostly prior to 2016/17). Especially



noticeable is the increase in wholesale charges of \$172 since 2016/17 (a period characterised by increased government control of wholesale prices), as well as increases in Federal green scheme costs (\$162) and in the retail component of \$199 (over the entire period shown). Meanwhile, network charges finished the period only \$46 higher than they began it, although there was a large increase in network charges in between (\$262), followed by a reduction (\$215).

Figure 4: Trends in the Tasmanian Electricity Bill Stack and Total Annual Electricity Bill for a Typical Household



Source: Goanna Energy from AEMC data

In Figure 5, we show the breakdown of how Tasmanian residential electricity bills have changed over the period 2009/10 to 2020/21 and what elements of bill have contributed to this change. The first important point to note is that all elements of the bill have added to the significant increase in electricity bills seen over this period. The biggest contributor has been the retail component, closely followed by wholesale and environmental charges. Meanwhile, network charges have been responsible for the smallest part of the increase,

notwithstanding that they make up the largest share of annual bills. However, this masks some changes in the components that have taken place within the years shown, which we comment on below.





Figure 5: Contributions to the Change in Tasmanian Residential Electricity Bills, 2009/10 to 2020/21

Figure 6 below shows the contributions of the main components of Tasmanian household electricity bills to the increase in bills over the periods 2009/10 to 2016/17 and 2016/17 to 2019/20. In the early period, all components contributed to higher bills, which increased significantly by \$494. Network charges contributed \$262, followed by the retail component (\$126) and environmental costs (\$87). Wholesale costs made a relatively minor contribution of \$17 to higher bills in this period.

More recently, bills have increased less dramatically (\$87) and wholesale costs have been responsible for the largest contribution to higher household electricity bills (\$155), with environmental and retail charges making smaller, but still significant, contributions of \$75 and \$73, respectively. On the other hand, network charges have reduced bills by \$215.

The above explanation for the increases in Tasmanian residential electricity bills provides some indication as to where advocacy by TasCOSS could most beneficially be directed. It suggests that, based on the most recent bill increases, wholesale costs should be an area of focus. However, network and retail costs should not be ignored as these make up a significant component of the bill, have seen periods of significant increases over the past and may do so again unless consumers are vigilant. The regulation of all components of Tasmanian retail bills affords formal opportunities for consumer consultation and input.

Source: Goanna Energy from AEMC data



*Figure 6: Contributions to the Change in Tasmanian Residential Electricity Bills, 2009/10 to 2016/17 and 2017/17 to 2020/21* 



Source: Goanna Energy from AEMC data



## 6 TASMANIAN RESIDENTIAL ELECTRICITY PRICES COMPARED TO THE MAINLAND

In this section we undertake an assessment of Tasmanian residential electricity prices and annual bills compared to the rest of Australia. This is based on the methodology outlined in Section 3. Consistent with the AEMC's approach, we show both an average combined fixed and variable price, and the annual bill for a typical residential electricity consumer in each jurisdiction, i.e., NSW, Vic, SE Qld, WA, SA, Tas and the ACT, as well as a combined national price.<sup>24</sup>

The comparisons are based on the average annual consumption of electricity by households in each jurisdiction examined in this report (see Appendix B) and trends are examined over the period 2009/10 to 2020/21, with the addition of projections for 2021/22 and 2022/23. We reiterate that the latest actual prices/bills assessed in this report are for 2019/20, with 2020/21 (current year) based on known information for that year at the time the AEMC completed its 2020 report. Hence, the latest actual prices (2019/20) and current year prices (2020/21) are somewhat dated and neither necessarily reflects current electricity prices.

#### 6.1 RESIDENTIAL ELECTRICITY PRICES AND ANNUAL BILLS

Below we discuss how Tasmanian electricity prices and annual bills for a typical residential consumer compare to the mainland. We first look at the current year (2020/21) followed by the trends in prices and annual bills since 2009/10.<sup>25</sup>

#### 6.1.1 Current Residential Electricity Prices and Annual Bills

Figure 7 shows how the residential electricity price in Tasmania compares to the mainland in 2020/21, the current year.<sup>26</sup> Tasmania had the second lowest price, about one and a half c/kWh higher than SE Queensland, the lowest price State, and over three c/kWh lower than the national average. Compared to SA, the highest price State, Tasmanian households experienced electricity prices that were around 10.6 c/kWh lower.

However, this advantage was not translated into their annual electricity bills, as shown in Figure 8. Given the high consumption of electricity in Tasmania, consumers had the highest electricity bills in Australia, closely followed by the ACT. Households in Victoria had the lowest bills, being \$863 lower than in Tasmania. Nationally, households had a \$671 advantage over those in Tasmania. Of course, this does not take into account that households in most jurisdictions also use natural gas and have gas bills on top of their electricity bills, whereas in Tasmania gas is relatively little used.

<sup>&</sup>lt;sup>24</sup> This is an average of the jurisdictional numbers weighted by total electricity consumption.

<sup>&</sup>lt;sup>25</sup> The AEMC has not updated its WA electricity prices in its 2020 report as the WA Government chose not to provide it with updated data but noted that it had frozen residential prices due to the impacts of COVID19. We have therefore applied the 2019/20 prices (and annual bills) for WA to 2020/21.

<sup>&</sup>lt;sup>26</sup> The choice of 2020/21 information rather than 2019/20 involved a trade-off between the use of the latest information available from the 2020 AEMC report, albeit incomplete, versus the use of actual information for 2019/20 which is less contemporary. We do, however, also refer on 2019/20 information where relevant.





Figure 7: Residential Electricity Prices, Tasmania and the Mainland, 2020/21

Source: Goanna Energy from AEMC data



Figure 8: Annual Residential Electricity Bills, Tasmania and the Mainland, 2020/21

Source: Goanna Energy from AEMC data

#### 6.1.2 Trends in Residential Electricity Prices and Bills

Figure 9 shows the trend in electricity prices for each jurisdiction. Tasmania is shown as the thicker line for ease of identification and the dotted vertical line separates actual/current prices from the forecasts (as is the case for similar charts used throughout this Report). A general trend of rising electricity prices across most jurisdictions and nationally from 2009/10 to 2020/21 is apparent, interspersed with some declines in prices mid-decade (apart from



WA where prices increased and SE Queensland where they fell) and an increase in prices in most jurisdictions from the middle of the period until 2019/20. There have been significant reductions in residential prices in 2020/21 in all jurisdictions including Tasmania (except in WA where prices have been flat). Throughout the entire period, SA has had the highest prices and continues to do so even though they have fallen sharply in 2020/21. In 2009/10, Tasmania had the second lowest electricity prices and its prices then increased markedly until 2012/13, before declining until 2014/15 and then increasing again until 2019/20, but at a slower rate. Tasmanian experienced a modest price drop in 2020/21. Tasmania had the lowest prices in 2019/20 but dropped to the second lowest in 2020/21. SE Queensland currently has the lowest residential electricity prices and its prices have declined rapidly since 2016/17.

The AEMC's price forecasts for 2021/22 and 2022/23 suggest that residential electricity prices should decline in 2021/22 before increasing in 2022/23, but with little change in jurisdictional rankings. Expected price declines in SE Queensland in 2021/22 outpace those in Tasmania with the former maintaining its position as the jurisdiction with the lowest residential electricity prices and widening the gap between it and Tasmania. It is worth reiterating that, as pointed out in Section 4.3, the emergence of several new retailers in Tasmania has been accompanied by an increase in lower price market offers being made available to Tasmanian households. If this continues, it will help to lower Tasmanian residential electricity prices in future.



Figure 9: Trend in Residential Electricity Prices, Tasmania and Mainland Jurisdictions

Source: Goanna Energy from AEMC data

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#### Tasmanian Residential Electricity Price Comparisons Page 36



OTTER's September 2020 report shows residential electricity prices separated into daily fixed charges, general use charges and controlled load charges in July 2020. OTTER's median price for each jurisdiction, shows that Tasmania's daily fixed charge and its general use charge rank mid-range, being the fourth highest, whilst its controlled load charge is the second highest. Compared to the lowest charges in each jurisdiction, Tasmania's daily fixed charge is the highest, with its usage charges (general and controlled load) ranking the second highest.

The AEMC series does not allow a comparison to be made of regulated residential electricity prices but, according to OTTER's report, Tasmania has the second lowest regulated tariffs, so the Tasmanian Government's commitment to have the lowest regulated electricity prices in the country by 2022 is within sight but not yet delivered.

Turning to annual residential electricity bills, Figure 10 shows the jurisdictional comparisons. The trends in annual bills are similar to those shown for prices. The major points are as follows:

- Victorian households have the lowest annual electricity bills in 2020/21 and have held that ranking since 2012/13.
- SE Queensland has the second lowest annual bills and has seen a steep reduction in electricity bills since 2017/18.
- Tasmania has the highest annual bills in 2020/21, closely followed by the ACT. This is a switch in their relative positions from 2019/20.
- The ACT is forecast to again overtake Tasmania and have the highest electricity bills by 2021/22, and maintain that position in 2022/23.
- There were large spikes in annual household electricity bills in Tasmania from 2009/10 to 2012/13 reflecting the jumps in wholesale, network, environmental and retail charges spoken about earlier, but also a significant increase in the annual consumption level used by the AEMC.
- Tasmanian electricity bills have been relatively stable since 2013/14, albeit on an upwards trajectory, but fell in 2020/21 (as did all jurisdictions, except WA).

We reiterate the point that annual bill comparisons reflect the significant differences in household electricity consumption across jurisdictions, which was discussed earlier and in Appendix B. In the case of Tasmania, it has the highest level of household electricity consumption reflecting its cold climate, low use of natural gas and lower penetration of small-scale solar installations. This significantly impacts the size of Tasmanian electricity bills relative to elsewhere in Australia (apart from the ACT), although prices also play an important role in determining bills.

The OTTER September 2020 Report, which used a common average annual electricity consumption of 8,422 kWh,<sup>27</sup> showed that in July 2020, four jurisdictions had tariffs that provided lower annual residential bills than Tasmania, whilst two had lower annual bills for the median of all offers. In terms of regulated tariffs, Tasmanian households enjoyed the second lowest bills, beaten only by the ACT, although this is a rather limited comparison

<sup>&</sup>lt;sup>27</sup> It should be noted that this tends to orient the results more in favour of Tasmanian bills compared to the use of jurisdiction specific average household consumption levels in this report given that Tasmania has the highest consumption level.





given that very few consumers in other jurisdictions are on regulated tariffs, so their use and impact is minimal.

Turning to the SVDP Tariff Tracker 2020 Report, which shows annual residential electricity bills across jurisdictions at the 6,000 kWhpa consumption level, in June 2020 Tasmania ranked as the jurisdiction with the fourth lowest residential bills. Over the past decade, Tasmania's middle ranking has changed little. Our higher ranking largely reflects the higher annual consumption level used in this report and demonstrates the important impact of the chosen annual consumption level on bills and jurisdictional rankings.



Figure 10: Trend in Residential Electricity Annual Bills, Tasmania and Mainland Jurisdictions

Source: Goanna Energy from AEMC data

#### 6.2 THE STORY BEHIND THE JURISDICTIONAL COMPARISONS

We focus next on explaining the trends in residential electricity prices and the comparisons made in the previous section. To do this, we look at the changes in the composition of electricity prices (i.e., the price/bill stack) across jurisdictions.<sup>28</sup>

<sup>&</sup>lt;sup>28</sup> As mentioned earlier, the WA Government did not participate in the AEMC's 2020 Residential Electricity Price Trends Project. Although it advised that it had frozen prices for 2020/21, the various components of the electricity price/bill stack for 2020/21 are unknown.

#### 6.2.1 Wholesale Prices

We turn first to wholesale costs, which in 2020/21 account for 34 per cent of average residential electricity bills nationally and 35 per cent in Tasmania.

Figure 11 shows the tends in wholesale prices for Tasmania and mainland jurisdictions from 2009/10 onwards.<sup>29</sup> It should be noted that wholesale prices exhibit volatility that stems from their commodity nature and reflect factors such as changes in underlying supply and demand conditions in electricity markets and government policies.

Since 2016/17, Tasmanian wholesale prices have consistently been the lowest of all the jurisdictions shown, although from 2009/10 to 2013/14 they were positioned towards the high end and showed a steeply increasing trend. It is worth mentioning that Tasmania's heavy reliance on older and well depreciated hydro-electric generation plant, which has a very low marginal cost of production, and arbitrage opportunities across BassLink when Victorian spot prices are low, suggests that it should have low wholesale prices. However, in 2020/21 in an environment of rapidly falling wholesale prices across the NEM, Tasmania has been overtaken by SE Queensland as the jurisdiction with the lowest wholesale prices.

Wholesale prices increased in all jurisdictions, apart from SE Queensland, from 2016/17 until 2019/20. In the NEM, this was due to factors such as the closure of some large coal generators (especially Hazelwood in Victoria), the transition to renewable generation and policy uncertainty regarding energy and greenhouse gas reduction policies. Being largely based on renewable generation already, Tasmania was somewhat insulated from these influences, although a combination of drought, a major Basslink outage and (more recently) the delinking of its regulated wholesale costs from lower Victorian market prices offset this. Wholesale prices across the NEM have now softened substantially with all NEM jurisdictions showing falls in wholesale prices in 2020/21, reflecting factors such as lower overall electricity consumption due to COVID19 impacts, mild weather, additional renewable capacity<sup>30</sup>, lower gas prices and postponements in the closure of some coal generation, e.g., Liddell power station in NSW.

The outlook for wholesale prices over 2021/22 is also influenced by these factors and AEMC projections suggest further significant declines in most jurisdictions, followed by increases in 2022/23. The AEMC's forecast for higher wholesale prices in 2022/23 reflects the expected closure of Liddell power station in NSW.

<sup>&</sup>lt;sup>29</sup> It is not possible to show wholesale prices on a continuous basis due to breaks in the AEMC's series and changes in its approach to calculating wholesale prices over time. For several years, in some jurisdictions, the AEMC did not report separate wholesale costs, but combined them with retail costs.

<sup>&</sup>lt;sup>30</sup> According to AEMO's 2020 *Electricity Statement of Opportunities*, total capacity of committed projects includes 1,667 MW of solar and 2,580 MW of wind.





Figure 11: Wholesale Price Trends, Tasmania and the Mainland

Source: Goanna Energy from AEMC data

Shown in Figure 12 are wholesale costs expressed in terms of their impact on household electricity bills since 2002/10. The volatility of wholesale prices referred to earlier is also reflected in their impact on household bills.

Tasmania is placed in a mid-ranking position for much of the period shown in the chart but its ranking has fluctuated with changes in wholesale prices. Tasmania ranking slipped to the highest in 2020/21 (in the absence of data for WA) and is forecast to remain the highest in 2021/22, after which the ACT is expected to overtake it. The increases in wholesale prices across the NEM from 2016/17 until 2019/20, including in Tasmania, referred to above also impacted electricity bills significantly, as have the reduced wholesale costs seen in 2020/21. Victoria, SE Queensland and NSW are currently the lowest ranked jurisdictions (all with very similar wholesale costs), followed by SA. For an average household, Tasmanian wholesale costs are around \$280 higher than in Victoria, notwithstanding the regulated nature of wholesale prices in Tasmania and their mandated close links to Victorian prices. The issues with regulating wholesale prices in Tasmania referred to in Section 4.2 are of importance in explaining Tasmania's recent and current ranking.

Consistent with the forecasts for wholesale prices, their impact on bills is forecast to result in a further decline in the wholesale component of residential bills in the NEM over 2021/22



followed by increases in 2022/23. However, the expected increase in the ACT is more pronounced than in Tasmania so that it is expected to have the largest wholesale costs by 2022/23. Tasmania's current \$280 wholesale costs deficit compared to Victoria is expected to decline only slightly to \$270 by 2022/23. This is an issue that TasCOSS could consider raising with the Tasmanian Government in terms of its expected consideration of the future of wholesale price regulation after 30June 2021.



Figure 12: Impact of Wholesale Costs on Residential Electricity Bills, Tasmania and the Mainland

Source: Goanna Energy from AEMC data

#### 6.2.2 Network Charges

In 2020/21, network charges made up 46 per cent and 40 per cent of an average household electricity bill nationally and in Tasmania respectively, and were the single biggest component of these bills. Distribution charges accounted for around 80 per cent of network charges and transmission charges most of the rest.

Figure 13 shows the trend in network prices since 2009/10. SA has the highest network prices in 2020/21 (16.18 c/kWh) reflecting the low density of its network, whilst the ACT had the lowest (8.05 c/kWh) reflecting its small concentrated urban network, small transmission



system and proximity to large transmission links in NSW. Tasmanian network charges started the period as the second highest in the country (9.80 c/kWh) and ended it as the second lowest (9.71 c/kWh). In the intervening period they increased dramatically until 2011/12, but have steadily declined thereafter.



Figure 13: Trends in Network Charges, Tasmania and the Mainland

Source: Goanna Energy from AEMC data

The early sharp increases in network charges after 2009/10 were due to factors such as some significant flaws in the regulatory framework administered by the AER that favoured the interests of network owners (especially those in State ownership, including in Tasmania), overly generous rates of return, the approval of inflated amounts of capital expenditure (capex) and operating expenses (opex), and forecasts of demand growth that proved to be far too optimistic. As a consequence, network prices escalated rapidly across-the-board in the first round of network determination administered by the AER. Subsequently, network prices moderated driven by factors such as some changes in the regulatory framework to make it less favourable to asset owners, greater political interest due to the rapid increase in network prices, the moderation of capex allowances, the impact of low interest rates on and changes in the parameters used to set regulated rates of return, and some improvements in the scrutiny of networks' expenditure proposals. In the case of Tasmania, the falls in network prices also reflect efficiencies gained through the merger of Transend and Aurora



Networks to form TasNetworks, which then sought more actively to avoid contributing to electricity price pressures in light of the Tasmanian Government's commitment to lower electricity prices and to some improvements in TasNetworks' efficiency.

Looking forward to the forecast period shown in Figure 13, Tasmanian network prices are expected to increase again to reach 10.35 c/kWh by 2022/23, with TasNetworks' previous cost reductions abating and reflecting the impacts on the outyears of its current AER Determination. This is an area where TasCOSS and other consumer advocates should remain focused, including through the next AER regulatory determination for TasNetworks beginning in October 2021.

Bill trends closely follow those for network prices, including for Tasmania.

In terms of networks charges' contribution to electricity bills, Victoria is currently the lowest ranking jurisdiction (see Figure 14), whilst SA is the highest, closely followed by Tasmania. Tasmanian residential consumers are currently paying \$304 (40 per cent) more per year than Victorian households for network charges. This reflects high levels of electricity consumption and a dispersed network, but also inefficiency within TasNetworks, especially in its distribution network, as shown by AER benchmarking. Further evidence of this is that Tasmanians are typically paying only \$41 (5 per cent) less per year in network charges than South Australians, notwithstanding the less dense and thinner nature of SA's networks.

The network charge component of annual residential electricity bills in Tasmania is expected to increase by \$50 to \$818 from 2020/21 to 2022/23, with Tasmania still the second highest-ranking jurisdiction behind SA, but with the gap shrinking to only \$12 (1.4 per cent).

## 6.2.3 Green Scheme Costs

Schemes intended to mitigate greenhouse gas emissions and support the local renewables industry (Green or Environmental Schemes) have become a feature of the Australian electricity market over the past two decades. They exist at both the Federal and State Government levels.

Federally, the main scheme that impacts electricity prices is the RET, which mandates that retailers must create a set amount of renewable energy certificates every year. It has two components, the LRET, used to assist the construction of larger renewable energy projects, especially wind, and the SRES, used to assist the installation of small-scale renewable energy units in dwellings, especially roof top solar and solar water heating.

Most jurisdictions (including Tasmania) have Feed-in-Tariffs (FiT) to support the installation of solar and some also have energy efficiency schemes (though not Tasmania), intended to make households more energy efficient. The installation of battery storage to accompany roof top solar is also starting to increase as battery costs decline.

Retailers generally pass on the costs of the RET and jurisdictional schemes to customers.

In 2020/21 Green Schemes made up 9.1 per cent of an average household electricity bill nationally (4.9 per cent in 2009/10) and 9.3 per cent in Tasmania (1.2 per cent in 2009/10).





Figure 14: Impact of Network Charges on Annual Residential Bills, Tasmania and the Mainland

Source: Goanna Energy from AEMC data

Figure 15 shows the impact of Green Schemes on electricity bills in Tasmania and for the other jurisdictions used in this study. In 2020/21 Tasmania ranked as the lowest jurisdiction in terms of the impact of Green Schemes on average household electricity prices, slightly below NSW and Victoria. As the RET applies to all jurisdictions and imposes roughly similar costs on each, the main reason for Tasmania's position is that the AEMC does not include any State Green Schemes in Tasmanian electricity. Queensland has had schemes in place in the past, the removal of which resulted in a significant fall in green prices from 2017/18, but has recently re-introduced a solar bonus scheme resulting in higher green scheme prices. NSW and Victoria have green prices that correspond closely to Tasmania's, notwithstanding that both have State green schemes in place. The ACT and SA have the highest green prices, reflecting the fact that they have the most extensive and expensive jurisdictional green schemes. The high green prices in 2012/13 and 2013/14 followed by a sharp fall in 2014/15 reflects the imposition of the carbon tax by the Federal Government and its subsequent removal.

The AEMC's forecasts suggest that the cost of green schemes is set to fall in 2021/22 and 2022/23 across all NEM jurisdictions, including in Tasmania. As a result, Tasmania is projected to maintain its current ranking as the NEM jurisdiction with the lowest green prices.





Figure 15: Impact of Green Schemes on Residential Electricity Prices, Tasmania and the Mainland

Source: Goanna Energy from AEMC data

The impact of Green Scheme costs on average residential electricity bills is displayed in Figure 16. The trends are similar to those for electricity prices discussed above. Currently Tasmanian residential consumers pay \$178 annually in Green Scheme costs, the second highest of all NEM jurisdictions and just ahead of SA. This by-and-large reflects the fact that average electricity consumption in Tasmania is the highest of all the jurisdictions and this adds to the costs of green schemes on households. The absence of any jurisdictional Green Schemes in the AEMC's series for Tasmania has the impact of keeping Green Scheme costs on household bills lower despite high consumption levels. However, it is worth noting that Tasmania had the second lowest Green Scheme bills in 2009/10, after which they escalated and have climbed persistently after 2014/15 and by 2018/19 Tasmania household electricity bills had the second highest Green Scheme costs in the nation. The ACT has the highest Green Scheme costs due to its high annual consumption and because it has the most expensive jurisdictional schemes.



Looking at the forecasts for 2021/22 and 2022/23, the impact of green schemes on household electricity bills is set to fall across both years with slightly larger falls in Tasmania so that it improves its ranking to the third highest by 2022/23.



Figure 16: Impact of Green Schemes on Residential Electricity Bills, Tasmania and the Mainland

Source: Goanna Energy from AEMC data

#### 6.2.4 Retail Costs

The final element of the household electricity price/bill stack to discuss is retail costs. In competitive markets, retail costs include costs to serve customers, including retail operating expenses, CARC and a retail margin to cover the retailer's return on investment.

In competitive markets, which includes most of the NEM (apart from Tasmania and regional Queensland), retail costs cannot be directly observed. Consequently, the AEMC treats these costs as a residual component in its annual price trends reports.<sup>31</sup> That is, the AEMC derives this component by establishing the wholesale, network and environmental costs that

<sup>&</sup>lt;sup>31</sup> In its early reports, when NEM retail markets remained subject to price regulation, the AEMC included a direct retail component based on the retail costs set by jurisdictional regulators. This became more problematic as retail markets opened to competition and regulation of retail charges was relaxed. Retailer's costs became commercially confidential.



make up an electricity bill, and then subtracts these from the market offers for each jurisdiction, leaving a residual component. However, it is possible that the residual component contains not only retail costs but also data errors. Whilst emphasising that the residual component is not a direct proxy for retail costs, we believe it provides a reasonable indication of retail costs.

It is also worth mentioning that the change in the AEMC's approach to retail costs has resulted in a discontinuity in the AEMC's reports and in the measurement of retail costs (except for WA). In addition, the AEMC also combined wholesale and retail costs in some years and for these years no separation of the two was provided.<sup>32</sup>

Figure 17 shows trends in retail costs for Tasmania and the other jurisdictions included in this report. In unit price terms, the Tasmanian retail component amounted to 3.82 c/kWh in 2020/21, making it the second highest in the country, behind the ACT (5.46 c/kWh) and just above NSW (3.72 c/kWh). Tasmanian retail costs had been as low as 1.4 c/kWh in 2009/10 – the lowest in Australia – but have increased steadily and significantly since then. It is noteworthy that Tasmanian retail costs are higher than those in jurisdictions where retail competition is most prevalent, such as NSW, Victoria and SE Queensland (which currently has the lowest retail costs), but also significantly higher than WA, where retail prices are regulated.

The AEMC's forecasts for retail costs in 2021/22 and 2022/23 assume that these will remain constant in real terms across all jurisdictions. They note that, in reality, retail cost changes may differ from this over time.

The retail component currently makes up around 16 per cent of an annual household electricity bill in Tasmania but only 11 per cent nationally.

As shown in Figure 18, in 2020/21 Tasmanian households paid, on average, \$302 in retail charges but nationally the retail component amounted to less than half that (\$132). Tasmania's retail costs are the second highest (behind only the ACT). Moreover, average retail costs paid by Tasmanian households have increased dramatically since 2009/10, almost tripling from \$103 annually to \$302 in 2020/21. Tasmanian retail costs are significantly higher than those in SA (\$188), NSW (\$157), Vic (\$108) and SE Qld (\$65), all jurisdictions with competing retailers. However, they are lower than the ACT (\$391).

Whilst the small market size would make it more costly for retailers to serve Tasmanian households, there are other factors that raise concerns about the level and high ranking of retail costs in Tasmania:

• Aurora is a dominant retailer (still with 98 per cent of residential customers) and has opportunities to use its market power or be prone to cost inefficiencies.

<sup>&</sup>lt;sup>32</sup> Apart from WA, this was the case from 2012/13 until 2015/16, as well as 2012/13 in Victoria, although there was a breakdown provided for 2012/13 in Tasmania.



7 6 5 -NSW cents/kWh 4 -Vic SE Qld WA SA Tas ACT National 1 0 2010121 current 202112 Horecast 2022/12/10/16/26341 2011/12 2012/13 2013/14 2014/15 2015/16 2018/19 2009/20 2016/17 2017/128 2010/11

Figure 17: Impact of Retail Costs on Residential Electricity Prices, Tasmania and the Mainland

Source: Goanna Energy from AEMC data



Figure 18: Impact of Retail Costs on Residential Electricity Bills, Tasmania and the Mainland

Source: Goanna Energy from AEMC data



- Aurora has been provided with a retail margin and a CARC allowance that reflects the conditions it would face if it had to defend its position against strong competitors. This is patently not the case, even with some new entry and, in our view, has added unnecessarily to electricity bills in Tasmania, notwithstanding that OTTER has taken some steps to reduce the level of these costs. The current nascent signs of new entry may force additional competition onto Aurora, although it is still too early to be certain about the success of new entry and TasCOSS should monitor these developments closely.
- Aurora has not always been timely in introducing customer innovations into Tasmania, most likely because it does not have to. For example, delays in the introduction of ToU or other more innovative retail tariffs, few and limited price discounts, limited online customer access and information, and the like. Unless newcomers get a firm foothold in the Tasmanian market this is unlikely to change. Tasmanian energy policy should focus more on this issue.

## 6.3 COVID19 ELECTRICITY IMPACTS AND SUPPORT MEASURES

Some of the restrictions imposed by jurisdictions in response to COVID19 have had impacts on household electricity bills. For example, restrictions on attending workplaces and eating out have forced people to stay at home more and increased their home electricity consumption. The nature of these restrictions and their severity has also varied across jurisdictions and over time.

Energy regulators have also tightened the customer protection requirements on electricity utilities in dealing with COVID19 impacted customers. These cover areas such as financial hardship, dealing with debt, timeframes and disconnection. The national restrictions apply in Tasmania.

Most jurisdictions have provided support to their residents as part of their COVID19 response. This has included support to help alleviate cost of living pressures, including electricity, gas and other utility bills. In Tasmania, the main electricity support mechanism has been through re-affirming the cap on regulated household electricity tariffs that applies until the end of 2020/21. Aurora Energy also established a \$5 million Customer Support Fund.

In other jurisdictions assistance has mostly gone further than in Tasmania and included bill rebates and supplementary payments, additional concession payments and regulatory support for customers.

The impacts of these measures have not yet been fully assessed and the analysis remains incomplete, although *prima facie* it seems that Tasmanian residential consumers have received less support than in most other jurisdictions.

We have not separately assessed COVID19 measures in this report but it could be worthwhile subjecting them to a detailed assessment, including how they have impacted households and how they compare across jurisdictions. TasCOSS could consider undertaking such an analysis or supporting a national advocacy effort.





## 7 COMPARISON OF RESIDENTIAL ELECTRICITY CONCESSIONS

Electricity concessions are an important way in which the cost of electricity is reduced to vulnerable and disadvantaged consumers. Concessions are provided by all State and Territory Governments as a form of Community Service Obligation (CSO). A variety of concessions are provided covering the following:

- A rebate on electricity bills provided to holders of a Centrelink Pensioner Concession Card, Centrelink Low Income Health Care Card, Veteran's Affairs Pensioner Concession Card or Gold Card Holders, and seniors card holders (in Queensland, WA and NT). This is the main form of assistance provided by States and Territories.
- Various other forms of concessional support are provided by States and Territories covering Medical and Heating concessions, emergency assistance, life support concessions, family energy rebates, supply charge concessions, non-mains energy assistance, controlled load concessions, account establishment rebates, dependent child rebate and an allowance for carers. These vary across jurisdictions.
- The Commonwealth also provides support to recipients of disability pensions, partner allowance and widow allowance through a quarterly Utility Allowance but, as the name implies, this is intended to provide support with the costs of utility bills generally.

Given the importance of these concessions to vulnerable and disadvantaged electricity consumers and therefore to TasCOSS, we undertook an analysis of the main electricity concession in each jurisdiction to determine their impact on electricity bills and how Tasmania's concession compares with the other jurisdictions included in this study.

#### 7.1 VALUE OF MAIN JURISDICTIONAL ELECTRICITY CONCESSIONS

Table 3 below shows the current value of the main electricity concession in each jurisdiction. All concessions are paid as a dollar amount except for Victoria, which applies a set percentage discount to the concession holder's bill.

Jurisdiction	Name	Value		
NSW	Low Income Household Rebate	Up to \$285 pa		
Vic	Electricity Concession	17.5% discount		
SE QId	Electricity Rebate	\$340.85 pa		
WA	Cost of Living Allowance - Energy	\$300 pa		
SA	Energy Bill Concession	\$231.41		
Tas	Electricity Concession	\$514 pa		
ACT	Energy Concession	Up to \$542.62 pa		
Source: Goanna Energy from published information				

#### Table 3: Main Electricity Concession by Jurisdiction

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In Figure 19 below, we show the value of the main electricity concession in each jurisdiction in both dollar amounts and expressed as a percentage of an average annual electricity bill for concession holders. This allows comparisons to be made across jurisdictions in terms of both the annual dollar value of the concession and the percentage discount it provides. As can be seen, the value of these concessions varies quite significantly, as do the percentage discounts they provide. In dollar value terms, there is a \$358 per annum variation in the concession across jurisdictions. The ACT provides the highest dollar value concession (\$543) and Victoria the lowest (\$185). Tasmania's electricity concession is the second highest at \$514 pa. As a percentage of a typical bill, the variation in the concessions is 15.3 per cent. Qld provides the highest percentage discount (28.3 per cent) and SA the lowest (13.3 per cent). Tasmania's percentage discount off a typical concession holder's bill is the third highest at 26.8 per cent.



Figure 19: Value of Main Electricity Concessions by Jurisdiction, 2020/21

## 7.2 IMPACT OF MAIN JURISDICTIONAL CONCESSIONS ON ELECTRICITY BILLS

We next look across the jurisdictions to consider the impact of these concessions on the annual electricity bills of concession holders, ranked from the highest to the lowest annual bill in Figure 20.<sup>33</sup> We show the typical bill for a concession holder before and after the

Source: Goanna Energy from AEMC data

<sup>&</sup>lt;sup>33</sup> It should be noted that we have used annual consumption levels for typical concessions holders that are 21 per cent below those used for non-concession households. This is based on OTTER's *2020 Typical Tasmanian Customer* report, which contained estimates for the annual consumption of both concession and non-concession electricity consumers.



concession has been applied. The value of the concessions has a significant impact in evening up electricity bills across these jurisdictions and those with the highest bill generally also have the largest concessions. The concessions also change some of the jurisdictional rankings compared to a pre-concession bill, with SA moving to the highest annual bills for concession holders and SE Queensland to the lowest. Tasmania ranks as the jurisdiction with the highest bills before the application of the concession and the second highest after concessions are applied, although its relatively high concession results in it closing the gap on all jurisdictions apart from the ACT, which has a higher concession.



Figure 20: Impact of Main Electricity Concessions on Annual Electricity Bills by Jurisdiction, 2020/21

Source: Goanna Energy from AEMC data

#### 7.3 Assessment of the Impact of Concessions

Concessions clearly have a desirable impact in reducing electricity bills for vulnerable and disadvantaged electricity consumers. Without access to these concessions, these consumers would be under more financial stress, be more susceptible to the consequences of such stress and could even face undesirable situations, such as disconnection. The fact that the highest concessions tend to be applied in those jurisdictions with the highest bills adds to the desirable impact they have, as those facing the highest cost of living burden through their electricity bills gain access to the highest dollar value and percentage concessions in Australia with a commensurate beneficial impact in lowering their electricity bills, although they remain high.



Concessions are usually paid as a fixed dollar amount (except in Victoria where they are paid as a fixed percentage of the bill), which adds certainty to concession amounts but as these amounts are fixed they do not change with changes in the bill due to electricity price changes, for example. Of most concern is a scenario where electricity prices increase, but the value of the concession remains unchanged, whereas if paid as a percentage of the bill as in Victoria, the amount of the concession would automatically increase with price increases. On the other hand, the opposite would be the case for bill reductions, though bill increases are probably of more concern to concession holders and more common (based on recent experience).

We note that the type of people who would normally be eligible for concessions, if they lived at home, may live in aged or disability care facilities, or in retirement homes. Because they are not direct electricity customers, these people would not receive the Tasmanian Government's electricity concessions. This issue could be examined in more detail to determine the impacts on would be concession recipients living in such premises and whether providing them with concessions is justified.

It should be noted that our analysis of the impact of electricity concessions has several limitations, including the following:

- We have assessed the effects of the main concessions not all the various other concessions that are available, nor their impact on electricity bills.
- We have not assessed whether the concessions available are adequate in terms of meeting the needs of disadvantaged consumers. For example, just because concessions in some jurisdictions are higher than in others does not mean that they are adequate in meeting the genuine needs of disadvantaged consumers. Furthermore, some aspects of the concessions or some types of vulnerable consumers may not be well catered for by the existing range of concessions.
- We have based our analysis on limited information about the consumption levels and electricity needs of disadvantaged consumers.
- We have not considered the impacts of emerging trends in the electricity market on concession holders, such as renewable energy subsidies, solar tariffs, ToU tariffs, embedded generation, smart meters, web-based applications and the like.



## 8 POLICY AND ADVOCACY ISSUES

There are several advocacy issues that TasCOSS could consider pursuing as a result of the price comparison analysis in this report or because they impact on electricity prices for Tasmanian households, including those living with physical, social and economic disadvantage. We discuss these below.

#### 8.1 DO TASMANIAN HOUSEHOLDS ENJOY THE LOWEST ELECTRICITY PRICES IN AUSTRALIA?

As discussed in Section 4.2, the Tasmanian Government has made a commitment to have "the lowest regulated electricity prices in Australia by 2022".

Notably, the Government's commitment is in terms of "regulated" electricity prices. AEMC price trend reports do no separate regulated prices from market ones, so a comparison of regulated prices cannot be made. SVDP only compare annual electricity bills, not prices. Only OTTER show actual prices for regulated and market prices (in June 2020). According to these comparisons, Tasmania does not yet have the lowest regulated prices, although it does have the second lowest regulated tariff.

It is worth pointing out that attaching a commitment to the lowest "regulated" prices is not all that meaningful or helpful to Tasmanian consumers. Regulated prices in other parts of the country, including the recently introduced DMO/VDO prices, are in limited use by consumers, apart from in WA. The DMO/VDO is also a default offer that must be made available, not a regulated tariff of the kind used in Tasmania. A Tasmanian Government commitment based on Tasmania's relative position in terms of market offers would be more meaningful.

Based on the analysis in this report, of the seven jurisdictions we compared, Tasmania has the second lowest electricity prices in 2020/21 and forecasts suggest that it will remain in second position by 2022. However, the gap to top ranking is relatively small and there is still time for Tasmania to establish a leading position, including by acting on wholesale or retail costs.

Based on the current AER determination for TasNetworks, network charge increases of 6.6 per cent are expected in Tasmania from 2020/21 to 2022/23 (with no increase nationally). There is little scope to adjust these unless TasNetworks reduced its revenue (and hence prices) to below the determined amount.

Whilst RET costs are expected to reduce, they will do so in all jurisdictions, they contribute only about 9 per cent to Tasmanian prices and they are market determined. They are therefore expected to have limited impact on retail price relativities.

Market determined wholesale prices are forecast to fall by 10 per cent in Tasmania from 2020/21 to 2022/23, but over the same period they are expected to fall by the same amount in SE Queensland and by 15 per cent in Victoria. To improve on its relative position, the Tasmanian Government (or OTTER) would need to set wholesale prices below these forecasts. Continuing, or strengthening, the link to Victorian prices would help (based on these forecast).

Another lever the Government has is to reduce retail costs by improving the efficiency of Aurora or creating conditions more conducive to new retailers entering Tasmania to compete



Aurora's costs down. As discussed in Section 6.2.4, there appears to be scope to improve the performance of Aurora and there are currently signs of nascent new entry.

Of course, as the shareholder of the electricity businesses in Tasmania, the Government does have other options it could use. For example, it could reduce its dividend call on the businesses, although this could have other undesirable consequences.

TasCOSS and other small consumer advocates in Tasmania should keep a close eye on how the Government's commitment for Tasmania to have the lowest regulated electricity prices by 2022 is tracking. This should also keep in mind that electricity bills, which are ultimately more visible to household consumers than electricity prices and have more meaning to consumer budgets, are elevated in Tasmania by the high level of electricity consumption. Hence, low electricity prices are even more important to keeping the cost of living down, which the Government has committed to do.

Keeping both the cost of living down and electricity prices affordable will, no doubt, continue to be important to TasCOSS and Tasmanian households after 2022. Therefore, it would be useful for TasCOSS to advocate for this to remain parts of the Government's policies.

It would also be more meaningful for the Government to commit to a future promise that has more relevance to Tasmanian consumers than one linked solely to the lowest regulated prices. TasCOSS should advocate to the Government on this. One option would be to link a future commitment to improving Tasmania's relative position based on a clearly measurable goal, such as relative to the lowest prices in each jurisdiction (not just regulated prices) and also one that recognises that electricity bill comparisons are more meaningful to household consumers than prices. In our view the policy should be based around the aim of Tasmania having the most affordable and competitively-priced electricity in the country.

Given the high level of household electricity bills in Tasmania, TasCOSS could also look towards advocating for measures that improve the energy efficiency of Tasmanian households and help them to reduce their energy bills. Vulnerable and disadvantaged consumers would benefit from such measures given both that electricity bills make up a disproportionate part of their expenditure and they often live in premises that are the least energy efficient. Such advocacy could be directed at the Tasmanian Government<sup>34</sup> and its electricity businesses, especially Aurora and TasNetworks but also engaging with Hydro Tasmania and Entura, its consulting arm.

As mentioned earlier in this report, in many of the other jurisdictions covered in this report there is more significant use of natural gas by households, which helps to keep their electricity consumption lower, whereas Tasmania has a low penetration of natural gas. It would be advantageous for TasCOSS to explore how gas prices and bills in Tasmania compare to elsewhere in the country, whether it would be beneficial to households if gas use increased and to undertake a joint analysis of both electricity and gas prices/bills.

<sup>&</sup>lt;sup>34</sup> For example, the Tasmanian Energy Efficiency Loans Scheme (TEELS) was a joint initiative delivered by the Tasmanian Government, Aurora Energy and Westpac Banking Corporation, providing Tasmanians households and small businesses with no-interest loans to assist in purchasing eligible energy efficient products. The scheme closed on 30 April 2019. As far as we are aware, nothing has replaced it, whereas most other jurisdictions have energy efficiency initiatives in place.

## 8.2 THE RESIDENTIAL ELECTRICITY PRICE CAP, WHOLESALE PRICE REGULATION AND DELINKING FROM THE NEM

The Tasmanian Government's cap on residential electricity prices helped to keep residential electricity prices in Tasmania lower than they otherwise would have been in 2017/18 and 2018/19. As shown in Section 4.2, this was mainly achieved through the delinking of the wholesale price in OTTER's annual regulated retail price decisions from the Victorian wholesale price, which increased significantly over this period. However, in both 2019/20 and 2020/21 (to date) the opposite has been the case with wholesale costs kept higher than Victorian prices. Whether the impact of the price cap has been beneficial to household consumers to date is therefore somewhat problematic given the mixed outcome for household consumers of wholesale price setting. Taken over the life of the policy, it seems to have benefitted Tasmanian households in its first two years but sharp declines in Victorian wholesale prices since and a muted regulatory response to these prices (especially for 2020/21) has turned this around so that the policy is now costing consumers more than if Victorian wholesale market prices had applied, although with less price volatility, which is also important to residential consumers.

As mentioned in Section 4.2, these policies also raise other issues that are beyond the scope of this study to assess in full.

The current price cap and wholesale price determination arrangements are due to expire on 30 June 2021. The Tasmanian Government has not yet made announcements on whether they will continue or not and, if not, what will replace them. An important input into this decision will likely be the outcome of the Tasmanian Treasury's review of wholesale electricity price regulation, which is yet to be completed. Given their importance to household consumers, TasCOSS should continue to advocate on these matters to the Government and the Treasury. Furthermore, given the importance and complexity of these issues, TasCOSS should consider informing its advocacy through a more detailed examination of these matters. This would help to bolster its advocacy and maximise its impact.

The Tasmanian Government has said that it intends to delink from the NEM. We take this to apply to the wholesale market only and not physical connection to the mainland. When invoked, the Treasurer's WEP Orders based on the prevailing wholesale cost of power in Tasmania effectively delinks Tasmania from the NEM financially. However, it is unknown whether a more permanent delinking is being considered. A more permanent delinking of Tasmania from the NEM wholesale market is a complex issue that needs to be assessed carefully in terms of its impacts on smaller consumers. It would be advantageous for TasCOSS to consider the impacts in detail and use this information to develop a position on delinking to advocate on to the Government and Treasury. Given that some new retail entry into Tasmania has recently taken place, it would be useful for TasCOSS to monitor its development and consider developing a position on this.

#### 8.3 NEED FOR FURTHER WORK ON TASMANIAN RESIDENTIAL ELECTRICITY PRICE COMPARISONS

The household electricity price comparisons provided in this report have a number of shortcomings. These have been well set out in the report but include the following:

• They are historical, not current, and therefore could be out-of-date to some extent, although they remain useful for advocacy.



#### Tasmanian Residential Electricity Price Comparisons Page 56



- They are based on an average of the lowest market offer prices in most jurisdictions and based on a typical household consumption level for each jurisdiction. It would be useful if they included other consumption levels, at least high- and low-end levels.
- The AEMC price trend series is not completely contiguous, having breaks brought about by data availability issues and some changes in approach.
- The forecasts provided by the AEMC are based on a model of the electricity market commissioned by the AEMC. We have no reason to doubt this model, but nor have we checked its veracity.
- The AEMC has checked the accuracy of its national forecasts by comparing them to actual outcomes and found a reasonable degree of accuracy but has not done so at the jurisdictional level, which is more important for jurisdictional comparison purposes, a focus of this study.
- The AEMC price trends reports do not separately cover newly emerging tariffs such ToU and Solar. It would be helpful to include them in price comparisons.
- Other available series, including those by the OTTER and SVDP referred to in this study where relevant, also have shortcomings discussed earlier in this report.
- The SVDP study usefully provides some online tools for consumers and advocates to run their own simulations. However, other tools could be developed to allow for improvements in user experience and to allow users to have access to real time prices and to prices that look forward. And means developed to better put disadvantaged consumers in touch with their best price offers.
- The issue of how disadvantaged consumers can best gain access to relevant and timely information to ensure they benefit from access to the best market offers for them has not been addressed in this report

We believe that it would be valuable for TasCOSS to consider undertaking further work that extends this study to areas addressing shortcomings in electricity price comparisons, including matters listed above.

## 8.4 COVID19 ELECTRICITY MEASURES

All jurisdictions and energy regulators have introduced measures to assist households struggling with their electricity bills due to the impacts of COVID19. The Tasmanian Government main response has been to reaffirm its previous commitment to keep electricity price increases to no more than the Hobart inflation rate. Whilst important, other jurisdictions have gone beyond this and provided additional concessions or other financial help. Tasmania therefore appears to have the least extensive COVID19 electricity consumer assistance measures.

TasCOSS could consider a more detailed assessment of the impact of COVID19 measures on household consumers to assist with advocacy on this.

## 8.5 RESIDENTIAL ELECTRICITY CONCESSION ISSUES

We have undertaken a limited analysis and comparison of the impacts of the main concessions available to vulnerable and disadvantaged electricity consumers in Tasmania and mainland jurisdictions (except the NT). This has confirmed the importance of concessions to disadvantaged and vulnerable electricity consumers, and that the main Tasmanian concession is the second highest in the country and the third highest expressed



as a percentage of typical concession holder bills. It significantly reduces the difference between high household bills in Tasmania compared to other jurisdictions This should provide TasCOSS with some useful basic information and inform its advocacy on the impact of the main energy concession in Tasmania.

However, we believe that TasCOSS and its constituents would benefit from further work on energy concessions and their impacts. This could provide valuable information to better inform TasCOSS's advocacy on concessions and electricity prices, as well as help to improve its effectiveness. In Section 7.3, we outlined some of the gaps in our analysis of concessions. We also note that Energy Consumers Australia appears to have had a limited number of grant applications dealing energy concessions, including in Tasmania, with most of dating back some years.


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## 9 CONCLUSIONS, FINDINGS AND RECOMMENDATIONS

Below, we have set out our conclusions, findings and recommendations from this study.

**9.1** ASSESSMENT OF OUR RESULTS AGAINST THE STUDY SCOPE, OBJECTIVES AND OUTCOMES Turning first to the **study scope**. We were asked to address the following seven matters.

# 1. How should Tasmanian electricity prices be measured and compared with those in other parts of the country to obtain a meaningful and robust price comparison?

In this study we have compiled a time series on household electricity prices based on AEMC data that provides a reasonable means of comparing Tasmanian prices with those in six other mainland jurisdictions. It also allows price trends to be compared over a period of eleven years and for prices to be decomposed into a price stack comprising wholesale, network, green and retail charges in order to help assess the reasons behind price changes.

We have also compiled a related set of comparisons based on the annual electricity bills of typical households in each jurisdiction, as this is a more meaningful measure to households than prices. The comparative series we have developed is amenable to being updated annually.

We have supplemented our preferred series (AEMC Price Trends) with information from two others (OTTER price comparisons and the SVDP Tariff Tracker). Our comparisons are based on historical not current prices/bills. A real time price comparison would require further development, including a tool that facilitates this.

## 2. Is such a comparison possible using only existing data?

We have used existing data in our comparisons. This data has some shortcomings (as discussed in Section 3.1 and Appendix A, but it does allow reasonable comparisons to be made.

#### 3. What are the differences/benefits of current measures such as Tariff Tracker, Energy Made Easy, Energy Compare Victoria, other private comparator sites/tools, AER (State of Energy Market reports), AEMC annual price trends reports, OTTER standing offer reports and the like?

We undertook a detailed assessment of all the publicly available electricity price comparison information and assessed each against a set of criteria that met the objectives of this study and the task of comparing household electricity prices and bills (see Table 1). Based on this, we conclude that the AEMC price trends series best serves our purpose in this study but recognise that this was an 'on balance' decision. However, all the available data has shortcomings and only a dedicated series developed from scratch could overcome these. Gaps include an ability to assess prices in real time, to develop price forecasts and to provide access to a range of analytical tools with which to assess prices and bills. Two Government and at least one private price comparator would be amenable to this, but it would require significant effort.



4. Would Tasmanian consumers receiving the lowest regulated price in the country be better-off than customers on unregulated prices elsewhere in the NEM? Would the outcome of this analysis differ for low income and vulnerable consumers, household consumers in the broad and smaller consumers in general? Are any non-price factors relevant to such an assessment?

Our comparisons showed that, based on 2020/21 prices, a Tasmanian household with average annual consumption had the second lowest electricity prices (based on market offers) of the seven jurisdictions compared and that Tasmanian prices have consistently been among the lowest in the country since 2014/15.

In terms of household bills, our comparison showed that Tasmania has the highest annual bills in 2020/21, with the relatively high household electricity consumption in Tasmania an important influence. This highlights the need to keep electricity prices low in Tasmanian and to improve energy efficiency.

Our assessment of the main electricity concessions in each jurisdiction, found that Tasmania had the highest value concession and that the concession made a material difference to the electricity bills of concession holders, although Tasmanian electricity bills for concession holders were still the second highest of the seven jurisdictions we compared after application of the concession. As a percentage of a typical concession holder's bill, Tasmania's concession was the third highest.

We were not able to assess non-price factors in this report, but such an assessment of national and jurisdictional policies could provide TasCOSS with additional useful information, e.g., examining consumer protections, the NEM retail rules, consumers' access to information, and non-price issues impacting vulnerable and disadvantaged consumers.

# 5. What do the results of the research say about the Tasmanian Government's current policy of capping residential electricity prices compared to alternative approaches?

Our results show that the Government's policy of capping residential electricity prices had a significant impact in keeping electricity prices lower than they otherwise would have been in 2017/18 and 2018/19, when Victorian wholesale prices spiked. However, based on Victorian wholesale market prices, electricity prices would have been almost the same in Tasmania in 2019/20 and would have been lower in 2020/21 without the regulation of wholesale prices. Therefore, the policies have had mixed results over the past four years and Tasmanian consumers would have experienced higher electricity prices in some years but lower prices in others without wholesale price regulation, though prices would have been more volatile.

#### 6. Is the current approach of using the wholesale cost of power in Tasmania to set the wholesale price in the best interests of household consumers or would consumers be better off with an alternative approach, e.g., using the Victorian wholesale market price?

As noted in our assessment of Scope number 6 above, delinking wholesale prices in Tasmania from Victorian prices through Ministerial price orders had a desirable impact in keeping electricity prices for Tasmanian consumers down in 2017/18 and 2018/19, has kept electricity prices in Tasmania almost the same in 2019/20 but kept them higher in 2020/21



than if the Victorian wholesale market price had applied. However, their electricity prices have been more stable under the policy.

# 7. What avenues and processes might TasCOSS have to feed the research findings into the price setting, policy and regulatory processes both in Tasmania and nationally? What gaps might need to be overcome to make TasCOSS advocacy in this regard as credible as possible?

There are multiple ways in which TasCOSS could use the results of this study in policy and regulatory processes. First and most urgently, it should use them to inform its advocacy on decisions the Tasmanian Government will need to make before 30 June 2021 on the future of the residential electricity price cap, the setting of wholesale prices (including the Treasury wholesale price regulation review) and delinking from the NEM. If the Tasmanian Government reverts to OTTER setting the WEC used in establishing regulated residential electricity prices, OTTER will need to make a new retail price determination and TasCOSS could feed our results into that process, preferably supplemented by a detailed fact-based submission.

More generally, TasCOSS can make use of our report in its regular advocacy to the Tasmanian Government on a range of electricity related issues. The results could also be useful in TasCOSS participation in the next AER regulatory determination for TasNetworks, which begins in October 2021. Advocacy opportunities may also present in the Federal sphere, either directly or in conjunction with other consumer bodies.

We have identified several gaps in knowledge in this study that would be useful to address through additional research and hence to better inform TasCOSS advocacy. These are set out in Section 8 and in our recommendations in Section 9.2.

TasCOSS had three **<u>objectives</u>** for this study. Our report has responded to each of these as outlined below.

## a. That Tasmanian consumers, the Tasmanian Government and other stakeholders are well-informed of Tasmania's electricity prices relative to the NEM.

The information contained in this report provides a useful basis to better inform TasCOSS and its main stakeholders about how Tasmanian household electricity prices and bills compare to the rest of the NEM, although the improvements and additional research identified in this report would enhance this.

## b. That Tasmanian and interstate prices are easily compared using a pricing tool/measure.

We have provided a convenient, easily accessible and readily updateable comparison of Tasmanian and interstate household electricity prices (and bills). However, a well-developed suite of tools for users to compare prices, assess them in real time and enabling them to access price forecasts would be valuable additions for TasCOSS to consider.

## c. That energy affordability is improved by influencing the price-setting process.

We believe that the results of this study provide a useful initial basis for TasCOSS to seek to improve energy affordability through policy and regulatory forums. Importantly, they provide



a factual basis for highlighting the status of Tasmanian household and concessional electricity prices (and bills,) and how they compare to other jurisdictions. They also support the need to undertake advocacy to help keep electricity prices low for Tasmanian consumers and to lower the energy use of Tasmanian households, including vulnerable consumers.

Our results will assist TasCOSS in meeting the study **<u>outcomes</u>** it set for itself as follows:

- The findings and results are directly relevant to its advocacy on energy affordability, especially those related to high Tasmanian electricity bills and the impact of concessions.
- They relate well to its aim of ensuring that Tasmanian consumers are paying the lowest possible electricity prices by providing factual information about Tasmanian prices and how they compare to other Australian jurisdictions. They also highlight that high electricity bills are more important than low prices, especially to household and vulnerable consumers. Indeed, prices and bills are closely related.
- The results of the study provide an evidence-base for TasCOSS to influence government, decision-makers and key stakeholders about household electricity prices and bills in Tasmania and how they compare to elsewhere in the country.
- The results can provide valuable support to TasCOSS in its advocacy on:
  - the review process for the setting of electricity prices post the removal of the price cap in 2021;
  - $\circ$   $\;$  consultations with the community services sector;
  - o submissions to government; and
  - engagement with the Tasmanian Government, Department of Treasury and Finance, and the Tasmanian energy businesses.

## 9.2 RECOMMENDATIONS

Based on our results and findings, we make the following recommendations for TasCOSS to consider:

- 1. TasCOSS and other smaller consumer advocates in Tasmania should closely monitor how the Government's commitment for Tasmania to have the lowest regulated electricity prices by 2022 is tracking and advocate for its delivery.
- 2. TasCOSS should advocate for affordable electricity prices and lowering the cost of living to remain planks of Government policy, supported by a range of policies linked to this, including ones that facilitate a more competitive electricity market and ensure that new entry is stimulated. In our view the policy should be based around the aim of Tasmania having the most affordable and competitively-priced electricity in the country.
- 3. TasCOSS should advocate for the Government to commit to a future promise that has more relevance to Tasmanian consumers than one linked to the lowest regulated electricity prices, e.g., a future commitment linked to improving Tasmania's relative position in terms of the lowest market (not just regulated) household electricity prices and one that includes electricity bill comparisons (not just prices), which are more meaningful than prices to household consumers.
- 4. Bearing in mind Recommendation 3 and the results of this study, TasCOSS could consider advocating to the Tasmanian Government and its energy businesses to support improvements in the efficiency of energy use in Tasmanian households,

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including disadvantaged consumers. Its advocacy would be better informed if it were supported by work that assessed the current situation, how improvements could be made cost effectively and how Tasmania's approach compares to other jurisdictions.

 It would be advantageous for TasCOSS to explore how gas prices and bills in Tasmania compare to elsewhere in the country, whether it would be beneficial if gas use increased in Tasmania and to undertake a joint analysis of both electricity and gas bills.

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- 6. TasCOSS should continue to advocate to the Government and Treasury on the future of the residential price cap, the future of wholesale price regulation, the possibility of Tasmania delinking from the NEM wholesale market and the development of policies that encourage greater competition in Tasmania (including facilitating new retail entry).
- 7. TasCOSS should include in its future advocacy a more detailed and updated examination of the impact of electricity prices/bills on household and disadvantaged consumers in Tasmania.
- 8. TasCOSS should consider undertaking further work that extends this study to areas overcoming existing shortcomings in electricity price comparisons, including the inclusion of real time and forecast prices, the inclusion of ToU and solar tariffs, extending the analysis to include additional electricity consumption levels (e.g., high, low and disadvantaged consumers) and the development of tools that would allow consumers and their advocates to quickly and accurately analysis electricity prices and bills. We believe that it would be beneficial to include the needs of disadvantaged consumers in this work.
- 9. TasCOSS and/or its fellow consumer advocates should undertake further work on energy concessions and their impacts, including assessing all concessions, extending the work to gas concessions and gaining a deeper understanding of the adequacy of energy concessions in terms of their levels, their breadth, how well they are structured and how well they meet the needs of disadvantaged consumers.
- 10. TasCOSS could consider a more detailed assessment of the impact of COVID19 measures on household and disadvantaged consumers to assist with advocacy on this, bearing in mind that the Tasmanian Government's COVID19 response has been more limited than that of other jurisdictions.
- 11. As shown in this report and bearing in mind the importance of network charges in household bills and the high retail costs in the electricity bills of Tasmanian households, TasCOSS should advocate on these matters, including through the next AER regulatory determination for TasNetworks beginning in October 2021.
- 12. TasCOSS could undertake (or support at the national level) an examination of national and jurisdictional non-price factors that impact residential consumers, including consumer protections, the NEM retail rules, issues pertaining to consumer information, and non-price issues impacting vulnerable and disadvantaged consumers. A cross-jurisdictional comparison should form part of such an analysis.



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## Appendix A. AVAILABLE MEASURES OF AUSTRALIAN ELECTRICITY PRICES

There are numerous series available whereby Australian residential electricity prices and annual electricity bills can be measured and compared across different jurisdictions. Other available approaches would allow a measure of comparative electricity prices and bills for households to be constructed. We assess five series and two approaches in this Appendix in terms of their ability to undertake our task and satisfy the scope of this project as far as possible.

## **AEMC ELECTRICITY PRICE TRENDS REPORT**

The AEMC has been publishing annual residential electricity price trends reports since 2010. This provides access to a reasonably consistently comparison of actual prices (and annual electricity bills) covering the period 2009/10 to 2020/21. The AEMC's comparisons have been produced on a reasonably consistent basis over time. The main changes that have occurred in the series over time do not prevent its use as a handy and reasonably robust time series of residential electricity prices.<sup>35</sup>

In this report we have used the AEMC's 2020/21 (current year) results as the end point for our historical time series comparisons, even though results for 2020/21 are based on expected rather than actual outcomes for that year. Actual outcomes end in 2019/20.

The AEMC also provide a comparison of expected trends in prices for two years into the future, the only series to do this.

Where market offers are available, the prices used for each jurisdiction are the average of the lowest representative offer from each retailer. Prices are expressed exclusive of GST. Market offer prices are drawn from the AER's *EnergyMadeEasy* website for NSW, SE Queensland, SA and Tasmania, and the *Energy Compare* website for Victoria. Regulated DMO prices in NSW, SE Queensland and SA and VDO prices are also used, although these are not assessed separately. Earlier reports used regulated standing offers gradually supplemented by a mixture of market offers and standing offers drawn from various sources, such as retailers and the Victorian ESC's comparator website. Regulated standing offer prices in WA and Tasmania are provided by the WA Government and OTTER, respectively. In jurisdictions with more than one electricity distributor (NSW and Victoria) the market offers for each distributor are weighted by retail customer numbers. The national results are then determined by weighting the jurisdictional price and bill outcomes by the number of consumers in each state or territory. The AEMC's is the only series with national prices/bills.

Residential electricity bills are calculated by multiplying the consumption of the representative consumer in each jurisdiction by the price they pay for electricity (as determined above). The representative consumer's consumption is based on the most

<sup>&</sup>lt;sup>35</sup> The main changes that have occurred over time reflect matters such as the initial inclusion of a retail component and its subsequent treatment as a 'residual' component (from 2016/17), policy and regulatory changes (e.g., the introduction and subsequent abolition of the carbon tax and some State environmental measures, such as the Queensland Gas Scheme) and a change in the modelling of wholesale electricity costs from 2018 (to more realistically reflect changes in the way retailers hedge their positions given emerging uncertainty about reliability in the NEM).



common annual consumption profile of consumers in each jurisdiction (using either AER consumer survey data for NSW, Victoria, Queensland and Tasmania, or a quantity provided by the jurisdictional government for WA and SA).<sup>36</sup> A separate level of consumption is therefore used for each jurisdiction, reflecting factors such as different local climates, access to substitute fuels such as natural gas, local energy policies and the like. Changes in energy consumption levels over the time covered are to be expected and reflect changes in consumption patterns, price changes, energy efficiency improvements and the increase in solar installations. However, there have been some significant year-on-year changes in average jurisdictional electricity consumption that are not well explained and the provision of consumption data by the WA and SA governments, rather than through an independent survey, could also be questioned. Appendix B discusses consumption issues in more detail.

The AEMC's comparisons include a breakdown of supply chain costs, namely, wholesale, network (typically broken down into transmission and distribution), environmental (broken down into schemes applying in each State/Territory and federally), and a residual/retail component (for NEM jurisdictions the summation of the other supply change components is subtracted from the total price/bill and for WA a direct retail component is added)... Whilst it would be preferable to directly determine the NEM retail component, the workings of the NEM and the vertically integration common to all the main retailers, make this difficult (especially for unregulated market offers). In practice the residual component would typically comprise retail costs and any residual errors.

Wholesale costs comprise wholesale electricity purchase costs, network losses, ancillary services and market fees. To determine wholesale costs a price path is first determined using market modelling, a hedging portfolio is established next and finally wholesale purchase costs are determined for each distribution network. The process is described in more detail in the AEMC's 2020 price trends report.<sup>37</sup>

Network costs are estimated using Annual Pricing Proposals produced by the distribution businesses before each new financial year (or calendar year for Victoria). Where the period covered involves a redetermination of network charges, the most up-to-date information available is used (e.g., a network businesses' pricing proposal or an AER draft determination).

Environmental costs are calculated using information provided by the CER and jurisdictional data. Federally, the LRET cost is the product of the price of Large Generation Certificates (LGCs) times the Renewable Power Percentage; whilst the SRES cost is the Small-scale Technology Certificate (STC) price times the Small-scale Technology percentage.

The residual component, or retail cost proxy, is simply the total price minus the wholesale, network and environmental components as calculated, except for WA (as explained above).

Importantly. the AEMC's identification of changes in energy supply chain cost components show how these are driving residential electricity prices and bills for each jurisdiction and nationally. The reports therefore help to focus attention on key sectoral issues, allowing consumer advocates to target areas of the supply chain that are contributing to price pressures. The AEMC's approach in this regard involves primary research and official data.

 <sup>&</sup>lt;sup>36</sup> Before the AER survey became available in 2017, each jurisdiction provided a consumption level.
<sup>37</sup> AEMC, *Residential Electricity Price Trends 2020*, Final Report, 21 December 2020, Section 3.3, pp. 27-30 at <a href="https://www.aemc.gov.au/market-reviews-advice/residential-electricity-price-trends-2020">https://www.aemc.gov.au/market-reviews-advice/residential-electricity-price-trends-2020</a>.



It is the most comprehensive available and of benefit to advocacy. It is far more powerful to be able to say not only that prices are going up, but also point to where they are going up.

The AEMC approach does not include Time-of-Use tariffs or Solar tariffs.<sup>38</sup>

The AEMC point out that:

"Given this methodology, it is important to recognise that the pricing and billing outcomes do not constitute specific pricing and billing forecasts, and that the results may not reflect the actual prices and bills that consumers pay. Actual price movements will be influenced by how retailers compete, the dynamics of the wholesale spot and contract markets, the outcome of network regulatory decisions, and changes in policy and legislation. However, the results do reflect movements in the underlying costs of service provision and are a guide to pricing and bill directions based on current expectations, policy and legislation."<sup>39</sup>

The 2019 and 2020 reports also provide a 'look back' at how expected future trends from past reports dating back to 2014/15 compare with actual historical prices, together with the major factors that caused them to diverge, although this is only done for national prices, not the individual jurisdictional ones. This provides some useful information on the AEMC's record in forecasting near term future price trends. The results show that:

- In most cases the direction of the change was accurately predicted.
- Accuracy was highest in forecasting the total retail electricity price and network charges (which are regulated).
- Accuracy diminished, but was still reasonable, for the wholesale and environmental components, which are more subject to uncertain market and policy influences.

As the AEMC's reports are published annually and around six months after the end of the financial year to which they relate, they are historical and may not reflect current prices. They are also not amenable to dynamic or real time assessment. This limits their value for up-to-date advocacy and use by consumers as a tool for price comparisons. In a dynamic market characterised by many and frequent price changes, this is a potentially important drawback.

To date, the AEMC has only made publicly available its workbooks (jurisdictionally based in recent years) and has not provided any other tools that would allow consumers or advocates to easily undertake their own price analysis or comparisons. It would be useful if they extended their data provision and access to online tools in future, allowing advocates to access and analyse the results more readily.

## SVDP TARIFF TRACKER

SVDP, in conjunction with Alviss Consulting, has been tracking changes to residential energy tariffs and reporting on household impacts since 2010. Initially the Tariff-Tracking

<sup>&</sup>lt;sup>38</sup> It does, however, include an estimate of how much solar subsidies such as the Small Renewable Energy Scheme (SRES) and State based solar feed-in-tariffs (FiT) add to the price of electricity and annual electricity bills.

<sup>&</sup>lt;sup>39</sup> AEMC, *Residential electricity price trends 2020, Final report*, 21 December 2020, p. 1 at <u>https://www.aemc.gov.au/market-reviews-advice/residential-electricity-price-trends-2020</u>.

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project only covered Victoria but subsequently expanded to include NSW, Queensland, SA, Tasmania and the ACT.

Annual bills are calculated as the average electricity bill for each network area, based on the average electricity offers available as of July each year (for households using 6,000 kWh per annum, on a single rate tariff, include GST and they exclude any additional discounts). Bill calculations are based on average market offers or regulated/standing offers. Historically, the comparisons for Vic (2009), NSW (2009, 2010), SA (2009-2011), Qld (2009-2011), ACT (2009-2012), Tas (2009-2018), NT (2009-current) and WA (2009-current) used regulated tariffs. With the introduction of the DMO and VDO, the 2019 and 2020 reports also analysed the impact of these on bills (the only report to have done so to date). The use of average market offers means that the Tariff Tracker does not compare the lowest bills available in each jurisdiction.

The Tariff Tracker also provides information based on an electricity bill-stack that includes all key components of electricity bills, that is, wholesale, network, green schemes and retail costs. It includes a specific retail component, although using the AEMC's approach, so that it is a residual after all other components have been accounted for. It is worth also stating that the wholesale and green scheme costs included in the Tariff Tracker also make use of the AEMC's numbers.

The Tariff Tracker does not include electricity price information but relies on annual bills.

Solar offers have also been included for the past four years, allowing a comparison of these to be made across jurisdictions and over time. Tariff Tracker is the only series to include solar prices.

The Tariff Tracker has developed five workbooks for each of the NEM jurisdictions. The workbooks allow the user to enter consumption levels and analyse household bills for standing or regulated electricity and gas offers, as well as published electricity and gas market offers.

It is also accompanied by several web-based applications including:

- A 10-year summary of results by jurisdiction.
- The workbooks allow for the jurisdictional comparisons and comparisons of solar offers (limited to 1.5 and 3 kW systems)

As the SVDP Tariff Tracker is published annually and around six months after the end of the financial year to which it relates, the prices are historical and not current. It is therefore not amenable to dynamic or real time price assessment. This limits its value for up-to-date advocacy and its use by consumers as a tool for price comparisons. In a dynamic market characterised by many and frequent price changes this is a potentially important drawback.

## OTTER PRICE COMPARISONS

OTTER have reported biannually on how Tasmanian regulated residential (and small business) electricity and gas tariffs compare with standing offer (regulated) tariffs in all mainland jurisdictions since February 2008. Consumer advocates have pointed out that standing offer comparisons are limited as they do not account for the fact that, small consumers in the NEM (outside Tasmania and regional Queensland) have access to



competitive electricity and gas retail markets with a range of market offers they can choose from. These have hitherto not been included in the OTTER reports, which we consider to be a significant limitation in their comparisons.

OTTER's September 2020 report extends, for the first time, to include a comparison of Tasmanian standing offers with market offers (as well as standing offers) available in other jurisdictions. This is a welcome extension of OTTER's reporting and provides Tasmania's small consumers and their advocates with important additional price comparison information. In particular, it allows small Tasmanian consumers to see whether the competitive electricity retail market in other jurisdictions delivers lower prices and bills compared to Tasmania's regulated tariffs. However, as there is only one report that currently includes market offers, there is no means yet of comparing how Tasmania's relative position has changed over time.

For residential consumers, OTTER compare the general use tariff (Tariff 31) and controlled load tariff (Tariff 41), as well as the residential time-of-use (ToU) tariff (Tariff 93) to "similar tariffs" offered on the mainland. However, it is not clear why the limited regulated tariffs used in Tasmania has restricted the choice of mainland tariffs to compare with Tasmania's and whether this has had any impact on the comparisons. This could potentially paint a skewed picture of Tasmanian electricity bills. We note that the comparisons produced by AEMC and SVDP include all publicly available market offers.

Using these tariffs, comparisons are undertaken for prices and annual bills. A total of 277 tariffs were included in OTTER's comparisons, split across all the electricity distributors operating in each jurisdiction. Comparisons are provided for concession and non-concession customers, the OTTER series being the only one to include comparisons for concession customers.

The jurisdictional comparisons of annual bills are shown across a consumption range of zero up to 10,000 kWh in addition to the level of typical annual Tasmanian household consumption (i.e., 8,422 kWh for non-concession customers<sup>40</sup> and 6,688 kWh for concession customers). The price comparisons are shown as a daily fixed charge and variable energy use charge. This is done for general use/controlled load tariffs and for ToU tariffs. Whilst the separate daily and consumption-based charge comparisons reflect the reality of electricity tariffs, this complicates the comparisons and makes their interpretation more complex.

Consumption splits for each distributor were taken from regulator data for each distribution area, except for WA and regional Queensland, where the average for all the other distributors was used. For ToU tariffs, average hourly data was used and applied to the peak, off-peak and shoulder time periods for each distributor.

Total annual consumption figures to apply across the distributors are taken from Tasmanian estimates used in OTTER's Typical Customers 2020 Report.<sup>41</sup> This provides for a normalisation of consumption across all the jurisdictions using the Tasmanian average. The approach of adopting a single consumption number (one for concessional and one for non-

 <sup>&</sup>lt;sup>40</sup> It should be noted that this is around 500 kWh higher than that used in the AEMC's reports.
<sup>41</sup> OTTER, *Typical Electricity Customers in Tasmania, 2020* at <a href="https://www.economicregulator.tas.gov.au/Documents/Typical%20Electricity%20Customers%20in%2">https://www.economicregulator.tas.gov.au/Documents/Typical%20Electricity%20Customers%20in%2</a>



concessional customers) across jurisdictions and distributors is similar to the approach used by SVDP, but differs from the AEMC.

This allows a total annual bill for customers to be estimated for each tariff in the sample.

For ToU tariffs, the same total annual usage is used for concession and non-concession customers due to insufficient data being available to allow a separation at this point in time. ToU tariffs are relatively new to Tasmania and still lightly used). The report does not discuss the potential impacts that this might have on the comparisons for concession customers, but we note that concession customers are likely to have lower consumption levels.

For each customer group and jurisdiction, tariffs were ranked in order with the "representative tariff" identified as the one with the median annual bill (that is, the one in the middle of the sample with an equal number of bills above and below it). Whilst being acceptable, this approach raises some issues. The median annual bill is the one that is in the middle. It is not the lowest bill or tariff. It therefore provides a limited means of comparing how Tasmanian prices compare to the rest of Australia, given that the lowest market offers provide the lowest price. The report could have more fully compared Tasmanian tariffs with the lowest market offers (an Appendix to the report does show the range of annual bills from highest to lowest in chart form but does not discuss these in any detail), as such a comparison could be more relevant to determining how low Tasmanian residential electricity prices are relative to the mainland.

The report mentions a series of differences across jurisdictions that could impact the comparisons: some tariffs have stepped energy prices associated with consumption thresholds and these vary; for ToU tariffs, the hours applicable to peak and off-peak rates can vary; some also include a shoulder period and weekend rates; for controlled load, rules on what types of appliances can use these tariffs vary; and some mainland tariffs specify the hours these tariffs can be used, whereas in Tasmania they are anytime use.

The September 2020 report compares tariffs across jurisdictions but does not provide results for individual distribution areas.

Moreover, the use of general and controlled load tariffs varies with Tasmania generally having a greater share of controlled load consumption, which tends to lower annual bills (other things being equal).

Finally, the usage of electricity by households varies across jurisdictions, with Tasmania having a higher usage due to its colder climate and limited access to natural gas. This is accounted for by adopting uniform consumption numbers for households (as explained above). Whilst this normalises the comparisons, it does so at the cost of not accounting for the impact on bills of differences in consumption across jurisdictions.

As OTTER's reports are published biannually and around six months after the end of the period to which they relate, they report historical and not current prices. They are also not amenable to dynamic or real time assessment. This limits their value for up-to-date advocacy and use by consumers as a tool for price comparisons. In a dynamic market characterised by many and frequent price changes, this is a potentially important issue.

OTTER has not made generally available its workbooks or provided information that would allow consumers or advocates to undertake their own price analysis or comparisons. It would be useful if it did so in future.



## AER RETAIL ELECTRICITY PRICE COMPARISONS

The AER has published its annual *State of the Energy Market* Report each year since 2007. This includes some information on recent changes in electricity prices for each NEM jurisdiction by distribution area. It also shows estimated annual customer bills by distribution area. There are no jurisdictional total comparisons, nor are price comparisons provided.

The AER estimates are based on generally available offers for residential customers on a 'single rate' tariff structure. Annual bills and price changes are based on median market and standing offers at June 2018, June 2019 and January 2020, using average consumption in each jurisdiction: NSW 5,881 kWh, Queensland 5,699 kWh, Victoria 4,589 kWh; South Australia 4,752 kWh and ACT 6,545 kWh. Market offer prices include all conditional discounts.

The AER's information is published annually and at least six months after the end of the period to which they relate. As such, they are historical and not current prices and not amenable to dynamic or real time use. This limits their value for up-to-date advocacy and use by consumers as a tool for price comparisons. In a dynamic market characterised by many and frequent price changes this is a potentially important issue.

The AER's comparisons are not as useful for our purposes as the three series previously discussed.

### ABS ELECTRICITY PRICE INDEX

The ABS publish an index of electricity prices which forms part of the CPI. The index relates to residential electricity costs which form part of the CPI basket of commodities. Being an index, it does not show actual prices paid or annual electricity bills. As the index forms part of the CPI, it relates to capital city prices and does not include regional prices. The ABS electricity index has been published since the 1970s.

The ABS series is published quarterly about one month after the end of each quarter. This makes it more up-to-date than the other series discussed above, although still not amenable to dynamic or real time use. This limits its value for up-to-date advocacy and use by consumers as a tool for price comparisons. In a dynamic market characterised by many and frequent price changes this remains a drawback.

### **GOVERNMENT WEBSITE COMPARATORS**

The AER has a retail electricity price comparator web site *Energy Made Easy* that covers New South Wales (NSW), Queensland (Qld), South Australia (SA) and Tasmania, whilst the Victorian Government has a separate site called *Energy Compare*. WA's residential electricity prices are regulated. Hence, it does not have a website comparator.

*Energy Made Easy* and *Energy Compare* provide users with access to all published electricity market offers, DMOs and VDOs offered by retailers in the jurisdictions they cover.<sup>42</sup> This includes single rate, multiple rate, controlled load, ToU and Solar tariffs. It is relatively simple to log on, enter details and obtain a comparison of existing offers in real

<sup>&</sup>lt;sup>42</sup> It should be noted that some retailers do not publish all their offers and may have better than published offers available through direct contact or privately negotiated with third parties.



time. However, obtaining the sort of information needed for comprehensive price comparisons across multiple jurisdictions, whilst valuable, would require extensive effort.

## PRIVATE WEBSITE COMPARATORS

As mentioned above, there are various privately operated comparator websites that can be used to compare available offers for all States in real time. However, they often operate based on agreements with certain retailers (commission or otherwise incentive based) and offers are limited to these retailers. This does not mean that the sites are not useful, merely that users should be aware of their limitations. This limitation is a drawback in terms of obtaining meaningful and robust comparisons of residential electricity prices.



## Appendix B. ELECTRICITY CONSUMPTION ESTIMATES USED IN THIS REPORT

As explained in the main body of this report, in this study we have relied on average annual household electricity consumption estimates used in the AEMC's annual Electricity Price Trends reports. These are sourced by the AEMC from the AER's annual survey of electricity customers, except for WA and SA, which are provided by the jurisdictional governments. Table B 1 below shows the estimates used in each AEMC report.

Report	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
	kWh										
	ра	ра	ра	ра	pa	ра	ра	ра	ра	ра	ра
NSW	7,000	5,500	7,000	6,500	6,500	5,936	5,936	4,215	4,215	4,215	4,215
SE Qld	7,000	6,500	5,370	5,370	4,533	5,173	5,173	5,240	5,240	5,240	5,240
ACT	8,420	7,000	8,162	7,670	7,180	7,312	7,312	7,151	7,151	7,151	7,151
Vic	6,500	4,750	5,000	4,645	4,645	4,026	4,026	3,865	3,865	3,865	3,865
SA	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000
Tas	7,362	9,500	7,841	8,800	7,627	8,550	8,550	7,908	7,908	7,908	7,908
WA	6,067	6,067	5,801	5,841	5,747	5,229	5,198	5,198	5,198	4,904	4,904
National	6,577	6,204	5,985	5,780	5,578	5,353	5,350	4,720	4,720	4,697	4,697

#### Table B 1: Electricity Consumption Estimates

Source: AEMC, Electricity Price Trends Reports, various years

Note: National estimates are calculated as a weighted average of the jurisdictional consumption estimates.

The application of annual average household consumption numbers for each jurisdiction has a material impact on the electricity prices and annual bills used in this report. Therefore, it is worth noting the following in relation to the AEMC's electricity consumption numbers, which could impact the comparisons made in this report:

- Electricity consumption varies significantly across jurisdictions and this impacts annual bills. A jurisdiction which has a high level of annual electricity consumption will have higher bills than one that does not (all other things being equal). Tasmania has a relatively high level of annual electricity consumption and this alone will increase annual bills. Of course, prices also vary across jurisdictions, which also materially impacts bills.
- Household electricity consumption across Australian jurisdictions has come down over time, reflecting factors such as a consumer response to higher electricity prices and greater energy efficiency. Of course, this is offset to some extent by factors such as population growth and economic growth, which tend to increase overall electricity consumption and may also influence average levels of consumption (e.g., higher standards of living may increase average consumption but could also allow



consumers to improve their energy efficiency. The falling trend in average household electricity consumption can be seen in most jurisdictions in Table B 1. However, Tasmania is an exception to this trend with electricity consumption increasing over the period shown.

- There are some large abrupt annual changes shown in some of the jurisdictions, which would not be expected. These are highlighted in Table B 1. These are too large to explain by way of normal influences and may be due to issues with the data provided. These abrupt changes would have had an impact on the point-in-time annual electricity bills shown in this report and they should be interpreted with caution. However, they are unlikely to have impacted most of the annual estimates. Tasmania is a case in point, with some large jumps in household electricity consumption shown, quickly followed by abrupt falls to more normal levels. Annual jurisdictional consumption levels have been more stable across the jurisdictions since the AEMC's 2017 report likely providing more robust and stable estimates.
- SA average annual household electricity consumption, which is provided by the State Government, remains static across the entire period. This is a highly unlikely scenario and has probably impacted, to some extent, the SA results. SA consumption is likely to have reduced over time, as it has in other jurisdictions. If this is so, the annual bills for SA shown in this report would be higher as a result.
- The AER's last survey took place in 2017 and the AEMC continues to make use of its results in its reports. Some changes in average household electricity consumption would almost certainly have taken place since then. The AER updated its estimates in 2020, but these were too late to be included in the AEMC's 2020 report.



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