



Tasmanian Council of Social Service  
PO Box 1126 Sandy Bay TAS 7006  
P: 03 62310755 F: 03 62236136  
[kath@tascoss.org.au](mailto:kath@tascoss.org.au)

Australian Energy Market Commission

7 December 2011

### **re Consolidated Rule Change Request – National Electricity Amendment (Economic Regulation of Network Service Providers) Rule 2011**

The Tasmanian Council of Social Service (TasCOSS) would like to register its support for this Consolidated Rule Change Request from the Australian Energy Regulator and the Energy Users Rule Change Committee.

TasCOSS is the peak body for the community services sector in Tasmania. Our membership comprises individuals and organisations active in the provision of community services to low income, vulnerable and disadvantaged Tasmanians. TasCOSS represents and advocates for the interests of its members and of the disadvantaged Tasmanians who they support.

TasCOSS has been involved in energy supply and hardship issues for low income and vulnerable households in Tasmania for many years. Maintaining a continuous electricity supply has long been a challenge for low income households in Tasmania due to our cool climate, poor housing stock and reliance on electricity for space and hot water heating. Tasmanians use more electricity than other Australians and spend a higher percentage of their incomes on household energy.

With our focus on electricity supply issues largely on affordability and associated hardship, we have seen the deleterious effects on consumers of steadily increasing electricity prices in recent years. Disconnections increased by 38 per cent in the 2009-10 financial year (before Aurora Energy put a hold on all disconnections from early 2011 while their new billing system was introduced). The number of residential customers on payment plans has steadily increased in the past few years and, most concerning, is the reported widespread use of electricity rationing by low income households. We have found that many Tasmanians living on low incomes practice strict rationing of electricity use throughout the winter months, making them vulnerable to ill health, limiting interaction both within households and with friends and family and adversely affecting quality of life.

Since 2006-07 retail prices in Tasmania have increased by more than 50 per cent and are expected to continue to rise. A major driver of continuing price rises is expected to be increasing network costs. The AEMC estimates that 22 per cent of Tasmania's forecast increase in the 2009/10-2012/13 period will be due to increases in network costs (AEMC, *Retail electricity price forecasts, 2010 – summary of the report* made for the Ministerial

Council on Energy). The Australian Energy Regulator is currently conducting a Distribution Determination for Aurora Energy which may result in further price increases, while the 2009 AER Determination for Transend continues to affect Tasmanian prices.

Network costs as a proportion of the Tasmanian retail tariff have increased from 46 percent of the tariff in 2004 to 49 percent of the tariff in 2010 (Engineroom Infrastructure Consulting, 2011). Furthermore, the contribution of network costs to price increases in 2010 at 10% was higher than the individual contributions of other components, that is, wholesale energy and retail costs (Engineroom Infrastructure Consulting, 2011).

There is no doubt that network costs continue to represent a significant proportion of retail electricity prices paid by consumers. These costs need to be reined in as much as possible. In order for this to occur, we need strong regulation that is grounded in and supported by fair rules.

Being monopoly businesses, electricity networks and their profits are not constrained by market forces or competition. It is only through robust regulation that network costs can be constrained. However, it appears that the AER is currently limited by the Rules in its ability to appropriately restrict infrastructure spending by network businesses.

There appears to be a historical reliance by network businesses on building assets bases with contributions from consumers and profiting from these assets through return on capital, again contributed to by consumers. Cheaper alternatives do not appear to be encouraged by the Rules, nor does the AER have the necessary ability to dispute infrastructure augmentation proposals. TasCOSS believes that this paradigm must be challenged and that the AER must have the support of the Rules to challenge it.


TasCOSS also supports the principal on which the rule change proposal from the Energy Users Rule Change Committee is based, that is, a fairer and more appropriate allowance for cost of debt in the Rules. This too would contribute to reining in network prices.

The Tasmanian network businesses, Transend and Aurora Energy, are both government owned businesses and have access to borrowing at government rates. Yet under the Rules, these companies may be allowed significantly higher return on debt than is appropriate. This contributes to their profits and to consumers' costs.

TasCOSS urges the AEMC to carefully consider these Rule Change proposals with particular reference to both the effect on electricity prices of the current National Electricity Rules and the interests of consumers. TasCOSS believes that reform of the Rules has real potential to limit further increases in electricity prices.

We look forward to further involvement in the consultations in this Rule Change process.

Yours sincerely



Tony Reidy  
Chief Executive