

Motion

'We call on the government to immediately defer then seek to repeal the legislation introducing full retail competition into the Tasmanian energy market with a view to reverting to a state owned situation and thus providing the Tasmanian people with a stable and secure energy provider and securing Aurora jobs while delivering a valuable profit stream to government coffers into the future'

Background information and Arguments

What does full retail competition mean?

Competition in the retail electricity market has been progressively introduced on mainland Tasmania since 2006.

Commencing on 1 July 2014, 'full retail competition' means that all customers on mainland Tasmania are able to either choose their electricity retailer or purchase electricity from the wholesale market, regardless of their annual electricity consumption. Prior to 1 July 2014, Tasmanian business customers who used more than 50 megawatt hours of electricity per annum were able to contract with alternative retailers for their electricity supply. Full retail competition provides choice to all customers (including residential customers) on mainland Tasmania, large and small.

An expert panel investigated the viability of the electrical companies owned by Tasmania. In short, the recommendation stated that a sale of these state owned companies could be of benefit to the state. It did note however, that the sale of the retail arm alone would result in increased power prices. The government and the general community appeared to have no wish to dispense of Hydro Tas or the transmission network. Further we believe that most Tasmanians are against selling of the Aurora book. There are supporters of the selling off the Aurora book believing that this will deliver competition in the market and heavily drive down energy costs. The fact that the TER has already put into action a retail margin increase of 52% in the retail margin going from 10% mark up on cost to 15% gross margin, demonstrates the point. There is no relief in power price through open competition. In amongst the July 1 price adjustment of power, there is in fact stage 1 of the regulated price increase. The actual price drop of power was 9.4%. But there was an increase in network charges of 2.7% and retail margin and marketing costs of 2.1%. RET charges and market charges made up 0.48% which then reduced the overall price drop to 7.8% from July 1st 2014. The balance of the retailers margin increase, awarded last November by the regulators, is still to come over the next 12 ~ 18 months.

Full retail competition in the local power market is not able to deliver any benefits to consumers. It will see hundreds of jobs go at Aurora with its flow on effect into the economy. The annual profit share that Aurora passes to the Government is invaluable. This is like icing on the cake. After all that, Aurora already contributes to the economy in the form of jobs, and reliable delivery of service. Will this mean that the government has to reduce the concessions or make it harder to get concessions? Will they have to add a levy to the price of power to cover the concession cost?

We see this as a major issue for Tasmania. We have had in depth discussions and correspondence with both Peter Gutwein and Mathew Groom. Peter assured me of his concern on this matter and that he would address this as first priority to treasury should the Liberals be successful at the next election. He then reinforced this to me in a phone conversation a few weeks prior to the election. I sought to make this a pre election issue. Since the election I have been unable to get any response or contact with Matthew Groom or Peter on this issue. I think it is vital for our state at this difficult time in our economy. We can little afford to lose jobs and incur extra burdens of cost on government. Nor can we afford to have power prices increase. The only mention about the issue was that by Rene Hidding stating in the media some weeks ago that the state government would be attempting to sell Aurora once more.

Our first reactions are that if you are going to optimise the sale value of Aurora you need to remove it from a full retail competition situation to preserve its value. This is a fundamental point and is easily understood by anyone with business experience.

The general public might think that with competition, the price of power will go down. But, with a regulated increase in the retailers margin to allow for market risk and marketing costs,, there is no chance of any significant decreases in the price of power but a real danger of customer confusion and lower service and ethics standards , as we have seen highlighted on the mainland via various media.

If full retail competition was in place, the only way that a retailer could reduce the price of power would be to give away part of their profit. If they discount the price of power by giving away 33% of their profit margin, the price of power would only be reduced to the original price it was before retail competition was introduced. There is no scope for the retailer to buy power at a cheaper rate than the regulated wholesale price. This is why the expert panel advised that selling just the retail part will increase the price of power to the consumer.

There is no real possibility of positive outcomes in exposing Tasmania to full retail competition. It should be closed off immediately before it is too late. To reiterate, there is an increase in the price of power from July 1 2014, with more to come. The current reduction is mainly due to wholesale price of power dropping. This has hidden the frost stage increase as a result.

FRC exposes Tasmania to the Telco style marketing of power where people can be confused and led into paying higher prices than they should and may receive lower service standards. All this is unnecessary because Aurora has proven a solid history of consistent quality service at the lowest possible price. We have found in the past that selling of state assets such as Tasrail and the Bell Bay power station and licensing the ABT railway has backfired with them ending

up thrown in our lap when the numbers stop working and the Government has to tidy up the mess at state expense.

Energy security is of vital importance to this state. It is demonstrated in the fact that there is little interest in selling Transcend or Hydro Tas.

Aurora has already trimmed themselves to a more efficient model under the guise of readying themselves for retail competition. Also the distribution arm had merged with transcend to make Tas Networks resulting more consolidation of jobs.

We have gone through a period of retraining and restructuring at Aurora. They went from a high of 1440 jobs some years ago to less than 70% of that number today. We have invested \$65 Million in a billing system that may be of little to no value to any prospective buyer. Aurora is now in its best position it has ever been to deliver increased profits to the state as the sole retailer of power.

Right now, with the new legislation in place, any retailer can come into our market and cherry pick the most profitable clients without paying any sort of premium or fee for the privilege. The potential decimation of the database this way could see the state have to carry the losses delivered by Aurora with a high cost and low value database. The only option the government will be left with is to offload a company which is not profitable and they may have to pay someone to take it off their hands.

It is essential to preserve the Aurora asset to continue delivering the reliable service at the lowest possible price and at the same time maintaining premium job levels and continual significant annual profits for the state purse.