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Glenn Appleyard
Tasmanian Economic Regulator
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20 May 2010

Re Maximum Prices for Retail Tariffs on Mainland Tasmania 2009-2010

Dear Mr Appleyard,

The Tasmanian Council of Social Service (TasCOSS) welcomes the opportunity to participate in the Investigation of Maximum Prices for Retail Tariffs on Mainland Tasmania 2009-2010 which will set retail electricity prices for the determination period 2010-2013.

This is an important determination made in a time of change and uncertainty, particularly in relation to the possible introduction of full retail competition in Tasmania within the determination period, an election commitment by the government for a 5% cap on prices for the 2010-11 financial year – and uncertainty about Federal Government policy regarding carbon emissions and other climate change-related policies. We appreciate the difficulties involved in making a determination on future pricing in such an environment.

TasCOSS has a long-standing interest in electricity prices due to the pressure that prices put on household budgets. Electricity is an essential service that supports fundamental human needs, as well as individual and community well-being, social inclusion and independence. It is therefore imperative that energy prices remain affordable.

As you know, Tasmanian households spend more on household electricity than other Australian households due to our cool climate and the limited availability of natural gas. Tasmanians also have the lowest average household income and spend a greater proportion of that income on domestic fuel and power than other Australians. A significant rise in the price of electricity could exacerbate the financial stress already experienced by many Tasmanian households.

We understand, of course, the role that concessions play in assisting households in need to maintain their electricity supply; however, concessions cannot ensure

ongoing affordability for all. We ask you to bear these factors in mind when making this price determination.

In response to the submission made to you by Aurora Energy, we have several comments to make regarding the calculations of the company's cost to serve (CTS) and the arguments put forward for a more than doubling of the allowable retail margin over the margin granted in the 2008-2010 determination period.

In listing the components comprising the cost to serve, the Aurora submission includes activities related to billing, call centre costs ('related predominantly to billing enquiries', p44) and credit management costs. TasCOSS wonders whether the fact that a fifth of Aurora residential customers – around 40,000 households – use prepayment meters under the APAYG system has an impact on the company's CTS? This is not mentioned in the submission but must make some difference to reducing Aurora's CTS and it also, to some extent, differentiates Aurora's costs from those of other retailers.

Another component of the CTS is the cost of IT systems. Throughout the Aurora submission, there are many references to the new Customer Care and Billing (CC & B) system currently being installed to replace a wide range of existing data, management, receipting and other IT systems. While such a new system seems to be needed, it is obviously a very costly undertaking – and it appears from media reports that the costs of the system may have blown out. Obviously customers will be required to contribute to the costs of the new system through increased prices determined in this investigation; however, it is vital that this is done judiciously and that customers are not required to pay the additional price for any technical or other problems encountered in the implementation of this project.

Further, the Aurora submission seeks additional increases to its retail margin due to the depreciation and interest costs associated with the new CC & B system. In fact, the retail margin sought by Aurora is more than double that approved in the last price determination. We believe that a 6.9% retail margin is too high and, if allowed, would not only be the highest regulated retail margin in Australia, but would also contribute to the escalation of prices and to increased hardship for many electricity customers. Again, we urge you to be cautious in making your determination and to ensure that customers are not paying additional costs incurred in this major capital investment project.

At the time of media reports on the escalating costs of the new CC & B system, Aurora issued a media statement that publicly assured customers that 'any overrun associated with the new Customer Care and Billing system would not be reflected in increased electricity prices' ('Reassurance on price impact for Aurora customers', Aurora Public Relations, 29 March 2010). The media statement noted that 'customers are protected by regulated tariffs and contract arrangements'. It is imperative that customers' interests remain protected in the renegotiation of regulated tariffs and that the excess costs of the new system are not incorporated in future regulated prices.

We are also concerned with Aurora's proposal to introduce a 'same day / next day' connection service and fee. While this is proposed in the interests of 'providing

customers with choice' ((Aurora Submission p95), only some customers – those with the financial capacity – will be in a position to choose this option. Our concern is that creating such a 'premium service' will create a two-tiered system and, unless additional staff are employed, will necessarily affect the quality, and particularly the timeliness, of the standard service received by the majority of customers. In the interests of all consumers, we urge you to not allow the introduction of premium services in this determination.

We hope our comments are useful in your deliberations; please feel free to contact us if you require any further information on this submission.

Yours sincerely

A handwritten signature in cursive script, appearing to read "Tom Muller".

Tom Muller
Chief Executive Officer
TasCOSS