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Kerry Connors
Executive Officer
Consumer Advocacy Panel
PO Box A2258
Sydney South NSW 1235

27 Feb
2 March 2009

Dear Kerry

Please find enclosed an invoice for the third payment to TasCOSS for its NEM Consumer Research and Advocacy Project 2008-09 (No 306), a second report on the activities of the Project and copies of submissions made in the reporting period (November 2008-March 2009). Note that copies of the report and submissions have been sent to you today by e-mail.

If you have any queries or require any further information, please let me know.

Regards

Kath McLean
TasCOSS
Policy & Research Officer

TASMANIAN
COUNCIL OF
SOCIAL SERVICE
INC.

ABN 69 078 846 944

TasCOSS NEM Consumer Research and Advocacy Project (No. 306)

Project Report, March 2009

This project, involving research and advocacy on national and relevant jurisdictional energy issues on behalf of Tasmanian domestic consumers (end users), commenced with funding from the Panel in July 2006. This report is the second for the 2008-09 financial year, and covers the period from November 2008 to March 2009.

Participation in the national NEM consumer advocacy network

TasCOSS has continued to play an active role, as the only Tasmanian participant, in the national network of energy consumer advocates coordinated by the Consumer Action Law Centre. I attended a meeting of the National Consumers' Roundtable on Energy in November 2008 and participated in several national telephone hook-ups in the period.

TasCOSS has also been involved in collaborative briefing of, and ongoing discussions with consumer representatives on national stakeholder consultative committees, specifically in this period, the Smart Meter Stakeholder Working Group.

AEMC Review of Energy Markets in Light of Climate Change Policies

TasCOSS made a submission, in February, to the AEMC on the Interim Report of its *Review of Energy Market Frameworks in Light of Climate Change Policies*. We also participated in several national telephone link-ups on the *Review* and made a joint submission, with other Roundtable members, on AEMC's Scoping Paper for the *Review*. Both submissions focused in particular on the need to ensure that robust and comprehensive consumer protection is included as an integral part of national energy market frameworks, especially in light of the increased costs expected due to the Carbon Pollution Reduction Scheme and the Renewable Energy Target Scheme.

See attached submissions.

Smart Meter Roll-out

While Tasmania is not currently involved in the proposed roll-out of smart meters due to the uncertainty of the cost-benefit balance in the State, TasCOSS has followed the negotiations on the framework to support the roll-out. Consumer representatives on the Smart Meter Stakeholder Working Group have kept others informed of deliberations on, and progress toward, the roll-out. It is possible that sometime in the future, smart meters may also be introduced in Tasmania as part of the proposed national roll-out, and decisions made now may eventually affect Tasmanian consumers.

Meetings with State Government representatives involved in NEM issues

TasCOSS has met once in this period with staff from the Tasmanian Department of Infrastructure, Energy and Resources (DIER), Office of Energy Planning and Conservation regarding the National Energy Market reform process. TasCOSS has

established strong collaborative links with the Tasmanian representatives on the Retail Policy Working Group and other Ministerial Council on Energy Standing Committee of Officials' working groups.

In December we held discussions with Sue Morrison, Manager of Energy Policy in DIER, regarding Tasmanian Government policy development on feed-in tariffs.

Office of the Tasmanian Energy Regulator

TasCOSS attended two meetings of the Energy Regulator's Energy Customer Consultative Committee in the reporting period – in November and February. The Committee awaits with interest the Tasmanian Government response to the Regulator's Final Report of the *Public Benefit Assessment for Electricity Retail Competition in Tasmania*. In the absence of a decision to the contrary, full retail competition is scheduled to be introduced in Tasmania in July 2010.

A new part-time Regulator, Glenn Appleyard, was appointed in November 2008.

Climate Change

I attended an information session in Hobart in December presented by the Australian Department of Climate Change on the *Carbon Pollution Reduction Scheme White Paper* which details the Government's proposed emissions trading scheme and associated activities, including compensation to households.

TasCOSS is partnering with the Tasmanian Climate Change Office, Sustainable Living Tasmania and Shelter Tasmania to present training workshops for community sector front-line workers and Housing Tasmania tenancy staff on household energy efficiency. Workshops will be held in April in Hobart, Launceston and Burnie. See attached flyer.

I attended a forum in Melbourne – *Communities in a Changing Climate: Social and equity impacts of climate change and the community sector* – in February that was jointly presented by VCOSS and the McCaughey Centre, Melbourne University.

Attachments

- Australian Energy Market Commission – joint submission on the Scoping Paper for the AEMC *Review of Energy Market Frameworks in Light of Climate Change Policies*
- AMEC on the Interim Report of its *Review of Energy Market Frameworks in Light of Climate Change Policies*
- *Save Energy, Save Money* workshops flyer

Kath McLean, Policy Officer
Tasmanian Council of Social Service

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Australian Energy Market Commission
submissions@aemc.gov.au

20 February 2009

Dear Sir / Madam

The Tasmanian Council of Social Service (TasCOSS) welcomes the opportunity to comment on the 1st Interim Report issued by the AEMC in its *Review of Energy Market Frameworks in Light of Climate Change Policies*.

TasCOSS is the peak body for the Tasmanian community services sector. Its membership comprises individuals and organisations active in the provision of community services to low income, vulnerable and disadvantaged Tasmanians. TasCOSS represents the interests of its members and their clients to government, regulators, the media, and the public. Our focus in the energy policy arena is on household energy supply and in particular, on energy supply for low income, disadvantaged and vulnerable households.

TasCOSS was a signatory to an earlier submission made by the Consumer Utilities Advocacy Centre (CUAC) to the AEMC Review *Scoping Paper* in November 2008, and is a participant in the National Consumers Roundtable on Energy.

While Tasmania has not yet introduced full retail competition in its retail electricity market, the extension of competition to households and small businesses is on the State Government's agenda and is scheduled to commence in July 2010. Currently consumer protection for small Tasmanian electricity consumers is appropriate to the monopoly supply situation that exists in the State. However, with the introduction of full retail competition, Tasmanian consumers will eventually be subject to a National Energy Customer Framework, along with Australians in other states. Tasmanian small consumers will then also be more directly affected by the various market frameworks examined in the Interim Report.

Our major concern with the Interim Report is that while it outlines risks to many market participants from the Australian Government's proposed Carbon Pollution Reduction Scheme (CPRS) and an expanded Renewable Energy Target (RET) scheme, risks to consumers are generally not considered. TasCOSS sees this as a major flaw in the Interim Report and in the AEMC Review process. While, for instance, the Interim Report is concerned with retailer detriment from increased costs associated with the CPRS and RETS and from the effects of Retailer of Last Resort arrangements, it pays little heed to the most numerous – and most vulnerable – market participants: consumers.

In our view, a fundamental aspect of the Australian energy market framework is largely ignored in this report, that is, the consumer protection framework. In light of anticipated cost increases from climate change policies, the introduction of a robust national consumer protection framework is imperative. As CUAC argued in its previous submission on the AEMC *Scoping Paper*.

We believe the AEMC should explicitly recognise and note in its deliberations that for every risk and uncertainty markets face, from illiquidity in financial markets to the design of the emissions trading scheme, consumers are faced with the same risks and uncertainty when managing energy costs. Unlike businesses, many consumers are not adequately equipped to manage uncertainty and risk. They are unable to take out hedge contracts against rising energy prices or vertically integrate into generation, customers can be employed with low job security making financial planning and saving for unforeseen scenarios difficult, or they may be on fixed incomes with severely constrained capacity to deal with unexpected energy price shocks. (CUAC, submission to AEMC 14/11/2008)

The CPRS in particular is intended to change consumer and market behaviour through price signals, however, for many households, and especially for low income households, their energy use is not discretionary. Many households, unable to afford efficient appliances and living in thermally inefficient rented dwellings (both public and private), will experience increased hardship and, without enhanced consumer protection, likely disconnection from supply for their inability to pay.

Jurisdictional governments will obviously need to increase their funding allocation to energy concessions provided through Community Service Obligations – with potentially serious budgetary implications (see Australia Institute, *The Impact of an Emissions Trading Scheme on State Governments Budgets*, Research Paper No 54, August 2008: <https://www.tai.org.au/>). However, a strong National Energy Customer Framework (NECF) will play a major role in further protecting customers and ensuring that no household is disconnected from its energy supply due only to an inability to pay.

There is an urgent need to ensure that the proposed NECF is strong, comprehensive and effective in protecting consumers to manage the effects of increased prices.

TasCOSS also believes that unless there is demonstrable evidence that competition in energy markets is effective in a jurisdiction, retail price regulation must be maintained. We are concerned that the principle of price regulation may be undermined in this review process and we strongly support its maintenance as the most fundamental consumer protection mechanism.

The current system of regulated retail price path review in Tasmania appears to be flexible enough to allow for increased costs due to CPRS and RETS to be passed through to consumers within a price path period. This can be carried out through 'pass through' provisions that allow for unavoidable and substantial additional costs to be passed through. Such cost types can be defined by the Regulator in a price investigation and detailed within the determination, the next of which for Tasmania will cover the period commencing July 2010, in time for the implementation of the CPRS.

In addition, we note that the Ministerial Council on Energy has committed to seeking the amendment of the Australian Energy Market Agreement to ensure that there is capacity to pass through increased costs due to the CPRS to consumers.

It is therefore highly unlikely that retailers will under-recover costs from consumers 'by as much as 18 per cent for electricity customers and 12 per cent for gas customers' as suggested in the Interim Report (p 54).

TasCOSS is certainly concerned with the impact of energy price increases due to the CPRS and RETS on low income households and believes that consumers are vulnerable to the effects of the fundamental contradiction between the goals of energy markets and of Australia's policy makers. The energy market, like all markets, seeks to grow through increasing sales of its products. Policy makers, on the other hand, are aiming to reduce energy consumption where energy is produced through high emissions methods. This is a basic contradiction and an obvious tension for all market participants – including consumers – and for policy makers and other stakeholders. This further underlines the imperative for effective consumer protection.

We hope our comments are useful in your further deliberations throughout the review process.

Yours sincerely



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14th November, 2008
Australian Energy Market Commission
Level 5, 201 Elizabeth st.
Sydney NSW, 2000

Via email to
submissions@aemc.gov.au

**Australian Energy Market Commission – review of energy market
design in light of CPRS and MRET**

This submission has been prepared by the Consumer Utilities Advocacy Centre Ltd (CUAC), an independent consumer advocacy organisation, established to ensure the interests of Victorian consumers, especially low-income, disadvantaged, rural, regional and indigenous consumers are effectively represented in the policy and regulatory debate on electricity, gas and water.

The submission has been formally endorsed by the following organisations:

- St Vincent de Paul Society
- Alternative Technology Association
- Queensland Council of Social Service
- Ethnic Communities' Council of NSW.
- Victorian Council of Social Service
- Tasmanian Council of Social Service
- Kildonan UnitingCare
- Australian Council of Social Service
- Western Australian Council of Social Service
- Consumer Action Law Centre
- ACT Council of Social Service

We welcome the Review and are supportive of the aims of the Review, particularly the need to determine what market adjustments may be necessary to ensure market frameworks, with regard to market objectives, deliver efficient, safe, secure and reliable energy supplies in the long term interests of consumers. In the context of energy market reform and the pressing task to ensure energy markets can achieve desired policy objectives, this is an important review for consumers.

Our concerns primarily include the scope of issues under consideration and the framing of the scoping paper itself. Primarily, we contend that the adequacy of consumer protection frameworks should be considered as part of this review. We also believe there are risks of systemic energy market dysfunction that have not been sufficiently explored in the scoping paper. The remainder of the submission addresses these, and other issues.

Given the importance of the Review and potential to better align the interests of markets, policy makers and consumers, we are disappointed that an amendment of energy market objectives has been explicitly ruled out. The disconnect between energy market objectives and policy objectives will continue to undermine market functioning until resolved, an issue we elaborate on towards the end of the submission.

Consumers are also concerned at the limited range of issues identified in the scoping paper for discussion and indeed the nature of the paper itself which invites no comment on issues broader than those covered in the paper. We would expect a scoping paper be designed to identify not only the materiality of issues identified, but to seek input on those issues not identified by the AEMC or its stakeholder reference group.

Specifically, at the AEMC's initial stakeholder meeting, the adequacy of the consumer protection framework to manage the risk of disconnections and energy hardship caused by current and impending price rises was raised as an issue facing consumers. We strongly encourage the AEMC to include this issue in its deliberations as part of this review.

Treasury modeling indicates households are likely to spend an extra \$4-5 per week on electricity and \$2 per week on gas and other fuels due to CPRS alone. Additionally, consumers will be expected to pay for interval meters, MRET and network upgrades (estimated to increase retail prices by 20%¹). Large price increases have already begun to flow through to consumers, recently 17% in Victoria, 26% in NSW around 15% in Queensland and 19% in Tasmania. Additionally, further price shock due to water scarcity remains a serious issue.

We believe the AEMC should explicitly recognise and note in its deliberations that for every risk and uncertainty markets face, from illiquidity in financial markets to the design of the emissions trading scheme, consumers are faced with the same risks and uncertainty when managing energy costs. Unlike businesses, many consumers are not adequately equipped to manage uncertainty and risk. They are unable to take out hedge contracts against rising energy prices or vertically integrate into generation, customers can be employed with low job security making financial planning and saving for unforeseen scenarios difficult, or they may be on fixed incomes with a severely constrained capacity to deal with unexpected energy price shocks.

¹ABARE, BCA, ESAA, EUAA, in energy response at <http://energyresponse.com/uploads/managing%20peak%20demand%20by%20m%20zammit.pdf>

We would welcome the opportunity to work with the AEMC to gather the detailed information required to determine who is most at risk of disconnection and energy hardship, and how market frameworks could be best adjusted to manage these risks. This analysis should include the potential for significant variations across jurisdictions in costs incurred from new network and generation investment resulting from CPRS and MRET.

We note that no attempt has been made by government to account for the full price effect of all future factors influencing energy prices, and the impact this could have on energy affordability.

In the interim, any suggestion that removing the negotiated price path (sometimes erroneously referred to as a price cap) is necessary for retailers to manage risk – implicitly that the only way retailers are able to manage risk is to pass it on to consumers – is ill considered. A thorough and complete review of the effectiveness of competition, jurisdiction by jurisdiction, is absolutely essential before any recommendation to remove price regulation across jurisdictions can be made.

Market uncertainty has already seen a move to industry consolidation and vertical integration. Removing the negotiated price path would serve to heighten the risk of market power abuse. Market regulation, and its interplay with policy, should encourage competition at every opportunity as a way of preventing market failure. Investigating and penalising market failure ‘after the fact’ is not sufficient by itself.

Related to the pressure for market consolidation, we believe that market behaviour and the design of policy and regulation will increasingly face systemic dysfunction caused by a combination of private asset ownership, vertical integration and until the issue is resolved, the conflicting objectives of the energy market and policy makers.

Energy market participants, in many instances private asset owners, have desired outcomes that affect policy and market regulation. For instance, private investors in coal fired generators have a desire to remain financially viable over the useful operating life and/or extended life of the asset they have purchased and so will actively work to shape market rules and Government policies to accommodate this. This creates conflict of interest between the asset owner and policy makers – who in this case are seeking to reduce emissions. Such tensions have profound effects on the ability for policy makers to act in the interests of the public and subsequently, the ability for policy makers to ensure markets act in the long term interests of consumers.

This conflict of interest creates two important systemic risks. The first is that policy makers can only deliver policy objectives as fast or effectively as private industry can do so, or are willing to do so profitably. The second risk is that if policy makers do act, or are perceived to act in a way which undermines the viability of private asset owners, those asset owners may be able to exert market power and distort market prices, or they will seek compensation for the devaluation of their assets. In this way, implicitly, Government is under significant pressure to underwrite private investment risk in energy

assets. This has the potential to significantly undermine market discipline in buying, selling and operating energy assets.

The precedent may appear tangential, but we believe the experience of financial markets in the United States, as well as the experience of highly leveraged investment vehicles and private companies in local markets should alert policy makers, rule makers and regulators in energy markets. That a privately owned company operates in a competitive or regulated market does not ensure management efficiency or efficient market equilibrium. In many cases, private investors will manipulate either the perception or experience of risk and incentive to maximise private profit and where possible, socialise risks and ultimately costs - they have an incentive to do so. Where essential services are being delivered by private enterprise in monopoly or oligopoly markets, the risk that inefficient costs are socialised is particularly high as they are too big and too important to fail.

We believe this Review should be used to examine the extent to which these systemic risks exist in energy markets, what impact they have on the ability of the energy market objectives to be met and if deemed necessary, how these issues can be resolved.

Specifically, we believe the review should investigate the risk that domestic gas reliability and affordability is, and will be further undermined by the move to price parity with international markets, CPRS and expanded RET. To the extent that it is, we believe the AEMC should investigate market adjustments that may be necessary to ensure market frameworks, with regard to market objectives, deliver efficient, safe, secure and reliable energy supplies in the long term interests of consumers. The review should also pay attention to new arrangements for Retailer of Last Resort (ROLR), which are in the process of being developed, and how allocation of risk may affect market incentives.

Lastly, understand the need to ensure investments in new and potentially untried generation technologies at a large scale do not become stranded assets. The AEMC has signaled an interest in whether the market design is likely to result in efficient investment in network connections. We reinforce the importance of ensuring the market faces an appropriate balance of risk and incentive so that consumers and/or government do not underwrite the risk of inefficient investment.

To summarise, our key recommendations are as follows:

- That the AEMC explicitly recognise energy consumers face equally important and significant risk as businesses
 - That this necessitates including an investigation into the adequacy of the consumer protection framework as part of this review
 - That this requires a complete and thorough review of the effectiveness of competition before consideration is given to removing the negotiated price path
- That the AEMC investigate systemic risk caused by the interplay of private interests, increasing levels of vertical integration and policy and regulatory settings in energy markets, what impact they have on the ability for the energy

market objective to be met and if deemed necessary, how these issues can be resolved.

- Specifically, investigate the risk that gas markets will fail to deliver efficient, safe, secure, reliable supplies in the long term interests of consumers; and
- Consider the impact ROLR arrangements may have on market incentives
- Lastly, that the AEMC ensure that an appropriate balance of risk and incentive is maintained to mitigate the risk of stranded assets being paid for by consumers and/or government.

We look forward to further consideration and discussion of these important issues throughout the Commission's review process.

In the first instance, please contact Tosh Szatow on 03 9639 7600 should you have any questions about this submission.

Yours sincerely

Tosh Szatow
Policy Officer

Free 'save energy, save money' workshops



Want to help your clients reduce their energy bills and save money?

These energy efficiency training workshops are being conducted for the community housing and services sector and Housing Tasmania.

The workshops will give you the skills, knowledge and confidence you need to help your clients become more energy efficient in their homes. You will be able to show your clients how to reduce their power bills and live more comfortably.

You will receive:

- ★ information about simple steps to make homes more energy efficient (see overleaf for more details of the workshop program)
- ★ a ready-to-use manual that will include simple instructions and pro-formas for the assessment of household energy use and recommended actions to reduce energy use
- ★ a home energy saver starter pack which you can pass onto your clients, containing a Home Energy Saver Guide.

These FREE workshops will be held in Glenorchy, Burnie and Launceston. Details are as follows:

Location	Date	Time	Venue
Glenorchy	Tuesday 7 April 2009	9.30am - 1pm (lunch included at 12.30pm)	Conference Room-Tech 3 TechnoPark 30-38 Innovation Drive, Glenorchy
		12.30pm - 4pm (lunch included at 12.30 pm)	Conference Room-Tech 3 TechnoPark 30-38 Innovation Drive, Glenorchy
Burnie	Thursday 23 April 2009	10am - 1.30pm (lunch included at 1pm)	Burnie Civic Centre Wilmot Street, Burnie
Launceston	Friday 24 April 2009	10am - 1.30pm (lunch included at 1pm)	Launceston Tram Shed 4 Invermay Rd, Launceston

To register please complete the attached form by Monday 30 March 2009 and return to Teresa Dennis at the Tasmanian Climate Change Office by email (Teresa.Dennis@dpac.tas.gov.au) or by fax (6233 2769).

This training will be provided by the Tasmanian Government and Sustainable Living Tasmania and is supported by TasCOSS and Shelter Tasmania.



**SUSTAINABLE LIVING
TASMANIA**



TasCOSS



Free 'save energy, save money' workshops



Workshop Program

Topic	Allocated time	Presenter/s
Welcome and introductions	10 mins	Helen Pryor, Shona Prior
Why save energy? A quick overview	20 mins	Helen Pryor, Shona Prior
What is Housing Tasmania doing?	10 mins	Lynden Pennicott
Encouraging tenants to save energy	20 mins	Tony Weaver, Helen Pryor
A quick energy assessment	30 mins	Tony Weaver, Helen Pryor
A case study: energy, cost, comfort and health	45 mins	Tony Weaver
Q & A	15 mins	Panel

Please note: There will be 15 minute breaks for morning or afternoon tea and 30 minutes for lunch

Presenters

Helen Pryor has worked on energy conservation programs with State and Local Government and community organisations for the past nine years. Helen is a project officer with Sustainable Living Tasmania, which is a non-government organisation working to promote sustainable lifestyles at home, in small business and in the workplace. Helen is an accredited Home Sustainability Assessor.

Shona Prior has a background in social science, financial management and project management and has worked in the defence industry and with the scientific community. Currently, Shona assists local government, businesses and the community mitigate against, and adapt, to climate change. She is one of the program managers in the Tasmanian Climate Change Office, which is part of the Tasmanian Government Department of Premier and Cabinet.

Lynden Pennicott has held a number of roles across Australia and overseas working within the banking and finance, project management and the social housing sector. Currently Lynden is responsible for delivering public housing services in Tasmania. Lynden holds a Graduate Certificate in Social Science (Housing Management and Policy) and is committed to promoting sustainable practices in the social housing sector.

Tony Weaver completed his Masters thesis on the benefits of energy-efficient retrofitting to low-income households. As part of his thesis, he worked closely with a rental household in Tarooma, Tasmania, which will form the basis for his case study presentation. Tony is an accredited Home Sustainability Assessor.