17 February 2012

Mr John Pierce
Chairman
Electricity Supply Industry Expert Panel
GPO Box 123
HOBART TAS 7001

RE: An Independent Assessment of the Tasmanian Electricity Supply Industry Draft Report

Dear Mr Pierce

Australian Power & Gas (APG) welcomes the opportunity to comment on the Electricity Supply Industry Expert Panel's Draft Report: An Independent Assessment of the Tasmanian Electricity Supply Industry (Draft Report). We appreciate the opportunity afforded APG by the Panel Secretariat for face to face consultations on 15 February and provide this letter as a summary of those discussions.

APG is a “second tier” retailer operating in the electricity and gas residential markets in Victoria, New South Wales and Queensland. While APG views Tasmania as a viable electricity market, the primary barrier to market entry is the requirement for Full Retail Contestability (FRC) in the residential sector. Following a declaration of FRC, APG would able to fully assess its entry into the market, which includes:

- Assessment of the regulated retail pricing methodology in place; and
- Negotiating a long-term wholesale purchasing position with Hydro Tasmania.

These factors will help APG determine its position to be able provide competitive prices to Tasmanian households with an appropriate retail margin. That said, removal of retail price regulation in conjunction with the declaration of FRC would increase our appetite to enter the market.

We endorse the Tasmanian government’s efforts to introduce greater competition and customer choice into the Tasmanian market, whether that is organically or through proactive retail competition. While proactive retail competition may not be a requirement for market entry for APG, we recognise that it may offer advantages to retailers through increased wholesale market flexibility and will comment briefly on the reform paths advanced by the Panel, including:

1. Auctioning standard contracts from Hydro Tasmania to provide retailers confidence in the availability of appropriately-priced hedging contracts; and

2. Establishing independent trading entities for the trading of Hydro Tasmania generated electricity.

We understand that the third reform path advanced by the panel to combine the Victorian and Tasmania National Electricity Market (NEM) regions is still under consideration.
Auctioning the Hydro Tasmania Standard Contracts

APG would potentially be interested in the purchase of a tranche of Hydro Tasmania’s standard contracts as it would provide a solid footing of retail customers from which to build. In particular, if the Panel were to look at developing the tranches to include one inclusive of all “pay as you go” customers, this would be attractive. However, as the purchase of a tranche involves a deeper commitment on the part of APG to the market, there are additional regulatory and wholesale risks that we would need assurance on, including:

- A minimum 3-5 year wholesale contract to reduce risks associated with supplying an immediately larger customer base; and
- Assurance that changes to the regulated retail tariff will not undercut pricing, so that customers in that tranche maintain a consistent level of profitability.

Availability of a review of the wholesale hedging on agreements with Hydro Tasmania may be necessary in case of a regulated tariff change. As stated above, removal of retail price regulation would mitigate many of the risks associated with this reform path.

Independent Trading Entities

Establishment of 3 independent trading entities with whom retailers can trade on a level playing field is attractive and would ease concerns about current spot market risks associated with Hydro Tasmania. As expressed in our meeting, the risk to APG or other smaller retailers of this reform path is that if there is a purchase of a tranche and a trading entity by two larger retailers, smaller retailers may be priced out of the market.

As a rapidly growing retailer, APG is keenly interested to see the continued movement of the Tasmanian market towards FRC. Ideally, FRC should be accompanied by the removal of retail price regulation to allow genuine full competition and consumer choice benefits to be realised by consumers. Nevertheless, we fully support the Panel in its efforts to advance retail competition in Tasmania.

We appreciate the opportunity to engage directly with the Panel Secretariat and comment on the Draft Report, and we look forward to future developments. Should you have any questions with respect to this submission, please do not hesitate to contact me on 02 8908 2714 or via email at hpriest@auspg.com.au.

Yours sincerely,

Hilary Priest
Manager Government, Regulatory Relations and Compliance