

Tasmanian Greens MPs

Reply to the Electricity Supply Industry Expert Panel

Powering a Transition to a 100% Renewable Energy Future

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Tasmanian Greens MPs' Reply to the Electricity Supply Industry Expert Panel: *Powering Tasmania's Transition to a 100% Renewable Energy Future*

Background:

The independent Electricity Supply Industry Expert Panel (initiated via negotiations between the Greens and Labor, and then established via Parliamentary legislation in 2010) released their recommendations in March 2012.

The Panel's key reform components included the following issues:

1. Full Retail Contestability (FRC) & consolidate Aurora's distribution networks with Transend
 2. Also sell Aurora's retail customer base (Billing and Call Centre)
 3. Reform of Hydro Tasmania: by breaking up Hydro Tasmania's trading capacity into three separate GBE's, Gen Traders'.
 4. Tamar Valley Power Station (TVPS)
 5. Momentum
 6. Entura
- State Labor announced their formal response in Parliament on the 15 May 2012.
 - The State Liberals have also announced their position – virtually accepting that proposed by the Energy Minister but conditional on the 'return of the carbon tax to Tasmanians'.

The Greens released (15 May 2012) a set of principles by which both the Panel's and Labor's positions would be evaluated to inform the development of a Greens' position:

1. Lowest possible power-prices (particularly for domestic and small business customers)
2. Provide energy security
3. Maximising the State's carbon dividend, and transition to 100% renewable as soon as possible or by the latest 2020.
4. Maximising transparency of energy sector
5. Minimising or eliminating unnecessary risk to the Tasmanian taxpayer
6. Recognition of practical complexities of energy reform implementation
7. Be based on information and data from Panel, Treasury and Hydro Tasmania¹

1: Media release issued by Greens Leader Nick McKim MP, 15 May 2012

Tasmanian Greens Proposed Energy Sector Reform Package

Overview

The Tasmanian Greens recognise that the rising price of power, the security and sources of the island's energy supply and the transition to a low-carbon economy are key concerns for the Tasmanian people. As an island community striving to build a prosperous and sustainable future, we are presented with significant challenges and major opportunities.¹

The State's future economic wellbeing and energy security will be underpinned by ensuring the energy reform process - initiated in Parliament by the Greens with tri-partisan support in 2010 – succeeds to deliver maximum, sustainable social and economic benefit.

The Greens MPs believe the development of a long term Energy Strategy for Tasmania is essential to build on the work of the Expert Panel into Tasmania's Electricity Supply Industry, and on Tasmania's national clean energy advantage in an evolving low-carbon economy.

Summary Response to Expert Panel Recommendations:

In its final report, the Expert Panel presents a detailed set of arguments for major reform and restructure of Tasmania's three Government-owned energy businesses.

We agree fundamental reform of the Electricity Supply Industry (ESI) is needed to deliver market based, competitive and transparent wholesale and retail pricing.

This paper outlines the Tasmanian Greens MPs' position on the major components of energy reform which should inform, and be consistent with, a Tasmanian Energy Strategy following the delivery of the Expert Panel's final report.

¹ Tasmanian Greens Party Energy Policy <http://tas.greens.org.au/policies/tas/energy>

The Greens believe reform of the Tasmanian wholesale and retail energy market must be undertaken strategically, with a view to delivering:

- ✓ long-term clean and secure renewable energy supply for the State.
- ✓ the lowest sustainable power prices for domestic and business customers.
- ✓ maximum energy efficiency for households, small business, government and major industrial energy users.
- ✓ genuine transparency in the operations of the wholesale and retail markets in Tasmania.
- ✓ the policy and infrastructure enablers needed to increase investment in renewable energy sources.
- ✓ Transition to 100% renewable power for Tasmania by 2020.²

2. Nick McKim MP media release 15 May 2012. Kim Booth MP media release, 18 June 2012.

Detail of Proposed Energy Sector Reform Package:

This is a summary of the Greens' position in response to the Panel's identified key areas of reform. Further detail and rationale are expanded on below.

	Full Retail Contestability (FRC)- & consolidate Aurora's distribution arm with Transend	Sell Aurora Energy's retail arm (Billing and Call Centre)	Hydro Tasmania's trading capacity broken into three separate 'Gen Traders'	Tamar Valley Power Station	Momentum	ENTURA	SMART GRID & NBN (Greens' additional reform criteria)
Greens' Position	<ul style="list-style-type: none"> Support FRC. Support consolidation of transmission and distribution networks into a single entity. 	<ul style="list-style-type: none"> Support the sale of Billing and Call Centre. If no satisfactory offers support transfer to Momentum. 	<ul style="list-style-type: none"> Do not support 3 Gentraders Instead propose that a three trading room model within HT is established, subject to a cost-benefit analysis; and in the interim regulate. 	<ul style="list-style-type: none"> Do not support sale. Propose it is transferred to HT, and explore lease at fair value until 2017, and then mothball. 	<ul style="list-style-type: none"> Conduct a cost-benefit assessment on impacts of potential sale and optimal time for potential sale. In the interim ensure it is on a level playing field with other retailers, & requiring Momentum to report as if they are a separate entity. 	<ul style="list-style-type: none"> Sell for fair value. Proceeds of the sale should be prioritised to pay down HT's debt, and for generation infrastructure maintenance. 	<ul style="list-style-type: none"> Support planning and investment in, and utilisation of, Smart Grid and NBN technology.
Measured against Greens' set of Principles (Section 7 above)	<ul style="list-style-type: none"> ✓ Provides for lowest possible power – prices ✓ Maximising transparency 	<ul style="list-style-type: none"> ✓ Lowest possible power-prices 	<ul style="list-style-type: none"> ✓ Lowest possible power prices ✓ Maximising transparency ✓ Maximises carbon dividend, transition to 100% renewable by 2020 ✓ Recognises practical complexities of energy reform 	<ul style="list-style-type: none"> ✓ Provide energy security ✓ Transition to 100% renewable by 2020 [✓ Minimises unnecessary risk to taxpayer ✓ Recognises practical complexities of energy reform 	<ul style="list-style-type: none"> ✓ Minimising or eliminating unnecessary risk to taxpayer ✓ Maximising transparency ✓ Recognises practical complexities of energy reform 	<ul style="list-style-type: none"> ✓ Minimising or eliminating unnecessary risk to taxpayer 	<ul style="list-style-type: none"> ✓ Provides for lowest possible power – prices ✓ Transition to renewable by 2020

Full Retail Contestability

The Greens recognise that the success of Full Retail Contestability (FRC) in Tasmania needs to be underpinned by wholesale market reform and restricting Hydro Tasmania's capacity to unreasonably profit at the expense of retail customers.

While the Expert Panel makes limited comment on demand-side management as a means to lower power costs, the Greens also strongly support continued investment in energy efficiency upgrades for Tasmanian households, small business, government and industrial users.

Greens' Position: The Greens support Full Retail Contestability (FRC), and also support consolidation of distribution and transmission networks into a single entity.

Regulation

The Greens accept that stronger regulation is required to improve Hydro Tasmania's governance structures, its corporate conduct as a wholesaler on the NEM and to the retail market in Tasmania as well as its proven history of embarking on potentially high-risk, non-core business ventures interstate and overseas.

We believe stronger regulation of Hydro Tasmania will help to deliver retail pricing benefits to households and small business. The Greens are not, however, persuaded that regulation alone will be enough.

The Greens endorse in-principle the Tasmanian Treasury's recommendation to heavily regulate Hydro Tasmania's operations in the interim, restricting its wholesale monopoly power. This will improve governance and transparency, and deliver benefits to retail customers through lower wholesale pricing.

Hydro Tasmania

The Tasmanian Greens oppose the privatisation of Hydro Tasmania's electricity generating assets.²

The Greens believe that previous government decisions, and recent policies in the Tasmanian energy sector, have substantially increased the risk of adverse outcomes for Hydro Tasmania, including its own financial difficulties, contributing to an excessive debt burden for the GBE.

Major areas of concern include the risk of decreasing rainfall and snowfall, Hydro Tasmania's high-risk expansionist strategy, and that one or more of the bulk power consumers may leave the state or insist that contracts be rewritten in terms less favourable to Tasmania.

The Greens accept the Panel's finding that Hydro Tasmania wields too much wholesale monopoly power and that this has come at a price to retail customers.

The Expert Panel recommends breaking up Hydro Tasmania's trading capacity into three separate 'Gen Trader' Government Business Enterprises trading transparently and competitively on the National Energy Market (NEM).

Hydro Tasmania under this scenario would be responsible only for electricity generation. It would also be required to divest its consultancy arm, Entura, and its mainland retail business, Momentum.

² Tasmanian Greens Energy Policy <http://tas.greens.org.au/policies/tas/energy>

Greens' Response to Proposed GenTrader Model

After detailed and careful consideration, the position of the Tasmanian Greens is to not support the GenTrader model proposed by the Expert Panel.

While we recognise its potential to deliver more competitive and transparent wholesale pricing in Tasmania, we are concerned about the significant potential this model - if applied - presents for privatisation of a public asset that is a major source of revenue to the State, particularly now in the context of the carbon price.

We are also concerned about the potentially high cost to the public purse of establishing and staffing three separate GBEs and the risks inherent in three publicly-owned entities either cannibalizing each other or colluding, in an effort to survive in the NEM.

Greens' Position: The Greens do not support the Panel's recommendation for three new separate 'Gen Traders' to be established.

Greens' Proposal: Trading Room within Hydro Tasmania

The Greens also, however, believe that there may be an alternative to either the GenTrader or solely regulatory model. That is to establish three trading rooms operating as separate entities within Hydro Tasmania to provide greater transparency of wholesale pricing of the GBE's market conduct as a player on the NEM.

The governance model would have ACCC oversight and meet national competition standards for wholesale electricity. These trading rooms would be staffed, as much as possible, by Hydro Tasmania staff with relevant expertise.

The Greens request that the Treasurer ask Treasury officials to undertake a cost-benefit analysis of this trading room proposal with a view to finalising this work by November 2012.

Greens' Position: The Greens propose that a three trading room model within Hydro Tasmania is established, subject to a cost-benefit analysis; and in the interim regulate.

Distribution/Transmission Network

As recommended by the Expert Panel, the Greens support the amalgamation of the transmission and distribution networks, currently operated by Transend, and Aurora. This would allow for a more efficient delivery of electricity across the State.

The amalgamated entity would be tasked with driving the development of an intelligent/smart grid system for Tasmania, enabling increased investment in renewables, distributed generation, energy efficiency and demand side management.

This will lead to lower electricity supply costs and therefore lower power prices for retail customers.

The Greens support the transfer or sale of Aurora's remaining assets - its billing system and call centre - at the same time as its customer base is put on the market.

Greens' Position: The Greens support the consolidation into one single entity the distribution and transmission networks currently operated by Aurora and Transend respectively.

Greens' Position: The Greens support the sale of Aurora's Billing and Call Centre. If no satisfactory offers to buy are received, then support transfer to Momentum.

Tamar Valley Power Station

The Tamar Valley Power Station (TVPS) is a major burden on Aurora and a significant contributor to higher power prices for households and small businesses in Tasmania.

As a fossil fuel generator, the continued operation of TVPS comes at a high carbon price, both economically and environmentally.

Our position is that the TVPS should be transferred to Hydro Tasmania to be retained solely for energy security purposes, and examination given to the leasing of TVPS and the high cost take-or-pay gas contracts due to expire in 2017.

Greens' Position: The Greens do not support the sale of the TVPS. Instead we propose it is transferred to Hydro Tasmania, and a lease option at fair value until 2017 is explored. The TVPS should be mothballed after 2017.

Momentum

The Tasmanian Greens accept the Panel's finding that Momentum is not core Hydro Tasmania business and that it presents a level of risk to the taxpayer.

However, we also recognise that Momentum is a vehicle for delivering surplus renewable energy to Victoria via Basslink.

For the purpose of providing transparency the Momentum business must report as if it were a stand-alone entity, while it remains in Hydro Tasmania's hands.

The Greens support the development of a business case by Treasury for the potential future sale of Momentum. In this analysis, consideration needs to be given to Momentum's operation under the Clean Energy Future Package as well as the sustainability of its business model and level of risk to the State's interests.

With the cost-benefit analysis completed, and prior to any sale, the Greens support a formal review of Momentum's operation as a mainland retail arm of Hydro by 1 July 2014. We believe these measures will ensure the right decision is being made to ensure the greatest returns and benefit to Tasmanian taxpayers.

Greens' Position: The Greens support a cost-benefit assessment to be conducted on the potential sale of Momentum, and the optimal time for any sale. In the interim Momentum must operate on a level playing field with other retailers, and be required to report as if it is a separate entity while it remains in the hands of Hydro Tasmania.

Entura

While the Greens recognise that Entura has enabled the export of renewable energy expertise internationally, we believe this has not in all circumstances been undertaken without heavy social cost in developing nations. The displacement of indigenous communities in Sarawak as a result of hydro-electric development technically supported by Entura is a key example.

Again, we agree with the Expert Panel's determination that Entura's operation does not represent core business for Hydro Tasmania in its primary obligation to Tasmanian power users. The Greens also believe there is no practical impediment to sustainable renewable development expertise being delivered by a privately owned Entura.

The Greens support the sale of Entura as long as a reasonable price is achieved.

Priority would need to be given to retaining staff expertise to ensure Hydro Tasmania infrastructure and energy security obligations are met. Revenue from the sale of Entura should be reinvested in Hydro Tasmania infrastructure maintenance priorities and to pay down debt.

Greens' Position: The Greens support the sale of Entura for fair value. The proceeds of the sale should be prioritised to pay down Hydro Tasmania's debt, and for generation infrastructure maintenance.

Looking Forward: A Smart Grid - Investing in 21st Century Infrastructure

The cost of maintaining and upgrading existing electricity transmission and distribution infrastructure has driven up power prices for retail customers and will continue to do so under a business as usual scenario. Our current grid is also unable to cost effectively support new and emerging generation technologies.

A Smart Grid delivers electricity from suppliers to consumers using digital technology to save energy, reduce cost and increase reliability. Such a modernised electricity network is being implemented in developed and developing nations globally as a way to address energy independence and climate change. It has huge benefits for integrating renewable energy technologies across the grid and demand side management, all facilitated by the roll out of the NBN in Tasmania.

Integrating smart grid technologies into our existing grid would transform our transmission and distribution system into a modern network that empowers utilities and consumers to change how we create and consume energy. It would deliver greater customer benefit through demand-side and peak-load management, as well as integration of extra hydro, solar, wind and geothermal technologies to incorporate more distributed generation.

While Tasmania currently has a surplus of energy this cannot be assured in times of drought. Furthermore, we should be positioning ourselves to take advantage of our clean energy capability in a carbon constrained economy. We should be courting industries which are energy intensive

Greens' Position: The Greens for, and investment into, a Smart Grid for Tasmania by 2017.

yet progressive in their desire for clean energy. Examples of this would be financial institutions and their data centres, or Apple and its iCloud.

In order to maximize the opportunities our natural advantages present, we believe Tasmania needs to immediately begin the infrastructure and capital investment planning required to deliver a Smart Grid for Tasmania by 2017.¹

Transition to a Low Carbon Economy

The Tasmanian Greens recognise that carbon pricing offers enormous benefits for Tasmania - a national leader in the production of clean energy, with an abundant Hydro resource along with increased investment in wind power, solar and distributed generation. More than eighty per cent of our electricity comes from clean and renewable sources.

Renewable energy generation has brought massive benefits to all Tasmanians for decades. The restructure of Tasmania's electricity supply industry can take advantage of this strong history in renewable energy and take advantage of these benefits, allowing the State to earn revenue to invest in social services and public infrastructure, as well as power price offsets. Tasmania is well placed to achieve 100% renewable energy supply by 2020 with the capacity to export surplus green power to mainland Australia.

Conclusion:

The Tasmanian Greens believe that it is crucial to structure our energy reform around a vision for a sustainable and intelligent future. This means maximising our carbon advantage, investing in smart infrastructure, taking up opportunities for green job creation, and implementing measures that will drive Tasmania's transition to a 100% renewable energy future, and the points as discussed above.

This position paper sets out a path to a clean, green, renewable energy future for Tasmania. We believe the position we have articulated in response to the Expert Panel into Tasmania's Electricity Supply Industry is one that will generate long term, sustainable prosperity and wealth directly linked to community and environmental benefits for the Tasmanian people.

ⁱ In their report, *Broadband Communication Enables Sustainable Energy Services*, the ANU's Dr Mike Dennis and Dr Haley M. Jones find that:

"Australia's electricity supply infrastructure requires investments exceeding \$100 billion over the next 25 years to maintain quality of service to domestic users. Being careful to distinguish energy service needs from electricity delivery, the case is made for distributed energy services which offer improved sustainability outcomes to the traditional monolithic generation model. A key enabling technology for commercial success of the proposed paradigm is a broadband communication structure. Broadband is essential in meeting the cost reduction and performance targets that would allow a distributed energy service model to succeed. Using broadband, a large number of novel business opportunities arise."

The Australian Government's chief energy forecasting body, the Bureau of Resources and Energy Economics (BREE), predicts that by 2030 the cost of coal-fired generation will have doubled and renewable energies, including onshore wind and solar PV, will be the cheapest forms of energy available. This has profound implications for electricity networks, distribution systems and Australia's obligation to meet its targeted greenhouse gas emission reductions.

Rapidly being implemented in places such as China, the U.S., Japan, South Korea, Spain, Germany, the U.K., France, Brazil and Malaysia, Smart Grid technology enables efficient grid operation, customer engagement and increased capacity to manage power demand using new and existing I.T. infrastructure.