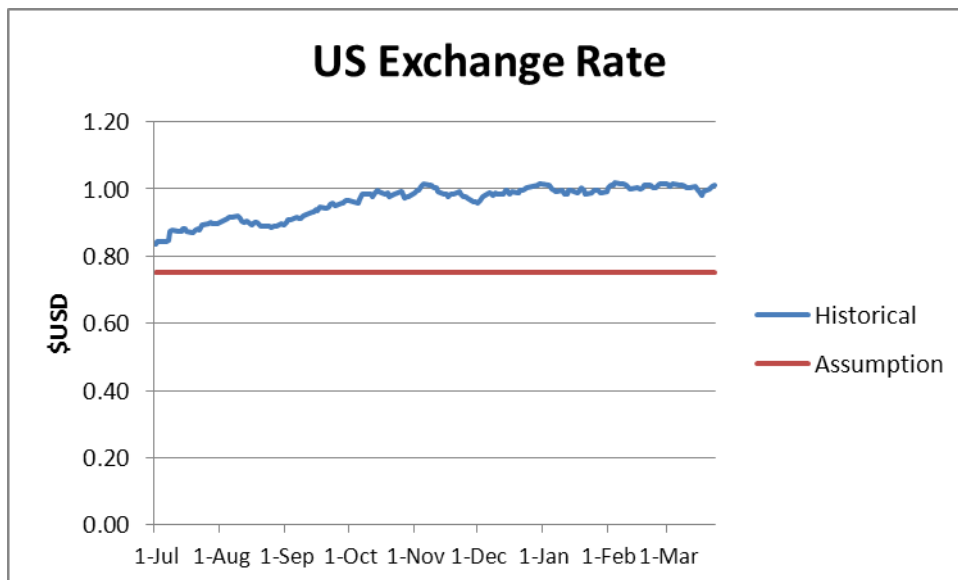
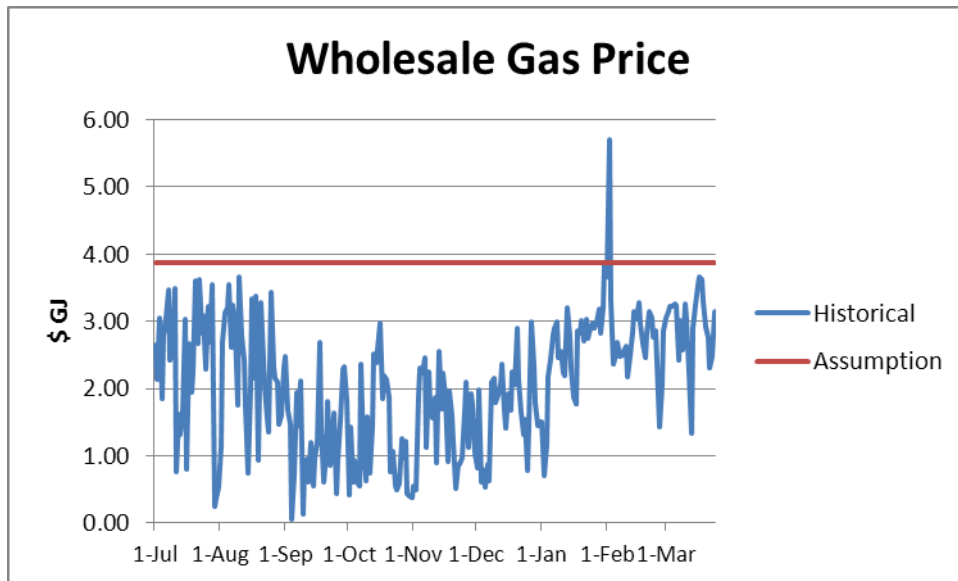


**Press Release**

Tasmanian Environmental Economists (TEE) has accepted the task of monitoring the inputs used in the LRMC model for the 2010 Electricity Retail Price Investigation. TEE is calling upon the Economic Regulator to review his decision following a sustained period of low wholesale gas prices and a strong Australian dollar. TEE advocates that the benefit of low gas prices and a strong Australian dollar should be passed onto Tasmanian households.



**The following material was extracted from the ‘Investigation of maximum prices for declared retail electrical services on mainland Tasmania’**

### **3.5.8 Periodic review of energy purchase costs**

The Price Control Regulations permit, although it does not mandate, the Regulator to undertake a biannual review of the energy allowance. Sub-regulation 32(6) states:

(6) The Regulator may, once in any 6-month period, amend an estimate of electricity supply costs made in accordance with this regulation, if the Regulator –

(a) considers the determination made under subregulation (5) no longer satisfies or takes into consideration the matters referred to in that subregulation; or

(b) considers it otherwise necessary to do so.

The inputs to the LRMC model include technology, fuel costs, various greenhouse gas and carbon permit costs and the forecast shapes of the Tasmanian system and non-contestable loads. IES considered that the most uncertain input was the carbon permit cost which could be adjusted for in the LRMC formula as better forecasts of carbon permit prices become available. Similarly, it was of the view that estimates of the market cost approach to energy purchase costs could be adjusted through a relatively simple spreadsheet application.

Consistent with the proposal set out in the Statement of Reasons for the declaration of retail services<sup>59</sup> and in the Draft Report, the Regulator has determined that it will provide a mechanism for the review of energy purchase costs in the Determination. However, given the delay in the introduction of the CPRS, the Regulator considers that this should be undertaken annually rather than biannually as suggested by the Australian Energy Market Commission (AEMC) and as permitted by the Regulations.

**About the Author**

Greg Izzard has over 30 years of experience across a broad and diverse range of capital intensive industries including mining, telecommunications and electricity and water utilities and is establishing a consultancy in Tasmania specialising in environmental economics.