



Tasmanian Council of Social Service Inc.

TasCOSS submission to the *Wholesale Electricity Pricing Framework Review – Preferred Option*

December 2020



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About TasCOSS

TasCOSS' vision is for one Tasmania, free of poverty and inequality where everyone has the same opportunity. Our mission is two-fold: to act as the peak body for the community services industry in Tasmania; and to challenge and change the systems, attitudes and behaviours that create poverty, inequality and exclusion.

Our membership includes individuals and organisations active in the provision of community services to low-income Tasmanians living in vulnerable and disadvantaged circumstances. TasCOSS represents the interests of our members and their service users to government, regulators, the media and the public. Through our advocacy and policy development, we draw attention to the causes of poverty and disadvantage, and promote the adoption of effective solutions to address these issues.

Please direct any enquiries about this submission to:

Adrienne Picone

CEO

Ph. 03 6231 0755

Email: adrienne@tascoss.org.au

Introduction

The Tasmanian Council of Social Service (TasCOSS) welcomes this opportunity to further contribute to the review of the Tasmanian wholesale electricity pricing framework.

Energy is an essential service, fundamental to community, family and individual health and wellbeing, as well as to overall economic activity. All Tasmanians, regardless of their means, must be able to afford to maintain access to a reliable, safe, household energy supply. However, meeting the costs of household energy supply continues to be a major challenge for low-income households in Tasmania.

TasCOSS believes providing a secure, reliable energy supply that is affordable for low-income and disadvantaged Tasmanians, must be the centrepiece of all energy policy development.

The consultation paper overview states “*the reform priority of the Government is to remove volatility in Tasmanian electricity prices caused by events outside the State*”. While acknowledging that aim as a valid reason for undertaking this reform, our expectation is that reform priorities extend to delivering the lowest possible wholesale prices for Tasmanian consumers.

Issues for Further Consideration and Comment

TasCOSS notes the preferred option identified in the consultation paper continues with a market based arrangement that incorporates a smoothing mechanism. TasCOSS supports this approach as it allows the market to determine wholesale prices while ensuring Tasmanian consumers are protected from extreme events or price volatility in the NEM.

Products

Comment is sought on whether it is necessary to cap all four WCRI products.

TasCOSS acknowledges the rationale for a cap to be considered unnecessary for all four WCRI products. As the load following swap is the product generally used for the regulated retail tariffs, the merit of applying a cap mechanism to other WCRI products is outside of our purview.

Baseline

Comment is sought on what would be an appropriate baseline figure to adopt and the timing needed for the figure to be announced to provide sufficient certainty for market participants.

The baseline figure adopted should be the lowest possible value. Given the outlook for ASX base load future prices for Victoria suggest lower wholesale contract prices in 2021, current year WCRI estimates are likely to provide a lower baseline figure than the previous year WCRI. We have not considered timing impacts in determining our preferred baseline.

Appropriate CPI

Comment is sought on whether a CPI based escalation is appropriate or, if not, what other form of index could be used. If CPI is to be used any views on the appropriate CPI and quarter on which the annual change is to be calculated is also sought.

Noting the Hobart CPI has exceeded other capital cities' in recent years, consideration should be given to applying the national annual CPI, or the movement in the *Electricity* expenditure class¹ for Hobart, both of which would deliver lower indexation than the Hobart CPI.

It is also noted that the escalation factor is based on the retail level CPI being applied such that all the increase is applied only to the wholesale price component, which will result in retail price escalation above the CPI if network and retail components also apply a CPI (or higher) increase. Given the inability to hold these other components constant, we recommend that the escalation factor is the same as the CPI.

Rate of Change Cap Mechanism

Comment is sought as to appropriateness of the proposed adjustment to the indexation and whether an adjustment mechanism is necessary.

TasCOSS acknowledges the rationale for the cap mechanism to be applied to both the proportion of wholesale costs determined by the Tasmanian Economic Regular, or set using the average proportion over a specified time. We do not have a preferred mechanism.

Cap or Band

TasCOSS does not support a band or floor mechanism. A price floor would limit the amount prices could fall, which is inconsistent with our reform priority of delivering the lowest possible wholesale prices for Tasmanian customers.

Other Issues

As TasCOSS is not a market participant, we are not best-placed to comment on the remaining issues seeking comment in the consultation paper.

Conclusion

TasCOSS supports in-principle measures and mechanisms that increase certainty, increase transparency and reduce complexity. Our expectation is that the final approach adopted delivers the lowest possible wholesale prices and protection from price volatility for Tasmanian residential customers.

¹ *Electricity* is an expenditure class of the *Utilities* sub-group of the *Housing* CPI group.