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Australian Energy Market Commission
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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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