

# Tasmanian Small Business Council

## The Final Step: Moving to full retail contestability in the Tasmanian electricity market

### AP 497 – FINAL REPORT

Dated: January 2013

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## Disclaimers

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## FOREWORD - NOTE FROM THE AUTHOR

Since the first tranche of electricity market deregulation in Tasmania on 1 July 2006, Tasmania has proven to be one of the most challenging and problematic jurisdictions in the National Electricity Market. Despite having five licensed retailers in the state<sup>1</sup>, so called “contestable” business customers spending less than \$42,000 per annum have effectively continued to endure monopoly conditions, with only the incumbent retailer willing to offer market contracts.

Following delivery of the Independent Electricity Supply Industry Expert Review Panel’s Final Report in early 2012,<sup>2</sup> “*On 15 May 2012 the Minister for Energy, the Hon Bryan Green, announced a comprehensive and integrated reform package for the electricity industry*”<sup>3</sup> The package of reforms includes, merger of the Transend and Aurora Networks (Poles & Wires) businesses into one State Owned GBE by July 2014, the sale of Aurora’s customer base (split into three customer portfolios) and transfer of these customers by December 2013, a customer portfolio sale underpinned by the independent regulation of (Hydro Tasmania’s) Wholesale energy pricing from 1 July 2013 and transfer of Aurora Energy’s retail capabilities, such as the billing engine, to Hydro Tasmania’s retail subsidiary, Momentum Energy, by July 2014.

Whilst these reforms are being undertaken with the long term interests of Tasmanians in mind, Tasmanian businesses must take the opportunity to stay abreast of the changes and play an active role in advocating for their interests during the process of reforms.

Goanna Energy Consulting wishes to thank Geoff Fader and Robert Mallett from the TSBC for identifying the need for this project to support the powerhouse of Tasmania’s economy, small business.

Goanna also wish to thank the electricity retailers who agreed to our request for interviews and whom each provided valuable insights. Goanna also wish to thank long standing energy consumer advocate Roman Domanski, for his efforts in reviewing this report and challenging us to go further and deeper.

I hope you enjoy this report and trust the outworking’s lead to reductions in the cost of doing business for all Tasmanians.

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<sup>1</sup> <http://www.power.tas.gov.au/domino/powernew.nsf/v-lu-pages/Useful+Contacts?OpenDocument>

<sup>2</sup> [http://www.electricity.dpac.tas.gov.au/final\\_report](http://www.electricity.dpac.tas.gov.au/final_report)

<sup>3</sup> <http://www.treasury.tas.gov.au/domino/df/df.nsf/v-elec-ref/0/>

## 1 EXECUTIVE SUMMARY

Tranche 5a retail electricity contestability was introduced in Tasmania on 1 July 2011, to provide access to the competitive market for an additional 3,500, mainly small business customers, who consume in excess of \$14,500<sup>5</sup> per annum but less than \$42,000<sup>6</sup> per annum, at a single site. Tranche 5a sites include take away stores, news agencies, pharmacies and larger hairdressers. Almost 18 months after the introduction of “contestability” for this Tranche most of these small businesses have been unable to attract an alternate retailer and therefore have continued to experience a virtual incumbent retailer monopoly.

Tasmanian Small Businesses Council (TSBC) commissioned Goanna Energy Consulting Pty Ltd (Goanna) to investigate the opportunities to facilitate a more competitive market outcome for small businesses in Tasmania and to provide independent advice on these matters to enable TSBC to reach an informed position for their advocacy on the matter.

At the time the project was envisaged at least one Retailer had indicated issue with the current regulations in Tasmania for sub-150MWh per annum sites. However, during the research phase of this report, on 1 July 2012 Tasmania (and the ACT) adopted the National Energy Customer Framework (NECF), which along with the National Energy Retail Regulations (NERR) provided automatic access to the Tasmanian market for in excess of 20 new “National” retailers. Despite this automatic retailer access, some 5 months later the Tasmanian contestable market landscape for small business remains largely unchanged.

Whilst the research probed the question of the Contestability Rules for Tranche 5a, as is sometimes the case, feedback raised focused on other recurring themes as pre-conditions to retailer market entry.

Goanna contacted a total of fifteen National electricity retailers, including all five directly licensed Tasmanian electricity retailers. Of those fifteen Retailers contacted, six agreed to participate in the research. Of the six retailers interviewed, three acknowledged that they were clearly interested in the Tasmanian market. These three were either active or seriously assessing the Tasmanian market opportunity for participation. None of the retailers interviewed said they were not interested in the Tasmanian market.

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<sup>5</sup> Annual cost of 50,000 kWh at 2012/13 Published General Tariff 22 is \$14,500 GST Inc.

<sup>6</sup> Annual cost of 150,000 kWh at 2012/13 Published General Tariff 22 is \$42,320 GST Inc.

Whilst the Tasmanian electricity market should represent a classic growth opportunity for these National electricity market retailers, to date they have voted with their feet and shunned the Tasmanian market, as offering limited opportunity combined with significant downside risks. Therefore, to attract additional Retailers to Tasmania requires either or both, an increase to the size of the opportunity, and/or mitigation of the downside risks.

The introduction of Full Retail Contestability (FRC) in 2014 will provide improvements to the size of the opportunity, by increasing the total contestable market from 6,000 contestable sites to in excess of 266,000 contestable sites. Therefore it is likely to be in TSBC's interests to remain vigilant and advocate against any delays to the introduction of FRC on 1 January 2014.

The impending sale of Aurora Energy's retail customer portfolio in several packages has provided a heightened interest in the Tasmanian market among retailers. The sale of Aurora's retail customer portfolio brings about the delicate trade-off between maximizing the sale price of the asset and protecting consumer interests. Consumers' interests (including those of TSBC members) would be best served by an outcome that has significant regard to increasing the extent of retail competition. For example, the size of these customer portfolios is likely to dictate which existing national retailers have the capability to bid for them. TSBC and small business interests in Tasmania should be aware of this trade-off and take a strong interest in the sale of Aurora's retail 'book' as it presents a 'once-off' opportunity to influence the Tasmanian retail market structure that will thereafter be essentially set in concrete, as has been demonstrated in other states.

Efforts to "De-Risk" the Tasmanian market and the perception that retailers have of it, are also paramount to the attraction of competition. Other than ERM Business Energy, Retailers interviewed repeated negative assessments of the Tasmanian wholesale market and retail price regulation, including a recurring theme of uncertainty.

As the Government has announced its package of reforms and is underway with their implementation, it seems highly unlikely that it will move further along the road of wholesale market reform or lessening price regulation in the foreseeable future. This suggests that electricity consumers' interests will be best served for now by ensuring that the scope for competition and new entry is maximized within the Government's reform framework. In particular, reforms such as the auctioning of Hydro Tasmania's contracts and its interactions with the broadened retail sector need to be developed in a way that maximizes the opportunities for competition to emerge and therefore to offer competitive retail prices.

Goanna have provided TSBC with a suite of twelve recommendations to facilitate a more competitive market outcome for Tasmanian small businesses. These are summarised below.

1. TSBC should continue to support the thrust of the Tasmanian Governments electricity industry reforms and involve itself in their implementation.
2. TSBC should advocate for the avoidance of any delays to the introduction of Full Retail Contestability, as FRC will likely bring increased competition for SME's.
3. TSBC should consider influencing the retail sale terms and conditions, as these will influence the long term make-up of retail competition in Tasmania.
4. TSBC should take an active interest in the wholesale market reforms, as these will have a significant flow on impact to the level of retail competition.
5. TSBC should consider advocacy on increased competition at the generation level, and the ways in which this could be achieved in Tasmania.
6. TSBC should consider the equal importance of Network charges, their impact on the total delivered cost of electricity and undertake advocacy on this.
7. TSBC has a unique window of opportunity to influence the long term electricity market structure and should actively engage with all sides and levels of government to ensure its views are well understood.
8. TSBC should seek out peak bodies with aligned electricity market interests, with whom to leverage resources in advocacy efforts.
9. TSBC should consider its role in ensuring members take full advantage of the impending competitive market opportunities, including facilitating access to experts and support for collaborative buying groups.
10. TSBC should seek to ensure its members are well educated on the reforms, as this has been shown to improve competitive market outcomes.
11. TSBC should engage directly with existing and potential new market entrants, in order to understand their strategies, target markets and product offerings, to facilitate efficient market outcomes.
12. TSBC should support the gradual liberalization of pricing controls as competition develops and can be shown to be an effective alternative to regulation.

We encourage TSBC to adopt these recommendations as part of its energy advocacy efforts.

## 2 INTRODUCTION

The Tasmanian Small Business Council (TSBC) interests include, “*Working together in taking any (lawful) action towards furthering the interests and success of small business in Tasmania*”.<sup>7</sup> The TSBC and Goanna Energy Consulting Pty Ltd (Goanna) share a desire to see Tasmania’s economy prosper in a sustainable manner, through the development of a competitive and efficient energy market.

Given the significance of electricity to the operations of small business in Tasmania and their costs of business, an important objective should be to encourage the development of a vibrant and competitive electricity market, to help address, “*The Cost of Doing Business*”, which has also been identified by the State Government as a priority issue in their 2011 Tasmanian Small Business Strategy.<sup>8</sup>

Owing to the lack of competition in the small business dominated Tranche 5a market, TSBC have asked Goanna to examine the relevance of Tasmanian Rules<sup>9</sup> for Electricity supplies for the purpose of Tranche 5a contestability. As we understand it, this is to inform the TSBC for the purpose of advocacy into the Tasmanian Department of Industry, Energy and Resources, and the relevant Minister/s.

The purpose of this project is therefore, to investigate the opportunities to facilitate a more competitive market outcome for small businesses in Tasmania. TSBC wish to research the issues and gain independent advice on these matters to enable TSBC to reach an informed position for their advocacy on the matter.

Electricity market deregulation or “Contestability” allows consumers to choose their electricity Retailer.

*Tasmania joined the National Electricity Market (NEM) in 2005 and as part of the decision to join, the State Government introduced contestability for retail electricity sales in Tasmania. Retail electricity competition means that once you are contestable you are eligible to negotiate a market contract with an electricity retailer licensed in Tasmania and decide the price and service package that best suits your needs.*<sup>11</sup>

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<sup>7</sup> <http://www.tsbc.org.au/webs/fm/tsbc.nsf/vwall/Constitution>

<sup>8</sup> DEDTA (2011) “Tasmanian Small Business Strategy”

<sup>9</sup> [http://www.ret.gov.au/Documents/mce/\\_documents/2010%20bulletins/No.185-04-National\\_Energy\\_Retail\\_Rules.pdf](http://www.ret.gov.au/Documents/mce/_documents/2010%20bulletins/No.185-04-National_Energy_Retail_Rules.pdf)

<sup>11</sup> Tasmanian Economic Regulator (2012) “*The Power to Choose*” website

<http://www.power.tas.gov.au/domino/power.nsf/8ea2098eb167eecbca2574ea0006747a/fbf2b9eb93f45366ca2574f900195097?OpenDocument>

Currently the Tasmanian Electricity market has been deregulated down to the 50MWh per annum level, (Refer Table 1. below). Depending on the Tariff, a consumption of 50MWh per annum translates to an annual spend of around \$14,500 per annum in 2012/13 dollars.<sup>12</sup> These sites include take away stores, pharmacies and larger hairdressers.

This “Tranche” of Tasmanian deregulation, known as Tranche 5a, has not previously been a facet of any other Australian State market deregulation process. Most other mainland states have proceeded directly from around the 150MWh pa level (~\$42,000 pa), to “Full Retail Contestability”, over an average four to five year period. Full Retail Contestability (FRC), is where all electricity consumers have access to contestability.

Whilst deregulation down to the Tranche 5a level covers some 6,000 Tasmanian business sites, most of the Tranche 5a sites have only been able to source a market offer from the incumbent retailer. The other licensed Tasmanian retailers have shown little interest in servicing the sub 150MWh (<\$42,000 pa) market to date. This has resulted in an effective monopoly in the Tasmanian Tranche 5a market.

In May 2012 The State Government announced the timeline for the transition to Full Retail Contestability (FRC) in Tasmania as 1 January 2014. See Table 1. Below.

**TABLE 1. TASMANIAN ELECTRICITY CONTESTABILITY TIMELINE**

Tranche (App. Sites)	Annual Consumption	Approximate Annual Spend	Date Contestable	End date of Grace Period
T1 (19)	>20GWh (Consume 60% total Top 4 = 50%)	>\$2,000,000	1/7/2006	30/6/2007
T2 (46)	>4GWh	>\$400,000	1/7/2007	30/6/2008
T3 (330)	>750MWh	>\$80,000	1/7/2008	30/6/2009
T4 (~2,000)	>150MWh	>\$30,000	1/7/2009	30/6/2010 (LOC)
<b>T5a (~3,500 sites)</b>	<b>&gt;50MWh</b>	<b>&gt;\$14,000</b>	<b>1/7/2011</b>	<b>Standing Offer (SOC) Available</b>
T5 266,500 Total	<50MWh FRC	<\$14,000	1/1/2014	Announced May 2012

<sup>12</sup> General Tariff 22 @2012/13 published rates for 50,000 kWh pa consumption = \$14,500 GST Inc.

As at 1 July 2012 under the National Energy Customer Framework (NECF), the National Energy Retail Regulations (NERR) provides National Retailers with automatic access to participating jurisdictions of Tasmania and the ACT (the only two jurisdictions to have so far signed the NECF).<sup>13</sup> In addition to this Hydro Tasmania has published its position on offering wholesale market products to “Authorised Counterparties”, such as Electricity Retailers on its website.<sup>14</sup> This is an important pre-condition for the entry of new retailers who must secure supplies of electricity and be able to hedge their positions in the Tasmanian electricity market to compete in that market. As is well-known, Hydro Tasmania is the dominant generator in the Tasmanian market and its position is therefore critical if new retail competitors are to play a role.

Although the Expert Panel that examined the Tasmanian electricity industry, which reported earlier this year, recommended changes to the structure of Hydro Tasmania that would have created separate (government owned) trading entities responsible for selling Hydro Tasmania’s physical capacity to retailers (and others), the Government opted instead to leave Hydro Tasmania as a single (dominant) generator with both production and trading functions. It will, however, establish a separate regulated process to openly auction Hydro Tasmania’s contracts to the wholesale market (an option examined but not favored by the Expert Panel) with the intent of using this to encourage more retail competition. The development and operation of this regulated wholesale auction process will be critical to the success of the Government’s reform package and the attractiveness of the Tasmanian market to new entrant retailers. It will also be critical to competitive offers presented to Tasmanian electricity consumers by those retailers that do participate and therefore the retail price of electricity.

Whilst this report is limited to an examination of issues for TSBC members to do with retail competition and prices, these are not the only consideration in the determination of retail electricity price bundles. In Tasmania, a typical retail electricity bill can be broken down as follows:

- Wholesale price (essentially generation prices) – 38%
- Network prices (high voltage transmission and low voltage distribution) – 46%
- Carbon and renewable energy obligations – 8%
- Retail margin – 8%

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<sup>13</sup> <http://www.legislation.sa.gov.au/LZ/C/R/NATIONAL%20ENERGY%20RETAIL%20REGULATION/CURRENT/2012.169.UN.PDF>

<sup>14</sup> <http://www.hydro.com.au/energy/inter-regional-products-and-pricing>

Hence, the component we are dealing with here is somewhat less than half of a typical retail electricity bill. However, wholesale and retail prices contributed almost half of the nearly 40% increase in Tasmanian electricity prices experienced between 2009/10 and 2012/13. This is significant and the current lack of competition suggests that there is useful scope to reduce these prices (eg in Victoria these components make up significantly less than they do in Tasmania).

But the remaining parts of the bill are also significant and are not impacted in any substantial way by the Government's reforms (although the Government is aware of this and has taken some steps to deal with them).

In particular, network charges make up most of the other half of a typical electricity bill and also require attention. In Tasmania, they are provided by government owned monopoly businesses (Aurora Networks and Transend) and for this reason are regulated by the Australian Energy Regulator (AER) under the National Electricity Rules (NER). The way they have been regulated and the impact of government ownership have been contentious issues and the subject of much debate in recent years due to the fact that network charges have increased very significantly and been a major contributor to large increases in electricity prices. There have been expert claims that electricity networks have been price gouging through the regulatory process, and engaging in 'gold plating' and inefficient expenditure.<sup>15</sup>

This has led the AER to conclude that the existing NER has been responsible for excessive expenditure by the networks, resulting in excessive prices and to put proposals for changes to the NER to the Australian Energy Market Commission (AEMC). In Tasmania, network charges have contributed around one-quarter of the increases in regulated electricity prices over the past 3 years, a period in which electricity prices have increased by nearly 40 per cent. (As a matter of interest, the carbon tax has added 17% - all in one year – and renewable energy subsidies a further 11%). This points to the importance of focusing, not only on the wholesale and retail components of electricity charges, but also the network component, especially in advocacy.

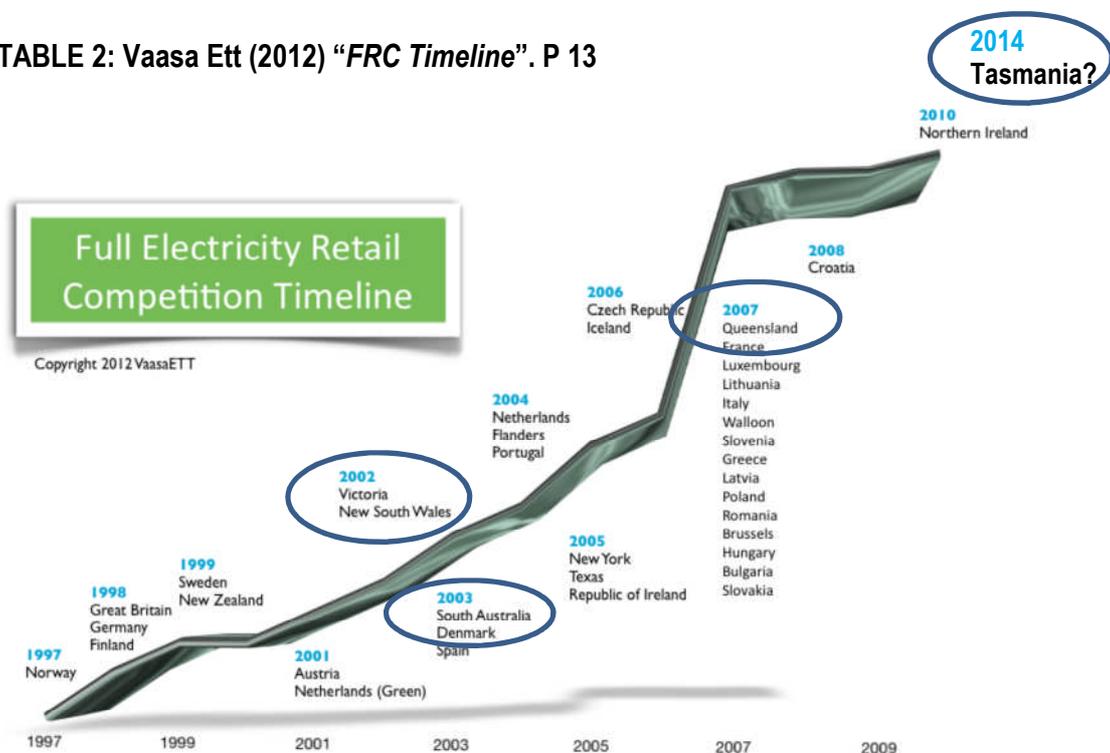
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<sup>15</sup> Reeves, A. (2011) "*Power Play*" SBS Insight Television Program, 4 Aug.

### 3 BACKGROUND & RESEARCH QUESTIONS

The Victorian Electricity market, which commenced deregulation in 1994/95, has been fully deregulated since 2002 (See Table 2 Below). As mentioned above, the Tasmanian market will not attain FRC until 2014, some 14 years after Victoria. According to one view, Victoria could be the most competitive Retail electricity market in the world “with world record levels of switching of nearly 28%, having increased over 1% from a year earlier, Victoria remains the most active market of all time”.<sup>16</sup>

TABLE 2: Vaasa Ett (2012) “FRC Timeline”. P 13



The Tasmanian electricity market is physically connected to the Victorian market via the undersea “Basslink”<sup>17</sup> cable and Tasmania has been part of the National Electricity Market (NEM)<sup>18</sup> since the mid 2000’s. The interconnection is important as it allows power to flow both into and out of Tasmania according to price differences between regions and also supply-demand conditions. This can and does affect the spot price of power in Tasmania, which in turn, can have an impact on the wholesale and retail prices.

<sup>16</sup> Lewis, P.E. Vaasa Ett (2012) “Utility Customer Switching – Research Project”, 2011/12 Highlights.

<sup>17</sup> Basslink webpage reference

<sup>18</sup> NEM webpage reference

Belonging to the NEM is important as Tasmania uses the same rules and systems for trading electricity as do other parts of the NEM even though it is the smallest region in the NEM and has the least competition. The ability to hedge financial risk by using Basslink would be an important factor in stimulating retail competition. In the past, retailers have also raised the lack of ability to access alternative generation in Victoria as a barrier to new entry.

The Retailers invited to participate in this research, were in the main either directly licensed in Tasmania or automatically taken to be licensed in Tasmania under Schedule 2 of the National Energy Retail Regulations (NERR)<sup>19</sup>. Goanna Energy contacted a total of fifteen (15) electricity retailers, most of whom are active in the Victorian market, including all five directly licensed Tasmanian electricity retailers.

Of those 15 Retailers contacted, six (6) agreed to participate in the research, with one (1) of these opting to participate on the basis of anonymity.

Of the nine (9) who declined to participate in the research, reasons cited for not wishing to participate, included, *“not best placed to comment as we do not currently participate in the Tasmanian market”*, *“No current plans to participate in the Tasmanian market”* and *“Too busy to participate in the research”*.

Goanna asked each retailer about their level of **interest in the Tasmanian retail electricity market and specifically in the Small Business Segment** of the Tasmanian market. Under the National Energy Customer Framework (NECF), introduced on 1 July 2012, there is a relatively simple classification of **“Large Customers”** and **“Small Customers”**. Tasmania has indicated that the threshold for the small/large classification will be 150 MWh per year.<sup>20</sup>

Goanna also asked each retailer about its interest in the **sale of Aurora Energy’s Retail customer portfolio** and the factors which were acting to increase or reduce their business **appetite to participate in the Tasmanian Market**.

Goanna asked each retailer about the **Legislative and/or Regulatory issues** which were dissuading their businesses from competing on the Tasmanian Market and **“If they could change one thing** about the Tasmanian Electricity market to improve its attractiveness, what that would be”?

Finally, Goanna asked each retailer, **“what TSBC itself could do, to improve the competitive market for small business”?**

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<sup>19</sup> <http://www.legislation.sa.gov.au/LZ/C/R/NATIONAL%20ENERGY%20RETAIL%20REGULATION/CURRENT/2012.169.UN.PDF>

<sup>20</sup> <http://www.mce.gov.au/emr/rpwg/jigbulletin.html>

## 4 RETAILER FINDINGS

### **Interest in the Tasmanian retail electricity market.**

Of the six retailers interviewed three acknowledged that they were clearly interested in the Tasmanian market. These three were either active or seriously assessing the Tasmanian market opportunity for participation. None of the retailers interviewed said they were not interested in the Tasmanian market. The remaining three retailers gave acknowledgements of qualified interest in the Tasmanian market. These qualifications included:

- The regulatory landscape and interventions in this.
- Evidence of a commitment to open market outcomes by the State Government.
- Further development of the Tasmanian market reform options
- Case by case participation driven by multi-jurisdiction customers, rather than strategy.
- A limited market size
- Significant wholesale market reform.
- Addressing the wholesale market structure.

These concerns could be summarised into regulatory price controls (price caps), stability of market arrangements including longevity of regulatory decisions, wholesale market reform and market size.

### **Interest in the Small Business Segment of the Tasmanian market.**

When moving to the more specific question of interest in Tasmania's Small business segment, the number of retailers with a clear interest, reduced from three to only two. However none of the remaining four retailers interviewed said they were not interested in the Tasmanian small business market. Rather the level of interest became more qualified. These qualifications included:

- National Electricity Customer Framework (NECF) Small customer obligations.
- Regulatory framework for Full Retail Contestability (FRC) (Interpreted as Price Caps)
- Small market size.
- Further Wholesale market reform.
- FRC and the available market size.
- Evolved market conditions.

These concerns could be summarised into obligations to small customers under the NECF, FRC and price caps, wholesale market reforms and the size of the "available" Tasmanian market.

### **Interest in the sale of Aurora Energy's Retail customer portfolio.**

Two retailers expressed a clear interest in the sale of Aurora Energy's retail customer portfolio. None of the remaining four retailers interviewed said they were not interested in the sale process, rather two of them provided a "No comment" response.

The remaining two retailers indicated qualified interest in the sale process and those qualifications included:

- Assess potential investment on its merits
- Small size may represent opportunity for smaller (Tier 2) retailers to grow.
- 10-20 year business case, due diligence, Basslink inter-regional and wholesale risks.

### **Factors which reduce business appetite to participate in the Tasmanian Market.**

Only one retailer, the currently active ERM Business Energy, reported no factors reducing their appetite to participate in the Tasmanian market. Each and all of the other five retailers interviewed reported factors in the Tasmanian market which act to reduce their business appetite. These factors included:

- Small relative Market size
- Ability to understand and manage spot market volatility.
- Ability to access OTC (Over The Counter) swaps & Caps to manage portfolio risk.
- Limited wholesale market liquidity (is the biggest factor).
- Retail price regulation.
- Lack of counterparties in wholesale market to trade risk management products.
- Wholesale market conditions.
- Ownership structures.
- Regulatory arrangements.
- (Threat of Hydro Tasmania competing in the market – potentially via Momentum)
- (Low level of customer experience with innovative products)

Along with the small market size, a theme of the uncertainty, particularly related to the wholesale market and retail price regulation, was often repeated in the interviews as a negative market assessment.

### **Factors that increased business appetite for the Tasmanian electricity market.**

All six retailers reported the existence, or at least the development, of factors which were acting to increase their business appetite for the Tasmanian market.

- The announcement of a timetable for Full Retail Contestability (FRC).
- Partial sale or breakup of Hydro Tasmania.
- Fewer retailers active in the market.
- Higher price disparity between spot prices and retail contract market (Niche).
- Inclusion in NECF has made the Tasmanian market more accessible.
- Tasmanian market's preference to interact and shop online (Niche).
- Progress with wholesale market reforms.
- Regulatory arrangements facilitate market conditions on par with Victorian region.

In contrast to the factors listed as decreasing market appetite, many of which have existed for some time, the responses provided to the question of increased appetite, point to a level of enthusiasm and heightened interest in the Tasmanian market, compared to previous years.

### **Legislative and/or Regulatory issues dissuading retailers from the Tasmanian Market.**

Three of the six retailers indicated that Tasmania's adoption of the National Energy Customer Framework (NECF) was a positive step, whilst one retailer identified the additional obligations of the NECF as somewhat burdensome. Two retailers identified a range of legislative and regulatory issues were deterring their businesses from competing in the Tasmanian market, whilst one retailer was undecided. Issues raised included:

- National Energy Customer Framework (NECF) adoption is positive (\*3).
- NECF additional obligations for Small customers, such as Price Comparator.
- Uncertainty around wholesale price regulation.
- Uncertainty around standing offer price regulation.
- The Government's commitment to retail price deregulation.
- How wholesale market competition will evolve and if the inter-connector (Basslink) will continue to be operated and regulated in a manner that is not consistent with inter-connectors between mainland regions.

The majority saw the move to NECF as positive, although to maximize the benefit of this requires other states to join in. Uncertainty around the wholesale market reform outcomes and retail price regulation are seen as major issues.

**If you could change one thing about the Tasmanian Electricity market to improve its attractiveness, what would that be?**

Five of the six retailers identified a common theme of increased wholesale market competition as the major opportunity to improve the attractiveness of the Tasmanian electricity market, with one retailer advocating for the immediate movement to Full Retail Contestability. Verbatim comments included:

- Introduce FRC immediately.
- More generation diversity and greater penetration of generators.
- Increased wholesale market competitiveness and diversity of generation.
- A higher level of wholesale competition.
- The wholesale market.
- The reduction of regulatory risk that could arise due to regulated wholesale prices.
- The energy sector needs to facilitate competitive outcomes across the supply chain.

The lack of wholesale market competition has been cited as the major reason for the lack of retail competition in Tasmania, since the market was first deregulated in 2006.

**What could TSBC do to improve the competitive market for small business?**

All six retailers interviewed provided suggestions for TSBC to consider, these included:

- We have some ideas on this that we will share at the appropriate time. Regardless we plan to enter the SME Market later this year and offer our superior value and service to all Tasmanian businesses.
- Present members as a buying group to generate interest and improved outcomes.
- Facilitate information dissemination and education forums on electricity contestability.
- Education of the TSBC members is one of the keys to improving competitive outcomes for contestable consumers.
- Other states' increases in network costs and the CPI-X model is encouraging investment and this model needs to be reviewed to discourage over-investment in the grid. The introduction of the Carbon Tax and Renewable energy incentives is having a considerable burden on small businesses. Taxes need to be effective and the network regulation needs to discourage gold plating.
- Continue to engage with retailers and government.
- An improved wholesale market and retail contestability will improve energy supply options for small business in Tasmania. This includes contracting options, tailored electricity products, innovative billing and product offerings.

## 5 DISCUSSION

### **Retailer interest in the Tasmanian electricity market.**

The Tasmanian electricity market should represent a classic growth opportunity for National electricity market retailers through delivery of an “Existing Product into a New Market”, known as a “Market Development” strategy.<sup>21</sup> In their growth strategy, ERM Business Energy has likely secured a “First Mover Advantage”<sup>22</sup> in Tasmania, as one of the first new entrant retailers to acquire a license and participate quite actively in the market. Presumably this has been gainful for ERM as they have continued to increase their market share and resources applied to this market over the past five or so years. However, ERM is the exception, with over a dozen otherwise “national” energy retailers choosing not to participate in the Tasmanian market.

The level of commercial interest in a market, or market segment, is likely to be based upon both a fact based mathematical evaluation and less tangible factors, both external forces and internal strategy, which in combination will influence the decision on whether or not to participate in any given market.

The evidence of this can be seen in the market participation of ERM Business Energy in Tasmania contrasted against the current non-participation of most retailers including several of those interviewed. For instance, whilst a first mover advantage may sound attractive to some, other businesses may shun the perceived high cost of new market development, in favor of an expected lower cost strategy of only participating in “Developed” markets. This can be seen in Click Energy’s response to Question 7. (App. 10), where Click said it seeks markets with existing demographic alignment to their online only strategy.

Simply because Tasmania is part of the NEM and connected to Victoria via Basslink, does not mean it is viewed by the Retail fraternity as being a homogeneous regional market, in fact, far from it. Retailers interviewed repeated concern over the “regulatory landscape”, “limited market size” and “Wholesale market” (interpreted by us as the virtual monopoly position currently enjoyed by Hydro Tasmania). Supporting this view, other comments focused on progress with the current “Reforms”, specifically to the “Wholesale” market, suggesting that respondents felt that shortcomings in the market needed to be addressed to encourage their participation but also indicating a sense of progress being made.

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<sup>21</sup> Ansoff, I.: “*Strategies for Diversification*”, Harvard Business Review, Vol. 35 Issue 5, Sep-Oct 1957, pp. 113-124

<sup>22</sup> Spence. M. ‘*The learning curve and competition*’, Bell Journal of Economics, 1981, pp. 49–70.

One of the most insightful comments came from Pieter Double of Click Energy, who sought, “Evidence of a commitment to open market outcomes by the State Government”. One could interpret this to mean a number of things but a key one could well be what we refer to as avoiding a “Retailers worst nightmare”, that is, **how does a Retailer gain confidence that they will not be squeezed between a price capping regulator and the mercy of a monopoly generator.**

To date Retailers have voted with their feet and demonstrated a mature risk based response toward the Tasmanian market by favoring “Type 1 Errors” (Not investing in a market you could have and thereby potentially missing a profitable opportunity) rather than “Type 2 Errors”, (Investing in a market you shouldn’t have and potentially losing economic value as a result). The majority of Retailers therefore appear to have assessed the Tasmanian market in its current form as offering limited opportunity combined with significant downside risks.

In other words, to attract additional Retailers to Tasmania requires fundamental change to the market metrics which Retailers use to assess market attractiveness. Full Retail Contestability in 2014 will provide improvements to one of these metrics by increasing the total contestable market size, moving the market from 6,000 contestable sites to in excess of 266,000 contestable sites.

Other opportunities to improve the market attractiveness for retailers relate to the level of Wholesale market competition, price controls, consumer education and resulting behaviors. The facilitation of competitive market forces to find competitive wholesale and retail pricing levels, whilst important, may need to be tempered by having safety mechanisms to protect consumer interests, at least during the market development phase. However, particular care would be needed to ensure that such actions do not deter entry unduly or unwittingly lead to higher prices.

In addition to these external market factors, the internal management capacity of several Tier 1 retailers has, to date, been soaked up by the integration of relatively large retail businesses, following State Government sale processes, notably in Queensland and New South Wales. Therefore it is likely that these businesses ability to consider the Tasmanian market is gradually improving.

TSBC could therefore remain active in advocating for increased wholesale market competition, participating in the development of consumer protection mechanisms and engaging with interested Retailers directly. (We recognise that in order to do this TSBC would need to access additional resources and potentially seek collaboration with the likes of TASSCOSS, TCCI, TFGA, ACST and other peak bodies with aligned interests).

### **Interest in the Small Business Segment of the Tasmanian market.**

Retailer issues specific to the Small business segment included the NECF obligations, the lumping of participation in the Small business market with FRC and the small market size.

These comments gave an insight that, rather than Retailers participating in the market to access additional SME's under Tranche 5a, it is quite possible that, as FRC is enacted, some retailers will commence participation to access this more significant residential customer base and, as a consequence, will also become active in the Tasmanian SME market.

Therefore it is likely that TSBC has aligned interests with not only other small business peak bodies, but also local residential and community groups when it comes to electricity deregulation and contestability. These interests are likely to extend into electricity market education which has proven to be a major driver of switching behavior. For example referring to the Vaasa Ett study quoted earlier:

*"The biggest riser was New Zealand, which is now rapidly approaching Victorian switching levels, thanks largely to a successful national awareness campaign".<sup>23</sup>*

Of course, whilst switching can be an important means of opening a market to competition, it is only a partial indicator of the level of competition that exists in a market. Such assessments therefore need to ideally consider other indicators such as the extent of new entry (or its potential), price outcomes, margins and barriers to entry.

At least one Retailer has also extended the call for consumer education to include presentation of members in joint buying groups.

### **Interest in the sale of Aurora Energy's Retail customer portfolio.**

Along with the announcement of a timetable for Tasmanian FRC, the impending sale of Aurora Energy's retail customer portfolio has provided a heightened interest in the Tasmanian market. The fact that this has coincided with the completion of retail sale processes across all other NEM states, effectively means that Tasmania could now well be a more attractive dance partner at the retail party.

Whilst some, generally smaller capitalized, retailers may have to be satisfied achieving growth through competition, some Tier 1 and Tier 2 Retailers are likely to view these retail customer portfolios as the last growth through acquisition opportunities available. The sale of Aurora's retail customer portfolio brings about the delicate trade-off between maximizing the sale price and protecting consumer interests.

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<sup>23</sup> Lewis, P.E. Vaasa Ett (2012) *"Utility Customer Switching – Research Project"*, 2011/12 Highlights.

The final sale price of these customer assets is off course subject to the terms and conditions of the sale. However, consumers' interests (including those of TSBC members) would be best served by an outcome that has significant regard to increasing the extent of retail competition. TSBC and small business interests in Tasmania should be aware of this trade-off and take a strong interest in the sale of Aurora's retail 'book' as it presents a 'once-off' opportunity to influence the Tasmanian retail market structure that will thereafter be essentially set in concrete. The hotly debated issue that electricity price rises have become in Tasmania suggests that advocacy on this matter to emphasise its importance to future price outcomes would be well placed and timed, with a higher chance of success.

On 15 May 2012 the Deputy Premier, Bryan Green MP, announced that the State Government had elected to forego \$37M in revenues from electricity GBE's in order to pass on a reduction in the wholesale price of electricity for Non-Contestable customers. This action limited Tariff price increases from the forecast 23% - 26% to a stated 10.56% increase for 2012/13.<sup>24</sup>

Whilst representing an immediate benefit to those tariff customers, these actions also had the consequence of reducing the savings available by moving from tariff to a contestable market contract, where no corresponding reduction to the wholesale price exists. More recently on 16 October 2012, the Premier, Lara Giddings announced that the Retail price determinations would be rolled forward into the next financial year, meaning the increase to Tariff prices from 1 July 2013 were likely to be no more than CPI.<sup>25</sup>

With intervention in the wholesale market price for these residential and small business consumers currently running into the tens of millions of dollars each year, leading into full deregulation and sale of the customer portfolio, the question of the sale conditions arises. Will these cross subsidies continue for a period following the sale process? If so, will these funds be clawed back under a "price capping" mechanism (price capping was suggested as possible by the Infrastructure Partnerships Australia, 2012 report to the State Government<sup>26</sup>). Or will the value be retained by the new retailers and/or leak back to consumers via increased retail competition? If however the cross subsidies do not continue, will consumers be hit with a "double-whammy" upon the introduction of FRC?<sup>27</sup>

In any event TSBC could remain engaged in understanding and influencing the terms and conditions of the retail sale process for the betterment of its members. Again this is likely to extend to collaboration with other peak bodies with whom aligned interests are likely to exist.

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<sup>24</sup> Green, B. MP (2012) "*Energy for the Future*", Ministerial Statement, 15 May. P.4.

<sup>25</sup> Giddings, L. (2012) "*Electricity price certainty for Tasmanians*", Premier. 16 October.

<sup>26</sup> Unknown (2012) "*Power Struggle*" Mercury Newspaper, 18 August, P. 24.

<sup>27</sup> Ludlow, M. & Macdonald-Smith, A. (2012) "*Price cap will cruel market*", AFR. 10 August, P. 7.

### **Factors which reduce retailer appetite to participate in the Tasmanian Market.**

There are two ways to attract more retailers to Tasmania – increase the rewards or reduce the risks. Increasing the ultimate size of the Tasmanian electricity market may be a long stretch for TSBC and increasing Retailer profit margins by itself is unlikely to be in TSBC member interests. Therefore efforts to “De-Risk” the Tasmanian market and the perception that retailers have of it, may be more achievable and beneficial.

Other than ERM Business Energy, Retailers interviewed repeated negative assessments of the Tasmanian wholesale market and retail price regulation, including a theme of uncertainty. In fact, *“Merrill Lynch cites regulatory risk as the main challenge for both companies (Origin Energy & AGL) in the near term, pointing in particular to pending decisions on regulated tariffs in NSW which could erode returns for the companies’ mass market businesses the way an earlier decision has done in Queensland”*.<sup>28</sup>

Retailers are clearly sensitive to price capping and price control, therefore TSBC could advocate a balanced approach to retail price regulation, whilst ensuring its members can take full advantage of competitive market opportunities.

### **Factors that increased their business appetite for the Tasmanian electricity market.**

Most retailers interviewed reported a ripening of the pre-conditions for participation in the Tasmanian market. Wholesale market reforms, FRC and NECF all largely being seen as positive evolutions. The current low level of competition was seen by some as a positive, in terms of available margins and room for niche product offerings.

It is possible that TSBC can play a role in facilitating access for new entrant retailers simply by understanding their strategies and product offerings and providing feedback on these. The responses of the retailers we interviewed and our comments on these provide useful information about this although continued engagement and monitoring would be very useful to ensure up-to-date intelligence and knowledge of how their strategies and views evolve, and how the Tasmanian Government reforms are progressing.

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<sup>28</sup> Macdonald-Smith, A. (2012) *“Lesser powers worth a look”* The Weekend AFR. 29 Sept. P 27.

### **Legislative and Regulatory issues in the Tasmanian Market.**

The purpose of this project was to investigate the opportunities to facilitate a more competitive market outcome for small businesses in Tasmania. At the time the project was envisaged at least one Retailer had indicated issue with the current regulations in Tasmania for sub-150MWh per annum sites. Whilst the research probed this question, as is sometimes the case, feedback raised focused on other recurring themes, as pre-conditions to market entry.

The vast majority of retailers saw FRC as a key market development for Tasmania, with at least one retailer preferring to see its immediate introduction. Retailers overwhelmingly saw NECF as a positive step, despite the slow take up in other states. Wholesale market reform and retail price regulation were seen as the key outstanding issues.

As the Government has announced its package of reforms and is underway with their implementation, it seems highly unlikely that it will move further along the road of wholesale market reform or lessening price regulation in the foreseeable future. This suggests that electricity consumers' interests will be best served for now by ensuring that the scope for competition and new entry is maximized within the Government's reform framework.

In particular, reforms such as the auctioning of Hydro Tasmania's contracts and its interactions with the broadened retail sector need to be developed in a way that maximizes the opportunities for competition to emerge and offer competitive retail prices.

It would therefore be useful for TSBC and small business users in Tasmania to take an active and informed interest in these matters, which involve some complexities. Beyond the time and scope of the current reforms, TSBC should continue to monitor outcomes and advocate for additional competitive reforms as the need and opportunity arises.

## 6 RECOMMENDATIONS

1. TSBC should continue to support the thrust of the electricity reform program being implemented by the Tasmanian Government. It should seek to involve itself in the implementation of the reforms through participation in consultations and opportunities for stakeholder input (eg stakeholder committees). If it believes that additional opportunities for TSBC participation are needed, it should advocate for this with supporting argument.
2. TSBC should advocate for “no delays” to the introduction of FRC as FRC is a key way of increasing SME competition, as many retailers do not differentiate between residential and SME segments. It is likely that FRC will itself be a step that makes new entry more attractive to some retailers, which is confirmed by the comments of some of those interviewed. We note, in particular, that ERM has firm plans to enter the SME space and this would seem to be a step that will improve competition for TSBC members, which the Council should support in its advocacy efforts.
3. TSBC should consider engaging in understanding and influencing the terms and conditions of the retail sale process, as these factors are also likely to significantly influence future levels of retail competition and pricing outcomes for its members.
4. TSBC should take an active interest in the wholesale market reforms being implemented by the Government, including the auctioning of Hydro Tasmania’s contracts. This is a key reform and is likely to have major impacts on the efficiency of and outcomes from the wholesale market in future, including prices. This will, in turn, have a significant impact on retail competition, the entry of new retailers and retail prices. TSBC should seek to be represented on the stakeholder forums established by the Government to give effect to this part of the reform package. Otherwise and in addition to this, it should seek to provide views, positions and arguments to the Government regarding implementation.

5. TSBC should consider its members' interests in the development of increased generator on generator (Wholesale market) competition in Tasmania and develop advocacy positions on this. This should include understanding, including through analysis, the various means by which this could be achieved, including options such as the 'gentrader' model supported by the Independent Panel and structural reforms to Hydro Tasmania. TSBC could consider commissioning a study of the impact of this on small business.
6. TSBC should also consider the importance of network charges in impacting on the electricity prices paid by its members and undertake advocacy on this, including to the Tasmanian Government and relevant regulators such as the Australian Energy Regulator, the Australian Energy Market Commission and OTTER.
7. TSBC should work constructively and in an ongoing way with the Tasmanian Government to ensure that its views on electricity reform and retail competition are well understood. It should seek regular meetings with the Government on this, including with relevant Ministers and key officials. At the same time, it should also engage with key members of the Opposition and the Greens to understand their positions and apprise them of TSBC views on electricity issues. It would be useful for TSBC to develop a strategy and plan on how to best do this.
8. TSBC should seek out other peak bodies with aligned electricity market interests with whom to leverage resources in electricity advocacy efforts.
9. TSBC should consider its role in ensuring its members take full advantage of competitive market opportunities, including facilitating collaborative buying groups and have information about how to access experts that can assist them to secure a better deal for their electricity.
10. TSBC should seek to ensure that its members are well informed and educated about the reforms that are implemented and about their opportunities to use a more competitive Tasmanian electricity retail market to their advantage. It could also approach other peak bodies with aligned interests and retailers (existing and potential new entrants) to leverage resources in electricity market education. It should develop a strategy and plan for such education, including identifying resource needs and funding.

11. TSBC should consider engaging directly with existing and potential new entrant retailers, to understand their strategies, target markets and product offerings, in doing so, facilitate an efficient market outcome.
  
12. TSBC should further develop a position on electricity price regulation. This should be based on an outcome that will optimize benefits to its members whilst recognizing that decisions on this will be made in a broader context than small business interests (eg the interests of household consumers, the broader economic interests of Tasmania and even political factors). Such a position could include advocating for long term competitive and market forces to be used to set wholesale and retail pricing, whilst also supporting gradual liberalization of pricing controls to ensure that consumers' interests are protected whilst competitive market forces develop. However, in supporting such a transition it would be important to ensure a careful approach to controls and their liberalization so that controls do not impede the development of competition or that liberalization does not work to the disadvantage of consumers. Given the complexities of this trade-off, TSBC should ensure that its positions are well informed.

## 7 APPENDIX INTERVIEW – ERM POWER RETAIL P/L

Retailer name: (T/a) ERM Business Energy  
Contact Name: James Dunstan  
Contact Position: General Manager, SME Market

Retailer size: Large

### RESEARCH QUESTIONS:

1. Does your business have a Tasmanian Retail Electricity Licence?  
*Yes.*
2. Is your business interested in the Tasmanian retail electricity market?  
*Yes, we have successfully competed in Tasmania since 2009 and remain committed to serving the Tasmanian business customer market.*
3. Is your business interested in the Small Business Segment in Tasmania?  
*We intend to start serving smaller Tasmanian business customers this year.*
4. Is your business interested in the sale of Aurora Energy's Retail portfolio?  
*We are interested. We would assess this potential investment on its merits.*
5. What factors reduce your business appetite to participate in the Tasmanian Market?  
*We hedge our load effectively with the current Hydro Tasmania structure and relationship.*

*Tranche 5a has gone some way to make the market more attractive, but we are looking toward FRC, which is currently scheduled for 1 January 2014.*

*The government would have to continue its ban on allowing Momentum Energy to compete in Tasmania for any sale of Aurora Energy's retail portfolio to be attractive.*

6. What factors increase your business appetite for the Tasmanian electricity market?  
*FRC is attractive. A partial sale or breakup of Hydro Tasmania would have helped with potential retail competition, but we are happy with the status quo as long as HT doesn't compete against us (see last point).*
7. Are there any Legislative or Regulatory issues dissuading your business from Tas Market?  
*No. Recent NECF adoption is encouraging, however, we're also of the view that even more can be accomplished in this market, such as more responsiveness from Aurora's metering.*

8. If you could change one thing about the Tasmanian Electricity market to improve its attractiveness to your business, what would that be?  
*FRC.*
  
9. Finally, to improve the competitive market for small businesses what could/should TSBC do?  
*We have some ideas on this that we will share at the appropriate time. Regardless we plan to enter the SME Market later this year and offer our superior value and service to all Tasmanian businesses.*

<end>

## 8 APPENDIX INTERVIEW - PROGRESSIVE GREEN

Retailer name: Progressive Green [www.progressivegreen.com.au](http://www.progressivegreen.com.au)  
Contact Name: Mr David Evans,  
Contact Position: General Manager

*Mr Evans provided written approval for the publication of the interview transcript below in his e-mail dated 16 July 2012.*

Retailer size: *Small & Niche*

### RESEARCH QUESTIONS:

1. Does your business have a Tasmanian Retail Electricity Licence?  
*No but under the NECF Transition arrangements Progressive Green automatically qualifies for a Tasmanian Licence.*
2. Is your business interested in the Tasmanian retail electricity market?  
*High. Just starting out assessing the Tasmanian market, including market opportunity and also Basslink and trading constraints.*
3. How likely is it that you will become active in Tas next 1 – 2 years?  
*Highly. Under NECF can serve large market as opportunities present themselves*
4. Is your business interested in the Small Business Segment in Tasmania?  
*Moderate. At the point at which PG assess the market as desirable compared to the NECF obligations for Small customers.*
5. Is your business interested in the sale of Aurora Energy's Retail portfolio? (No Comment)
6. What factors reduce your business appetite to participate in the Tasmanian Market?  
*Small relative Market size  
Ability to understand and manage spot market volatility and  
Ability to access OTC swaps & Caps to manage portfolio risk*
7. What factors increase your business appetite for the Tasmanian electricity market?  
*Fewer retailers active in the market  
Higher price disparity between spot prices and retail contract market than other markets, which provides the niche opportunity for PG.  
Inclusion in NECF has made the Tas market more accessible to PG and others.*

8. Are there any Legislative or Regulatory issues dissuading your business from Tas Market?  
*Whilst early days for PG  
The new credits terms under NECF, mean the requirement for Credit Support for Distributors is less onerous than some other states, which otherwise can tie up significant sums of money, (on a cash flow you don't make a margin on!).*
  
9. If you could change one thing about the Tasmanian Electricity market to improve its attractiveness to your business, what would that be?  
*More generation diversity & Greater penetration of generators*
  
10. Finally, to improve the competitive market for small business what could TSBC do?  
*Present members as a buying group to generate interest and improved outcomes for members.  
Facilitate information dissemination and education forums on electricity contestability.*

## 9 APPENDIX INTERVIEW – ANONYMOUS RETAILER

Retailer name: Anonymous

Contact Name: Anon.

Retailer size: Anon.

Willingness to participate in Research: Yes, on the basis of anonymity.

### RESEARCH QUESTIONS:

1. Does your business have a Tasmanian Retail Electricity Licence?  
*Anon.*
2. Is your business interested in the Tasmanian retail electricity market?  
*Yes Highly interested.*
3. Is your business interested in the Small Business Segment in Tasmania?  
*Yes, Highly interested.*
4. What factors reduce your business appetite to participate in the Tasmanian Market?  
*The diversity of wholesale price and product offerings is far more limited in Tasmania compared to most other mainland states. Hence wholesale market liquidity is the biggest factor in reducing our appetite.*
5. What factors increase your business appetite for the Tasmanian electricity market?  
*Our desire to access suitable wholesale contracts to enable competitive offerings to be made to these customers.*
6. Are there any Legislative or Regulatory issues dissuading your business from the Tas Market?  
*We take the market as it is presented to us. However, there are additional costs to be recovered in building our systems and processes to serve the market. We observe that with the advent of the National Energy Customer Framework there are additional obligations on retailers who choose to make offers to customers sub 150MWh pa (tranche 5a) customers. For instance the "Price Comparator", "Energy Made Easy" Website, obliges Retailers to publish all generally available offers as a NECF obligation for Tranche 5a.*

*Until NECF is applied nationally it may dissuade retailers from entering the Tas market, as it will be far more efficient to enter the national framework in jurisdictions simultaneously, as was the original intention for NECF implementation across the NEM.*

*It is also observed that the Tasmanian market is one about to undergo significant regulatory change with the proposed electricity reforms from the State Government. This presents some uncertainty around what wholesale price regulation and standing offer price regulation may look like. Prior to entry this knowledge would be required to ensure a true test of the viability of entry.*

7. If you could change one thing about the Tasmanian Electricity market to improve its attractiveness to your business, what would that be?  
*Increased wholesale market competitiveness and diversity of generation.*
8. Finally, to improve the competitive market for small business what could TSBC do?  
*Education of the TSBC members is one of the keys to improving competitive outcomes for contestable consumers.*

<end>

## 10 APPENDIX INTERVIEW - CLICK ENERGY

Retailer name: Click Energy  
Contact Name: Pieter Double  
Contact Position: General Manager Sales & marketing

Retailer size: *Niche*

### RESEARCH QUESTIONS:

1. Does your business have a Tasmanian Retail Electricity Licence?  
*Yes under NECF transitional arrangements.*
2. Is your business interested in the Tasmanian retail electricity market?  
*Interested but aware of the regulatory landscape, which in some jurisdictions has shown it can change overtime. Look to see commitment to open market outcomes from the Tasmanian Government.*
3. How likely is it that you will be active in Tas next 1 – 2 years?  
*It could go either way and depends on the regulatory framework of Full Retail Contestability, for 1 January 2014 and in particular residential small customer regulations.*
4. Is your business interested in the Small Business Segment in Tasmania?  
*Yes, but unsure if the current market (T5a) size is sufficient to get us into Tasmania. The advent of Tranche 5 on 1 January 2014 is more likely to get our attention.*
5. Is your business interested in the sale of Aurora Energy's Retail portfolio?  
*Yes, we would definitely look at this as it may offer an opportunity for a business our size to participate in this sale process, where other retail sale processes have been many times larger.*
6. What factors reduce your business appetite to participate in the Tasmanian Market?  
*Retail price regulation. Where a fully competitive wholesale market exists the risk increases where the level of regulation increases on the retail price and if my margin is fixed whilst my risks increase my appetite must decrease. In other words where regulation is reduced the appetite for market share can be increased.*
7. What factors increase your business appetite for the Tasmanian electricity market?  
*Alignment of the Tasmanian demographics with Click Energy's niche retail strategy. Which is how many Tasmanian's interact and shop online, as Click is an online energy retailer, no telesales, & no door knocking.*

8. Are there any Legislative or Regulatory issues dissuading your business from Tas Market?  
*The Government's commitment to retail price deregulation.*
9. If you could change one thing about the Tasmanian Electricity market to improve its attractiveness to your business, what would that be?  
*I'd really like a higher level of wholesale competition. At the moment there is really only one provider so no competitive tension in the market.*
10. Finally, to improve the competitive market for small business what could TSBC do?  
*Other states increases in network costs and the CPI-X model is encouraging investment and this model needs to be reviewed to discourage over-investment in the grid. The introduction of the Carbon Tax and Renewable energy incentives is having a considerable burden on small businesses. Taxes need to be effective and the network regulation needs to discourage gold plating.*

## 11 APPENDIX INTERVIEW – TRU ENERGY

Retailer name: Tru Energy

Contact Name: Andy Young, Lana Stockman, Anna Hancock & Renee Garner

Contact Position: GM C&I, GM Retail Regulation & Compliance.

Retailer size: Large

### RESEARCH QUESTIONS:

1. Is your business interested in the Tasmanian retail electricity market?

*“TRUenergy is strongly interested in the further development of the Tasmanian reform options”.<sup>29</sup>*

*At this time we would really only consider making contract offers to customers on a case by case basis and possibly subject to relationships with clients in other jurisdictions, who requested us to make an offer in the Tasmanian market. Unfortunately the Tasmanian market size does not justify active participation as it currently stands. We would need to see significant reform in the wholesale market for us to reconsider any substantial activity in Tasmania*

2. Is your business interested in the Small Business Segment in Tasmania?

*The total available market in Tasmania is small, therefore a strategy to pick up say 30% of the market over several years does not deliver a reasonable business case on its own without further reform to the wholesale market.*

*The lack of a fully deregulated residential customer base also impacts on the attractiveness of other segments. This is due both to issues of the available market size, but also due to wholesale portfolio optimisation. Such as the benefit which may be derived from complimentary load shapes. For example having a winter residential load overlaid on a commercial and industrial load shape.*

3. Is your business interested in the sale of Aurora Energy's Retail portfolio?

*We would need to make a separate business decision on a potential purchase. This would be a 10 – 20 year business case and the due diligence process would look at a range of factors, including, Basslink, Inter-regional risk and wholesale market risk.*

4. What factors reduce your business appetite to participate in the Tasmanian Market?

*“We agree that one of the major issues inhibiting a competitive retail market in Tasmania is lack of counterparties in the wholesale market with which to trade risk management products”.<sup>30</sup>*

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<sup>29</sup> Stockman, L. TRUenergy (2012) “Electricity Supply Industry Expert Panel – Draft Report” Response letter, 21 Feb.

<sup>30</sup> Stockman, L. TRUenergy (2012) “Electricity Supply Industry Expert Panel – Draft Report” Response letter, 21 Feb.

*The ESIRP made recommendations but these don't appear to have been taken on in total by the government, which again signals risk around the government decision making process and highlights the risk of further regulatory risk.*

*A lack of wholesales liquidity in Tasmanian combined with the interregional risk of Basslink are inhibitors. Also a lack of clarity around the governments long term intentions with the Wholesale market.*

*The current cut off point for deregulation of 50MWh per annum is far too high given residential customers average around 7-8MWh pa. This decision therefore excludes a lot of small businesses from the contestable market until FRC in January 2014. Unfortunately the customer numbers contained in each of the Tasmanian deregulation Tranches has been very small compared to other state market deregulation processes. This inhibits the development of a competitive retail market.*

5. What factors increase your business appetite for the Tasmanian electricity market?  
*What's happening in the Wholesale market is the main issue as submitted to the ESIRP. Whilst we can do contracts for large industrial's the level of customer experience with innovative products is relatively low compared to other jurisdictions.*
6. Are there any Legislative or Regulatory issues dissuading your business from Tas Market?  
*As we do not currently retail in Tasmania it is difficult to assess the impact of certain legislative or regulatory issues. More generally the move to NECF by Tasmania is a good outcome for the Tasmanian market as it does reduce the barrier to entry for retailers (contingent on the other States also implementing NECF).*
7. If you could change one thing about the Tasmanian Electricity market to improve its attractiveness to your business, what would that be?  
*The wholesale market and the reduction of regulatory risk that could arise due to a regulated wholesale prices*
8. Finally, to improve the competitive market for small business what could TSBC do?  
*Continue to engage with retailers and government. TRUenergy has not ruled out a move to greater involvement in the Tasmania market and will also consider the long term viability of any market we currently or may choose to enter in the NEM.*

## 12 APPENDIX INTERVIEW – ALINTA ENERGY

Retailer name: *Alinta Energy*  
Contact Name: *Jamie Lowe*  
Contact Position: *Manager, Market Regulation*

Company description:

*Alinta Energy is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta Energy has over 2500MW of generation facilities in Australia (and New Zealand), with approximately 700,000 retail energy customers in Western Australia, South Australia and Victoria and a commitment to growth across the National Electricity Market. Alinta Energy is an active participant in Australian electricity derivatives markets, trading over-the-counter and Australian Stock Exchange electricity products.*

Willingness to participate in Research: Yes

### RESEARCH QUESTIONS:

1. Does your business have a Tasmanian Retail Electricity License?

*Given the characteristics of the Tasmanian market, Alinta Energy has concentrated its growth on mainland states; however, Alinta Energy would expect to be accredited under the National Electricity Customer Framework.*

2. Is your business interested in the Tasmanian retail electricity market?

*Alinta Energy supports Tasmanian energy supply sector reform and welcomes a number of the proposals announced by the Tasmanian Government following the ESIRP. Alinta Energy is seeking to engage with the Tasmanian Government as it implements these proposals. Nevertheless, until the market structure in Tasmania addresses the concerns outlined by Alinta Energy in the ESIRP submissions it will remain reluctant to enter the Tasmanian market in a meaningful way.*

3. How likely is it that you will apply for a Retail Electricity Licence in Tasmania in the next 1 – 2 years?

*Alinta Energy continues to review National Electricity Market reforms nationally and within individual regions on an ongoing basis. The proposed introduction of Full Retail Contestability from 1 January 2014 provides an additional opportunity to review involvement in the Tasmanian region.*

4. Is your business interested in the Small Business Segment in Tasmania?

*Alinta Energy is actively pursuing small business customers in mainland regions, especially Victoria and South Australia, and provided market conditions have evolved any entry into the Tasmanian region would reflect the experiences in those mainland regions.*

5. Is your business interested in the sale of Aurora Energy's Retail portfolio?  
*Alinta Energy is on public record as recommending the "Packaging of Aurora's Non-Contestable customers and auctioning these off to private investors". Alinta Energy would consider the terms of any customer portfolio sales as they become available and acknowledge our ongoing support for this process.*
6. What factors reduce your business appetite to participate in the Tasmanian Market?  
*Alinta Energy has previously indicated that wholesale market conditions, ownership structures, and regulatory arrangements in Tasmania create a number of uncertainties which have discouraged entry.*
7. What factors increase your business appetite for the Tasmanian electricity market?  
*Tasmanian regulatory arrangements should facilitate market conditions on par with the mainland regions, in particular the Victorian region.*
8. Are there any Legislative or Regulatory issues dissuading your business from Tasmanian Market?  
*Alinta Energy welcomes the reform process being developed by the Tasmanian Government; however, it remains unclear how wholesale market competition will evolve and if the inter-connector between Tasmania and Victoria will continue to be operated and regulated in a manner that is not consistent with inter-connectors between mainland regions.*
9. If you could change one thing about the Tasmanian Electricity market to improve its attractiveness to your business, what would that be?  
*The energy sector needs to facilitate competitive outcomes across the supply chain.*
10. Finally, to improve the competitive market for small business what could TSBC do?  
*An improved wholesale market and retail contestability will improve energy supply options for small business in Tasmania. This includes contracting options, tailored electricity products, innovative billing and product offerings.*

<END>