

Joe Dimasi
Tasmanian Economic Regulator
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15 March 2016

Dear Mr Dimasi

The Tasmanian Council of Social Service (TasCOSS) appreciates the opportunity to comment on the your draft determination and report on the *Investigation of standing offer prices for small customers on mainland Tasmania* issued in February this year.

Electricity prices have long been a source of concern, as well as a financial challenge to Tasmanian households living on low incomes. We appreciate the Regulator's consideration in this investigation of the public interest and of the impact of electricity prices on Tasmanian households.

Our comments in this submission focus only on the cost-to-serve, both as proposed by Aurora Energy and as determined by the Regulator in this draft determination.

We were disappointed to see allowances granted to Aurora Energy in the last Determination (2013) for Customer Acquisition and Retention Costs (CARC) in the absence of retail competition. This saw Tasmanian residential customers paying the costs of competition without receiving any of the benefits of competition, and saw Aurora Energy receiving a 'windfall' at the expense of its customers of \$42 per customer in the final period of that Determination. We hoped that provision of this allowance would not continue into a further Determination period without competition.

We are therefore further disappointed to see your approval of 'CARC type costs' in this Determination. These 'CARC type costs' include allowance for a 2.5% customer churn rate (that results in loss of customers), and allowance for 'defensive campaigns' should a new retailer appear in the Tasmanian market. In the continuing absence of competition, TasCOSS firmly believes that these costs should not be imposed on Tasmanian residential customers.

TasCOSS therefore proposes that these costs not be allowed in this Determination – and not be allowed until such time as retail competition actually exists in the Tasmanian residential electricity market. Alternatively, we propose that the Regulator allows these costs but quarantines the money raised and requires Aurora Energy or the State Government to re-direct it to assistance programs (such as the provision of emergency relief to households experiencing financial difficulties with electricity bills) until retail competitors appear in the residential market.

We believe that Tasmanian customers *must not continue* to pay the costs of competition in the absence of competition. TasCOSS contends that this is simply unfair.

We also question the allowance of 5.7% for a retail margin in the regulated price. In our view this level of margin is more applicable to a company operating in a competitive environment than to a single retailer with no competitors – and, according to this draft Determination, with little energy price risk or volume risk (pp41-43). In fact, in the final period of the last Determination, when the Tasmanian retail market was expected to be a competitive market, the TER approved a retail margin of 5.7%, but less in the earlier periods of no competition. This demonstrates that 5.7% is considered an appropriate margin for companies in competition. As this is currently not the case in Tasmania, TasCOSS believes that it is too high a margin under the circumstances.

There are clearly problems in making a Determination in one environment (no competition) while anticipating the possibility of another (a competitive environment) in which customers may benefit from lower prices due to competition. This is not only difficult for all parties concerned, but has also proved to be detrimental to small customers who have been forced to – and may continue to – pay the costs of competition with no benefits.

We therefore recommend that retail price determinations such as this be carried out only with current market conditions in mind, and that a capacity to re-open an investigation be introduced to allow for certain changes to market conditions, in particular the entry of a competitor (or competitors) into the market that would substantially alter the operating environment for the incumbent retailer. We understand that such a change to standing offer price investigations may not be within the current remit of the TER; however, we urge the Regulator to consider our suggestion and how it might be achieved. We would be happy to discuss this with you or your staff in further detail.

We hope that our comments are useful to your investigation and look forward to your final Determination.

Yours sincerely



Kym Goodes

**Chief Executive
Tasmanian Council of Social Service**