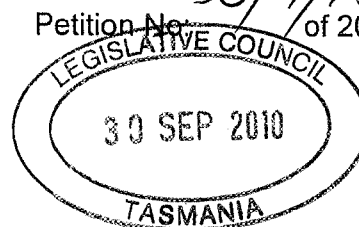


LEGISLATIVE COUNCIL
RESPONSE TO PETITION



TITLE OF PETITION: Power Price Increases for Aurora PAYG Customers

To the Honourable the President and members of the Legislative Council, in Parliament assembled.

That your Petitioners are very concerned that recent power price increases, predominantly with regard to the increases for Aurora PAYG customers, in an unregulated pricing arrangement, has imposed an unacceptable financial burden on many Tasmanians particularly low income earners and pensioners.

And your Petitioners request that the Legislative Council will use the Parliamentary process to address this matter and engage Stakeholder Ministers of Aurora Energy, the Treasurer and Minister for Energy and the Government with a view to regulating this pricing arrangement and minimising cost burdens to customers.

GOVERNMENT POSITION:

The petition is **not supported**.

The Government has considered the petition that was presented to the Legislative Council by the Hon Ruth Forrest MLC on 6 October 2009 concerning increases in electricity prices for Aurora Energy's Pay As You Go (PAYG) product and the impact of these changes on pensioners. As Aurora Energy falls within the responsibility of Government, the following information is provided by the Government based on the utility's advice.

In July 2009, Tasmania's Economic Regulator estimated that the price increase incurred by an average PAYG user at that time would be 12 per cent, which was higher than the standard residential tariff increase of around 7 per cent, and below the business tariff increase. Although PAYG is a product of choice, available as an alternative to the "safety net" provided by regulated tariffs, the Government

recognises that the budget management benefits of PAYG mean that it is the chosen product for many Tasmanians on low incomes.

In recognition of the community concern about the impact of rising electricity prices on low income Tasmanians, the Government and Aurora Energy resolved to reduce average price increases for eligible PAYG concession customers to be the same as the rise approved for customers on regulated tariffs. This change, which was announced by the Premier on 26 July 2009, represented a significant benefit for about 17,000 eligible PAYG customers whose price increase was limited to the same rise experienced by those on standard tariffs.

At this time, Aurora Energy also made a decision to double its annual contribution to the community sector under the terms of the company's Hardship Policy, from \$134,000 to \$270,000. These funds are disbursed by community organisations to Tasmanians facing extreme difficulty meeting their electricity costs.

Additionally, on 1 December 2009 the Government moved to index electricity concessions with any future price rises so that low income Tasmanian consumers would be insulated from future price pain.

I also note the recent decision by Tasmania's independent Economic Regulator to allow the pass-through of previously approved network tariffs to customers to take effect from 1 July 2010. The Regulator has confirmed that residential power prices will increase by 6 per cent and business prices will rise 8 per cent. This will result in an increase of between \$22.50 and \$29 a quarter for most residential account holders.

The decision passes through to customers the already approved cost increases to pay for new investment in and maintenance of the transmission network (operated by Transend Networks) and distribution network (operated by Aurora). The Australian Energy Regulator's approval of large transmission increases has been well documented, and in June 2010 the Tasmanian Economic Regulator publicly approved the distribution tariffs.

Aurora expects that prices for PAYG customers will also increase go up on by the same percentage as standard tariff customers on 1 August 2010. Aurora also notes that, as per the Government's December 2009 announcement, concessional arrangements for PAYG that were amended last year will only increase by 6%.

In framing prices, Aurora aims to ensure that customers of one group do not end up cross-subsidising another, so as much as possible each category pays only for the costs directly relevant to its method of supply. Among the reasons for the PAYG price increases have been the costs of the metering equipment (which is more sophisticated than normal metering), a new IT system and the costs of establishing and maintaining a new point-of-sale agent network following the collapse of a private company that previously provided this service.

Aurora Energy has also advised us that the base costs that PAYG-supplied electricity share in common with standard tariffs – energy, transmission and distribution charges – have all increased, leading to the bulk of the price rises across all tariffs.

Regarding the possible regulation of Aurora's PAYG product, following public concern in July of 2009 the Government issued Tasmania's Economic Regulator with terms of reference to conduct a review into a number of aspects related to PAYG. In particular, whether the maximum prices for PAYG should be regulated along with the currently regulated standard tariffs.

In the Final Report from the Regulator, it was concluded that PAYG prices had not been set at above their cost reflective level and that the standard 'safety net' residential tariffs, which are price regulated, provide a real and valid substitute for the PAYG product. Further, PAYG cannot, nor should it, be an income support mechanism, which is more appropriately delivered through the Government's concessions policy.

The Government considers it has already addressed the concerns raised in the petition over PAYG. That is, it has increased concessions assistance to pensioner PAYG customers and commissioned a review into possible regulation of the PAYG

product. The Government believes these initiatives alleviate the majority of the Petitioners' concerns.

Accordingly, the petition is not supported.

Michael Aird MLC
TREASURER

Date:/...../2010



Bryan Green MP
MINISTER FOR ENERGY AND RESOURCES

Date: ...11...9.../2010