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ENERGY SUPPLY INDUSTRY ANNUAL PERFORMANCE REPORT

Tasmania's independent Energy Regulator has released its eighth annual review of the State's energy supply industry.

Mr Glenn Appleyard, Tasmania's new Energy Regulator, said the Report is "a comprehensive independent assessment of the service standards, quality, reliability and pricing of energy services in Tasmania."

Electricity

"The main highlights of the year include enhancements to the reliability and regulation of energy supply in Tasmania as well as the continued roll out of contestability for electricity customers," Mr Appleyard said. The report includes a comprehensive review of the electricity wholesale market and trading patterns and covers the period to September 2008. "Tasmanian wholesale electricity prices were relatively higher than the previous year due to severe drought constraining hydro electricity production and higher dependency on Basslink imports".

Ten consecutive years of below average rainfall continue to present challenges to both Hydro Tasmania's commercial position and the security of supply in the State. Hydro storages dipped to a low of 16.5 per cent in early June following the driest eight month period in the last 75 years. However, alternate sources such as Basslink and thermal generation are significantly mitigating this risk.

The year has seen continued strong demand for Aurora Pay As You Go (APAYG), a prepayment metering retail product offered by Aurora. Around one in five residential customers have now elected to purchase electricity by this means. A prepayment metering code was established in May 2007 to ensure adequate levels of customer protection for those using this popular product. "APAYG is an attractive option for those wanting to better manage their payments for electricity," Mr Appleyard said.

“APAYG customers pay around the same over the year as those on regular tariffs and can take advantage of lower winter rates”.

The 2007-08 year has seen the introduction of new standards of reliability for distribution services. This approach more appropriately matches standards of reliability to the reasonable expectations of communities in Tasmania, and directs infrastructure investment to those areas most in need of improved reliability of supply.

“Overall, the year to 30 June 2008 saw a level of reliability of supply and service delivered to electricity customers that matched that of the previous year. Aurora Energy and Transend Networks both maintained a consistent level of service. The electricity industry’s performance last year was again generally positive for consumers,” Mr Appleyard said. “Aurora’s new Targeted Reliability Improvement Program comprises various projects and methods to improve the reliability of communities that are not currently meeting the new standards”. Aurora has until the end of the 2008-2012 regulatory period to achieve these standards.

On average, a Tasmanian electricity customer experienced slightly less than three power outages over the year, accounting for an average of 304 minutes without electricity supply. In the previous year, a customer experienced a similar number of outages, for a total of 256 minutes.

Weather continues to have a significant impact on the performance of Aurora’s distribution network, with the April 2008 storms affecting around 70 000 customers. This year, customers experienced an average of 1.76 network interruptions, excluding interruptions associated with significant weather events; the best performance recorded by Aurora for this reliability measure.

“Aurora has completed upgrade work on the network to lessen the impact of storms and wind damage,” Mr Appleyard said. “Aurora is managing the number of outages to customers well, almost meeting the established targets, but their response to outages and the time taken to restore power has been below the targeted level.” Aurora was penalised \$1.22 million in 2007-08 for its failure to meet reliability targets set under the 2003 Price Determination. Under the 2007 Price Determination, these financial penalties no longer apply from 1 July 2008.

In November 2007 the Regulator introduced a new guideline for the operation of the Guaranteed Service Level (GSL) scheme which took effect on 1 January 2008. “The new guideline ties the GSL scheme to the new reliability standards,” Mr Appleyard said. “We have set payment thresholds for both the frequency and duration of outages experienced by customers”. The number of GSL payments made in 2007-08 was significantly higher than for the previous year.

In October 2007, the Regulator made a Determination of maximum prices for retail tariffs on mainland Tasmania, allowing for price increases in response to Aurora’s increasing costs, resulting in significant increases for all customers. “Tasmanian residential customers face an average cost for their electricity in the high range of that

experienced across Australia, although concessions available in Tasmania reduce the average cost to the mid to low range," Mr Appleyard said. "Business customers in Tasmania enjoy electricity prices in the mid to low range of available rates in the country". From 2002 to 2007, the average increase in real terms has been less than one per cent per annum.

Aurora's financial performance for its regulated distribution business improved in 2007-08, due to the new Determination made in 2007 which came into effect half way through the financial year, which delivered higher allowances for capital expenditure, depreciation and operational and maintenance expenditure.

Transend Networks returned a consistent performance this year, maintaining the availability of the transmission system while conducting extensive capital works that will ensure the reliability and security of the network is adequate going forward. This work exposed consumers to a small risk of loss of supply with assets taken out of service for planned outages, but Transend managed this risk to the satisfaction of the Regulator.

Transend's performance improved with regards to connection site reliability in 2007-08, achieving its best performance for this measure. The number of loss of supply events continued to fall, with only six events reported in 2007-08, less than half reported the year before. Transend reported performance of 4.95 system minutes off supply for the 2007-08 year, a significant reduction from recent years

Natural Gas

Activity in the gas retail sector is continuing to grow, with a 65 per cent increase in retail customer numbers since the previous year. The report found that 5 047 customers were connected to the natural gas distribution system at 30 June 2008, compared to 3 064 at the same time last year.

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