

Tasmania in Transition

Energy Strategy Submission

**Property Council of Australia
February 2015**

The “Hydro” has been integral to a sense of community in Tasmania since 1914 with villages housing families of workers who developed a unique connection to our environment and landscape. Once delivering Tasmania the opportunity to compete as an industrial powerhouse, attracting and retaining jobs in our state, the undeniable contribution of electricity generation to economic prosperity has lessened in influence. And while simple messaging concerning the price of clean, green water-generated power has been difficult to convey, Hydro Tasmania maintains the ability to deliver jobs, innovation and significant engineering accomplishments making it the “people’s power” and a key component of Tasmania’s sustainable economic revival.

Thank you for the opportunity to comment on the Draft Tasmanian Energy Strategy encompassing three key themes:

- making energy work for people;
- reducing the cost of delivering energy;
- positioning Tasmania for the future.

This submission focuses on the views of the Tasmanian Division of the Property Council of Australia.

The property and construction industries employ 16.7 per cent of Tasmania’s workforce, are the state’s largest single contributor to gross state product at 10.9 per cent, and pay over \$800 million in property-specific state and local taxes.

Tasmania is in transition.

The Property Council supports an effort to re-establish industry and re-invigorate business in our state by making use of its resources. Once considered the envy of the country with clean and inexpensive supply, the Government should be diligent in its efforts to restore this position of economic strength.

By creating a more efficient energy sector, businesses will be stimulated and households delivered lower costs of living.

Though linking this strategy to state growth, industry is likely to migrate, making use of the lowest electricity prices in the country.

The State Government should restore energy as a competitive advantage for Tasmania by:

- a. delivering affordable energy at competitive and predictable prices that are amongst the lowest in Australia;
- b. empowering consumer choice;
- c. ensuring an efficient energy sector that is customer focussed;
- d. utilising energy to facilitate state growth; and
- e. maximising Tasmania’s renewable energy opportunities.

More broadly, to achieve sustainable economic reform in Tasmania, urgent action is needed across the board, particularly in relation to:

- 1. Local government;**
- 2. Planning;**
- 3. Taxation & Rates;**
- 4. Utilities;**
- 5. Red & green tape reduction; and**
- 6. Population.**

The Property Council is willing to discuss our collective views regarding strategies to improve the economic and social prosperity of the state.

Generation Expansion

The Draft Energy Strategy indicates that some proposals/visions are over a five year period while others are 20 years. A ten per cent increase over 20 years is considered uninspiring and should not be considered growth. Ten per cent over five years is also uninspiring, particularly if considering a second Basslink. The State Government needs to be far clearer regarding the setting of these targets.

The “expansion of Tasmanian hydro generation output by ten per cent”, is unclear:

- Is this growth expected over a five or 20 year horizon?
- Does it include all forms of energy generation?

Transparency in Network Price Setting

The cost increases in network charges have in the past increased at a much higher rate than CPI, justified by the Networks and approved by the Regulator as necessary to maintain and improve aging infrastructure. The issue of aging infrastructure seems to be one that the Regulator has agreed with across not only the energy sector but also water.

During 2014/2015 we have been made aware of increased profits from both sectors and their enhanced capacity to pay dividends, and in fact pass on reduced prices. Investing in improved and technologically advanced infrastructure should remain a focus of Tasmania’s utility providers. The Property Council of Australia continues to advocate strongly for transparency in tariff setting.

Predictable pricing is something Tasmania has not enjoyed. While contestable customers are able to contract the energy rate for up to three years, the network tariffs are kept secret until released. The consequence of this secrecy is unfairness as accurate budgeting is made extremely difficult.

Efficiency in Public Transport and System Infrastructure

The improvement of road infrastructure and smarter traffic management has the capacity to considerably reduce the fuel and time cost for all Tasmanians. Smarter traffic management includes the introduction of networks of real-time traffic sensor technology and algorithms to facilitate efficient traffic flow across a city. This initiative is overdue and will not only save time and energy, but also better utilise existing road infrastructure, without the need for clumsy, reactive and costly road works.

Future Energy Supply Options – Lower the Dependence on the Network

The Draft Energy Strategy anticipates a fourfold increase in PV Solar by 2024. The strategy should consider longer term arrangements where residences and indeed businesses will operate independently of the electricity supply (i.e. not connected to the grid).

The increased take-up of insulation, solar energy generation and adoption of energy efficient appliances including lighting, air conditioning with improved COP, and solar and heat-pump hot water will facilitate operations that either significantly reduce dependence on the network or enable disconnection.

Network design and pricing should consider diminishing unit demand along with strategies that increase population and drive commercial and industrial growth.

Environmental Upgrades

The Property Council fully supports the concept of Environmental Upgrade Agreements to provide a mechanism to offer business access to a funding source for energy efficiency upgrades of building

stock. A funding source that enables building owners to share costs with tenants which overcomes what is currently a significant barrier in delivering energy efficiency will see the benefit flow to the tenant through efficiency opportunities.

The Property Council recommends the development of a recurrent centralised Sustainable Energy Fund from Treasury that can be utilised by government departments and state owned businesses to obtain funding for implementation of energy efficiency projects. Such a fund would seek bids for projects and be linked to requiring the department requesting funding to release 50% of the nominated energy savings back into the Sustainable Energy Fund. This would provide a shared benefit with internal savings achieved for departments and an opportunity for the Sustainable Energy Fund to increase significantly over time with energy savings further delivering on the original investment.

Included under this arrangement should be the issue of PV Solar. Businesses and residences alike have responded to price shocks and increases in electricity supply through their own investment in energy generation. These investments have been made against a pricing regime and sound economics. It is considered unfair to change the pricing regime, including network pricing, in response to attempting to address the loss of revenue from properties with these investments. The claim that non solar generators are subsidising the network cost is unfounded. Network charges are based on the amount of power purchased and therefore a variable cost which the user pays.

Further, it is hoped Government does not encourage the establishment of tariff impediments that make the take-up or continued use of technology by Tasmanian energy users unviable.

Innovation

Designing an electric vehicle demonstration program is considered the lowest of priorities and should not be included in the Energy Strategy. Entrepreneurial investors, inventors and engineers should be encouraged to design these “wheels” as they are high cost, high risk and benefit very few in the medium term.

The Property Council believes that the Tasmanian Government is in an ideal position to seek investment and partner with a private organisation for the installation of the necessary infrastructure to facilitate a higher uptake of electric vehicles through development of fast car charging stations around the state. The development of infrastructure would encourage investment in electric vehicles.

Protecting Vulnerable Consumers

The Property Council fully supports measures which provide a safety net for the protection of vulnerable customers. The provision of electricity is a fundamental need and any mechanism which assists in ensuring that customers are protected is strongly supported. It is noted that there is consideration of a specific tariff. For a simplistic and easy to apply model, it is suggested that any new tariff structure and support mechanisms such as energy audits also apply to Housing Tasmania and similar housing providers in a effort to further support vulnerable Tasmanians.

Transmission

The Property Council strongly urges the State Government to ensure that any investment in electrical poles and wires is appropriately allocated and not seen as “gold plating” of the state’s infrastructure. There is considerable debate that historical investment in the state’s poles and wires has been “gold plating” and is a considerable component of the 65% increase in electricity prices over the past seven years as quoted in this report.

TasNetworks should fully implement contestability in the delivery of infrastructure following the recent trial involving Megavar which the Property Council understands was highly successful. TasNetworks doesn't need to be in the business of residential and commercial reticulation.

A number of providers could be accredited to assist service delivery by TasNetworks, thus reducing the wait time that developers and investors experience due to plan design becoming stuck in over-bureaucratic, duplicated and inefficient processes. Accredited companies would have access to HV and LV cables far more readily, removing the current and completely ridiculous impediment where developers have to wait for cables to be manufactured and delivered from Victoria, along with the delays experienced when ordering substations themselves. For example, there are no LV cables available until late March 2015, consequently a number of our members have stopped work until they are manufactured and delivered from the mainland.

TasNetworks will continue to play a critical role in delivering affordable infrastructure that supports development.

The Property Council understands that TasNetworks aims to meet stringent regulations for critical supply standards compliance. The costs of such investment are borne by the developer, notwithstanding that the upgrade benefits the entire zone as part of the public infrastructure network. This is a significant impost on the development, and currently more expensive than anticipated or previously experienced.

TasNetworks has a crucial role to play in understanding the commercial reality of increased costs to the viability of developments. The State Government should consider:

- The 'standards' to which TasNetworks are obligated to deliver and the significant developer investment as a result; and
- Ensure that the policy settings which allocate an appropriate proportion of such costs are readily understood and clearly articulated.

Positioning Tasmania for the Future

The Tasmanian Division of the Property Council of Australia is clear that the following questions should be answered in the final Electricity Strategy:

- Does the state have a contingency plan in place should one of the four key industrial consumers leave?
- Rather than simply suggesting that it will impose that cost across the remainder of the state, are there opportunities for mothballing facilities to minimise the exposure to the rest of the state's consumers?

Key facts about the Tasmanian property sector

The Property Council

The Property Council represents the biggest private sector industry in Tasmania, which is part of the \$600 billion Australian property industry.

Property Council members include major property owners in Tasmania, who operate across the sector in:

- all types of property activity – financing, funds management, development, ownership, and assets management;
- all asset classes – office; retail; residential development; industrial; tourism & leisure; aged care and retirement living; and infrastructure;
- every major region of Australia and various international markets; and
- the four quadrants of investment – public, private, equity, and debt.

Key facts about the Tasmanian property sector

- The property sector:
 - covers building and construction, the private and institutional investment community, and a suite of supporting professions and trades;
 - constitutes 16.7 per cent of the state's workforce – some 39,000 Tasmanians – are directly or indirectly employed by this sector (the largest private sector employer in the state);
 - contributes 10.9 per cent of Gross State Product or \$2.5 billion directly, and a further \$3.1 billion indirectly – the largest single contributor in Tasmania;
 - pays a further \$500 million in local government rates and fees annually;
 - pays approximately \$1 billion in property specific taxes annually to state and local government in Tasmania.
- The value of investment grade stock under management in Tasmania is approximately \$11.2 billion, a significant proportion of which is owned by superannuation funds that invest the retirement savings of Tasmania's workforce.
- The market value of foreign assets owned by Australians is \$50 billion.

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