Tasmanian Small Business Council
Uniting Small Business

AER Draft Determination on TasNetworks' Combined Regulatory Proposal 2024-29 & TasNetworks' Revised Proposal

Submission

Prepared with the assistance of

Goanna Energy Consulting Pty Ltd

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Abbreviations

ACS	Alternative Control Service
AER	Australian Energy Regulator
capex	Capital expenditure
CC	TasNetworks Customer Council
CCP27	Consumer Challenge Panel
CEFC	Clean Energy Finance Corporation
CER	Consumer Energy Resources
CESS	Capital Expenditure Sharing Scheme
CSIS	Customer Service Incentive Scheme
EBSS	Efficiency Benefits Sharing Scheme
kWh	kilo Watt hour
MWh	Mega Watt hour
NPV	Net present value
NUoS	Network use of system
NWTD	North West Transmission Developments
opex	Operating expenditure
PRWG	TasNetworks Policy Reform Working Group
RAB	Regulatory Asset base
RAB	Regulatory Asset Base
RAC	TasNetworks Reset Advisory Group
RIT-T	Regulatory Investment Test – Transmission
SCS	Standard Control Services
TAB	Tax asset base
TAS22	general small business network tariff
TAS94	A consumption-based small business network tariff
TOU	time-of-use
TSBC	Tasmanian Small Business Council
TSS	Tariff Structure Statement
WACC	Weighted Average Cost of Capital

Executive Summary

Our interest in TasNetworks' 2024-25 regulatory reset stems from our track record of involvement in Tasmanian energy issues affecting small business and high electricity prices. As small business is facing multiple cost and supply pressures, including from rising electricity prices, we have focused our submission on the price and affordability aspects of this reset.

Price impacts

Most Tasmanian small businesses have seen substantial electricity retail price increases of 11.88 per cent this financial year with further significant increases in network charges embedded in the AER's draft decision and the future of electricity prices is highly uncertain.

The overall price picture for small business in Tasmania emerging from the draft decision is disappointing, especially at the current time when the sector is facing significant cost pressures. The draft decision and Revised Proposal will result in significant nominal increases in small business annual electricity bills due to network charges over 2024-29 of $331 (11.5 per cent) and $288 (10 per cent) respectively.

The Australian Energy Regulator (AER) claims that "consumers are at the heart" of its draft decision. We can find little evidence of this. The draft decision makes affordability – the number one issue for consumers – worse for consumers, including small business. The AER and TasNetworks appear to the TSBC to have not listened to the affordability concerns of small business.

In addition, there are a range of network price uncertainties for small business that elevate our concerns, including the outlook for inflation and interest rates, a list of significant contingent transmission projects, the possible addition of some Marinus Link costs, and the likely conversion of Basslink to regulated status.

The AER has more-or-less accepted nearly all parts of TasNetworks' initial proposal. In this submission we outline key areas where we do not believe that TasNetworks has done the best it can by consumers and where the AER has been too accepting of this. We were expecting the AER to do better, especially in the current adverse electricity price environment for small businesses.

Revenue determination

We compared the revenue building blocks in the AER's draft decision with TasNetworks' initial and Revised Proposals. The lack of any differences stands out and is disappointing for small business. Unfortunately, the AER has not accepted our earlier challenge to put pressure on TasNetworks to improve the affordability of its revenue forecasts and TasNetworks has responded by accepting the AER's draft decision.

A key revenue driver is the rate of return, which is $41.8 million (9.6 per cent) higher for transmission and $116 million (21.5 per cent) higher for distribution than in the 2019–24 period.

Forecast reductions in TasNetworks real Regulatory Asset base (RAB) over the 2024-29 period, whilst modest, are nevertheless welcome. However, they follow periods of large increases in TasNetworks' RAB, which is most likely overly inflated to begin with. In addition, the potential impact of TasNetworks' significant pipeline of transmission contingent projects over the 2024-29 period could yet overwhelm its transmission RAB.

The draft decision accepts TasNetworks proposed $290 million ($2023–24) gross transmission capex for the 2024–29 period, which compares to the $279 million ($2023–24) the AER estimated, an $11 million (3.7 per cent) reduction. We do not agree with the AER that this is not a material difference.

We are concerned that the AER has found issues with TasNetworks capex forecasts for distribution but has not adjusted for these. We are also concerned that it has found some forecasts to be higher than what it considers reasonable but has accepted these. The fact that other capex categories offset these is not sufficient grounds for not adjusting them downwards.

TasNetworks proposed and the AER accepted, transmission and distribution opex forecasts that are higher than what it approved – and what TasNetworks is likely to spend – over the 2019-24 period. A significant driver, for both transmission and distribution, is a large increase in insurance and cyber security costs of $46 million. We believe that the AER's alternative estimate, which is $13 million (28 per cent) lower, should have been applied. In addition, it should be using more aggressive productivity growth rates than the industry average, which is not challenging enough.

The overall impact of the draft decision is a forecast revenue recovery from consumers of $809.1 million ($2023–24, smoothed) for its transmission network over the 2024–29 period, which is 0.2% higher than for the 2019–24 period. For distribution, the draft decision allows TasNetworks to recover $1,677.0 million ($2023–24, smoothed) from consumers, which is 19.5% higher than approved for the 2019–24 period. In nominal terms, the revenue recovery is $1,027.9 million for transmission and $2,114.2 million for distribution. We do not find increases of this magnitude acceptable given currently high electricity prices, especially the distribution revenue allowance.

We believe it highly likely that the AER draft decision, by accepting TasNetworks' initial Proposal and not acting on areas it identified as involving overspending, is approving revenue that is materially above what TasNetworks needs to operate its network safely and reliably, especially for distribution.

Contingent projects

TasNetworks list of six contingent projects will total an estimated $955 million addition in its capex if they all proceed. This would more than triple TasNetworks forecast capex over the 2024-29 period, with potentially large increases in transmission charges. We are concerned about this and the potential for estimated costs to escalate markedly before any of the projects are completed. These concerns have not been sufficiently well addressed in the Revised Proposal, which has been submitted with only limited consultation on these contingent projects. We welcome that TasNetworks has proposed that new load share the costs of all its load driven contingent projects.

TasNetworks has provided the results of its analysis of the network price impacts of its contingent projects on electricity bills, which is welcome. This shows real network price increases for small business for 2031-32 if all contingent projects go ahead. There are some modest price reductions for projects triggered by less than 712MW of new generation or load and if new load pays a share of the proposed North West transmission upgrade. However, this work has been done late in the piece and without publishing the model used and its full inputs and assumptions, which makes scrutiny difficult.

Tariff reform

We welcome that TasNetworks has proposed some tariff reforms, but for small business these reforms have been frustratingly slow. The AER commented on TasNetworks' modest reforms but still accepted them.

An area of concern for us is the slow removal of tariff cross-subsidies that are costly to our sector, which has been underway for five years already but will take another five years to complete.

In addition, it is a concern that the take-up of the consumption-based small business tariff (TAS94) remains low at around one-quarter of small businesses, despite TasNetworks data showing benefits to small business from switching. The reasons for this need to be investigated further.

The TSBC is generally supportive of the proposal to turn part of the peak period for TAS94 into a lower price shoulder period, providing it will be revenue neutral and small businesses will benefit along the lines that TasNetworks has forecast (i.e. around $100 pa). However, we retain concerns that not all small businesses will benefit from the change and believe that TasNetworks should provide more details about this and propose solutions. For example, some small businesses have limited flexibility to adjust their consumption times and some prefer a simple flat rate tariff.

TasNetworks has proposed far more limited Consumer Energy Resources (CER) related tariff reforms than we see in other NEM regions, such as not introducing export tariffs due to its view that they will not be justified over the 2024-29 regulatory control period. Our concern is that delaying such reforms not put further price pressure on small business over the 2024-29 regulatory control period.

Metering

We maintain our position that the cost of legacy meters should not be borne by consumers. We also believe that TasNetworks has raised important points in relation to retaining metering as an Alternative Control Service (ACS).

Consumer engagement

We note the AER's position that Proposals reflecting consumer preferences, and meet its expectations, are more likely to be largely or wholly accepted at the draft decision stage, creating a more effective and efficient regulatory process and that stakeholder engagement is key to this.

Whilst acknowledging that TasNetworks has taken numerous positive steps to improve its engagement and has committed to continue this, we have some concerns about how well they have engaged. Their proposals (and the AER's draft decision) reduce the affordability of network prices and there is a lack of transparency about the price impacts of contingent projects. Opex forecasts, including the significant step-changes in insurance and cyber security costs, were subjected to limited engagement. Meanwhile, the AER appears to have had only a passive role in guiding TasNetworks' engagement and the draft decision shows little evidence of having been influenced by issued raised by consumers.

We note that the Consumer Challenge Panel (CCP27) felt that TasNetworks should affirm its commitment to affordability by considering an additional phase of engagement that revisits and confirms its top-down revenue positions and the Reset Advisory Group (RAC) felt that engagement could have been timelier and more transparent. We support the CCP27 and RAC views.

We also examined TasNetworks' engagement since its initial Proposal was lodged, which TasNetworks says has focused on the "inform" and "collaborate" levels. Such approaches do not appear to put consumers in a position to influence the Revised Proposal. It also appears to have limited consultation to only with its Consultative Committees. And TasNetworks appears not to have engaged on gaps identified by consumers in its initial Proposal other than on its contingent projects and their price impacts (albeit with limited input). Overall, there is little to suggest that stakeholder engagement has played a significant role in developing the Revised Proposal.

1. Introduction

The Tasmanian Small Business Council (TSBC) welcomes this opportunity to comment on the Australian Energy Regulator's (AER's) Draft Determination on TasNetworks Combined (Transmission and Distribution) Regulatory Proposal for the period 1 July 2024 to 30 June 2029 and TasNetworks Revised Proposal. We have previously provided a submission on TasNetworks initial Regulatory Proposal.[1]

1.1 About the TSBC

The TSBC is an association of associations, each of which represents a specialist industry sector. By bringing these sectors together, we provide small businesses with the opportunity to access information and advice across the wider small business community. We also represent small businesses as we communicate their interests and needs to government, regulators, other organisations and the public.

There are more than 37,000 small businesses in Tasmania. They make up over 96 per cent of all businesses in Tasmania and provide more than half of the private sector employment in our state. Some 35,700 small businesses are connected to electricity supply through TasNetworks distribution system.[2] This shows the importance of small business to Tasmania, its economy and its electricity industry.

1.2 The TSBC's interest in this Regulatory Reset

The TSBC has a long-standing and substantial track record of involvement in Tasmanian energy issues as they affect small business, including several past regulatory determinations for TasNetworks (and its predecessors). Network charges make up around 36 per cent of small business electricity bills and reliable network services are critical to the operations of most small businesses.

The AER's 2024-29 Regulatory Determination for TasNetworks provides the basis for the setting of network charges for Tasmanian small businesses for the five years beginning 1 July 2024 and the reliability of network services provided to these businesses.

1.3 The Reset contains risk and uncertainty for small business

We have significant concerns about the uncertainty for small business of elements of the AER's draft decision and TasNetworks Revised Proposal and its potential impact on network prices. In particular:

- The proposal is based on an annual inflation rate of 2.80 per cent, which is about half the current CPI and at the top of the Reserve Bank of Australia's 2-3 per cent target range;
- It is susceptible to continuing uncertainty about future interest rate movements;
- TasNetworks Revised Proposal puts forward six contingent transmission projects, which it estimates would cost $955 million[3], or over three times TasNetworks' standard forecast transmission capex, if they all proceed in the 2024-29 regulatory period.[4] Obviously, their inclusion (even partly) could have a significant impact on the capital expenditure (capex),

[1] https://www.aer.gov.au/documents/tasmanian-small-business-council-submission-2024-29-combined-regulatory-proposal-tasnetworks-may-2023.
[2] Office of the Tasmanian Economic Regulator, Energy in Tasmania Report 2021-22, p. iv.
[3] TasNetworks, Revised Proposal, 30 Nov 2023, Table 10, pp 24-5.
[4] Whilst this is one fewer than in TasNetworks initial Proposal, the total cost has escalated by $50 million from $905 million.

Regulatory Asset Base (RAB), operating expenditure (opex) and revenue forecasts provided by TasNetworks.

- The forecasts provided would be further impacted by a decision to proceed with Marinus Link, which is earmarked as an Actionable project in Australian Energy Regulator's (AEMO's) 2022 Integrated Systems Plan (ISP). The latest costings to build the Marinus Link project total $6.65 billion, a 75 per cent increase on the $3.8 billion estimate provided for the 2022 ISP. This includes $1.5 billion for the associated North West Transmission Developments (NWTD), which will be built as a wholly TasNetworks owned asset. However, only stage 1 is expected to be constructed in the 2024-29 regulatory period, the cost of which is estimated at $3.85 billion, including $950 million for TasNetworks' NWTD component.[5]
- It is also worth noting that, whilst not part of this reset or its contingent projects, Marinus Link will be partly paid for by Tasmanian consumers and add further to their network charges.[6] In addition, Basslink is currently being assessed by the AER for conversion to a regulated interconnector and 10 per cent of its network charges are likely to be allocated to Tasmanian consumers.
- The AER will update the revenue forecasts for interest rates, bond rates and inflation before the completion of its Determination. Whilst we are pleased to see that there have been some changes in the draft decision compared to TasNetworks initial Proposal that have resulted in downward pressure on revenue, this is not universally the case and the final directions remain uncertain. Any movements that materially increase network prices over and above those proposed by AER would add to the concerns of small business.

These uncertainties – and their potential to significantly increase transmission and distribution prices during the 2024-29 period beyond the forecasts in the draft decision, are a matter of alarm to the TSBC considering the already elevated electricity prices being paid by small businesses in Tasmania.

Added to this, small business is also being adversely affected by high inflation, high and rising interest rates, as well as cost pressures and shortages in labour, materials and a range of other inputs. Whilst higher wholesale electricity prices have caused most of the recent increases in electricity prices, further cost pressures due to higher network charges would be most unwelcome and could tip the balance for some of Tasmania's small businesses. We appreciate that there is uncertainty about where this pressure will head during the 2024-29 regulatory period. Some will be 'hardwired' into the AER's Determination (inflation and interest rate impacts), whilst for others the outlook could mean more unwelcome future electricity price news for small business.

The AER needs to take these factors and their impact on small business into account in its Final Determination.

1.4 Are "Consumers at the heart" of the Draft Decision?

At the very start of the AER's Draft Decision Overview it states that:

[5] We note that concessional debt finance for 80 per cent of the cost of Marinus Link/NWTD is to be provided through the Clean Energy Finance Corporation (CEFC). However, ultimately consumers will need to fund the repayment of this. We also note that there is a prospective rule change proposal that would see the cost of Marinus Link shared proportional to its regional benefits.

[6] It is estimated by TasNetworks that small business customers will pay an additional $135 pa in network charges for the first stage of Marinus Link (see TasNetworks, Combined Advisory Groups meeting held on 22 November 2023, Presentation Pack, Slide 45 at https://talkwith.tasnetworks.com.au/resetadvisorycommittee/widgets/349024/key_dates#144469).

"The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work … "[7]

How does the Draft Decision measure up to the AER's claims?

We are concerned that consumers are not at the heart of the Draft Decision released by the AER. To begin with, the price impacts of the Draft Decision are imposing additional costs on consumers, including small business. This is despite consumers consistently telling TasNetworks (through its engagement) and the AER that the affordability of the AER's reset is the number one issue for them. The Draft Decision actually makes the affordability of electricity worse for small business and other small consumers. Moreover, it does so at a time when the affordability of electricity in Tasmania is at an all-time low. Section 4 discusses the price and customer bill outcomes of the draft decision.

The AER obviously recognizes the importance of the affordability issue when it says that:

> *"Our draft decision comes at a challenging time for energy consumers and the sector more broadly. It seeks to balance affordability with necessary expenditure required to support the energy transition. … Consumers are facing cost-of-living pressures and affordability is a key issue."*[8]

TasNetworks obviously also recognizes this as evidenced by this comment:

> *"We know that our customers are under increasing pressure due to the ongoing rise in cost-of-living, so we've focused on keeping our prices as low as possible by reducing business costs where we can."*[9]

Unfortunately, we do not find enough evidence in the AER's Draft Decision or TasNetworks' Revised Proposal to persuade us that they have balanced affordability and expenditure in a way that is in the best interests of consumers, especially considering that network charges account for 36 per cent of small business electricity bills in Tasmania. The AER and TasNetworks appear to the TSBC to have by-and-large ignored the affordability concerns of small business.

One justification for higher expenditure by TasNetworks used in the Draft Decision is that "the energy sector is undergoing a significant decarbonisation and electrification transition requiring expenditure to enable additional utility-scale and distributed renewables and storage connections."[10] This is despite reassurances that such changes will make electricity cheaper for consumers. The evidence from the Draft Decision is the opposite for as far out in time as it extends. There is no prospect of cheaper electricity for Tasmanian small business evident from the Draft Decision.

Moreover, small businesses face additional challenges through these processes. For example, many will find electrification difficult and costly to undertake. Some may find it prohibitive. These are points we detailed in our recent submissions to the Tasmanian Government on decarbonisation of gas in Tasmania. Small businesses also have found it challenging to invest in Consumer Energy Resources (CER) due to factors such as their lease or rental status.

[7] AER, TasNetworks distribution and transmission determination, Draft Decision – Overview, September 2023, p. vi.
[8] Ibid.
[9] TasNetworks Combined Proposal 2024-2029 – Overview, CEO's Foreword, January 2023, p 2.
[10] Ibid.

Added to this, the AER has more-or-less accepted all the key revenue building blocks in TasNetworks initial Proposal. There is very little, if any, change in these (see Section 2.2 and Table 1). As pointed out in our submission on TasNetworks' Initial Proposal and in our response to the Draft Decision herein, there are key areas where we do not believe that TasNetworks has done the best it can by consumers and the AER has been too accepting of this. We would expect a regulator that truly has consumers at its heart, as the AER claims it has, to do much better and put pressure on TasNetworks to do better by consumers.

1.5 Submission structure

Our remainder of this submission is set out as follows:

- We discuss the revenue building blocks.
- We then address the contingent projects.
- Next the small business price and bill impacts of the draft decision and Revised Proposal and contingent projects are discussed.
- Then we examine tariff reforms that impact on small business.
- Finally, we comment on TasNetworks consumer engagement, including for its Revised Proposal.

2 Revenue Determination

In this section we focus on the revenue building blocks used to make the AER's regulatory determination for TasNetworks' transmission and distribution networks. We begin by drawing comparisons across TasNetworks' initial Proposal, the AER's draft decision and TasNetworks Revised Proposal. We then discuss the main building blocks in the draft decision and the Revised Proposal, including in their historical context.

2.1 AER Building block approach to setting regulated revenue for TasNetworks

Set out below is an overview of how the AER sets the regulated revenue for TasNetworks'[11] transmission and distribution networks. We include this in the submission mainly for the benefit of our members and other small businesses who read the submission to help them understand the process involved and how this feeds through into their network charges. We have relied on useful information included in TasNetworks' Revised Proposal to do this.

The revenue TasNetworks is allowed to earn through its network charges is intended to recover the cost of building, maintaining, and operating both the transmission and distribution networks. It is also intended to provide TasNetworks with a fair return on its investment in the assets used to transport electricity over its network and enables TasNetworks to recover the cost of that investment over time (through a depreciation allowance).

The AER sets the maximum revenues that TasNetworks can collect from customers over the course of each regulatory control period (usually 5 years) using a 'building block' approach that sums the estimated 'efficient costs' incurred by TasNetworks to deliver safe, reliable, and secure electricity to consumers, including small businesses. The revenue allowances for the transmission and distribution networks comprise the same five building block components:

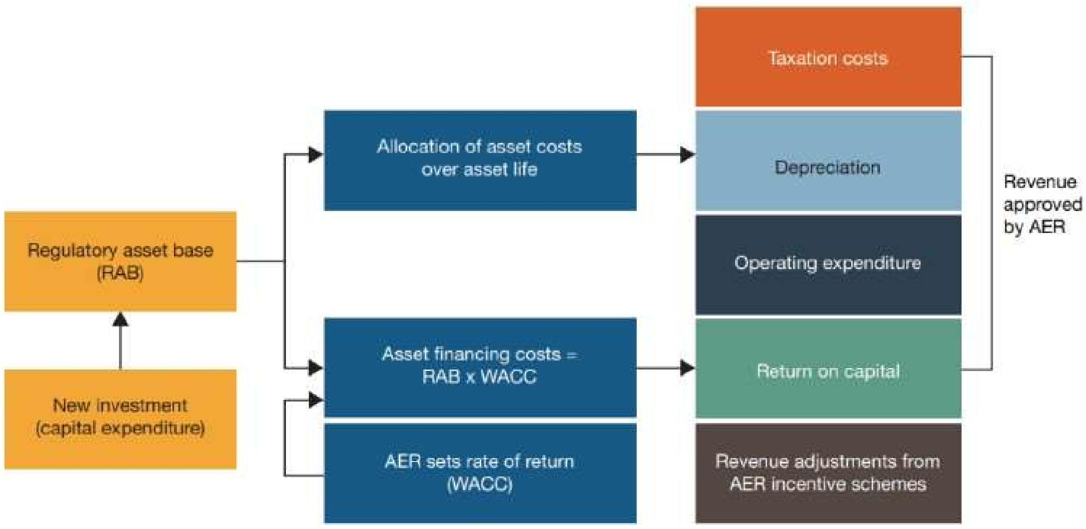
- a return on capital

[11] TasNetworks owns and operates the high voltage transmission and low voltage distribution electricity transportation networks in Tasmania. TasNetworks is fully owned by the Tasmanian Government on behalf of the Tasmanian people.

- depreciation
- forecast opex
- the estimated cost of corporate income tax
- revenue adjustments resulting from the application of the AER's operating expenditure (opex) and capital expenditure (capex) efficiency incentive schemes.

Forecasts of capex, the value of each network's RAB and the rate of return – which is set by the AER as part of its determination – are key inputs into several of the building blocks used to set maximum revenues. The building block process is characterised in Figure 1 below.

Figure 1: TasNetworks' regulated revenue building blocks



Source: TasNetworks Revised Proposal 2024-2029, Figure 5, p. 39.

2.2 Comparing outcomes across the initial Proposal, draft decision and Revised Proposal

We have compared the forecast revenue building block outcomes of TasNetworks 2024-29 Revenue reset for transmission and distribution across its initial Proposal, the AER's draft decision and the Revised Proposal in Table 1 below, focusing particularly on the impacts on Tasmanian small business.

The following outcomes stand out:

- Total revenue (smoothed) in the AER's draft decision has actually increased from TasNetworks initial Proposal for both distribution by $127.8 million (7.6 per cent) and transmission by $25 million (3.1 per cent). In the Revised Proposal distribution revenue is virtually unchanged and transmission revenue is $7.9 million lower (1 per cent). At first sight it seems strange that a regulator would increase the revenue proposed by a business it is meant to be regulating.
- The main contributors of the higher draft decision revenues are Depreciation, which is $112.7 million higher for distribution and $33.5 million higher for transmission, the return on capital, which is $15.4 million higher for distribution and Corporate Tax, which is $10.6

million higher for distribution and $4.3 million higher for transmission. Differences from the draft decision to the include higher depreciation for distribution ($10.9 million) and a higher RAB for transmission ($7.7 million).
- These increases are somewhat offset by a $33 million reduction in the draft decision distribution RAB from the Initial Proposal and, for transmission, by reductions in the RAB ($69.7 million) and the return on capital ($13.3 million). For distribution, the Revised Proposal contains reductions of $27 million for the RAB, $6.6 million for the return on capital and $5.6 million for revenue adjustments compared to the draft decision, while for transmission adjustments (-$6.3 million) and depreciation (-$3.9 million) are lower.
- Capex and opex are both unchanged comparing the initial Proposal, draft decision and Revised Proposal.
- The resultant impact on typical small business annual electricity bills is an increase, in real terms, of $207 (6.5 per cent) comparing the draft decision and initial Proposal and a further increase of $4 under the Revised Proposal.[12]
- Meanwhile, transmission charges are forecast to increase from $11.33 per Mega Watt hour (MWh) under the initial Proposal to $11.65 per (MWh) under the draft decision, or by 2.7 per cent with a slight decline to $11.63 per MWh under the Revised Proposal.

As the above network prices are in real terms, they mask the extent of the nominal increases that consumers will pay over the 2024-29 period. The nominal impacts are outlined in Section 4.

The lack of any substantial endogenous change, especially from the initial Proposal to the AER's draft decision is of concern to the TSBC. The only significant changes have been driven by exogenous factors such as changes in interest rates (which have increased since the initial Proposal) and forecast inflation (which has fallen somewhat). It is disappointing that the AER's Draft decision has been more-or-less ineffective when it comes to pushing TasNetworks to be more efficient, especially with its expenditures on capital and operations. In our submission on TasNetworks initial Proposal we looked towards the AER to do this, especially in view of the cost pressures that small business in Tasmania is under, including from higher wholesale electricity prices and the significant uncertainty about future prices. Unfortunately, the AER inability to do this means that small business network charges will increase over the next regulatory period, a situation many of them can ill afford.

2.3 Rate of Return

For transmission, this is $41.8 million (9.6 per cent) higher than the 2019–24 period. For distribution, it is $116 million, or 21.5 per cent higher than in the 2024–29 period. Both are driven by an increase in the RAB and a higher rate of return being applied in the 2024–29 period. TasNetworks has accepted the draft decision in relation to the rate of return parameters and commented that their "future movement is highly uncertain."[13]

The higher rate of return (return on equity component) also drives an increase in the net tax allowance, which is $8.1 million (205.7 per cent) higher for transmission and $15.7 million (57.8 per cent) higher for distribution than in the 2019–24 period. We also note TasNetworks' comment about future uncertainty, a point we agree with and have expressed our concern about.

[12] This is for average 2024-2029 prices ($ real) for a typical small business customer with an annual energy consumption of 33,578 kWh.
[13] TasNetworks, Revised Proposal 2024-29, November 2023, p. 33.

Table 1: Comparison of Key Elements of Initial Proposal, draft decision & Revised Proposal

Distribution network comparison – Original Proposal, AER draft decision and Revised Proposal 2024-29 ($2023-24)							
	Original Proposal	*AER draft decision*	*Revised Proposal*	*DD change from Orig Prop*		*Rev Prop change from DD*	
	$m	$m	$m	$m	%	$m	%
Total revenue – smoothed ($m)	$1,549.20	$1,677.00	$1,676.70	127.8	7.6%	-$0.30	-0.02%
Net capital expenditure ($m)	$729.40	$729.30	$729.30	-0.1	0.0%	$0.00	0.00%
Operating expenditure ($m)	$541.00	$541.00	$541.00	0	0.0%	$0.00	0.00%
Rate of return (%), nominal vanilla	5.71%	5.80%	5.80%		1.6%		0.0%
Return on capital ($m)	$640.30	$655.70	$649.10	15.4	2.3%	-$6.60	-1.02%
Depreciation – return of capital ($m)	$327.30	$440.00	$450.90	112.7	25.6%	$10.90	2.42%
Revenue adjustments ($m)	$7.80	-$3.40	-$9.00	-11.2	329.4%	-$5.60	62.22%
Corporate tax ($m)	$32.20	$42.80	$43.10	10.6	24.8%	$0.30	0.70%
Inflation Forecast	3.35%	2.80%	2.80%		-16.4%		0.0%
Regulated asset base – end of period	$2,268.00	$2,235.00	$2,208.00	-33	-1.5%	-$27.00	-1.22%
Residential Prices	$833	$898	$897	65	7.2%	-$1.00	-0.11%
	(2.4%)	(4.5%)	(4.0%)	-2.1%		1%	
Small Business Prices	$2,960	$3,167	$3,171	207	6.5%	$4.00	0.13%
	(1.3%)	(3.1%)	(2.7%)	-1.8%		0.4%	

Transmission network comparison – Original Proposal, AER draft decision and Revised Proposal 2024-29 ($2023-24)							
	Original Proposal	*AER draft decision*	*Revised Proposal*	*DD change from Orig Prop*		*Rev Prop change from DD*	
	$m	$m	$m	$m	%	$m	%
Total revenue – smoothed ($m)	$784.10	$809.10	$801.20	25	3.1%	-$7.90	-0.99%
Net capital expenditure ($m)	$287.80	$287.80	$287.80	0	0.0%	$0.00	0.0%
Operating expenditure ($m)	$209.20	$209.20	$209.20	0	0.0%	$0.00	0.0%
Rate of return (%), nominal vanilla	5.68%	5.77%	5.77%		1.6%		0.0%
Return on capital ($m)	$492.20	$479.00	$480.70	-13.2	-2.8%	$1.70	0.35%
Depreciation – return of capital ($m)	$70.90	$104.40	$100.50	33.5	32.1%	-$3.90	-3.88%
Revenue adjustments ($m)	$4.40	$4.40	-$1.90	0	0.0%	-$6.30	331.58%
Corporate tax ($m)	$7.70	$12.00	$13.00	4.3	35.8%	$1.00	7.69%
Inflation Forecast	3.35%	2.80%	2.80%		-16.4%		0.0%
Regulated asset base – end of period	$1,697.80	$1,628.10	$1,635.80	-69.7	-4.3%	$7.70	0.47%
Transmission $/MWh	$11.33	$11.65	$11.63	0.32	2.7%	-$0.02	-0.17%
	1.0%	2.6%	2.6%	1.6%		0%	

Source: Goanna Energy using TasNetworks, Revised Proposal, Tables 2 & 3, p. 7.

2.4 Regulatory Depreciation

The return of capital (depreciation) for transmission is $29.9 million (22.3 per cent) lower than the 2019–24 period, driven primarily by a higher indexation of the RAB compared to the 2019–24 determination. For distribution depreciation is $62.0 million (16.4 per cent) higher than the 2019–24 period, driven primarily by a higher opening RAB as at 1 July 2024 compared to the 2019–24 determination value and an increase in capex spent on short lived assets.

TasNetworks has accepted the AER’s approved depreciation and its only adjustment is to reflect updated capex inputs.

2.5 Regulatory Asset Base,

The draft decision results in a forecast reduction of the RAB for transmission by $36.9 million ($2023–24), or 2.2 per cent over the 2024–29 period. After RAB growth of 6.1 per cent over the 2019–24 period, there is a forecast reduction of the distribution RAB of $7.0 million ($2023–24), or 0.3 per cent, over the 2024–29 period. These reductions are mainly driven by relatively lower forecast capex and higher depreciation over the 2024–29 period compared to 2019-24.

These reductions, whilst modest, are nevertheless welcome for their impacts on regulated revenues and ultimately network charges for small business. However, they follow periods of large increases in TasNetworks’ RAB, which is most likely overly inflated to begin with, resulting in small business paying too much for its network services.[14] In addition, the potential impact of TasNetworks’ significant pipeline of transmission contingent projects (see Section 3) could have a large impact on its transmission RAB over the 2024-29 period, if these are activated.

TasNetworks’ Revised Proposal accepts the draft decision RAB for 2024-29.

2.6 Capex

The draft decision accepts TasNetworks proposed $290 million ($2023–24) gross transmission capex for the 2024–29 period, which compares to the $279 million ($2023–24) it estimated, a 3.7 per cent reduction. The AER argues that this is not a material difference. Whilst use of the word “material” involves an element of judgement, we believe that an $11 million saving in capex is material.

The draft decision also approves TasNetworks’ proposed $729.1 million ($2023–24) distribution capex for the 2024–29 period on the basis that it is judged to be prudent, efficient and consistent with a safe and reliable network; and because this amount is a 1.8 per cent reduction on distribution capex over the 2019-24 regulatory period. However, the AER has not said if this capex could have been lower and still delivered a safe and reliable network. In this regard, it also comments that TasNetworks did not apply its Better Resets Handbook to capex, did not apply its repex model and that the CER capex was not consistent with its distributed energy resources integration expenditure guidance note. It comments further that some of TasNetworks’ forecast capex categories are higher than what it considers to be reasonable such as CER expenditure, but that this is largely offset by other categories.[15] We are concerned that the AER has found issues with TasNetworks forecasts but has not seen fit to adjust them accordingly. We are also concerned that it has found some forecasts

[14] This is a point we made in our submission on TasNetworks’ Proposal https://www.aer.gov.au/documents/tasmanian-small-business-council-submission-2024-29-combined-regulatory-proposal-tasnetworks-may-2023

[15] AER, TasNetworks distribution and transmission determination, Draft Decision – Overview, September 2023, p. 27.

to be higher than what it considers reasonable. We do not agree that the fact that some categories offset these is sufficient grounds for not adjusting them downwards.

We note that TasNetworks' Revised Proposal has accepted the capex forecasts in the AER's draft decision for both transmission and distribution.

2.7 Opex

The AER has accepted TasNetworks' proposed opex for 2024-29, which is lower than its own estimates and TasNetworks has, in turn, accepted this in its Revised Proposal.

For transmission, TasNetworks' total opex forecast of $209.2 million ($2023–24) for the 2024–29 period is $26.3 million ($2023–24), or 14.4 per cent, higher than the amount approved for 2019–24 and $31.4 million ($2023–24), or 17.6 per cent, higher than its actual/estimated spend over that period. TasNetworks' total distribution opex forecast of $541.0 million ($2023–24) for the 2024–29 period is $1.9 million ($2023–24) (or 0.4 per cent) higher than that approved for 2019–24 and $37.6 million ($2023–24) (or 7.5 per cent) higher than its actual/estimated spend over the 2019–24 period.

In both cases the increases are largely driven by two step changes for insurance premiums and cyber security costs - $26.3 million or 10.6 per cent of total opex for transmission and $23 million or 4.3 per cent for distribution.

The AER's alternative estimate for transmission and distribution determined efficient costs which are $6.3 million and $6.6 million ($2023–24) lower for these two step changes combined. They go on to say that this is offset by its higher alternative estimate of opex in the base year, and application of productivity growth consistent with the industry average, such that overall, its alternative estimate of total proposed opex is not materially different to that proposed by TasNetworks.[16]

We do not agree with this approach. If an item of opex is significantly lower than proposed by TasNetworks, then the AER should approve the lower amount. If some elements of its opex estimates are higher than proposed by TasNetworks then it should accept the lower estimate. We note that such an approach would be beneficial to the affordability of network prices to small business.

Notwithstanding these significant increases and their impacts on total opex, the AER proposes to approve them in an environment where it acknowledges that its "assessment approaches are evolving" for these two drivers. It seems as if Tasmanian small business and consumers more broadly are being asked to shoulder all the burden of the AER's approach to learning.

Regarding productivity growth, TasNetworks proposed a higher than industry average productivity growth rate of 3.0 per cent in the first year of the next regulatory control period, followed by 0.5 per cent per annum, whereas the AER applied its standard approach of using the latest industry average rate of 0.6 per cent for transmission and 0.5 per cent for distribution across each year of the regulatory control period. TasNetworks' more aggressive first year approach resulted in lower opex estimates. We support TasNetworks' more challenging approach in the first year, although we believe that this approach could have been carried forward into the following years, say by applying the industry averages, with good effect on the affordability priority of consumers. We also question why the AER is applying an industry average approach to productivity? We support a more aggressive approach that will challenge networks to be more efficient using, say, the top quartile.

[16] AER, TasNetworks distribution and transmission determination, Draft Decision – Overview, September 2023, pp. 28 and 30.

2.8 Corporate Tax

The draft decision determines an estimated cost of corporate income tax amount of $13.1 million ($ nominal) for TasNetworks' transmission network over the 2024–29 period. This is $4.6 million, or 53.5 per cent, above TasNetworks' proposal of $8.5 million. For distribution, the draft decision determines an estimated cost of corporate income tax amount of $46.5 million ($ nominal) over the 2024–29 period. This is an increase $11.1 million from TasNetworks' proposal of $35.4 million.

The drivers for this are the higher rate of return (return on equity component) and higher depreciation due to the lower inflation component used on the draft decision. These factors may cause further changes in corporate tax in the AER's final decision and are an example of the ongoing risks faced by small businesses in the AER's determination.

TasNetworks has accepted the AER's estimate for corporate income tax for 2024-29 save for a revised opening value for the tax asset base (TAB) reflecting final 2022-23 capital expenditure and updated forecasts for 2023-24.

2.9 Revenue Adjustments

The draft decision for transmission includes a revenue adjustment (reward) of $6.6 million ($2023–24) under the Capital Expenditure Sharing Scheme (CESS). This is more than double TasNetworks' proposed revenue adjustment of $3.2 million ($2023–24). This is primarily due to corrections to the calculation of the true-up, but also updates to the Weighted Average Cost of Capital (WACC) and inflation. It also includes a revenue adjustment (penalty) of $3.3 million ($2023–24) under the Efficiency Benefits Sharing Scheme (EBSS). This is $3.5 million ($2023–24) lower than TasNetworks' proposed because the AER have adjusted for the movement in provisions, updated base year actual opex, updated excludable costs, and updated forecast inflation.

The draft decision for distribution includes a revenue adjustment (reward) of $5.4 million ($2023–24) under the CESS. This is lower than TasNetworks' proposed revenue adjustment of $10.5 million ($2023–24). The draft decision differences are due to updates to WACC, inflation and corrections to the calculation of the true up. It also includes a revenue adjustment (penalty) of $9.3 million ($2023–24) under the EBSS. This is higher than TasNetworks' proposed penalty of $3.1 million ($2023–24) due to adjustments for the movement in provisions and use of an updated estimate for inflation.

For transmission, revenue adjustments are $46.6 million (91.4 per cent) lower than the 2019–24 period, mainly due to the EBSS penalties compared to an EBSS reward in the 2019–24 period. For distribution, revenue adjustments are $69.5 million higher than the 2019–24 period, mainly due to significantly lower EBSS penalties compared to the 2019–24 period.

TasNetworks has accepted the AER's draft decision but has updated it to reflect final estimates of opex for 2022-23, as well as capex for 2022-23 (EBSS) and a revised capex forecast for 2023-24 (CEES).

2.10 Regulated Revenue

The overall impact of the building blocks is a forecast recovery from consumers of $809.1 million ($2023–24 smoothed) for its transmission network over the 2024–29 period, which is 0.2% higher than for the 2019–24 period. For distribution, the draft decision would allow TasNetworks to recover $1,677.0 million ($2023–24, smoothed) from consumers over the 2024–29 period. This is 19.5% higher than approved for the 2019–24 period.

As revenue is expressed in real 2023-24 terms above, once inflation is added in the impacts on consumers, including small business, would be even greater. In nominal terms the recovery would be $1,027.9 million for transmission and $2,114.2 million for distribution.

We believe it highly likely that the AER draft decision, by accepting TasNetworks' initial Proposal and not acting on areas identified as involving overspending, is approving revenue that is materially above what TasNetworks requires to operate its network safely and reliably. This is especially the case for distribution. We identified the matters at hand earlier in this section.

TasNetworks' Revised Proposal includes a "non-default smoothing approach" to revenue for both networks. Application of the AER's default smoothing approach results in a significant increase in revenue (and consequentially price) in 2024-25, with low uniform increases over the final four years.

TasNetworks has proposed an alternate revenue smoothing option that reduced the 2024-25 price increases through a lower uniform revenue increase over the first three years of the regulatory control period and real decreases over the final two years. It says that its alternative smoothing is net present value (NPV) neutral from a revenue perspective and the final year smoothed revenue is within three percent of the unsmoothed revenue. It also says that it results in the recovery of $3 million more in revenue over 2024-29. It further says that stakeholder consultation showed overwhelming support for the alternate smoothing approach, although the TSBC queries if the support was this strong.[17] We support TasNetworks' alternative approach to revenue smoothing on the basis that it avoids the larger jump in revenue (and network prices) in the first year of the 2024-29 period, even though this comes at the expense of higher revenue (and prices) in the subsequent years, given that the eventual outcome is NPV neutral.

3 Contingent Projects

TasNetworks' Revised Proposal puts forward six contingent projects for its transmission network involving an estimated total capex of $955 million potentially to be spent over the 2024-29 period.[18] The AER did not accept the triggers for TasNetworks original list of seven contingent projects and asked TasNetworks to revise these,[19] although it was "generally supportive of the need for these projects in advancing the energy transition".[20]

To us this is one of the most controversial areas of TasNetworks' revenue Determination. The capex involved would more than triple TasNetworks forecast capex over the 2024-29 period with potentially large increases in transmission charges beyond those being forecast by the AER for the 2024-29 period and as the assets enter the RAB.

It appears that TasNetworks has undertaken only limited consultation on its revised list of contingent projects and need to revise the trigger for these, notwithstanding their importance and

[17] TasNetworks, Revised Proposal 2024-29, November 2023, p. 40.

[18] TasNetworks' initial Proposal contained seven contingent projects involving a total of $905 million in build costs. These were the basis for the AER's draft decision. In its Revised Proposal, TasNetworks put forward an amended list of six projects costing a total of $955 million.

[19] TasNetworks put forward a list of revised triggers prior to the release of the draft decision, but the AER says it did not have enough time to consider these. Unfortunately, this does not allow consumer advocates such as the TSBC to see the AER's assessment prior to making a submission on the draft decision. Given the time now elapsed since the draft decision was released, it would have been useful for the AER to publish its assessment prior to the date for submissions to be lodged.

[20] AER, TasNetworks distribution and transmission determination, Draft Decision – Overview, September 2023, p. viii.

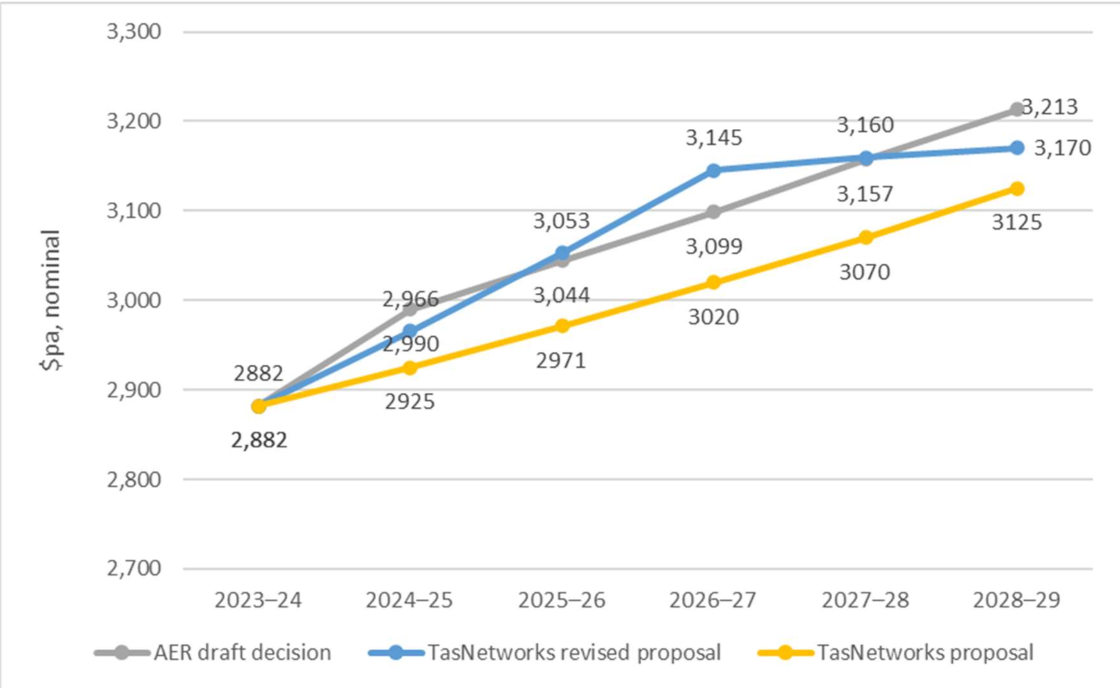
the AER's call for it to consult with stakeholders. Its engagement seems to have been limited to a single meeting with its Combined Advisory Groups consisting of informing them of what it was intending to put in its Revised Proposal. Whilst there was an opportunity for group members to ask questions, it is far less clear that their input into the list prior to submission to the AER was being sought.[21]

We are also concerned about the veracity of the estimated capex for contingent projects. Although there would be further consultations through a Regulatory Investment Test – Transmission (RIT-T) process and AER approvals, there has generally been limited consumer participation in these processes in the past. Capex estimates for transmission projects have been notorious for their dramatic escalation and some of the estimates provided by TasNetworks in its Revised Proposal appear to be dated. For example, the $240 million estimated cost of building a new transmission line from Palmerston-Sheffield seems very low compared to the more recent $950 million estimated it would cost to build the NWTD transmission upgrades between Palmerston-Sheffield-Heybridge and Stowport to Burnie, given that the former accounts for more than 60 per cent of the total line.

4 Small Business Price and Bill Impacts

Figure 2 below compares the impacts on small business annual electricity bills of the AER's draft against those of TasNetworks' Initial and Revised Proposals. It aggregates the impacts of transmission and distribution charges into a single network charge impact for a typical small business, which is what small businesses see on their electricity bills. All three show significant nominal increases in small business bills due to network charge increases over 2024-29, ranging from $331 for the draft decision, $288 for the Revised Proposal and $256 for the initial Proposal.

Figure 2: Impact of TasNetworks' Regulatory Reset on Small Business Annual Electricity Bills - Network Charges



[21] TasNetworks Summary of Combined Advisory Groups meeting held on 23 August 2023 at https://talkwith.tasnetworks.com.au/resetadvisorycommittee/widgets/349024/key_dates#144469 .

Source: Goanna Energy analysis using TasNetworks – (T) Workbook 5 Indicative Bill -Dec-22-Public, January 2023; TasNetworks – (D) Workbook 5 Indicative Bill-Dec-22-Public, January 2023; AER Draft decision – TasNetworks transmission determination 2024–29, Attachment 1 Maximum allowed revenue, Table 1.5; AER Draft decision – TasNetworks distribution determination 2024–29, Attachment 1 Annual revenue requirement, Table 1.6; TasNetworks – Revised Proposal – Transmission – PTRM, Nov 2023 (Public); and TasNetworks – Revised Proposal – Distribution – PTRM, Nov 2023 (Public).

The AER estimate that the impact of its draft decision would be a total reduction to average transmission charges of around 2.0 per cent in real terms by 2028–29, compared to 2023–24 levels, or an average reduction of 0.4 per cent per annum. Whilst any reductions are welcome at this time, they are modest and expressed in real terms. Small business consumers will be paying more for their transmission charges in nominal terms over the course of the 2024-29 period, which TasNetworks' Revised Proposal estimates to be 2.6 per cent per annum[22], or an increase of 13 per cent over the 2024-29 period.

The transmission prices expected under the draft decision are also higher than those estimated in TasNetworks' initial Proposal (0.8 per cent per annum, nominal). Moreover, the reductions in real transmission prices expected over the 2024-29 period are less than those experienced over the previous 2019-24 period,[23] despite the intense electricity price pressure being felt by small businesses at present.

The AER estimate the impact of its draft decision would be a total increase to average distribution network charges of around 8.9 per cent in real terms by 2028–29, compared to 2023–24 levels, or an average increase of 1.7 per cent per annum. These increases are steeper than those for the 2019-24 period.[24] They are also materially higher than under TasNetworks' initial Proposal. Small business consumers will be paying more for their distribution charges in real terms over the 2024-29 period. In nominal terms the picture is even worse, with a 24 per cent nominal increase in prospect.

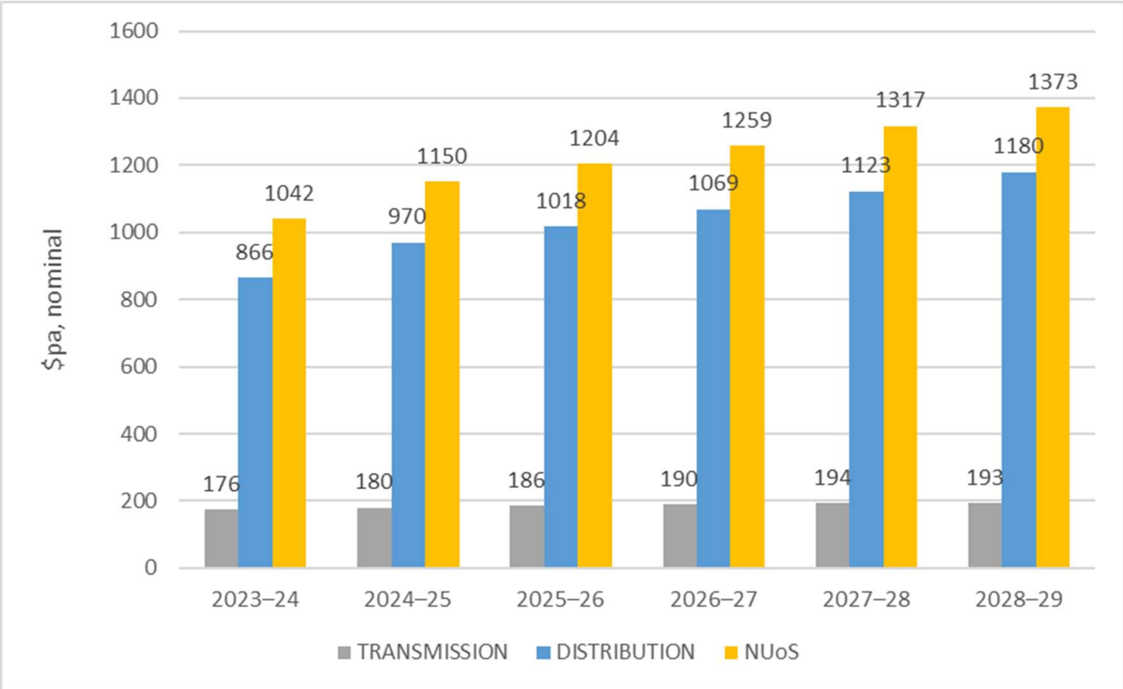
TasNetworks' combined transmission and distribution network charges make up 36 per cent of small business customers' electricity bills. For small business customers, the impact of the draft decision is estimated to be an increase of $331 (11.5 per cent) over the 2024-29 period, or an average of $66 per annum (see Figure 3 below).

Furthermore, as the draft decision points out, over the 2024–29 regulatory control period there are several additional mechanisms that may operate to increase or decrease these charges. This includes cost pass through events and any contingent projects that may be approved. The triggers for these projects will allow TasNetworks to apply for additional revenue and network price increases will inevitably follow. Whilst the costs will be subject to further consultation and assessment, the track record is that these costs tend to be largely accepted by the AER and that there is little consumer participation in the assessment process.

[22] TasNetworks Revised Proposal, November 2023, p. 42.
[23] AER, TasNetworks distribution and transmission determination, Draft Decision – Overview, September 2023, Figure 7, p. 9.
[24] AER, TasNetworks distribution and transmission determination, Draft Decision – Overview, September 2023, Figure 8, p. 10.

The overall price picture for small business in Tasmania emerging from the draft decision is disappointing, especially at the current time when the sector is facing significant cost pressures, a point acknowledged by the AER.

Figure 3: Impact of AER Draft Decision on Small Business Annual Electricity Bills - Network Charge Components



Source: Goanna Energy analysis using TasNetworks – (T) Workbook 5 Indicative Bill -Dec-22-Public, January 2023; TasNetworks – (D) Workbook 5 Indicative Bill-Dec-22-Public, January 2023; AER Draft decision – TasNetworks transmission determination 2024–29, Attachment 1 Maximum allowed revenue, Table 1.5; AER Draft decision – TasNetworks distribution determination 2024–29, Attachment 1 Annual revenue requirement, Table 1.6; TasNetworks – Revised Proposal – Transmission – PTRM, Nov 2023 (Public); and TasNetworks – Revised Proposal – Distribution – PTRM, Nov 2023 (Public).

Note: NUoS is network use of system charges which combines transmission and distribution charges.

4.1 Contingent projects price impacts

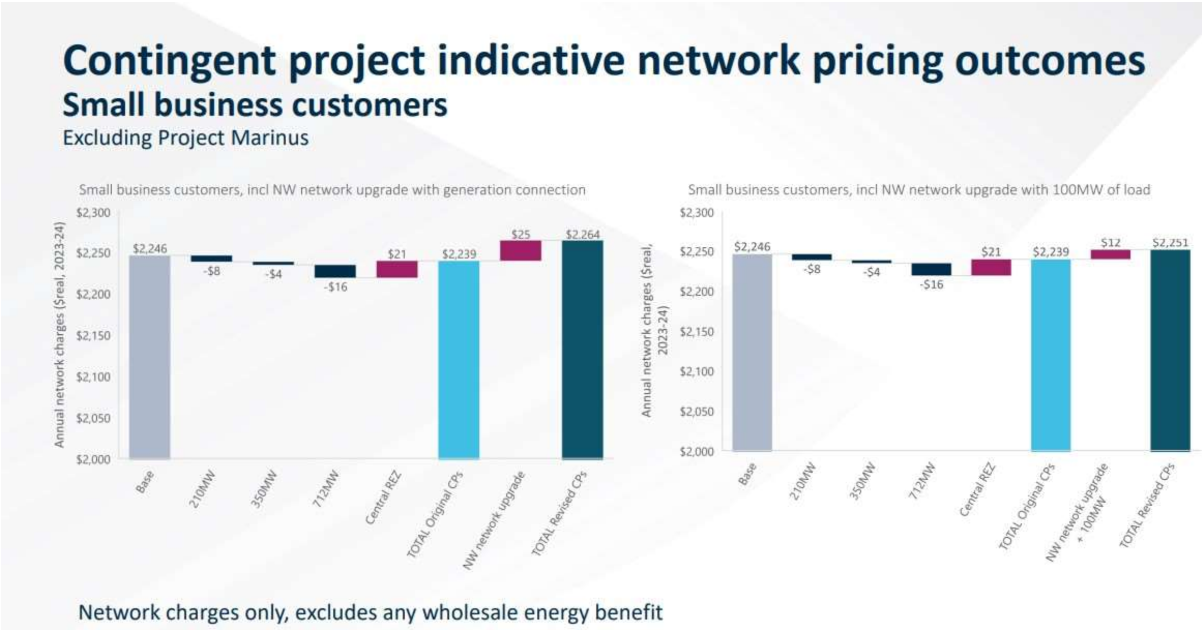
TasNetworks' Revised Proposal contains forecast price impacts for the contingent projects it proposed for the 2024-2029 regulatory control period. Its Table 29 shows the indicative real price impacts of these on network charges for the typical residential and small business customers. The price impacts are provided for 2031-32 and incorporate a price baseline that includes Project Marinus. The contingent projects, except Waddamana to Palmerston and the North West Network Upgrade, are associated with a trigger based on additional load. TasNetworks say that:

> *"The regulated network charges attributable to the additional load is forecast to be greater than the additional revenue associated with the contingent projects*

> *which means the overall price impact of the contingent projects to existing customers is forecast to be lower."*[25]

TasNetworks presented this analysis to a Combined Reference Group meeting held on 22 November 2023. This shows that small business customers would be paying $18 per annum more in network charges in 2031-32 if all contingent projects proceeded in the 2024-29 period without Project Marinus. However, there was a small $7 decrease without the NW transmission upgrade and if new load paid a share of this upgrade, which TasNetworks has proposed for its four load driven contingent projects in its Revised Proposal, it would halve the $25 per annum this added to small business network charges (see Figure 4 below).[26] Some projects triggered by less than 712 MW new generation or load showed real network price reductions for small business.

Figure 4: Contingent projects indicative network price outcomes for small business (excluding Project Marinus)



Source: TasNetworks, Combined Advisory Group meeting held on 22 November 2023, Presentation Pack, Slide 41 at **https://talkwith.tasnetworks.com.au/resetadvisorycommittee/widgets/349024/key_dates#144469**

The introduction of Project Marinus into the picture significantly increases network charges and overwhelms the impact of other contingent projects, even with concessional finance.

The TSBC welcomes that TasNetworks has undertaken this additional analysis given the significance of its contingent projects on its business and customers. The TSBC has been keen to see TasNetworks increase the transparency of its contingent project information to open them up to better scrutiny. This analysis goes some way towards achieving that and is a proactive response by TasNetworks. Nevertheless, it is difficult for the TSBC to be definitive about its position on TasNetworks contingent projects based on this analysis:

[25] TasNetworks, Revised Proposal 2024-2029, Table 29, p. 45.
[26] TasNetworks, Combined Advisory Group meeting held on 22 November 2023, Presentation Pack at https://talkwith.tasnetworks.com.au/resetadvisorycommittee/widgets/349024/key_dates#144469.

The analysis in not sufficiently transparent as the modelling, assumptions and inputs behind it have not been made fully public.

We have been informed that some inputs are commercially confidential, but TasNetworks could have sought ways to at least release those aspects of its modelling and assumptions that do not impinge on confidentiality concerns.[27]

The veracity and sensitivity of the results provided by TasNetworks are difficult to assess with the limited supporting information provided.

Real small business network price reductions from contingent projects estimated by TasNetworks are modest and turn into price increases under certain conditions.

5 Tariff Reform

The Draft Decision makes the point that TasNetworks has proposed "modest" distribution tariff reform despite these being required to support the energy transition. It also points out that the pace of reform in Tasmania has been slower than in other NEM regions. Nevertheless, it has accepted TasNetworks' Tariff Structure Statement (TSS) and TasNetworks' Revised Proposal has, in turn, accepted this.

We recognise that over the 2019-24 regulatory control period, TasNetworks has taken some positive steps towards tariff reform and that it proposes to continue and extend this over the 2024-29 period. We discuss these below in the context of concerns we share with the AER about limited tariff reforms. For small business these reforms are frustratingly slow.

5.1 Removing tariff cross-subsidies

First and foremost, whilst the unwinding of cross-subsidies that are costly to small business continues and is welcomed by the TSBC, it will not conclude until the end of the 2024-29 regulatory control period, a decade after commencement. This is encapsulated by the slow removal of the cross-subsidy between the general light and power, and heating and hot water residential tariffs shown in Figure 5 below. We have consistently pointed out, including to previous AER determinations, that this is not only costly to small businesses but imposes a range of distortions and other inefficiencies on the Tasmanian energy market and economy. We understand that there are issues to do with vulnerable consumers, but the existing tariffs are also available to wealthy Tasmanians and there are better ways to handle equity issues.

Making flat rate tariffs obsolete is also a part of TasNetworks' tariff reform strategy and their removal is limited by the pace of smart meter installations and new connections; and support at the retail level has been lukewarm. Consequently, many smaller customers remain on these tariffs.

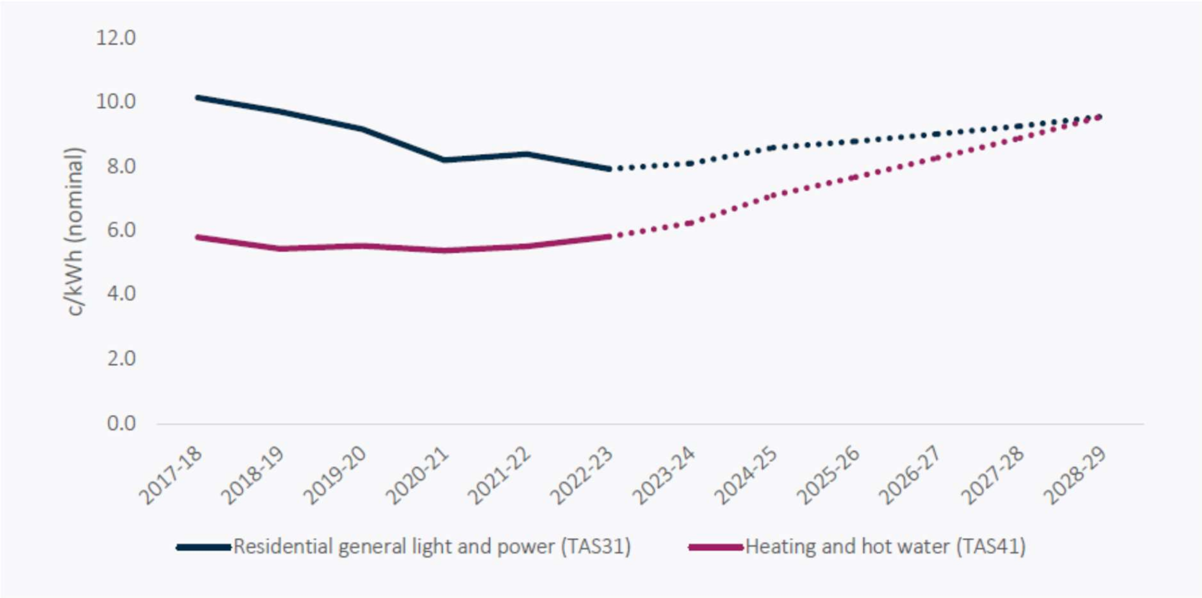
5.2 Revised peak periods for TAS94

TasNetworks has proposed – and the AER has agreed to – revising the timing of peak periods for the time of use consumption-based network tariff for small business customers (TAS94) and to introduce a new (lower rate) shoulder tariff between 10 am and 4 pm on weekdays. TasNetworks presents the results of analysis demonstrating that about three-quarters of small businesses on TAS94 would benefit on average by around $100 a year through using TAS94.[28] In addition, approximately 78% of

[27] Goanna Energy requested access to the modelling but this was denied by TasNetworks on commercial confidentially grounds.
[28] TasNetworks, Revised Proposal, Tariff Structure Explanatory Statement, p. 40.

small businesses are expected to experience only a ±5% variation in their network charges by moving to TAS94, with the majority of these likely to experience a decrease.[29] TasNetworks further say that this proposed change was made in consultation with and with the support of stakeholders.[30]

Figure 5: Projected alignment of residential light and power tariff and heating and hot water tariff



Source: TasNetworks, Revised Proposal, Tariff Structure Explanatory Statement, Figure 27, p.34.

The TSBC is generally supportive of this change in TAS94, noting that – and provided that – it will be revenue neutral and small businesses impacted will benefit along the lines that TasNetworks has forecast. However, we retain concerns that not all small businesses will benefit from the change and believe that TasNetworks should provide more details about this aspect and propose necessary solutions. For example, some small businesses have little flexibility to change the time of their electricity consumption and some prefer the simplicity of a single rate consumption tariff.

5.3 Consumption-based network tariffs as the default option

Using the current time of use consumption-based network tariffs as the default tariff option for residential and small business customers has assisted reform, but has been limited by a range of factors, including a 'cooling off' period associated with time-of-use (TOU) tariff linked to smart meter installations[31] and gaps in small business knowledge about outcomes.

[29] Ibid.
[30] TasNetworks make the following point in the Tariff Structure Explanatory Statement (p. 15):
"A change to the time of use periods required analysis on how to re-balance the tariff. At a subsequent workshop, TasNetworks presented to Policy Reform Working Group (PRWG) potential re-balancing scenarios for the small business time of use tariff. Three options were considered – an over-proportional increase in offpeak pricing, the application of even changes across the different time of use periods, and an over-proportional increase in peak period pricing. The PRWG voted in favour of applying evenly balanced time of use increases."
[31] TasNetworks, Revised Proposal, Tariff Structure Explanatory Statement, p. 15.

TasNetworks notes that:

> *"The proportion of small business customers taking up the cost reflective tariff when there has been a change of circumstance (e.g., advanced meter installation) is significantly higher as a proportion of the advanced meters that have been rolled out than for residential customers. Since the introduction of cost reflective time of use tariff approximately 8,600 small businesses have moved onto the default time of use consumption tariff (TAS94)."*[32]

However, this is still only about one-quarter of small business customers. The reasons should be investigated further.

This is notwithstanding that TasNetworks network charge comparisons indicate that these customers have the potential to make significant savings on TAS94 as compared to the general network tariff (TAS22)[33], and that TAS94 is likely to remain the more lucrative tariff options for the majority of our small business customers throughout the 2024-29 regulatory control period.

5.4 New network tariffs

TasNetworks will be introducing a limited range of new network tariffs designed specifically for embedded networks but will not extend this to export tariffs for grid-connected batteries and EV.

According to the draft decision, appropriately structured tariffs can enable growth in the value of and number of people with CER, while creating investment signals that limit the level of network investment required and resulting price increases for consumers. It uses the example of export reward tariffs that deal with two-way flows on networks and contingent tariff adjustments to deal with uncertainty about the rate of change in uptake of CER. The AER says that it is also encouraging network businesses to explore additional tariff options to deal with increasing EV numbers. As stated earlier, the AER says it has accepted TasNetworks modest tariff reforms as being sufficiently in line with its requirements and in view of the significant stakeholder support that TasNetworks' proposals received, as well as relevant Tasmanian Government policies.

The uptake of EV's in Tasmania is only slightly below that in Australia as a whole and is forecast to maintain its pace with TasNetworks also forecasting the pace of EV uptake in Tasmania to increase in the 2024-29 period. Despite this and in contrast to networks in other States, TasNetworks do not foresee EV's impacting network constraints over the 2024-29 period. Secondly, given this TasNetworks has proposed – and the AER has accepted – no introduction of two-way pricing, and the AER has merely asked TasNetworks to further progress this in the 2024-29 period through trials and the like. Our concern here is that the delay of such tariff reforms not put further price pressure on small business during the 2024-29 regulatory control period.

6 Metering Issues

The AER's draft decision on metering sets price caps that allow TasNetworks to recover costs from all historical legacy metering customers, instead of a progressively decreasing legacy metering customer base. The AER say that this mitigates the inequitable price increases that are likely to occur for any individual customer and ensure a more equitable contribution to the roll out of smart meters. Our position on legacy meters for the 2019-24 Reset was that the cost of legacy meters

[32] TasNetworks, Revised Proposal, Tariff Structure Explanatory Statement, p. 34.
[33] TasNetworks, Revised Proposal, Tariff Structure Explanatory Statement, Figure 28, p. 35.

should not be recovered from customers given customers had little choice in their introduction. This has not changed.

The draft decision also maintains classifying metering services as alternative control services (ACS), although the AER consider that a reclassification to standard control services (SCS) is the most equitable solution as it would allow cost recovery across all customers. It considers this appropriate since all customers benefit from the transition. The AER encouraged TasNetworks to engage with stakeholders in considering this change in developing its Revised Proposal. We are not aware of any attempt by TasNetworks to engage on this issue in developing its Revised Proposal.

TasNetworks has proposed to maintain the classification of metering services as ACS for the next regulatory period. It argues that: there will be limited legacy meters remaining in Tasmania at the end of the 2024-29 regulatory period due to the Government's planned completion of the smart meter roll-out by the end of 2026; and the cost of metering in Tasmania is charged to small customers are part of retail standing offers. We accept these arguments.

7 Consumer Engagement

We note the AER's position that Proposals reflecting consumer preferences, and meet its expectations, are more likely to be largely or wholly accepted at the draft decision stage, creating a more effective and efficient regulatory process for all stakeholders, but that they are still required to ensure they are satisfied that the proposed forecasts reasonably reflect prudent and efficient costs and a realistic expectation of future demand and cost inputs.

7.1 How well have TasNetworks engaged?

We are not convinced that TasNetworks' engagement has been as good as it could have been:

- Both TasNetworks' initial Proposal and the AER's draft decision involve increases in network prices, even though consumer engagement showed affordability as the number one issue for this Determination. This seems rather incongruous.
- Whilst acknowledging that TasNetworks has improved its engagement in this reset and intends to continue to do so in future, as indicated in our submission on the initial Proposal, we believe TasNetworks could have done more given that this is the second reset where engagement has been a formal requirement placed on networks by the AER.
- The AER also says that "the quality of consumer engagement varies across the proposal."[34] One area mentioned by CCP27 in its submission was in relation to a lack of transparency about the price impacts of large expenditure involved in contingent projects. Another raised in the draft decision is in relation to the opex forecasts, especially the significant step-changes in insurance and cyber security costs. This raises concerns about the overwhelming acceptance of the revenue proposal by the AER, notwithstanding that the AER's own forecasts of opex and capex did not differ materially from those of TasNetworks. Apart from its contingent projects and their price impacts, we are not aware of any engagement by TasNetworks with customers on the specific aspects of its Revised Proposal where their input to the Revised Proposal was sought.
- The AER's apparently passive role in 'engaging with the engagement' is also of concern. In our view it should have done more to ensure that TasNetworks was implementing engagement strategies to the maximum extent possible during this reset.

[34] AER, TasNetworks distribution and transmission determination, Draft Decision – Overview, September 2023, p. x.

- The AER draft decision shows limited signs of having been influenced by submissions on the initial Proposal from consumer advocates other than mentioning concerns raised.
- We support the CCP27 view that TasNetworks should affirm its commitment to affordability by considering a sixth phase of engagement to revisit and confirm its top-down revenue positions once consumers have more exposure to recent changes in energy prices and can more adequately consider implications of contingent projects. We are aware that TasNetworks has undertaken further engagement with stakeholders on its Revised Proposal and contingent projects through its RAC, its PRWG and its Customer Council (CC). We welcome this but are unaware of its extension to a broader range of stakeholders. We also note that TasNetworks has shared modelling of the revenue and pricing impacts of its contingent projects with these groups. Again, we welcome this, although the confidentiality of its modelling is of concern as it does not allow proper scrutiny of results).

In this regard, we support the RAC's view that TasNetworks should have engaged earlier and more openly on its list of significant contingent projects.

We reiterate our concerns that increasing tariffs for both transmission and distribution and the revenue building block forecast behind these do not reflect the strong and consistent consumer priority placed on the affordability in TasNetworks' engagement.

7.2 TasNetworks' engagement since its initial Proposal

One area of interest to the TSBC was how TasNetworks has engaged with stakeholders since the initial Proposal was submitted on areas of stakeholder concern about its engagement and in the development of its Revised Proposal. TasNetworks says that it has focused its engagement on an "inform level", including by keeping customers and stakeholders abreast of the revenue reset process and addressing the areas of greatest concern, contingent projects triggers and price impacts; and a "collaborate" level around the proposed introduction of a Customer Service Incentive Scheme (CSIS) and associated targets, as well as distribution price path options.[35] Table 4 of the Revised Proposal outlines its specific activities to support this.[36]

A review of the proceedings of TasNetworks' Combined Consultative Group meetings held on 22 November 2023 and 22 August 2022 (after the draft decision was released) provides some indications. In both meetings, committee members were critical of several aspects of TasNetworks engagement including small business pricing principles and impacts, a need to engage earlier and be more transparent about its proposals (including contingent project information), needing close gaps in organisational excellence, the impact that staff loses and restructuring have had on the reset and uncertainty around NWTD costs and benefits.

We found little evidence from this review and Tables 4 and 5 of the Revised Proposal that TasNetworks has undertaken significant engagement on gaps in its engagement on the initial Proposal, including its opex forecasts and price impacts.[37] Its "inform" and "collaborate" approach also suggests that it has not focused on engagement that allowed stakeholders to shape its Revised Proposal. Table 4 of its Revised Proposal also shows that its recent engagement has focused on its

[35] TasNetworks, Revised Proposal 2024-19, p. 15.
[36] Ibid.
[37] TasNetworks does say that it has reviewed all of the submissions, to understand their themes and the concerns raised and that it has considered all of that feedback when planning for its Revised Proposal (see Summary of Combined Advisory Groups meeting held on 23 August 2023 at https://talkwith.tasnetworks.com.au/resetadvisorycommittee/widgets/349024/key_dates#144469 .

internal committees with limited use of broader approaches. Whilst we welcome the ongoing engagement, we find this response limited.

In Table 2 below, we have set out our comments on the engagement that TasNetworks says has shaped its Revised Proposal as set out in Tables 4 and 5[38] of that document.

We note and welcome the comment in the Revised Proposal that:

> *"Preparatory work has already commenced for the 2029-2034 revenue reset, with the embedding of recommendations from our external stakeholders and customers, as well as suggestions made by the 100+ TasNetworks staff involved in delivering this regulatory proposal."*[39]

The TSBC looks forward to contributing to an improved engagement strategy for the 2029-34 reset.

Table 2: TSBC comments on TasNetworks' engagement on its Revised Proposal

KEY THEME	TSBC COMMENTS
AFFORDABILITY	We note the continued focus of customers on the affordability of TasNetworks proposal, including the price impacts of its contingent projects. We support the call for a retesting of customer willingness to pay for price drivers considering the continued decline in energy affordability. We note that TasNetworks' Revised Proposal contains limited examples of meaningful steps it has taken to address these issues with the main exception being its modelling of contingent project price impacts (see Section 4.1). TasNetworks' response seems to have been reactive and limited to: restating its commitment to keep costs "sustainably low"; making no further proposals to increase expenditure; noting future pass-throughs via the EBSS and CESS; and proposing a no-default revenue smoothing approach that would see a lower 10.8% price increase in 2024-25, followed by higher 2.3% per annum increases from 2026-29 and that collects an additional $3 million in revenue compared to the AER.[40] The one area where it appears to have responded proactively is to remove the connection of new generation from all but two of the proposed projects so that the costs of network upgrades will be shared between new connecting load(s) and existing customers. We welcome and support this change but note that it only partly addresses our desire to see new generation and the government also contribute to such projects and that the allocation between new and existing customers remains unclear.
CONTINGENT PROJECTS	We continue to support the need for project developers (generation as well as load) and governments to contribute financially to the building of contingent projects, including where they are of strategic importance or in support of government policies. The concessional debt finance being provided to Marinus Link provides an example. This is only partly addressed by TasNetworks' proposed removal of new generation from

[38] TasNetworks, Revised Proposal 2024-19, pp 16-18.
[39] TasNetworks, Revised Proposal 2024-19, p. 14.
[40] TasNetworks noted that this would result in the business recovering an additional $3 million from customers due to the net present value (NPV) mechanism.

	some of its contingent projects. It is inefficient and inequitable to require customers to pay all the costs of such projects. TasNetworks engagement on these projects in the lead up to its Revised Proposal has been partly satisfactory: we welcome its further sharing of information about the projects and their impact; although this has been limited by keeping some important information about price impacts confidential and by an apparent lack of consumer input into these aspects of the Revised Proposal; by way of contrast, proposed changes to its contingent project list have clearly been influenced by external factors such as government decisions on Marinus Link.
CUSTOMER BENEFITS	We support the concerns expressed by consumer representatives that; customers should not be paying for capital and operational investments driven by government policies; the calls for greater clarity/transparency and targeted consultation on how costs are allocated (who pays) and cross-subsidies are managed; and the suggestion that the business should be more customer-focused (and less network focused). We note TasNetworks' comment that there are rigorous processes to be followed to assess if these projects proceed and what revenue can be recovered from customers. However, we note the historical lack of broad customer participation in these processes, which takes away from the scrutiny they are subjected to. The RIT-T process is focused on identifying the solution with the highest net benefits for customers but has flaws. The AER's contingent project application process is meant to ensure that customers only pay for costs that are prudent and efficient. However, this process also has its flaws, which can see customers paying for projects that are questionable or paying too much for projects. We also observe that TasNetworks own engagement on these projects has not been as fulsome as it should have been. We welcome that TasNetworks has broadened its engagement to cover areas outside of the 2024-2029 reset, such as Tasmanian Government policy and Project Marinus and that it will continue engaging on this beyond this revenue reset. We look forward to contributing to this.
ENGAGEMENT	We support the comments made that TasNetworks' engagement program would be further improved by empowering customers more, providing clearer evidence of impact, giving greater clarity around what can (and cannot) be influenced, should be ongoing (not just during resets), could be made more diverse and should have key decision makers present at engagement activities. We have commented above on the gaps we believe emerged in TasNetworks' engagement on its Revised Proposal. We welcome TasNetworks' undertaking to broaden its engagement framework including by: reviewing advisory groups and their composition (we stress the importance of small business representation); building capability internally to drive a more customer centric approach; and also externally with stakeholders so they can engage at a deeper level. On the latter, we emphasise the need to address resourcing constraints faced by consumers participating and of providing them with access to their own independent advice.
REVENUE	We note that submissions expressed concern that the proposed revenue for both transmission and distribution networks is higher than the current

	regulatory period, and the pressure this places on prices. TSBC along with other stakeholders also expressed concerns about the impacts and uncertainty of inflation, the rate of return and financing costs. We recognise that movements in market variables used to set expected inflation and the rate of return, have contributed to higher revenue outcomes than in the initial Proposal. However, we also note that expenditures more broadly are also contributing and are disappointed that neither the AER nor TasNetworks have responded to these. We also point out that the impact of external factors, such as inflation and interest rate, should not be seen in isolation from revenue and price outcomes overall. If these factors are pushing up prices in an environment of rising energy prices, even more reason to critically examine other revenue building blocks to see if they can offset these.