16 January 2019

Mr Chris Pattas
General Manager
Australian Energy Regulator
By email: tasnetworks2019@aer.gov.au

Dear Mr Pattas

RE: TasNetworks' Distribution and Transmission Determination 2019-24

Aurora Energy welcomes the opportunity to provide feedback on the Australian Energy Regulator's (AER's) draft decision on TasNetworks' Transmission Revenue and Distribution Regulatory Proposal (regulatory proposal) for the period 1 July 2019 to 30 June 2024, as well as on TasNetworks' revised proposal submitted in response to the draft decision.

Aurora Energy is a Tasmanian Government owned energy retailer, providing energy services to over 99 per cent of Tasmania's electricity customers. As TasNetworks' largest customer, Aurora Energy supplies over 280,000 Tasmanian residential and business customers. Aurora Energy's core focus is on its customers, by creating valued outcomes and providing sustainable returns to the Tasmanian community.

Aurora Energy acknowledges the engagement undertaken by the AER and TasNetworks throughout the determination process, supporting the shared objective of delivering value for Tasmanian energy customers. As noted throughout this engagement and in Aurora Energy's submission on TasNetworks' original proposal,[1] it is important that the AER, when making its final determination, remains cognisant of the following unique attributes of retail pricing in Tasmania:

- Despite full retail competition commencing in Tasmania in 2014, Aurora Energy remains the sole residential retailer in the State, and is required to offer regulated standard retail (standing offer) contracts. The majority of Tasmanian customers are on standing offer contracts.
- The Tasmanian Economic Regulator (TER) sets the maximum prices that Aurora Energy can charge its regulated customers.
- In November 2018, the Tasmanian Government legislated to uniformly cap retail electricity price increases for Tasmanian households at the Hobart Consumer Price Index (CPI) until 30 June 2021.

With the above context in mind, Aurora Energy wishes to raise the following matters in relation to the AER's draft decision and TasNetworks' revised proposal.

Sustainable Network Pricing Outcomes

As outlined in TasNetworks' original and revised proposals, energy affordability continues to be a primary concern for Tasmanian customers. This has been reflected in the Tasmanian Government's

[1] Aurora Energy submission dated 18 May 2018.

policy to cap annual retail price increases at CPI until 30 June 2021. It remains imperative that all parts of the State's electricity supply chain continue to contribute to sustainable customer pricing outcomes.

As noted in the AER's draft decision and in the Australian Energy Market Commission's *2018 Residential Electricity Price Trends* report, network costs make up a significant component of a typical Tasmanian customer bill, and are ultimately recovered through retail electricity charges. Given Aurora Energy's inability to pass through price signals greater than CPI to customers, any network price increases above CPI necessarily transfers price and margin risk to Aurora Energy and other parts of the supply chain. This inequitably places a regulatory burden for network price increases on Aurora Energy and challenges the sustainability of electricity price outcomes in Tasmania.

Aurora Energy's internal modelling of TasNetworks' revised regulatory proposal indicates that the final estimated network price movements for an average small customer remains above assumed inflation, with average annual increases of greater than 2.9 per cent for small customers (0.45 per cent above TasNetworks' assumed inflation rate of 2.45 per cent).[2] There is also a risk that network prices will increase above this baseline due to the potential for increases in the cost of debt throughout the period, reduction in consumption below the current forecast, or the triggering of one or more transmission capex contingent projects.

Aurora Energy acknowledges TasNetworks' actions to reduce its revenue requirement since its original proposal. Aurora Energy also recognises that TasNetworks' revised proposal forecasts a reduction in operating expenditure over the determination period in real terms (resulting in operating expenditure below the AER benchmark), thus helping to constrain overall network price increases. However, while Aurora Energy supports the efforts of TasNetworks to reduce its proposed capex by 4.3 per cent in its revised proposal, this still represents an increase in transmission and distribution capex from the previous five year period of 24 per cent and 23 per cent respectively.

Aurora Energy is of the view that the AER's final determination should seek to achieve combined network price increases no higher than assumed inflation, consistent with the Tasmanian Government policy to cap retail electricity price increases at CPI. Aurora Energy urges the AER to continue to carefully consider how any proposed increases in capital expenditure contribute to sustainable retail pricing outcomes for customers. Where capital investment does increase, Aurora Energy continues to be of the view that this should only be undertaken where there is a demonstrable benefit to customers that they value and are willing to pay for.

Contingent Projects

Aurora Energy welcomes the work that has been undertaken by TasNetworks to refine the number of, and triggers for, contingent projects being sought for inclusion within its revised regulatory proposal. Aurora Energy observes that three contingent projects are now proposed, including a second Bass Strait interconnector ("Project Marinus") and two transmission projects which may be triggered by a commitment to proceed with Project Marinus.

Aurora Energy supports TasNetworks exploring the merits of a second interconnector, recognising that the feasibility study will confirm whether or not the project should proceed. However, given the substantial (but as yet not fully quantified) cost of Project Marinus, and the associated triggering of an additional $197M of capex to undertake the other two proposed contingent projects, Aurora Energy remains concerned that there could be a material impact on commercial and residential customer prices for an as yet unquantified benefit. In particular, the triggering of contingent projects associated with a second interconnector (in combination with the AER's final approved annual network price increases) will result in an average network price increase greater than CPI, even if a Tasmanian contribution of just five per cent of the total cost of Project Marinus cost is assumed.

[2] Aurora Energy internal modelling, assuming 2018-19 consumption remains constant over time.

Aurora Energy is of the view that the framework to recover the costs of a second Bass Strait interconnector should fairly allocate costs to those who benefit from its services, in particular mainland National Electricity Market customers to whom its benefits will primarily flow. In this context, Aurora Energy welcomes TasNetworks' commitment that it *"will take steps to ensure that Tasmanian customers only incur costs that are commensurate with the benefits they receive"* and acknowledgement that *"the project should only proceed if arrangements are put in place that protect Tasmanian customers from unacceptable price increases".*

In the event that the AER approves the inclusion of Project Marinus as a contingent project in its final determination, it is imperative that TasNetworks:

- fulfils its stated commitment to actively seek modification of the existing regulated service pricing framework and/or appropriate financial contributions to support the project if triggered;

- undertakes a holistic, combined assessment of the costs and benefits associated with all three contingent projects that would be triggered by a commitment to proceed with a second interconnector; and

- undertakes a comprehensive assessment of how much (if any) of the cost associated with the three contingent projects should be recovered from Tasmanian customers, as well as their ability and willingness to pay.

Opt Out Tariff Assignment

Aurora Energy does not support the AER's draft decision that TasNetworks should adopt an 'opt out' approach to tariff assignment.

It is Aurora Energy's view that neither the network regulator nor the network service provider should decide which tariff is in a customer's best interest. Aurora Energy has not observed any material customer desire in Tasmania to introduce cost reflective demand or consumption based tariffs. Product choice should ultimately be the decision of the customer, with appropriate and timely engagement from their retailer. An opt out arrangement curtails the ability of a retailer to efficiently and appropriately engage with customers.

The opt out approach proposed by the AER effectively places the regulatory and operating cost burden for network pricing reform on the retailer rather than the network service provider. In the Tasmanian context, the State Government's policy of capping retail prices at CPI until at least 2021 prohibits Aurora Energy's ability to pass through cost-reflective movements in network prices to customers. Furthermore, Aurora Energy is limited in its ability to change its tariffs unless explicitly approved by the TER. In effect, the move to cost reflective network prices in Tasmania simply shifts price risk to Aurora Energy, rather than sending a retail price signal to consumers.

Aurora Energy is also concerned that details of the opt out approach at an operational level are currently unknown and require clarification, including the ability for the retailer to opt out on behalf of the customer.

Based on the above, Aurora Energy continues to support the 'opt in' approach to network tariffs contained in TasNetworks' original proposal, which supports a customer-led move to the tariff that best meets their particular needs (or reflects their particular circumstances). Aurora Energy also reiterates its view that the AER should consider maintaining flexibility in TasNetworks' approved tariff structure over the next five years, in order to reflect and respond to the unique characteristics of the Tasmanian jurisdiction and accommodate changing customer expectations.

Aurora Energy also observes that TasNetworks' Revised Tariff Structure Statement for the 2019-24 regulatory period states that *"customers who are reassigned to another network tariff must remain on the 'new' tariff for a minimum of 12 months, unless otherwise agreed with TasNetworks"*. Should the AER proceed with the introduction of opt out network tariff arrangements in Tasmania, Aurora Energy recommends that the AER does not accept this TasNetworks requirement to allow customers to exercise appropriate choice in response to a tariff reassignment.

Accelerated Meter Depreciation

Aurora Energy welcomes TasNetwork's acceptance of the AER's draft determination to not accept accelerated metering depreciation.

Aurora Energy would be pleased to further engage with the AER and TasNetworks on the views expressed above. If you have any questions regarding this submission please contact Hayden Moore, Regulatory & Policy Manager at hayden.moore@auroraenergy.com.au

Yours sincerely

Grant Russell
Acting Chief Executive Officer