**TasNetworks Transmission Revenue Proposal 1 July 2014 – 30 June 2019**

**Submission by Bell Bay Aluminium**

**To The Australian Energy Regulator**

**Draft Determination**

Rio Tinto Aluminium (Bell Bay) Limited (BBA) owns and operates an aluminium smelter at Bell Bay in Northern Tasmania. We are a major stakeholder in Tasmania and the Tasmanian electricity market, and as Tasmania’s largest electricity consumer, the Bell Bay Smelter consumes more than 25% of the State’s electricity demand.

BBA is pleased to make this additional submission on TasNetworks Revenue Proposal (RP) for its 2014/15 to 2018/19 transmission revenue cap under the *National Electricity Rules* (**NER**). This submission is to be read in conjunction with BBA’s original submission.

BBA notes that TasNetworks has accepted the AER determination believing it meets the intent of lower charges to all consumers in Tasmania.

BBA believes the AER has not done enough to deliver positive outcomes to consumers by not addressing a number of issues, yet it has the ability to do so as per its published guidelines:

1. Notably one of these issues is its treatment of the Weighted Average Cost of Capital (WACC). A reduction in the WACC is good for all consumers, but has simply been achieved by the Risk Free Rate being reduced, which is not a AER driven outcome. The Market Risk Premium (MRP) was approved at 6.5% and the equity beta at 0.7. The “AER Better Regulation: Rate of return Guideline”, indicates that 6% is more appropriate for MRP and the equity beta has a range of 0.4 to 0.7. The AER should review this in their final determination. A WACC of 6% would still ensure TasNetworks has a profitable business.
2. Operating Expenses (Opex) are not representative of a merged business with known efficiency gains possible in the future. TasNetworks has indicated in many communications that further efficiency gains will be achieved. Although pathways to achieving these are not clear at this time, the AER should expect TasNetworks to have a reduction in their application to better represent what is expected in the future. We refer to BBA’s previous submission where we questioned whether an Opex reduction when being compared to less efficient years of Opex is correct. The submission shows a relative flat plan for the revenue reset period, not reflective of year on year savings which could reasonably be expected to be achieved.
3. We note that pursuant to Rules 6A.6.6 and 6A.6.7 of the National Electricity Rules, in reviewing TasNetworks’s forecast operating and capital expenditure, it is to have regard to the most recent annual benchmarking report as well as benchmark expenditure that would be incurred by an efficient Transmission Network Service Provider over the regulatory control period. While we note the AER published its most recent Annual Benchmarking Report in November 2014, we note the Overview suggests that it provides some insight into the relative efficiency of the transmission networks but does not draw conclusions as to the relative efficiency of the networks. We therefore query whether TasNetworks proposed levels of expenditure (particularly having regard to our comments on operating expenditure above) have been truly benchmarked against an efficient TNSP.
4. BBA requests the AER to review and make comment on the matters raised in BBA’s original submission in relation to Forecast and Planning, AEMO Maximum Demand Forecasting and Easement Land Valuations.

The AER has the authority and promotes the idea that through benchmarking, it will make decisions that meet reliability objectives at both an efficient and prudent cost outcome for consumers. TasNetworks acceptance of the AER’s decision implies that the targets set are achievable and a revenue return is acceptable. The AER needs to adopt a private equity mindset and realise that the lowest cost to the consumer is the expected outcome while still ensuring TasNetworks is a viable business.

BBA accepts TasNetworks has abided by the AER draft determination however would challenge whether the AER has done the correct thing by all consumers. It is not clear to BBA that the AER has fully pursued its powers under Chapter 6A.6.6 and 6A.6.7 in reviewing TasNetworks proposed expenditure to ensure the costs truly accord with the costs a prudent and efficient TNSP would incur.

The AER should challenge where acceptable level of risk can be lowered and where costs can be deferred to the next Revenue period.

Bell Bay Aluminium appreciates the opportunity to provide feedback on TasNetworks Submission. We can be contacted at any time to provide further clarification or advice on any matter that could assist in the reduction of transmission prices in Tasmania.