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Consumer
Challenge
Panel

CCP Sub-Panel No. 13

11 January 2019

Mr Chris Pattas
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001
By email: tasnetworks2019@aer.gov.au Cc: ccp@aer.gov.au

Dear Chris,

Re: TasNetworks electricity network revised revenue proposal 2019-24

Please find attached our submission in relation to the above network determination.

Kind Regards,

Andrew Nance on behalf of CCP Sub-panel 13

Consumer
Challenge
Panel

Advice to the Australian Energy Regulator (AER)

Consumer Challenge Panel Sub-Panel 13

Response to TasNetworks revised proposal for a revenue reset for the 2019-24 regulatory period

Sub-Panel 13

Andrew Nance

Mark Grenning

11/01/2019

Executive Summary

CCP 13 has considered the revised proposal of TasNetworks (dated 29 November 2018) in light of the objective of the CCP which is to:

- advise the AER on whether the network businesses' proposals are in the long-term interests of consumers; and,
- advise the AER on the effectiveness of network businesses' engagement activities with their customers and how this is reflected in the development of their proposals.

Overall, we have found TasNetworks to be genuinely engaged with its customers and stakeholders and the consumer engagement by TasNetworks to be of a high standard overall. In terms of expenditure however, there are a number of areas where CCP 13 is concerned that the proposal from TasNetworks may not necessarily be in the long-term interests of consumers. This is consistent with the views expressed by a representative from one of the state's largest energy users who said:

> *"I don't want more engagement, I just want lower prices …"*

Our submissions to TasNetworks Proposal, AER Issues Paper and TasNetworks Revised Proposal have been informed by our interactions with the business, AER and Tasmanian customer representatives over a period of almost two years. During the course of CCP13's engagement with TasNetworks there have been open lines of communication and the business has been very cooperative and supportive of the sub-panel's role. We thank them for this.

Public ownership of each stage of the supply chain as well as retail price regulation for small customers also provides important context for this regulatory process. Importantly, unlike other States, a small number of large industrial consumers account for over half the total electricity consumption. All are price takers in the international markets they sell their products into. This means that electricity costs are key to them retaining their competitive position. The closure of any one could have a large impact on electricity costs for all other consumers in a revenue cap regulatory framework.

CCP 13 considers that a matter of particular importance to the long-term interest of Tasmanian electricity consumers is the interaction between TasNetworks and publicly owned incumbent retailer Aurora. We have witnessed material improvements in the quality of these interactions over recent times and believe this should be encouraged further by the AER.

In the following section of our advice to the AER we summarise Conclusions and Recommendations that flow from the issues of interest to CCP 13.

A. CONSUMER ENGAGEMENT

Post-lodgement, TasNetworks is to be commended for a committed, well planned and well executed consumer engagement process to support the revision of its 2019 to 2014 Regulatory Proposal. In particular, consumer engagement on contingent projects subsequent to the submission of the Regulatory Proposal improved considerably and the contingent project proposals have been refined materially.

TasNetworks has gone a long way towards embedding consumer engagement as a core and ongoing part of its business: as something that adds value to the business and not simply something to be done to meet the AER's expectations. There is always room for improvement however and we would specifically encourage increased engagement with Public Lighting customers.

Overall, CCP13 is confident that TasNetworks' revised proposal is well informed of consumer interests and concerns.

Recommendations:

a) *That the AER accept that TasNetworks has undertaken a high-quality consumer engagement process and is well informed of consumer interests and concerns in framing its revised proposal.*

B. LONG-TERM INTEREST OF CONSUMERS

Our approach to considering the long-term interests of consumers is based in the National Electricity Objective (NEO). The NEO is an economic efficiency objective that is often described in terms of three dimensions: productive, allocative and dynamic efficiency.

- *Productive* efficiency reflects the conversion of inputs to outputs. In the case of TasNetworks, the pursuit of productive efficiency entails providing customers what they want at the lowest sustainable cost. The prudency and efficiency of Capital and Operating expenditure is the central consideration here. In this submission we focus on concerns around the level of Capital Expenditure.

- *Allocative* efficiency can be considered from two perspectives. For consumers overall, the way TasNetworks have understood preferences in terms of service standards (such as reliability, contact preferences etc) is pivotal. Secondly, the way TasNetworks allocates these efficient costs to individual customers is critically important. The use of measures of Value of Customer Reliability (VCR) in investment evaluations and the overall approach to Pricing (as documented in the Tariff Structures Statement, TSS) are key aspects of the pursuit of Allocative Efficiency. The revised proposal incorporates improved use of VCR and an acceleration of tariff reform, both of which advance allocative efficiency.

- *Dynamic* efficiency considers how Productive and Allocative Efficiency are keeping up with change over time and how well the proposal is positioned for future challenges. Does the proposal adequately cater for future challenges? In our view, the revised proposal provides a reasonable basis for TasNetworks to deal with future challenges.

However, there are a number of issues in the TasNetworks proposal which show or raise the prospect that the proposal is not necessarily in the long-term interest of consumers – particularly in relation to capital expenditure.

1. Ex-ante Capital Expenditure

The AER's Draft Decision reduced TasNetworks proposed $260.6m in Transmission Capital Expenditure by 14% to $222.6m. TasNetwork's revised proposal is for $260.6m. For Distribution, TasNetworks' proposed $738.8m – 22.5% more than the actual and expected expenditure for TasNetworks in the current period – and the AER Draft Decision reduced this by 25% to $550.9m. TasNetwork's revised proposal is for $706.9m.

Combined RABs grow in real terms and there is also the possibility that actual capex for transmission may be much higher than forecast: TasNetworks has proposed three contingent projects – a second interconnector of unknown cost to customers and two related projects valued at around $200 million.

For our submission to the original proposal, CCP13 undertook a detailed review of two representative proposed distribution repex projects. Our findings suggested that the analysis of these projects was not sufficient to justify the proposed expenditure. AER's consultant Arup reached similar findings in each case. We have revisited one of these projects for this submission and have reached similar findings albeit for different reasons.

Non-Network ICT capex is a significant expenditure category for all DNSPs and TasNetworks is no exception. CCP13 is concerned that this is significant expenditure in a very concentrated market for software solutions and ongoing maintenance. It is not clear how consumers can be confident of efficient costs in this area.

This significant expenditure in a low interest rate environment has the potential to trigger significant price rises in future years when interest rates inevitably return to a higher point in the cycle. In our view, the long-term interests of consumers is better served by lower RAB values over time – not growing as proposed by TasNetworks.

Recommendations:

b) *That the* AER *closely examine all aspects of the TasNetworks proposed capital spend with particular attention to repex and non-network ICT expenditure*

2. Contingent Projects

TasNetworks Revised Proposal includes 3 contingent projects for the transmission network. Central to this is Project Marinus and TasNetworks has been consulting on the associated Regulatory Investment Test (RIT-T).

Consumers have been justifiably concerned with the potential impact of such significant expenditure and have raised questions about who pays and who benefits.

It will now also be important for the AER to consider the recent final report of the AEMC's Inquiry into the Coordination of Generation and Transmission Investment published 21 December 2018[1].

The AEMC states that the reform package to put the ISP into action will see an updated ISP in 2020 (and every 2 years thereafter) and allow generators to pay for transmission infrastructure from July 2023. Inter-regional charging will also be reviewed in 2019. All significant changes that will occur within TasNetworks' 2019-24 Regulatory Period that are relevant to TasNetworks' proposed contingent projects.

[1] www.aemc.gov.au/markets-reviews-advice/reporting-on-drivers-of-change-that-impact-transmi

As such, it would be prudent to incorporate a conditional trigger related to consistency with the ISP and its implementation mechanisms.

Recommendations:

c) *AER require the conduct of a RIT-T and consistency with the ISP for all contingent projects.*

3. Operating Expenditure

The AER's Draft Decision accepted TasNetworks' transmission opex forecast of $192.1 million ($2018–19) and distribution opex forecast of $410.5 million ($2018–19).

We observe that there are material differences in the revised proposal that appear to be driven by updating estimates to actuals and this should trigger a revisit of the opex forecast for the final determination. We also note that the AER has embarked on a *Review of the approach to forecasting opex productivity growth for electricity distributors*[2]. This review will be relevant to TasNetworks ongoing efficiencies.

4. Rate of Return

TasNetworks has proposed to apply the 2018 Rate of Return (ROR) Guideline in the revised proposal. We note that the AER issued the 2018 Rate of Return Guideline on 17 December 2018[3] and we therefore have no further comments about rate of return for TasNetworks.

5. Distribution Pricing

TasNetworks revised proposal includes an updated Tariff Structure Statement and a separate Explanatory Statement.

There have been important changes from the original TSS to that of the revised proposal. Most significantly, the AER's Draft Decision required TasNetworks to move to an 'opt out' arrangement, as opposed to 'opt in'. TasNetworks has consulted further with its stakeholders and proposed to implement an opt-out time-of-use tariff.

Recommendations:

d) *The AER accept the TasNetworks proposal for default assignment to an opt-out TOU network tariff.*

6. Public Lighting

TasNetworks has proposed a substantial increase in revenue from Public Lighting on the basis that it was now aware of significant under-recovery of costs from the provision of these services. TasNetworks has proposed a 'glide path' transition to full cost recovery of two regulatory periods based on CPI+2.5% per annum price increases during 2019-24 (and

[2] www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/review-of-our-approach-to-forecasting-opex-productivity-growth-for-electricity-distributors
[3] www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/rate-of-return-guideline-2018

beyond). Revenue under-recovery would be absorbed by TasNetworks in the form of reduced shareholder returns in the meantime.

CCP13 and the AER have engaged with the Local Government Association of Tasmania (LGAT) on this issue directly as LGAT had expressed concern over the cost increases in the original proposal and again when contacted regarding the revised proposal. It is not clear that the effected consumers (Local Governments) have been effectively engaged in this debate despite the efforts of TasNetworks to explain the proposed changes.

Recommendations:

e) The AER should not automatically accept the proposed increase in overheads for public lighting. Consideration should be given to facilitating a more negotiated solution with TasNetworks and its public lighting customers.

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Background

- This advice was prepared as agreed between sub-panel CCP13 working on the TasNetworks (the NSP) revenue review, and Adam Petersen, Co-ordination Director for the TasNetworks revenue review.

- CCP13 was established in November 2016.

- The NSP commenced the process of preparation of its revenue proposal and the related consumer engagement early in 2017. During 2017 the NSP undertook a range of consumer engagement activities and processes.

- During the course of CCP13's engagement with TasNetworks there have been open lines of communication and the NSP has been cooperative and supportive of the sub-panel's role.

- Throughout this process CCP13 has maintained and developed communications with consumer representatives, large users and other stakeholders. There has been regular and ongoing communication with a number of parties on developments and concerns.

- CCP13 has held regular meetings with the Co-ordination Director since January 2017.

- Meeting have been held with some of the AER specialist teams involved in the revenue review. These meetings have provided an opportunity for CCP13 to increase its understanding of some of the technical issues involved as well as for the Panel and AER officers to exchange views on issues associated with the proposal.

Role of the CCP

The objective of the Consumer Challenge Panel (CCP) is to:

- advise the AER on whether the network businesses' proposals are in the long-term interests of consumers; and,
- advise the AER on the effectiveness of network businesses' engagement activities with their customers and how this is reflected in the development of their proposals.

CCP 13 is focussed on promoting the consumer interest during the development of revenues and prices for the 2019-24 TasNetworks Regulatory Control Period (commencing 1 July 2019). Further information on the Panel is available at www.aer.gov.au/about-us/consumer-challenge-panel

ADVICE

A. Consumer Engagement

The effectiveness of network businesses' engagement activities with their customers and how this is reflected in the development of the network businesses' proposals

A.1 TasNetworks' Consumer Engagement Program

This is the first occasion where TasNetworks has combined its transmission and distribution businesses for a single reset process. Building on the momentum of its 2017-19 distribution reset, with the exception of engagement around the potential impact of transmission contingent projects, the NSP has undertaken a comprehensive and well executed consumer engagement program.

Contingent Projects

A separate section of this submission comments on the TasNetworks approach to contingent projects. CCP13's view is that in the lead-up to submitting its 2019-24 Regulatory Proposal, TasNetworks consumer engagement has underplayed these projects, with much more focus on the formal expenditure proposal elements. While the uncertainty around their progress is a contributing factor to TasNetworks approach, their sheer size demands that they should have had much more focus and the lack of consultation only increases consumer concerns.

Post-submission of Reset Proposal

TasNetworks has continued to engagement with consumers since it lodged its revenue proposal in January. There have been targeted discussions with some groups as well as a half day forum on 26 April 2018, to give stakeholders the opportunity to learn more about the matters raised in the AER Issues Paper. The session was well attended including representatives of some large users, small business, farmers and graziers, generators, renewable energy and the ombudsman's office. A member of CCP13 attended too.

The session started with a brief introduction about the NSP's revenue proposal and issues raised by the AER in its Issues Paper. Then participants were able to go off to different parts of the room to meet with TasNetworks' experts on particular issues that had been highlighted by the AER Issues Paper or stakeholder engagement (e.g. pricing, distribution capex, contingent projects, Georgetown substation, accelerated depreciation for metering assets, reliability and incentive schemes and future network). The CCP observed that a lot of good discussion between stakeholders and TasNetworks' experts to help understand specific issues. This approach provided participants with a much better understanding of the issues of concern to them than might have been achieved by a presentation from the front of the room.

We support the use of this model being extended as we move into the part of the reset process when consumers have a better understanding of the important issues. It enables much more targeted engagement to increase understanding of these issues and assist consumers in making more informed submissions on the AER Draft Decision and TasNetworks response to that Draft Decision.

Since publication of the Regulatory Proposal, there has also been considerable concern expressed around the potential impact of contingent projects on prices when consumers were of the view that benefits to Tasmanian consumers were, at best, limited. We welcome TasNetworks' decision to put a much greater focus on consumer engagement around contingent projects.

CCP13 also observed in TasNetworks a desire to learn and improve on its consumer engagement approaches – as shown in its response to concerns expressed around contingent projects. Along with other leading NSPs we would expect that TasNetworks will continue to innovate and grow its engagement with consumers.

A.2 Conclusion

TasNetworks is to be commended for a committed, well planned and well executed consumer engagement process to support its revised 2019 to 2014 proposal.

Through its participation in a number of the consumer forums undertaken by TasNetworks, and by one-on-one communications with consumer bodies and stakeholders, CCP13 heard overwhelming endorsement for TasNetworks' commitment to engaging with consumers and in the most part being seen to listen and respond to consumer concerns. CCP13 also found the TasNetworks' team it dealt with to be positive and helpful and to demonstrate a genuine belief in the process and value to the business of engaging with consumers and stakeholders.

CCP13 is confident that TasNetworks' reset proposal is well informed of consumer interests concerns and that TasNetworks is committed to continue to engage with consumers through the remainder of the reset process. There is always room for improvement however and we would specifically encourage increased engagement with Public Lighting customers.

A.3 Recommendations

a) *That the AER accept that TasNetworks has undertaken a high-quality consumer engagement process and is well informed of consumer interests and concerns in framing its revised proposal.*

B. Long-term Interests of Consumers

Whether the network businesses' proposals are in the long-term interests of consumers

B.1 Overview of TasNetworks' Revenue Proposal

Projected revenues

Revenue $m nominal	Proposal Jan 18	AER Draft Aug18	Revised Proposal Nov18
Transmission	799.6	787.5	785.9
Distribution	1,392.7	1,308.3	1,346.6
Combined	2,192.3	2,095.8	2,132.5
Ave pa		419.2	426.5
2018/19 (TN Table 1, 2)		409	409

Table 1: Total Revenue proposed at each stage of the process

As can be seen in Table 1, combined transmission and distribution revenue at both the Draft Decision and Revised Proposal stage are projected to be slightly greater than the current year (in nominal terms). In real terms, that is including the effects of inflation, the combined effect is no real growth in total revenue over the period.

However, significant capital expenditure programs will increase the real size of the Regulatory Asset Base of the network – investments that consumers will repay at future costs of capital. The ex-ante Transmission proposal results in a real reduction in the Transmission RAB. However, as noted previously, contingent project expenditure can see this reduction quickly reversed. The table below shows the 9.4% real increase for distribution[4]:

RAB $m June 2019	1 July 19	30 June 24	% change
Transmission	1,455	1,430	-1.7%
Distribution	1,802	1,970.5	+9.4%
Total	3,257	3,400.5	+4.4

Table 2: Regulatory Asset Base at the start and end of the 2019-24 Regulatory Period

Overall, the proposal includes significant expenditure during a low interest rate environment that has the potential to trigger significant price rises in future years when interest rates inevitably return to a higher point in the cycle. In our view, the long-term interests of consumers is better served by lower RAB values over time – not growing as proposed by TasNetworks.

Detailed discussion of key elements of the proposal and subsequent recommendations follow.

[4] Proposal pp 81-84

B.2 Capital Expenditure

TasNetworks' Revised Repex Proposal

The AER's draft decision forecast an amount of $306.4 million for total distribution renewal capital expenditure over the 5-year period, a 34 per cent reduction from TasNetworks original forecast of $463.1 million (Revised Proposal p49). TasNetworks revised forecast distribution renewal capital expenditure for the five-years commencing 1 July 2019 is $400.3 million compared to the original forecast of $463.1 million, and actual expenditure of $328.8 million for the previous 5-year period (Revised Proposal p50).

For Transmission, TasNetworks originally proposed repex of $204.5m, the AER draft decision was to reduce this by 18% to $167m (Revised Proposal p32, 36) and the revised proposal is for expenditure of $186.4m compared to $150.8m in the preceding 5-year period.

Overall, TasNetworks is seeking to restore $112.6m (or 58%) of the $194.2m not accepted in the AER's draft decision. The key question for consumers is whether this has been sufficiently justified. CCP13 undertook a detailed review of two proposed repex projects and identified concerns that the analysis was not sufficient to justify the investments proposed. We have revisited one of these, the Chapel St 11kV HV Switchgear Replacement Project for this submission and reached a similar conclusion, albeit for different reasons:

Chapel St 11kV HV Switchgear replacement project

The Investment Evaluation Summary outlines a case for the project as part of a broader program of safety-driven replacement of HV switchgear identified by a Risk Assessment *"…as not being arc fault contained and being high risk of failure*".

In the original proposal, TasNetworks conducted an economic analysis to assess the costs and benefits of deferring expenditure on new 11kV switchgear at Chapel St into the 2024-29 Regulatory Period. This economic analysis, The Project Economic Evaluation Spreadsheet, built a business case using estimates of potential Unserved Energy (USE) and multiplying this by AEMO-based Value of Customer Reliability (VCR) figures.

Our review of the economic evaluation found the USE to be overstated. The AER's consultant Arup also found that USE was likely to be overstated and recommended TasNetworks reconsider the assumptions used (see Arup report Section 4.4.2 from p60).

The Revised Proposal also includes the Chapel Street project. This time though, the business case includes monetization of risks (rather than relying solely on reduced USE). However, a number of issues have been identified in the revised approach. The information provided has been claimed as CONFIDENTIAL so the details have been provided separately to the AER however, in general terms:

- Quantification of the untreated risk (ie. the base case) shows that a single risk category makes up over 85% of the 'Total Quantified Risk' (TQR). On face value, the risk-cost appears quite high and plausible, lower values change the ranking of the preferred option to deferral until the 2024-29 regulatory period. The AER is encouraged to seek clarification of this from TasNetworks.
- Further, a review of the NPV calculations has revealed an apparent double counting of both the reduction in risk and the reduction in the value of unserved energy (USE) in each option. Risk is treated as a cost in each option and then the reduction in risk

(following implementation of the Option) is also added to the 'Benefits' of each option. When comparing the options with the base case, the reduction in risk gets counted twice and overstates the benefits of options 1 and 2. A similar approach to USE is also taken.

We have not sought to interrogate other Repex projects but recommend that the AER pay close attention to other projects justified using the same model.

Non-network Capital expenditure

AER's draft decision included $79.4 million ($2018–19) in forecast Distribution ICT capex for the 2019–24 regulatory control period. This was $24.4 million (or 23.5 per cent) lower than TasNetworks' proposed capex of $103.8 million, with the vast majority of the reduction related to the Meter Data Management System (MDMS) replacement and upgrade projects. (Draft Decision Overview p41).

TasNetworks Revised Proposal (section 5.3.6, p56) provides expanded justification as well as a refined scope for the MDMS replacement. Further, additional expenditure is included for a program of works to enhance Cyber Security. Total Distribution ICT capital expenditure proposed is $93.1m (June 2019$).

Increasing levels of non-network ICT expenditure are being proposed by NSPs across the NEM. The general view of the Consumer Challenge Panel is that there must be evidence of a dividend for consumers – either in terms of efficiency or levels or service.

The Investment Evaluation Summary (IES TN034) states that TasNetworks proposes to consolidate the MDMS into TasNetworks' existing Enterprise Resource Planning (ERP) system. Evoenergy (ACT) and Power and Water Corporation (NT) have also proposed MDMS expenditure for the 2019-24 regulatory period and TasNetworks reports that significant investments in MDMS upgrades are also planned by other DNSPs to accommodate the 5-minute settlement rule change. These proposed investments seem to be converging on a very small number of solution providers (IES, p8).

Key questions from a consumer perspective relate to the risks of reliance on such few vendors and whether the efficiencies claimed are resulting in benefits for consumers. An example of the apparent lack of competition that can result from such a market dominating position can be found in the following statement (IES p9):

> A key factor in identifying these potential solutions was the vendor's knowledge of TasNetworks and conversely TasNetworks' experience of the vendors. It was considered too high a risk and not practical to go with an unknown vendor for such a business critical system. As such, the third option proposed in the TasNetworks' initial proposal, to undertake an open RFQ process, has been removed.

AEMO published the inaugural 2018 Cyber Security Preparedness Report to the Energy Security Board (ASB) in December 2018[5]. TasNetworks has proposed a capital expenditure program in response to their involvement in AEMO's work.

TasNetworks revised proposal presents the costs of these initiatives (MDMS replacement and Cyber Security) as CONFIDENTIAL items and hence the costs are not discussed here other

[5] http://aemo.com.au/Electricity/National-Electricity-Market-NEM/Cyber-Security

than to say they are material. So, how can consumers be confident of efficient costs? It is recommended that the AER consider TasNetworks proposals in a national context on both items. Cyber Security spending should be benchmarked nationally (to ensure there is enough but not too much) and the lack of competition in ERP solutions needs to be assessed as to whether consumers are paying too much to purchase and/or too much to maintain and upgrade these essential business systems.

We note that the AER is committed to further work on IT expenditure by NSPs more broadly in 2019-20.

Recommendation

b) *That the* AER *closely examine all aspects of the TasNetworks proposed capital spend with particular attention to repex and non-network ICT expenditure.*

B.3 Contingent Projects

TasNetworks' Proposal

TasNetworks revised proposal includes 3 of the original 5 contingent projects for the transmission network. Total estimated capital costs for the second interconnector relevant to TasNetworks' RAB are unknown but the other two related projects have estimated capital expenditure requirements of almost $200m. This compares with a proposed ex ante transmission capex of $260m for the 2019-24 period.

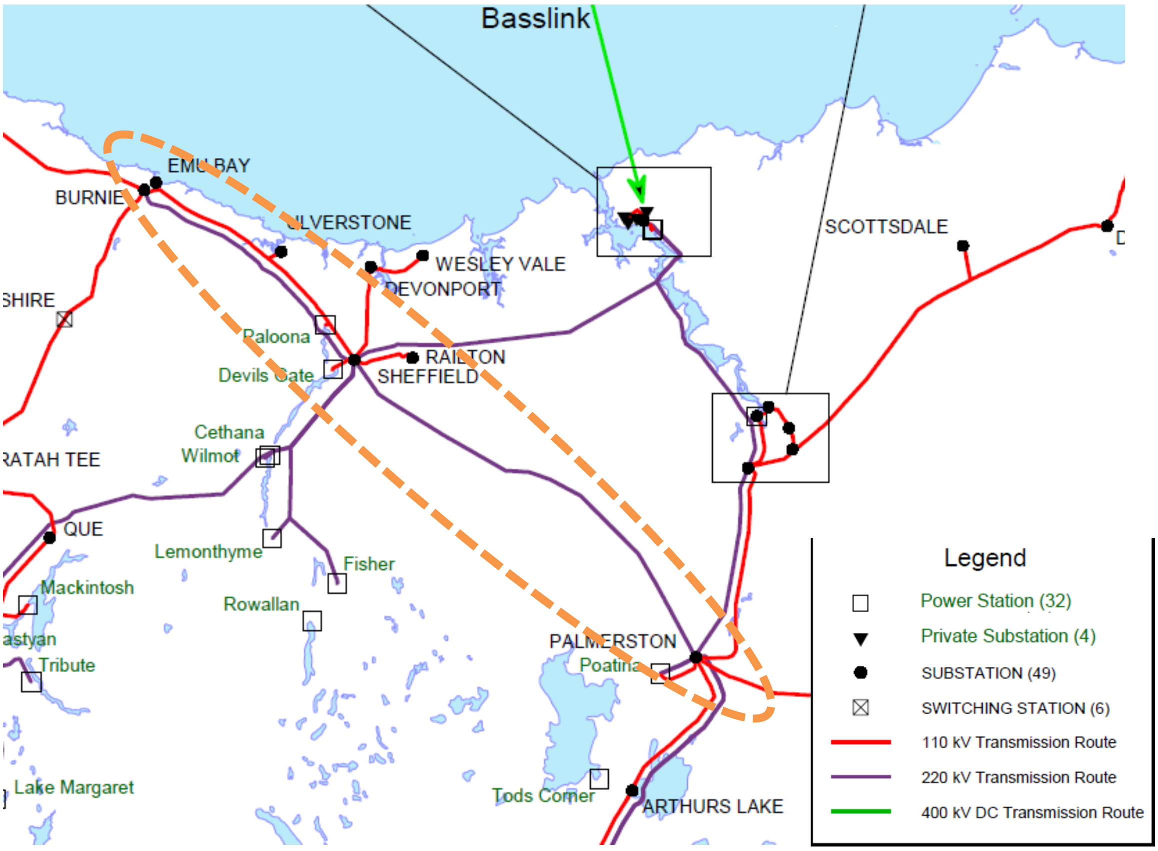
Project	Estimated capital cost
1. Second Bass Strait interconnector (2IC)	$?m
2. Sheffield to Palmerston 220kV augmentation	$117m
3. North West 220 kV Network Redevelopment	$80m
Total	$? + $200m

The Palmerston to Sheffield 220kV corridor "… *will need to be reinforced to facilitate significant generation developments in the North West Renewable Energy Zone or to facilitate power flows from central Tasmania to the second interconnector*". And, the Sheffield to Burnie 220kV corridor, " … *will need to be reinforced to facilitate significant generation developments in the North West or to facilitate a connection of a second Bass Strait interconnector into Burnie*." (Revised Proposal p40)

TasNetworks has provided expanded information on all three projects in the revised proposal that highlights the relationship between the projects and generation developments.

> *"In order to accommodate a significant amount of new generation in North West Tasmania and on the West Coast of Tasmania, the augmentation of the existing Palmerston to Sheffield 220 kV corridor will result in a new double circuit 220 kV transmission line. This line will avoid the need to constrain generation in order to maintain a secure operating state. The estimated cost of this project is $117 million.*
>
> *In addition, a second Bass Strait interconnector that connects into the network in North West Tasmania would also require the upgrade of the existing Palmerston–Sheffield 220 kV corridor with a new double circuit 220 kV transmission line. This augmentation would be required … independent of the development of new generation."*
>
> …
>
> *"In order to accommodate a significant amount of new generation in North West Tasmania, the augmentation of the existing Sheffield to Burnie 220 kV transmission corridor with a new double circuit 220 kV transmission line is likely to be required. The augmentation of this transmission corridor will avoid the need to constrain generation in order to maintain the power system security in a secure operating state. The estimated cost of this project is $80 million.*
>
> *In addition, a second Bass Strait interconnector that connects into the network in North West Tasmania would also require the upgrade of the existing Sheffield–Burnie single circuit 220 kV transmission line with a new double circuit 220 kV transmission line. This augmentation would be required … independent of the development of new generation."*

The following map is reproduced from TasNetworks Annual Planning Report 2018 to illustrate the network path in question:



Importantly, the proposed trigger events for each project include successful completion of a RIT-T. However, it will now also be important for the AER to consider the recent final report of the AEMC's Inquiry into the Coordination of Generation and Transmission Investment published 21 December 2018[6]. This report and related advice from the Energy Security Board to COAG Energy Council on implementing AEMO's Integrated System Plan (ISP) sets out a path for implementing such transmission investments including formalising the role of the ISP in the NEL and creating opportunities for generators to fund transmission investments.

The AEMC states that the reform package to put the ISP into action will see an updated ISP in 2020 (and every 2 years thereafter) and allow generators to pay for transmission infrastructure from July 2023. Inter-regional charging will also be reviewed in 2019. All significant changes that will occur within TasNetworks' 2019-24 Regulatory Period that are relevant to TasNetworks' proposed contingent projects.

As such, it would be prudent to incorporate a conditional trigger related to consistency with the ISP and its implementation mechanisms.

Recommendation

c) *AER require the conduct of a RIT-T and consistency with the ISP for all contingent projects.*

[6] www.aemc.gov.au/markets-reviews-advice/reporting-on-drivers-of-change-that-impact-transmi

B.4 Operating Expenditure

TasNetworks' Revised Proposal

The AER's Draft Decision accepted TasNetworks' transmission opex forecast of $192.1 million ($2018–19) and distribution opex forecast of $410.5 million ($2018–19). We observe that there are material differences in the revised proposal that appear to be driven by updating estimates to actuals: TasNetworks revised proposal is for a transmission opex forecast of $146.6 million ($2018–19) and distribution opex forecast of $442.2 million ($Jun19) [combined $588.8m compared to the original 602.6m].

Given the changes and rebalancing between Transmission and Distribution, we are of the view that this should trigger a revisit of the opex forecast for the final determination.

We also note that the AER has embarked on a *Review of the approach to forecasting opex productivity growth for electricity distributors*[7]. This review will be relevant to TasNetworks ongoing efficiencies.

B.5 Rate of Return

TasNetworks' Revised Proposal

TasNetworks has proposed to apply the 2018 Rate of Return (ROR) Guideline in the revised proposal. We note that the AER issued the 2018 Rate of Return Guildeine on 17 December 2018[8] and we therefore have no further comments about rate of return for TasNetworks.

B.6 Distribution Pricing

TasNetworks' Revised Proposal

TasNetworks revised proposal includes an updated Tariff Structure Statement and a separate Explanatory Statement.

There have been important changes from the original TSS to that of the revised proposal. Most significantly, the AER's Draft Decision required TasNetworks to move to an 'opt out' arrangement, as opposed to 'opt in'.

CCP13 participated in a workshop with TasNetworks Pricing Reform Working Group (PRWG) on 20 July 2018 and other stakeholders (including the AER Pricing Team) to allow the proposed changes to be debated. This was a good example of the AER providing early feedback on a required change and the Network Business responding with targeted engagement well before the revised proposal was due.

Of particular note in the Tasmanian context is the role of price regulation and state-owned retailer Aurora Energy. As noted in our submission to the original proposal, we have observed increased engagement with Aurora on pricing matters, but we are not aware of a consensus

[7] www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/review-of-our-approach-to-forecasting-opex-productivity-growth-for-electricity-distributors
[8] www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/rate-of-return-guideline-2018

view on tariff assignment. From a consumer perspective we can only encourage continued dialogue and a commitment to progress between the businesses.

Given the presence of price regulation and limited competition, in our view, the long-term interest of consumers will most likely be served by an accelerated reform program and we therefore support the opt out arrangements.

Embedded Network Tariff

The original TSS proposed to introduce an 'Embedded Network' tariff into the HV and Large LV tariff classes. CCP13 raised a number of questions about this tariff and, following a series of further questions from the AER, the proposal has not re-appeared in the Revised Proposal.

Recommendation

d) The AER accept the TasNetworks' proposal for default assignment to an opt-out TOU network tariff.

B.7 Public Lighting

TasNetworks' Revised Proposal

TasNetworks original proposal (and TSS) included a substantial increase in Public Lighting prices related to an increased allocation of overheads to rectify "historic under recovery". The AER Draft Decision concluded that overheads should be capped at 25% of direct costs[9].

TasNetworks revised proposal provides new evidence that claims to justify their earlier figures.

CCP Comments

The issue at hand is the allocation of overheads to the provision of Public Lighting services. CCP13 is not in a position to provide detailed commentary on the analysis of either the AER, its consultants Marsden Jacob or that of TasNetworks and their consultants Sankofa. However, this is clearly an opportunity for a more negotiated solution. This is a defined service offering with a well-defined customer base yet seems to be a recurrent source of disagreement in revenue determinations across the NEM. It is disappointing to still be at the 'duelling consultants' stage so close to the need for a final determination.

CCP13 and the AER have engaged with the Local Government Association of Tasmania (LGAT) on this issue directly as LGAT had expressed concern over the cost increases in the original proposal and again when contacted regarding the revised proposal. It is not clear that the affected consumers (Local Governments) have been effectively engaged in this debate despite the direct efforts of TasNetworks to explain the proposed changes. The complexity of this area no doubt contributes to the challenges of effective engagement.

In our view there is significant scope for an improved relationship between TasNetworks and Public Lighting customers. We note from LGAT's May 2018 Submission to the AER Issues Paper that "… *there are no contracts nor binding service regulations, other than the TasNetworks customer charter which covers public lighting in Tasmania*."

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[9] AER, draft decision, TasNetworks Distribution Determination 2019 to 2024, Attachment 15, Alternative Control Services, page 24

The TasNetworks Customer Charter simply states[10]:

> ***Street Lighting***
>
> *We operate and maintain sections of the street lighting system in Tasmania on behalf of some councils and other government road authorities.*
>
> *Once you have advised us of a defective street light in your street, and we are responsible for repair, we will replace it within 7 business days.*

LGAT proposed a Service Level Agreement as an appropriate basis for future engagement. This seems like a reasonable proposal that could form the basis for the longer-term interactions between TasNetworks and its Public Lighting Customers and we encourage TasNetworks to consider this seriously.

Recommendation

e) *The AER should not automatically accept the proposed increase in overheads for public lighting. Consideration should be given to facilitating a more negotiated solution with TasNetworks and its public lighting customers.*

CONCLUSION

CCP 13 considers the consumer engagement by TasNetworks to generally be of high quality. However, there are a number of areas where CCP 13 is concerned that the proposal from TasNetworks may not be in the long-term interests of consumers – particularly in relation to capital expenditure.

The review of the NSPs' consumer engagement and consideration of issues that may not be in the long-term interests of consumers, with CCP 13's recommendations regarding these, are concisely summarised in the Executive Summary above.

CCP 13 commends to the AER the issues raised in this advice and the recommendations made.

Signed

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Andrew Nance Mark Grenning

Sub-panel Chairperson

[10] www.tasnetworks.com.au/about-us/policies/customer-charter/