

TasNetworks Pre-determination Conference

Consumer Challenge Panel
23 October 2018



Consumer
Challenge
Panel

Objectives of CCP

- 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
- We consider this role in the context of the National Electricity Objective (NEO)

NEO Considerations

NEO: “to promote efficient **investment** in, and efficient **operation** and use of, energy services for the **long term interests of consumers** of energy with respect to **price, quality, safety, reliability and security** of supply of energy.”

Therefore, we consider:

- How Prudent and Efficient is proposed expenditure?
- How will costs be allocated to different consumer groups?
- How does the proposal reflect the changing electricity market and long-term issues? Such as, consistency with AEMO Integrated System Plan (ISP)
- Consumers separately to citizens

Customer Engagement (CE) Fundamental to the AER process

- CE is a key theme in the evaluation of revenue proposals
- Absence of competition – how does a monopoly remain tuned in to consumer preferences?
- CCP specifically tasked with providing feedback to the AER on the network's CE approach
 - Consider each proposal in context of AER's CE Guideline & general industry CE standards
- Businesses must demonstrate:
 - Who, how, when and what issues it has engaged with its customers
 - How this engagement has influenced its revenue proposals
 - If consumers agree the proposal is in their long term interests
 - Is there a process for ongoing review of CE/continuous improvement

Discussion Today

- CCP's initial response to AER's draft decision
- Risks of higher costs to customers than outlined in Draft Decision
- Other reviews relevant to this determination
- Encouraging submissions to Draft Decision and Revised Proposal

Building Blocks

- First time combined Distribution & Transmission
- Transmission more modest than distribution – lower WACC contributes half of Transmission revenue reductions
- Capex – significant reductions in proposed Repex and non-network IT based on the justifications presented
- Opex – AER has accepted Distribution Opex as “not materially inefficient”. We see this as acknowledgement of the limitations of benchmarking rather than an objective assessment of performance
- Opex – consistent approach to bushfire risk between Opex and Capex?
- Rate of return and tax allowance not considered in detail

Cost Recovery

- TSS not accepted in full
- Move to 'opt out' has been the subject of further engagement
- Progress requires cooperation between TasNetworks, Retailers and consumers
- Encourage ongoing dialogue between TN and Aurora on metering and tariff assignment
- Unwinding cross-subsidies between small business and residential not fast enough for some & would benefit from Government direction
- Public Lighting Tariffs not accepted. Overheads to be capped.
- Embedded Network Tariff not accepted
- Accelerated depreciation of meters not accepted
- Reminder: Transmission customers are >50% of load

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Risk of even higher revenues?

- Several factors may contribute to higher costs to consumers over the regulatory period:
- TN may be able to justify restoring some or all of the Repex reductions in the Draft Decision
- Customer contributions to new connections to be reviewed
- Contingent projects excluded by AER, so look forward to TasNetworks final submission on this matter
- Interest rates (debt) may increase over the RP 2019-24
- Growing RABs and likely increases in WACC **will** place upward pressure on revenue in **future** Regulatory Periods

Other reviews relevant to this determination

- Review of Opex Productivity Growth
- Rate of Return Guideline review
- Review of regulatory tax approach
- AEMC COGATI Review and ESB on implementing the ISP

Contingent Projects

- 5 Contingent Projects proposed worth >\$900m – some will extend to 2024-29 Reg Period. Compares to Draft Capex Decision of \$223m (Trans.) and \$551 (Dist.) totalling \$774m
- Major item is 2nd Interconnector and strengthening of the network to allow increased export from Tasmania to Victoria
- AEMO's Integrated System Plan and AEMC Co-ordination of Generation and Transmission Investment is very relevant
- NEM-wide concern over who pays for Interconnectors and Renewable Energy Zones –should consumers bear all risks?
- Relative \$ impact is largest on Transmission Customers
- All 5 excluded by AER in draft decision, so look forward to TasNetworks final submission on this matter

Next Steps

- Written submissions have made a difference so far – encourage more!
- CCP 13 to continue its review of Draft Decision and Revised Proposal (Due 29 Nov 2018) and prepare final submission (due 11 January 2019)
- Welcome any feedback from consumers and their representatives on their issues of concern as well as how effectively TasNetworks has engaged with them and how their issues have been addressed in the proposal and subsequently in the revised proposal
- Comments / suggestions for the CCP can be sent via tasnetworks2019@aer.gov.au