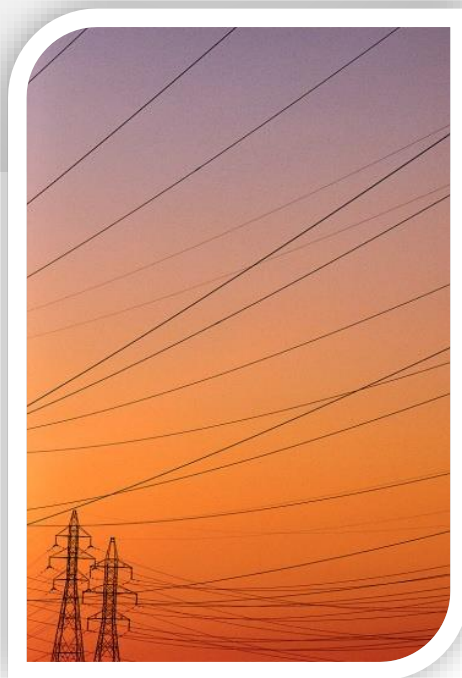


TasNetworks Stakeholder Forum

Consumer Challenge Panel
Initial Observations
10 April 2018



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?
- Consistency with the ENA/CSIRO Network Transformation Roadmap & AEMO Integrated System Plan (ISP)

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 impressions of TasNetwork's consumer engagement so far
- Preliminary observations on TasNetwork's proposal
 - Areas of potential concern and questioning
 - Consider consumer feedback and concerns
 - Where the AER may need to focus
- Welcome suggestions of areas that concern you

Pre-Lodgement CE Observations

- First time CE has combined Distribution & Transmission
- TasNetworks able to build on momentum from 2017-19 Distribution reset
- Customer Council and Pricing Reform Working Group as well as broader stakeholder engagement activities
- One on One engagement with Transmission Connected Customers (c50% of Transmission load)
- Aurora engagement increased in 2017 – encourage more of this
- Overall: one of the best in the NEM – but need continuous improvement as others are innovating and improving ...
- Directions and Priorities Paper (August 2017) – key opportunity for consumer input but how well have the changes since been explained?

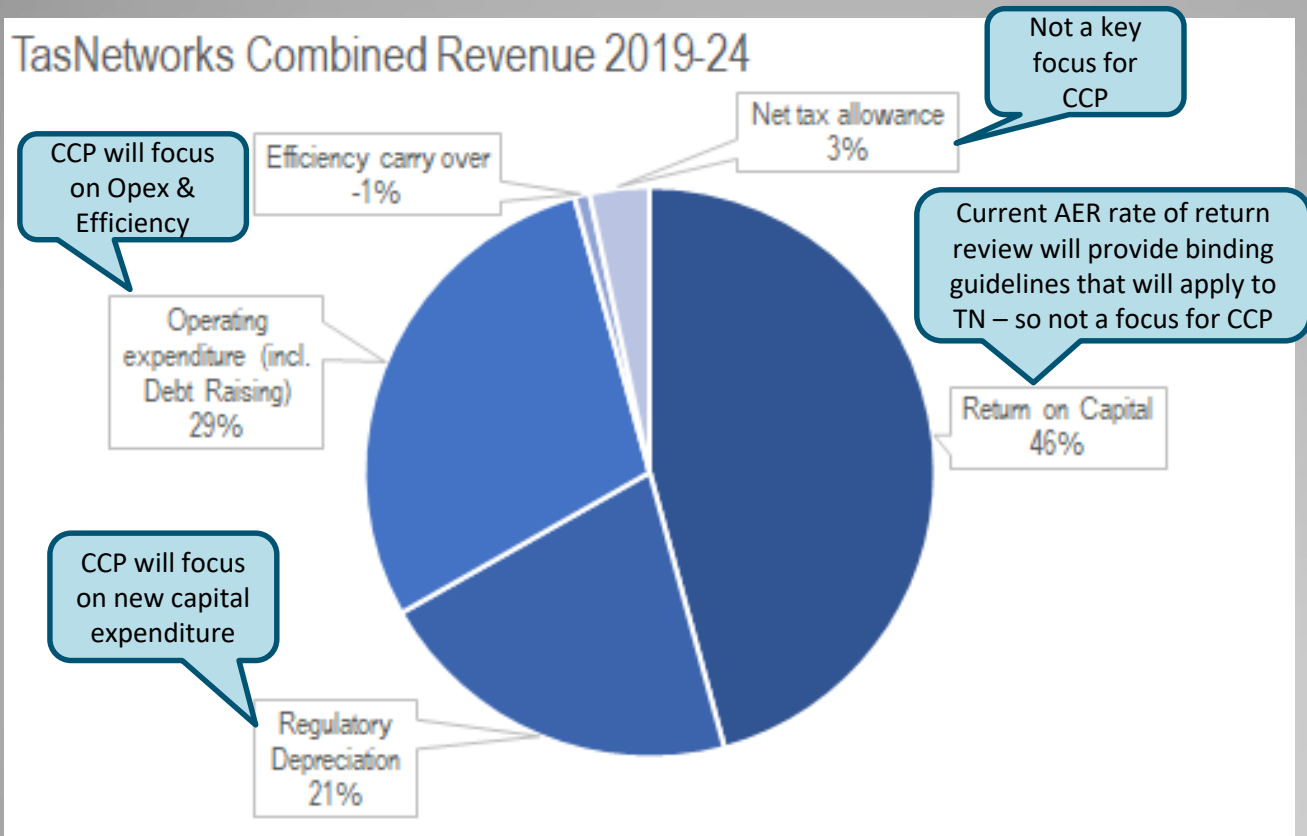
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Post-Lodgement CE still work to be done

- CE should continue beyond submission of a proposal and beyond the AER's draft decision ... it must be 'normal business'
- Consumers can/should make submissions to the AER (due 16 May) if they have concerns BUT TasNetworks still has a critical role:
 - Explaining its proposal & how it has listened to consumers in formulating it
 - Seeking further feedback on the proposal, the AER's draft decision & its formulation of its revised proposal
 - Explaining how the AER's draft decision & its revised proposal attend to consumer perspectives
- Contingent Projects represent substantial expenditure ... CE should continue with same effort ... keen to see potential impact on RAB, Revenue and Prices explained to consumers before submissions are due

Revenue Building Blocks – what consumers will pay

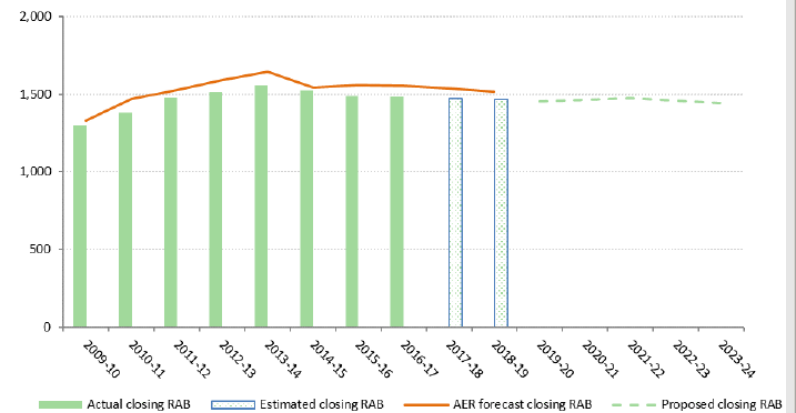
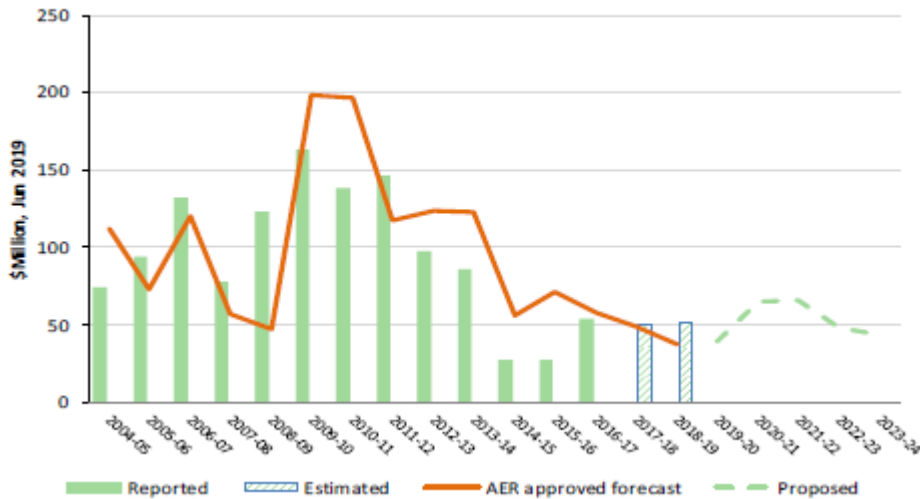
TasNetworks Combined Revenue 2019-24



~\$410m of revenue pa for 2019-24

Capex & RAB - Consumers pay for growth over the long term

Figure 13 TasNetworks' transmission capex compared to our forecasts Figure 12 Projected transmission RAB (\$millions, June 2019)



Source: AER analysis.

\$260m Transmission Capex looks modest BUT is +23% on 2014-19 and Contingent Projects >\$900m proposed – could triple Transmission capex and grow the RAB substantially

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Capex & RAB - Consumers pay for growth over the long term

Figure 15 Historical and forecast distribution capex

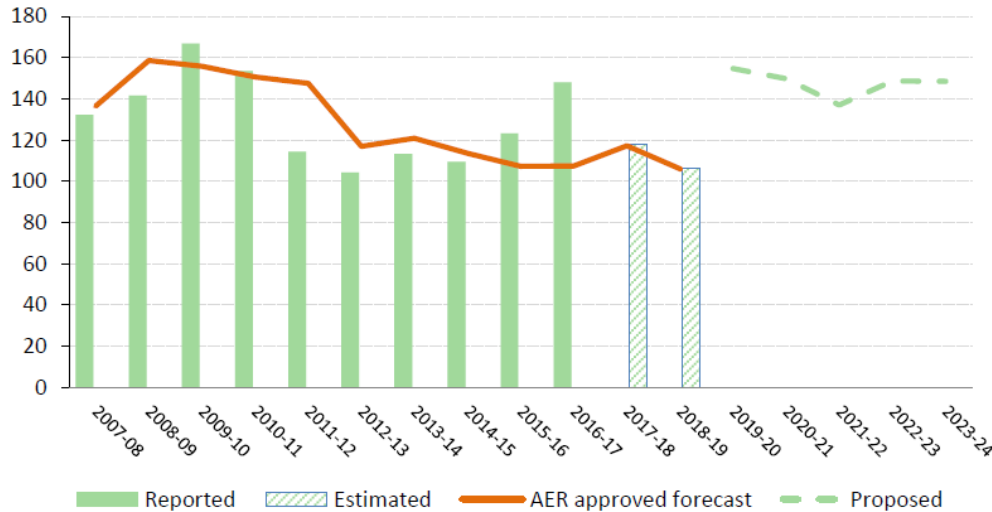
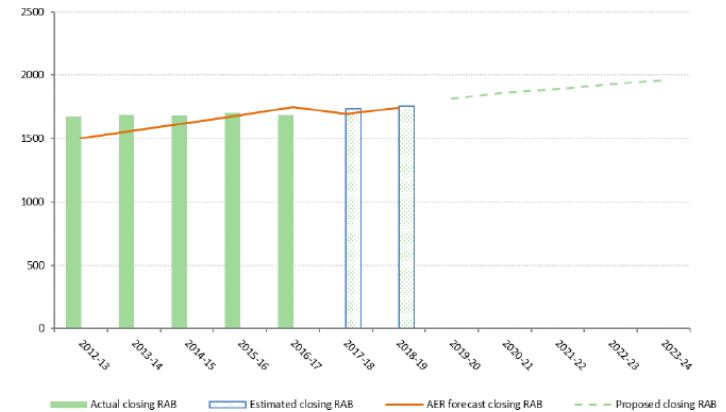


Figure 11 Projected RAB growth for distribution (\$million, 2018-19)



Source: AER analysis

Distribution Capex proposed is well above trend (+27% on 2012-19 average) – most growth is in Replacement and Refurbishment – “Repex” (+53%)

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Capital Expenditure - Significant Driver of Long term cost to Consumers

- Growth areas of Capex are Repex and IT – CCP will dig deeper to ascertain if Prudent and Efficient
- Similar trends witnessed in other NSP proposals
- Distribution Capex > Directions and Priorities
- Is the large IT spend (>\$100m) adequately justified?
- \$15m SVC at George Town Substation will be subject to Regulatory Investment Test (RIT-T) ... ensures greater transparency and consideration of options + should include customer engagement
- Major Repex also now in scope for RIT-T but applicability to TasNetworks not yet clear

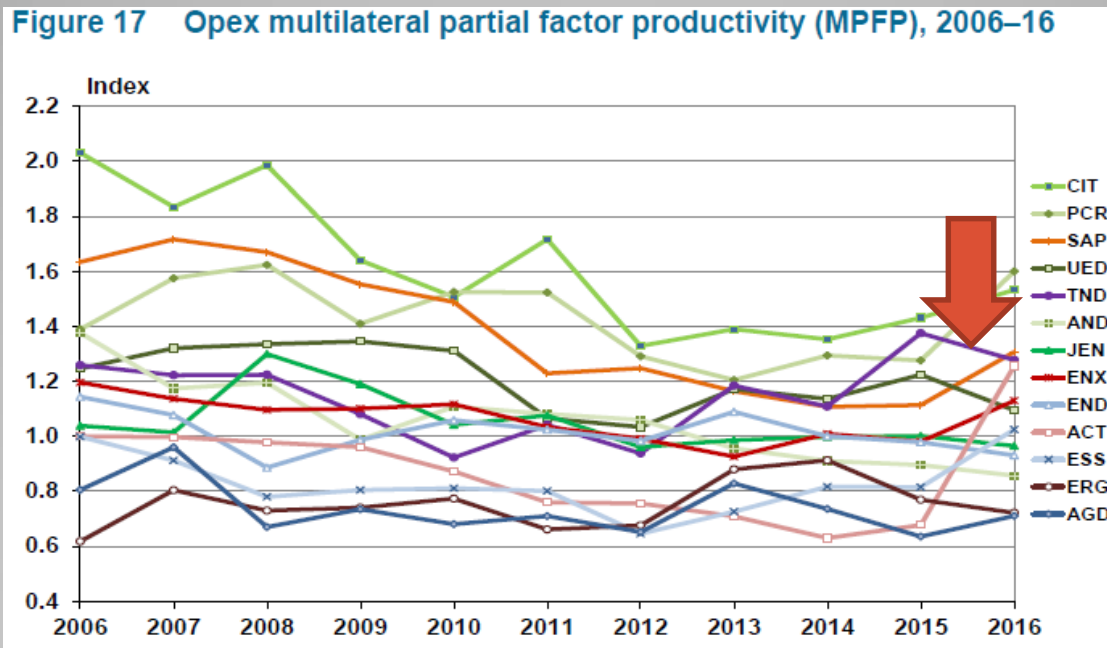
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Contingent Projects

- 5 Contingent Projects have been proposed worth >\$900m – some will extend to 2024-29 Reg Period
- Major item is 2nd Interconnector
- Other TNSPs have recently proposed significant Contingent Projects for 2018-23 (TransGrid, ElectraNet)
- AEMO's Integrated System Plan is relevant
- Relative \$ impact is largest on Transmission Customers
- Key risk to network prices but should result in lower overall system costs (but consumers pay regardless!)

Operating Expenditure – only pay for efficient operations

- General trend is relatively stable Opex & TasNetworks not the worst performer in AER benchmarking but room for improvement. Are the incentives right?



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Tariffs fair & transparent

- Progress requires interval meters – now the responsibility of Retailers, especially Aurora.
- Progress requires cooperation between TasNetworks, Retailers and consumers
- CCP will focus on Pace of Reform, TSS and issues raised by consumer segments:
 - Public Lighting tariffs
 - Rebalancing of cross-subsidies
 - New Embedded Network tariffs
 - Irrigation tariffs
- Tariff reform VERY important for Network Transformation Roadmap 2025 and utilization of the grid – minimising future costs to consumers
- Accelerated depreciation of meters needs scrutiny

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Work to be Done

- 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
- CCP 13 to continue its review and will provide advice to AER by 16 May (which will be published on the AER's web site)
- Comments / suggestions for the CCP can be sent via tasnetworks2019@aer.gov.au