

2/05/2017

AER Board
Mr Adam Petersen, Co-ord Director – TasNetworks 2019-24
Australian Energy Regulator
By email: adam.petersen@er.gov.au Cc: ccp@er.gov.au

Dear Paula,

Re: TasNetworks 2019-24 Regulatory Control Period – Preliminary Framework and Approach

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

Kind Regards,

Andrew Nance

Submission to the Australian Energy Regulator (AER)

Consumer Challenge Panel Sub-Panel 13

**Framework and Approach TasNetworks for a revenue reset for the 2019-24
Regulatory Control Period**

Sub-Panel 13

Chris Fitz-Nead

Mark Grenning

Andrew Nance

2/05/2017

AER Framework and Approach

Please accept this brief submission from Consumer Challenge Panel sub-panel 13 (CCP13) to the AER's Preliminary Framework and Approach paper for the TasNetworks 2019-24 Regulatory Control Period.

The objective of the 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.

CCP13 is focussed on promoting the consumer interest during the development of revenues and prices for the TasNetworks 2019-24 Regulatory Control Period (commencing 1 July 2019). Further information on the Panel is available at www.aer.gov.au/about-us/consumer-challenge-panel.

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.

During our engagement with the regulatory process, we will be seeking to answer the following questions:

- Does the proposal promote Productive efficiency ?
 - In the absence of competitive market forces, is there evidence of improved productivity? Efficient costs, incentive schemes, risk reflective rate of return are all relevant.
- Does the proposal promote Allocative efficiency ?
 - The pursuit of allocative efficiency refers to the alignment of TasNetworks regulated services with consumer preferences. Consumer engagement, network pricing reform and value of reliability matters are relevant.
- Does the proposal promote Dynamic efficiency?
 - Is the proposal consistent with the ENA/CSIRO Network Transformation Roadmap?
 - How does the proposal fit with contingent projects being advanced through RIT-T processes?

The F&A is one of the first formal steps in the process and an early opportunity for consumers and their representatives to engage in this two-year process. CCP13's Mr Mark Grenning attended the AER's stakeholder forum on 12 April 2017 and met with consumer representatives and TasNetworks staff. CCP13 is encouraged by the feedback to date on TasNetworks willingness to engage with consumers.

Adding an important dimension to context for the 2019-24 period is the technology driven transformation already underway in the NEM. Falling costs of solar and storage and the increased prevalence of smarter metering and other energy management hardware and software can reasonably be expected to have a significant influence over this timescale. Public policy responses to international climate change commitments may include expanded interconnection between Tasmania and the mainland and/or expanded hydro capabilities. There is a lot of uncertainty about detail but the general directions are becoming clearer. The ENA and CSIRO released the Network Transformation Roadmap on April 28th 2017 and we will be looking for evidence of alignment with the milestones and actions of the plan relevant to Tasmania¹.

In this context it will be increasingly important to understand the views and preferences of consumers. As mentioned, CCP13 is encouraged by the feedback to date on TasNetworks willingness to engage with consumers but we are also well aware of the complexity that is a barrier to engagement for many consumers. We encourage TasNetworks to continue to build understanding of their proposal and energy market reforms more generally.

Specifically in relation the Preliminary F&A, CCP13 supports the application of a consistent Framework and Approach to each of the regulated Network businesses in Australia and supports the level of consistency proposed in the Preliminary F&A. The use of a Revenue Cap control mechanism is supported as the alternative most likely to align incentives of customers and the regulated business. The application of the STPIS, EBSS, CESS and DMIS is also supported. Establishing the detailed settings within these incentive schemes is an area where consumer engagement could be improved by most businesses. A consistent, national regulatory approach to depreciation is also supported.

CCP13 is of the view that the process of setting reliability standards should be referenced in the final Framework and Approach. More broadly, a consistent challenge for consumer engagement is confusion over the seemingly fragmented regulatory activities that eventually combine to determine electricity bills. In our view, reliability settings are important exogenous inputs (established separately to the AER's process by the jurisdictional regulator the Office of the Tasmanian Economic Regulator, OTTER²) that are relevant to the STPIS and, often, augmentation capex when standards change. For the benefit of consumers, it is our recommendation that the F&A should make reference to the reliability standards process(es), their timing, likely issues and their important role in the regulatory process.

The different CCP sub-panels have observed a range of approaches to the derivation and use of Value of Customer Reliability (VCR) and other outage valuation measures in different regulatory processes. CCP13 understands from TasNetworks that it will use the AEMO VCR estimates. We would like to understand from TasNetworks how it intends to engage with consumers on reliability issues and contrast this with the compensation it pays to consumers³ (through the GSL scheme).

¹ www.energynetworks.com.au/electricity-network-transformation-roadmap

² The 2015-16 [Energy in Tasmania Report](#) gives the latest figures on outage frequency and duration, GSL payments, complaints, quality of supply and customer service. Available from www.economicregulator.tas.gov.au

³ [Energy in Tasmania Report p 29](#)

Table 5.11 Reliability supply thresholds and GSL payments

	Timely restoration threshold (hours)		Reliable supply threshold (number)
Critical Infrastructure, High Density Commercial and Urban	>8	>16	10
Higher Density Rural	>8	>16	13
Lower Density Rural	>12	>24	16
GSL Payment	\$80	\$160	\$80

These are only a percentage of the AEMO estimates of VCR. It seems to us that consumers are being asked to support capital and operating expenditure (and hence network prices) based on VCR, but an asymmetrical incentive arrangement exists for customers that experience the outages. We look forward to discussing this further with the AER and TasNetworks.

Tasmania provides a unique context for the application of the regulatory framework, so it is critical that the framework and approach is able to respond to the local context. There are some specific items that seem relevant:

- Ring-fencing and metering are contemporary issues across the NEM and important changes occur from December 2017 for metering and January 2018 for ring-fencing. These can be complex topics and we encourage TasNetworks and the AER to ensure consumers are well informed and engaged on these matters.
- TasNetworks serves a uniquely distributed customer base with unique geographical challenges. Network reliability (the frequency and duration of outages) can be a substantial driver of expenditure. However, the technology driven market transformation is providing increasingly cost-effective alternatives to traditional ‘poles and wires’ investments that may meet the needs of customers at lower cost. CCP13 encourages TasNetworks to continue to engage with consumers on the wide range of issues and opportunities related to this.
- The crucial role of large electricity users in Tasmania and how these businesses are very exposed to international prices for their products. This can potentially have enormous risks for all other consumers should one or more of these large users cease or substantially cut back their operations over the 2019-2024 period. We look forward to further discussions with TasNetworks on how this risk might be reflected in their Tariff Structure Statement.
- The particular position of low income and vulnerable consumers who have limited means to improve their energy consumption patterns – eg through installation of distributed generation or improved energy efficient measures. Effective engagement with these consumers can be challenging for a range of reasons but we encourage TasNetworks to continue to seek opportunities to include this important customer group.

CCP13 looks forward to actively engaging in the development of the revenues and prices for the TasNetworks 2019-24 Regulatory Period. Members can be contacted by email at the addresses below:

CONCLUSION

CCP13 broadly supports the Framework and Approach proposed and is encouraged by the feedback to date on TasNetworks willingness to engage with consumers.

The issues we believe are of particular importance at this stage are changes to the ring-fencing of regulated activities, the introduction of competition in metering and issues of security and reliability.

Our view is that the Framework and Approach is an appropriate point to ensure consumers are engaged with the setting of jurisdictional reliability settings. It is our recommendation that the final Framework and Approach should make reference to the reliability standards process(es), their timing, likely issues and their important role in the regulatory process. We look forward to discussing reliability issues further with the AER and TasNetworks.

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

Signed

		
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Andrew Nance Sub-panel Chairperson	Chris Fitz-Neade	Mark Grenning