|  |
| --- |
| **Consumer Challenge Panel** |
| **Submission to AER** |
| **Responding to request on whether to vary the Framework and Approach (F&A) for TasNetworks Distribution revenue reset for 2017-2022 regulatory period** |
|  |
| **Sub Panel CCP4** |
| **10/3/2015** |

|  |
| --- |
|  |

The AER has identified that Consumer Challenge Panel subpanel 4 (CCP4) is to provide a consumer view into its deliberations on the regulatory revenue reset for the period 2017 to 2022 applying to TasNetworks Distribution (TND) previously referred to as Aurora Energy.

This submission to the AER is made by CCP4 in response to the AER request to comment on whether the Framework and Approach (F&A) to the regulation of TND for the period 2017 to 2022 should be varied from that applying for the regulation of TND for the period 2012 to 2017.

The F&A applying to TND for the period 2012 to 2017 was based on:

* a revenue cap form of control for the standard control services - SCS
* a price cap form of control for alternative control services - ACS - (including metering services and public lighting)
* applying an efficiency benefit sharing scheme (EBSS) to the operating expenditure (opex)
* applying a service target performance incentive scheme (STPIS) excluding a guaranteed service level arrangement (GSL) as there was already a GSL applying under the Tasmanian Electricity Code
* applying a demand management incentive scheme (DMIS) but excluding any forgone revenue component resulting from the implementation of any demand management activities

Since the last review of TND there has been significant change to the structure of Aurora Energy (with the separation of its retail function and amalgamation of the Tasmanian electricity transport distribution and transmission assets into TasNetworks), a change of the electricity usage in Tasmania from one of expected increase in consumption into one of essentially static or falling demand, and a significant revision of the rules applying to network regulation.

**Allocation of Services**

The CCP4 considers that the allocation of services should remain unchanged from the F&A used for the 2012-2017 regulatory reset. However, the CCP4 considers that the following elements should be reviewed as certain aspects have changed since that F&A was implemented.

* PAYG metering provided by TND is included as an ACS yet PAYG metering provided by Aurora Retail is unregulated; previously, the Office of the Tasmanian Economic Regulator (OTTER) determined that the PAYG metering provided by TND was unregulated. CCP4 does not recommend a change to the F&A in this regard, but considers that the decision should be reaffirmed
* Capital contributions for connections requiring network augmentations were unregulated but it was noted that the National Energy Customer Framework (NECF) has now been implemented in Tasmania. In the discussions on whether to include capital contributions, it was noted that NECF would impact customer contributions, this issue needs to be further investigated to identify if changes are needed. In particular, CCP4 notes that augmentations to the existing network are effectively non-contestable (as such augmentations are made to assets owned by TND) CCP4 questions whether continuing with capital contributions being unregulated meet the National Electricity Objective (NEO).

**Form of Control**

CCP4 considers that the forms of control need not change from those in use for the 2012-2017 period.

**STPIS**

CCP4 notes that the STPS applying to TND has a number of features that are unique to TND as TND is subject to the Tasmanian Electricity Code (TEC).

CCP4 considers that the AER should reassess the unique features of the STPIS applying to TND to assess whether the continuation of these is appropriate or whether changes should be made to standardize the approach to the STPIS across all distribution networks in the National Electricity Market (NEM).

**EBSS**

CCP4 notes that the AER has not applied an EBSS in its draft decision for the NSW distribution networks. The reason for the exclusion is based on the very large reduction in opex identified in the draft determination and the concerns that such a large reduction might result in unintended consequences from the application of the EBSS, especially as the risk of not meeting the efficient opex levels is asymmetric.

As the TND partial factor productivity of opex is of a similar level to that of the NSW distribution networks, CCP4 considers that the AER should comment whether it expects that the EBSS will be applied to TND and if there might be conditions under which it might not be applied.

**CESS**

The Capital Expenditure Sharing Scheme (CESS) is a new regulatory incentive to improve the use of capital. It is expected that the CESS will apply to TND for the 2017-2022 period.

CCP4 considers that the F&A needs to be modified to include this new incentive

**DMIS**

The demand management incentive scheme provides an incentive to implement demand management changes that provide a benefit to consumers.

CCP4 supports that a DMIS should be applied but is concerned that the application of the DMIS is not properly coordinated across the NEM such that many of the distribution firms are trialing approaches that have already been tested by other networks, resulting in inefficient allocation of resources. CCP4 does not support the provision of funds under the DMIS which:

* Repeats work already carried out by another distribution network
* Does not deliver a clearly defined outcome which is to benefit the consumers funding the activities

Further, CCP4 notes that there has to be some consistency of the amount allocated for the DMIS which is consistent across the NEM. In this regard, CCP4 considers that the allowance should reflect the value that demand management might deliver to the consumers connected to each network; as a starting point CCP4 considers that the numbers of customers connected to the network should be a major driver of the amount for DMIS allocated to each network.

**CONCLUSIONS**

CCP4 considers that there has been sufficient change to the both the physical and regulatory environments in which TND operates to warrant a review of the F&A applying to TND for the regulatory period 2012-2017