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Consumer Challenge Panel

CCP Sub-Panel No. 13

16/05/2018

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

Dear Paula,

Re: Issues Paper – TasNetworks electricity network 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 proposals from TasNetworks for a revenue reset for the 2019-24 regulatory period

Sub-Panel 13

Andrew Nance

Chris Fitz-Nead

Mark Grenning

16/05/2018

Executive Summary

CCP 13 has considered the proposal of TasNetworks (the Network Service Provider or NSP) 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.

Our response to the TasNetworks Proposal and AER Issues Paper have been informed by our interactions with the business and AER over a period of around 18 months. During the course of CCP13's engagement with TasNetworks there have been open lines of communication and the NSP has been very cooperative and supportive of the sub-panel's role. We thank them for this.

Overall, we have found TasNetworks to be genuinely engaged with its customers and stakeholders.

Electricity holds a special place in the hearts and minds of Tasmanians. Public ownership of each stage of the supply chain as well as retail price regulation for small customers provides important context for this regulatory process. Also, 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 the revenue cap regulatory framework.

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 the last year and believe this should be encouraged further.

We note that this is the first combined Transmission and Distribution determination and follows a short, 2-year, regulatory period for Distribution. While we acknowledge that different customer classes have different levels of interest in Transmission vs Distribution matters, we have sought to assess the proposal as a package. In part this has been in response to the relative decreases in Transmission and increase in Distribution revenues. For a small consumer considering an electricity bill, the distinction between the two is not that important.

This submission makes a range of conclusions and recommendations in two areas:

- those that are specifically related to the TasNetworks proposals, and
- those that arose in our consideration of the TasNetworks proposal that have a potential cross network impact.

Conclusions and Recommendations specifically related to the TasNetworks Proposal

With one exception, CCP 13 considers the consumer engagement by TasNetworks to be of a high standard overall.

In terms of expenditure, 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.

In this 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

Overall, with the exception of the consumer engagement on contingent projects until the time of submitting the Regulatory Proposal, TasNetworks is to be commended for a committed, well planned and well executed consumer engagement process to support its 2019 to 2014 reset proposal. Consumer engagement on contingent projects subsequent to the submission of the Regulatory Proposal has improved considerably and we look forward to participating in the recently proposed engagement process

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.

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.

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 reset proposal.*

b) *That TasNetworks continue this standard of engagement through the remaining stages of the determination process (and ongoing). Particular attention is warranted on issues of pricing reform and contingent projects.*

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 conversions 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.

- *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) and the approach to Pricing (as documented in the Tariff Structures Statement, TSS) are pivotal aspects of the pursuit of 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.

In our view, 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.

1. Ex-ante Capital Expenditure

Compared to the actual and expected expenditure for TasNetworks in the current period, TasNetworks has proposed to increase transmission capex by 30 per cent to $260m across the period and distribution capex by 23 per cent to $770m. 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 five contingent projects valued at over $938 million with expenditure that would extend across the 2019-24 and 2014-29 periods.

We understand that the initial application of the AER's repex model, covering >90% of TasNetworks distribution renewal capex (excluding capitalised overheads) resulted in an efficient level of capex significantly below the TasNetworks proposal. CCP13 undertook a detailed review of two representative proposed distribution repex projects. Our results suggest that the analysis of these projects is not sufficient to justify the proposed projects. We look forward to the results of the analysis being undertaken by the engineering consultants appointed by the AER to see if this conclusion has wider application over the proposed capital programme.

If these two projects are any indication, the prudency and efficiency of expenditure in key categories of Replacement and Non-Network capex and Capitalised overheads (85% of combined Transmission and Distribution Capex) has, in our view, not been established. 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:

c) That the AER closely examine all aspects of TasNetworks proposed capital spend with particular focus on repex and ICT

2. Contingent Projects

TasNetworks has proposed 5 contingent projects for the transmission network. Total estimated capital cost is $938m and, if implemented would involve expenditure over both the 2019-24 and 2024-29 periods.

Substantive engagement with consumers on the potential impact on revenues, RABs and prices has only begun recently, following a strong negative response from consumers post-lodgement of the Regulatory Proposal. Consumers have been justifiably concerned with the potential impact of such significant expenditure and have raised questions about who pays and who benefits.

Unfortunately, the lack of engagement on these projects stood out from an otherwise very high-quality engagement program.

Recommendations:

d) TasNetworks undertakes comprehensive stakeholder engagement around the proposed contingent projects

e) AER require the conduct of a RIT-T for all contingent projects

3. Operating Expenditure

TasNetworks has proposed moderate reductions in its opex for the 2019-24 regulatory control period when compared to actual and expected opex for the five years prior. TasNetworks has proposed to reduce transmission opex by 0.8 per cent and distribution opex by 0.2 per cent. for a total forecast operating expenditure of $593m ($2019) for 2019-24.

We congratulate TasNetworks on proposing productivity improvements over the course of the period when it could have simply adopted the AER assumption of zero productivity improvement; we comment on this assumption. However, we remain unconvinced that revealed costs in 2017/18 are “efficient” on the basis of the AER approach of what is “not materially inefficient”.

Bushfire risk drives a significant proportion of expenditure for TasNetworks (as it does for most NSPs). A step change in vegetation management costs in 2016-17 is proposed to continue through the 2019-24 period and our view is that this warrants specific scrutiny and a is a subject worthy of a broader NEM-wide review.

Recommendations:

Transmission

f) That the AER support the use of 2017/18 as the base year for Transmission opex

Distribution

g) That the AER reconsider its decision rule for assessing the “not materially inefficient” cost level in the context of the 2016-17 base year costs proposed for TasNetworks distribution.

h) That only if the AER is satisfied that the proposed base year costs are efficient can we support the application of EBSS for the 2019-24 period.

i) That the AER pay particular attention to the step change in vegetation management in 2016-17 which is being sustained throughout the 2019-24 period.

j) That the AER consider a NEM-wide review of vegetation management costs, particularly those relating to bushfire risk.

Other

k) That TasNetworks be acknowledged for their offer of productivity improvements for both transmission and distribution; they could have simply relied on the AER's zero productivity assumption but wanted to show their commitment to reducing prices to consumers.

l) That the AER to reconsider its zero productivity assumption in opex assessments.

4. Demand Forecasts

Unlike other network proposals, TasNetworks has not provided a detailed analysis of its demand forecasts. This has made it difficult to fully assess the impact of demand forecasts on the expenditure proposal.

Recommendations:

m) Given the lack *of evidence in TasNetworks' proposal, we would encourage TasNetworks and the AER to seek further information to clarify the situation prior to any review of proposed capex.*

5. Rate of Return

TasNetworks has largely applied the 2013 AER Rate of Return (ROR) Guideline. It proposes a rate of return of 5.89% in its calculations over the 5 years in its proposal. The one slight variation is that it proposes the same ROR for transmission and distribution. A strict application of the 2013 ROR guideline would produce a higher ROR for transmission (6.15%) vs distribution (5.89%). This is because of the application of the trailing average approach to the debt calculation has a high cost of debt in year 1 for transmission (6.07% in 2014/15) than year 1 for distribution (5.10% in 2017/18).

The AER is currently undertaking a review of the 2013 ROR Guideline that, if the COAG Energy Ministers proposal is accepted, will be binding on all the NSPs. For this reason we do not comment on the detail of TasNetworks' proposal.

Recommendations:

n) Given the application of the revised RoR Guideline, whether binding or not, we recommend that TasNetworks *retain their commitment to align the transmission and distribution ROR to the lower distribution rate.*

6. Distribution Pricing

The Tariff Structures Statement (TSS) makes it clear that TasNetworks believe tariff reform is needed. Some new tariffs have been added and some progress has been made on unwinding cross subsidies between customers (and between tariffs).

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.

TasNetworks 2019-24 TSS proposal does not contain much commentary on the choice between opt-in and opt-out default assignment of new customers. We are aware of increased engagement with Aurora on pricing matters, but we are not aware of a

consensus view on tariff assignment. Noting the importance of tariff reform to cost-effectively harnessing Distributed Energy Resources (DER) and the potential to avoid future network augmentation costs outlined in the ENA/CSIRO and TasNetworks Roadmaps, in our view there is a Dynamic Efficiency argument for accelerated tariff reform.

We have reviewed a proposed new tariff (Embedded Networks) and have identified a number of issues with its formulation. Given the absence of consultation on this tariff, it is recommended that thoroughly test the tariff for compliance and require TasNetworks to consult further on the structure before considering its inclusion in the TSS.

Recommendations:

o) The AER has indicated an expectation of default assignment of new customers to a Cost Reflective Network Tariff with an opt-out provision in 2019-24. TasNetworks is not proposing to move to this until the subsequent period (20124-29). CCP13 recommends the AER set clear expectations in its Draft Decision and to favour a shorter timeframe.

p) The TSS should provide greater clarity on cross-subsidies and the pace of reform.

q) The AER set clear expectations regarding engagement with dominant retailer Aurora and consumers on an accelerated tariff reform program.

r) Proposing a specific tariff for 'embedded networks' raises questions of compliance with NER 6.18.4 and warrants close scrutiny by the AER.

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

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.

The cost element that has increased is that of overheads. The AER sought further information from TasNetworks on this issue and the response was accompanied by a reduction in the amount allocated to overheads. However, questions remain as to the basis of the overhead allocation and further scrutiny is clearly warranted.

Recommendations:

s) The AER should not accept the proposed increase in overheads for public lighting. TasNetworks should provide further justification for its approach.

8. Accelerated Depreciation of Legacy Meters

TasNetworks proposes to recover the full capital cost of its type 5 and 6 meter fleet in the 2019-24 period. This would increase standard meter prices by 49 per cent or $9.29 per annum.

The AER stated (Issues Paper p45) that it is unsure as to whether it is in consumers' best interests to allow TasNetworks to fully recover the capital costs of its meter fleet in the 2019-24 period.

CCP13 does not believe a strong case has been made for why the accelerated depreciation of the legacy meter fleet is in the consumer interest.

Further, we do not consider this issue to be isolated to TasNetworks and recommend that the AER provide clear guidance to all DNSPs on this matter.

Recommendations:

t) The AER should not accept the proposed accelerated depreciation of legacy meters. TasNetworks should provide further justification for why its approach is in the long-term interests of consumers.

Conclusions and Recommendations related to all DNSP Proposals

As CCP13 considered the details of the TasNetworks proposal, a number of issues arose that highlighted:

- The different approach taken by different networks to issues where a more common approach across networks might be in the long-term interests of consumers.
- Approaches by the AER to assessing NSP proposals that may benefit from a review.

Capital contributions for customer connections

This is referring to large customer connections, not residential connections. There is great variation across networks, with the current situation a mixture of historical practice, and claims by networks that they are seeking to align themselves with other networks in their jurisdiction. CCP13's starting point is "user pays" and that other consumers should not cross-subsidise larger consumers' individual connection requirements. We do not see the consumer benefits in the network contribution to these connections being part of the RAB.

We suggest the AER consider developing a guideline for customer connections driven by a user pays approach for all connections apart from residential connections.

Capitalisation of overheads

There is great variation here – from zero to ~60%. There are advantages and disadvantages from any approach. Consumers need to have confidence that whatever approach is chosen meets the NEO. They do not have that confidence now.

We suggest the AER consider develop a guideline for capitalisation of overheads.

Vegetation management - particularly in the context of bushfire risk management

This is a growth area of capex and opex for a number of networks. Networks as part of their licence conditions have to meet a range of State based regulations – some very prescriptive, some that give more discretion – and auditing procedures. We think that a more focussed review of this issue will equip the AER with much better tools to analyse network consumers proposals in this area.

Depreciation of legacy meters

With the Power of Choice reforms, networks are having to decide how it recovers the costs of its legacy meters. A common approach is for accelerated depreciation over the next regulatory period, rather than recovery over the remaining asset life. Consumers have expressed concern at the impact of this on their bills, compared with normal depreciation over their remaining asset lives.

We suggest the AER develop a position paper to assist consumers in their evaluation of different depreciation approaches to legacy meters.

Defining "not materially inefficient" in assessing base year opex proposals

This has been a complex and contentious topic since the AER's 2015 decision for NSW distributors. Consumers need to be convinced of the logic of the current AER approach that concludes that a network like TasNetworks, which is 20% below the benchmark level of the most efficient network and which is around equal 5th in productivity out of a sample of 13, is "not materially inefficient". In its original 2015 decision the AER:

> *Service providers should be aware, however, that as we refine our approach and receive more data, we may reduce the size of that margin when making adjustments to base opex to develop alternative opex forecasts.*

We would encourage the AER to consider if the information now available would lead to a reduction in the size of the margin.

Zero productivity assumption for forecast opex

This submission provides a number of comments suggesting that this assumption should be reviewed. TasNetworks are to be congratulated for offering productivity improvement for both transmission and distribution opex over the 2019-24 period when it could have followed the AER zero productivity assumption and kept 30% of the benefits under EBSS.

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Background

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

- 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.

- CCP13 was established in November 2016.

- The AER's preliminary framework and approach (F&A) for TasNetworks electricity distribution and transmission businesses was published in March 2017 with submissions closing on 21 April 2017. The NSP held a stakeholders' meeting on the preliminary F&A on 12 April which was attended by a member of CCP13. CCP13 made a submission on the preliminary F&A.

- On 24 to 27 July 2017, CCP13 members attended full day deliberative forums undertaken by the NSP in Launceston and Hobart. On this visit sub-panel members met with the NSP and the incumbent retailer. They also met with consumer representative bodies (covering the interests of small consumers and small business) as well as with some of the large electricity users in the State. These meetings provided CCP13 with the opportunity to gain insights on the network business's consumer engagement processes from the people involved and to understand some of the key consumer concerns.

- In August 2017 the NSP issued a Directions and Priorities Consultation Paper outlining the proposed revenue and pricing for its regulated services from 1 July 2019 to 30 June 2024. The NSP sought consumer and stakeholder comment on this outline. On 8 September 2017 CCP13 submitted comment to the NSP on the Directions and Priorities Paper, which along with other parties feedback, was published on TasNetworks' website.

- A member of CCP13 attended a meeting of the NSP's Customer Council on 18 October 2017. This standing body meets regularly and has members representing a cross section of consumer interests and other stakeholders (including the incumbent retailer and regulatory bodies). It considers various smatter relating to the business's consumer interface including the development of the revenue proposal. On this visit there were meetings with certain stakeholders.

- A member of CCP13 attended a meeting of the NSP's Pricing Reform Working Group on 23 November 2017. This group has members representing a cross section of consumer interests and the incumbent retailer. It considers the development of new approaches to tariffs leading to the NSP's Tariff Structure Statement (TSS) proposal. On this visit there were meetings with certain stakeholders.

- On 19 January 2018 CCP13 members participated in an AER Tariff Structure Workshop to be better informed on this matter as it relates to the NSP's TSS proposal.

- On 10 April 2018, a member of CCP13 participated in the Public Forum convened by the AER in Hobart. CCP13 presented its preliminary observations on the NSP's consumer engagement and issues of possible concern with the revenue proposal. This Public Forum

was attended by several consumer representatives and other interested stakeholders. On this visit the CCP member also met separately with some consumer representatives and other stakeholders.

- On 26 April 2018 a member of CCP13 participated in a customer and stakeholder workshop held by the NSP which considered issues raised by CCP13.
- 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 view 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.

TasNetworks positions its consumer engagement as an on-going part of its business aimed at developing a deeper understanding of customers' views and not just a process around the revenue and pricing review process. TasNetworks' on-going customer engagement model is presented in Figure 1.

Figure 1 – TasNetworks' schematic of its on-going customer engagement[1]

TasNetworks has approached consumer engagement on this revenue reset over a 21-month period leading to the submission of its revenue proposal in January 2018. The well-planned engagement process provided for a building up of ideas through a "listening" phase followed by a period of active engagement with a full range of stakeholder and consumer interests, which included consultation on a draft of the revenue proposal. The plan provides for on-going

[1] Tasmanian Transmission and Distribution Regulatory and revenue Proposal, Regulatory Control Period 1 July 2019 to 30 June 2024, Overview, p.10

engagement leading up to the NSP's submission of its revised revenue proposal in November 2018. The key milestones in the plan can be seen in Figure 2.

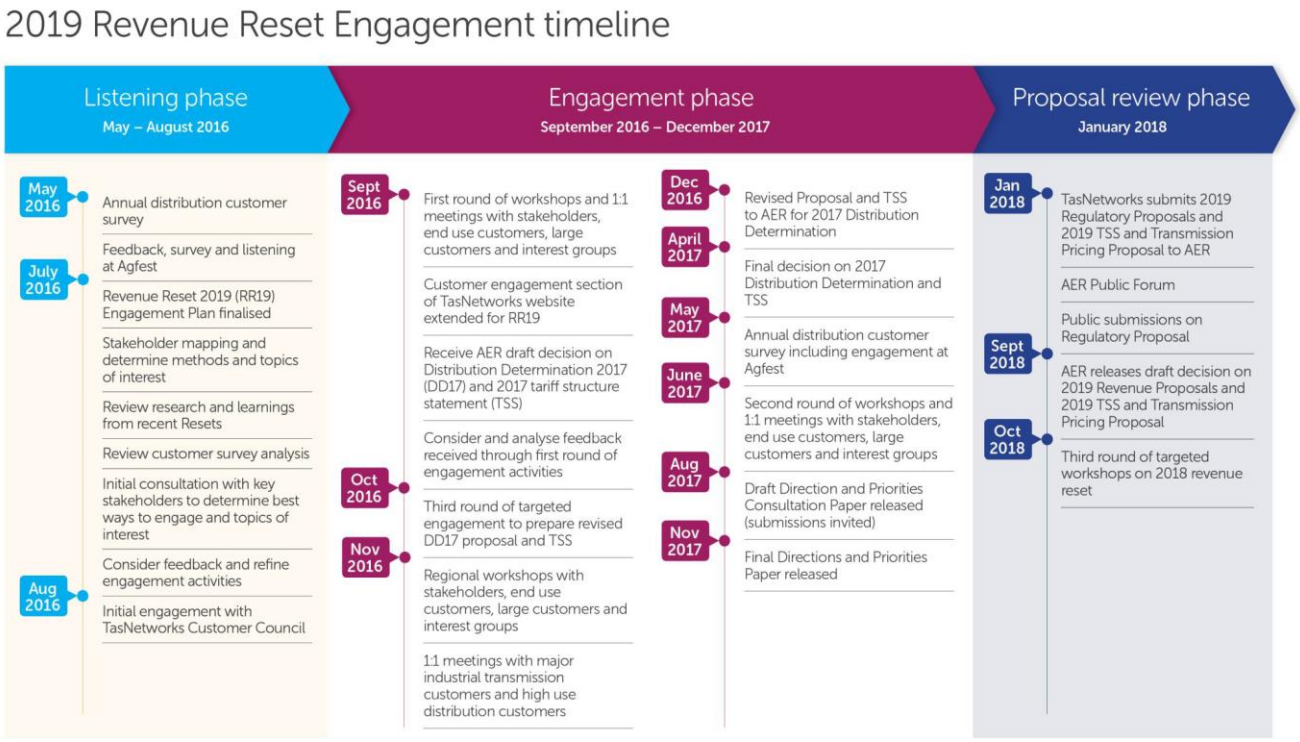


Figure 2 – TasNetworks' Engagement Timeline[2]

TasNetworks approach built on its past experience and the long lead into submission of its reset proposal provided for the development of relations and knowledge with stakeholders as well as allowing the NSP to learn and improve along the way.

TasNetworks notes that:

> *This stakeholder engagement has essentially been a continuation of the engagement undertaken as part of the 2014 Transmission Determination and the 2017 Distribution Determination processes.*[3]

Importantly, TasNetworks' engagement has not stopped at lodgement of its proposal with the AER. It has continued to engage with consumers and their representative bodies since including a well-attended half day meeting on 26 April 2018 to explain the proposal, discuss the AER's Issues Paper and address questions.

The approach in TasNetworks' plan has involved engagement with customer and stakeholder segments in a targeted fashion exploring, amongst other things:

- the differing interests of transmission customers from distribution customers and particularly the issues for the few major transmission connected customers who have businesses operating in global markets;

[2] Summary of themes from Reset 19 customer engagement, February 2017, p.4
[3] TasNetworks Revenue Reset 2019, Directions and Priorities Paper, Summary of Submissions and Key Themes November 2017, p.7

- the perspectives of householder customers in different parts of the State, including vulnerable customers and those with solar generation; and,
- the issues for small businesses and agricultural users.

TasNetworks engaged with the large transmission connected customers and some large distribution connected customers primarily through one-on-one processes and small workshops. It engaged with residential and distribution customers (which includes households, vulnerable consumers, businesses, primary industry) through a range of processes including its annual surveys, consumer workshops, some one-on-one discussions with representative bodies and through its Customer Council and Pricing Reform Working Group. It also engages with retailers, generators, State regulators and other stakeholders through the Customer Council, Pricing Reform Working Group and one-on-one contact.

This focused approach is demonstrated in Figure 3.

Figure 3 – Revenue Reset Engagement Activities[4]

The conclusions drawn from this process were summarised by TasNetworks:

> *Our **transmission customers** provided us with a range of feedback on the current and future operation of our business. The key themes were:*
>
> - *positive feedback that our costs have remained stable over the past few years;*

[4] TasNetworks - Tasmanian Transmission Revenue and Distribution Regulatory Proposal, Regulatory Control Period 1 July 2019 to 30 June 2024, 31 January 2018, p.47

- *sustained low cost is important for forecasting and future viability*
- *greater risk to businesses if power is interrupted and although reliability is good, this is still a key focus;*
- *keen to see TasNetworks demonstrate benefits and efficiencies resulting from investment in technology; and*
- *engaging with customers before making investment decisions which may impact their electricity prices has been appreciated.*

*Key messages from our **residential and distribution customer** engagement activities are summarised below:*

- *We are meeting most customers' needs from an overall reliability perspective, but for some their needs and expectations are changing.*
- *Overall satisfaction with current reliability levels is quite high. The majority of customers support our proposed strategy to maintain reliability rather than investing more to improve it.*
- *The same for the same. While improvements in reliability and outage response could strengthen satisfaction, customers are not willing to pay higher prices for these improvements.*
- *Continual improvement in how we communicate with customers is critical. This includes use of social media platforms, such as Facebook.*
- *Customers recognise that technology is changing the electricity industry, particularly in relation to solar panels, battery storage and electric vehicles.*
- *Customers recognise that the nature of the grid is changing and are interested in distributed energy resources and the capacity to use the network to trade energy.*
- *The majority of our customers are concerned about affordability, but some want new technologies and/or better outcomes and are prepared to pay for these improvements within reasonable bounds.*[5] [Emphasis added]

TasNetworks has actively sought to inform on the feedback from its consumer engagement process and how it has sought to address this including:

- Papers in November 2017[6] setting out submissions on its draft proposal (as set out in the Directions and Priorities Consultation Paper in August 2017) and proposed responses.

[5] Ibid. p.47-48

[6] Directions and Priorities Consultation Paper – Transmission and Distribution Determination 2019-24, August 2017; and, TasNetworks Revenue Reset 2019 – Directions and Priorities Paper Summary of Key Themes November 2017

- A summary table in the Proposal Overview document and the Tariff Structure Statement setting out issues, customer feedback and how these are addressed in the proposal as well as sections addressing feedback from retailers and CCP13[7].

- In the detailed revenue proposal summaries of customer feedback in the sections covering the Revenue Capped Services and Alternative Control Services[8].

This is valuable to consumers and other interested parties (including the CCP) in being able to see how listening to consumers has turned into action and how positions in the proposal are justified in light of consumer feedback on relevant issues.

The following sections consider the consumer engagement in more detail and its effectiveness.

A.2 Consumer Engagement Reviewed

Residential & Distribution Customers

TasNetworks has for some years carried out annual research to give it a better understanding of its customers. The research surveys people by telephone, on-line (visitors to its website) and sampling at public events (AgFest and EconFest in 2017). The report for the 2017 survey[9], which involved 1482 respondents, provides comparisons to the preceding two years of survey results and sets out things like:

- domestic or business customer;

- demographics of respondents (age, gender, household structure, income range);

- size of electricity bill, household make-up, concessions received;

- solar and battery storage installed.

Respondents were asked questions about reliability, response, pricing and services.

From the responses and the comparison year to year high level conclusion are drawn on satisfaction with services, price and other matters and potential next steps identified.

This type of survey is necessarily limited by is scale and the level of knowledge/engagement but TasNetworks correctly observes that:

> *…research is undertaken annually to understand customers better and provide guidance on how we could improve our performance. By undertaking this research annually, we can track changes in customer preferences and respond to emerging issues. It also provides a useful cross-check on the feedback received through our qualitative aspects of our engagement process.*[10]

[7] TasNetworks Tasmanian Transmission and Distribution Regulatory and revenue Proposals – Regulatory Control Period 1 July 2019 to 30 June 2024 Overview, p.13 & p.16-18

[8] TasNetworks - Tasmanian Transmission Revenue and Distribution Regulatory Proposal, Regulatory Control Period 1 July 2019 to 30 June 2024, 31 January 2018, Sections 7 & 17

[9] TasNetworks Customer Engagement May 2017, Nature Research

[10] Tasmanian Transmission Revenue and Distribution Regulatory Proposal, Regulatory Control Period 1 July 2019 to 30 June 2024, 31 January 2018, p.48

It can also be a useful indicator to help direct further, more detailed, enquiry and with the other more in depth and focused activities undertaken does help TasNetworks build a more rounded picture of the consumers' thinking.

To dig deeper TasNetworks undertook a series of customer workshops commencing in 2016 including:

- Regional customer workshops in Burnie, Nubeena and Queenstown[11]; and,
- Workshops in Hobart and Launceston (with around 25 participants at each)[12].

Building on the feedback from these workshops in 2016, day long workshops were held in each of Launceston and Hobart over a weekend in June 2017. CCP13 members attended one or both of these deliberative forums.

The objective of these customer engagement workshops is described as:

- ***Test and receive feedback on TasNetworks future plans to confirm*** *they address customer concerns*
- *Provide customers with contextual information about TasNetworks, regulatory environment and pricing reform*
- *Ensure new participants come up to speed and use existing participants to build trust and knowledge of the process and TasNetworks*
- *Receive* ***feedback on specific elements*** *that can be influenced by the customers*
- *Build trust and respect for TasNetworks, its commitment to customers and engagement and its professionalism in managing Tasmania's electricity network and distribution.*[13] [Emphasis added]

These objectives indicate that the workshops were not a completely open and undirected process seeking out any and all customer concerns (although these may in this context, and by CCP observation, arise). The workshops were testing the NSP's plans to confirm that they address customer concerns and get feedback on specific matters. They were also, in part, a public relations event as the last objective says.

The workshops were attended by 35 people in Launceston and 26 people in Hobart with a number of participants having been involved in previous TasNetworks customer engagement workshops. The new attendees were recruited by phone up and were placed on tables with past attendees. Past attendees provide some "experienced" input and can share that experience with new participants. By CCP observation, there did not appear to be any activist or highly motivated participants which may have enlivened the process somewhat.

The workshops were independently facilitated with topics introduced by presentation from TasNetworks personnel. It was very good to see the senior management of TasNetworks represented in large number presenting and engaging with participants. This level of

[11] Summary of themes from Reset 19 customer engagement February 2017, p.5
[12] TasNetworks Customer Engagement, Report of customer workshops, September 2016, StraightTalk Dec 2016
[13] StraightTalk - TasNetworks Customer Engagement – Customer Engagement Workshops Report, June 2017, p.3

commitment to the process (on a Saturday and Sunday) demonstrates a positive consumer culture within the NSP and speaks to the participants in the workshop that their views might matter.

At the start of the day it was recognised that participant knowledge of the electricity industry and the NSP's issues was limited. Throughout the day effort was made to inform ahead of seeking feedback. There are naturally limitations to how well people unfamiliar with the industry will be able to provide informed responses in a one-day session.

The day covered the following[14]:

- Scene setting - overview of TasNetworks, the regulatory environment, the electricity market, pricing, reliability of supply and the major cost factors of capital expenditure and operational expenditure; show of indicative revenue profiles.
- What is important to customers - TasNetworks hears that people want the same reliability for the same price and this has informed much of its future planning so far; does this line up with what participants think?
- Network pricing and forecast revenues – Presented indicative capital and operating expenditure, and what this means on the retail bill.
- Innovation – investment to meet evolving challenges.
- Grid investment and maintenance – Focus on reliability with issues like vegetation management, bush fire mitigation maintenance and outages discussed.
- Technology - propose to increase our technology spend to support better customer outcomes given the preference to keep prices lower over higher service levels.
- General discussion.

Throughout the day CCP members observed a reasonable level of engagement and understanding. We heard comments (paraphrased) like:

- Running a business means doing more for less – spending more money is lazy.
- How do we know we are not being ripped off?
- Why are electricity prices still going up when TasNetworks' revenue is going down?
- Benchmarking to other businesses would help understand TasNetworks' costs.
- Is something going to be done with this consumer engagement?
- Some past participants in the process said TasNetworks had delivered on past processes.
- Its hard to understand the building block spending because the numbers are so big.

[14] ibid. p,32

Participants also completed pre and post workshop surveys which were intended to help TasNetworks understand what participants understood about electricity and their priorities and to evaluate the engagement process itself[15]. This demonstrated TasNetworks efforts to learn from and improve its consumer engagement. CCP13 commends the pursuit of continuous improvement of consumer engagement.

This type of engagement does provide an NSP with useful direct feedback from members of the community. Whist a cross section of the community was brought together as a representation of consumers' views the workshops had a number of limiting factors including: the small sample number, the short duration of the engagement, the need to feed sometimes technical/unfamiliar information to participants, and the need to lead discussion on issues. The learnings from such sessions are sound indicators of consumer views but must be considered with a range of other engagements. Some NSPs are now looking to overcome some of these limitations with innovations like multi-day workshops of the same people.

Large Users

A small number of major users in Tasmania account for ~50% of the power consumed from the transmission network – Bell Bay Aluminium, Norske Skog, TEMCO, Nystar, Grange Resources and Forico. Given their importance TasNetworks engaged directly with them through a series of one-on-one focused meetings that were separate from the more general consumer engagement activities. CCP13 received comments from a number of these large users that were overall very supportive of the consumer engagement. They talked about:

- The genuine engagement with TasNetworks being much more proactive than during the last reset; there was a much stronger customer focus leading overall to a very good engagement process.
- As a result these large customers have a much better understanding of their businesses' position for the 2019-24 period.
- While this price path provided for a small reduction in price, these businesses are subject to strong international competition and further falls will be required to help regain the margins required to keep them in business.
- Their strong opposition to the proposed contingent projects – this is discussed further in a separate section of this submission.
- Looking forward to how the TasNetworks proposal would support the Tasmanian Energy Minister's comment that:[16]

  "…his top priority was to deliver the lowest power prices in the nation for Tasmanians by 2022."

Customer Council

TasNetworks' Customer Council is a standing body of representatives of consumer bodies and other stakeholders including TasCOSS, Anglicare, Aged Care Association, representatives of

[15] Ibid. P.5

[16] http://www.themercury.com.au/news/politics/new-energy-minister-guy-barnett-says-lowest-possible-power-prices-for-tasmanians-top-priority/news-story/02d96bd8f4b4c692f40906d388739b52

small business, agriculture, local government, [17] the State Ombudsman and the incumbent retailer.

The Customer Council meets three or four times a year and considers a diverse range of issues relating to the business and the community it operates in, including consideration of aspects of the reset proposal. A CCP member attended a Customer Council on October 2017 which covered a range on matters over four hours including:

- hearing from the CEO on changes in the energy sector and challenges for TasNetworks;
- a review of the proposed changes to pricing;
- issues from consultation on the draft proposal (the Directions and Priorities Consultation Paper);
- reviewing new communications material on electrical safety noting changes arising from the Council's previous input.

This range of issues that the Customer Council engages with builds a more rounded knowledge of the business in the participants as well as demonstrating TasNetworks' interest to engage on a breath of matters affecting the community in which it operates.

CCP13 members met separately with most of the consumer bodies and other stakeholders represented on the Customer Council (and the Pricing Reform Working Group) over the course of the last ten months and has maintained on-going contact with many. In the main, there has been positive feedback from these parties on how TasNetworks has engaged and sought to understand and account for their concerns. There are of course matters where some parties would like to have seen TasNetworks account for their concerns differently and would like more and timely information or contact at more points along the process. However, the general recognition that TasNetworks is doing a pretty good job on consumer engagement is encouraging.

Greater transparency on the activities of the Customer Council would be beneficial in allowing the community to see the work done by the Council on its behalf. At the moment there is almost no reference to it in the TasNetworks' website and certainly it does not enjoy the transparency that the Pricing Reform Working Group has though TasNetworks' website.

Pricing Reform Working Group (PRWG)

The Pricing Reform Working Group (PRWG) was established in 2014 (and then known as the TasNetworks Tariff Reform Working Group) to provide advice on customer needs and issues for the NSP's pricing strategy. In 2016 its was expanded to include greater business customer representation along with original members including electricity retailers, customer advocacy groups, and independent energy advisors.

The PRWG met several times throughout 2017 and 2018 with CCP members attending a number of the meetings. Key issues considered included[18]:

[17] Summary of themes from Reset 19 customer engagement February 2017, p.10

[18] TasNetworks Tariff Structure Statement, Regulatory Control Period 1 July 2019 to 30 July 2024, pp. 33-34

- the preferred methodology for calculating a demand based time of use network tariff for low voltage customers;
- preferences regarding to the pace of tariff reform;
- options for incentivising the Distributed Energy Resources (DER) 'early adopter' tariff and other demand based time of use tariffs for low voltage customers;
- provide feedback on TasNetworks' proposed 2019-24 Tariff Structure Statement (TSS);
- hear about TasNetworks' tariff trials;
- feedback on the AER's decision on the 2017-19 TSS.

Members of CCP13 found the meetings attended to be highly productive with TasNetworks providing quality information and with robust discussion promoted.

The TasNetworks' website provides excellent transparency on its tariff reform activities and the PRWG with background information, the terms of reference of the PRWG, presentations to it and its minutes[19].

The PRWG is most closely aligned with the development of the TSS proposal and, in our view, represents a well-functioning engagement forum for Tasmanian customers. We note, for example, TasNetworks engagement with the local government sector on public lighting prices. We have received positive feedback on TasNetworks engagement despite ongoing disagreement around the allocation of significantly increased overheads to the public lighting service.

TasNetworks has proposed to introduce new tariffs for Embedded Networks. It is not clear to us that these tariffs were part of PRWG deliberations or that engagement occurred in any other forum.

Release of the Draft Proposal – Directions and Priorities Consultation Paper

The Direction and Priorities Consultation Paper set out, at a relatively high level, the key elements of reset proposal TasNetworks planned to submit to the AER. It was published in August 2017.

TasNetworks received submissions on the Directions and Priorities Consultation Paper in writing and via emails and one-on-one conversations.

Written submissions were received from a number of parties[20] including:

- Tasmanian Renewable Energy Alliance;
- Tasmanian Council of Social Services;
- Tasmanian Small Business Council;

[19] https://www.tasnetworks.com.au/customer-engagement/tariff-reform/

[20] TasNetworks Revenue Reset 2019, Directions and Priorities Paper, Summary of Submissions November 2017, p.8

- Tasmanian Farmers and Graziers Association;
- Council of the Aging;
- Aurora Energy;
- ERM Energy;
- Tasmanian Irrigation.

CCP13 also made a written submission and most submissions can be seen on TasNetworks' website[21].

In October 2017 TasNetworks provided these parties and other stakeholders with a report summarising the feedback and indicating how it would deal with this including further engagement on the issues with the Customer Council and the Pricing Reform Working Group and with customers and stakeholders on a one-on-one basis. This paper was updated and published in November 2017[22].

The TasNetworks' website provides some transparency on the Directions and Priorities Consultation Paper with the background information (like the TasNetworks Transformation Roadmap 2025 and past consultations), the paper itself and all submission accessible but it does not provide the TasNetworks Revenue Reset 2019, Directions and Priorities Paper, Summary of Submissions November 2017 document [23], which may have been helpful.

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.

Since the publication of the Regulatory Proposal, there has 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. Following discussions with CCP13, we welcome TasNetworks' decision to put a much greater focus on consumer engagement around contingent projects which is outlined in more detail in the section dedicated to contingent projects where we make some suggestions around matters that this engagement might cover.

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

[21] https://www.tasnetworks.com.au/customer-engagement/submissions/
[22] Ibid.
[23] https://www.tasnetworks.com.au/customer-engagement/submissions/

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.

A.3 Conclusion

Overall, with the exception of the consumer engagement on contingent projects until the time of submitting the Regulatory Proposal, TasNetworks is to be commended for a committed, well planned and well executed consumer engagement process to support its 2019 to 2014 reset proposal.

As can be seen from the review above, TasNetworks sought to engage with the full range of consumer (large, small, vulnerable, in business, on the land, into solar) though a variety of channels, so improving the quality and scope of the voice given to consumers. 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.

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 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.

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.

A.4 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 reset proposal.*

b) *That TasNetworks continue this standard of engagement through the remaining stages of the determination process (and ongoing). Particular attention is warranted on issues of pricing reform and contingent projects.*

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 and prices

For Transmission, TasNetworks is proposing a real 17% decrease in average annual revenue for the 2019-24 regulatory period compared to the allowance in the 2014-2019 period (Issues Paper p15).

For Distribution, TasNetworks' is proposing a real 7% increase in average annual revenue for the 2019-24 regulatory period compared to the allowance in the current, relatively short, 2017-19 determination.

As can be seen in Figure 4, the combined effect is a relatively flat total revenue over the period.

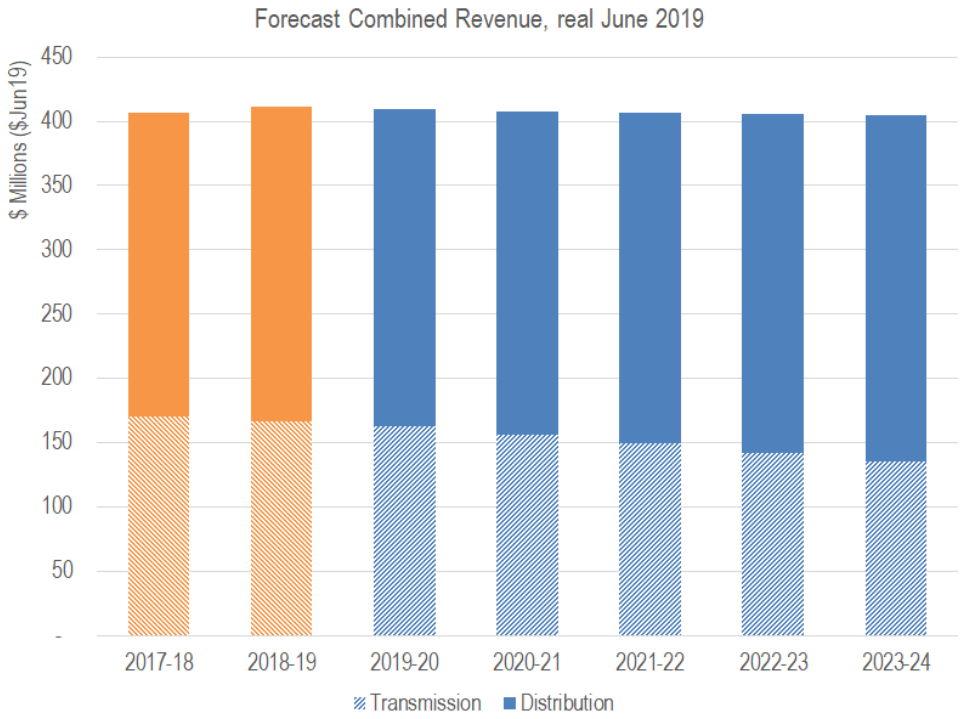


Figure 4: Forecast Revenue, TasNetworks (Source: Rest RINs).

In terms of prices, TasNetworks has proposed annual increases in distribution of 2 per cent in real terms and annual decreases in transmission of 5.6 per cent in real terms (Issues Paper p15-16). Overall, the AER expects a 1.8% real increase in total network charges over the regulatory period (Issues Paper, p15).

Significant capital expenditure programs will increase the real size of the Regulatory Asset Base of the network. The red dashed-line in Figure 5, below, represents the current RAB value in real terms in order to illustrate the steady growth proposed.

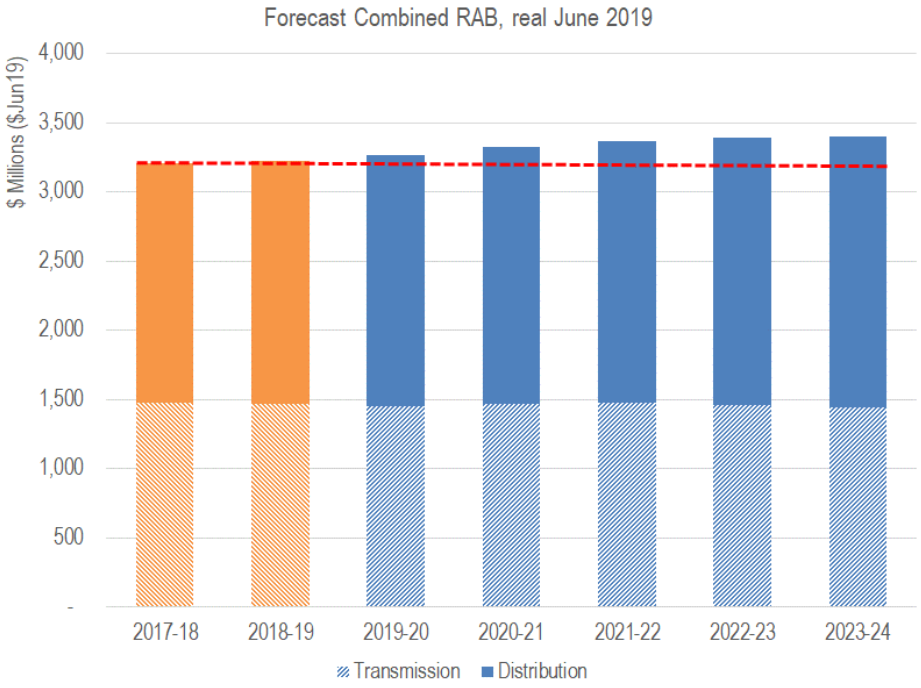


Figure 5: Forecast Regulatory Asset Base(s), TasNetworks (Source: Reset RINs)

The table below shows the 11.8% increase for distribution[24]:

$June 2019	2018/19	2023/24	% change
Transmission	1,467,4	1,441.4	-1.8%
Distribution	1,755.8	1,962.2	+11.8
Total	3,223.2	3,403.6	+5.6

The ex-ante Transmission proposal results in a real 0.5 percent reduction in the Transmission RAB. However, as noted in the Issues Paper (p23):

> *… TasNetworks' transmission RAB may well increase by the end of the period. TasNetworks has proposed five contingent projects estimated at over $938 million, or more than three times TasNetworks' proposed capex. Should all these contingent projects proceed, they would increase TasNetworks' transmission RAB by more than 60 per cent.*

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.

Our approach to assessing the proposal is discussed in the following section. Detailed discussion of key elements and subsequent recommendations follow.

[24] Proposal pp159-161

B.2 National Electricity Objective: Framework for Assessing the Proposal

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. The AER's Issues Paper also discusses the NEO and its interpretation at Appendix A (p45-46):

> *When the constituent components of our decision are considered together, this means there will almost always be several potential, overall decisions. More than one of these may contribute to the achievement of the NEO. In these cases, our role is to make an overall decision that we are satisfied contributes to the achievement of the NEO to the greatest degree (NEL, s. 16(1)(d))*

Our overall assessment is that the proposal from TasNetworks does not demonstrate that it is in the long-term interest of consumers "… *to the greatest degree*".

In reviewing the regulatory proposal we have asked 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 and TasNetworks own 2025 Roadmap?
  - How does the proposal fit with contingent projects being advanced through RIT-T processes?

Our summary views on the three dimensions of economic efficiency in relation to this regulatory proposal follow:

Productive Efficiency

The pursuit of productive efficiency for an Electricity Network Service Provider is compromised by the absence of competitive market forces. We also acknowledge that the productivity benchmarking of TNSPs is not yet a mature activity and methodological changes are likely[25].

In our view, TasNetworks has not demonstrated that 2017-18 represents an efficient base year for Opex forecasts and further scrutiny is warranted.

[25] The AER is currently conducting a review of Transmission Benchmarking www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/review-of-economic-benchmarking-of-transmission-network-service-providers-2017/initiation

Allocative Efficiency

The pursuit of allocative efficiency refers to the alignment of production with consumer preferences. In the context of regulated energy infrastructure, this refers to issues such as pricing and the provision of regulated "services" only up to the point of consumer's willingness and capacity to pay. In order to form an overall view on allocative efficiency, we have considered:

- Consumer engagement to elicit preferences
- Pricing reform
- The use of Value of Customer Reliability (VCR) estimates in expenditure decisions[26]

In our view, TasNetworks' proposal could make more progress on the pursuit of allocative efficiency for Tasmanian electricity consumers. While we have reported positively on TasNetworks CE we have observed some dis-satisfaction in relation to the pace and direction of pricing reform and have observed use of VCR in capex proposals that indicate a greater willingness to pay than VCR surveys suggest.

Dynamic Efficiency

The pursuit of dynamic efficiency for a regulated energy business relates to how efficiently the business can innovate and navigate the inevitable changes appearing in energy markets. The ENA and CSIRO released the Network Transformation Roadmap on 28 April 2017[27]. In our view, this Roadmap represents the state of the art in the pursuit of dynamic efficiency for an Electricity Network business such as TasNetworks.

TasNetworks Transformation Roadmap 2025 translates the ENA/CSIRO work to the Tasmanian context. Both documents have milestones in the mid-2020's so any foundation work needs to occur in the 2019-24 regulatory period.

Our assessment of consumer engagement on contingent projects and aspects of tariff reform unfortunately impact on the proposal's pursuit of dynamic efficiency. Our summary assessment is that, since the risk of under-utilisation of assets is placed entirely on consumers, TasNetworks' proposal must do more to demonstrate improvements in dynamic efficiency.

[26] We note that the AEMC is processing a Rule Change that will allocate responsibility for setting and maintaining VCR values to the AER www.aemc.gov.au/rule-changes/establishing-values-of-customer-reliability

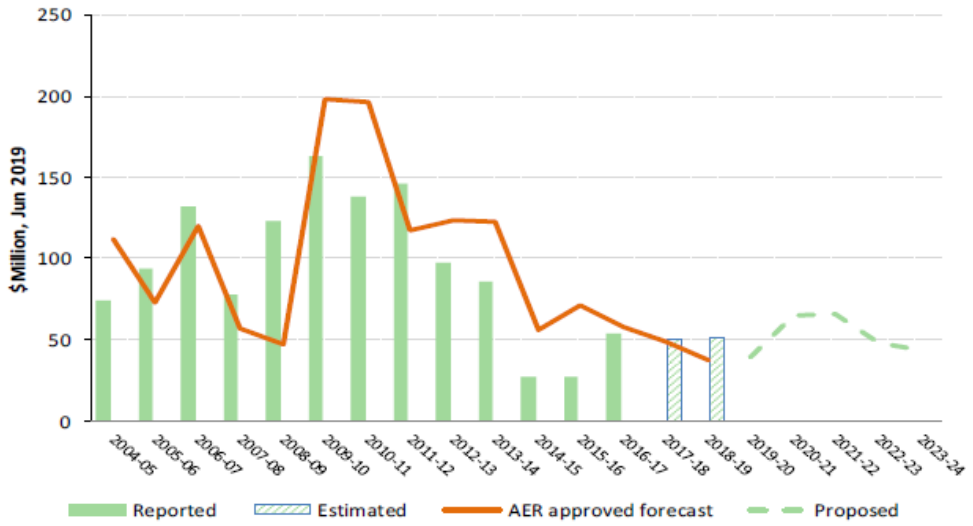
[27] www.energynetworks.com.au/electricity-network-transformation-roadmap

B.3 Capital Expenditure

TasNetworks' Proposal

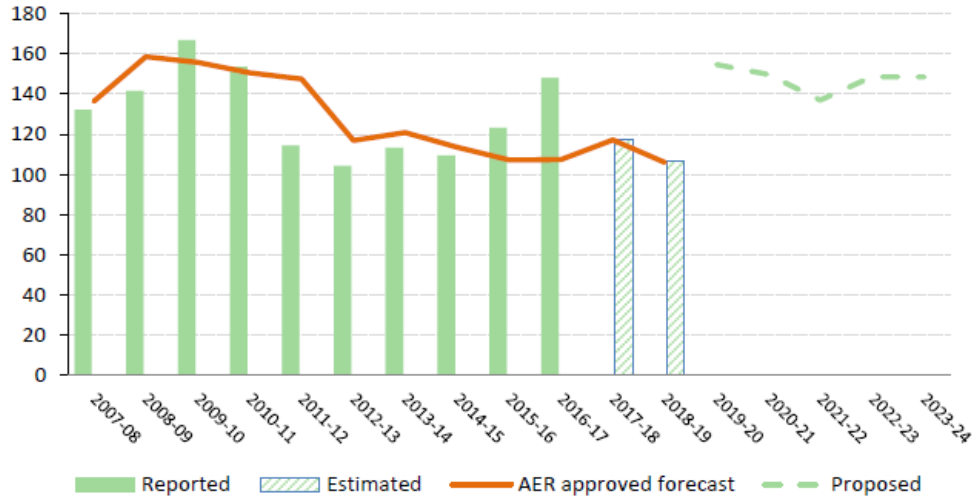
TasNetworks' Transmission capital expenditure in the current period was less than the AER approved forecast while Distribution capex was slightly overspent in recent years (Issues Paper p26-27). The longer terms trends and the proposed expenditures are shown in the following figures from AER's Issues Paper:

Figure 13 TasNetworks' transmission capex compared to our forecasts



Source: AER analysis

Figure 15 Historical and forecast distribution capex



Compared to the actual and expected expenditure for TasNetworks in the current period, TasNetworks has proposed to increase transmission capex by 30 per cent to $260m across the period and distribution capex by 23 per cent to $770m. There is also the possibility that actual capex for transmission may be much higher than forecast. TasNetworks has proposed five contingent projects valued at over $938 million (Issues Paper p25).

The AER Issues Paper states (p28):

… we are interested in stakeholder views on the reasonableness of TasNetworks' capex proposal and how well it reflects the key themes emerging from its consumer engagement.

CCP13 has reviewed the capital expenditure breakdowns provided in the Reset Regulatory Information Notices (RINs) in order to highlight the expenditure priorities. Figure 6, below, illustrates the proportion of capital expenditure in key categories by both Transmission and Distribution.

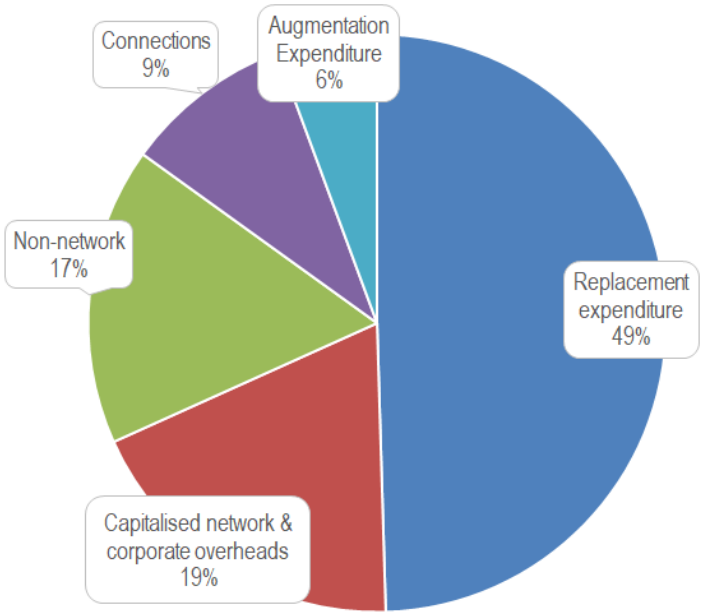


Figure 6: Categorisation of Capex, Combined Transmission and Distribution, TasNetworks 2019-24 (Source: Reset RINs)

As can be seen, the three largest categories represent around 85% of expenditure. These are discussed further below.

Replacement Expenditure

CCP13 has reviewed the replacement capital expenditure breakdowns provided in the Reset RINs in order to highlight the expenditure priorities. Figure 7, below, illustrates the proportion of Repex in key categories for both Transmission and Distribution:

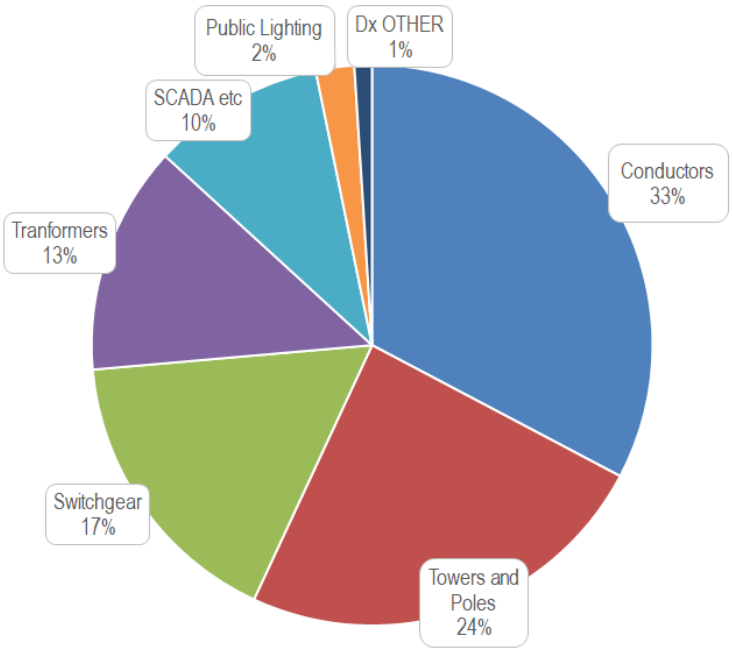
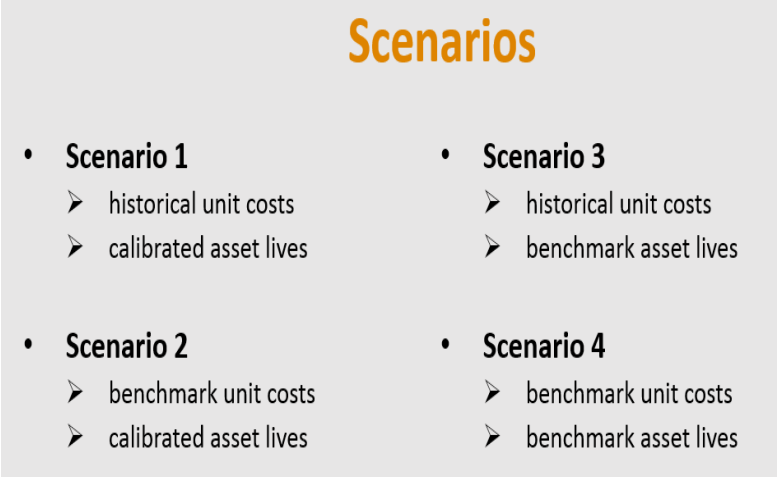


Figure 7: Categorisation of Repex, Combined Transmission and Distribution, TasNetworks 2019-24 (Source: Reset RINs)

We look forward to the AER's review utilising its revised scenario based repex model to identify boundaries for the efficient level of capex. The AER believes that networks should aim for somewhere between Scenario 2 and Scenario 3:



We understand that the initial application of the AER's repex model, covering >90% of TasNetworks distribution renewal capex (excluding capitalised overheads) resulted in an efficient level of capex significantly below the TasNetworks proposal. We encourage TasNetworks to continue working with the AER to resolve the differences.

We also look forward to the report from the technical specialist the AER has engaged to review TasNetworks' Capital Expenditure program and we look forward to that review forming part of the Draft Decision.

CCP13 undertook a detailed review of two proposed distribution repex projects and have concerns that the analysis is not sufficient to justify the investments proposed.:

Replace LV CONSAC Cable

This project extends an existing program of replacing CONSAC cables that were installed in residential subdivisions in the 1970s. The 2017-19 Regulatory Period seeks to replace 12km per annum. The business case for the 2019-24 period considers four options: Do nothing vs replace 6km pa vs 15km pa vs 24km pa. TasNetworks' preference is Option 2: Replace 15km pa over the regulatory period.

The economic analysis is based on reduction in maintenance costs and estimates of un-served energy (USE) in each case. The cost of USE is determined by multiplying the estimate of USE (in MWh) with an estimate of the Value of Customer Reliability (VCR).

We observed that the analysis used a VCR of $39,430. This figure is taken from the AEMO VCR Study as the figure recommended for Tasmania (not including Direct Connect customers). However, we also note that, according to the AEMO VCR Application Guide the VCR used for analysis should be representative of the customers in question. At Section 2.1 *Demand weighted locational VCRs* (page 8):

> *"The VCR value for a customer group typically varies less across locations in the NEM than between customer groups. This makes it possible to use NEM-wide values to calculate indicative locational VCR values based on each group's share of local demand."*

Given our understanding that this is a residential issue, a residential VCR should be used for the base case. From the AEMO VCR Study this is $28,580/MWh, less than 75% of the $39,430 value used see Figure 8:

APPENDIX A. VCR VALUES

Please note that New South Wales includes Australian Capital Territory.

Table 1 NEM-wide and state VCR values ($/kWh)

	NEM	New South Wales	Victoria	Queensland	South Australia	Tasmania
VCR excluding direct connect customers	39.00	38.35	39.5	39.71	38.09	39.43
VCR including direct connect customers	33.46	34.15	32.62	34.91	34.06	25.62

Table 2 Residential VCR values ($/kWh)

Location	NEM	New South Wales	Victoria	Queensland	South Australia	Tasmania
Residential VCR	25.95	26.53	24.76	25.42	26.88	28.58

Table 3 Business VCR values ($/kWh)

Sector[1]	Agriculture	Commercial	Industrial
Sector average	47.67	44.72	44.06
Small size[2]	54.87	57.13	69.66
Medium size	51.81	57.28	64.44
Large size	46.41	42.13	39.13

Figure 8: Extract of Appendix A from AEMO's 2014 VCR study[28] (highlight added).

[28] AEMO, 2014, *Value of Customer Reliability final report appendix*, pp. 5. Retrieved 28th April 2018 from: www.aemo.com.au/-/media/Files/PDF/VCR-final-report-appendix--PDF-updated-27-Nov-14.pdf

When this revised value is entered into the (confidential) economic model, the Option with the highest Net Present Value (NPV) is Option 1, replace 6km per annum.

Further, the AEMO VCR Application Guide makes the following recommendation regarding sensitivity analysis (page 15):

> *Given the importance of the VCR in network planning, AEMO considers it prudent to undertake sensitivity analysis when conducting RIT-T and RIT-D assessments, to test how sensitive investment decisions are to the VCR input. Based on advice from academic advisors, a range of +/-30% VCR is considered reasonable for this purpose. Should the sensitivity analysis highlight that the investment decision changes depending on the VCR value used within that range, this would trigger further investigation of the VCR value to try to improve the accuracy. Depending on the situation, this may mean using a more detailed VCR value (such as a locational VCR, an outage-weighted VCR or a combination of both) or directly consulting with stakeholders to supplement the VCR with extra local knowledge.*

We observed that sensitivity testing of the central VCR estimate included the lower bound value of $25,000 (approx. -37% of the central estimate) and a change in preferred option can be observed. It is not clear if, according to the Application Guide, this was investigated further.

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*".

Accompanying the safety-driven need, 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, builds a business case using estimates of potential Unserved Energy (USE) and multiplying this by AEMO-based Value of Customer Reliability (VCR) figures.

The Net Present Value (NPV) of the case to replace in the 2019 Regulatory Period is only 2% lower than the NPV to replace in 2024 Regulatory Period, with difference in USE cost forming the largest component.

Our review indicates that the analysis overestimates the potential USE by a factor of around 10 by not using the load profile of Chapel Street substation. Replicating the analysis with these alternate USE figures changed the results of the analysis to indicate Option 2 (defer to subsequent Regulatory Period) has the highest NPV.

The model estimated USE by first retrieving the connection point maximum demand forecasts from the 2017 Annual Planning Report. Deducted from these forecasts was the substations load transfer capability (37.1 MW), and the result was multiplied by 24 hours (an estimate of the mean time to repair) to determine USE.

We reviewed the substation load profile on the historic maximum demand day – shown in **Figure 9** – which showed that the load is in excess of the load transfer capability for only a few hours

on the peak demand day (seen where the lower curves exceed zero). Supporting this specific finding is the general comment from TasNetworks' Annual Planning Report 2017[29]:

> *[p73]: The distribution network within Hobart is heavily interconnected; this means large portions of load can be transferred between substations for short periods.*

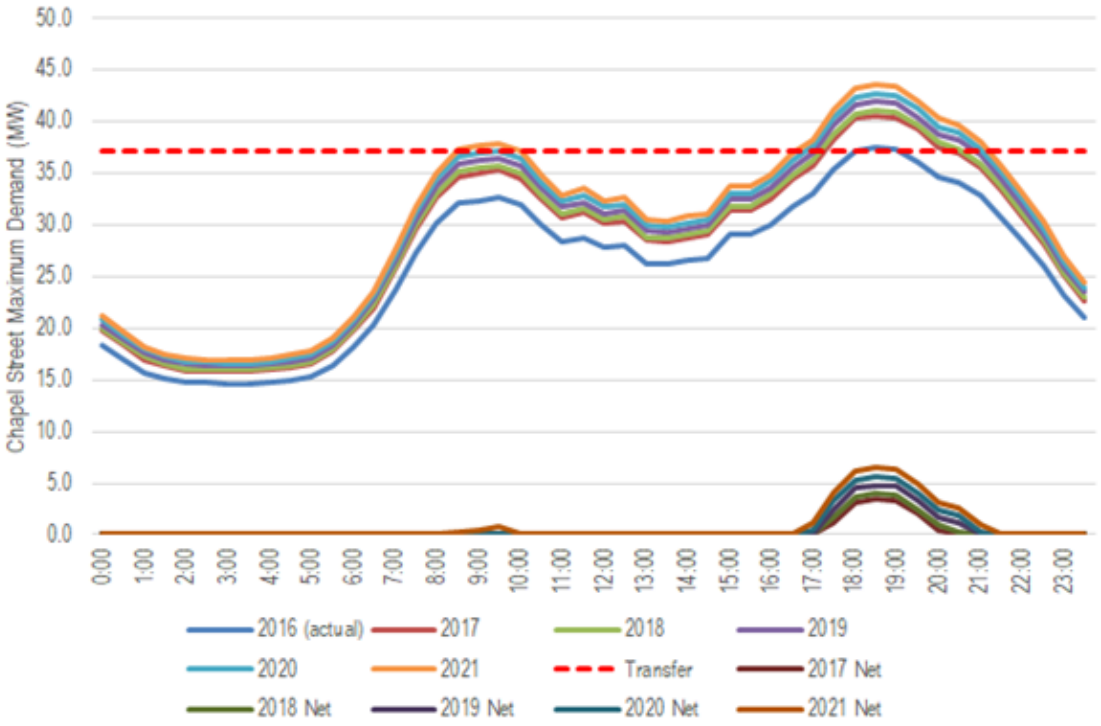


Figure 9: Chapel St Substation Connection Point Maximum Demand Load Profile, and substation load transfer capability – the dashed line at 37.1 MW (Source: Annual Planning Report 2017)

To test the impact of the chosen duration, we applied the same methodology but instead used the Maximum Demand day (MW) load profiles and deducted the 37.1 MW load transfer capability to arrive at the figures in Table 1: in essence the USE on the maximum demand day of the year (the "*time to restore full load"* over a 24-hour period). This table also compares these net load figures to the original figures in the model, highlighting the approximate factor of 10 overstatement of USE.

	2017 Net	**2018 Net**	**2019 Net**	**2020 Net**	**2021 Net**
Net (MWh)	6.8	8.4	11.3	14.5	18.7
Original (MWh)	87.4	98.9	117.6	136.8	155.3
Net as %	8%	9%	10%	11%	12%

Table 1: Comparison of load at risk

The business case is also dependent on key assumptions related to relative probabilities of failure, yet this does not form part of the sensitivity analysis, nor is there an analysis of historical defects.

[29] www.tasnetworks.com.au/our-network/planning-and-development/planning-our-network/

Overall, our view is that the economic analysis is not sufficient to justify an investment based on reliability. In our view, the prioritisation of individual projects may best be conducted at the program level (i.e. the same as the Asset Management Plan and Risk Assessment).

The combined value of these projects should be considered in the context of the Regulatory Investment Test (RIT) threshold of $6m for Transmission and $5m for Distribution.

Capitalised Network and Corporate Overheads

Around 19% of Capital Expenditure relates to these overhead categories. In reviewing the RIN, we observed a substantial increase in the category *Capitalised corporate overheads* (from $1.7m in 2018-19 to $9.2m in 2019-20) but did not locate an explanation.

Consumers will expect the AER to form a view on the reasonableness of this level of overheads.

Non-network Capital expenditure

Around 17% of overall capital expenditure is categorised as 'Non-network' ($172m). Expenditure can be further broken down into key categories of IT & Communications (77%), Motor Vehicles (12%), Buildings & Property (9%) and 'Other' (2%).

The IT and communications (comms) category includes significant expenditure on 'IT Infrastructure, Security and Support' ($38m for both Transmission and Distribution) and 'Market Systems' ($45m for Distribution). According to the Regulatory Proposal (p.128):

- *IT Infrastructure, Security and Support*

  As noted in relation to transmission, this area involves various expenditures driven by asset end-of-life or increased capacity requirements in the areas of end-user computing, IT management and toolsets, IT network core services, collaboration tools, and application delivery mechanisms. The costs are shared across transmission and distribution.

- *Market Systems*

  Significant initiatives in this area include:

  *- Market Data Management System (**MDMS**) Replacement*

  The MDMS is the primary repository of installation, customer, and metering data. The existing MDMS will be 20 years old and at end-of-life in 2025, when this initiative is planned to be completed. The replacement of the MDMS is programmed to follow on from the replacement of the customer connection works management tool.

  MDMS replacement involves a total cost of $63 million. Based on the expected SAP implementation timeline, this cost is split across the forthcoming regulatory period ($30 million) and the subsequent period commencing in 2024 ($33 million).

IT and comms also dominates non-network opex forecasts and represents 70% of total forecast non-network expenditure across the period ($241m, averaging $48m per annum). In

our view, this seems to be an extraordinary level of expenditure for a business with less than 800 employees and less than 300,000 customers.

We recognise that some of this expenditure results from TasNetworks having to comply with NEM standards where economies of scale mean there can be significant fixed costs irrespective of the number of customers served. Nevertheless, CCP13 recommends the AER pay particular attention to IT and Communications expenditure in the 2019-24 regulatory period.

Customer contributions

CCP13 welcomes the TasNetworks connection policy that is designed to ensure a "user pays" approach and that smaller, more vulnerable customers are not required to subsidise new connections for larger customers.

There is great variation across networks in the relative proportions of customer vs network contributions to new connections. The current situation a mixture of historical practice and claims by networks that they are seeking to align themselves with other networks in their jurisdiction. CCP13's starting point is "user pays" and that other consumers should not cross-subsidise larger consumers' individual connection requirements. We do not see the consumer benefits in the network contribution to these connections being part of the RAB.

But it is not just a matter of the full capex costs being borne by new connection. There is also a case for the full opex associated with that connection to be borne by the new connection rather than being part of recovery for standard control services.

Recommendation(s)

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

B.4 Contingent Projects

TasNetworks' Proposal

TasNetworks has proposed 5 contingent projects for the transmission network. Total estimated capital cost is $938m. This compares with a proposed ex ante transmission capex of $260.6m for the 2019-24 period.

Project	Estimated capital cost
1. Second Bass Strait interconnector (2IC)	$550m[a]
2. Sheffield to Palmerston 220kV augmentation	$120m
3. Rationalisation of Upper Derwent 110kV network	$118m
4. North West 110kV Network Redevelopment	$70m
5. North West 220 kV Network Redevelopment	$80m
Total	$928m

a. Assumes 50/50 cost share with AEMO, the Victorian Network Planner

TasNetworks circulated the following indicative spend profile in March 2018. Note that $320m of the Second interconnector capex spend is in the next – 2015-29 – revenue period.:

Scenario 1 - Second interconnector								
Incurred Expenditure	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
Capex	**5,500,000**	**11,000,000**	**16,500,000**	**22,000,000**	**55,000,000**	**110,000,000**	**165,000,000**	**165,000,000**
Opex	2,750,000	2,750,000	2,750,000	2,750,000	2,750,000	2,750,000	2,750,000	2,750,000
Commissioned Capex								**550,000,000**

Scenario 2 - Upper Derwent								
Incurred Expenditure	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
Capex	**0**	**1,180,000**	**5,900,000**	**16,520,000**	**59,000,000**	**35,400,000**		
Opex							590,000	590,000
Commissioned Capex						**118,000,000**		

Scenario 3 - North West corridor								
	18/19	19/20	20/21	21/22	22/23	23/24	24/25	25/26
Capex	**0**	**2,700,000**	**13,500,000**	**37,800,000**	**135,000,000**	**81,000,000**		
Opex							1,350,000	1,350,000
Commissioned Capex						**270,000,000**		

In all cases the proposed trigger events are:

1(a) Successful completion of a RiT-T, or

1(b) A decision by a government or regulatory body that results in a requirement for the particular project, and

2. TasNetworks Board approval to proceed with the project subject to the AER amending the revenue determination pursuant to the Rules.

A detailed feasibility study of the Second Bass Strait Interconnector is currently underway with funding from TasNetworks and ARENA. It is expected to make a decision by September 2017 on the preferred landing point in Tasmania.

- If it is the North West then contingent projects 2, 4 and 5 are co-dependent projects.
- If it is the alternative site at Georgetown substation then there will be alternative co-dependent projects that are yet to be developed.
- The Upper Derwent project is independent of a Second Basslink connection and is driven by Hydro's decision on Tarraleah Power Station.

Following further discussions between TasNetworks and CCP13 and incorporating the feedback from large customers since the publication of the Regulatory Proposal in February, TasNetworks has advised that, it:

- will explore a number of different funding options – inclusion the RAB, merchant plant, government contributions to funding – are being explored as part of the feasibility study;
- has decided to stand back and re-consider their planning assumptions for 2ICand associated projects – this will mean that the expenditure profile shown above may change with some expenditure pushed out in timing; and,

- will implement a more structured consultation process around informing consumers about how the contingent project and regulatory investment test process works and more information about the need, timing, costs and benefits; this will initially target their transmission customers, Customer Council and Pricing Reform Working Group members.

CCP Comments

The proposed contingent projects represent a potentially huge capital commitment – nearly 4 times the proposed ex ante transmission capital for 2019-24. These projects are being driven by potential new wind generation projects seeking connection to the Tasmanian grid, with the benefits primarily accruing to NEM regions outside Tasmania, particularly Victoria. The modelling undertaken for the Tamblyn review identified two key sources of benefits from the second interconnector (2IC) that highlight the benefits to Victoria:

1. *A 2IC would indefinitely defer between 450 and 600 megawatts (MW) of thermal generation investment in the NEM which would otherwise be required to maintain reliability in Victoria as its brown coal generation is retired. However, this capacity deferral would not occur until the early 2030s, meaning that the benefits of reduced capital investment would be discounted significantly.*
2. *A 2IC would also generate variable cost savings in the NEM. These savings are primarily attributable to more efficient use of Tasmanian hydro storage and generation facilities. The additional capacity of a 2IC would allow increased exports of dispatchable renewable energy to Victoria during periods of high demand and value when higher-cost generation would otherwise have been required. It would also allow more imports of energy at low value times, maintaining dam levels for later high value use. Together a 2IC and Basslink would enhance the capability for Tasmania's water storages and hydro facilities to be used much like a large battery, by flexibly sending out or absorbing power to and from Tasmania, to maximise its value to Tasmania and the rest of the NEM.*[30]

While the developer pays the costs of connection from their generation site to the nearest grid connection point, the issue is "who should pay for the network costs to get it from that point to consumers?"

Our view has been 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[31]. 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.

[30] John Tamblyn "Feasibility of a second Tasmanian interconnector – Final Study" April 2017 p. vi https://www.environment.gov.au/system/files/pages/014e6ca4-f681-4ea5-a671-3301dde84217/files/final-report-feasibility-second-tasmanian-interconnector.pdf

[31] See CCP13 submission to Directions and Priorities Paper pp6-7 https://www.tasnetworks.com.au/TasNetworks/media/pdf/customer-engagement/Direction%20and%20Priorities%20submissions%202015/CCP-Submission-on-TN-Directions-and-Priorities.pdf

The Directions and Priorities Paper in August 2017 discussed the then four contingent projects (the North West 220kV project was added later) and in its summary of submissions to the Directions Paper, TasNetworks noted:[32]

> ***"Further information and detailed modelling is required in relation to the contingent projects and the potential impact on forecasts***
>
> *TasNetworks continues to work with its customers, developers of large-scale renewables and the State Government to better understand the impacts of future generation investments in Tasmania. We are also working with the Australian Energy Market Operator to consider transmission investments as part of a national system plan.*
>
> *We will keep customers informed of developments as more information becomes available. We will also work with policy and regulatory bodies to seek 'fair sharing' of the costs of transmission investments that provide benefits to customers in parts of the national market beyond Tasmania."*

However, there was little additional information provided in the January 2018 Proposal documents and there was minimal discussion of these projects in the general consumer engagement that CCP 13 attended. Through discussions with large direct connected energy users, CCP 13 became aware that some of them were being given additional information including the capex spend profile discussed above and an individual company price path for 2019-24 based on that capex spend profile.

The very strong feedback we have received from a number of these large customers is that they:

- see no benefit to their business eg increased security of supply, lower power prices, from a large expansion in renewable energy generation to offset the increased network costs form the projects being considered as regulated assets;
- and hence do not see why they should subsidise the export of Tasmanian wind power to Victoria;
- and hence argue that if the business case for export to Victoria is so strong, then the wind farm developers should be willing to enter into take or pay contracts with the developers of a merchant interconnection.

These businesses have pointed to the Tamblyn report which concluded that:[33]

> *"…under current anticipated future energy market conditions there is remaining uncertainty as to whether a 2IC would be an economically feasible investment that would serve the long-term interests of consumers."*

With this background, CCP 13 welcomes how TasNetworks, since submitting its Regulatory Proposal, has listened to these concerns and started to institute improved consumer engagement around contingent projects. We would encourage TasNetworks ramped-up engagement to include:

(i) How its evaluation of these projects related to the Integrated System Plan (ISP) for renewable energy zones being developed by AEMO. TasNetworks highlights the key

[32] "Directions and Priorities Paper – Summary of Submissions and Key Themes" November 2017 p.11

[33] John Tamblyn op cit Covering letter

issue for Tasmanian consumers in its February 2018 submission to the AEMO process:[34]

> *"In evaluating REZ (Renewable Energy Zones) benefits the applicability of existing cost recovery and revenue regimes must be appropriately considered. For example, the development of Tasmanian REZs would have NEM-wide benefits including firming and energy security benefits far beyond those directly attributable to Tasmania. However, with a relatively small customer base in Tasmania, the optimal balance between energy security, reliability and customer affordability needs to be found."*

(ii) The operation of the RiT-T process, the current AER review and the impact of the AEMO ISP review.

The current RiT-T process involves an assessment of the costs and benefits of the contingent project. There is no guarantee that these benefits will actually occur. Consumers take the risk that the modelled benefits may not appear. The only guarantee if the project proceeds is that if it is part of the RAB then consumers will pay for it for its asset life – usually 40-50 years. The AER review of Regulatory Investment Test Guidelines is relevant to the interaction between the ISP and the RIT-T process.

(iii) The development and funding options the study team is considering in addition to the investments being part of the RAB.

(iv) The spend profile and impact on transmission (for direct connected customers) and transmission and distribution (for all other customers).

It is particularly important that this price path information consider the impact on the 2025-2029 regulatory period given the large proportion of capex spend likely in that period. Implementation of the proposed contingent projects will have a substantial impact on increasing prices in the 2019-24 with further, additional increases in 2025-29.

Trigger events

The trigger events proposed by TasNetworks are similar to those proposed by ElectraNet and TransGrid in recent (2018-23) proposals and seek to make a RIT optional if a government or other regulatory body identify the project is needed:

> *"Successful completion of a RIT-T, or a decision by government(s) or regulatory body that results in a requirement for the project"*

We understand that the latter relates to TasNetworks obligations under its licence conditions with the State Government.

We note that the AER has settled on a set of triggers (see ElectraNet Final Determination Attachment 6)[35]:

- Successful completion of a RIT-T; AND

[34] TasNetworks Letter to AEMO CEO 28 February 2018 https://www.aemo.com.au/-/media/Files/Electricity/NEM/Planning_and_Forecasting/ISP/2018/Round-2-Submissions/TasNetworks---ISP-Remaning-Questions-Submission.pdf

[35] https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/electranet-determination-2018-23/final-decision

- AER Board Determination that the proposed investment satisfies the RIT-T.AND
- TNSP Board commitment to proceed with the project subject to the AER amending the revenue determination pursuant to the Rules; AND
- Requirement for a RIT-T (Clauses1 and 2 above) do not apply if a change in the law occurs that allows the inclusion of the proposed investment in ElectraNet's maximum allowed revenue under this revenue determination even if a RIT-T is not carried out.

CCP13 is strongly of the view that TasNetworks proposed *"a decision by government(s) or regulatory body that results in a requirement for the project*" is not an adequate substitute for the markets benefit test (i.e. a test of the long-term interests of consumers) of the current RIT-T process.

Recommendations:

d) TasNetworks undertakes comprehensive stakeholder engagement around the proposed contingent projects.

e) AER require the conduct of a RIT-T for all contingent projects.

B.5 Operating Expenditure

TasNetworks' Proposal

TasNetworks has proposed to reduce transmission opex by 0.8 per cent and distribution opex by 0.2 per cent for the 2019-24 regulatory control period when compared to actual and expected opex for the five years prior.

TasNetworks propose total operating expenditure of $593m ($2019) for 2019-24.

In both transmission and distribution, TasNetworks is proposing 2017/18 as the "efficient" base year and then adopted the AER's *base-step-trend* approach. TasNetworks argue that[36]:

> *"It is important that the same base year should be chosen for transmission and distribution, as resources in the merged business are able to migrate between the two networks in response to particular needs and to drive efficient allocation of resources. If a different base year were chosen for each network, the allocation of costs would not be considered from the same starting point and the resulting total operating expenditure allowance may be materially higher or lower than the total operating expenditure requirements of the merged business."*

In both transmission and distribution TasNetworks is proposing:

- CPI increases in materials costs.
- The following real escalation factors for both internal and external labour costs.[37]

Table 8-4: Forecast labour escalation rates, expressed in real terms (%)

Category	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24
Internal labour	0.00	0.00	0.00	0.49	0.49	0.49	0.49
External labour (contractors)	0.49	1.23	0.98	0.98	0.98	0.98	0.98

or in cumulative terms:[38]

Table 3 Real cumulative labour and contractor cost escalation factors

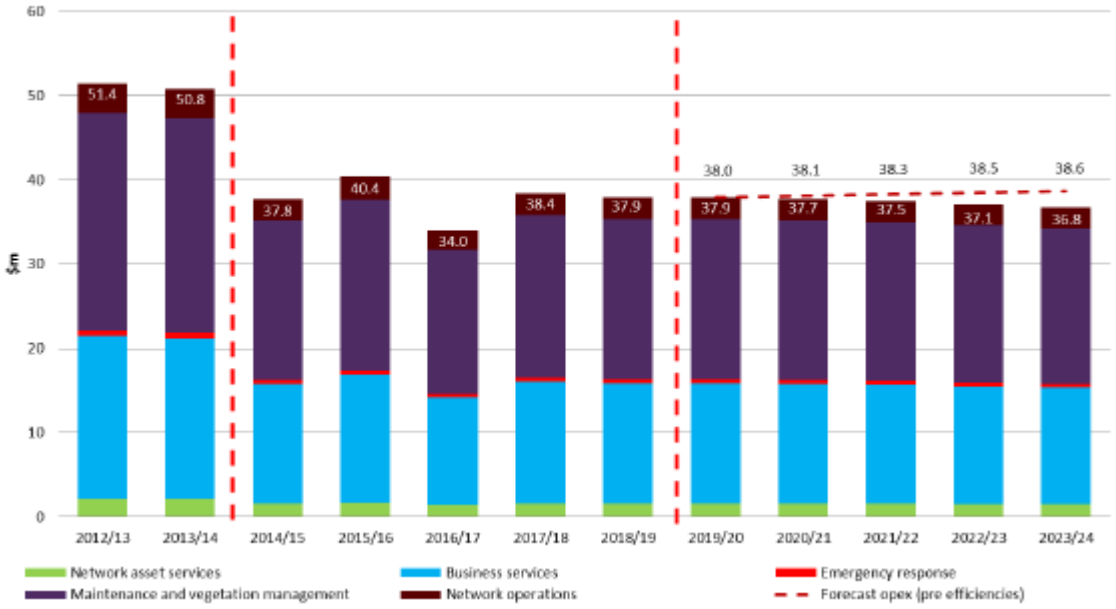
Financial year end	2018	2019	2020	2021	2022	2023	2024
Labour cost escalation factor	1.0000	1.0000	1.0000	1.0049	1.0098	1.0147	1.0197
Contractor cost escalation factor	1.0049	1.0172	1.0271	1.0372	1.0473	1.0575	1.0678

Transmission

The following figure summarises the TasNetworks proposal[39]. Total expenditure is ~0.8% lower in real terms than the current period forecast - $188.5m vs $187.1m

[36] Proposal pp.149-150
[37] Proposal p. 88
[38] Jacobs "Labour cost Escalation Report" 25 October 2017 Final Report
[39] Proposal p.139

Figure 9-3: Overview of forecast and actual transmission operating expenditure (June 2019 $m)



There are no adjustments to the base year for non-recurrent costs with the following "step-trend" adjustments then applied to that base year number:

- No step changes.
- A small (0.1-0.24%) annual network growth.
- Increase in material costs at CPI and >CPI increase in labour costs.
- Application of a productivity factor.

TasNetworks describe three sources of productivity improvement[40]:

- efficiency improvements to 'catch up' to the efficiency frontier;
- economies of scale as a result of growing output; and,
- efficiency improvement targets that are adopted by a business in the pursuit of further efficiency gains.

The first is addressed in the whether the AER makes any adjustment to the base year opex. The second is covered in the network growth factor estimate. The third is at the network's discretion given the AER's assumption of zero productivity growth for opex. TasNetworks has proposed a cumulative productivity improvement of $4.2m over the period[41]:

[40] Proposal p.144
[41] Proposal p.144

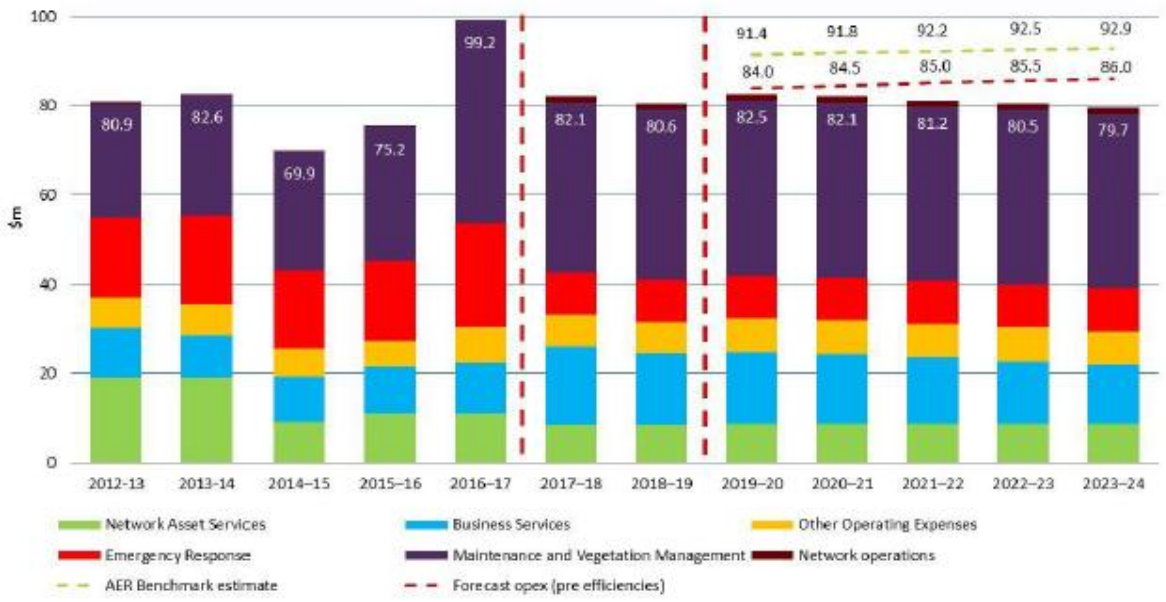
Table 9-4: Transmission productivity improvements per cent (real) and annual savings (June 2019 $m)

Input	2019–20	2020–21	2021–22	2022–23	2023–24
Annual transmission cost savings (%)	-0.13%	-0.53%	-2.07%	-3.45%	-4.82%
Annual transmission cost savings ($m)	-0.0	-0.2	-0.8	-1.3	-1.9
Cumulative transmission cost savings for period (%)	-0.13%	-0.58%	-1.09%	-1.71%	-2.37%
Cumulative transmission cost savings for period ($m)	-0.0	-0.3	-1.0	-2.4	-4.2

Distribution

The figure summarises the TasNetworks proposal[42]. Total expenditure is almost identical with the current period forecast - $405.9m vs $407.1m.

Figure 9-5: Overview of forecast and actual distribution operating expenditure (June 2019 $m)



Again, there are no adjustments to the base year for non-recurrent costs. The following adjustments were then made:

- deduction of GSL payments NEM levy and Electricity Safety levy which are determined separately;
- step changes of $2.6m/yr, the largest being the costs of ring-fencing ($1.2m) and voltage management from increased distributed generation ($1.0m);
- A small annual growth factor (0.34-0.39%);
- Increase in material costs at CPI and >CPI increase in labour costs;
- Application of a productivity factor to reduce costs.

[42] Proposal p.148

As with transmission, TasNetworks has adopted efficiency improvement targets to achieve further efficiency gains. The target improvement is higher than that proposed for transmission[43]:

Table 9-12: Distribution productivity improvements per cent (real) and annual savings (June 2019 $m)

Input	2019–20	2020–21	2021–22	2022–23	2023–24
Annual distribution cost savings (%)	-1.88%	-2.93%	-4.43%	-5.90%	-7.39%
Annual distribution cost savings ($m)	-1.6	-2.5	-3.8	-5.0	-6.4
Cumulative distribution cost savings for the period (%)	-1.88%	-2.41%	-3.09%	-3.79%	-4.52%
Cumulative distribution cost savings	-1.6	-4.1	-7.8	-12.9	-19.2

CCP Comments

Our main comments are:

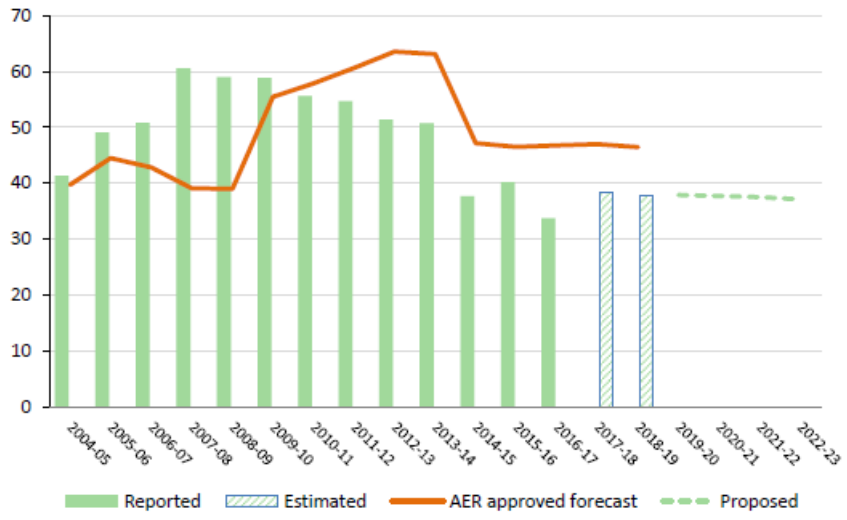
- to challenge whether the Distribution revealed costs in 2017/18 are "efficient"; and,
- congratulate TasNetworks on proposing productivity improvements over the course of the period when it could have simply adopted the AER assumption of zero productivity improvement; we comment on this assumption.

Selection of the base year

Transmission

Real opex costs have been on a declining trend over the last decade and have been consistently below the AER approved forecast. The proposed productivity improvements contribute to a slight fall in the real level of opex over the forecast period.

Figure 18 Transmission opex over time ($million, June 2019)



[43] Proposal p.154

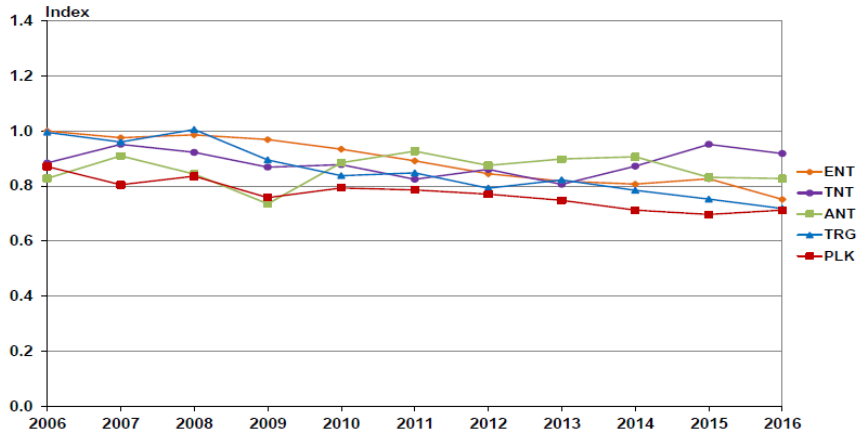
Source AER Issues Paper p.31

We expect this is a result of a combination of factors such as:

- the considerable capex expenditure in past periods is providing consumers with a "dividend" in the form of lower opex;
- flat demand growth; and,
- improved internal efficiencies.

While TasNetworks' relative productivity performance has varied over the 2006-2016 period, it had the best relative productivity in 2015 and 2016.[44]

Figure 6 MTFP index by TNSP, 2006-2016



Opex made the largest positive contribution to TFP growth rates over the 2006-16 period.[45]

While revealed costs have been below the AER allowance, we are not aware of any evidence to suggest that the reliability and safety of the TasNetworks transmission network has been adversely affected during the current period.

We support the use of 2017/18 as the base year for transmission opex.

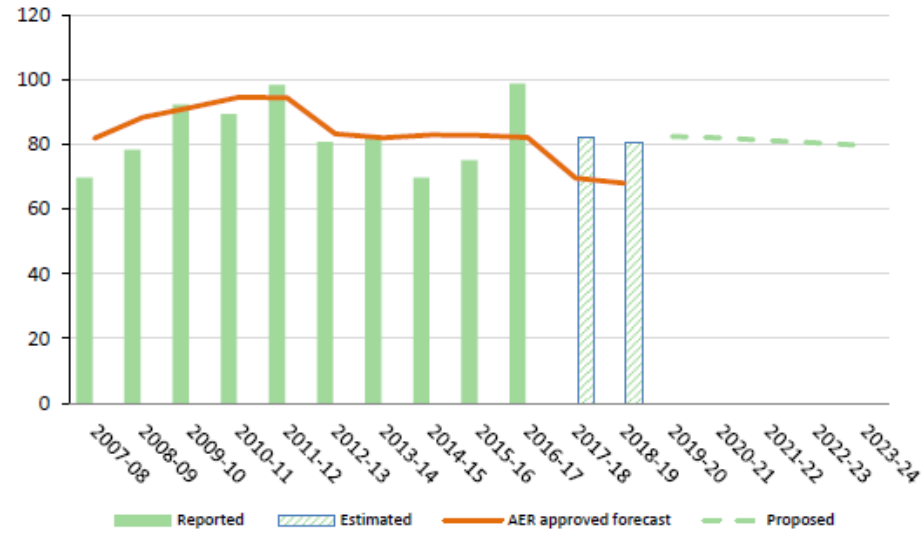
Distribution

There is a significant variation in actual and forecast opex costs over the current period. Forecast costs for 2017/18, the proposed base year, are $82.1m. This is significantly below the 2016/17 level of $99.2m but significantly above the first two years of the current period – 2014/15 and 2015/16.

[44] AER Annual Benchmarking Report – Electricity transmission network providers" November 2017 p.29 https://www.aer.gov.au/system/files/AER%202017%20transmission%20network%20service%20provider%20benchmarking%20report.pdf

[45] Ibid p. 34

Figure 17 Distribution opex over time ($million, June 2019)



Source: AER Issues paper p.30

The arguments used by TasNetworks to support the case for 2017/18 to be regarded as "efficient" seem to be:

(i) TasNetworks and the AER got it wrong in their assessment of what the costs should be in 2017/18 and 2018/19.

In its proposal for the transition period of 2017/18 to 2018/19, TasNetworks submitted a relatively aggressive estimate. The AER top down aggregate level forecasting methodology suggested a higher number, but the AER agreed to an approved forecast at the TN proposed level. This aggressive TasNetworks level has proved to be too much of a stretch as shown by the current forecasts for these two years. TasNetworks' poor actual performance against allowance is reflected in the negative estimated $21.5m EBSS adjustment in the 2020-24 period.

Just because the forecast is higher than an aggressive allowance (based on the TasNetworks proposal at the time) that was not sustainable does not mean that the forecast is efficient, only that it is higher than the AER's alternate allowance.

(ii) It is lower than 2016-17[46]

> *"We expect our 2017-18 distribution operating expenditure to be lower than our actual operating expenditure in 2016-17. On this basis, we regard 2017-18 as a more preferable 'base year' for the purposes of applying the 'base-step-trend' forecasting methodology. We also note that 2017-18 will be our most recent year's cost performance at the time of the AER's determination."*

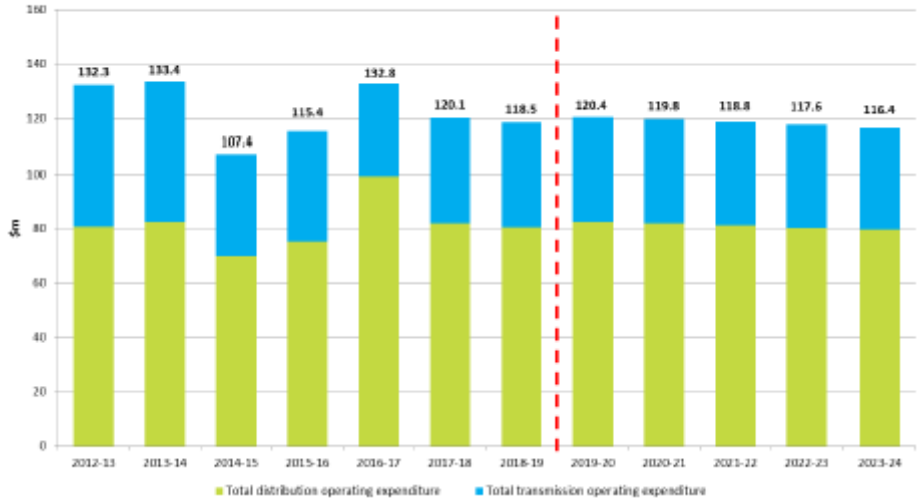
One year being lower than another does not necessarily mean that the lower year is at an efficient level. It might simply be less inefficient than the former year.

[46] Proposal p. 149

(iii) The merger of transmission and distribution is driving lower costs through consolidation and scale economies.

This graph:[47]

Figure 9-6: Combined transmission and distribution operating expenditure 2012-13 to 2023-24 (June 2019 $m)



leads TasNetworks to argue: [48]

> *"The figure … shows our combined transmission and distribution operating expenditure. It illustrates that, with the exception of 2016-17, the merger of the two network businesses to create TasNetworks in 2014 is driving lower operating expenditure through consolidation and scale economies together with the delivery of operational efficiencies. It also illustrates that our projected costs for 2017-18 provide a reasonable base year for purpose of forecasting operating expenditure in the next regulatory period."*

This figure shows that average forecast costs since the merger may be ~10% lower than pre-merger but only two years of pre-merger data are provided. While costs may be lower it does not mean that the costs are now 'efficient', only that they are lower.

(iv) TasNetworks costs are "efficient" if the AER applies its benchmark methodology.

We wish to focus our comments on the fourth reason – the AER's approach to applying benchmark data to assess opex efficiency.

Under the AER's Expenditure Forecast Assessment Guideline, the starting point for the AER's assessment of a DNSP's opex is to develop:[49]

> *"… an efficient starting point or underlying efficient level of expenditure…For recurrent expenditure, we prefer to use revealed (past actual) costs as the starting point for assessing and determining efficient forecasts. If a DNSP operated under an effective*

[47] Proposal p. 150
[48] ibid
[49] AER Better Regulation Expenditure Forecast Assessment Guideline for Electricity Distribution November 2013 – see p. 10-11 https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/expenditure-forecast-assessment-guideline-2013

incentive framework, actual past expenditure should be a good indicator of the efficient expenditure the NSP requires in the future.

While we examine revealed costs in the first instance, we must test whether DNSPs have responded to the incentive framework in place. That is, we must determine whether or not the DNSP's revealed costs are efficient. For example, whether the DNSP's past performance was efficient relative to its peers and whether the DNSP has improved its efficiency over time. For this reason, we will assess the efficiency of base year expenditures using our techniques, beginning with economic benchmarking and category analysis, to determine if it is appropriate for us to rely on a DNSP's revealed costs."

The National Electricity Rules set out specific requirements on how the AER assesses the networks proposals in accordance with the National Electricity Law to achieve the National Energy Objective of "…*the long-term interests of consumers*". The AER has to be satisfied that the network's proposed total opex forecast:

…reasonably reflect the …opex criteria:

- *the efficient costs of achieving the … opex objectives*
- *the costs that a prudent operator would require to achieve the … opex objectives*
- *a realistic expectation of the demand forecast and cost inputs required to achieve the …opex objectives.*

The AER uses a range of assessment methods eg benchmarking, in a high-level assessment of the proposed opex to assess the "reasonableness"[50] of the forecast.

The current AER approach was described in its final decision on Ausgrid in April 2015.[51] In using benchmarking data to apply the guideline, the definition of an "efficient starting point" is not "is this cost level efficient", but "is this cost level materially inefficient"? So it is a measure of relative, not absolute, efficiency.

Benchmarking is a key tool to help the AER decide on this material inefficiency. As the AER notes [52]:

"…benchmarking provides consumers with accessible information about the relative efficiency of the electricity networks they rely on. The breakdown of inputs and outputs driving network productivity in particular, allow consumers to better understand what factors are driving network efficiency and the network charges which make up 50 to 55 per cent of their electricity bills. This helps to inform their participation in our regulatory processes and broader debates about energy policy and regulation."

[50] Guideline op cit p. 17

[51] AER Final Decision Ausgrid Determination Section 7 Operating Expenditure Section 7, A7 The benchmark comparison point and adjustment to base opex April 2015 pp 269 – 282 https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ausgrid-determination-2014-19/final-decision

[52] AER "Annual Benchmarking Report – Electricity distribution network providers" November 2017 p.21 https://www.aer.gov.au/system/files/AER%202017%20distribution%20network%20service%20provider%20benchmarking%20report.pdf

We think that it is reasonable for consumers to interpret the benchmarking data is a way that says "the most efficient ie the network at the frontier, should set the standard for measuring "efficient" costs. So, setting the base year cost level should have direct reference to the costs on the frontier.

This approach was strongly refuted by the networks in the debate over the AER's 2014-19 NSW distributors decision and in the subsequent ACT and Federal Court appeals. The NSW networks argued that the AER should abandon its use of benchmarking[53].

The AER concluded in its previously published Expenditure Guideline[54]:

> *… in light of submissions from service providers, we have reconsidered our approach to determining the most appropriate way to make an adjustment. As we explain in the Guideline, our preference is to rely on revealed expenditure as an appropriate basis for forecasting efficient, prudent and realistic opex when service providers are appropriately responding to the incentive framework. Therefore, rather than adjusting all service providers below the most efficient performer (the frontier) the Guideline approach is to adjust revealed opex when our analysis demonstrates it is materially inefficient.*

In coming to its view about how "materially inefficient" might be defined, the AER reviewed how regulators in other countries applied benchmarking results, particularly OFGEM, and decided that:[55]

> *… on balance, for this decision the appropriate benchmark comparison point is the lowest of the efficiency scores in the top quartile of possible scores rather than the average approach we used in our draft decision. This is equivalent to the efficiency score for the business at the bottom of the upper third (top 33 per cent) of companies in the benchmark sample (represented by AusNet Services).*
>
> *This reduces the benchmark comparison point from 0.86 to 0.77. In making this change to our approach, we have carefully considered the submissions we have received, the requirements in the NEL and NER, the Guideline approach and the advice of Economic Insights. The purpose of assessing base opex under the Guideline approach is to identify material inefficiency. We must ensure, therefore, that our comparison point appropriately reflects our satisfaction that a service provider's revealed opex is materially inefficient before we reduce it."*

This change had the effect that the adjustment downwards to the network proposed base year opex was reduced significantly. The AER then notes:[56]

> *However, given this is our first application of economic benchmarking, our view is this application is appropriate for this determination. That is, we have allowed a wide margin between the frontier firm (0.95) and the benchmark comparison point (0.77). Service providers should be aware, however, that as we refine our approach and receive more*

[53] Ibid 7-270

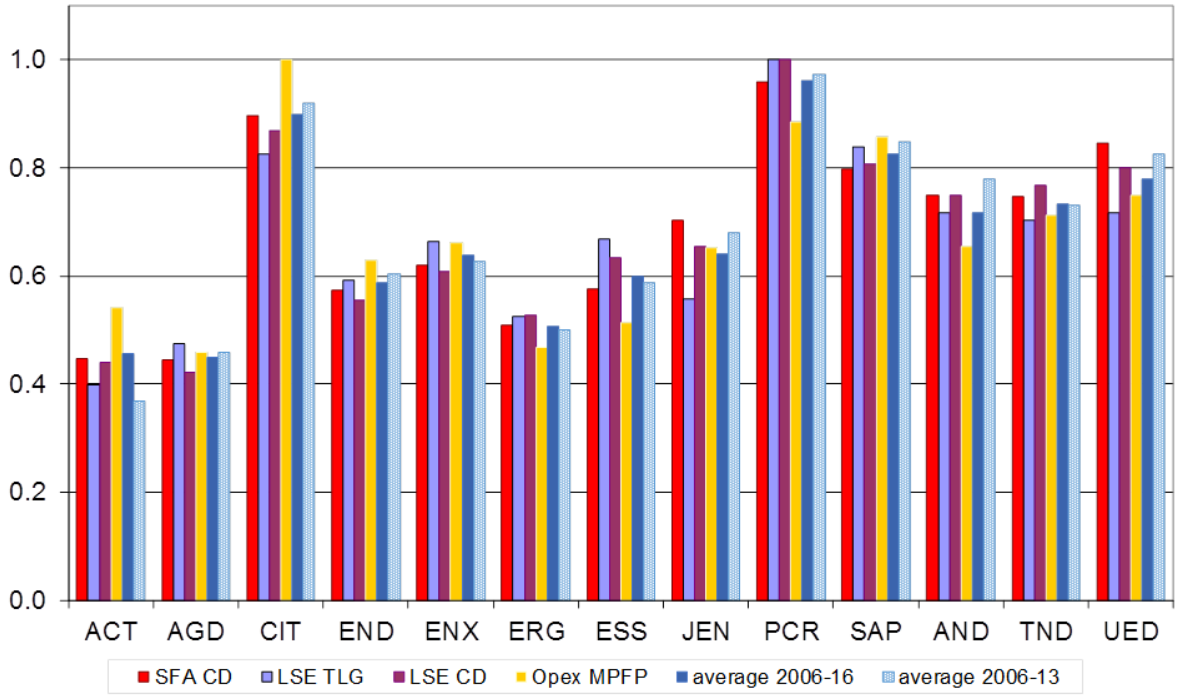
[54] AER, Expenditure Forecast Assessment Guideline, November 2013, p. 22.

[55] AER Final Decision op cit p.7-270-1

[56] Ibid

data, we may reduce the size of that margin when making adjustments to base opex to develop alternative opex forecasts.

So, what are the implications for TasNetworks proposed distribution base year? Applying this approach, the AER would probably accept the TasNetworks 2017-18 costs as "not materially inefficient". It would do this on the basis of the long-term productivity comparisons in the following figure showing results over the 2006-16 period.[57]



This combines all the AER's measures of Opex productivity – opex multilateral partial factor productivity (MPFP) and opex econometrics modelling - Cobb-Douglas stochastic frontier analysis (SFA), Translog least squares econometrics (LSE) and Cobb-Douglas LSE, as well as the average of these models' scores.

Applying the criteria:

"…the efficiency score for the business at the bottom of the upper third (top 33 per cent) of companies in the benchmark sample…"

Out of a sample of 13 DNSPs, TasNetworks with a score of ~0.75, is around the equal 5th most efficient (with Ausnet Distribution) and so just meets the criteria. This compares with the position of Powercor, the most efficient DNSP that has a score of ~0.95. So TasNetworks being ~20% less efficient than Powercor is considered "not materially inefficient".

CCP 13 makes the following observations.

[57] Graph provided by the AER – adapted from Figure 18 p. 39 in AER "Annual Benchmarking Report - Electricity distribution network service providers" November 2017 https://www.aer.gov.au/system/files/AER%202017%20distribution%20network%20service%20provider%20benchmarking%20report.pdf

There has been a long and complex debate on the role that benchmarking should play in the incentive-based regulatory framework – most recently as part of the Tribunal and Federal Court decisions on the operating costs for NSW distributors in the 2014-19 period. Here the Tribunal and the Court did not accept the AER's measures of efficient costs because they found the AER relied too much on benchmarking for their substituted opex.

As CCP10 argued in its submission to the AER on the NSW remit on operating costs, it would be a mistake to give benchmarking a lower priority following the Court ruling in NSW. Benchmarking has a very important role and we strongly support the continued development and refinement of the AER's benchmarking work as a crucial input into its assessment methodology and achievement of the NEO. We agree with CCP10 when they say:[58]

> *Quantitative benchmarking analysis – if undertaken and used with care – can improve the transparency and predictability of regulatory assessments of allowed costs and strengthen the incentives to improve efficiency and so disclose efficient costs.*

The NSW remittal decision was around how the costs incurred by the networks getting to the AER view of "not materially inefficient" costs should be shared between the network and consumers. Here we are discussing whether the AER should apply same 2014 approach to assessing whether the TasNetworks proposed base year is "not materially inefficient".

This choice of a decision rule of "worst score over 0.75" as "not materially inefficient" is an example of the AER's exercise of its discretion and judgement. There is no comprehensive quantitative basis for this decision rule, any more than there would be for 'equal to or better than the third best performer on average over all the productivity measures over the 2006-16 period'. Particularly following the NSW Federal court decision, we expect that the AER will be cautious in how it applies benchmarking data and other information sources. We understand and accept this approach.

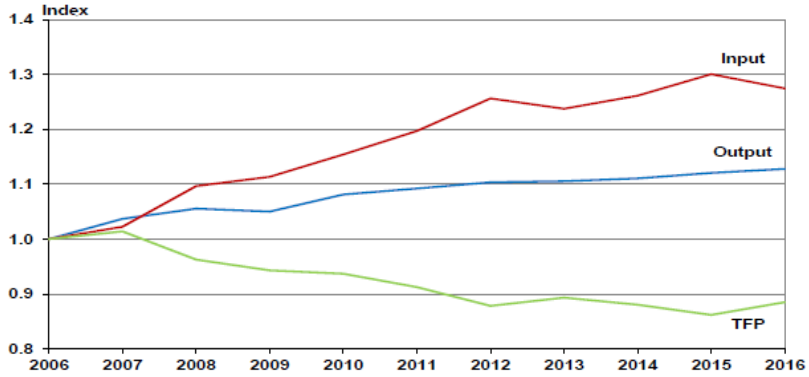
As the AER noted above in its 2015 Ausgrid decision, it is open to consider refining its approach as more data is available with the outcome potentially a reduction in the "size of the margin". We would encourage the AER to review whether data availability since 2015 would lead to a review of the size of the margin.

We believe that one factor in this review could be consideration of how the long-term trend decline in network productivity should influence the margin.[59]

[58] CCP 10 Response to AER Issues Paper "Remitted decisions for NSW/ACT 2014-19 electricity distribution determinations operating expenditure" 30 November 2017 p.38
https://www.aer.gov.au/system/files/Consumer%20Challenge%20Panel%20-%20Submission%20-%2030%20November%202017_1.pdf

[59] AER op cit p. 7

Figure 2 DNSP industry input, output and TFP, 2006–16



While there was a small improvement in total factor productivity in 2016, the long-term trend over 2006-16 is a -1.2 per cent annual average decline. Given that the decision on materially inefficiency is a relative one, then continued application of the "worst score over 0.75" rule has meant that higher levels of costs are now considered not materially inefficient that would have been the case some years ago.

We also believe that some consideration should be given to more recent trends in TasNetworks opex productivity. Given the significant rise in opex costs in 2016-17, the 2017 results to be published later this year may show a considerable fall in productivity from 2015-16. The fall in forecasts costs in 2017-18 may only partially address this fall given 2017/18 costs are still considerably above 2015-16 costs. At the time of making its final decision the AER will have the 2016-17 benchmark data. Even though it may result in a significant deterioration in TasNetworks relative position it remains to be seen how it affect its relative position over a 10 year average. It may or may not change its position relative to the 0.75 level.

Nevertheless, TasNetworks itself thinks that there are still opportunities for continued productivity improvements given it is proposing additional savings of $19.2m over the forecast period when it could have simply accepted the AER's zero productivity assumption. We comment more on this below.

In summary, CCP 13 would encourage the AER to review its decision rule, developed in the context of its 2015 NSW distributors decision, on how it exercises its discretion to determine whether a base year opex cost is "not materially inefficient". While we recognise that benchmark data does have its limitations, it is difficult for consumers to accept that a network that is over 20% less efficient that the most efficient network is providing consumers with a level of service they expect at the lowest long run cost.

(i) The impact of step change in "Maintenance and vegetation Management" in 2016/17

The reason for the large increase in costs since 2016/17 above AER the approved forecast is the step change in "Maintenance and Vegetation Management".[60]

[60] Proposal p.149

Table 9-7: Actual and forecast distribution operating expenditure by category (June 2019 $m)

Category	2012-13	2013-14	2014–15	2015–16	2016–17	2017–18	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24
Emergency Field Operations	18.1	20.0	17.4	18.0	23.4	9.5	9.5	9.6	9.6	9.6	9.6	9.6
Maintenance and Vegetation Management	25.5	26.7	26.7	30.0	45.6	38.2	38.2	39.2	39.2	39.2	39.2	39.2
Distribution Asset Services	19.1	19.1	9.11	11.0	10.9	8.4	8.4	8.6	8.6	8.6	8.6	8.6
Business Services	11.1	9.4	10.3	10.5	11.5	17.6	16.1	16.1	15.7	14.9	14.1	13.3
'Other' Operating Expenditure	7.0	7.4	6.4	5.7	7.9	8.4	8.4	8.9	8.9	8.9	8.9	8.9
Total distribution operating expenditure	**80.9**	**82.6**	**69.9**	**75.2**	**99.2**	**82.1**	**80.6**	**82.5**	**82.1**	**81.2**	**80.5**	**79.7**

The next table shows the trends in the vegetation management part of Maintenance and Vegetation management category.[61]

Up to the current period:

Actual $m					Forecast in Proposal $m	
2012-14 av	**2014-15**	**2015-16**	**2016-17**		**2017-18**	**2018-19**
13.5	12.0	13.0	24.3		25.1	25.1

Forecasts for 2019-24:

	2019-20	2020-21	2021-22	2022-23	2023-24
Directions Paper $m	21.2	21.4	21.6	21.7	21.9
Proposal $m	25.1	25.1	25.1	25.1	25.1

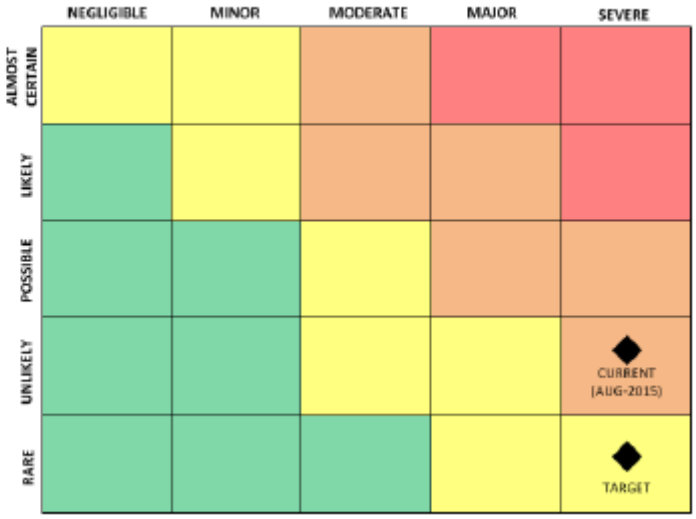
The increase in the Proposal forecasts from the Directions and Priorities Paper forecasts is due to the Proposal having access to actual 2016-17 costs, but these costs were not finalised by the time of the preparation of the numbers in the Directions Paper, published in August 2017. CCP 13 were surprised the increase was so large given the audit work underpinning the claimed need for a step change seem to have been completed prior to publication of the Directions Paper.

The step change in expenditure in 2016/17 was the result of a Key Business Risk assessment in June 2016 drawing particularly from the Victorian experience. This reaffirmed the current risk status for bushfire start as being 'high', which is higher than the target risk rating of 'medium'.

[61] Data provided by TasNetworks

"The target level of 'medium' will be achieved by a reduction of a significant bushfire event occurring being considered 'rare' under our control framework, noting that a significant bushfire event is difficult to control (Figure 2)"

Figure 2 – Bushfire risk rating

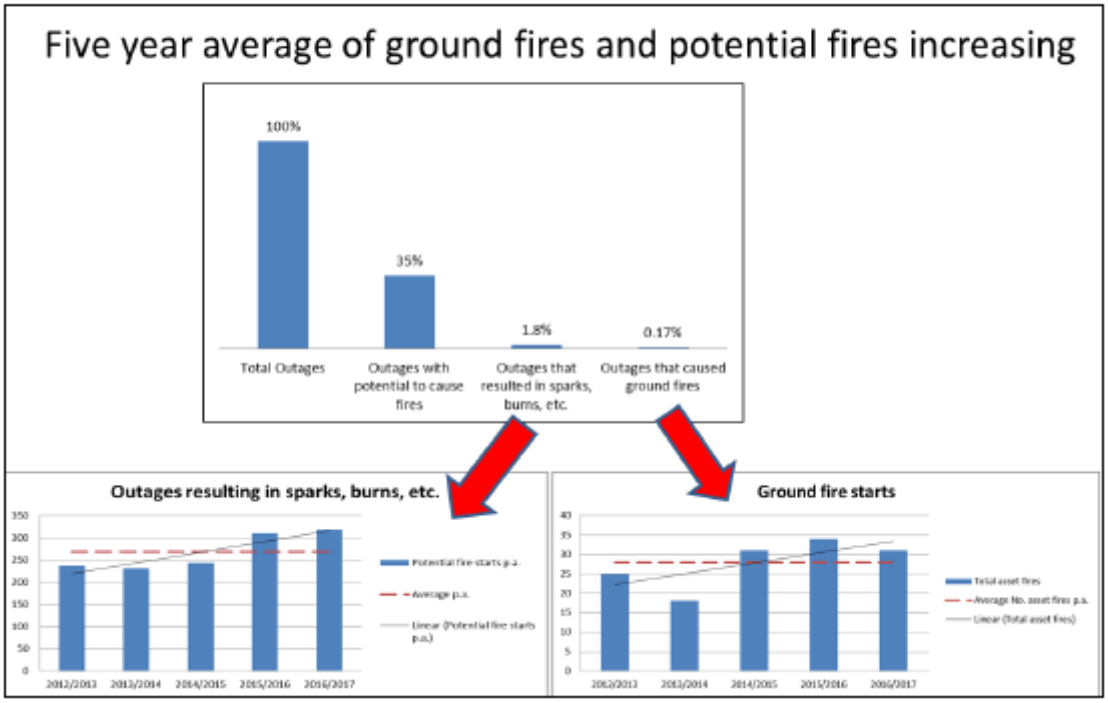


CCP13 welcomes the increased focus TasNetworks is placing on bushfire risk given the catastrophic impact these fires can have on communities. The step change in vegetation management costs in 2016/17 is forecast to continue to the end of the forecast period in 2023-24.

The following figure shows that ground fire starts occurred in 0.17% of distribution outages over the period 2012-13 to 2016-17. Data on consequence was not provided.:[62]

[62] Provided by TasNetworks 4 May 2018

Figure 4 - Percentage of outages versus percentage of fires attributed to distribution network assets



TasNetworks has provided information on a number of serious fires in recent years e.g.

- the 2006-07 East Coast Fire Season where 18 homes were lost at Scamander and around 200 TasNetworks distribution poles were lost;
- the 'Dunalley Fires' on the Tasman Peninsula in January 2013, which destroyed around 100 homes and around 400 TasNetworks distribution poles were lost;
- the George Town fire (13 poles) on private property in December 2015, which destroyed 13 TasNetworks distribution poles; and
- the 'West Coast fire' near the Fisher Power Station started by lightning in January 2016, which destroyed 40 TasNetworks distribution poles.

But, with the exception of the last example, no information on the specific cause.

We are far from experts in assessing the bushfire risk faced by networks. It is a delicate balance between costs and risk mitigation. There is also surely an aspect of "user pays" here. TasNetworks is keen to move to/apply the user pays principle across many areas of its network operations e.g. customer contributions to new connection costs. We consider this principle should also apply, at least to some extent, to bushfire mitigation. Why should someone who chooses to live in a 'high' bushfire risk zone be cross-subsidised for their location decision by someone who lives in a 'low' bushfire zone? Why should those who live at the end of a long line with that has large operating costs, including vegetation management costs, not be required to undertake mitigating measures e.g. distributed generation, or higher charges?

Given the recent risk audit led to the step change increase in vegetation management expenditure from 2016-17 that TasNetworks proposes to continue until at least 2023-24, the level of that cross-subsidy has increased significantly as a result.

The fact that TasNetworks is not proposing a step change in vegetation management costs from the 2017-18 base year is not a reason to not review this cost category. On that logic a network could game the system by doing intra-period step changes with no subsequent AER scrutiny as long as they are within the “not materially inefficient” definition.

In relation to TasNetworks’ vegetation management costs, we have the following questions:

- Is continuing the step change in costs in 2016-17 to at least 2023-24 justified?
- When are consumers likely to see the benefits of this new risk management plan in sustainably lower vegetation management costs eg when is the risk rating expected to reach its target ‘medium’ rating?
- How does TasNetworks propose to address the large cross-subsidy in vegetation management costs through more cost reflective pricing in the 2019-24 period?

In relation to vegetation management more generally, other CCP sub-panels are seeing an increasing focus on this matter across jurisdictions. Networks are applying for step change increases in opex and capex based on Government/Royal Commission reports. Apart from bush fire risk management there are a plethora of State based regulations the networks are required to follow as part of their electricity licence. Some States seem very prescriptive eg South Australia ESCOSA, some seem to leave more discretion to the network.

While the AER may not be able to influence these regulations (though they are subject to regular review where the AER is able to make submissions), there would be benefits to consumers having more transparency around the level of efficiency with which the networks implement these regulations. This could be achieved through a more comprehensive AER review of vegetation management practices and costs across all networks.

(ii) The productivity improvements in operating costs over the period are welcome

TasNetworks is rare as a network willing to commit to productivity improvements upfront in its proposal:

- Without a clear pathway to how they are going to be achieved, but accepting the challenge to develop that pathway.
- Not seeking to retain 30% of the gains under the EBSS.
- Not seeking to take advantage of the AER’s assumption of zero productivity gain in opex.

It is indeed welcome to see a network take this initiative to benefit its customers. We would suggest that most, if not all, of TasNetworks business customers, of any size, have to continually improve their productivity to stay in business in the current environment. They often do not have a pathway either, but the competitive pressures force them to find one.

TasNetworks could have fallen back on the AER’s default opex assumption of zero productivity improvement over the forecast period, but thankfully for consumers, it did not.

The rationale for the zero productivity assumption seems to be:

- long-term productivity growth has been negative to zero growth provides an incentive;
- there is no alternative, robust forecast of productivity growth;
- the desire to be consistent across determinations; and,
- any other approach may undermine the application of benchmarking.

We would offer the following comments in response:

- The philosophical underpinnings of incentive based regulation is to ensure consumers pay a price that reflects the efficient provision of network services ie what would be the outcome were the provision of that service in a workably competitive market; businesses in a workably competitive market continue to seek productivity improvements simply to ensure their survival; a 'benchmark efficient' entity would continually seek to improve its productivity.
- Benchmarking results reflect the impact of past regulation – warts and all; there is a strong evidentiary basis for the view[63] that this regulation has resulted in inefficient levels of capex and opex which contributes to poor productivity.
- So it is not in the long-term interests of consumers for the assumption about future productivity to be influenced by the outcomes of flawed past regulation, which is implicit in the zero assumption; best practice regulation would have resulted in productivity improvement in the past and this would be the appropriate basis for assuming future productivity growth.
- Given TasNetworks has offered productivity improvements, it would not be "unreasonable" within the AER Expenditure Guideline for the AER to exercise its discretion and require other networks to build in some measure of productivity improvement.
- Depending on the measurement approach eg how to consider redundancy costs, the productivity trend for say 2016 may show a reversal of the 2006-16 trend so an assumption of >zero productivity growth may be sustainable.

In summary we would recommend that the AER review its assumption of zero productivity growth in opex with a view to whether it should be changed to provide some level of productivity improvement and then undertake further analysis to decide what that level should be.

(iii) Step change in voltage management costs from increased distribution

The amounts involved in this opex component are relatively small – $1.0m/yr for the 2019-24 period. We highlight it to make a more general point around the lack of cost reflective pricing. This is also discussed in the separate section of this submission on Distribution Pricing.

In response to a CCP question around the level of cross subsidies, TasNetworks responded that:[64]

> *…customers without PV solar panels are currently being disadvantaged by customers with panels.*
>
> *This cross-subsidisation or cost-shifting manifests itself in two ways:*
>
> - *avoidance by customers with solar panels of making their full contribution towards the cost of the shared network, through the tariffs used to recover the costs of providing standard control services; and*
> - *additional costs, capital and operating, incurred by TasNetworks in connecting solar panel installations to the network and preventing or rectifying the power quality issues they cause, costs which are recovered from the wider customer base rather than the customers that cause the cost to be incurred.*

[63] eg most recently the Grattan report "Down to the wire – a sustainable electricity network for Australia" 25 March 2018 https://grattan.edu.au/report/down-to-the-wire/

[64] TasNetworks response to questions raised by the Consumer Challenge Panel Part 1 6 May 2018 p.9

In the course of providing this information TasNetworks identified a case where it[65]:

> *"…spent $22,000 upgrading the network in order to connect a 7kW array of PV solar panels on a residential property."*

It is understood that these additional voltage management costs will not be specifically recovered from residential customers with solar PV but recovered in general network charges. If so, then it simply further increases and already inefficient and inequitable tariff structure at a time when all networks are seeking to move to more cost reflective tariffs.

(iv) Labour cost escalation assumptions

Our understanding is that the AER estimates of internal and external labour cost trends as the arithmetic average of the forecast presented by the network (here a study by Jacobs) and the AER's consultant (Deloitte in the past).

External labour

Jacob's analysis focuses on data on average weekly ordinary time earnings (AWOTE) for workers in the utilities sector, which captures the effects of labour productivity changes. This shows that over the 2006-16 period AWOTE has increased, on average, 1.6% above CPI.[66] Jacob's argues that:[67]

> "Post 2020 Jacobs expects that labour costs will increase steadily in line with market expectations for the utilities sector, resulting from sustaining infrastructure investment, labour supply deficits, competition with the mining and construction industries and strong unions keeping wages elevated."

However, it appears there is no breakdown of utilities AWOTE for Tasmania to see how it compared with the reset of Australia. CCP13 would like ot see an analysis of whether the same resource development rated pressure that have occurred in other States, and which driven the real wages growth, has actually occurred in Tasmania. Jacobs has no analysis of the likely Tasmanian specific labour demand pressures over the next 5 years, but seems to simply adopt a national forecast to Tasmania.

Internal labour

The Jacob's report argues that:[68]

> *"The AER has accepted real escalation rate for labour costs based on Enterprise Bargaining Agreement (EBA) outcomes."*

citing a last Powerlink decision as supporting evidence where the NSP:

> *"…can demonstrate that the EBA was negotiated at arm's length and in a commercial manner"*

[65] Ibid p.10
[66] Jacobs Labour Cost Escalation Report Tasmanian Networks Pty Ltd 25 October 2017 p.4
[67] Ibid p. 12
[68] Op cit p. 4

To CCP13 this seems to be a misunderstanding of the AER's approach to estimating efficient opex. The AER does not express an opinion about EBA outcomes and does not use them to forecast labour costs. It uses consultant forecasts to assist its understanding of the trend factors. It makes a top-down estimate of opex costs.

The TasNetworks EBA covering both transmission and distribution, was approved by the Fair Work Commission on 13 June 2017 and applies until 2019-20.[69] It includes wage escalation for the period of the greater of:

- 2% or
- increase in CPI up to a maximum of 3%.

The internal labour cost assumption of zero seems to imply that there will be offsetting productivity improvements during the term of the current EBA. For the last three years of the period, when a new EBA will be required, Jacobs have assumed that[70]

> *"The conditions of future EBAs are uncertain, as these depend on negotiations and conditions at the time. However, the current EBA keeps wage increases within the RBAs target range of 2% to 3%. TasNetworks' employees can be reasonably assumed to accept a similar clause in future EBAs if they anticipate weak economic growth similar to current levels in the future."*

But then they seem to argue that, given their expectation of rises for contract labour of above CPI (over the 2006-16 period the increase for utilities sector workers AWOT earnings was 1.6% above CPI) will put upward pressure on EBA rises in the next EBA. TasNetworks proposal for productivity savings more than offsets the assumed labour cost increases.

As part of its review of the forecasts CCP13 encourages the AER to: [71]

> *"…analyse the past performance of DNSPs' labour price forecasters when determining the appropriateness of DNSPs' labour price forecasts."*

(v) EBSS

Transmission

We support the application of EBSS in the 2019-24 period.

Distribution

The AER expects that the overspend in the current period – driven by a reassessment of the bushfire risk and the need to increased vegetation management costs – will lead to a negative adjustment of $21.5m ($2018-19) to distribution revenues in the forecast period.[72]

Our concerns about whether the base year is 'not materially inefficient' leads to a conclusion that the AER should do further analysis before agreeing to apply EBSS to TasNetworks distribution in the 2019-24 period. Consumers are happy to share the benefits of a network improving its performance from an efficient base.

[69] Op cit p.9

[70] Ibid p.12

[71] Expenditure Guideline op cit p. 14

[72] AER Issues Paper p.31

Conclusions and Recommendation(s)

Transmission

f) That the AER support the use of 2017/18 as the base year for Transmission opex.

Distribution

g) That the AER reconsider its decision rule for assessing the "not materially inefficient" cost level in the context of the 2016-17 base year costs proposed for TasNetworks distribution.

h) That only if the AER is satisfied that the proposed base year costs are efficient can we support the application of EBSS for the 2019-24 period.

i) That the AER pay particular attention to the step change in vegetation management in 2016-17 which is being sustained throughout the 2019-24 period.

j) That the AER consider a NEM-wide review of vegetation management costs, particularly those relating to bushfire risk.

Other

k) That TasNetworks be acknowledged for their offer of productivity improvements for both transmission and distribution; they could have simply relied on the AER's zero productivity assumption but wanted to show their commitment to reducing prices to consumers.

l) That the AER to reconsider its zero productivity assumption in opex assessments.

B.6 Demand Forecasts

TasNetworks' Proposal

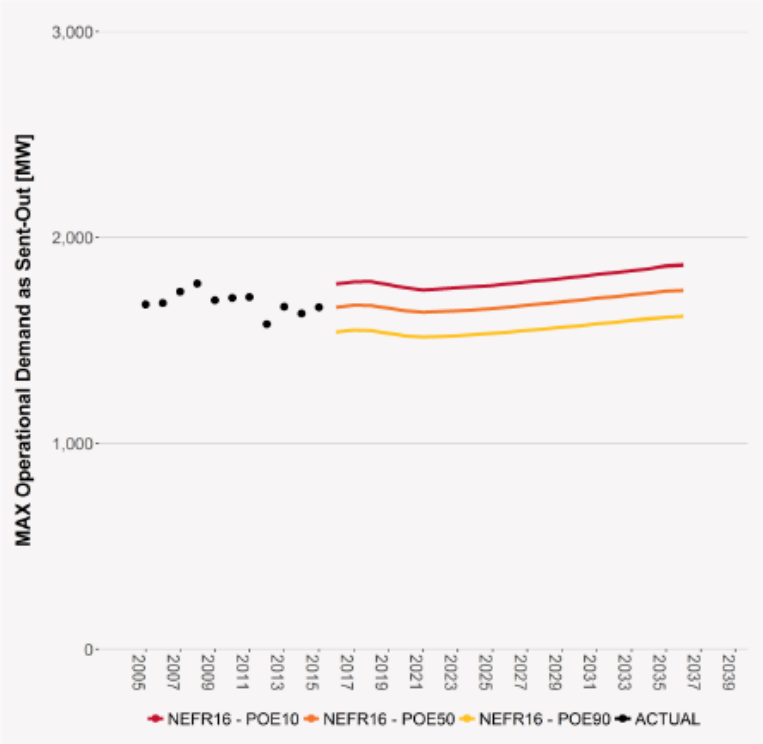
Unlike other network proposals, TasNetworks has not provided a detailed analysis of its demand forecasts.

Tasmania is a winter peaking State. TasNetworks forecast draws on the 2016 AEMO NEFR forecasts.[73] It then takes the AEMO 50% POE values and, using historic substation diversity factors, developed zone, feeder and geographic area forecasts for use where required. It provides the following slide form the 2016 AEMO forecasts to show forecast winter peak demand.[74]

[73] AEMO "2016 National Electricity Forecasting Report Chart Pack" June 2016 http://www.aemo.com.au/-/media/Files/Electricity/NEM/Planning_and_Forecasting/NEFR/2016/2016-National-Electricity-Forecasting-Report-NEFR--chart-pack.pdf

[74] Proposal p.70

Figure 6-1: Actual and Forecast Maximum Demand for Tasmania[20]



TasNetworks argues that:

> *"…energy consumption does not drive our capital expenditure plans."*[75]

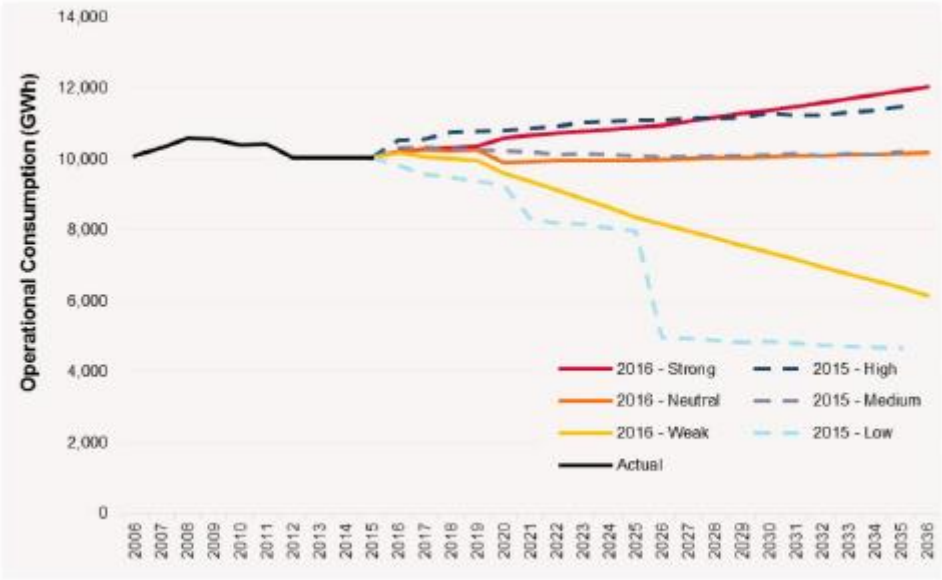
Further,

> *"Our energy sales forecasts are based on econometric models. To model energy sales accurately, it is important to examine the particular drivers for each sector of the economy. In broad terms, however, Tasmanian energy sales are driven by economic growth, electricity prices, weather conditions and trends in energy consumption per residential dwelling."*[76]

and presents the following AEMO slide to indicate AEMO forecasts under strong, neutral and weak economic scenarios.[77]

[75] ibid
[76] ibid
[77] Op cit p. 71

Figure 6-2: AEMO's forecast energy consumption on the Tasmanian network[21]



CCP Comments

There is insufficient evidence on which to review the demand forecasts. Outstanding questions in CCP 13's mind include:

- Why are 2016 AEMO forecasts still relevant?
- How relevant are historic substation diversity factors to 2019-24 forecasts?
- If energy consumption does not drive our capital expenditure plans, then what does drive augmentation capex? (apart from meeting regulatory requirements); and how does TasNetworks decide in repex whether to replace "like with like" without some view on forecast consumption?
- On the assumption that pricing influences demand, how were your ideas around the 2019-24 TSS taken into account in developing the demand forecasts?

The other obvious point to note, which is well recognised by TasNetworks, is the risks around a small number of large consumers accounting for over 50% of electricity consumption. These businesses are all price takers in the international markets where they sell their products and competitive electricity prices are key to them maintaining their international competitiveness. Closure of any one of these could have a significant impact on the network prices paid by the remaining Tasmanian consumers.

Recommendation(s):

m) *Given the lack of evidence in TasNetworks' proposal, we would encourage TasNetworks and the AER to seek further information to clarify the situation prior to any review of proposed capex.*

B.7 Rate of Return

TasNetworks' Proposal

TasNetworks has largely applied the 2013 AER Rate of Return (ROR) Guideline. It proposes a rate of return of 5.89% in its calculations over the 5 years in its proposal. This would be updated at various stages along the process until the final AER decision. It proposes a value of 0.4 for gamma, which is consistent with the Guideline and recent Federal Court decisions.

The one slight variation is that it proposes the same ROR for transmission and distribution. A strict application of the 2013 ROR guideline would produce a higher ROR for transmission (6.15%) vs distribution (5.89%). This is because of the application of the trailing average approach to the debt calculation has a high cost of debt in year 1 for transmission (6.07% in 2014/15) than year 1 for distribution (5.10% in 2017/18).

Given the cost of debt is updated annually, TasNetworks have asked the AER to continue to align the transmission ROR to the distribution ROR over the reset period.

CCP Comments

CCP welcomes the proposed aligning of ROR's to the lower distribution rate and its positive impact on customer's bills. It is a recognition of the merging of the transmission and distribution networks businesses into the one entity.

The AER is currently undertaking a review of the 2013 ROR Guideline.[78] COAG Energy Council has announced its intention of making the new Guideline, to be published by December 2018, binding and draft legislation has been out for public comment.[79] If this new legislation is passed in the current timetable, then the new binding guideline will apply to TasNetworks 2019-24 reset. For this reason, we do not intend to comment on the detail on the TasNetworks ROR proposal.

The AER Issues Paper on this proposal comments that:[80]

> *"…we plan to consider all relevant rate of return and gamma materials submitted to us in this and other concurrent determination processes as also being relevant material for our guideline review…"*

and will publish the relevant TasNetworks material on the Guideline review website.

For these reasons, we do not comment on the detail of the TasNetworks ROR proposal.

What we would say is that, following the publication of the revised Guideline, we would encourage TasNetworks to retain their commitment to align the transmission and distribution ROR to the lower distribution rate, given the expectation that the binding Guideline will not result in any major change to the trailing average approach to debt.

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[78] See https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/review-of-rate-of-return-guideline

[79] See http://www.coagenergycouncil.gov.au/publications/national-electricity-law-and-national-gas-law-amendment-package-%E2%80%93-creating-binding-rate

[80] Issues Paper p.25

Recommendation(s)

n) *Given the application of the revised RoR Guideline, whether binding or not, we recommend that TasNetworks retain their commitment to align the transmission and distribution ROR to the lower distribution rate.*

B.8 Distribution Pricing

TasNetworks' Proposal

TasNetworks proposal includes a Tariff Structure Statement described as (TSS, p5):

> *… a five-year distribution pricing strategy document required by the Rules. We have engaged our customers in developing it, will seek the Australian Energy Regulator's (AER's) approval of it, and will then ensure our annual distribution prices align with it during the 2019-24 regulatory control period.*

The TSS makes it clear that TasNetworks believe tariff reform is needed. Some new tariffs have been added and some progress has been made on unwinding cross subsidies between customers (and between tariffs). The new tariffs include:

- two new time of use demand tariffs for customers with Distributed Energy Resources (DER, including batteries and solar power);
- an introductory 'discount' to encourage take-up of the DER tariffs;
- two new Embedded Network tariffs (HV and LV).

We also note that the AER established relatively clear expectations for this TSS in the determination on the current (first round) TSS[81]. This is discussed in the AER Issues Paper (p38). The AER stated that it expected to see consideration of default assignment to a Cost Reflective Network Tariff with opt out provisions for all new customers (all DNSPs) and, for TasNetworks specifically, that progress is made on cost reflectivity and consumer impact of irrigation tariffs.

In relation to opt-in vs opt-out, the AER Issues Paper (p39) sought stakeholder views on:

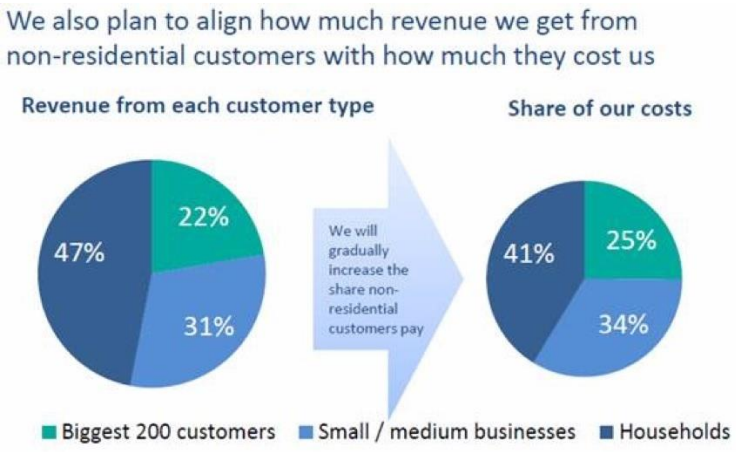
- Whether retailers are likely to take up cost reflective network tariffs under the proposed 'opt-in' regime and whether it will, in stakeholders' opinion, provide an adequate pace of reform?
- Whether an 'opt out' arrangement, whereby retailers are charged a cost reflective network tariff by default, is more appropriate?

CCP Comments

In our September 2017 response to the Directions and Priorities Paper questions *What information* would *you like to better understand in our tariff reform plan?* and *Do you support our approach to tariff reform?* we said:

[81] see Final Determination Attachment 19 at https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/tasnetworks-determination-2017-2019/final-decision

- *The Tariff Structure Statement (TSS) should demonstrate a consistency with the TasNetworks Network Transformation Roadmap 2025. It should be demonstrated how the impact of tariff reform on "Network Transformation" by 2025 will be progressed during the 2019-24 regulatory period. It is currently not clear that progress on tariff reform will be sufficient to fulfil the Roadmap's vision.*
- *Many of the recommendations made in the AER's review of the current TasNetworks TSS warrant a response in the next one (i.e. the TSS to be proposed in January 2018 for the 2019-24 Period). CCP13 acknowledges that we have been provided a preliminary response to each of these that indicates progress on most of these recommendations. Further, many of these recommendations refer to issues of relevance to all Distribution Network Service Providers (DNSPs) so it would be of value to consumers for TasNetworks to outline how they are collaborating with other DNSPs on these matters.*
- *A central objective must be transparency of the drivers of costs and their allocation to different customers. An important aspect of this is for customer representatives to be able to engage with TasNetworks and Aurora at the same time. CCP13 notes that this occurred at a recent Pricing Reform Working Group and that further opportunities are being identified. We would encourage further cooperation.*
- *Tariff reform in Tasmania involves the unwinding of cross subsidies between residential and business customers – so called 'rebalancing' of tariff classes - as well as the introduction of new types of tariffs for small customers. The Paper could deal more comprehensively with the issues involved (including political and customer issues). The pace of tariff reform is being challenged in most jurisdictions, in CCP13's view it is preferable for NSPs to be upfront with customers and open about the implications for Network Transformation. The following diagram from recent customer consultations by PWC Networks in the Northern Territory is considered a good, simple representation of their context:*



Source: PWC Networks, August 2017

- *The impact of network costs Tariff 41 (which has the effect of providing residential consumers incentives to use electricity at peak demand times) and its future need to be considered in an open and transparent fashion.*

TasNetworks 2019-24 TSS proposal does not contain much commentary on the choice between opt-in and opt-out default assignment of new customers. 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. We are aware of increased engagement with Aurora on pricing matters, but we are not aware of a consensus view on tariff assignment. Noting the importance of tariff reform to cost-effectively harnessing DER and the potential to avoid future network augmentation costs outlined in the ENA/CSIRO and TasNetworks Roadmaps, there is a Dynamic Efficiency argument for accelerated tariff reform.

Embedded Network Tariff

The TSS proposes to introduce an 'Embedded Network' tariff into the HV and Large LV tariff classes.

The tariff structure is that of a service charge ($/day) for each 'child' connection point and a kVA demand charge (peak, off-peak). There are no consumption charges (i.e. c/kWh). The service charge is the same for both HV and LV tariffs and is the same as that applying to tariffs TAS88 (LV Commercial ToU Demand) and TAS98 (Business LV DER).

CCP13 has considered the proposal in some detail and three short examples are presented. This has raised further questions regarding compliance of this aspect of the proposal.

The TSS Compliance matrix (page 57) does not refer to NER 6.18.4 despite this being relevant to creating new tariffs and assigning customers. This clause was discussed in Mansfield J Federal Court of Australia *CKI Utilities Development Pty Ltd v Australian Energy Regulator* [2016] FCA 17 in relation to proposed 'solar' and 'social' tariffs.

NER Clause 6.18.4

(a) In formulating provisions of a distribution determination governing the assignment of *retail customers* to *tariff classes* or the re-assignment of *retail customers* from one *tariff class* to another, the *AER* must have regard to the following principles.

(1) *retail customers* should be assigned to *tariff classes* on the basis of one or more of the following factors:

(i) the nature and extent of their usage;

(ii) the nature of their *connection* to the *network*;

(iii) whether remotely-read interval metering or other similar metering technology has been installed at the *retail customers'* premises as a result of a *regulatory obligation or requirement*;

(2) *retail customers* with a similar *connection* and usage profile should be treated on an equal basis;

(3) however, *retail customers* with micro-generation facilities should be treated no less favourably than *retail customers* without such facilities but with a similar load profile;

(4) a *Distribution Network Service Providers'* decision to assign a customer to a particular *tariff class*, or to re-assign a customer from one *tariff class* to another should be subject to an effective system of assessment and review.

It is not clear if assigning a customer to a tariff on the basis of being an 'embedded network' genuinely satisfies 6.18.4 (a) (1) (i) and (ii). If two customers with identical load profiles, one an embedded network and one not, sought connection would they be assigned to the same tariff? Would they incur the same network charges?

For example, consider two CBD Offices: One is fully occupied by a single owner/occupier, the other tenanted by whole or partitioned floors, managed as an embedded network by the property manager. Both present the same load, load profile and physical connection points to the network. Would these "retail customers with a similar connection and usage profile" be treated on an equal basis in accordance with subclause (2)?

In theory, an embedded network should increase diversity of demand and reflect greater utilisation (i.e. peak to average demand) of the network connection point than would be the case for each, individual customer. Further, the obligations of the DNSP only extend to the parent connection point, not to each (child) customer. Together with the density of consumption, this should make an embedded network customer cheaper to serve than if connected directly to the shared network.

As another example, consider a greenfield commercial precinct where each building has solar and storage as well as back-up diesels that can be deployed to manage peak demand and outages. Should the project go ahead with individual network connections or one, shared connection?

In the base case, it is assumed each building would be assigned to the Business LV DER or Commercial ToU Demand (TAS98 or TAS88). These are both structured as a service charge (c/day) and a kW demand charge (peak, off-peak).

Service Charge c/day	Demand Charge c/kW/day (peak/off-peak)
73.994	59.345/9.881[82]

In the EN case, the parent connection point demand charge is imposed on a (more cost reflective) $/kVA basis rather than $/kW and is set at 57.999 c/kVA/day vs 59.345 c/kW/day.

Service Charge c/day	Demand Charge c/kVA/day (peak/off-peak)
73.994 per child	57.999/19.313

In the 'single customer' case, the parent connection would be assigned to Large Low Voltage Time of Use Demand (TAS89):

Service Charge c/day	Demand Charge c/kVA/day (peak/off-peak)
467.668	47.204/15.719

What is not clear from the TSS is why a customer load is priced differently in each case. What assumptions are made around diversity and load profiles that might explain the different treatment?

As a final example, consider a community-led retirement village with 150 semi-detached independent living units (ILUs). The developer is offering each property with a solar/battery system and is considering a community energy scheme that would lower the ongoing costs of residents. Should the resident's association orchestrate the systems and optimise the network costs or just pursue individual connections for each dwelling?

In the base case, it is assumed each ILU would be assigned to the Residential DER or Residential ToU Demand (TAS97 or TAS87). These are both structured as a service charge ($/day) and a kW demand charge (peak, off-peak):

Service Charge c/day	Demand Charge c/kW/day (peak/off-peak)
56.902	30.086/5.009

In the EN case, the parent connection point demand charge is imposed on a (more cost reflective) $/kVA basis rather than $/kW and is set at 57.999 c/kVA/day

Service Charge	Demand Charge c/kVA/day (peak/off-peak)
73.994 **per child**	57.999/19.313

The maximum demand reduction from diversity is relevant to comparisons of tariffs. Residential diversity of 0.5 is common, implying that an average 5kW of peak demand at each household equates to 2.5kW in peak demand per household at the transformer level. This approximation of diversity may explain the difference in demand charge rates but does not account for the difference in service charges.

[82] noting the proposed discount in off peak demand

CCP13 recommends that the AER scrutinise this tariff proposal and establish whether or not the proposal is compliant with the Rules.

Recommendation(s):

o) *The AER has indicated an expectation of default assignment of new customers to a Cost Reflective Network Tariff with an opt-out provision in 2019-24. TasNetworks is not proposing to move to this until the subsequent period (20124-29). CCP13 recommends the AER set clear expectations in its Draft Decision and to favour a shorter timeframe.*

p) *The TSS should provide greater clarity on cross-subsidies and the pace of reform.*

q) *The AER set clear expectations regarding engagement with dominant retailer Aurora and consumers on an accelerated tariff reform program.*

r) *Proposing a specific tariff for 'embedded networks' raises questions of compliance with NER 6.18.4 and warrants close scrutiny by the AER.*

B.9 Public Lighting

TasNetworks' Proposal

TasNetworks proposal (and TSS) included a substantial increase in Public Lighting prices noted in the AER Issues Paper (p44).

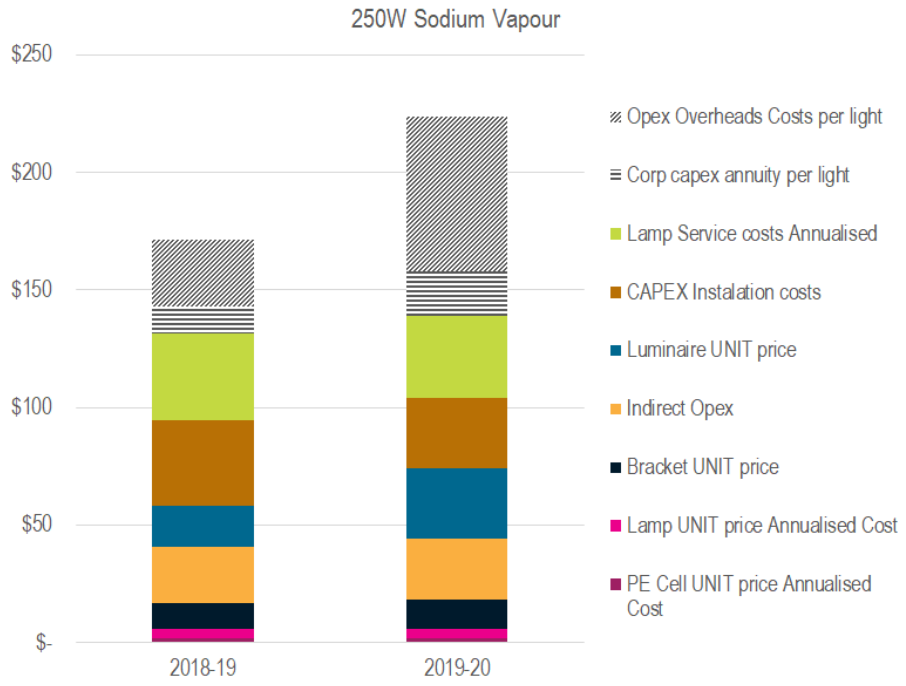
TasNetworks has proposed a substantial increase in revenue from Public Lighting on the basis that it was now aware of significant under-recovery of costs from the provision of these services. TasNetworks has proposed a 'glide path' transition to full cost recovery of two regulatory periods based on CPI+2.5%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

CCP Comments

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.

The cost element that has increased is that of Overheads. The AER sought further information from TasNetworks on this issue and the response was accompanied by a reduction in the amount allocated to overheads. However, questions remain as to the basis of the overhead allocation and further scrutiny is clearly warranted.

The following chart is based on Combined Annuity Prices for Public Lighting presented in TasNetworks' (Revised) Public Lighting Annuity Model and shows (using 250W Sodium Vapour lights as an example – the most numerous of the public lights) the substantial increase in opex and corporate capex overheads behind a proposed increase of over 30% in real terms from $171.19 to $223.95 for this particular light.



Recommendation(s):

s) *The AER should not accept the proposed increase in overheads for public lighting. TasNetworks should provide further justification for its approach.*

B.10 Accelerated Depreciation of Legacy Meters

TasNetworks' Proposal

TasNetworks proposes to recover the full capital cost of its type 5 and 6 meter fleet in the 2019-24 period. This would increase standard meter prices by 49 per cent or $9.29 per annum.

The AER stated (Issues Paper p45) that it is unsure as to whether it is in consumers' best interests to allow TasNetworks to fully recover the capital costs of its meter fleet in the 2019-24 period.

CCP Comments

CCP13 does not believe a strong case has been made for why the accelerated depreciation of the legacy meter fleet is in the consumer interest.

Further, we do not consider this issue to be isolated to TasNetworks and recommend that the AER provide clear guidance to all DNSPs on this matter.

Recommendation(s):

t) *The AER should not accept the proposed accelerated depreciation of legacy meters. TasNetworks should provide further justification for why its approach is in the long-term interests of consumers.*

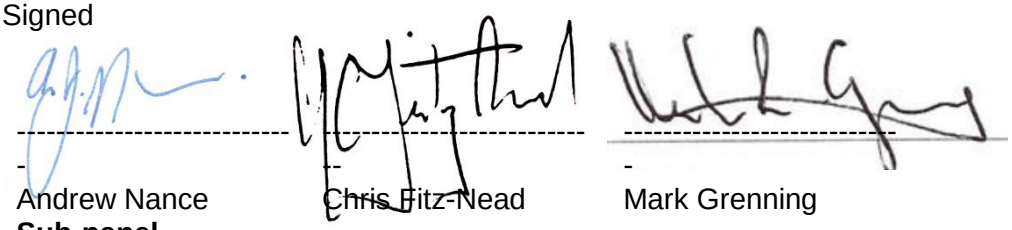
CONCLUSION

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

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



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