

**Submission to the Australian Energy Regulator on  
TasNetworks' Distribution Regulatory Proposal 2017-19**

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**Consumer Challenge Panel**

**April 2016**

## Executive Summary

The Consumer Challenge Panel has been engaged in discussions surrounding network regulatory determinations since 2013 when the Panel was first established. Members of the Panel have also been engaged in these discussions prior to appointment to the Panel, in most cases for a significant number of years.

Throughout these processes, the Panel has consistently drawn attention to the impact of high prices on all households including the particular impact these have on the lowest income households across our community. These households already face major cost of living pressures and because the high prices for essential services presents affordability issues, they are at high risk of losing unrestricted access to the basic and essential service of electricity.

The author notes that the consumer engagement program was the first of its kind for TasNetworks Distribution in terms of its scope and breadth. TasNetworks is to be commended for its decision to raise its level of engagement with customers. The author also wishes to acknowledge the openness and transparency with which TasNetworks has approached the Regulatory Determination. The author thanks TasNetworks for its express willingness to engage with the Consumer Challenge Panel and other consumer interest groups.

The success of TasNetworks consumer engagement program is evidenced by the willingness of the business to embrace the consumer view that cost is the greatest concern. This consumer view is no surprise, given the affordability issues experienced by many Tasmanians and the general state of the Tasmanian economy. Yet it is noteworthy that TasNetworks has recognised and prioritised this perspective in its Regulatory Proposal.

Of the 19 issues raised by the Consumer Challenge Panel in recent regulatory determinations, TasNetworks has positively addressed 17, partially addressed 1 and negatively addressed 1. This is an extremely encouraging result and demonstrates that TasNetworks has adopted a consumer engagement approach which incorporated lessons and advice from earlier regulatory determinations in the current round of determinations.

Furthermore, it is noteworthy that of the above issues raised by the Consumer Challenge Panel, 12 directly relate to the AER Consumer Engagement Guideline for Network Service Providers. TasNetworks clearly provides a good case study of how to apply the Guidelines effectively and is to be commended for this.

This submission recognises that TasNetworks has made a good start in proposing expenditure in line with consumer expectations and values. The author has recommended that the AER undertake detailed examination of significant capital and operating expenditure proposals including the proposed significant increase in IT expenditure.

Finally, TasNetworks is to be commended for its opt-in approach to the new demand tariffs.

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# Introduction

As a member of the Consumer Challenge Panel, the author thanks the AER for the opportunity to provide comment on TasNetworks' Distribution Regulatory Proposal 2017-19.

As described by the AER, the Consumer Challenge Panel "assists the AER to make better regulatory determinations by providing input on issues of importance to consumers. Regulatory determinations are technical and complex processes which can make it difficult for ordinary consumers to participate. The expert members of the CCP bring consumer perspectives to the AER to better balance the range of views considered as part of our decisions."

The roles of CCP members include:

- advising the AER on whether a network business's proposal is justified in terms of the services to be delivered to customers; whether those services are acceptable to, and valued by, customers; and whether the proposal is in the long term interests of consumers;
- advising the AER on the effectiveness of network businesses' engagement with their customers and how this engagement has informed, and been reflected in, the development of their proposals.

Throughout the regulatory determination processes which have proceeded since late 2011, the Consumer Challenge Panel has consistently drawn attention to the following:

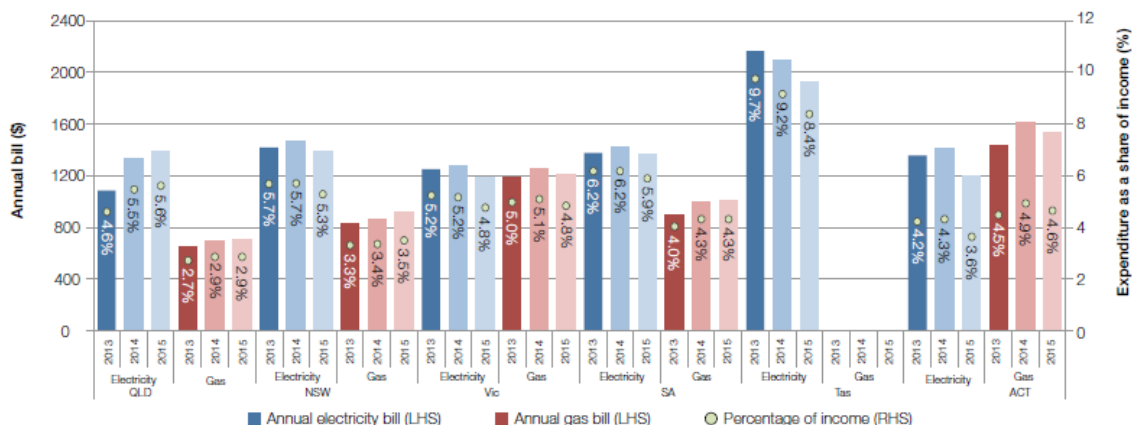
- Impacts of high prices on consumers;
- The way in which network proposals impact on safety and reliability;
- Whether the allowances for debt funding are reasonable;
- Whether the cost of equity is adequate;
- The role of benchmarking in the AER's determination of expenditure allowances;
- The role of incentive payment schemes, and;
- The varying level of effectiveness of network businesses' engagement with their customers according to the network.

Members of the Consumer Challenge Panel have been active in discussions with TasNetworks in the lead up to the lodgement of the Regulatory Proposal. Members of the Panel including the author have met with TasNetworks on 4 occasions, including a day-long meeting with business representatives. We have attended as observers of a TasNetworks Stakeholder Engagement Workshop and have also met individually with the following organisations: Local Government Association of Tasmania, Tasmanian Council of Social Service, Anglicare Tasmania, Goanna Energy and Tasmanian Renewable Energy Alliance.

Members of the Consumer Challenge Panel have engaged with the business extensively in the lead up to lodgement of the Regulatory Proposal. Members formed the view that an important role the Panel can play is to provide early indications to the business of priorities and concerns. The author welcomes the decision by TasNetworks to revise its approach since the release of its Directions and Priorities. The author sees this as a sign of good faith in consumer values and perspectives, and commends TasNetworks for this demonstrated commitment to both considering and accommodating consumer feedback.

# Affordability Issues

As reported by the AER and illustrated in figure 1 below, electricity bills in the NEM are highest in Tasmania (\$1927 on average per annum).



**Figure 1:** Annual electricity and gas bills, and as a share of benchmark low income household’s disposable income (without concession) – jurisdiction specific ‘low’ consumption levels, June 2013, 2014 and 2015

(Source: AER Annual Performance Report 2014-15 at

[http://www.aer.gov.au/system/files/AER%20Annual%20Report%20on%20the%20Performance%20of%20the%20Retail%20Energy%20Market%20201415\\_0.PDF](http://www.aer.gov.au/system/files/AER%20Annual%20Report%20on%20the%20Performance%20of%20the%20Retail%20Energy%20Market%20201415_0.PDF): p.40)

In Tasmania, customers experience a high rate of electricity charges (fourth highest in the NEM) and high energy use and less domestic use of gas leads to the high bills reported.<sup>1</sup>

An indicator of energy hardship is the percentage of the Australian population who could not pay utility bills on time at some stage during the previous year. 12.1% of all Australian households were unable to pay their utility bills, mainly electricity, on time in 2014, due to insufficient income to pay the bill.<sup>2</sup>

Further, there are significant numbers of customers in debt and experiencing electricity disconnections in Tasmania. Table 1 below details the customer debt figures and figure 2 highlights the disconnection statistics.

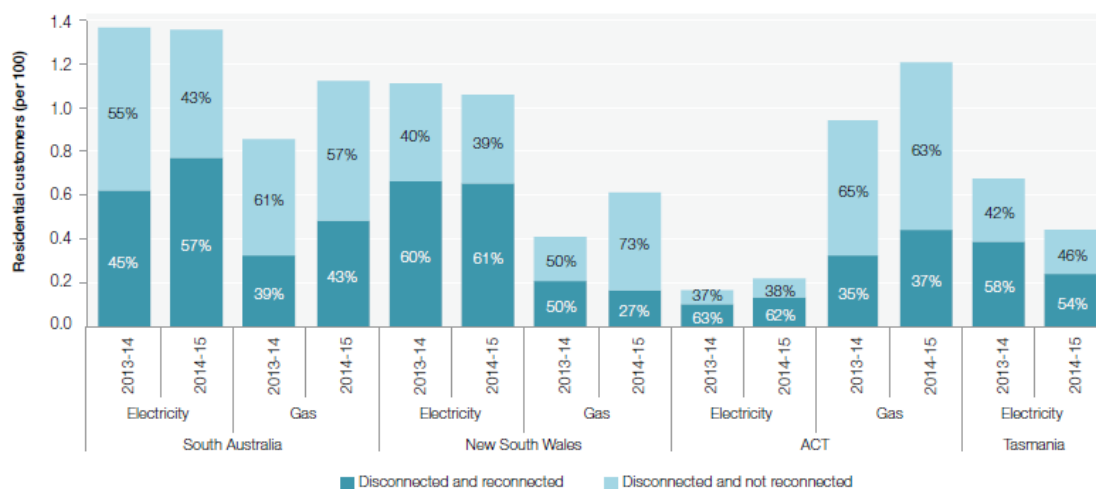
Quarter/Financial year	Residential electricity customers with debt	Average residential electricity debt (\$)	Small business electricity customers with debt	Average small business electricity debt (\$)
Mar-15	5017	701	292	943
Jun-15	4229	706	274	1138
Sep-15	3529	701	242	1395

**Table 1:** Tasmania customer energy debt

Source: AER Retail Statistics at <http://www.aer.gov.au/retail-markets/retail-statistics/tasmania-customer-energy-debt>

<sup>1</sup> AER (2015) Annual Performance Report

<sup>2</sup> ABS (2014) 4159.0 General Social Survey at <http://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/4159.0Explanatory%20Notes12014?OpenDocument>



**Figure 2:** Residential customers disconnected for non-payment in 2013–14 and 2014–15 by jurisdiction  
*Source: AER Annual Performance Report 2014-15: p.33*

The AER has stated “we do not consider that the NEO would be advanced if prices are so high that large numbers of consumers are unable to afford the service.”<sup>3</sup> Energy hardship, debt and disconnection are indicators of lack of affordability. As an essential service, electricity disconnection is the worst possible outcome for an energy consumer. The South Australian Council of Social Service has reported on the impacts of disconnection:

“The threat of disconnection places considerable stress and pressure on consumers. Consumers interviewed described experiencing a range of emotions, such as frustration, anxiety, shame and disappointment.”<sup>4</sup>

Similarly, the Public Interest Advocacy Centre has reported on the impacts of disconnection:

“Disconnection was disruptive to households, with a range of strategies deployed to cope with the situation, including using candles or lanterns, having cold showers/baths, and buying takeaway/prepared food. Those living in public housing were significantly more likely than others to take several courses of action to deal with the disconnection.

A range of impacts resulted from disconnection, most commonly anxiety and emotional disorders, loss of food and an inability to wash. These impacts were compounded the longer the disconnection.”<sup>5</sup>

In Tasmania, the significant number of customers who are on low incomes heightens the threat of energy hardship, rising debt levels and disconnection. Tasmania has the highest population of

<sup>3</sup> AER Issues Paper for NSW Distribution Determination at <http://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/ausgrid-determination-2014-19/proposal>: p.25

<sup>4</sup> South Australian Council of Social Service (2014) South Australian Disconnection Project at <https://www.sacoss.org.au/reports/energy-water?page=0%2C0>: p.19

<sup>5</sup> Public Interest Advocacy Centre (2013) Cut Off III at [http://www.piac.asn.au/sites/default/files/publications/extras/13.04.14\\_final\\_report.pdf](http://www.piac.asn.au/sites/default/files/publications/extras/13.04.14_final_report.pdf): p.ii

people receiving the electricity concession (38.8% or 91,026 account holders<sup>6</sup>), with percentage of Tasmanian households who receive 50% or more of their income from Commonwealth Income Support payments at 29.2% in 2014.<sup>7</sup> Compared with national rates, Tasmania has a higher unemployment rate, lower labour force participation rate and lower average weekly earnings.<sup>8</sup> These factors compound the energy affordability problem facing many Tasmanians.

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<sup>6</sup> Tasmanian Energy Regulatory (2015) Energy in Tasmania Performance Report 2014-15 at [http://www.energyregulator.tas.gov.au/domino/otter.nsf/LookupFiles/Energy\\_in\\_Tasmania - Performance Report 2014-15.pdf/\\$file/Energy in Tasmania - Performance Report 2014-15.pdf](http://www.energyregulator.tas.gov.au/domino/otter.nsf/LookupFiles/Energy_in_Tasmania_-_Performance_Report_2014-15.pdf/$file/Energy_in_Tasmania_-_Performance_Report_2014-15.pdf): p.109 & p.112

<sup>7</sup> ABS (2014) 6523.0 - Household Income and Wealth, Australia, 2013-14 at <http://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6523.02013-14?OpenDocument> table 15.8

<sup>8</sup> ABS (2014) General Social Survey at <http://www.abs.gov.au/ausstats/abs@.nsf/mf/4159.0#Anchor4>

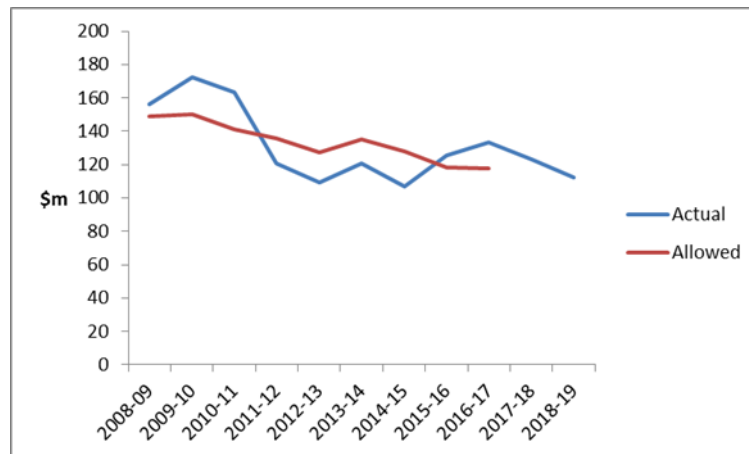
## Expenditure Trends

The author has reviewed TasNetworks' actual and forecast expenditure for the current regulatory period as indicated below:

Activity	2012-13	2013-14	2014-15	2015-16	2016-17	Total
Capex total	109.1	120.5	106.7	125.7	133.3	595.3
Opex total	78.3	79.9	68.0	64.7	63.1	354.0
<b>Total expenditure</b>	<b>187.4</b>	<b>200.4</b>	<b>174.7</b>	<b>190.4</b>	<b>196.4</b>	<b>949.3</b>

**Table 2:** Actual and forecast expenditure for the 2012-16 regulatory period (June 2017 \$m)

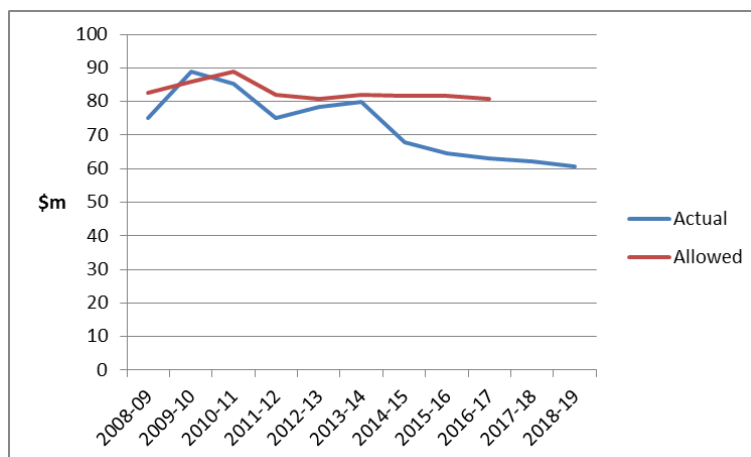
The author has compared capital and operating expenditure for the previous two regulatory periods to that proposed in the Regulatory Proposal and against the allowance as below:



**Figure 3:** TasNetworks Capital Expenditure 2008-09 to 2018-19

(Note: Actual 2015-16 to 2016-17 is forecast and Actual 2017-18 to 2018-19 is as proposed in TasNetworks' Regulatory Proposal)





**Figure 4:** TasNetworks Operating Expenditure 2008-09 to 2018-19

(Note: Actual 2015-16 to 2016-17 is forecast and Actual 2017-18 to 2018-19 is as proposed in TasNetworks' Regulatory Proposal)

In its Regulatory Proposal, TasNetworks is proposing a significant program of capital expenditure of \$235.5 million over two years:

Capex by category (June 2017 \$m)	2017/18	2018/19	Total over period
Development	31.9	31.5	63.4
Renewal/Enhancement	57.7	60.9	118.6
Operational Support Systems	15.5	4.7	20.2
Non-Network Other	3.7	3.7	7.4
IT and Communications	14.2	11.7	25.9
<b>Total</b>	<b>123</b>	<b>112.5</b>	<b>235.5</b>

**Table 3:** Capital Expenditure Proposed by TasNetworks 2017-19 (\$m)  
(Source: TasNetworks)

In particular, the author notes the following significant expenditure:

- Customer initiated capital expenditure (\$28.4m)
- Reinforcement capital expenditure (\$12.9m)
- Renewal and enhancement capital expenditure (\$118.6m) including:
  - Pole replacements (\$16.0m)
  - Low conductor span rectification (\$7.7m)
- Asset Management Information System and Geographic Information Systems (\$8.1m)
- Ajilis (\$11.3m)

In its Regulatory Proposal, TasNetworks is proposing a significant program of operating expenditure of \$123.1 million over two years:

<b>Opex by category (June 2017 \$m)</b>	<b>2017/18</b>	<b>2018/19</b>	<b>Total over period</b>
Emergency Field Operations	14.3	13.9	28.2
Maintenance and Vegetation Management	25.7	25.1	50.8
Distribution Asset Services	12.4	12.3	24.7
Business Services	7.9	7.6	15.5
'Other' Operating Expenditure	1.9	1.9	3.8
<b>Total</b>	<b>62.3</b>	<b>60.8</b>	<b>123.1</b>

**Table 4:** Operating Expenditure Proposed by TasNetworks 2017-19 (\$m)  
(Source: TasNetworks)

In particular, the author notes the following significant expenditure:

- Maintenance and Vegetation Management (\$50.8m)
- Emergency Field Operations (\$28.2m)
- Distribution Asset Services (\$24.7m)
- Increase in access track and corridor maintenance (\$2.2m)
- Increase in inspection of overhead lines and structures (\$2.0m)
- Increase in low conductor span rectification (\$1.6m)

The author strongly recommends that the AER undertake detailed analysis about business cases and allowances for each of the capex and opex significant projects and programs. The author intends to reassess this proposed expenditure after the Draft Decision, and anticipates further review of the proposals at that stage.

## **IT and Communications**

The author notes the doubling of expenditure on IT and communications in the current and forthcoming regulatory period compared with the allowance for 2012-16:

Category	Regulatory Allowance for 2012-13 to 2016-17	Actual expenditure for 2012-13 to 2016-17	Forecast expenditure for 2017-18 to 2021-22
IT and Communications	41.6	82.2	74.7

**Table 5:** IT and Communications Expenditure (\$m)  
(Source: TasNetworks)

The author has compared expenditure on IT and communications for a number of network businesses as indicated below:

Network Business	Regulatory Allowance for most recent period	Actual expenditure for most recent period	Forecast expenditure coming period
ActewAGL	27.3 (2009-10 to 2013-14)	35.2 (2009-10 to 2013-14)	20.6 (2014-15 to 2018-19)
CitiPower	40.2 (2011-12 to 2015-16)	40.2 (2011-12 to 2015-16)	81.0 (2016-17 to 2020-21)
TasNetworks	41.6 (2012-13 to 2016-17)	82.2 (2012-13 to 2016-17)	74.7 (2017-18 to 2021-22)
Powerlink	83.0 (2012-13 to 2016-17)	54.7 (2012-13 to 2016-17)	60.5 (2017-18 to 2021-22)
TransGrid	95.0 (2009-10 to 2013-14)	87.6 (2009-10 to 2013-14)	104.5 (2014-15 to 2018-19)
SA Power Networks	146.8 (2010-11 to 2014-15)	153.4 (2010-11 to 2014-15)	264.9 (2015-16 to 2019-20)

**Table 6:** Comparison of Network Businesses IT and Communications Expenditure (\$m)  
(Source: Network Businesses RP's and AER Final Decisions)

While the doubling of expenditure in IT is not singular to TasNetworks, the pace and scale of the increase is significant. While the author has concerns about the proposed levels of IT capex, it is recognised that the appropriate level may be higher than that of the allowance for the 2012-16 period due to changes in the operating environment for TasNetworks, such as the merger with transmission and the introduction of smarter grids and additional regulatory obligations.

Nevertheless, the author is concerned about the high levels of proposed IT capex over two periods, compared with the allowance for the period 2012-16 and suggests that proposed IT capex should be closely scrutinised by the AER.

The author recommends assessing forecast IT capex using both trend analysis and individual business cases. In the trend analysis, the author would wish to see the proposed expenditure compared to historic expenditure, and for the AER to seek to understand the reasons for material differences in forecast expenditure. The author has some concern that the proposed program is a

large scale, complex and interdependent program of works which impacts broadly across core IT systems. Therefore, we recommend that the AER further assess the proposed program through individual project reviews, in particular of the Ajilis project.

# TasNetworks Customer Engagement Program and Findings

## Introduction

This section comments on TasNetworks' customer engagement program, *Voice of the Customers*, which was conducted as part of TasNetworks' Regulatory Proposal for 2017-19.

TasNetworks commenced its customer engagement program for the regulatory reset in October 2014 when it held its first round of workshops with end-use customers. In the same month, TasNetworks held a stakeholder engagement workshop with the Office of the Tasmanian Regulator Customer Consultative Committee (OCCC) with stakeholders including the Tasmanian Council of Social Services, Tasmanian Small Business Council, Renewable Energy Alliance and Local Government Association of Tasmania. A second round of customer engagement workshops was held in June 2015.

In May 2015, TasNetworks participated in the Agfest rural symposium via a display, direct engagement and survey. In the same month, telephone and online surveys were conducted. TasNetworks notes it facilitated additional interviews through Agfest and the TasNetworks website.

During April and December 2015, TasNetworks met with representatives of developers, customers and external planning bodies (including TasWater, Department of State Growth, and various councils).

TasNetworks' Directions and Priorities Consultation Paper was released in September 2015.

## Workshops

TasNetworks engaged the services of Straight Talk as independent facilitators of the workshops. There was a total of 48 participants for the first round of workshops, which were held in Hobart and Launceston.

Straight Talk notes that "the objectives of the engagement were to:

- Understand the priorities of consumers in terms of electricity and in particular explore trade-offs between reliability and price, the two main elements of cost
- Explore the level of understanding about the industry, TasNetworks part in it and the underlying values of importance to consumers that TasNetworks could then use in determining forward expenditure programs and ultimately network pricing
- Gauge how effective this method of engagement is for participants and TasNetworks with a view to bringing the same people back, early in 2015, to further test and refine the regulatory proposal."<sup>9</sup>

Straight Talk notes that in relation to the service/price trade-off, customers reported the following:

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<sup>9</sup> Straight Talk (2014) TasNetworks Consumer Engagement: First Round Summary at <http://www.tasnetworks.com.au/TasNetworks/media/pdf/customer-engagement/Straight-Talk-report-consumer-engagement-v2.pdf>

*Forum participants in the Hobart and Launceston groups reported different experiences of power outages. Hobart participants recalled fewer, longer outages, whilst Launceston participants recalled more, shorter outages. Both groups were happy with their level of service, but reported that their current level of outages was roughly the maximum they found “acceptable”. Acceptability was found to be dependent on whether an acceptable cause of the outage was supplied (in a scenario where the state is suffering a major storm, longer outage times were deemed acceptable). Whilst a majority of consumers found TasNetwork’s outage communication adequate a sizeable minority felt that the faultlines took too long to gazette the cause of outages. It is therefore likely that any failures or flaws in the customer communication process will amplify the perceived impact of outages. Most participants did not recall a difference in the outage profile between summer and winter.<sup>10</sup>*

The second round of workshops was also facilitated by Straight Talk. There were around 50 participants for the second round of workshops, which were held in Hobart and Launceston. There was a mix of participants who had participated in the first round of TasNetworks workshops and people who had previously not participated.

Straight Talk notes the objectives of this second round of engagement included:

- “To support achievement of TasNetworks’ business strategy and support inclusion of customer preferences in future plans provided to the AER as part of the forthcoming distribution determination.
- To provide sufficient context for customers to enable informed feedback via real and practical examples.
- To test and confirm the customer feedback that has been received as part of engagement activities to date have been appropriately incorporated into future plans and address customers concerns.
- To consult on topics where the feedback can be incorporated and influence TasNetworks’ current and future plans.
- To provide feedback to enable TasNetworks to improve customer consultation.”<sup>11</sup>

By way of summary, Straight Talk notes that:

*Affordability came across as participants’ major concern and the support for tariff and expenditure changes was largely dependent on customers’ energy bills remaining the top priority of TasNetworks. Any engagement must take into account this key, and sometimes exclusive, community focus. Discussions on the strategic direction of TasNetworks must be discussed in relation to the real impact they will have on customers’ power bills, in order to remain relevant and relatable.*

*The feedback received validated findings from the previous series of TasNetworks engagement workshops, which indicated that customers were largely satisfied with the level*

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<sup>10</sup> Straight Talk (2014) p.2

<sup>11</sup> Straight Talk (2015) TasNetworks Customer Engagement Workshops: Outcomes Report at [http://www.tasnetworks.com.au/TasNetworks/media/pdf/customer-engagement/TasNetworks\\_Engagement\\_Workshops\\_August\\_Outcomes\\_Report.pdf](http://www.tasnetworks.com.au/TasNetworks/media/pdf/customer-engagement/TasNetworks_Engagement_Workshops_August_Outcomes_Report.pdf) p.3

*of service reliability and cost, and that consumers support only moderate increases in expenditure to maintain reliability and the sustainability of infrastructure.<sup>12</sup>*

## Surveys

The telephone and online surveys were conducted by an external facilitator, Nature. There were 1002 online/phone responses, 133 responses from the website and 362 responses from Agfest. Demographics identified included age, gender, household structure, work status and household income.

Nature states that the surveys identified that “management of a safe and reliable network and restoration of supply after outages are the clearly most valued areas of TasNetworks’ service”.<sup>13</sup> The majority of respondents were at least somewhat satisfied with the reliability of the service. Respondents were mostly positive about TasNetworks’ responsiveness to power outages. Three in four respondents would not be willing to absorb any price increase for improved service/reliability. Lower prices were reported to most uplift satisfaction levels. As Nature reports: “General feedback about TasNetworks suggests that consumers are satisfied with the current service, but would appreciate lower pricing.”<sup>14</sup>

## Directions and Priorities Consultation Paper

Key themes stated by TasNetworks for the Directions and Priorities Paper included:

- Asset maintenance with a focus on safety;
- Maintaining reliability of the network;
- Where it is safe to do so, running the network harder rather than building more;
- Taking a whole of life approach to optimise cost and service outcomes;
- Working to deliver the lowest sustainable prices.

The Paper reported the key outcomes from the consumer engagement work as stated above. There was significant emphasis on lower prices as a concern for customers, with TasNetworks stating that “cost is the greatest concern”.<sup>15</sup>

Total capex forecast for 2017-19 was proposed at \$275.5m and total opex forecast at \$146.1m. Notably, capex forecast included an increase in customer-initiated, renewal and enhancement and IT and communications expenditure.

The Paper also featured a discussion on cost-reflective tariffs.

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<sup>12</sup> Straight Talk (2015) p.2

<sup>13</sup> Nature (2015) TasNetworks Customer Engagement Research at [http://www.tasnetworks.com.au/TasNetworks/media/pdf/customer-engagement/TasNetworks\\_Customer\\_Engagement\\_Research\\_Report\\_2015.pdf](http://www.tasnetworks.com.au/TasNetworks/media/pdf/customer-engagement/TasNetworks_Customer_Engagement_Research_Report_2015.pdf) p.17

<sup>14</sup> Nature (2015) p.31

<sup>15</sup> TasNetworks (2015) Directions and Priorities Consultation Paper at [http://www.tasnetworks.com.au/TasNetworks/media/pdf/customer-engagement/TasNetworks\\_Direction\\_and\\_Priorities\\_Consultation\\_Paper\\_AUG15.pdf](http://www.tasnetworks.com.au/TasNetworks/media/pdf/customer-engagement/TasNetworks_Direction_and_Priorities_Consultation_Paper_AUG15.pdf) p.12

## Consumer Challenge Panel Perspectives

Since 2013, the Consumer Challenge Panel has raised a number of issues relating to the effectiveness of network businesses consumer engagement activities. The following table collates that advice and assesses the performance of TasNetworks against the issues raised:

Issue Raised By CCP	Panel Raised	Addressed by TND	Assesment of TND Performance
<b>Clear, accurate and timely communication</b>			
Range of engagement tools used	Sub panel 1, sub panel 7, CCP	Yes	TasNetworks is to be commended for its use of deliberative processes and its decision to participate in Agfest is recognised as an innovative and brave approach to consumer engagement. The incorporation of a range of tools including stakeholder meetings, website, phone and online is also noted.
Placing emphasis on face to face consultation/ in depth discussions	Sub panel 1, CCP	Yes	See comments above.
Engagement timetabled to be able to effect regulatory proposal	Sub panel 1, sub panel 8	Yes	TasNetworks first round of workshops was October 2014.
<b>Accessible and inclusive</b>			
Recognition of different customer segments and targeting engagement accordingly	Sub panel 1, sub panel 3, sub panel 7, sub panel 8, CCP	Yes	While there is no reporting of the first workshop demographics which is regrettable, the second workshop reported reported a broad range of demographics. The selection of stakeholder representatives was from a broad cross section. The survey research demographics identified included age, gender, household structure, work status and household income.
Consumers being presented with cost and price implications of any preferences	Sub panel 1, sub panel 7, CCP	Yes	The second round of workshops reported that consumers were presented with information about the forecast expenditure and revenue scenarios for reliability and asked to comment. The Directions and Priorities Consultation Paper also provided detailed information about costs.
Using the IAP2 spectrum, targeting participation at the "Involve", "Collaborate" and "Empower" levels rather than just "Inform"	Sub panel 1, sub panel 6, sub panel 7, sub panel 8, CCP	Yes	The deliberative process method and ongoing stakeholder reference group falls within the involve and collaborate spectrums.
<b>Transparent</b>			
Consumers informed of their role in the process and of the objective of the process	Sub panel 1	Yes	The deliberative workshops fully informed consumers of these issues.
Provision of information to customers engaged of average prices (cents/kWh), total revenue (\$bn) and total profits (\$bn) for the specific DNSP and compared to those of other NSPs each year over a five year period plus data on average minutes off supply, per connection on average for the last five years	Sub panel 1	No	There is no evidence that this information was provided.
Evidence based claims about reliability	Sub panel 1	Partially	TasNetworks discussed reliability in workshops and surveys. However, it would be important to



			see TasNetworks further evolve this work on reliability to incorporate questions about customers and risk of reduced reliability, given the probabilistic nature of reliability. See extensive commentary on this by CCP sub panel 1 in response to NSW draft decisions at <a href="http://www.aer.gov.au/about-us/consumer-challenge-panel/statements-and-advice">http://www.aer.gov.au/about-us/consumer-challenge-panel/statements-and-advice</a>
Appointment of independent adviser/facilitator	Sub panel 8	Yes	Appointed.
<b>Measurable</b>			
Evidence that success is being measured	Sub panel 1, sub panel 7, sub panel 8, CCP	Yes	Workshops were evaluated as part of the process and the evaluations were reported.
External assessment by participants	Sub panel 1	Yes	Stakeholder reference meetings provided opportunity to external feedback.
<b>Accountable</b>			
Willingness to pay surveys being used to provide useful insights on consumer preferences about competing priorities, rather than to justify significant expenditure	Sub panel 1, sub panel 8, CCP	Yes (TND elected not to use WTP)	The decision by TasNetworks not to use WTP is to be commended. It is a very costly method if it is done well, and TasNetworks has demonstrated that there are alternative ways to gain information about consumer preferences.
Inadequate information provided in WTP surveys	Sub panel 3	Yes (TND elected not to use WTP)	As above.
AER engage independent WTP evaluators	Sub panel 3, CCP	Yes (TND elected not to use WTP)	As above.
Sufficient time in workshops and meetings to explore regulatory proposal issues	Sub panel 3, sub panel 7	Yes	TasNetworks confined itself to discussing a limited amount of issues, in order for those issues to be more fully explored. This is a practical way to deal with the need to both inform and involve participants.
Aligns with AER CE Guideline	Sub panel 1, sub panel 8	Yes	As noted above.
Senior executives part of engagement	Sub panel 8	Yes	TasNetworks is to be commended for senior level engagement in the consumer program.
<b>Appropriately costed</b>			
Part of efficient revealed costs rather than a step change	Sub panel 6	Yes	TasNetworks is to be commended for an efficient yet valuable engagement process.

**Table 7:** Assessment of TND performance against consumer engagement issues previously raised by Consumer Challenge Panel

## Revisions from Directions and Priorities

Based on consumer feedback, TasNetworks stated it would endeavour to find further savings in its capital expenditure proposals, given the proposed increases in capital investment and new IT systems. In the Directions and Priorities planned capex spend was \$275.5m. In its regulatory proposal, TasNetworks proposed capex spend of \$235.5m. This effort to find further savings following customer feedback is significant.

## Feedback from Tasmanian Consumers

Following the release of the TasNetworks Regulatory Proposal, the author interviewed two Tasmanian consumer representatives regarding TasNetworks Consumer Engagement program. The

general feedback was positive. While both subjects indicated that they did not always find agreement with TasNetworks, they spoke highly of TasNetworks engagement efforts and their openness and transparency. There were no major concerns raised about the direction outlined in TasNetworks' Regulatory Proposal.

## **Conclusions**

The success of TasNetworks consumer engagement program is evidenced by the willingness of the business to embrace the consumer view that cost is the greatest concern. This consumer view is no surprise, given the affordability issues experienced by many Tasmanians and the general state of the Tasmanian economy. Yet it is noteworthy that TasNetworks has recognised and prioritised this perspective in its Regulatory Proposal.

Of the 19 issues raised by the Consumer Challenge Panel in recent regulatory determinations, TasNetworks has positively addressed 17, partially addressed 1 and negatively addressed 1. This is an extremely encouraging result and demonstrates that TasNetworks has adopted a consumer engagement approach which incorporated lessons and advice from earlier regulatory determinations in the current round of determinations.

Furthermore, it is noteworthy that of the above issues raised by the Consumer Challenge Panel, 12 directly relate to the AER Consumer Engagement Guideline for Network Service Providers. TasNetworks clearly provides a good case study of how to apply the Guidelines effectively and is to be commended for this.

## Tariff Reform

TasNetworks are proposing to introduce three cost reflective tariffs on an opt-in basis for the regulatory control period. The new tariffs will be:

- Residential time of use demand network tariff;
- Low Voltage commercial time of use demand network tariff; and
- Large Low Voltage time of use demand network tariff.

TasNetworks are to be commended for offering these demand tariffs on an opt-in basis. As the customer impacts vary according to demand profile, there is inadequate information at present to determine who will benefit and who will be negatively affected by the new tariffs. Therefore, it is not possible to currently align complementary measures with the new tariffs. The plans for a tariff trial to occur during the regulatory control period are also to be commended. TasNetworks and their customers will be in a better position to make informed decisions once this trial has occurred.