

16 May 2018

Mr Sebastian Roberts
General Manager, Networks
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Sebastian

RE Evoenergy proposal and Issues Paper

TasNetworks welcomes the opportunity to make a written submission regarding Evoenergy's revenue proposal for the 2019-24 regulatory control period, in response to the Issues Paper released by the Australian Energy Regulator (AER) on 28 March 2018. Specifically, TasNetworks wishes to express its support for Evoenergy's proposal for the continuation of a lower level (± 2.5 per cent) of revenue at risk under the Service target performance incentive scheme (STPIS), rather than the standard scheme's ± 5.0 per cent.

Like Evoenergy, TasNetworks supports the objectives of the STPIS and its continued application to network businesses. However, clause 2.5(b) of the STPIS provides that a DNSP may propose a different level of revenue at risk where this would satisfy the objectives of the scheme, and TasNetworks is of the view that the maximum level of revenue at risk is an arbitrary figure that should serve as an upper bound, rather than the default setting.

TasNetworks put forward a similar proposal in relation to its distribution network for the 2017-19 regulatory control period. While that proposal was rejected by the AER, TasNetworks remains of the view that, within the scope afforded to it, the AER should be flexible in its application of the STPIS (and other incentives) rather than rigidly applying the scheme, or ruling out changes because they involve adjustments to guidelines.

On one hand, the STPIS provides an incentive for distributors to invest in further reliability improvements (via additional capex or opex) where customers are willing to pay for it. In proposing a revenue at risk level of less than ± 5.0 per cent, Evoenergy has argued that the scope for further reliability improvement in its service area is limited, and that the majority of its residential customers are supportive of a continuation of Evoenergy's current strategy of

maintaining the level of reliability of supply, as opposed to actively improving reliability by, for example, investing more in pole replacement.

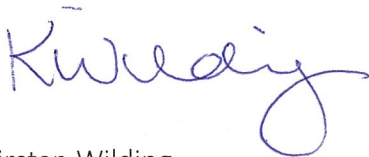
TasNetworks considers that greater weighting should be given by the AER in these matters to the insights gathered by networks through consultation with their customers. While TasNetworks agrees that it is important for the AER to gain consumer perspectives and observations to help it make informed regulatory decisions, the onus is on network businesses to consult widely and on an ongoing basis when developing their regulatory proposals.

In our experience, the stakeholders who engage with the AER are very different from the typical customers with whom TasNetworks engages, as is the nature of that engagement, which tends to be less formal and more ongoing in nature than is possible through a reliance on written submissions and public hearings. We consider that the AER should, therefore, be able to rely on the insights gathered by networks as part of its efforts to gain consumer perspectives.

Lastly, in its 2015 final determination of Evoenergy's (then ActewAGL) revenue for the 2014-19 regulatory period, the AER decided that applying a lower level of revenue at risk would better meet the objectives of the scheme and the long term interest of consumers. If this position was acceptable only three years ago and the scheme is focussed on the maintenance or improvement of service performance in the long-term, then it appears inconsistent with both the AER's previous decision and the long-term objectives of STPIS to be making short-term changes to the level of revenue at risk.

To discuss the views expressed in this submission, please contact Chantal Hopwood, Revenue and Pricing Team Leader, at Chantal.Hopwood@tasnetworks.com.au or on (03) 6271 6511.

Yours sincerely



Kirstan Wilding
Leader Regulation