TasNetworks
Delivering your power

Tasmanian Networks Pty Ltd
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14 September 2018

Mr Warwick Anderson
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Dear Warwick

RE TasNetworks' response to draft 2018 Rate of Return Guideline

TasNetworks appreciates the opportunity to respond to the draft Rate of Return Guideline (**Guideline**) released for consultation by the Australian Energy Regulator (**AER**) on 10 July 2018. TasNetworks has contributed to and supports the positions outlined in the Energy Networks Australia submission, particularly in relation to the objective that the Guideline provide an allowed rate of return which contributes to the achievement of the National Electricity Objective to the greatest degree and is capable of acceptance by stakeholders.

In relation to TasNetworks' revenue proposal for the 2019-24 regulatory period, as you will be aware, TasNetworks put forward a package of measures aimed at minimising upward pressure on the network costs faced by our customers. A key component of those measures was aligning the rate of return applying to TasNetworks' transmission network regulatory asset base with the rate of return applying to its distribution network.

TasNetworks' proposal was based on the Australian Energy Market Commission's approval of a Rule change request submitted by TasNetworks in June 2017 that sought to have the 2013 Rate of Return Guideline applied to both the distribution and transmission determinations in the upcoming regulatory period.

Since our submission the Council of Australian Governments' Energy Council agreed to apply a binding rate of return guideline to the round of network determinations due for final decision in April 2019. The AER has also indicated its intent to maintain the current transition paths for TasNetworks' transmission and distribution networks via the use of a trailing average portfolio approach to setting the cost of debt allowance.[1]

The bill, *Statutes Amendment National Energy Laws (Binding Rate of Return Instrument) Bill 2018* was introduced in the South Australian Parliament in August 2018. The legislative and draft Guideline changes introduced significant uncertainty. This has required TasNetworks to reassess its proposed revenue strategy and the balance between maintaining affordability for our customers and ensuring that TasNetworks continues to run a sustainable business.

In this regard, TasNetworks notes and appreciates the offer made by the AER in the Explanatory Statement to explore other mechanisms for achieving the revenue path TasNetworks was seeking to deliver. TasNetworks' most recent revenue estimates for the 2019-24 regulatory period indicate that, should the draft Guideline be applied to TasNetworks' next revenue determination, the rates of return applying to TasNetworks will maintain affordability for our customers by putting downward pressure on network prices. As a result, TasNetworks will apply the prevailing Guideline and not seek to align the rates of return applying to its regulated networks. It will not, therefore, be necessary to explore alternative mechanisms for reducing TasNetworks' revenues when developing the revised revenue proposal due for submission in November 2018.

If you wish to discuss any aspect of this submission, please contact Kirstan Wilding, Leader Regulation at [redacted] or on [redacted]

Yours sincerely

[redacted]

Wayne Tucker

General Manager Regulatory Policy & Strategic Asset Management

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[1] *Draft Rate of return guidelines – Explanatory Statement*, Australian Energy Regulator, July 2018