TasNetworks | Powering a Bright Future

Tasmanian Networks Pty Ltd
ABN 24 167 357 299
PO Box 606, Moonah, TAS, 7009
1300 137 008

9 September 2022

Sebastian Roberts
Network Expenditure
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Mr Roberts

RE Incentive Scheme Review – Capital Expenditure Sharing Scheme Position Paper

TasNetworks welcomes the opportunity to make a submission to the Australian Energy Regulator (**AER**) on options being considered to change the Capital Expenditure Sharing Scheme (**CESS**).

As the Tasmanian Transmission and Distribution Network Service Provider and the proponent for Marinus Link, TasNetworks is focussed on delivering safe, secure and reliable electricity network services to our customers at the lowest sustainable prices. TasNetworks is supportive of changes to the regulatory framework that provide for sustainable prices and improve reliability – issues which our customers continue to tell us they value most.

TasNetworks supports the Energy Networks Australia (**ENA**) submission to the CESS Position Paper and provides the following additional comments for consideration.

TasNetworks agrees with the AER's preliminary view that the CESS should be retained as the scheme has provided effective incentives to Network Service Providers (**NSPs**) as it relates to efficient capital expenditure (**capex**).

TasNetworks also supports the AER's view that customer group concerns can largely be alleviated by increasing transparency regarding CESS outcomes, including the reasons for differences between actual capex and approved forecasts. This aligns with the Better Resets Handbook expectation that material incentive benefits are well justified and explained to customer groups. TasNetworks suggests principles-based guidance based on the recommendation in the Consumer Challenge Panel submission to the Incentive Scheme Review Discussion Paper is more preferable than a prescriptive approach. This would require NSPs to provide a credible narrative to explain differences between capex allowances and actual outcomes.

If the AER is considering changes to data reporting requirements, TasNetworks suggests existing reporting processes (e.g. Reset Regulatory Information Notices) are amended to reduce the regulatory burden on NSPs.

The Position Paper proposes a 20 per cent sharing ratio "in circumstances where the expenditure behaviour of a NSP in a previous regulatory control period compared to that which it proposes in its regulatory proposal raises concerns for us." TasNetworks does not consider the AER has made the case to change the current 30 per cent sharing ratio that is leading to positive customer outcomes.

It appears the main reason proposed for introducing a variable rate is to improve the quality of regulatory proposals and reduce the potential for NSPs being rewarded for forecast errors. However, these outcomes are not listed as objectives in the Capital Expenditure Incentive Guideline and it is not clear how these objectives relate to the capital expenditure incentive objective or the capital expenditure share scheme principles in the National Electricity Rules (**NER**). If the AER is considering changing or expanding the CESS objectives, TasNetworks seeks further clarity regarding:

- how the new objectives comply with the capital expenditure incentive scheme clauses in the NER; and
- the rationale for how the proposed changes meet the new objectives. It is not clear how reducing CESS incentives encourages 'honest' forecasting.

The AER has successfully encouraged NSPs to improve capex forecasts through the release of numerous guidelines and the introduction of the replacement expenditure model. The Better Resets Handbook, released in December 2021, will further improve forecasting accuracy and consumer engagement. Rather than make changes to the CESS to improve forecasting accuracy the AER should allow time to assess the effectiveness of the Better Resets Handbook.

As noted, TasNetworks does not consider a variable rate is the appropriate response to customer group concerns. However, if the AER proceeds with a variable rate scheme, TasNetworks considers the Bright Line Test approach, specifically the second example suggested in the Position Paper[1], as the best option. This approach can be applied mechanistically, creating certainty for NSPs and customers and is a relatively simple and transparent approach compared to the other bright line test suggested in the Position Paper. The principles based approach would create uncertainty for NSPs and customers throughout a reset process.

Should you have any questions, please contact Chantal Hopwood, Leader Regulation, via email [redacted] or by phone on [redacted].

Yours sincerely

[redacted]

Michael Ash

Executive Stakeholder

[1] A 30 per cent sharing ratio would apply for underspending up to 10 per cent in the previous regulatory control period and a 20 per cent sharing ratio would apply to any underspending in excess of 10 per cent.