

## Department of State Growth

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Mr Chris Pattas  
General Manager  
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### **TasNetworks – Regulatory Determination 2019-24**

Dear Mr Pattas

The Department of State Growth welcomes the opportunity to make a submission to the Australian Energy Regulator (AER) on its Draft Decision and on TasNetworks' Tasmanian Transmission and Distribution Revised Proposals for the 2019-2024 regulatory control period. We have comments in relation to two specific elements of the determination.

#### Cost reflective tariffs

It is generally accepted that the move towards more cost-reflective tariffs will have broad benefits. For some customers, these benefits will be realised more quickly while, for other customers (who do not benefit directly from more favourable retail tariffs), the benefits associated with downward pressure on network costs may be realised in later years.

In its Retail Electricity Pricing Inquiry, the Australian Competition and Consumer Commission recommended the acceleration of take up of cost reflective network tariffs through mandatory assignment with no provision for customers to opt out.

I note that the AER's preferred approach for upcoming regulatory decisions is a default opt-out assignment. The approval of Tariff Structure Statements provides the opportunity to develop a comprehensive package of measures to support consumers to manage the impacts of changes in retail pricing that flow on from the move towards cost reflective network tariffs. The need for this support is particularly important for vulnerable customers. However the importance of improved engagement for all customers is also a significant factor. The development of a trusted evidence base to enable customers to understand the impact of new tariff arrangements is critical.

The AER is undertaking work with consumer groups and retailers to facilitate a smooth and effective transition to more efficient pricing.

I note the position of the AER in its draft decision, and the subsequent position of TasNetworks in its revised proposal on the issue of the trigger for tariff assignment.

There are two key features of the Tasmanian electricity market that need to be taken into account in considering the transition to cost-reflective tariffs.

First, retail prices offered by Aurora Energy under standard retail contracts are regulated, and under the current legislation price increases are capped at no more than CPI until 2021. This includes a requirement that no individual component of the regulated retail tariff structures may be increased by more than CPI. This means that Aurora Energy is currently constrained in its retail offering to residential customers.

Secondly, Tasmania does not experience the same degree of volatility in demand experienced in mainland jurisdictions which may reduce the significance of time of use pricing, with price signals being less obvious than in other jurisdictions. This aspect of the Tasmanian electricity market has been a factor in a range of various studies on the benefits of advanced meters undertaken over a number of years. Improvements in technology and declining costs in metering may have changed the cost/benefit equation over time.

TasNetworks has undertaken a trial of time of use tariffs for a cohort of 600 customers. The emPOWERing You trial has indicated some benefits for customers moving to more cost-reflective tariffs, and was also used to assess customers' ability to understand and respond to changed tariff arrangements. The conduct of this trial, and the level of support given to these 600 customers, is a welcome addition to improving customers' understanding of their electricity consumption. The final results of this trial will be a useful input into ongoing customer education and improvement of customer engagement.

After taking into account the costs and benefits across the supply chain (including both TasNetworks and potential cost impacts on retailers) it may be that the opt-out approach with the 12 month delay would remain the better option for customers. Where an advanced meter is installed a 12-month delay on automatic tariff assignment would provide customers with the opportunity to review sufficient data to make an informed choice, depending on individual circumstances.

It is important to consider costs across the entire supply chain as there are impacts on both the network business and retailers. Retailers need to have systems and processes in place to provide appropriate customer service, and therefore the trigger for tariff assignment ought to be part of a comprehensive package of measures to support customers (especially vulnerable customers) to understand and manage the impacts of any changes.

In making a decision in relation to the speed of moving towards cost reflective tariffs, the AER should take into account the relative costs across the entire supply chain, as well as the benefits that can be realised by customers, to ensure that an optimum balance is achieved.

#### Contingent projects - MarinusLink

The AER did not support TasNetworks' proposed contingent projects in its draft decision on the basis that the need for each project was not sufficiently established and the projects were not considered likely to occur in the 2019-24 regulatory control period. The AER highlighted consumer concerns regarding the potential price impacts of the proposed contingent projects, and the lack of clarity of the benefits, to Tasmanian consumers.

The AER indicated that "TasNetworks has the opportunity to provide further supporting information and revised contingent project triggers in its revised proposal, which we will consider in our final decision." The Department agrees with the AER's draft decision that further substantiation of the proposed contingent projects is required, particularly in regard to ensuring Tasmanian consumers face no detrimental impacts.

The focus of this submission is in relation to MarinusLink as a contingent project. TasNetworks' revised proposal provides further supporting information to justify MarinusLink as a contingent project, reflecting the current status of the Project Marinus feasibility and business case assessment.

In regard to AER concerns that TasNetworks' proposed trigger events make successful completion of a RIT-T optional, TasNetworks' revised proposal moves away from the RIT-T being an optional trigger event. This approach is welcomed by the Department as it provides greater certainty that MarinusLink would only proceed as a regulated link where it provides net economic benefits.

The Australian Energy Market Operator's (AEMO's) 2018 Integrated System Plan (ISP) gives an indicative timeframe for a second Bass Strait interconnector. Future iterations of the ISP may bring forward the timing for interconnector investments, including MarinusLink.

In its advice to the COAG Energy Council in regard to actioning the ISP, the Energy Security Board (ESB) identified a number of key ISP refinements and improvements. In particular, the ESB raised concerns with the 2018 ISP assumption that thermal generators will retire at the end of their technical life given the revenue stress many ageing coal-fired generators are likely to experience over the short-medium term. The ESB recommended the inclusion of revenue adequacy modelling to test the assumptions around generator entry and exit. This is likely to bring forward indicative coal plant retirement in future ISPs. The ESB indicated that the need for some group 2 and 3 projects will be accelerated if coal plants retire earlier than expected.

It is recognised the 2018 ISP's analysis in regard to pumped storage may be limited. It is understood that more detailed data is becoming available and that AEMO intends to publish further analysis on the implications of early coal retirement and the impacts of storage in the first half of 2019, and that AEMO intends to publish the next iteration of the ISP in December 2019.

TasNetworks has indicated that initial Project Marinus modelling shows MarinusLink has positive economic benefits from the mid-2020s under some scenarios, with timing variation largely related to retirement of coal-fired generation.

Based on these indications, there is a reasonable likelihood that the timing of MarinusLink may be bought forward relative to the 2018 ISP. TasNetworks considers that, as a minimum, further progression of the MarinusLink project is likely to occur in the 2019-24 regulatory control period.

It will be important that, in the event future ISPs do bring forward the timing for MarinusLink, the investment can proceed in a timely manner in accordance with the identified ISP investment timelines. In the absence of contingent project status, there is a risk that the project may need to wait until the subsequent regulatory period before it can proceed resulting in project delays and not delivering the least-cost network development pathway identified by the ISP.

The ESB has highlighted the importance of contingent project status in facilitating timely delivery of ISP projects. In its advice to the Energy Council, the ESB recommended "that transmission companies consider whether Group 2 and 3 projects meet contingent project requirements and, if so, work with the AER to enable that status to be conferred".

In deciding on whether to confer contingent project status the Department considers that the AER should give due consideration to the likelihood that future iterations of the ISP may bring forward the timing for investments such as Project Marinus and that, without contingent project status, timely investment in line with the least-cost development pathway outlined by the ISP may not occur.

The Department welcomes TasNetworks' commitment to ensuring Tasmanian customers pay no more than their fair share of costs for MarinusLink. A key priority for the Tasmanian Government is ensuring lowest possible energy costs for Tasmanian consumers. It will be important that Tasmanian consumers face no detrimental impacts as a result of any regulated investment in MarinusLink.

TasNetworks has indicated that the majority of the benefits of MarinusLink flow to consumers in regions outside of Tasmania. As such, it is essential that the framework for cost recovery for interconnector services fairly allocates costs to those who benefit, especially when the benefits of strategic infrastructure are shared more widely across the NEM rather than being realised in only one or two jurisdictions. Under the current framework this would not be the case for MarinusLink. The Department welcomes TasNetworks' position that MarinusLink should only proceed as a regulated service if the present pricing framework is modified and/or appropriate financial contributions to support the project are secured.

It is widely recognised that the current pricing framework is not appropriate for strategic investments that provide benefits that largely sit outside the region where the investment occurs. The Department welcomes the Australian Energy Market Commission's (AEMC's) recommendation in its Coordination of Generation and Transmission Investment Review to implement reforms to inter-regional TUOS pricing to ensure that the costs of interconnectors are aligned to those who benefit.

The Department considers there would be minimal risk in conferring contingent project status to MarinusLink given the linkage to successful completion of a RIT-T and a commitment by TasNetworks to only proceed with the project if Tasmanian customers are not detrimentally impacted. Contingent project status would ensure that MarinusLink can proceed in a timely manner if future iterations of the ISP identify that the project needs to commence within the 2019-24 regulatory control period as part of the least-cost strategic transmission plan for the National Electricity Market.

If you wish to discuss any aspect of this submission, please contact Sue Morrison ([sue.morrison@stategrowth.tas.gov.au](mailto:sue.morrison@stategrowth.tas.gov.au)) or by phone on (03) 6166 3474.

Yours sincerely



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