

6 January 2019



Mr Chris Pattas
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne, Vic, 3001

Via email: TASelectricity2017@aer.gov.au

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Dear Mr. Pattas,

Re: AER draft decisions on TasNetworks' electricity distribution and transmission determinations for the 2019-24 regulatory control period dated 27 September 2018.

I refer to AER's invitation for interested parties to make submissions on its draft decision referred above by 11 January 2019, and accordingly have attached hereto TMEC's submission for your consideration.

Should you require any clarification or further information with regard to our submission, please feel free to contact us at your convenience.

Yours sincerely,

Wayne Bould
Chief Executive Officer

Cc: **The Hon Guy Barnett MP**
Minister for Energy
G.P.O. Box 123
HOBART TAS 7320
Via email: Guy.Barnett@dpac.tas.gov.au and
Barnett.Correspondence@dpac.tas.gov.au

TasNetworks Regulatory Proposal 1 July 2019 – 30 Jun 2024

Submission by Tasmanian Minerals and Energy Council

To the Australian Energy Regulator Draft Decision

The Tasmanian Minerals and Energy Council (TMEC) represents the interests of Mining, Minerals Processing, Manufacturing and other energy intensive industry sectors in Tasmania.

The membership base of TMEC account for 60% of the electricity consumed in Tasmania and as such there is no equivalent entity in terms of energy concentration in any of the other jurisdictions managed by the AER. Further to this, no other State in Australia has an export economy so heavily reliant upon and influenced by industry sectors which are intrinsically dependent upon the reliability of energy supply, internationally competitive pricing and overall energy strategies and policy.

While TMEC acknowledges there has been ongoing improvement with regard to reliability and delivery cost, it sees from some of the fiscal and asset strategies TasNetworks has proposed vis-à-vis its Network and Distribution systems, further material price reductions are within TasNetworks capability. However, for reasons as yet unknown, these price reductions have not materialised. To this point the AER have identified and proposed a number of more substantive reductions, however TasNetworks has largely ignored or dismissed these in their response. Given the Arup Review of TasNetworks proposed capex for the 2019-2024 regulatory control period report, a reputable benchmarking study forms the basis for the challenges to TasNetworks proposal, the AER are on very solid ground to reject the counter proposal from TasNetworks.

TMEC firmly believes that TasNetworks has in some cases made imprudent decisions with regard to its Network investments in the current Regulatory Period, and therefore lacks credibility in arguing the soundness of its proposed investments in the next periods. For example, the replacement of old/failing assets in the current period has seen the average residual life of assets increase, and yet there does not appear to be a reduction in ongoing maintenance costs. Our members would not be able to get access to capital funds for asset replacement from their owners if there was not an expectation that maintenance costs would be reduced. Accordingly, it seems entirely appropriate that the AER should expect the same of TasNetworks.

TMEC would strongly encourage the AER to hold TasNetworks accountable to the AER proposed CAPEX limits until TasNetworks can justify why the previous expenditure did not result in a reduction in Operating Expenditure.

One justification for increased Network CAPEX which may be being contended is the potential for increasing demand, however, given actual consumer trends, this justification does not hold water in Tasmania.

TMEC is also concerned with TasNetworks proposed Network Capital Expenditure – Renewal category. After a number of years of relatively realistic expenditure, TasNetworks propose rates will double and trend towards the spend profile of the “gold plated era”. History has shown that industry groups such as TMEC were entirely correct with their protestation of the record wasteful investments which occurred in that period. TMEC encourages the AER to be firm and prevent this from occurring again on its watch.

TMEC’s members who are not directly connected remain extremely concerned with the substantial increase proposed in Distribution Capital Expenditure. It’s alarming to contemplate a nearly \$150M difference between what Benchmarking studies and the AER propose versus what TasNetworks is seeking, and why such a differential should exist in the first place.

Financial Model

TMEC joins a long list of industry groups calling for action on the over inflated RAB in order to rectify the damage this continues to do as a clear result of over investment. The Grattan Institute study (which was highlighted in the recent ACCC report on Retail Electricity Pricing) identified the excess growth estimate as a percentage of RAB growth for Tasmania at 72%. This identified Tasmania as the leader of over investment. Surely this dubious recognition warrants a much sterner position being taken by the AER with regard to the RAB?

TMEC continues to challenge TasNetworks ongoing capacity to borrow money at one preferential rate, while at the same time charging consumers a higher interest rate than they are physically incurring. There is no sensible notion of risk versus reward which can justify this behaviour, and TMEC asks how both the AER and Board of TasNetworks can continue to remain silent on what consumers regard as a blatant act of price gouging?

Project Marinus

TMEC supports the endeavours of the State Government, Hydro Tasmania and TasNetworks to establish a Tasmanian baseload energy supply for the NEM to utilise. Clearly the NEM faces challenges due to the changing nature of Australia's overall energy supply, and if a Tasmanian solution proves to be economically viable compared with the other options available in the NEM, then TMEC believes that would be a positive move for Tasmania. What TMEC does not support is any prospect of existing Tasmanian consumers funding the infrastructure required, be that new installations or augmentation of existing assets. Therefore, TMEC members do not support the proposition of a TNSP including funding as a Contingent Project in this proposal. TasNetworks proposal currently includes expenditure associated with this project and TMEC strongly recommends for the AER to have these removed.

Any future interconnection costs should be borne by the proponents who wish to access the interconnection and not the current network users in Tasmania. Project Marinus has been declared a national infrastructure project and therefore TMEC are concerned a Tasmanian TNSP has included same in their contingent projects.

Summary

TMEC acknowledges the capability of the Board and Senior Management of TasNetworks as reflected in a number of positive customer facing changes introduced in recent years. For the same reason, TMEC is frustrated that the same people cannot be bolder and deliver genuine reform. We can only speculate why capable people would be holding back on truly delivering on their full capability. We are entirely dependent upon the AER to hold their position and leave it for the capable people at TasNetworks to achieve their objectives with a more modest budget. We believe TasNetworks are capable, even if they don't always voluntarily demonstrate that.