



Tasmanian Council of Social Service Inc.

Submission to the Australian Energy Regulator's Draft Decision on the TasNetworks Transmission and Distribution Determination 2019 to 2024

December 2018



**INTEGRITY
COMPASSION
INFLUENCE**

About TasCOSS

TasCOSS is the peak body for the community services sector in Tasmania. Our membership includes individuals and organisations active in the provision of community services to low-income Tasmanians living in vulnerable and disadvantaged circumstances. TasCOSS represents the interests of its members and their clients to government, regulators, the media and the public. Through our advocacy and policy development, we draw attention to the causes of poverty and disadvantage, and promote the adoption of effective solutions to address these issues.

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Introduction

TasCOSS welcomes the opportunity to respond to the Australian Energy Regulator's (AER) Draft Decision on the TasNetworks Transmission and Distribution Determination 2019-24.

TasCOSS represents the interests of low-income and disadvantaged Tasmanians, who often struggle with the cost of electricity. Electricity bills are the most challenging regular household expense, after housing costs. With the cost of network services making up more than 40 per cent of a typical household electricity bill, the approach taken by TasNetworks to revenue and spending has a direct impact on the economic wellbeing of Tasmanians.

The Tasmanian Government's energy policy caps electricity price increases for regulated customers to the CPI until the end of the 2020-21 financial year. While this helps to protect consumers against market volatility and price hikes, it does not relieve our energy businesses of the responsibility to make prudent business decisions, seek productivity improvements and deliver efficiencies that will lower, or put downward pressure on, energy prices.

TasCOSS appreciates TasNetworks' direct engagement with us in the course of this revenue determination process and its constructive approach to consumer engagement.

Background

In May 2018, TasCOSS raised a number of issues in our submission to the AER Issues Paper on the TasNetworks Transmission and Distribution Determination 2019-24, including:

- Substantial planned and contingent capital expenditure (Capex) that contributes to an expanding Regulatory Asset Base (RAB).
- Increased transmission Capex of 30% and distribution Capex of 23%.
- Justification for further investment in technology projects and IT systems.
- Contingent projects, in particular, a second Bass Strait interconnector.
- Tariff reforms.
- Expedited meter costs recovery.

TasCOSS acknowledges the AER's draft decision and TasNetworks' revised proposal responded to some of the matters we raised. A further discussion of the key issues still of concern to TasCOSS is presented below.

TasNetworks Revised Proposal 2019-24

In response to the AER's draft decision and TasNetworks' revised proposal, TasCOSS' primary focus continues to be on affordability, reliability and a fair deal for low-income and disadvantaged Tasmanians who rely on electricity as an essential service.

TasCOSS considers more could be done to reduce energy prices and make Tasmanian energy networks more efficient. When network costs increase, unless there is a corresponding or greater decrease in other elements of customers' electricity bills, low-income and disadvantaged Tasmanians will find their

bills harder to manage. This is especially the case for residential retail customers in Tasmania, where a high proportion of customers (38%) receive an electricity concession. For these reasons, TasNetworks' revenue increases, and especially increases to the RAB, need to be very well justified.

TasCOSS recognises TasNetworks' efforts to reduce its charges for residential customers from a peak of five years ago and notes that by the end of 2019-24, network prices in real terms will be around 2008 levels. However, we also recognise this has been achieved during a period where the cost of capital has remained at historically low levels.

TasCOSS notes that TasNetworks (TN) has reduced its total Maximum Allowed Revenue (MAR) by \$59.7 million in its revised proposal. TasNetworks' and AER's MAR are now much closer, with TasNetworks' revised proposal only \$36.7 million (or 1.75%) higher than the AER's draft decision.

	<i>TN Initial Proposal</i>	TN Revised Proposal	AER Draft Decision
MAR (\$m)	2,192.2	2,132.5	2,095.8

Increased capital expenditure and contingent projects

TasCOSS acknowledges TasNetworks' efforts to review its Capex and operating expenditure (Opex) and provide further justification for its investment plans. In particular, we note TasNetworks' efforts to revise its total Opex below the AER's determination, reduce its total Capex forecast by \$32.5 million and withdraw two contingent projects in its revised proposal.

	<i>TN Initial Proposal</i>	TN Revised Proposal	AER Determination
Total Capex (\$m)	999.7	967.2	777.2
Total Opex (\$m)	593.3	588.6	593.3

However, there remains a substantial difference in total Capex of \$190 million (or 24.4%) between TasNetworks' revised proposal and the AER's draft decision. This difference is largely a result of TasNetworks' revised distribution Capex being \$156 million higher than the AER's determination.

Further, the AER's 2018 benchmarking reports show TasNetworks' transmission network is performing well, while the distribution network could deliver greater productivity improvements. In that context, TasCOSS would like to see further demonstration of a focus on distribution network efficiencies through consideration of deferring unnecessary capital expenditure, better utilising assets to improve efficiency, reducing costs to customers and avoiding any future exposure to risk.

TasCOSS encourages the AER to further assess TasNetworks' justifications for its investment plans, particularly in relation to distribution Capex and contingency projects, to determine if further cost-savings can be identified.

TasCOSS remains concerned about the Project Marinus Second Interconnector, as a contingent project, due to the potentially substantial cost impacts and unclear benefits to Tasmanian energy consumers, in particular, low-income and disadvantaged customers and the community sector in Tasmania.

At this stage, TasCOSS considers too little is known about how a second interconnector might interact with Tasmania's energy system and consequently, the cost impacts on Tasmanian customers. Further, the Tasmanian community has yet to be properly consulted on this project and in the current environment of energy policy uncertainty, the case for any significant benefits of a second interconnector for Tasmanian customers is yet to be made. As has been previously stated, TasCOSS considers that any network cost impacts passed on to low-income and vulnerable customers, must be more-than offset by reductions in other components of electricity prices, in order to be justified.

Technology projects and IT systems

TasCOSS acknowledges TasNetworks' further detail regarding its proposed IT expenditure and efforts to reduce this expenditure by \$13 million.

Tariff reforms

TasCOSS supports a discounted tariff for heating and hot water. We also support pricing structures that are simple; are easy to compare; allow customers to take control on their energy usage and energy costs; and will not make low-income and vulnerable customers worse-off. TasCOSS accepts there may be potential benefits in moving to more cost-reflective tariffs, but requires assurances of protections for vulnerable customers and supports for those customers with low levels of bill literacy and energy affordability. Actions to protect and support vulnerable customers could potentially include TasNetworks advocating for access to improved concession arrangements for customers negatively impacted.

Expedited meter costs recovery

TasCOSS did not support expedited cost recovery for meters and appreciates TasNetworks is no longer proposing to accelerate depreciation on its metering assets.

Conclusion

TasCOSS acknowledges and appreciates the efforts of TasNetworks and the AER to consider our submissions and address areas of concern we have raised. We recognise TasNetworks has made significant effort to revise its proposal and reduce its total MAR.

Every opportunity to further lower network costs that result in lower electricity prices for low-income and vulnerable Tasmanians should be strongly pursued and will be welcomed by TasCOSS.