28 April 2016

Australian Energy Regulator

Sent by email: TASelectricity2017@aer.gov.au

To the Australian Energy Regulator,

The Tasmanian Council of Social Service (TasCOSS) welcomes the opportunity to comment on the AER's *Issues Paper on TasNetworks electricity distribution regulatory proposal 1 July 2017 to 30 June 2019*.

In general TasCOSS is pleased with the overall proposed reduction in TasNetworks' revenue for the 2017-2019 period and the consequent reduction in distribution costs for Tasmanian electricity consumers. However, we would like to make several observations and comments about the proposal.

Operating expenditure (OPEX)

While we welcome the further reductions proposed in TasNetworks' (TN) operating expenses for the 2017-2019 period, we note that the significant capital investment in asset management and IT systems made by TN in the current period and the proposal for continuing substantial investment in 2017-18 do not appear to be reflected in reductions in OPEX as one might expect.

Capital Expenditure (CAPEX)

Again while we welcome proposed reductions in CAPEX, we note the inclusion of significant ongoing expenditure on IT systems, including asset management, SCADA and network control, especially in 2017-18, (as well as increases forecast again in the 2019-2022 period). We would like to see evidence that this level of spending will either result in direct and immediate cost savings or prevent an escalation of costs over time.

From a consumer perspective, we are yet to see benefit from the substantial capital investment in IT systems made by the Tasmanian distribution business (then Aurora Energy) in 2012-14 associated with full retail competition (*TN Distribution Regulatory Proposal*, Table 7-14 p85). This $25.7 million expenditure continues to cost Tasmanian consumers as it has contributed to TN's regulated assets base (RAB), with little consumer advantage.

In this proposal we see further capital IT works (worth $11.6 million) necessitated by the 'competition in metering Rule change' and again, we would like to see evidence that this spending will benefit consumers.

While these expenditure requirements may not be driven by TN, the capital expenditure increases the value of the company's RAB and the weighted average cost of capital which consumers continue to pay into the future. This concerns us.

In spite of a key message received by TN from its consumer consultation that consumers were satisfied overall with the level of reliability they received and did not want to pay more for improvements, we note that its proposal includes a relatively high level of capital expenditure on 'renewal/enhancement', particularly in 2018-19. This could be seen as inconsistent with the message received from consumers.

Rate of return

We welcome TN's decision to adhere to the AER's *Rate of Return Guideline* in proposing a rate of return of 6.04%. However, we note that TN has proposed a lower value of imputation credits (gamma) than that recommended in the AER's *Rate of Return Guideline*. TasCOSS believes that TN should align its proposal in this area to the AER's *Guideline* as the *Guideline* was developed by the independent regulator after broad consultation and consideration.

Service Target Performance Incentive Scheme (STIPIS)

While TasCOSS appreciates that those TN customers consulted do not want to pay for improvements in reliability, we do not think this means that customers do not want to see TN meet its service performance targets. Nor do we think customers want to see cost savings achieved at the expense of service provision. We therefore support the AER's decision to maintain the revenue at risk of the incentive scheme to within a range of plus/minus 5 per cent. This, along with the jurisdictional Guaranteed Service Level scheme, provides significant incentive to maintain and improve levels of reliability (appropriate to reliability categories).

Consumer engagement

TasCOSS congratulates TN on its approach to consumer engagement in the course of this revenue determination process. The company has moved from having virtually no interaction with residential consumers to having a demonstrable concern for their views and a willingness to seek out those views through a variety of avenues. While this development was obviously motivated by regulatory requirements, TasCOSS has a sense that TN has taken this obligation seriously and has made significant efforts to carry out genuine consumer consultation. It has also established an ongoing Customer Council outside of the revenue determination process and if maintained, this will provide the company with a continuing connection with representatives from a range of consumer/customer segments.

TasCOSS has been involved in some aspects of the revenue re-set consumer consultation process, including as a member of TN's Tariff Reform Working Group. While the Working Group represented a range of stakeholder representatives, including from other energy industry companies and the State Government, only three Working Group members could be considered to be consumer representatives. TN provided clear information and analysis of its tariff options, as well as a number of opportunities for the group – and group members individually – to provide feedback.

TasCOSS valued being involved in the Tariff Reform Working Group and believed that TN staff listened to and considered our views and concerns; however, these appeared to have little impact on the outcome of the tariff proposal that TN eventually submitted to the AER.

One concern TasCOSS conveyed to TN regarding its consumer consultation was that its consumer focus groups were held in metropolitan areas of the state where network reliability tends to be good, and one therefore might expect consumers to be satisfied with the level of reliability they receive. We understand that survey instruments were also employed; however, TasCOSS believes that TN should proactively seek the views of consumers who live in areas of poorer reliability to balance any metropolitan bias that might emerge from its consultations.

Proposed network tariffs

TasCOSS will make a submission to the AER in response to TN's *Tariff Structure Statement*; however, we take this opportunity to briefly note one concern we have. That is, that the benefits of TN's proposal to reduce its regulated revenue in the 2017-19 period advantage small business consumers whose average annual network charges appear to drop by almost $500 per annum while residential network tariffs will fall by a much more modest amount. While we understand that re-balancing of the two tariffs may be appropriate over time, TasCOSS believes there is too much difference proposed in the relative savings between the two consumer segments in this period.

We hope that our comments are helpful to the AER in its further deliberations on TasNetworks Distribution Revenue Determination. Please feel free to contact TasCOSS if you have any questions or require any further information about our comments.

Yours sincerely

K Goodes

Kym Goodes
Chief Executive