



# TasNetworks 2019 – 2024 Revenue Determination **TSBC Summary**



**Tasmanian Small  
Business Council**

Uniting Small Business

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# AGENDA

1. Acknowledgement – TasNetworks approach.
2. Small Business Impacts
3. Network Investment (RAB)
4. Cost of Capital
5. Op Ex
6. Cap Ex
7. The future network and prices
8. Small business engagement

# TasNetworks' approach

The TSBC recognizes TasNetworks positive approach, including:

- application of the efficiency factor to opex
- voluntarily reducing the transmission WACC by 0.25%
- continuing to apply the AER WACC parameters when most other NSPs have sought higher ones
- placing more of a focus on reducing network charges in the interests of their customers than other NSPs have been prepared to do
- Leading NSPs in engaging with their customers responding to the feedback on their Directions & Priorities Paper with modifications to revenue requirements in their proposal.

A key theme in the TSBC submission is however that there has been excessive asset investment in the past, and a higher than necessary rate of return, which can and should be addressed in the next regulatory period.

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# Small Business Impacts

*“We have \$1M invested in this business and we make a net profit of around \$75,000. If our electricity costs are going to go up by \$25,000 we will have to seriously consider why we would continue to hold our capital in this business for such a lousy return”*. Launceston Restaurant Owner, March 2017

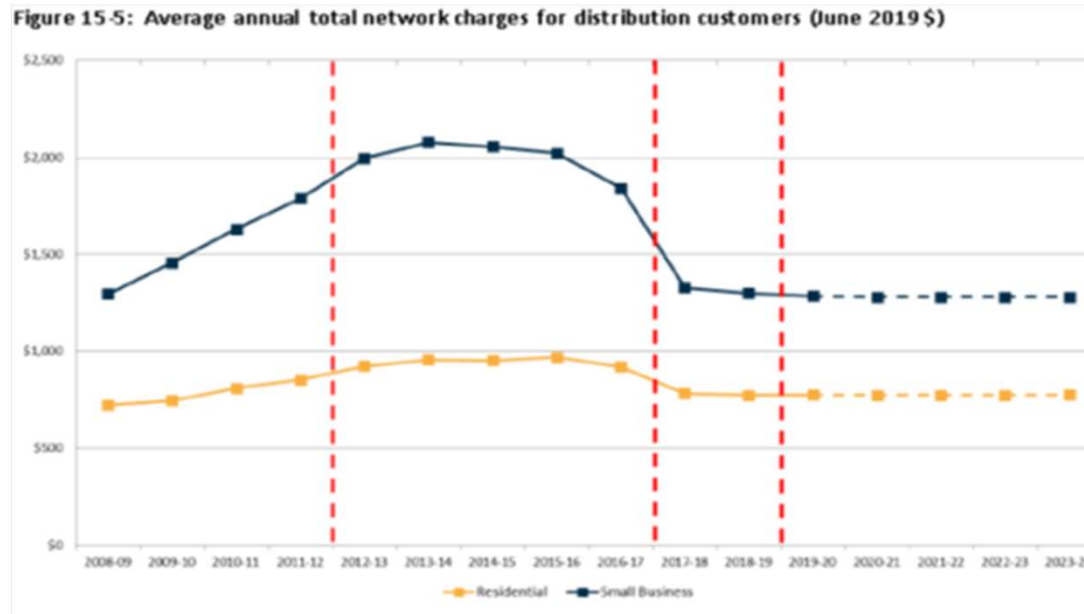


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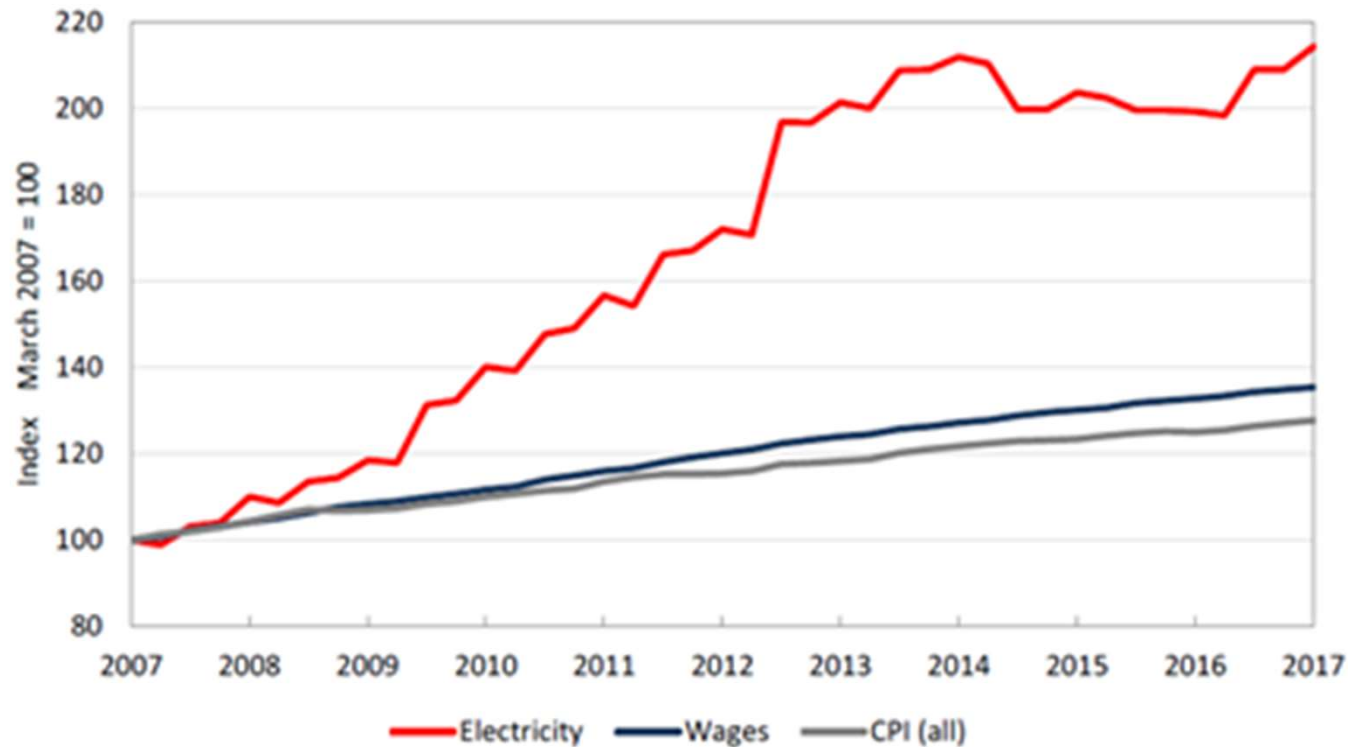
# Small Business Impacts



- Price path is flat (good) but could be better (reducing).
- All consumers are still paying too much for past spending
- Previous reductions for small business are mostly due to lower interest rates (input to WACC), with some tariff re-balancing



# Electricity Costs V Wages Growth



Source: ABS, Consumer Price Index 6401.0 and ABS, Wages Price index 6345.0, Australia.

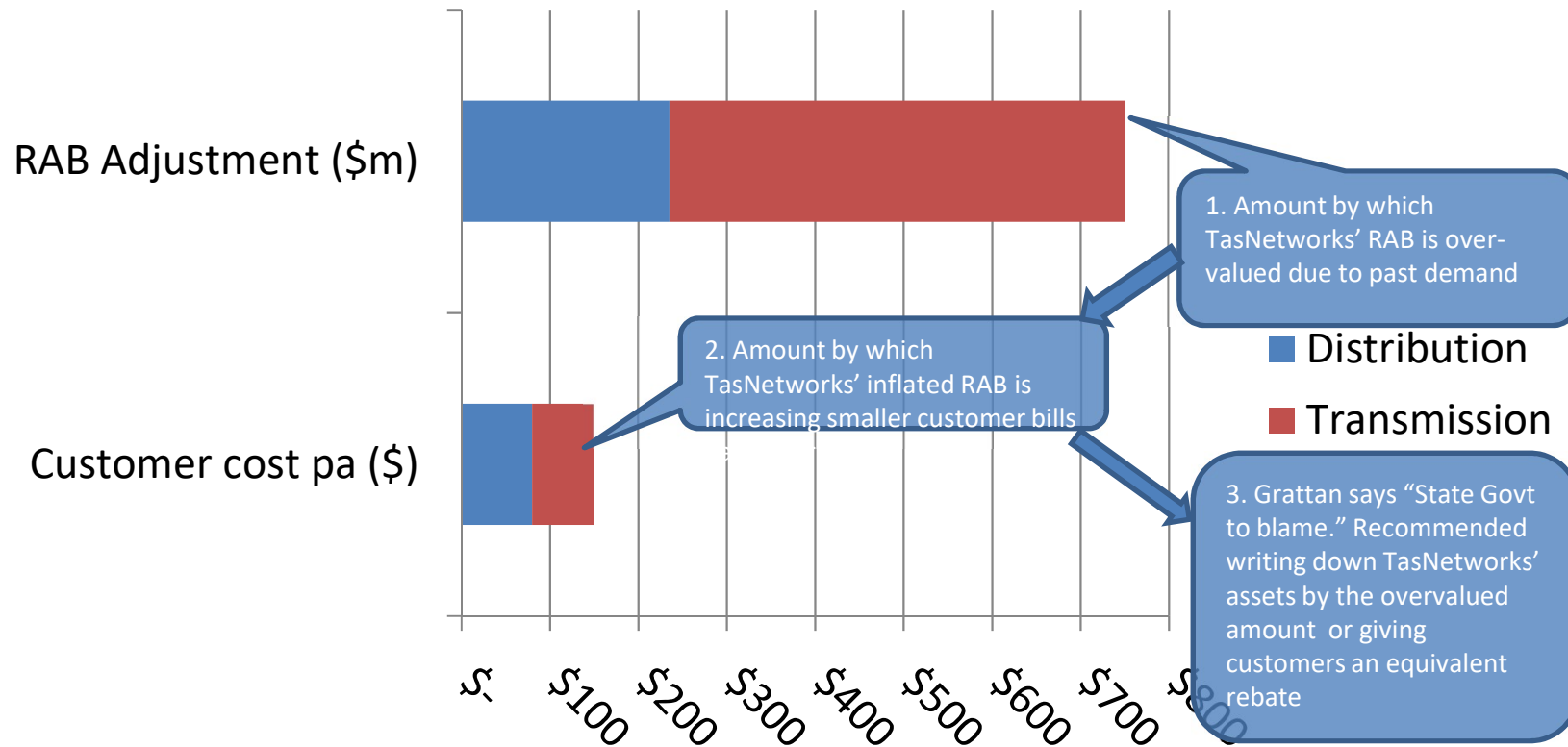


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# TasNetworks' inflated RAB is costing customers dearly ...



Source: Grattan Institute, Down to the wire, March 2018

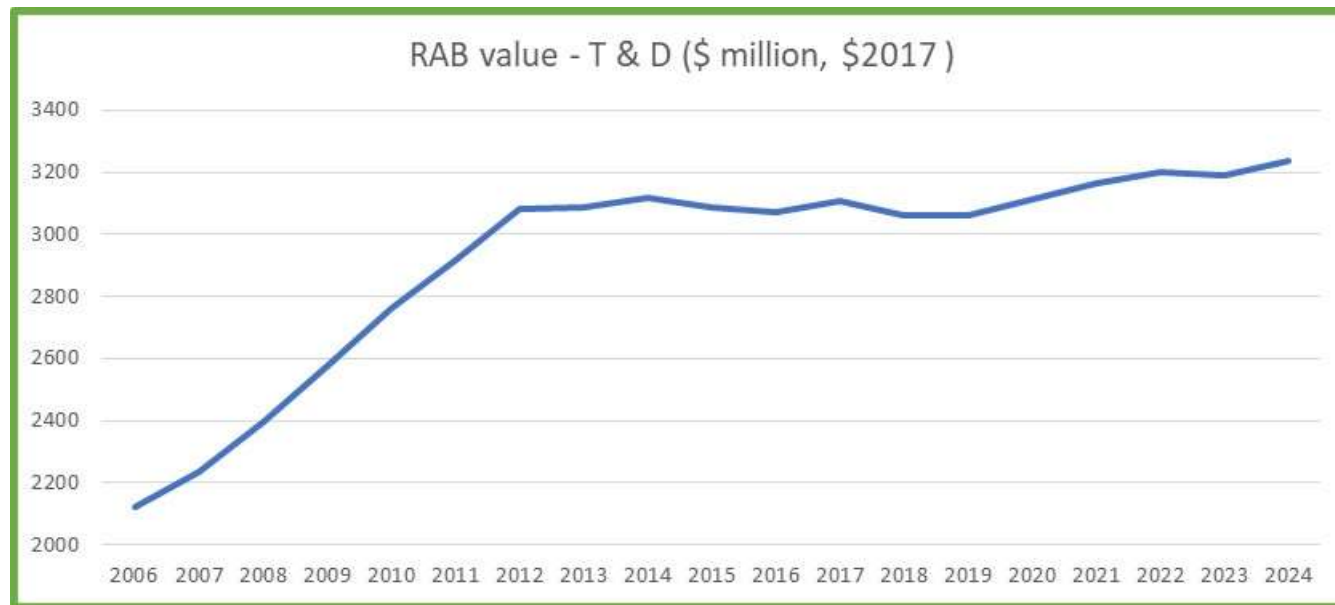


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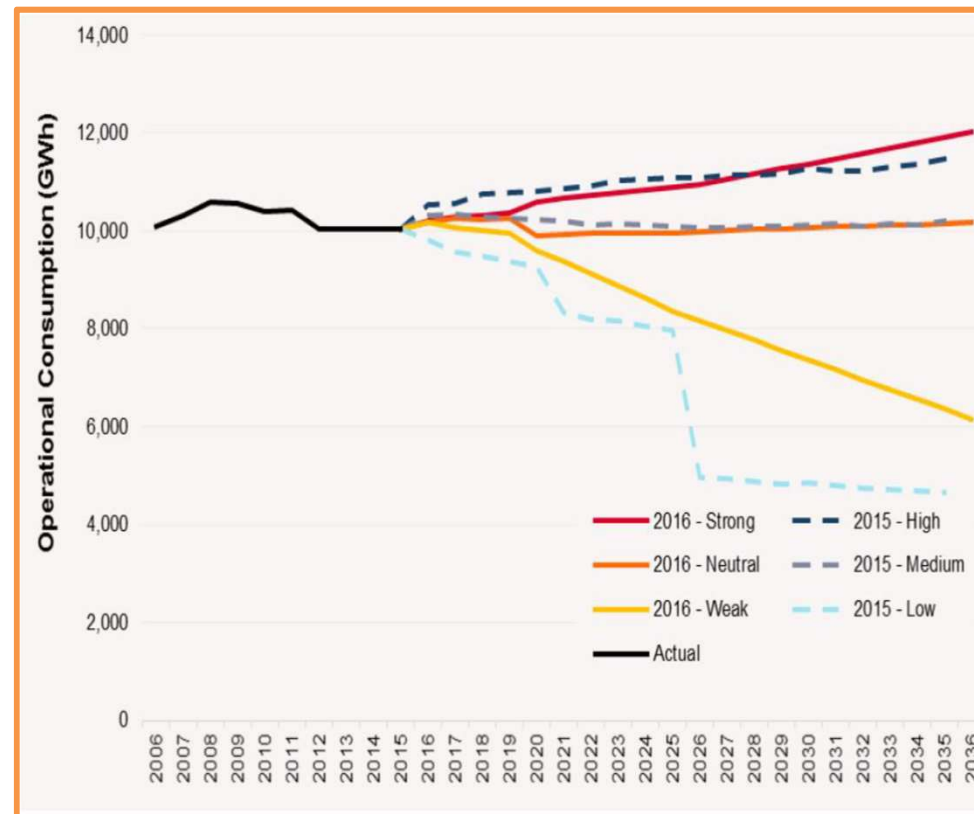
# Why is RAB (assets) important

- 50% of TasNetwork revenues (which goes into prices) is from RAB X WACC (return, or profit) – RAB is **VERY** important
- RAB up is Ok if demand is up.



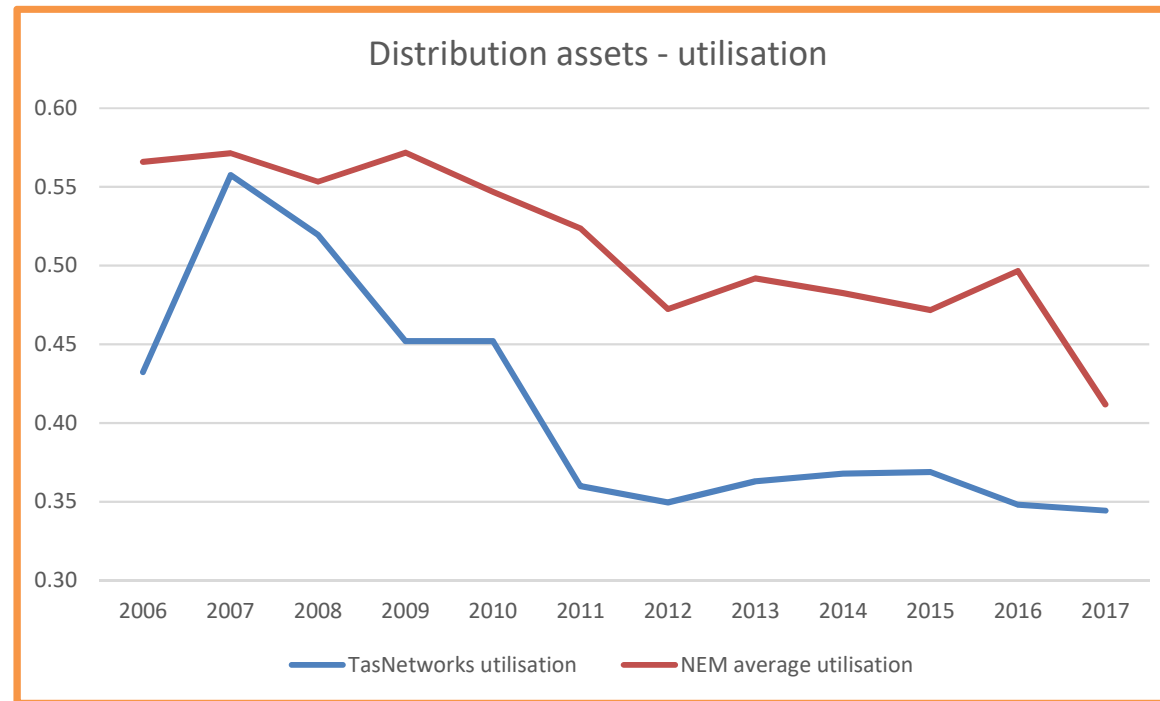
# Why is RAB (assets) important

- But.. demand is forecast to be flat:



# Why is RAB (assets) important

- And utilization is already down.





Demand for electricity will remain flat,  
but network investment will increase again



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# Cost of Capital

- It's complicated, but.....
- TasNetworks ask for 5.89%, TSBC suggest 4.76%
- On a total of \$3.8 billion – difference of \$43 million per year

Component	Debt	Equity
Proportion of capital	60%	40%
	X	x
Cost	5.00	4.40
	=	=
Contribution	3.0	1.76
WACC	4.76	

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# Hunger for Efficiency Abates

- In the past five or so years TasNetworks has had some success in becoming more efficient through reducing its opex spending (partly due to the Tas Govt imposed merger)
- But its interest in further efficiencies subsides in the next 5 years
  - Real distribution network opex falls by a mere \$1.2 million (-0.3%)
  - Real transmission network opex falls by a mere \$1.4 million (-0.7%)
- Its distribution network outpends transmission on opex by >2:1
  - It has chosen a base year (2017/18) that sets distribution opex spending at a higher level
  - Its efficiency factor (0.5-1%) is not as challenging as it could be

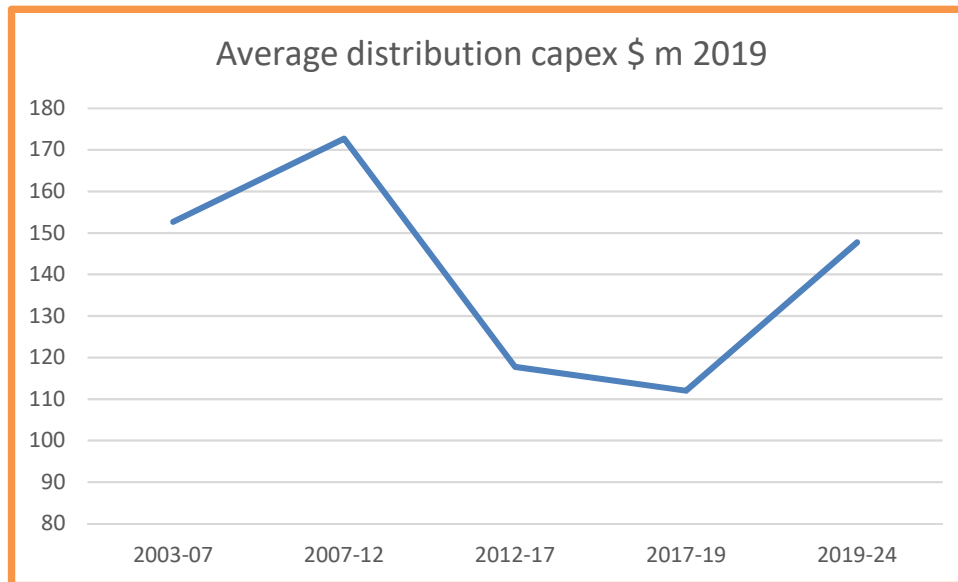


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# Distribution Capex

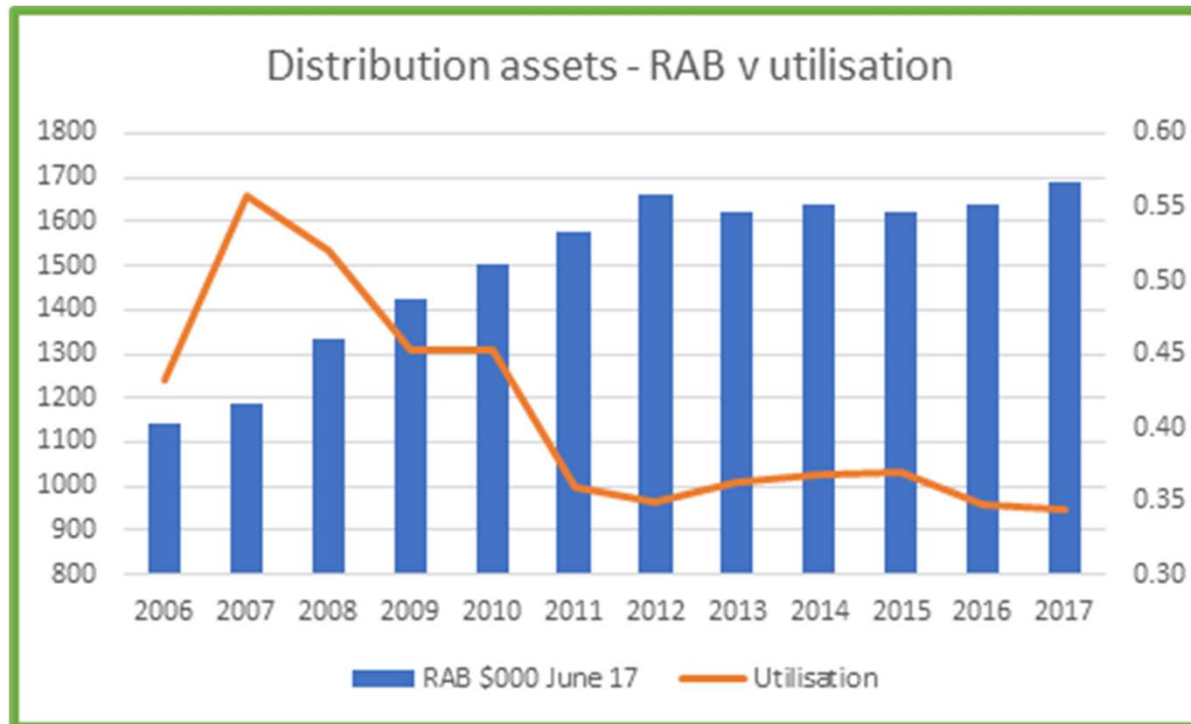
- Distribution capex ask is up for 2019-24, after falling over the previous ten years
- Mostly due to replacement (renewal) and IT
- In a stable network business, TSBC expects replacement and IT expenditure to be relatively stable. But...



What are we missing?

# Distribution Assets V Utilization

History to date:



But want to spend more on replacement?



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# Distribution IT capex spend

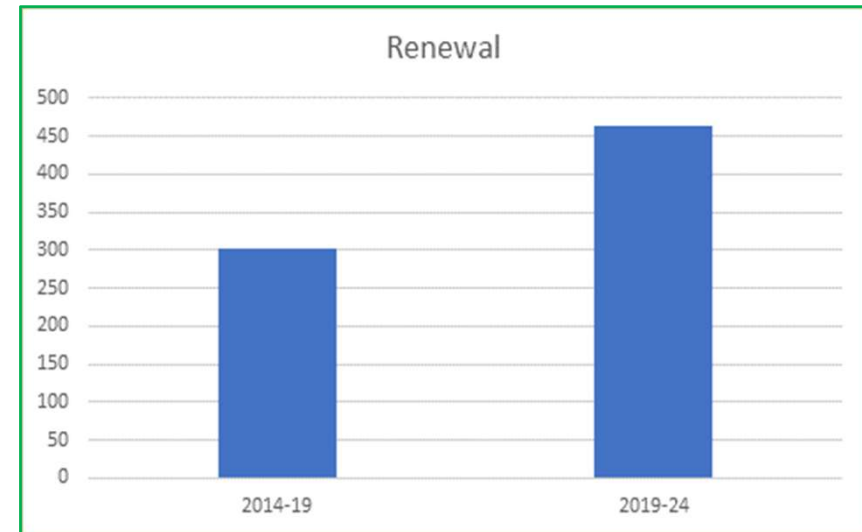
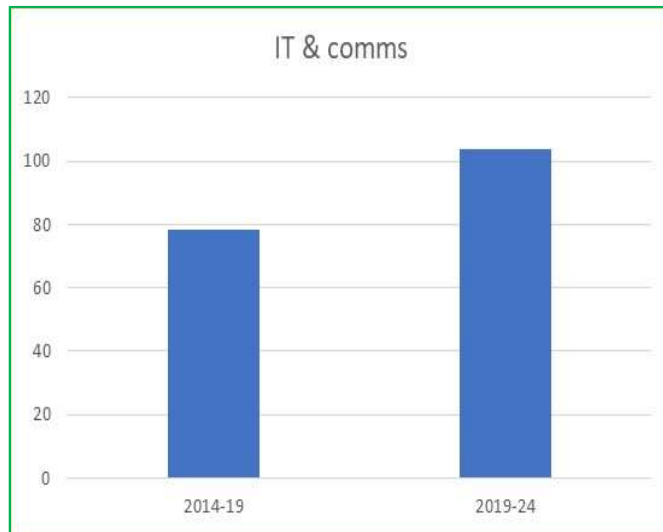
- A large increase in overall IT spend is proposed – from \$110.5M to \$125.9M
- Of that – “IT & comms” – goes from \$78.5M to \$103.8M – a 32% increase
- For business systems, customer information systems, enterprise architecture evolution, etc. Another \$103.8M after spending \$78.5M!
- TSBC position – consumers should not be expected to pay multiple times for changes in IT direction (several changes already)

Distribution IT capex	2014/15	2015/16	2016/17	2017/18	2018/19	2014-2019	2019/20	2020/21	2021/22	2022/23	2023/24	2019-2024
Network control	3.8	2	0.8	3.3	2	11.9	0.8	0.8	0.8	0.5	2.4	5.3
AMS	0.7	1.3	2.3	12.9	2.9	20.1	3.9	3.5	3.6	3.6	2.2	16.8
Operational support	4.5	3.3	3.1	16.2	4.9	32.0	4.7	4.3	4.4	4.1	4.6	22.1
IT & comms	7	19.4	24.8	15	12.3	78.5	20.7	16.4	10.4	27	29.3	103.8
Total distribution IT	11.5	22.7	27.9	31.2	17.2	110.5	25.4	20.7	14.8	31.1	33.9	125.9



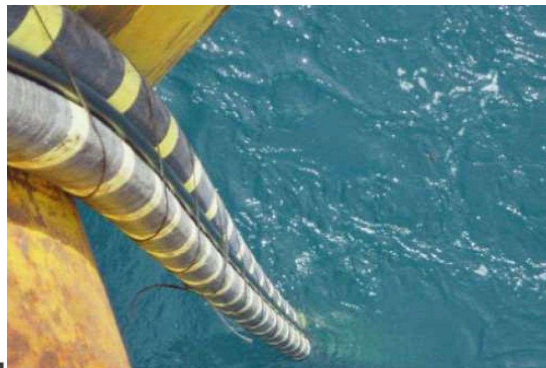
# Distribution IT and renewal spend summary

- Significant increase in IT & comms spend – up 32%.
- Renewal (replacement) expenditure up 53% on an already inflated base – up \$161M over five years
- TSBC does not accept either of those – wants AER to review and reduce



# The sleeper – contingent capex projects

- Total of \$935M – on an (inflated) asset base of \$3.8B as at 2024.
- Second interconnector – TasNetworks share \$550M capital, \$8M per year opex
- All to be paid for by electricity consumers, when demand is flat
- Which means – prices go up
- How much?? Not clear which customers will bear the cost
- TSBC wants the price implications for small business to be made public as part of the discussions around the second interconnector, now.



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# The future network and prices

- As network and energy prices rise, the cost of the bus has become too expensive and people are simply choosing to avoid the bus.
- Instead they are opting to invest in their own Micro-grid solution whilst in the short term still expecting the network to carry the peaks and troughs.
- The cost of solar, wind, batteries and micro grids will continue to decline
- Sellers of these products bear no responsibility for the impacts their products have on the cost of maintaining a stable network
- Very little evidence of how this will be addressed in the TasNetworks proposal



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# Small Business Engagement

- TasNetworks are getting better at engagement
- Still opportunity for improvement:
  - Less advertorial/informercial
  - More evidence that what consumers (us) are saying has been heard and acted on (as happened with revenue)
  - More information about new tariffs – how will they work, what can we do to reduce our bills
- TSBC happy to work directly with TasNetworks as well as participate in (value adding) forums.





# Thank you

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