Tasmanian Small Business Council
Uniting Small Business

TasNetworks Combined Regulatory Proposal 2024-25 to 2028-29 (R24)

Submission

Prepared with the assistance of

Goanna Energy Consulting Pty Ltd

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Our Key Points

- Our interest in TasNetworks' 2024-25 regulatory proposal (R24) stems from our track record of involvement in Tasmanian energy issues affecting small business.
- As small business is facing multiple cost and supply pressures, including from rising electricity prices, we have focused our attention on the price and affordability impacts of R24.
- Most Tasmanian small businesses have seen substantial electricity retail price increases of 11.88 per cent this year with further large increases in prospect. Moreover, Tasmanian network prices are already inflated due to earlier over-spending, with customers paying a total of at least $811 more for delivery of electricity to their premises. Network price increases on top of this would seem incongruous to the TSBC.
- According to the R24 Proposal, network charges (transmission and distribution) will increase by a further $184 (real) by 2028-29, which amounts to a nominal increase of $235. This is not an affordable outcome for small business, despite TasNetworks' claim that it is.
- Furthermore, we are concerned that there is significant uncertainty about R24 and its impact on small business network charges, reflecting high inflation and interest rates, as well as a potentially large suite of possible contingent and actionable projects that are multiple times TasNetworks' forecast capex. Actioning the contingent projects alone would materially increase TasNetworks' annual revenue by $60 million, or by one-third, along with network charges and future growth beyond this built-in to TasNetworks' Regulatory Asset Base (RAB).
- Engagement with consumers forms an important part of the R24 Proposal and whilst TasNetworks has undertaken significant engagement and used this to help modify its Proposal, we feel that significant gaps remain in its approach (especially how far it still has to go to empower consumers) and that it has had sufficient opportunity, extending over a number of resets, to do so. It has made progress but could have made more by now. Accordingly, its use of engagement to influence its Proposal is limited and its building block proposals could be more focused on the key affordability objective.
- TasNetworks revenue forecasts feed directly into its network charges. For transmission, it is forecasting revenue of $866.9 million ($nominal, smoothed), a 17.8 per cent increase in its revenue over the 2019-24 (R19) period. For distribution, it proposes to recover $1,714.5 million ($nominal, smoothed) from its customers, 35.4 per cent higher than the AER approved for the 2019–24 period, which would increase small business bills by $62 per annum.
- We expect inflation to be a more important driver of revenue in R24 due to its likely presence at higher rates impacting the rate of return, financing costs, capex, the RAB and opex. We agree with TasNetworks that the outlook for inflation is uncertain, raising the prospect of higher and more volatile network prices, which would adversely impact on small business.
- The rate of return is the single largest contributor to TasNetworks' revenue forecasts. It contributes $544.2 million to transmission and $708.5 million to distribution nominal revenue over the R24 period. Unfortunately, the AER permits regulated rates of return that are inflated in numerous ways, which are now contributing to electricity being less affordable for small business. Uncertainty about how the rate of return might change during the R24 period is also a concern to small businesses seeking more certainty about their costs.
- The RAB for distribution is forecast to grow by $450.9 million (or 16.9 percent) over the R24 period, while for transmission the growth is $242.9 million (or 12.1 per cent). This RAB growth feeds significantly into revenue and then network charges. The addition of contingent projects would blow out the transmission RAB by even more. Added to this is the view that TasNetworks RAB has been materially inflated by past regulatory decisions, which cost Tasmanian consumers $811 more in their electricity bills from 2014-2021 and continues to do

so. Calls for the Tasmanian Government to reduce the value of TasNetworks assets to a fairer level remain unaddressed. Consumers could do with such a change at this time.

- TasNetworks says it has struck a balance between affordability and its need for investment and reliability in its capex forecasts. We welcome this, but query whether the balance is as focused on affordability as it could be and also if customers should be paying for investments driven by Tasmanian Government renewable and hydrogen industry development objectives.
- We note that actual transmission capex during R19 has been below that allowed by the AER, although its estimated capex in 2022-23 and 2023-24 is increased and higher than allowance. Meanwhile, transmission capex forecast for R24 is little changed. Resources do not permit us to undertake a detailed assessment and we welcome that the three main components of replacement capex (repex), Information and communication technology (ICT) and augmentation capex (augex) will be subject to AER scrutiny.
- TasNetworks has included seven contingent transmission projects in its Proposal (amounting to $905 million) and referred to an additional two Actionable projects (one of which costs $680 million and the other of unknown cost). These are very significant numbers for a business the size of TasNetworks transmission. The contingent projects alone would increase TasNetworks' annual revenue by up to $60 million, or one-third, with similar impacts on transmission prices. Most of these projects relate to the connection of expected renewable generation and new renewable hydrogen load to the grid based on Tasmanian Government policies and should be appropriately funded by the developers or the Government. Moreover, the Actionable projects are not required to be included in the Proposal and could be triggered with limited input from Tasmanian consumers or the AER, which amounts to an unacceptable lack of scrutiny and risk.
- TasNetworks forecast net distribution capex of $729.4 million for the 2024–29 period is $35 million (4 per cent) lower than its actual/estimated net distribution capex in the 2019–24 period. The poor benchmarking of TasNetworks distribution capex raises concerns, although this is partly explained by some unique characteristics. Repex makes up 38 per cent of capex and the proposed $19 million (7 per cent) increase is a concern. The inclusion in this of $10 million for a new Resilience item needs to be adequately justified. Augex spending of $50 million is $12 million or 32 per cent higher and should be closely examined. CER spending should be offsetting network investment. Non-network capex accounts for 13 per cent of combined capex with $137 million in spending proposed for R24. This is a significant amount and needs to be adequately justified as does the large increase in recurrent ICT expenditure.
- TasNetworks proposed transmission opex of $209.2 million ($2023–24) for R24, is $31.1 million (17.5 per cent) more than for 2019–24 and $24.8 million (13.4 per cent) more than the AER's approved opex for 2019–24. These increases are concerning and they detract from the affordability of the Proposal. Given the significance of the insurance (10.6 per cent of opex) and cyber security/insurance ($22.1 million in total) step changes, they need to be justified.
- TasNetworks proposed distribution opex of $541.0 million ($2023–24) for the R24–29 period is $34.4 million (6.8 per cent) more than for the 2019–24 period, but $2.6 million (-0.5%) lower than the opex forecast the AER approved for R19. The real increase in R24 proposed distribution opex of $34.4 million (6.8%) over that spent in R19 is of concern and needs to be justified as it diminishes the affordability of the Proposal. Step changes for insurance premium ($19.1 million) and cyber security ($3.9 million) should be shown to be prudent and efficient.
- While opex productivity gains of 3 per cent in the first year of R24 for both transmission and distribution are welcome, the drop to 0.5 per cent after that is below the industry average of 0.6 per cent and questionable.

- The TSBC supports the AER's view that tariff reform is too slow and we believe that its pace must increase. TasNetworks' claims that the slow pace is supported by customers and is justified on socioeconomic grounds do not reflect the views of the TSBC or small business. We wish to make the AER aware that small businesses with fixed trading hours can be face higher electricity bills when connected to time-of-use tariffs.

1. Introduction

The Tasmanian Small Business Council (TSBC) welcomes this opportunity to comment on TasNetworks Combined (Transmission and Distribution) Regulatory Proposal for the period 1 July 2024 to 30 June 2029 (which TasNetworks has labelled R24) as part of the Australian Energy Regulator's (AER) Determination for TasNetworks.

1.1. About the TSBC

The TSBC is an association of associations, each of which represents a specialist industry sector. By bringing these sectors together, we provide small businesses with the opportunity to access information and advice across the wider small business community. We also represent small businesses as we communicate their interests and needs to government, regulators, other organisations and the public.

There are more than 37,000 small businesses in Tasmania. They make up over 96 per cent of all businesses in Tasmania and provide more than half of the private sector employment in our state. This shows their importance to Tasmania, its economy and Tasmanian society.

1.2. The TSBC's interest in R24

The TSBC has a long-standing and substantial track record of involvement in Tasmanian energy issues as they affect small business, including several past regulatory determinations for TasNetworks (and its predecessors). Network charges make up 38 per cent of small business electricity bills and reliable network services are critical to the operations of most small businesses.

The AER's Regulatory Determination for TasNetworks provides the basis for the setting of network charges for Tasmanian small businesses for the five years beginning 1 July 2024 and the reliability of network services provided to these businesses.

We have significant concerns about the uncertainty for small business of elements of TasNetworks R24 Proposal. In particular:

- The proposal is based on an annual inflation factor of 3.35 per cent, which is about half the current CPI;
- It is based on interest rates that do not consider the full impacts of the current interest rate environment; and
- TasNetworks has proposed a range of contingent projects, which the AER has costed at $905 million, or three times TasNetworks' standard forecast capex.[1] Obviously, their inclusion (even partly) could have a significant impact on the capex, RAB, opex and revenue forecasts provided by TasNetworks.
- The forecasts provided are also likely to be impacted by a decision to proceed with Marinus Link, which is earmarked as an Actionable project in AEMO's 2022 Integrated Systems Plan (ISP). The latest costing to build the Marinus Link project is $3.8 billion, which includes $488 million for the associated North West Transmission Developments (NWTD), which we understand will be a TasNetworks asset.
- The AER will update the revenue forecasts for interest rates, bond rates and inflation before the completion of its Determination. Whilst this will ensure the most up-to-date values are used, it is possible that this could materially increase network prices over and above those proposed by TasNetworks, which would add to the concerns of small business.

[1] AER, Issues Paper, March 2023, p. 17.

These uncertainties – and their potential to significantly increase transmission and distribution prices during the R24 period beyond the forecasts in the Proposal – are a matter of alarm to the TSBC considering the already elevated electricity prices being paid by small businesses in Tasmania. Added to this, small business is also being adversely affected by high inflation, high and rising interest rates, as well as cost pressures and shortages in relation to labour, materials and a range of other inputs. Whilst higher wholesale electricity prices have caused most of the recent increases in electricity prices, further cost pressures due to higher network charges would be most unwelcome and could tip the balance for some of Tasmania's small businesses. We appreciate that there is uncertainty about where this pressure will head during the R24 period. Some will be 'hardwired' into the AER's Determination (inflation and interest rate impacts), whilst for others the outlook seems like more unwelcome news for small business.

The AER needs to take these factors into account in its assessment of TasNetworks' Regulatory Proposal and its impact on electricity consumers.

1.3. Our approach to the Submission

In developing this submission, we have placed a priority on key areas that will influence network charges and reliability for Tasmanian small businesses over the R24 period. Regard has been paid to the Regulatory Proposal submitted by TasNetworks to the AER and the AER's Issues paper, which provides its preliminary assessment of the Proposal.

However, it should be noted that our ability to fully assess the Proposal has been restricted by the limited resources available to us. In particular, Energy Consumers Australia (ECA) funding has been constrained. We therefore must rely more than we would like on the efficacy of the Proposal and the AER's preliminary assessment of it. We do not believe that this situation is in the best interests of Tasmanian small businesses.

1.4. How the Submission is structured

Our submission is set out as follows:

- We begin with a discussion of the Proposal in the context of small business electricity prices.
- Next, we discuss the TasNetworks consumer engagement strategy.
- In section 4 we discuss the revenue allowance aspects of the Combined Proposal.
- Section 5 of the submission is devoted to key elements of revenue, namely inflation (section 5.1), the rate of return (5.2), the regulatory asset base (5.3), capex and contingent projects (5.4) and opex (5.5).
- Finally, Section 6 provides some comments on tariff reform.

Our Key Points are summarized at the beginning of the submission.

2. Tasmanian Small Business Electricity Prices & the Proposal

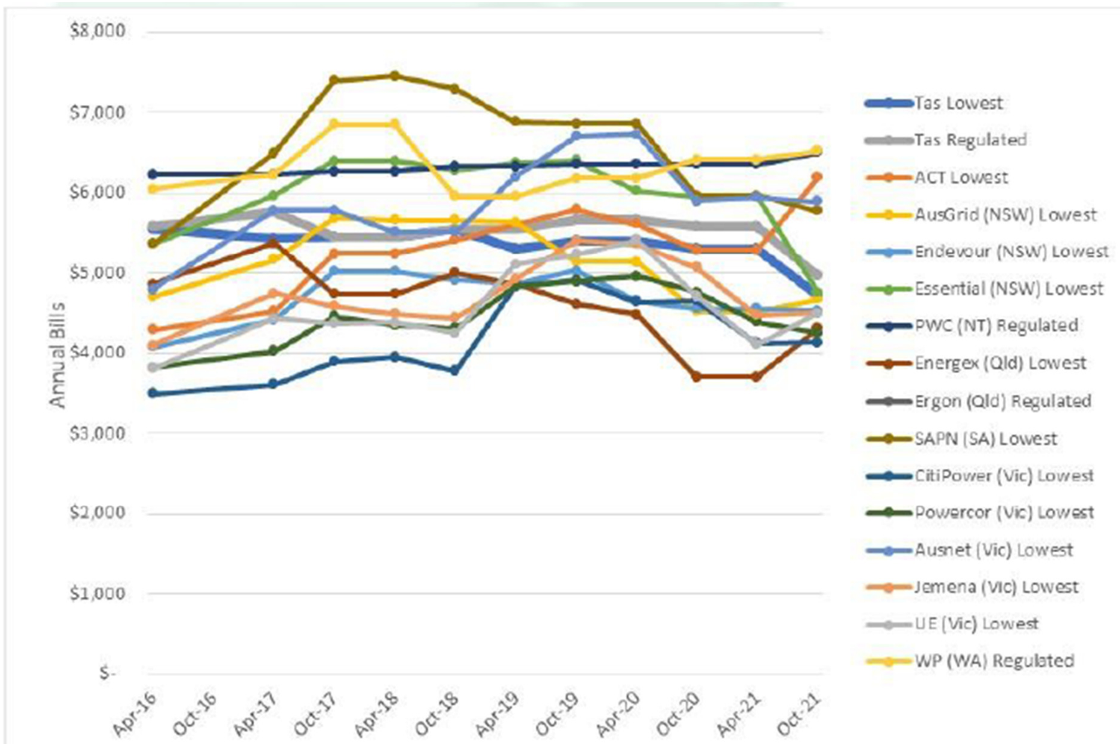
For Tasmanian small businesses, the single most important aspect of TasNetworks' Combined Proposal is its price impact. The TSBC therefore supports a first priority being put on the affordability of the Proposal, consistent with the feedback that TasNetworks has received through its consumer engagement strategy, although (as will become clearer from our submission) we are not convinced that TasNetworks has struck the right balance in its Proposal.

2.1. Context: Tasmanian small business electricity prices

Electricity charges are an important and unavoidable component of the operating costs of Tasmanian small businesses. Small business in Tasmania is also more reliant on electricity than most of their peers on the mainland, with access to reticulated natural gas being far more constrained and costly, while LPG prices are also relatively high and volatile.

In 2022, we published a report we commissioned comparing Tasmanian small business electricity prices with those from other national jurisdictions.[2] This showed that Tasmanian small businesses face middle ranking electricity prices and have done since 2016 (see Figure 1 below). When combined with the other cost disadvantages faced by small business in Tasmania, their access to fewer and lower discounted retail electricity market offers and their greater reliance on electricity as an energy source, this places them at an important disadvantage over their peers nationally.[3]

Figure 1: National SME Electricity Price Trends, by Distribution Area



Source: Goanna Energy Consulting Pty Ltd, *Fair to Middling but Nothing to Crow About: Tasmanian Small Business Electricity Prices – A National Comparison*, March 2022.

Consistent with national trends due mainly to large wholesale price increases, retail electricity prices for small business in Tasmania increased by 11.88 per cent on 1 July 2022 and are expected to increase significantly again this year. This would have increased electricity bills for small businesses

[2] Goanna Energy Consulting Pty Ltd, *Fair to Middling but Nothing to Crow About: Tasmanian Small Business Electricity Prices – A National Comparison*, March 2022.

[3] National comparative analysis of natural gas prices by the Tasmanian Economic Regulator shows that small business in Tasmania also faces the most expensive gas prices (see Comparison of Electricity and Gas Prices Available to Small Customers in Australia - October 2022 https://www.economicregulator.tas.gov.au/Documents/22%202145%20%20Comparison%20of%20Electricity%20and%20Gas%20Prices%20Available%20to%20Small%20Customers%20in%20Australia%20-%20October%202022.pdf).

in Tasmania by almost $600 (using the national average small business consumption of 20,000 kWh pa). Hence, electricity has already become less affordable to Tasmanian small businesses and at a time when businesses are struggling to meet a range of increased costs and business pressures, including interest rates, wages, insurance, material costs as well shortages of supply in many areas. Any additional electricity price increases would be most unwelcome and only add to the pressures being felt by small businesses in Tasmania.

2.2. Network Prices in Tasmania are Already Inflated

There is significant evidence that network charges in Tasmania are already inflated due to a range of factors including asset valuations, excessive capex and opex allowances, an inflated rate of return, consequential impacts on the RAB and shortcomings in the regulatory framework and its administration.

Orme estimated that from 2014 to 2021 Tasmanian customers paid an average of $811 more in network charges due to super profits generated by a combination of excessive rates of return, gearing, incentive schemes, capex and opex.[4] In 2018, the Grattan Institute estimated that Tasmanian consumers were paying around $150 per year in excessive network charges due to the impact of over-investment in the electricity grid. It recommended that the Tasmanian Government revalue TasNetworks' assets downwards to correct this.[5] The matters raised by Orme and Grattan have not been corrected and continue to increase electricity prices in Tasmania above what they should be, making electricity less affordable.

2.3. Price Impacts of TasNetworks' Proposal

Indicative average price impacts for TasNetworks transmission charges over R24 are shown in Figure 2 below (taken from the Proposal). Apart from a very modest 1 per cent reduction in 2024-25, transmission charges are forecast to increase in every other year of the R24 period by a total increase of 6 per cent.

Whilst we welcome the downward trend of transmission and distribution charges since 2015-16 (which were preceded by some significant price increases), we note that these reductions have flattened in recent years. For Tasmanian small businesses this is not a welcome outcome as they struggle with a range of cost pressures, even though the total price increase is only 66 c/kWh.

Even more concerning is the upwards trend in distribution charges, which make up the great bulk of small business network charges, due mainly to the significant increases in the Rate of Return (discussed in Section 5.2), increases in opex (Section 5.5.2) and increased capex in the early years of R24 (Section 5.4.3).

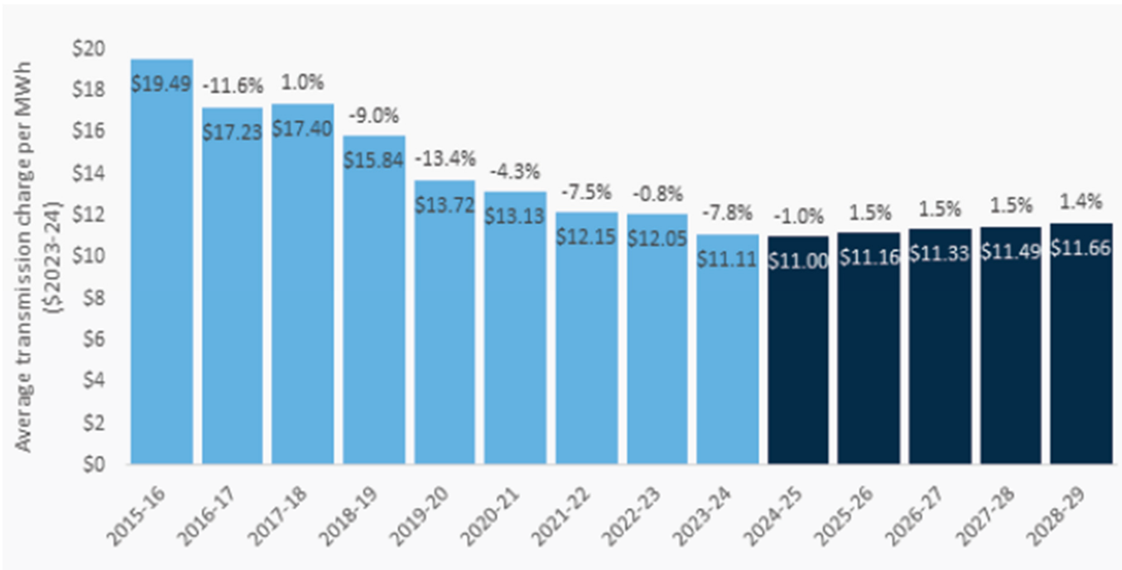
The indicative outcome for the combined network charges ($ real, 2023-24) of typical small business customers is shown in Figure 3 below taken from the TasNetworks Proposal. Again, we welcome that TasNetworks' charges to small business fell significantly in the period from 2015-16 to 2020-21 (after a period of significant increases) but note that charges more-or-less plateaued through the latter part of R19 period (2019-2024). TasNetworks forecast is for a 2.2 per cent real increase in 2024-25 (which follows several years of large increases in electricity prices) and then a series of

[4] See Orme, Simon, Regulated Electricity Network Prices Are Higher than Necessary: An Assessment of the Economic Regulation of Australia's Electricity Networks, October 2022 for IEEFA. https://ieefa.org/resources/regulated-electricity-network-prices-are-higher-necessary

[5] Tony Wood, David Blowers and Kate Griffiths, Down to the wire: A sustainable electricity network for Australia, Grattan Institute, March 2018 https://grattan.edu.au/wp-content/uploads/2018/03/903-Down-to-the-wire.pdf.

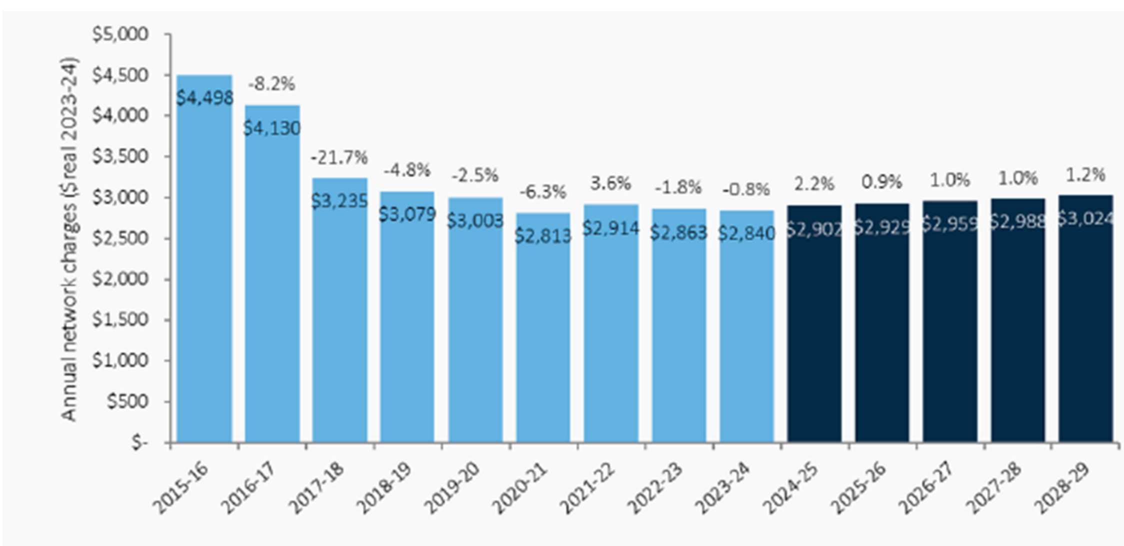
smaller increases. The total impact through the entire R24 period would be for network charges to increase small business electricity bills by $184.

Figure 2: Average Charges for All Transmission Customers, average $/MWh ($real 2023-24)



Source: TasNetworks, Combined Proposal Attachment 2 – Annual Revenue Requirement, Figure 4, p. 8 https://www.aer.gov.au/system/files/TasNetworks-Combined%20Proposal%20Attachment%202%20-%20Annual%20revenue%20requirement-Jan%2023-Public.pdf.

Figure 3: Average network charges, small business customer ($real 2023-24)



Source: TasNetworks, Combined Proposal Attachment 2 – Annual Revenue Requirement, Figure 6, p. 9 https://www.aer.gov.au/system/files/TasNetworks-Combined%20Proposal%20Attachment%202%20-%20Annual%20revenue%20requirement-Jan%2023-Public.pdf.

Adding the impact of TasNetworks' current inflation forecast (which may be increased in the final Determination) would see network charges increase in every year of the R24 period by between 5.55 per cent (2024-25) to 4.25 per cent (2025-26). This would amount to an increase of $285 in an annual small business bill, on top of any other electricity price increases that occur. This is not further diminishing affordability, not improving it. It should be noted that it also takes no account of what price impact contingent or Actionable projects might have (discussed in Section 5.4.2).

This presents a concerning outcome for small businesses in Tasmania and we suggest that TasNetworks needs to show a greater commitment to its key priority of affordability than the Proposal presents. To do so would be entirely consistent with TasNetworks' transformation program, which includes a call to action to "**sharpen our pencils"** by being efficient at everything, by keeping the lights on and minimising the burden on customers, now and into the future; as well as its Customer Charter, especially Principle 1 to *put customers at the centre* and Principle 2 to *improve affordability*.

3. Consumer Engagement

In the lead up to submitting its Proposal to the AER, TasNetworks has undertaken a detailed and lengthy process of engagement with its stakeholders, including electricity consumers, as it is required to do under the AER's *Better Resets Handbook*. The TSBC welcomes this and that the AER is seeking to ensure that such consultation has been meaningful and has influenced the Proposal.

In this regard TasNetworks comments that:

> *"The engagement program has sought to identify and understand what is important to our customers and stakeholders, and to build their knowledge and understanding of the energy sector and our business, so they could better participate in the program. We have used their insights to help shape a Combined Proposal that is reflective of their preferences and in their long-term interests."*[6]

We note and support that the primary objective of consumers engaged by TasNetworks was 'Affordability for all consumers'. Indeed, affordability for small business consumers is our key theme for this submission and has largely driven our assessment of the Combined Proposal. As explained in Section 2 of this submission, this has never been more important than now given the recent large increases in electricity prices, the high levels which they have now reached and the outlook for continued elevated electricity prices.

There is clear evidence from the Proposal and associated documentation that TasNetworks has been working to improve and enhance its engagement with consumers and this is welcomed by the TSBC. Nevertheless, we are left with several questions about these efforts, including the following:

- From examining the engagement strategy documents provided to the AER, it appears that engagement remains too much of a one-way exercise with most of the information still coming from TasNetworks and not enough from consumers.
- As shown by the documents on the proceedings of the Reset Advisory Committee (RAC), the Policy and Regulatory Working Group (PRWG) and the Customer Council (CC), all key forums for TasNetworks' engagement, much of the agenda and information provided has come

[6] TasNetworks, *Combined Proposal – Overview*, p. 13 https://www.aer.gov.au/system/files/TasNetworks-Combined%20Proposal%20Overview-Jan%2023-Public.pdf

from TasNetworks itself, giving the impression that TasNetworks remains too much in control.

- It appears that the RAC, PRWG and CC members have not been provided with the resources to properly challenge TasNetworks views on the reset or been able to commission independent work to either assess what TasNetworks has produced or come up with their own ideas. We feel that it is important for TasNetwoks and the AER to address this shortcoming and demonstrate their seriousness in the next phase of engagement.
- We note that TasNetworks identified an intention to develop its engagement maturity for the 2024–29 proposal so that rather than inform (a feature of engagement in previous resets), it moves towards empowering consumers to make decisions. Whilst there is some evidence of this in the R24 process, in our view, there has been insufficient progress.
- In addition, TasNetworks' tendency to highlight metrics such as that it "directly engaged with 567 individuals, in 61 activities, covering 64 topics"[7], rather than ones showing clear evidence of consumer influence and direction in its Proposal, also suggests that its engagement on R24 remains input focused.
- Whilst its approach of placing the greatest weight on the more detailed feedback that it gathered from its deep and ongoing engagement with its RAC, PRWG and CC is understandable, it is also reflective of limited empowerment on the part of grass roots consumers, including small business.
- On the key theme of affordability, it is disappointing that the RAC expressed a view that more focus could have been shown on this topic by TasNetworks and that RAC discussions were more weighted to technical and cost inputs rather than consumer benefits or bill impacts.[8]
- TasNetworks expressed the view that it has responded to the affordability priority by constraining its capex, selecting 2020–21 as the most efficient base year for opex, achieving opex productivity, is developing initiatives that address cost of living pressures and continuing to develop cost-reflective network tariffs.[9] Accepting this for a moment, it still raises that question of whether it has done enough? We address this in relevant parts of the submission.
- It is also disappointing that the RAC was limited to commenting on the draft Proposal and was not given the opportunity to assess the final Proposal submitted by TasNetworks and what influence the RAC had on the latter prior to finalisation.[10] It would have been helpful if TasNetworks had afforded the RAC this opportunity and reported on it to the AER (if necessary, after its Proposal was submitted).
- Regarding the RAC, TSBC are not members of this group, nor were we invited to join it. We also note that there are no members of the RAC that come from or a small business background or other small business organisation (although its members do have large user

[7] TasNetworks, *Combined proposal Attachment 1 – Customer and stakeholder engagement summary,* January 2023, p. 3 https://www.aer.gov.au/system/files/TasNetworks-Combined%20Proposal%20Attachment%201%20-%20Customer%20and%20stakeholder%20engagement-Jan%2023-Public.pdf

[8] AER, *Issues Paper*, March 2023, p. 9.

[9] TasNetworks, *Combined proposal Attachment 1 Customer and stakeholder engagement summary,* January 2023, p.6 https://www.aer.gov.au/system/files/TasNetworks-Combined%20Proposal%20Attachment%201%20-%20Customer%20and%20stakeholder%20engagement-Jan%2023-Public.pdf.

[10] AER, *Issues Paper*, March 2023, p. 9.

and disadvantaged consumer backgrounds). Consequently, small business has not had a voice in this important forum. We feel that this is a deficiency that needs to be corrected.

The AER has expressed a view that TasNetworks has made significant progress in its engagement strategy.[11] We agree that there has been improvement from R19 but there are important gaps remaining in the strategy used by TasNetworks in R24, that some of the improvements have been driven by the AER's *Better Resets Handbook*, an external source of direction, and observe that TasNetworks has been developing its engagement approach over multiple resets, which seems a long enough for it to have progressed further than it has.

Nevertheless, the TSBC has been pleased to be involved in TasNetworks' engagement on multiple levels through the development of its R24 Proposal, including membership of the PRWG and the CC. We welcome the progress that TasNetworks has made and encourage them to continue to do so.

4. Revenue Allowance

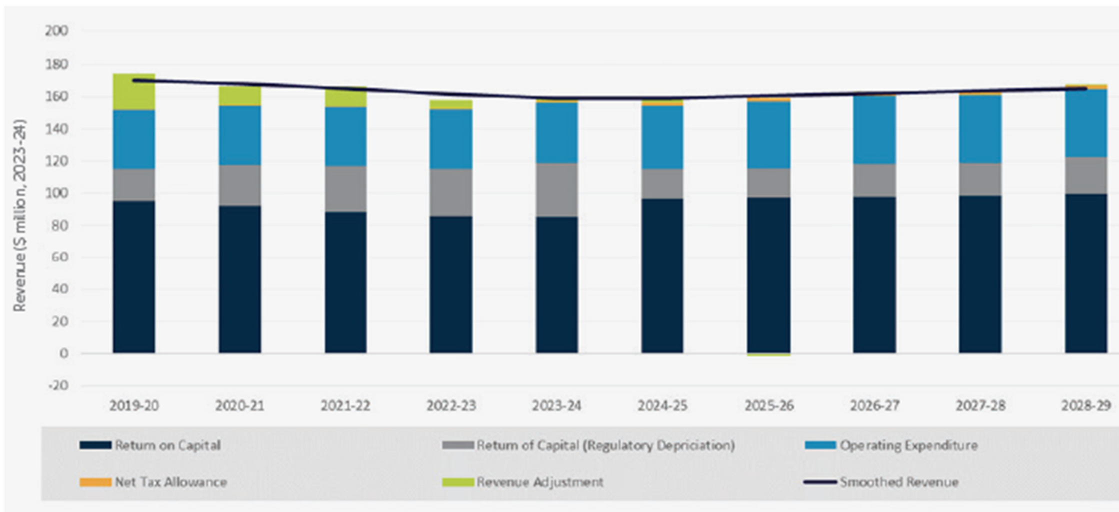
As the revenue allowance provided to TasNetworks in the AER's R24 Determination feeds directly into network prices, it is important to small business electricity users. Looking at the forecast revenue proposed by TasNetworks we have some issues we would like to highlight:

- Regarding the transmission business, we welcome that TasNetworks has proposed a real reduction in its revenue allowance for the R24 regulatory period compared to R19, although:
  - We note that this translates to $866.9 million ($nominal, smoothed), a 17.8 per cent increase in its revenue over the R19 period, which is more relevant to small businesses as it is reflected in their bills and will add to the significant cost pressures they currently face in many aspects of their businesses.
  - It is also apparent from Figure 4 that real revenue will increase in every year of the R24 period, which is not welcomed by small business.
- Regarding the distribution business, we are concerned that TasNetworks has proposed a significant 8.3 per cent ($118.4 million) real increase in its revenue allowance for the R24 regulatory period compared to R19 and:
  - The steady upwards trajectory of TasNetworks' real revenue is apparent from Figure 5 below.
  - We note that in nominal terms, which is what will be reflected in small business bills, this impact is even more significant. It would allow TasNetworks to recover $1,714.5 million ($nominal, smoothed) from its customers over the 2024–29 period. This is 35.4 per cent higher than what the AER approved for the 2019–24 period and would result in a $62 per annum increase in small business bills.[12]
  - TasNetworks attribute the higher revenue to a forecast higher regulated return, with higher interest rates a key driver. Revenue adjustments also play a material role.
- There remain significant upside risk factors for small business users in relation TasNetworks network revenue forecasts, especially the potential impact of high inflation, higher interest rates, the inclusion of contingent projects at some point and the possibility of pass-through events which could increase revenue beyond that forecast. These have, of course, the potential to increase network charges even further.

[11] AER, *Issues Paper*, March 2023, p. 10.
[12] AER, Issues Paper, March 2023, p. 3.

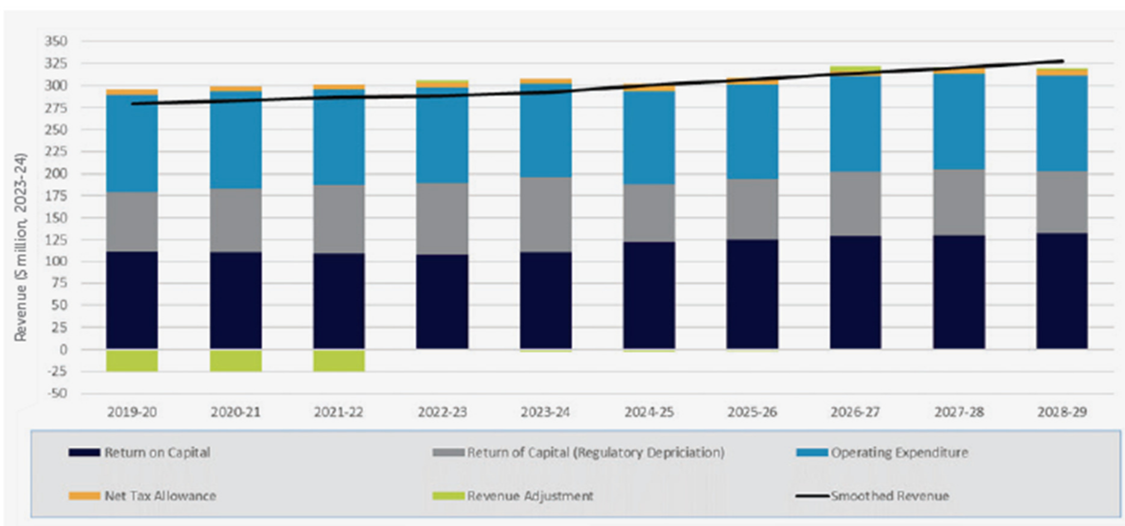
The above places an even higher onus on the AER to carefully scrutinise all aspects of the R24 Proposal to ensure that its component parts all play a role in keeping electricity affordable for consumers.

Figure 4: Forecast Transmission Revenue ($ million, 2023-24)



Source: TasNetworks, R24 Regulatory Proposal, Figure 13, p. 27
https://www.aer.gov.au/system/files/TasNetworks-Combined%20Proposal%20Overview-Jan%2023-Public.pdf

Figure 5: Forecast Distribution Revenue ($ million, 2023-24)



Source: TasNetworks, R24 Regulatory Proposal, Figure 14, p. 27
https://www.aer.gov.au/system/files/TasNetworks-Combined%20Proposal%20Overview-Jan%2023-Public.pdf

We urge the AER to carefully scrutinise the Regulatory Determination that TasNetworks has provided and seek to find ways to reduce TasNetworks combined revenue to ensure that network charges do not make electricity less affordable throughout the R24 period. We also urge the AER to look for ways that ensure that the uncertainty factors surrounding TasNetworks' revenue forecasts are minimised given their potential to significantly increase revenue and network prices during the R24 period.

5. Main Influences on Revenue

We comment below on the key constituent parts that make up TasNetworks revenue and drive its Regulatory Proposal, namely, inflation, the rate of return, capital expenditure (capex), the Regulatory Asset Base (RAB) and operating expenditure (opex).

5.1. Inflation

Given the current high inflation environment, we anticipate that inflation will be a more important revenue driver during R24 than it was for most of R19. This would have important impacts on all the key revenue building blocks including:

- The rate of return where higher inflation will result in higher interest rates, bond rates and the inflation expectation of debt and equity financiers.
- Capex, as inflation will increase the components of capex such as materials, labour costs and equipment, as well as the cost of financing capex.
- This will, in turn, flow through into the RAB and impact indexation of the RAB.
- Inflation will also increase nominal opex through its impact on the main components of opex such as labour, materials and other input costs.

TasNetworks has proposed, as a placeholder, a 3.35 per cent inflation rate for R24 using the method approved by the AER in its 2020 inflation review.[13] However, this will be adjusted by the AER based on more recent information before its Final Determination. Higher current and ongoing inflation compared to the R19 period could result in a higher inflation forecast than that proposed. However, we note that the latest Reserve Bank of Australia (RBA) inflation forecasts, which are similar to those of economic and market experts, has inflation falling in the period to June 2025 (see Figure 6), although the wage index remains at an elevated level. Even with this forecast fall, inflation would remain high – being at the top of the RBA's target range (2-3 per cent) and well above that for R19 (2.42 per cent).

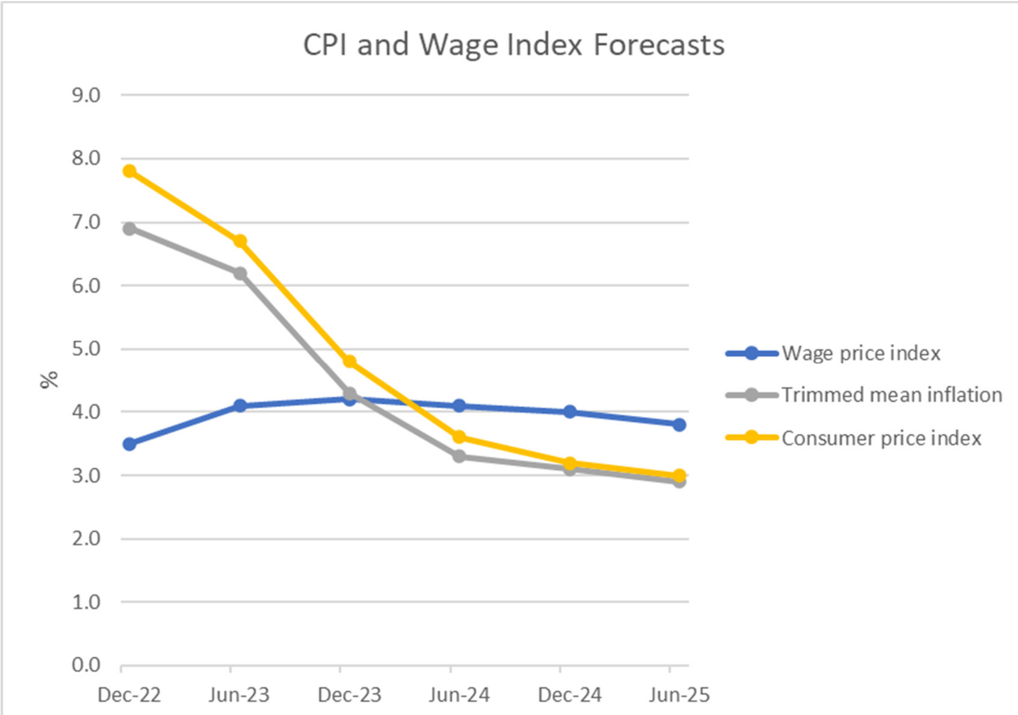
This is clearly an area of ongoing uncertainty for consumers. TasNetworks' Combined Proposal recognises the impact of this uncertainty when it says:

> *"Consistent with the interest rate outlook, the future direction for inflation is highly uncertain. … and changes in forecast inflation will lead to volatility in our revenue allowance forecasts.* [14]

For small businesses already dealing with higher inflation, interest rate and input cost pressures, higher and more volatile network prices would not be welcomed.

[13] AER, Regulatory treatment of inflation – Final Position, Dec 2020 https://www.aer.gov.au/system/files/AER%20-%20Final%20position%20paper%20-%20Regulatory%20treatment%20of%20inflation%20-%20December%202020.pdf
[14] TasNetworks, Combined Proposal 2024-2029 – Overview, Jan 2023, p.20 https://www.aer.gov.au/system/files/TasNetworks-Combined%20Proposal%20Overview-Jan%2023-Public.pdf.

Figure 6: Inflation and Wages Forecasts



Source: Source: RBA Forecast Table, Feb 2023
https://www.rba.gov.au/publications/smp/2023/feb/forecasts.html

5.2. Rate of return

Using the AER's 2018 Rate of Return (RoR) Instrument, TasNetworks has estimated rates of return of 5.68 per cent for the transmission network and 5.71 per cent for the distribution network for 2024-25, the first year of the 2024-2029 regulatory control period.[15] As TasNetworks notes, the AER Draft Decision will utilise updated financial market data and the final 2022 RoR Instrument.

This contributes $544.2 million and $708.5 million in nominal revenue for the transmission and distribution businesses respectively over the R24 period. As mentioned earlier, higher expected inflation and interest rates are a major contributor to the increases in nominal revenue for both business arms of TasNetworks in the R24 period compared to R19.

This situation also causes us to raise again a concern that we have expressed in past TasNetworks Determinations that the AER maintains a rate of return environment that results in excessive rates of return being provided to TasNetworks.

In this regard, we note the AER's comment that:

> *Based on government bond rates, an increase is forecast for the return on capital for 2024–29 compared to 2019–24 period.*[16]

[15] The estimated rates of return are based on financial market data up until the end of September 2022.
[16] AER, Issues Paper, March 2023, p. 5.

Disappointingly, the 2022 Rate of Return Instrument published by the AER contains minimal changes to the key rate of return parameters, other than changes due to market conditions.[17]

We would like to draw to the attention of the AER that uncertainty about the final rate of return to be applied to its Final Determination and throughout the R24 period is not helpful to small businesses, who are already dealing with difficult economic conditions and wanting to plan for their future with as much certainty as possible.

5.3. Regulatory Asset Base

TasNetworks has proposed a distribution RAB of $2,674.0 million ($ nominal) by the end of the 2024–29 period, which is $450.9 million (or 16.9 percent) higher than the estimated RAB at the end of the 2019–24 period. This follows an increase of $459.2 million ($ nominal) in the estimated RAB over the 2019–24 period.

For transmission, TasNetworks proposes a RAB of $2,001.7 million ($ nominal) by the end of the 2024–29 period, which is $242.9 million (or 12.1 per cent) higher than the estimated RAB at the end of the 2019–24 period. This follows an increase of $279.6 million ($ nominal) in the estimated RAB over the 2019–24 period. However, the real transmission RAB is forecast to decrease over the R24 period, which we welcome, although the estimated RAB in the last two years of R19 increases so that the opening RAB in R24 is elevated and this forecast would be significantly increased with the addition of contingent projects. It is also significantly higher than the AER's forecasts. These are matters that concern the TSBC and we would welcome the AER's further consideration of them.

More generally, as we expressed in our submissions to the R19 regulatory reset, we have an ongoing concern that TasNetworks RAB for both its transmission and distribution networks has been – and continues to be – on an upward path, placing ever greater pressure on network charges and small business costs in Tasmania. This is forecast to continue over the R24 period (as shown in Figure 7), with consequential higher prices at a time when small businesses in Tasmania are already facing substantial pressures.

This issue has also been raised by independent experts in the past who have called for measures to correct the inflated RABs as we discussed in Section 2.2. Unfortunately, Governments at the Federal and State levels have chosen to ignore the issue and consumers pay the price. The AER itself has not shown great interest in advocating on the issue.

5.4. Capex

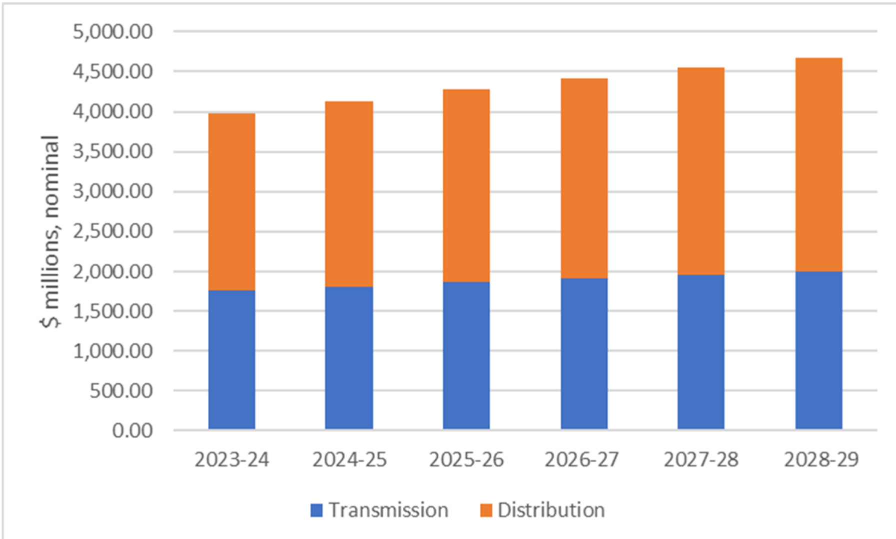
TasNetworks makes the following comment about affordability in relation to its forecast capex drivers for R24:

> *"TasNetworks' capex forecasts for the 2024-2029 regulatory control period have been developed in challenging circumstances where inflation and cost of living pressures are weighing heavily on many Tasmanians. Balancing the need for investment in Tasmania's renewable energy future and the affordability of*

[17] AER, Rate of Return Instrument – Explanatory Statement, Feb 2023, Table 0.1, pp 10-12 https://www.aer.gov.au/system/files/AER%20-%20Rate%20of%20Return%20Instrument%20-%20Explanatory%20Statement%20-%2024%20February%202023.pdf.

electricity for customers today is more complex and important than ever before."[18]

Figure 7: TasNetworks Closing RAB



Source: TasNetworks, R24 Combined Proposal, Tables 3 & 4, p. 29

We welcome that TasNetworks recognises that Tasmanian consumers are facing a range of challenging circumstances at present and that its capex forecasts are attempting to balance this against the need for investment and reliability. In addition, TasNetworks' engagement with consumers over R24 has identified affordability of electricity as their major priority and has accepted this. This should also be the key consideration for the AER's assessment of the R24 Proposal.

Based on our assessment to date, we are not yet convinced that TasNetworks has struck the right balance with its capex forecasts. We suggest that there is scope for TasNetworks to reduce its forecasts to emphasise affordability more without unduly compromising investment or reliability.

We also query to what extent TasNetworks is planning to spend on renewable obligations such as the TRET and TRHAP and what this will cost Tasmanian electricity consumers. We note that these are government obligations and, as such, should be paid for by government rather than consumers.

We outline our position on transmission and distribution capex below.

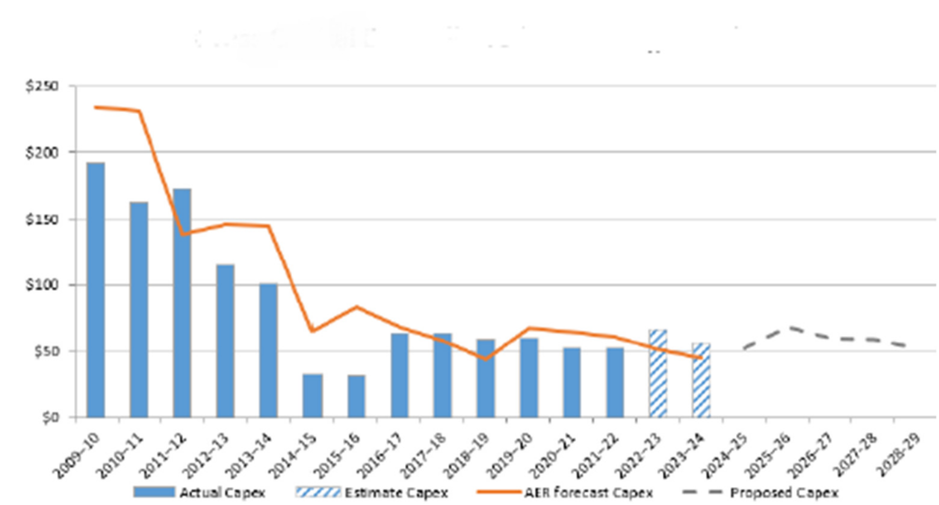
5.4.1. Transmission Capex

As Figure 8 shows, total transmission capex over the R24 period is forecast to be higher for most years compared to capex over the R19 period. Whilst this is still well down on the capex of ten or so years ago, it needs to be kept in mind that these earlier higher levels of capex were associated with substantial augmentation and replacement spending the wisdom of which has been seriously

[18] TasNetworks, *Combined proposal Attachment 6 Capital expenditure,* January 2023, p. 5 https://www.aer.gov.au/system/files/TasNetworks-Combined%20Proposal%20Attachment%206%20-%20Capital%20expenditure-Jan-23.pdf.

questioned by experts,[19] resulting in gold plating that consumers continue to pay for. We also observe that actual capex for all R19 to date has been below that allowed by the AER in its Determination but is forecast by TasNetworks to be higher than allowed in the last two years of R19. Even though total forecast capex over R24 is expected to be lower than over R19, the difference is quite small and we query whether it meets the affordability priority of consumers and whether TasNetworks has found the right balance between this and investment/reliability? The forecasts for capex in R24 are therefore a matter of *prima facie* concern to the TSBC and we await the AER's detailed assessment of its prudency and efficiency.

Figure 8: TasNetworks' Transmission Gross Capital Expenditure ($million, 2023-24)



Source: AER Issues Paper, March 2023, Figure 11, p. 16

Unfortunately, our ability to undertake a more detailed assessment in this submission is resource constrained. However, we offer the following comments for the AER's consideration.

1. Replacement capex (repex) makes up more than half of the total net transmission capex in the R24 proposal. The Issues Paper says that TasNetworks' (repex) of $155m is $10m, or 7%, higher than its estimated current period spend. This represents a *prima facie* concern to the TSBC, but we are unable to go into a detailed assessment in this submission. On the assessment we have been able to undertake, we remain to be convinced that all the repex proposed is justifiable. We note that the AER will review TasNetworks' proposed repex to see if it is prudent and efficient taking into consideration industry practice and applying benchmarks.
2. TasNetworks' forecast R24 transmission capex of $27 million for Information and communication technology (ICT), its second biggest capex item. This includes cybersecurity, which the AER has said will be an area of focus for its assessment of the proposal. We note

[19] See Orme, Simon, Regulated Electricity Network Prices Are Higher than Necessary: An Assessment of the Economic Regulation of Australia's Electricity Networks, October 2022 for IEEFA. https://ieefa.org/resources/regulated-electricity-network-prices-are-higher-necessary and Tony Wood, David Blowers and Kate Griffiths, Down to the wire: A sustainable electricity network for Australia, Grattan Institute, March 2018 https://grattan.edu.au/wp-content/uploads/2018/03/903-Down-to-the-wire.pdf.

that, whilst the importance of cybersecurity to the transmission network should not be downplayed, it is also an area where costs can be inflated due to its high-profile status.

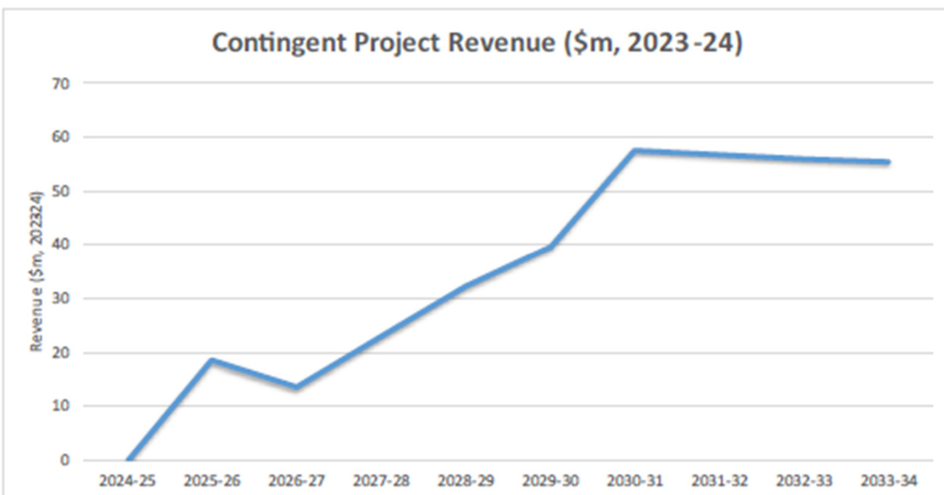
3. The AER has said that it will assess TasNetworks' transmission augmentation capex ($21 million over R24) to confirm that identified needs, a range of options and appropriate business cases have been presented for the two projects and land acquisitions involved. We welcome this assessment.

5.4.2. Contingent Projects

TasNetworks has proposed seven transmission contingent projects as part of R24. These are currently costed at $905 million, which the AER notes is three times standard forecast capex. It would also increase TasNetworks transmission RAB by 45 per cent. This is a substantial amount for a business the size of TasNetworks and it will be important for the AER to pay close attention to the costs of these projects and whether they deliver the benefits TasNetworks claim.

Figure 9 shows the impact of the contingent projects on TasNetworks' transmission revenue going forward. It is significant, amounting to almost $60 million per annum by the end of R24, out of a proposed total revenue of around $188 million (a near one-third increase).

Figure 9: TasNetworks' Contingent Project Additional Revenue Impact ($million, 2023-24)



Source: TasNetworks*, Response to information request IR004,* Figure 12, Received 1 March 2023.

The AER has commented that "Consumers will only pay for a contingent project if a defined trigger event takes place in the period."[20] Whilst this is correct, it ignores the fact that the significant amount of additional capex involved in TasNetworks' contingent project list exposes consumers to a risk that their network charges could increase significantly if these projects are triggered.

In addition, there are two Actionable projects, one from AEMO's 2022 ISP (associated with Marinus Link) and another related to a system strength rule change. The Proposal does not present costs for these, although TasNetworks 2022 Annual Planning Report mentions that the North West

[20] AER, Issues Paper, p. 17.

Transmission Developments (required to support Marinus Link) are costed at about $680 million.[21] As far as we are aware, there is no cost estimate attached to the rule change Actionable project, so it is a complete unknown. Actionable projects are not required to be included in the TasNetworks R24 Proposal or the associated AER Determination. They would 'simply' (euphemistically speaking) be rolled into TasNetworks regulated revenue during the R24 period as required, representing a disturbing lack of scrutiny.

The TSBC has serious concerns about the open-ended nature of the treatment of Actionable projects. It is not acceptable that Tasmanian electricity consumers will be required to pay for these projects without having a say about them or knowing how much they will cost or when they will be required. It is our strong view that any contingent capex included in the R24 period should be subject to proper scrutiny during the AER's Determination process, not snuck in via that back door at some point during the life of the Determination. We note that the amounts of money potentially involved are very large and would have a material impact on transmission prices.

We also note than many of the contingent projects and Marinus Link are related to the connection of new renewable generation (principally for export from Tasmania) under the TRET or new load related to possible green hydrogen or data centre developments in Tasmania under the Tasmanian Renewable Hydrogen Action Plan (TRHAP). None of them are particularly required to serve existing Tasmanian consumers. Given that the main beneficiaries of these projects are easily identified, it should be possible to make them pay for the assets involved. Moreover, as they relate to Tasmanian Government policies, the Government should also be willing to contribute taxpayer money to them if there is a shortfall in money from the developers.

We are pleased to see that the AER requested TasNetworks to estimate the bill impacts of its contingent project list after its Combined Proposal was lodged.[22] It was remiss of TasNetworks not to provide this information in its Proposal, especially in view of the large amount of capex involved. We note that TasNetworks estimates that its seven contingent projects would increase small business bills by $41.80 (2.0 per cent) in 2028-29 and $41.60 (1.9 per cent) in 2033-34. This is on top of the bill increases on account of the capex proposed by TasNetworks. Tasmanian small businesses may well not see these increases as worthwhile, especially given that the beneficiaries of the projects are mainly new renewable generation and new load.

Moreover, and equally concerning, is that TasNetworks has not provided (nor has the AER apparently asked for) the price impacts of the Actionable projects TasNetworks has referred to in its Proposal. Based on what is currently known about the cost of these two projects, further significant bill increases of roughly the same magnitude as for the seven contingent projects might arise. These Actionable also materially benefit new renewable generation and new load so small business is entitled to query why they should pay most of their costs.

[21] TasNetworks, Annual Planning Report, 2022, p. 41 https://ehq-production-australia.s3.ap-southeast-2.amazonaws.com/d5faf4cd7b300bf4ff0629c9ccaf864238a6950b/original/1668146033/ae7132cff0af21f1134d3da6cdc117fa_TasNetworks_Annual_Planning_Report_Full_Nov2022.pdf?X-Amz-Algorithm=AWS4-HMAC-SHA256&X-Amz-Credential=AKIA4KKNQAKIOR7VAOP4%2F20230506%2Fap-southeast-2%2Fs3%2Faws4_request&X-Amz-Date=20230506T101742Z&X-Amz-Expires=300&X-Amz-SignedHeaders=host&X-Amz-Signature=4f50c3d77411adccc161ae1613d255aad7f78da6f67518d02323eace754d96ef .

[22] TasNetworks*, Response to information request IR004,* Received 1 March 2023.

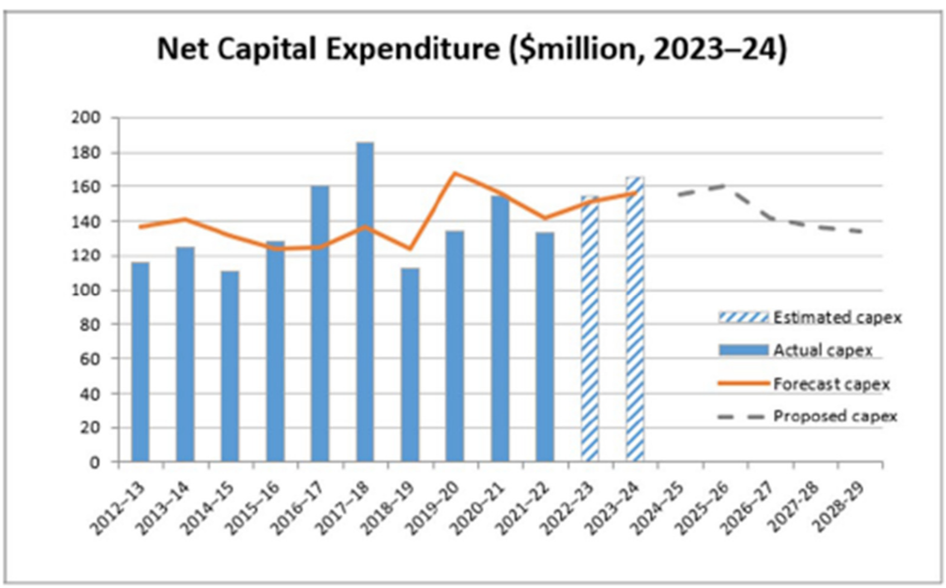
To illustrate this point, the Tasmanian Government has said that Tasmanian consumers will pay for no more than 15 per cent of the costs of Marinus Link and NWTD[23], which on the latest cost estimate for Marinus Link of $3.8 billion equates to $570 million. Yet, previously the Tasmanian Government estimated that Tasmanian consumers would only receive 6 per cent of the benefits of Marinus Link, or $228 million, while according to a Tasmanian Department of State Growth report, the project would provide no wholesale price benefits to Tasmania, with the only benefits coming from very modest energy security and ancillary service benefits amounting to 2.8 per cent of total benefits. Naturally, small business is confused by these apparent inconsistencies and concerned about how the TasNetworks' Proposal might be incorporating them.

This discussion again highlights the disconnect between those who overwhelmingly pay for transmission charges (consumers) and those who increasingly benefit from the new projects (renewable generators and new renewable load). The TSBC believes that it is well beyond time for this inconsistency to be corrected as it is likely to become increasingly stark as the energy transition takes place. This is even more important as large amounts of capex are attached to such projects.

5.4.3. Distribution capex

TasNetworks forecast net distribution capex of $729.4 million for the 2024–29 period, which is $35 million (4 per cent) lower than its actual/estimated net distribution capex in the 2019–24 period. Its annual forecasts are shown in Figure 10 below. This shows that TasNetworks' estimated distribution capex rises significantly in 2022-23 and 2023-24, the last two years of R19, although this is broadly in line with the AER's allowance for these two years. Its capex in the first two years of R24 is more-or-less in line with the elevated levels of 2022-23 and 2023-24 before falling significantly from 2026-27. Meanwhile, its actual capex in 2019-20 and 2021-22 was below the AER's allowance.

Figure 10: Comparison of TasNetworks' Past and Forecast Net Distribution Capex ($million, 2023-24)



Source: AER, Issues Paper, March 2023, p. 18.

[23] Prime Minister, Premier of Tasmania, Minister for Climate Change & Energy, Tasmanian Minister for Energy & Renewables, Media Release, 19 October 2022 quote attributable to Tasmanian Minister for Energy & Renewables https://www.pm.gov.au/media/rewiring-nation-plugs-marinus-link-and-tasmanian-jobs.

We provide the following preliminary and higher-level comments on the distribution capex proposal as our resources do not allow us to undertake a deeper review at this point:

1. TasNetworks distribution network benchmarks poorly against other Australian networks for capex and had the lowest productivity in 2021 (the latest year available). TasNetworks attributes this to unique character of its distribution network, which has no power lines above 33kV. TasNetworks mentions that internal analysis has shown that, were TasNetworks' distribution network structured similarly to other networks, it would be rated significantly higher in multi factor total productivity terms but does not quantify this.[24] Notwithstanding the qualifications expressed, there still seems scope to improve the productivity of TasNetworks' distribution capex and reduce its capex forecasts.
2. Repex makes up 38 per cent of TasNetworks' forecast distribution capex at $282 million. This is $19 million, or 7 per cent higher than its estimated current period spend, which is a cause for concern to the TSBC given the current difficult environment for small business and the affordability priority of consumers, which TasNetworks has indicated it is responsive to. The AER notes the inclusion of $10 million in resilience expenditure as a new item. We are not convinced that this amount is justified given the risks involved, their likelihood of eventuating, or the benefit to consumers. Moreover, the AER needs to ensure that there is no overlap with other expenditures, such as vegetation management, cyber security and insurance. We look forward to the AER's assessment.
3. TasNetworks' augex of $50 million is $12 million or 32% higher than its estimated current period spend. This is a major increase in a period when electricity consumers are under considerable economic pressure and have expressed that an overriding priority of the TasNetworks proposal should be affordability. This includes major augmentation projects such as 'high and low voltage network reinforcements' ($16 million) and customer energy resources (CER) enablement ($10 million). Some of this expenditure could be justified but there may also be scope to reduce/postpone it in the interests of affordability. The AER should also ensure that there is a sufficient pay-off to consumers from augex. For example, is the CER spending going to provide a consumer benefit significantly greater than its costs and offset network investment?
4. TasNetworks forecast $137 million for non-network capex. This includes major ICT projects, fleet and facility upgrades. TasNetworks' combined its transmission and distribution proposal and this represent 13.5 per cent of the $1,018 million in combined capex. We note that the proposed expenditure for ICT is higher than during R19, especially for the distribution network and for recurrent expenses, which TasNetworks say is due to a move from a phase of ICT new investments to maintenance of these. On the surface the increases in recurrent expenses look large. The AER should check the veracity of these expenditures and their optimal allocation between the transmission and distribution networks.

5.5. Opex

TasNetworks' Proposal contains forecasts for both transmission and distribution operating expenditure (opex) which we comment on below.

TasNetworks uses the AER's base-step-trend approach and proposes a base year of 2021-22 for both networks. It says that it chose this year after consultation with customers.

[24] TasNetworks, *Combined proposal Attachment 6 Capital expenditure,* January 2023, p. 16 https://www.aer.gov.au/system/files/TasNetworks-Combined%20Proposal%20Attachment%206%20-%20Capital%20expenditure-Jan-23.pdf.

5.5.1. Transmission opex

As the AER points out, TasNetworks proposed total transmission opex of $209.2 million ($2023–24) for R24, which is $31.1 million (17.5%) more than TasNetworks actual/estimated transmission opex for the 2019–24 period and $24.8 million (13.4%) more than the opex forecast the AER approved for the 2019–24 period. These real increases are a concern to us at a time of cost pressures on small businesses, who must make difficult decisions about how they deal with such pressures.

As the AER Issues Paper makes clear, TasNetworks' actual transmission opex has been steadily reducing since 2009–10 (and been less than the AER's forecast), but some plateauing has been observed in the current period and actual/estimated opex is broadly in line with the AER's forecast allowance. The plateauing is of *prima facie* concern.

We welcome that TasNetworks has proposed productivity growth of 3 per cent in 2024–25 and 0.5 per cent per annum for the remainder of the regulatory period, but we note that this is the same rate of productivity growth as in the R19 period. We questioned the lower rate in years 2-5 of the R19 regulatory period and do so again, noting that this is below the transmission sector average of 0.6 per cent.

Given the significance (10.6 per cent of total opex) of the insurance premium ($6.7 million) and cyber security/security of critical infrastructure ($15.4 million) step changes, we suggest that the AER needs to examine these in detail to ensure that they are prudent and efficient. In particular, the AER should establish that they are efficient benchmarks for TasNetworks to propose and are justified in their entirety.

5.5.2. Distribution opex

TasNetworks proposed total distribution opex of $541.0 million ($2023–24) for the R24–29 period, which is $34.4 million (6.8%) more than TasNetworks actual/estimated opex for the 2019–24 period but $2.6 million (-0.5%) lower than the opex forecast the AER approved for R19. The real increase in R24 proposed opex over that spent in R19 is of concern and needs to be adequately justified.

As with transmission, we welcome that TasNetworks has proposed productivity growth of 3 per cent in 2024–25 and 0.5 per cent per annum for the remainder of the regulatory period, but note that this is the same rate of productivity growth as in the R19 period. We questioned the lower rate in years 2-5 of the R19 regulatory period and do so again.

As for transmission the addition of step changes for insurance premium ($19.1 million) and cyber security ($3.9 million) needs to be examined in detail to ensure that these are prudent and efficient costs. In particular, the AER should establish that they are efficient benchmarks for TasNetworks to propose and are necessary in their entirety.

6. Tariff Structure Statement and Tariff Reform

The TSBC has some concerns about TasNetworks' Tariff Structure Statement (TSS).

The AER has said that it "would prefer to see more rapid tariff reform" (Issues Paper, p. 29). We strongly agree with this and expressed a need for faster reform in our submissions on the last Determination. Moreover, like the AER, we are concerned about the continued lack of progress. Tasmanian small businesses remain disadvantaged by the existence of inefficient pricing cross-subsidies in TasNetworks' tariffs and the slow progress in removing them.

In this regard we would like to make the following points:

- TasNetworks' comments on customer feedback are selective and fail to take into account the long-standing concerns about limited tariff reform expressed by TSBC on behalf of small business. We have expressed these concerns in the development of this TSS, including through our membership of the PRWG and CC.
- Whilst we acknowledge that there are some state-specific socioeconomic circumstances that pose some difficulties for tariff reform, we do not believe they are so significant that they justify the slow path chosen by TasNetworks.
- There are also economic costs associated with the slow pace of tariff reform and TasNetworks is not giving sufficient weight to these.
- Regarding the changes to small business time-of-use tariffs (TOU), we support such tariffs but wish to draw to the AER's attention that some small businesses have fixed trading hours and TOU tariffs can increase their electricity bills, although TasNetworks' analysis shows that they are in the minority.

It would be beneficial to small business in Tasmania if the AER were to encourage TasNetworks to increase the pace of tariff reform. This would be even more welcome at present given the significant energy price increases being experienced by Tasmanian small businesses.