

18 August 2023

Dr Kris Funston
Executive General Manager
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Kris

RE Draft AER guidance on amended National Energy Objectives

TasNetworks appreciates the opportunity to review and comment on the Australian Energy Regulator's (**AER**) draft guidance on the application of the amended National Electricity Objective (**NEO**) to the AER's regulatory decision making, in particular to processes that are underway at the time the updated NEO takes effect. TasNetworks is the transmission network service provider and distribution network service provider in Tasmania and potentially one of the first network service providers (**NSPs**) in the National Electricity Market to be affected by the changes to the NEO, which will apply to the AER's regulatory determinations for TasNetworks' distribution and transmission networks for the 2024–2029 regulatory period.

The achievement of emission reduction targets are an important component of the long-term interests of consumers, alongside the NEO's existing considerations. TasNetworks will continue its efforts to lower its greenhouse gas emissions by reducing emissions from our vehicle fleet and minimising leakage of the SF₆ gas used as an insulating material in much of our switchgear and circuit breakers. TasNetworks will also continue to support new renewable generation in Tasmania, whether it be micro-embedded generation connected to the distribution network or large-scale renewable generation connecting to the transmission network.

However, the subjects of climate change and CO₂ emissions have only been canvassed in a very general sense as part of the engagement activities conducted in support of TasNetworks' regulatory proposals for the upcoming regulatory period. As such, TasNetworks has not explored with its customers and stakeholders the emission reductions or possible trade-offs associated with our capital and operating expenditure proposals.

Emissions reduction is not a material contributor to the costs or benefits associated with our expenditure forecasts and we do not anticipate submitting new elements in our revised proposals that are predicated on the delivery of reductions in CO₂ emissions. Instead, our expenditure forecasts take into account consumer preferences identified during our engagement activities, which were framed in the context of serving the long-term interests of electricity consumers with respect to the then current elements of the NEO – price, quality, safety, reliability and security of supply.


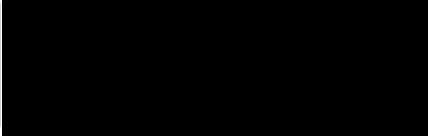
With TasNetworks' revised proposals due to the AER in December 2023, we do not consider there will be adequate opportunity to consult meaningfully with stakeholders about the application of the amended NEO to TasNetworks' plans for the upcoming regulatory period. On this basis, and given the discretion available to the AER in applying the amended NEO to regulatory determinations that are already underway, our expectation is that the application of the amended NEO is unlikely to make a material difference to the AER's decision making in relation to TasNetworks' regulatory determinations for the 2024–2029 regulatory period.

TasNetworks also considers that the amended NEO should only apply to Regulatory Investment Tests (RITs) that have not completed a draft report by the time a value of emissions reduction (VER) is released, rather than when the final bill to update the NEO takes effect. Although these two outcomes are currently expected to occur at the same time, in November 2023, if the release of a VER is delayed, NSPs that have already completed a draft report when the bill takes effect will have to develop their own VER for the purposes of any RITs that are already underway. This is likely to be a complex, undefined and lengthy exercise, and risks NSPs using different methodologies to determine VERs as well as the use of different VERs in assessing the benefits of investments proposed by NSPs.

Lastly, TasNetworks would appreciate guidance from the AER on the way in which expenditure by networks on emissions reduction might be reflected in the AER's economic benchmarking of NSPs. The current benchmarking models rely on output parameters that reflect more traditional measures of network performance such as reliability, maximum demand and energy throughput, but not externalities like emissions reduction. Actions to reduce emissions will likely impact network efficiency and productivity, particularly if the impact on emissions reduction are not factored into the outputs used for benchmarking purposes.

Once again, thank you for the opportunity to review the AER's draft guidance on the application of the amended NEO. To discuss the views expressed in this letter, or how TasNetworks might be of further assistance to the AER in determining how best to operationalise the updated NEO, please contact Chris Noye, Leader Regulation, at [redacted] or on [redacted]

Yours sincerely -

Chantal Hopwood
Head of Regulation