

Draft Decision

TasNetworks

Electricity Transmission

Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Attachment 6

Operating Expenditure

September 2023

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6 Operating expenditure

Operating expenditure (opex) refers to the operating, maintenance and other non-capital costs incurred in the provision of network services. Forecast opex for prescribed transmission services is one of the building blocks we use to determine a service provider's total regulated revenue requirement.

This attachment outlines our assessment of TasNetworks' proposed opex forecast for the 2024–29 regulatory control period.

6.1 Draft Decision

Our draft decision is to accept TasNetworks' total opex forecast of \$209.2 million (\$2023–24), including debt raising costs.¹ This is because our alternative estimate of \$210.7 million (\$2023–24) is not materially different (\$1.5 million or 0.7% higher) from TasNetworks' total opex forecast proposal. Therefore, we consider that TasNetworks' total opex forecast satisfies the opex criteria, having regard to the opex factors.²

Our draft decision, which is TasNetworks' proposed total opex forecast is:

- \$31.4 million (\$2023–24) or 17.6% higher than TasNetworks' actual (and estimated) opex in the 2019–24 regulatory control period
- \$26.3 million (\$2023–24) or 14.4% higher than the TasNetworks' opex forecast we approved in our final decision for the 2019–24 regulatory control period.

In Figure 6.1 we compare our alternative estimate of opex to TasNetworks' proposal for the next regulatory control period. We also show the forecasts we approved for the last three regulatory control periods and TasNetworks' actual and estimated opex over these periods.

¹ TasNetworks, *Combined Proposal 2024–2029, Attachment 8 Operating Expenditure*, January 2023, p. 3.

² NER, cl. 6A.6.6(c) and cl. 6A.6.6(e).

Figure 6.1 Historical and forecast opex (\$million, 2023–24)



Source: TasNetworks, *Transmission economic benchmarking – regulatory information notice response 2009–10 to 2021–22*; AER, *TasNetworks’ transmission revenue determination, PTRM – Final decision (multiple Periods 2009–14, 2014–19, 2019–24)*; TasNetworks, *2024–2029 Post Tax Revenue Model – Prescribed*, December 2022; TasNetworks, *2024–2029 Operating Expenditure Model – Prescribed*, December 2022; AER analysis.

Note: Includes debt raising costs.

Table 6.1 sets out TasNetworks’ opex proposal, our alternative estimate for the draft decision and the differences between these forecasts.

Table 6.1 Comparison of TasNetworks’ opex proposal and our alternative opex estimate (\$million, 2023–24)

	TasNetworks’ proposal	AER’s alternative estimate	Difference
Base opex (reported in 2021–22)	182.9	186.0	3.1
Final year increment 2021–22 to 2023–24	1.9	1.9	0.0
Remove category specific forecasts	–	–	–
Output growth	1.8	1.9	0.1
Price growth	3.6	4.3	0.7
Productivity growth	–7.3	–3.4	4.0
Total trend	–1.9	2.8	4.7
Insurance premiums	6.7	4.7	–1.9

	TasNetworks' proposal	AER's alternative estimate	Difference
Cyber security	15.4	11.0	-4.4
Total step changes	22.1	15.8	-6.3
Total category specific forecasts	–	–	–
Total opex, excluding debt raising costs	205.0	206.5	1.5
Debt raising costs	4.2	4.3	0.1
Total opex, including debt raising costs	209.2	210.7	1.5
Percentage difference			0.7%

Source: TasNetworks, *2024–2029 Operating Expenditure Model – Prescribed*, December 2022; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '-0.0' represent small non-zero amounts and '-' represents zero.

While there is not a material difference between our alternative estimate of total opex and TasNetworks' proposed opex, we have arrived at our alternative estimate in a different way to TasNetworks. The key differences between TasNetworks' opex proposal, which we have accepted, and our alternative estimate are that:

- our base year opex estimate is \$3.1 million (\$2023–24) or 1.5% higher than TasNetworks' proposal as we have adjusted base year actual opex for movement in total opex provisions. TasNetworks confirmed that this movement in opex provisions should be included in the opex base model, and its omission was an oversight.³
- our productivity growth estimate is \$4.0 million (\$2023–24) or 1.9% higher than TasNetworks' proposed as we have applied a lower productivity growth rate consistent with the transmission industry average over the long term of 0.6%.⁴
- our total step change alternative estimate is \$6.3 million (\$2023–24) or 3% lower than TasNetworks' proposal comprising \$1.9 million (\$2023–24) or 0.9% for insurance premiums, and \$4.4 million (\$2023–24) or 2.1% for cyber security.
- we have used the most recent lower inflation forecast for June 2024 (Reserve Bank of Australia (RBA) August forecast) of 3.6%⁵ (compared to 4.2% used by TasNetworks) to determine the \$2023–24 basis of our opex forecast.

Table 6.2 provides our assessment of TasNetworks' proposal against the opex expectations included in the Better Reset Handbook.⁶

³ TasNetworks, *Response to AER's information request: IR#036 – Opex, base, trend, category specific forecast and EBSS*, received 9 June 2023, p. 6.

⁴ TasNetworks, *Combined Proposal 2024–2029, Attachment 8 Operating Expenditure*, January 2023, p. 12.

⁵ Reserve Bank of Australia (RBA), *Statement on monetary policy*, August 2023 (Accessed on 4 August 2023: <https://www.rba.gov.au/publications/smp/2023/aug/forecasts.html>)

⁶ AER, *Better Rests Handbook – Towards consumer centric network proposals*, December 2021, pp. 24–29.

Table 6.2 Assessment of proposal against Better Reset Handbook opex expectations

Opex expectation	Our view about how the expectations have been met
1. Opex forecasting approach	TasNetworks met this expectation. It applied our standard base-trend-step forecasting approach to forecast opex and the opex used in the EBSS.
2. Base opex	TasNetworks met this expectation. It used 2021–22, the latest year for which actual data is available, and demonstrated it is not materially inefficient.
3. Trend	TasNetworks met this expectation. It broadly applied our standard approach to forecast the trend for price, output and productivity growth, but we have identified some inconsistencies in the detailed application.
4. Step changes	TasNetworks largely met this expectation. It proposed a limited number of step changes (insurance premiums and cyber security) which at a high level are reasonably well justified. It does not appear to have consulted with customers on these step changes.
5. Category specific forecasts	TasNetworks met this expectation. It only proposed debt raising costs as a category specific forecast and has applied our standard forecasting approach.
6. Genuine consumer engagement on operating expenditure forecasts	TasNetworks did not appear to consult widely on its opex proposals, but considered it responded to the 'affordable for all' theme customers raised via its efficient base year opex and 3.0% productivity growth improvements in 2024–25. The AER's Consumer Challenge Panel 27 (CCP27) noted it was not aware of any in-depth engagement on opex step changes. ⁷

6.2 TasNetworks' proposal

TasNetworks' proposal applied a "base-step-trend" approach to forecast opex for the 2024–29 regulatory control period, consistent with our standard approach.⁸

In applying our base step trend approach to forecast opex, TasNetworks:

- used reported opex in 2021–22 as the base from which to forecast (\$36.6 million (\$2023–24) or \$182.9 million (\$2023–24) over the next regulatory control period)

⁷ Consumer Challenge Panel 27 (CCP27), *Advice to AER – 2024–29 Combined Regulatory Proposal – TasNetworks*, received May 2023, pp. 17, 19.

⁸ TasNetworks, *Combined Proposal 2024–2029, Attachment 8 Operating Expenditure*, January 2023, p. 3.

- added an estimate of the difference between the base year opex and the opex it will incur in the final year of the current regulatory control period, increasing opex by \$1.9 million (\$2023–24)
- applied its overall rate of change forecast to its final year adjusted opex estimate, decreasing opex by \$1.9 million (\$2023–24). This included:
 - output growth (\$1.8 million (\$2023–24))
 - price growth (\$3.6 million (\$2023–24))
 - productivity growth (–\$7.3 million (\$2023–24))
- added two step changes totalling \$22.1 million (\$2023–24) for:
 - insurance premiums (\$6.7 million (\$2023–24))
 - cyber security costs (\$15.4 million (\$2023–24))
- added \$4.2 million (\$2023–24) for debt raising costs to arrive at a total opex forecast of \$209.2 million (\$2023–24) over the 2024–29 regulatory control period (see Table 6.3).

Table 6.3 TasNetworks’ opex for the 2024–29 period (\$million, 2023–24)

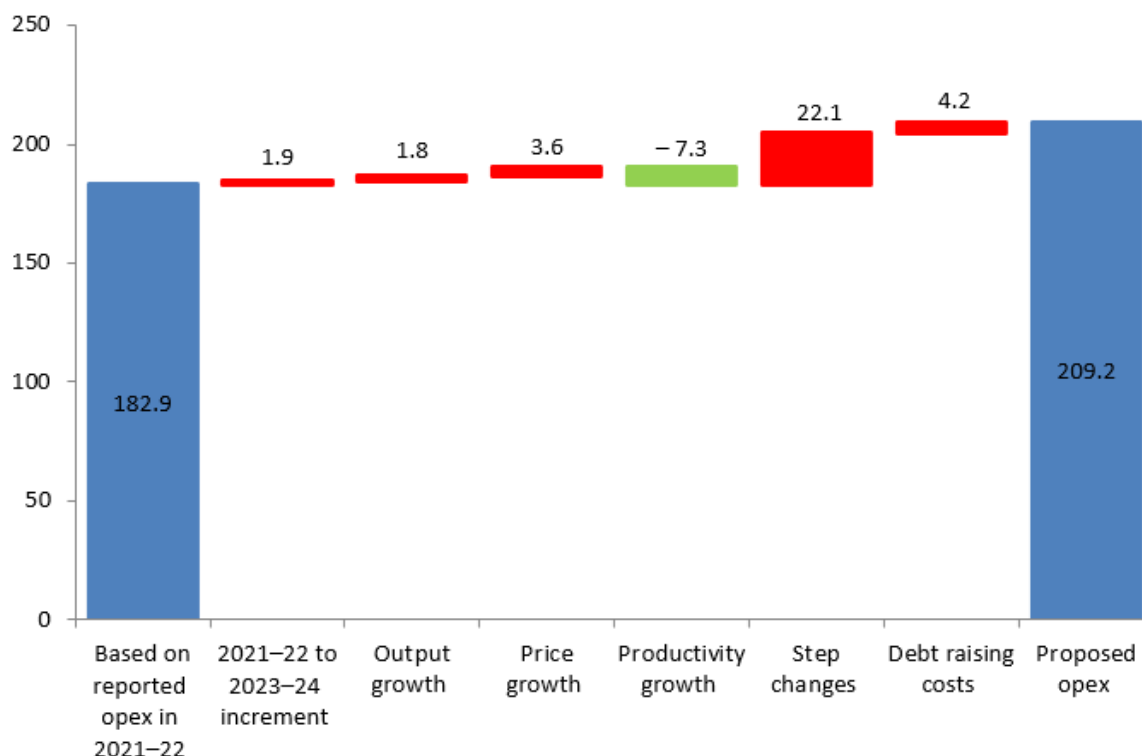
	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Total opex excluding debt raising costs	38.9	40.7	41.7	41.8	41.8	205.0
Debt raising costs	0.9	0.8	0.8	0.8	0.8	4.2
Total opex, including debt raising costs	39.8	41.6	42.5	42.7	42.7	209.2

Source: TasNetworks, *2024–2029 Post Tax Revenue Model – Prescribed*, December 2022; TasNetworks, *2024–2029 Operating Expenditure Model – Prescribed*, December 2022.

Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '-0.0' represent small non-zero amounts and '-' represents zero.

Figure 6.2 shows the different components that make up TasNetworks’ opex forecast for the 2024–29 period.

Figure 6.2 TasNetworks' proposed opex (\$million, 2023–24)



Source: TasNetworks, *2024–2029 Operating Expenditure Model – Prescribed*, December 2022; AER analysis.
 Note: Numbers may not add up to totals due to rounding.

6.2.1 Stakeholder views

We received three submissions on TasNetworks' proposal which discussed opex issues related to total opex, productivity growth, step changes and consumer engagement.

We have taken these submissions into account in developing the positions set out in this draft decision. Table 6.4 summarises the stakeholder issues raised in the submissions in relation to opex.

Table 6.4 Submissions on TasNetworks' 2024–29 opex proposal

Stakeholder(s)	Issue	Description
Tasmanian Small Business Council ⁹	Total opex	Tasmanian Small Business Council raised concerns over the real increases of TasNetworks' 2024–29 proposed total opex compared to that spent in the 2019–24 period. It considered this increasing opex needs to be adequately justified as small businesses are currently under cost pressures.

⁹ Tasmanian Small Business Council, *Submission – 2024–29 Combined Regulatory Proposal – TasNetworks*, received May 2023, p. 24.

Stakeholder(s)	Issue	Description
Tasmanian Small Business Council ¹⁰ , Tasmanian Minerals, Manufacturing and Energy Council ¹¹ , Consumer Challenge Panel 27 ¹²	Rate of change/trend	Tasmanian Small Business Council welcomed TasNetworks' proposed productivity growth of 3.0% in 2024–25 and 0.5% per annum for the remainder of the regulatory control period, but it questioned the lower rate in years 2–5, which is below the transmission sector average of 0.6%. Tasmanian Minerals, Manufacturing and Energy Council was also concerned the 3.0% productivity growth in 2024–25 decreased to 0.5% in subsequent years, noting that TasNetworks has significant restructuring and role reductions underway. CCP27 questioned whether the 3.0% productivity growth in 2024–25 adequately reflects savings achieved by TasNetworks through their transformation programs.
Tasmanian Small Business Council ¹³	Step changes	Tasmanian Small Business Council noted the step changes for insurance premiums and cybers security need to be examined in detail to ensure that they are prudent and efficient.
Consumer Challenge Panel 27 ¹⁴	Consumer engagement	Overall CCP27 noted that TasNetworks genuinely engaged with its customers and stakeholders and this was of a high standard, and this highlighted the affordability concern of consumers. CCP27 also noted that it was unaware of any in-depth engagement with consumers or other consumer representatives on opex forecasts, including opex step changes and were unable to comment further in this regard.

6.3 Assessment approach

Our role is to decide whether to accept a business's total opex forecast. We are to form a view about whether a business's forecast of total opex 'reasonably reflects the opex criteria'.¹⁵ In doing so, we must have regard to the opex factors specified in the National Electricity Rules (NER).¹⁶

¹⁰ Tasmanian Small Business Council, *Submission – 2024–29 Combined Regulatory Proposal – TasNetworks*, received May 2023, p. 24.

¹¹ Tasmanian Minerals, Manufacturing and Energy Council, *Submission – 2024–29 Combined Regulatory Proposal – TasNetworks*, received May 2023, p. 2.

¹² Consumer Challenge Panel 27, *Advice to AER – 2024–29 Combined Regulatory Proposal – TasNetworks*, received May 2023, pp. 17–18.

¹³ Tasmanian Small Business Council, *Submission – 2024–29 Combined Regulatory Proposal – TasNetworks*, received May 2023, p. 24.

¹⁴ Consumer Challenge Panel 27, *Advice to AER – 2024–29 Combined Regulatory Proposal – TasNetworks*, received May 2023, pp. 6–7, 19.

¹⁵ NER, cl. 6A.6.6(c).

¹⁶ NER, cl. 6A.6.6(e).

The *Expenditure Forecast Assessment Guideline* (the Guideline), together with an explanatory statement, sets out our assessment approach in detail.¹⁷ While the Guideline provides for greater regulatory predictability, transparency and consistency, it is not mandatory. However, if we make a decision that is not in accordance with the Guideline, we must state the reasons for departing from the Guideline.¹⁸

Our approach is to assess the business's forecast opex over the regulatory control period at a total level, rather than to assess individual opex projects. To do so, we develop an alternative estimate of total opex using a 'top-down' forecasting method, known as the 'base–step–trend' approach.¹⁹ We compare our alternative estimate with the business's total opex forecast to form a view on the reasonableness of the business's proposal. If we are satisfied the business's forecast reasonably reflects the opex criteria, we accept the forecast.²⁰ If we are not satisfied, we substitute the business's forecast with our alternative estimate that we are satisfied reasonably reflects the opex criteria.²¹

In making this decision, we take into account the reasons for the difference between our alternative estimate and the business's proposal, and the materiality of the difference. Further, we take into consideration interrelationships between opex and the other building block components of our decision.²²

Figure 6.3 summarises the base–step–trend forecasting approach.

¹⁷ AER, *Expenditure forecast assessment guideline for electricity transmission*, November 2013; AER, *Explanatory statement – Expenditure forecast assessment guideline*, November 2013.

¹⁸ NER, cl. 6A.2.3(c).

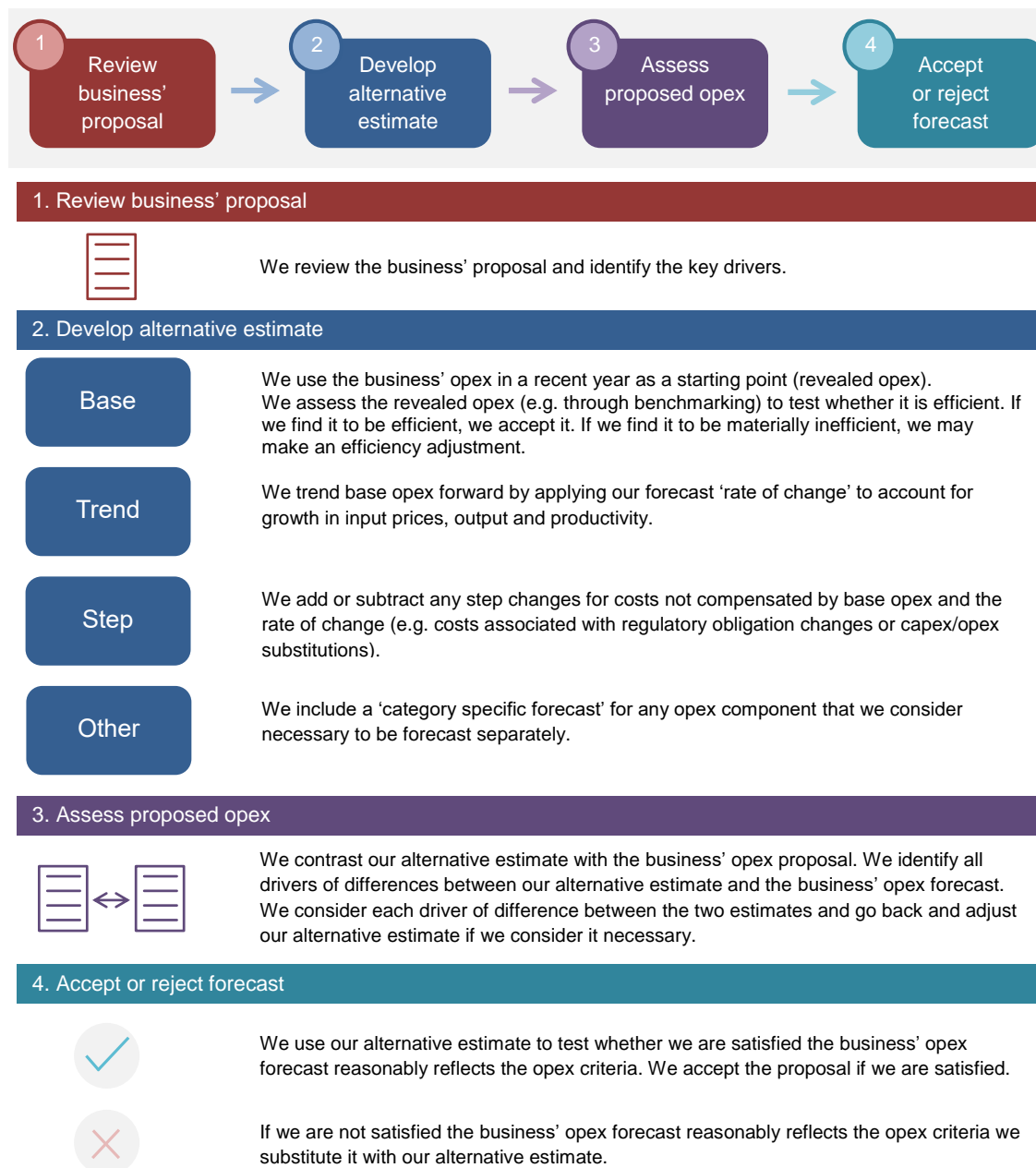
¹⁹ A 'top-down' approach forecasts total opex at an aggregate level, rather than forecasting all individual projects or categories to build a total opex forecast from the 'bottom up'.

²⁰ NER, cl. 6A.6.6(c).

²¹ NER, cl. 6A.6.6(d) and cl. 6A.14.1(3)(ii).

²² NEL, s. 16(1)(c).

Figure 6.3 Our opex assessment approach



6.3.1 Interrelationships

In assessing TasNetworks' total forecast opex we also take into account other components of its proposal that could interrelate with our opex decision. The matters we considered in this regard included:

- the EBSS carryover—the estimate of opex for 2023–24 (the final year of the current regulatory control period) that we use to forecast opex should be the same as the level of opex used to calculate EBSS carryover amounts. This consistency ensures that the business is rewarded (or penalised) for any efficiency gains (or losses) it makes in the final year the same as it would for gains or losses made in other years

- the operation of the EBSS in the 2019–24 regulatory control period, which provided TasNetworks an incentive to reduce opex in the base year
- the impact of cost drivers that affect both forecast opex and forecast capital expenditure (capex). For instance, forecast labour price growth affects forecast capex and our forecast of price growth used to estimate the rate of change in opex
- the approach to assessing the rate of return, to ensure there is consistency between our determination of debt raising costs and the rate of return building block
- the outcomes of TasNetworks' engagement with consumers and stakeholders in developing its proposal and any feedback we have had.

6.4 Reasons for draft decision

Our draft decision is to accept TasNetworks' total opex forecast of \$209.2 million (\$2023–24), including debt raising costs, for the 2024–29 regulatory control period. Our alternative estimate of \$210.7 million (\$2023–24) is not materially different (\$1.5 million (\$2023–24) or 0.7% higher) from TasNetworks' total opex forecast proposal. Therefore, we are satisfied that TasNetworks' total opex forecast satisfies the opex criteria, having regard to the opex factors.²³

Table 6.1 above sets out TasNetworks' proposal, our alternative estimate that is the basis for the draft decision, and the difference between our alternative estimate and the proposal. The main drivers for the differences are also set out in Section 6.1 and we discuss each of the components of our alternative estimate, and our assessment of TasNetworks' proposal, below. Full details of our alternative estimate are set out in our opex model, which is available on our website.

6.4.1 Base opex

This section provides our view on the prudent and efficient level of base opex that we consider TasNetworks would need for the safe and reliable provision of services over the 2024–29 regulatory control period.

We discuss the choice of base year in section 6.4.1.1 and set out our analysis of the efficiency of base year opex in section 6.4.1.2.

6.4.1.1 Proposed base year

TasNetworks proposed a base year of 2021–22 and base year opex of \$36.6 million (\$2023–24) or \$182.9 million (\$2023–24) over the five years of the next regulatory control period. The base year is the third year of the current regulatory control period and the most recent completed financial year at the time of TasNetworks' proposal. TasNetworks stated that it represents a reasonable and efficient level of expenditure based on historic benchmarking outcomes, and it is not impacted by one-off transformation costs expected to be incurred in 2022–23.²⁴

²³ NER, cl. 6A.6.6(c) and cl. 6A.6.6(e).

²⁴ TasNetworks, *Combined Proposal 2024–2029, Attachment 8 Operating Expenditure*, January 2023, p. 6.

Consistent with our preferred approach, we consider 2021–22 is an appropriate base year. This is because it is based on actual opex and we consider it is representative of base opex required for the next regulatory control period. While there will be year to year fluctuations in reported opex over the current regulatory control period, due to the interaction with the EBSS, we do not have concerns with the choice of base year, provided we find TasNetworks' opex in the base year to be efficient.

In our alternative estimate we have updated opex in 2021–22 to \$37.2 (\$2023–24) or \$186 million (\$2023–24) over the next regulatory control period. This is due to:

- the use of different actual and forecast inflation. We have used the latest actual inflation published by the Australian Bureau of Statistics (ABS) and inflation forecasts published by the RBA.²⁵ We consider these inflation values are the best possible inflation values in the circumstances as they are the most up-to-date information available at the time
- updated opex to include movement in provisions used to determine actual/estimated opex
- the use of updated total opex for 2021–22 which TasNetworks submitted after making its proposal. TasNetworks identified an error in its reported Network Transmission Planning (NTP) Fees for the Transmission Regulatory Information Notices in 2021–22. While these costs are not included in opex costs, as outlined below the incorrect allocation of corporate overheads to NTP Fees meant that opex costs in 2021–22 were too low. NTP costs for 2021–22 were reported as \$1.7 million (\$nominal), but TasNetworks subsequently advised the actual costs incurred were \$1.5 million (\$nominal). The discrepancy of \$0.2 million (\$nominal) was due to overheads being incorrectly allocated to the NTP costs, which are recovered (and reported) through TasNetworks' annual transmission pricing as required by the NER.²⁶ It is noted that NTP Fees do not form a part of opex but overheads do. TasNetworks therefore made a change to its Regulatory Information Notices to adjust for this discrepancy and re-allocated the corporate overhead costs to opex instead of the NTP costs, resulting in an increase in opex of \$0.2 million (\$nominal) in 2021–22.

6.4.1.2 Efficiency of TasNetworks' base opex

As summarised in section 6.3, and in the Guideline, our preferred approach for forecasting opex is to use a revealed cost approach. This is because opex is largely recurrent and stable at a total level. Where a transmission business is responsive to the financial incentives under the regulatory framework, the actual level of opex it incurs should provide a good estimate of the efficient costs required for it to operate a safe and reliable network and meet its relevant regulatory obligations. However, we do not rely on a priori assumption that the business's revealed opex is efficient. We examine the trend in opex and use our top-down benchmarking tools, and other assessment techniques, to test whether the business is operating efficiently historically and particularly in the base year.

²⁵ Australian Bureau of Statistics (ABS), *Consumer Price Index, Australia, released on 26 July 2023* (Accessed on 27 July 2023: <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/jun-quarter-2023>); Reserve Bank of Australia, *Statement on monetary policy, August 2023* (Accessed on 4 August 2023: <https://www.rba.gov.au/publications/smp/2023/aug/forecasts.html>).

²⁶ TasNetworks, *Response to AER information request meeting 13 Jul 2023*, received 20 July 2023, p. 5.

We consider 2021–22 opex is relatively efficient as indicated by its opex trend over time and our benchmarking results, and we have used the 2021–22 revealed cost to develop our alternative estimate.

In terms of the trend in opex, as shown in Figure 6.1, TasNetworks' opex has been relatively stable over the first three years of the current regulatory control period and is expected to continue this performance in the remainder period. TasNetworks underspent its allowance by \$3.4 million (\$2023–24) or 9.3% in 2019–20, and overspent its allowance by \$0.1 million (\$2023–24) or 0.3% in 2020–21. TasNetworks' base year actual opex in 2021–22 was \$0.01 million (\$2023–24) or 0.02% lower than the allowance we approved for that year.

Overall, TasNetworks' actual opex has been steadily reducing since 2009–10 (and been less than the AER's forecasts), but some plateauing has been observed in the current period where actual/estimated opex is broadly in line with the forecast. In the current regulatory control period, TasNetworks' actual average annual opex (2019–20 to 2021–22) of \$35.3 million (\$2023–24) is \$6.2 million (\$2023–24) lower than actual average annual opex for the 2014–19 regulatory control period and \$29.3 million (\$2023–24) lower than that for the 2009–14 regulatory control period.

We have used a variety of economic benchmarking tools to test the efficiency of TasNetworks' opex. Benchmarking broadly refers to the practice of comparing the economic performance of a group of service providers that all provide the same service as a means of assessing their relative performance. Our annual benchmarking reports include information about the use and purpose of economic benchmarking, and details about the techniques we use to benchmark the efficiency of transmission businesses in the National Electricity Market (NEM).²⁷

Our preferred approach is to benchmark a transmission business's efficiency on the basis of its performance over time (using our opex multilateral total and partial factor productivity (MTFP and MPFP) models). We consider that this is a better approach than looking at the efficiency of a single year (such as the base year) as this recognises that opex is generally recurrent, but with some degree of year-to-year fluctuations.

Our MTFP and MPFP benchmarking analysis for electricity transmission networks is limited by the small sample size of transmission businesses in the NEM, and the availability of relevant international data, among other things. It also does not take into account all the operating environment factor differences between the networks. Reflecting this, we have taken the benchmarking analysis into account but not solely relied on it in forming a view on the efficiency of TasNetworks' 2021–22 actual opex.

Our benchmarking results show that TasNetworks has consistently been amongst the most productive and efficient transmission businesses in the NEM over the last twelve years. Our *2022 Annual Benchmarking Report* for transmission shows, relative to other regulated transmission businesses in the NEM, TasNetworks:

²⁷ AER, *2022 Annual Benchmarking report – Electricity transmission network service providers*, November 2022.

- was first in terms of MTFP which measures the relationship between total output and total input (i.e. capital assets and opex) over the 2012–21 period²⁸
- was second or third in terms of opex efficiency when measured using our opex MPFP models²⁹ over the 2015–21 period³⁰
- performed well for various total cost and cost category partial performance indicators (PPIs) over the 2017–21 period.³¹

Our analysis shows that TasNetworks has consistently been amongst the better performers in our benchmarking results and that it has operated within the opex forecast set by us. As a result, for this draft decision we have used TasNetworks' base year opex in our alternative estimate.

6.4.2 Adjustments to base year opex

TasNetworks did not propose any adjustments to its 2021–22 base year opex, including for any non-recurrent or one-off expenditure items.³² We agree with this approach.

6.4.2.1 Final year increment

Our standard practice to calculate final year opex is to add the estimated change in opex between the base year (2021–22) and the final year (2023–24) of the current regulatory control period to the base year opex amount.³³

We have included \$1.9 million (\$2023–24) for the final year increment in our alternative estimate, which is the same as TasNetworks' proposed amount of \$1.9 million (\$2023–24). A very minor difference occurred in our estimate due to adjustments for the latest inflation.

6.4.3 Rate of change

Having determined an efficient starting point, or base opex, we trend it forward to account for the forecast growth in prices, output and productivity. We refer to this as the rate of change.³⁴

TasNetworks broadly applied our standard approach to forecasting the rate of change. It proposed:³⁵

- **Price growth:** to adopt firm specific input price weightings of 70.4% labour and 29.6% non-labour and to forecast labour price growth using only BIS Oxford Economics' all

²⁸ AER, *2022 Annual Benchmarking report – Electricity transmission network service providers*, November 2022. pp. 22–24.

²⁹ MPFP examines the productivity of opex and capex in isolation. Opex MPFP considers the productivity of the transmitter's operating expenditure.

³⁰ AER, *2022 Annual Benchmarking report – Electricity transmission network service providers*, November 2022. pp. 25–26.

³¹ AER, *2022 Annual Benchmarking report – Electricity transmission network service providers*, November 2022. pp. 27–30.

³² TasNetworks, *Combined Proposal 2024–2029, Attachment 8 Operating Expenditure*, January 2023, p. 8.

³³ AER, *Expenditure forecast assessment guideline for electricity transmission*, November 2013, pp. 24–25.

³⁴ AER, *Expenditure forecast assessment guideline for electricity transmission*, November 2013, pp. 25–26.

³⁵ TasNetworks, *Combined Proposal 2024–2029, Attachment 8 Operating Expenditure*, January 2023, pp. 10–12.

industries real wage price index (WPI) growth forecasts for Tasmania. It also added the legislated superannuation guarantee increases to its labour price growth forecasts.

- **Output growth:** to apply the weights from our opex MPFP benchmarking model.
- **Productivity growth:** to use productivity growth forecast of 3.0% in 2024–25 and 0.5% per annum for the remainder of the 2024–29 regulatory control period.

The rate of change proposed by TasNetworks contributed –\$1.9 million (\$2023–24), or –0.9%, to its total opex forecast of \$209.2 million (\$2023–24). This equates to opex decreasing by an average of 0.2% each year. We have included a rate of change that increases opex by an average of 0.4% each year in our alternative estimate.

We compare both forecasts in Table 6.5, and the reasons for the differences are set out below.

Table 6.5 Forecast annual rate of change in opex, %

	2024–25	2025–26	2026–27	2027–28	2028–29
TasNetworks' proposal					
Price growth	0.9	0.9	0.4	0.2	0.4
Output growth	0.4	0.4	0.4	0.2	0.1
Productivity growth	3.0	0.5	0.5	0.5	0.5
Rate of change	–1.8	0.7	0.3	–0.1	0.0
AER's alternative estimate					
Price growth	0.7	0.9	0.6	0.6	0.7
Output growth	0.4	0.4	0.4	0.2	0.1
Productivity growth	0.6	0.6	0.6	0.6	0.6
Rate of change	0.5	0.7	0.4	0.3	0.2
Difference	2.2	0.0	0.1	0.3	0.3

Source: TasNetworks, *2024–2029 Operating Expenditure Model – Prescribed*, December 2022; AER analysis.

Note: Numbers may not add up to totals due to rounding. Amounts of '0.0' and '–0.0' represent small non-zero values and '–' represents zero.

6.4.3.1 Forecast price growth

TasNetworks proposed average annual price growth of 0.6%, which increased its total opex forecast by \$3.6 million (\$2023–24). We have used real average annual price growth of 0.7% in our alternative estimate of total opex. This increases our total opex alternative estimate by \$4.3 million (\$2023–24).

Both we and TasNetworks forecast price growth as a weighted average of forecast labour price growth and non-labour price growth:

- both we and TasNetworks applied a forecast non-labour real price growth rate of zero.

- both we and TasNetworks have applied the same weights to account for the proportions of opex that is labour and non-labour, 70.4% and 29.6%, respectively.

Consequently, the key difference between our real price growth forecasts and TasNetworks' is that we have used our standard approach of an average of two real WPI growth forecasts for the electricity, gas, water and waste services (EGWWS) or utilities industry in Tasmania to forecast labour price growth. Specifically, we have used an average of forecasts (Tasmania utilities WPI) from our consultant KPMG³⁶ and the BIS Oxford Economics forecasts (EGWWS WPI - Tasmania) submitted by TasNetworks. This differs from TasNetworks who applied an estimate from its consultant, BIS Oxford Economics, in relation to the all industries WPI for Tasmania.

Table 6.6 compares our forecast labour price growth with TasNetworks' proposal.

Table 6.6 Forecast labour price growth, %

	2024–25	2025–26	2026–27	2027–28	2028–29
TasNetworks' proposal					
BIS Oxford Economics*	0.8	0.7	0.6	0.3	0.5
Superannuation guarantee increases	0.5	0.5	–	–	–
BIS Oxford Economics, including superannuation guarantee increases	1.3	1.2	0.6	0.3	0.5
AER's alternative estimate					
KPMG	0.0	0.6	1.0	1.2	1.3
BIS Oxford Economics**	1.1	1.1	0.8	0.6	0.8
Average	0.5	0.8	0.9	0.9	1.0
Superannuation guarantee increases	0.5	0.5	–	–	–
Average, including superannuation guarantee increases	1.0	1.3	0.9	0.9	1.0
Overall difference	–0.3	0.1	0.3	0.6	0.5

Source: TasNetworks, *2024–2029 Operating Expenditure Model – Prescribed*, December 2022; KPMG, *WPI forecast report*, August 2023, p. 38; AER analysis.

Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '–0.0' represent small non-zero amounts and '–' represents zero. *All Industry – real wage changes – WPI – Tasmania. **EGWWS – real wage changes – WPI – Tasmania.

³⁶ KPMG, *WPI forecast report*, August 2023, p. 38.

We will receive updated labour price growth forecasts for the purpose of our final decision, and will update our price growth forecasts in the final decision to reflect this update.

6.4.3.2 Forecast output growth

TasNetworks proposed average annual output growth of 0.3%, which increased its proposed total opex forecast by \$1.8 million (\$2023–24). We have also forecast average annual output growth of 0.3%. This increases our alternative estimate of total opex by \$1.9 million (\$2023–24). The output growth in our alternative estimate is slightly higher than in TasNetworks' forecast because we have applied output growth to a higher base opex amount.

We and TasNetworks have forecast output growth by:

- forecasting the growth rates for four outputs (customer numbers, circuit length, ratcheted maximum demand, and energy throughput)
- calculating the weighted average of output growth rates using the output weights from the opex MPFP benchmarking model in our *2022 Annual Benchmarking Report* for transmission.

We discuss these below.

6.4.3.2.1 Forecast growth of the individual output measures

We are satisfied that TasNetworks' forecast of the growth in customer numbers, circuit length, ratcheted maximum demand, and energy throughput reflect a realistic expectation and are largely consistent with forecast trends from external sources that have been previously tested and validated or historical growth rates. Specifically:

- **Customer numbers:** TasNetworks used forecast distribution customer numbers as a proxy for transmission customer connection points for the 2024–29 regulatory control period. It included a forecast average annual customer numbers growth of 1% in its transmission opex estimate for the 2024–29 regulatory control period. TasNetworks subsequently advised that it inadvertently included unmetered supplies in the customer numbers in its transmission opex model.³⁷ As a result we have used distribution forecast customer numbers excluding unmetered customers in our alternative estimate from TasNetworks' 2024–29 distribution Reset RIN.³⁸
- **Circuit length:** TasNetworks forecast zero growth in its circuit length over the 2024–29 regulatory control period, consistent with its historical growth rate.
- **Ratcheted maximum demand:** TasNetworks forecast zero growth in the ratcheted maximum demand for each individual transmission connection point over the 2024–29 regulatory control period, as it did not expect maximum demand to surpass the level achieved in 2006–07. We consider this outcome reasonable as it is consistent with the central scenario in the Australian Energy Market Operator's (AEMO's) 2023 Electricity Statement of Opportunities (2023 ESOO),³⁹ which forecast maximum demand in

³⁷ TasNetworks, *Response to AER's information request: IR#036 – Opex, base, trend, category specific forecast and EBSS*, received 9 June 2023, p. 8.

³⁸ TasNetworks (D), *2024–2029 Workbook 1 Forecast*, December 2022, Table 6.2.4.

³⁹ AEMO, *2023 Electricity Statement of opportunities*, August 2023, pp. 147–48.

Tasmania to remain relatively flat in the short to medium term. We discuss our maximum demand forecasts further in Attachment 5.

- **Energy throughput:** TasNetworks used the forecast growth in energy throughput for the Tasmanian network plus net imports.⁴⁰ It forecast a positive growth for energy delivered within Tasmania in each year of the 2024–29 regulatory control period, with an average annual increase of 1.5%. We consider TasNetworks forecast reasonable as it broadly aligns with the trend reflected in the central scenario of AEMO’s 2023 ESOO.⁴¹

We and TasNetworks have used the same growth forecasts of the individual output measures as reported in Table 6.7.

Table 6.7 Forecast growth in individual output measures, %

	2024–25	2025–26	2026–27	2027–28	2028–29
Customer numbers	1.0	1.0	1.0	1.0	1.0
Circuit length	0.0	0.0	0.0	0.0	0.0
Ratcheted maximum demand	–	–	–	–	–
Energy throughput	1.9	2.1	2.0	1.1	0.2

Source: TasNetworks, *2024–2029 Operating Expenditure Model – Prescribed*, December 2022; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '-0.0' represent small non-zero amounts and '-' represents zero.

6.4.3.2.2 Output weights

The output weights that both we and TasNetworks have used are set out in Table 6.8. These are the weights from our *2022 Annual Benchmarking Report* for transmission.⁴²

Table 6.8 Output weights

Customer numbers	Circuit length	Ratcheted maximum demand	Energy throughput
7.6%	52.8%	24.7%	14.9%

Source: TasNetworks, *2024–2029 Operating Expenditure Model – Prescribed*, December 2022.

We will publish our *2023 Annual Benchmarking Report* for transmission in late November 2023. In our final decision, we will update our output growth rate forecasts to reflect the output weights in the *2023 Annual Benchmarking Report*. Full details of our approach to forecasting output growth are set out in our opex model, which is available on our website.

6.4.3.3 Forecast productivity growth

TasNetworks proposed productivity growth of 3.0% in 2024–25 and 0.5% per annum for the remainder of the regulatory control period. It stated the 3.0% productivity growth in 2024–25

⁴⁰ TasNetworks, *Combined Proposal 2024–2029, Attachment 8 Operating Expenditure*, January 2023, p. 11.

⁴¹ AEMO, *2023 Electricity Statement of opportunities*, August 2023, pp. 147–48.

⁴² AER, *2022 Annual Benchmarking report – Electricity transmission network service providers*, November 2022. p. 2.

represents forecast opex reductions from its transformation program being implemented in 2022–23 and 2023–24, and results in an average productivity growth of 1.0% for the 2024–29 regulatory control period.⁴³ This is higher than the transmission industry average estimated in our *2022 Annual Benchmarking Report* for transmission over the long term of 0.6%.

Based on the opex MPFP growth for transmission over the 2006–21 period⁴⁴, we have included forecast productivity growth of 0.6% per year in our alternative estimate for the 2024–29 regulatory control period. This means that our productivity growth forecast is higher (less negative) than TasNetworks' proposed. This increases our alternative estimate of total opex by \$4.0 million (\$2023–24). We consider the forecast we have used, which reflects average historical transmission industry productivity growth, is appropriate.

In its submission to TasNetworks' proposal, the Tasmanian Small Business Council raised concern over the lower rate of annual productivity growth in years 2 to 5 of the 2024–29 regulatory control period, which is below the transmission sector average of 0.6%.⁴⁵ CCP27 also questioned whether the 3.0% productivity growth in 2024–25 adequately reflects savings achieved by the businesses through TasNetworks' transformation programs.⁴⁶ We have reviewed these arguments and note TasNetworks' proposed average annual productivity over the next regulatory control period (1.0%) is higher than our standard approach of using an average annual productivity growth rate forecast 0.6%. Therefore, TasNetworks is proposing productivity growth greater than our best estimate.

6.4.4 Step changes

In developing our alternative estimate for the draft decision, we include prudent and efficient step changes for cost drivers such as new regulatory obligations or efficient capex / opex trade-offs. As we explain in the Guideline for electricity, we will generally include a step change if the efficient base opex and the rate of change in opex of an efficient service provider does not already include the proposed cost for such items and they are required to meet the opex criteria.⁴⁷

TasNetworks' proposal included two step changes totalling \$22.1 million (\$2023–24) or 10.6% of its proposed total opex forecast. These are shown in Table 6.99 along with our alternative estimate for the draft decision, which is to include step changes totalling \$15.8 million (\$2023–24), being \$6.3 million (\$2023–24) lower than TasNetworks' proposal. While we consider these step changes are prudent, we consider our lower alternative estimates better reflect the efficient costs associated with these step changes. We discuss this below.

⁴³ TasNetworks, *Combined Proposal 2024–2029, Attachment 8 Operating Expenditure*, January 2023, p. 12.

⁴⁴ Quantonomics, *Benchmarking results for the AER – Transmission*, November 2022, p. 65.

⁴⁵ Tasmanian Small Business Council, *Tasmanian Small Business Council – Submission – 2024–29 Combined Regulatory Proposal – TasNetworks*, received May 2023, p. 24.

⁴⁶ Consumer Challenge Panel 27, *Advice to AER – 2024–29 Combined Regulatory Proposal – TasNetworks*, received May 2023, pp. 17–18.

⁴⁷ AER, *Expenditure forecast assessment guideline for electricity transmission*, November 2013, p. 26.

Table 6.9 TasNetworks' proposed step changes and the AER's alternative estimate (\$million, 2023–24)

Step change	TasNetworks' proposal	AER's alternative estimate	Difference
Insurance premiums	6.7	4.7	-1.9
Cyber security	15.4	11.0	-4.4
Total step changes	22.1	15.8	-6.3

Source: TasNetworks, *2024–2029 Operating Expenditure Model – Prescribed*, December 2022; AER analysis.
Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '-0.0' represent small non-zero amounts and '-' represents zero.

6.4.4.1 Insurance premiums step change

TasNetworks proposed a step change of \$6.7 million (\$2023–24) for an increase in insurance premiums over the 2024–29 regulatory control period.⁴⁸ This was for the significant forecast increases of insurance premiums, which TasNetworks considered were not captured in the opex in the base year or forecast rate of change. Our alternative estimate for the draft decision includes a forecast of \$4.7 million (\$2023–24) for the insurance premiums step change, which is \$1.9 million (\$2023–24) lower than TasNetworks' proposal.

We have included this step change in our alternative estimate as we consider the insurance premium increases results in forecast expenditure that is likely to be prudent and efficient.

Table 6.10 TasNetworks' Insurance premiums step change (\$million, 2023–24)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
TasNetworks' proposal	1.0	1.2	1.4	1.5	1.5	6.7
AER's alternative estimate	0.7	0.9	1.0	1.1	1.1	4.7
Difference	-0.3	-0.4	-0.4	-0.4	-0.4	-1.9

Source: TasNetworks, *Combined Proposal 2024–2029, Attachment 8 Operating expenditure*, January 2023, p. 9; AER analysis.

Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '-0.0' represent small non-zero amounts and '-' represents zero.

TasNetworks noted that like other TNSP's, it has experienced significant increases in insurance premiums in recent years due to continued extreme fire and flooding events and cyber security threats. TasNetworks engaged Lockton to provide insurance premium cost forecasts for the full spectrum of its insurance program, with Lockton expecting the trend of premium increases to continue over the 2024–29 regulatory control period across all risk classes given the prevailing insurance market conditions.⁴⁹

⁴⁸ TasNetworks, *Combined Proposal 2024–2029, Attachment 8 Operating expenditure*, January 2023, p. 9.

⁴⁹ TasNetworks, *Combined Proposal 2024–2029, Attachment 8 Operating expenditure*, January 2023, p. 9.

TasNetworks calculated the step change amount as the difference between the cost forecasts prepared by Lockton and the insurance cost in the base year (2021–22).⁵⁰

We recently engaged Taylor Fry to assess the prudence and efficiency of forecast insurance premiums for our 2023–28 ElectraNet and Transgrid revenue proposal determinations. We consider TasNetworks forecast insurance premiums, prepared by Lockton, are consistent with Taylor Fry's expectation of future premiums in that context, given prevailing market conditions. However, TasNetworks' insurance premium forecasts also factor in price growth for the property component of its insurance. That is, the premium increases are applied to property values escalated for non-labour (materials) increases. Step changes should not double count expenditure increases that are already compensated under the other components of opex (e.g. input price growth).

Our alternative estimate has therefore adjusted Lockton's projection of total insurance premium costs by removing the price growth being applied to property values. We have also applied our standard approach for the escalation of annual costs to real dollars, which TasNetworks agreed should be applied.⁵¹

Our assessment also considers the rate of change forecast, which includes an allowance for non-labour price growth of CPI, which covers any potential increases in costs like insurance premiums. We expect some non-labour components in opex will increase by more than CPI and some less than CPI. To the extent that higher insurance premiums rise by more than CPI, we expect this will to an extent be offset by other non-labour costs rising by less than CPI. We note, however, that there may be specific circumstances where it is appropriate to consider increasing costs of individual cost categories as they are increasing by more than CPI, particularly where they represent a material proportion of opex.

Our insurance premium step change alternative estimate of \$4.7 million (\$2023–24) represents 2.3% of our forecast alternative estimate of total opex. We consider this represents a material proportion of opex that is not captured in forecast rate of change.

In terms of stakeholder submissions, Tasmanian Small Business Council noted the step change for insurance premiums needs to be examined in detail to ensure that the costs are prudent and efficient.⁵² As set out above, we assessed the reasonableness of Lockton's forecast premium increases against our own independent forecasts prepared by Taylor Fry, and considered the expectations of future premium increase to be reasonable. We therefore are satisfied the proposed costs are efficient. Our assessment also considers the step change is prudent as the cost increases are a material proportion of opex, which are not captured in base opex or rate of change.

6.4.4.2 Cyber security step change

TasNetworks proposed a step change of \$15.4 million (\$2023–24) for cyber security over the 2024–29 regulatory control period.⁵³ This relates to TasNetworks uplifting its cyber security

⁵⁰ TasNetworks, *Combined Proposal 2024–29, Attachment 8 Operating expenditure*, January 2023, p. 9.

⁵¹ TasNetworks, *Response to Information request #039 – Insurance Question 2*, received 26 June 2023.

⁵² Tasmanian Small Business Council, *Submission – 2024–29 Combined Regulatory Proposal – TasNetworks*, received May 2023, p. 24.

⁵³ TasNetworks, *Combined Proposal 2024–29, Attachment 8 Operating expenditure*, January 2023, p. 10.

maturity under the Australian Energy Sector Cyber Security Framework (AESCSF) within the 2024–29 regulatory control period. Our alternative estimate for the draft decision includes a forecast of \$11.0 million (\$2023–24) for cyber security, which is \$4.4 million (\$2023–24) lower than TasNetworks' proposal.

We have included this step change in our alternative estimate. We consider that, within the context of the elevated and increasing cyber threat landscape, TasNetworks' proposed approach to invest in prioritised cyber security practices that go beyond Security Profile (SP) 2 maturity is prudent and consistent with good industry practice when assessed against the AESCSF's Electricity Critical Assessment Tool (E-CAT) criticality band ratings. We also consider, based on advice from our technical consultant EMCa, that our alternative estimate is likely to reasonably reflect efficient costs.

Table 6.11 TasNetworks' cyber security step change (\$million, 2023–24)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
TasNetworks' proposal	1.7	2.9	3.5	3.6	3.7	15.4
AER's alternative estimate	1.0	2.1	2.6	2.7	2.7	11.0
Difference	-0.6	-0.9	-1.0	-1.0	-1.0	-4.4

Source: TasNetworks, *Combined Proposal 2024–2029, Attachment 8 Operating expenditure*, January 2023, p. 9; EMCa, *TasNetworks 2024 to 2029 Regulatory Proposal – Review of proposed expenditure on ICT cyber security*, August 2023; AER analysis.

Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '-0.0' represent small non-zero amounts and '-' represents zero.

TasNetworks proposed a \$15.4 million (\$2023–24) step change for the increase in costs it considered was required in cyber tool subscription models and additional full time equivalent (FTE) roles to maintain and grow its cyber security capability.⁵⁴ TasNetworks stated that this will allow compliance with the enhanced cyber security obligations set out in the *Security of Critical Infrastructure Act 2018*.⁵⁵ TasNetworks engaged PwC to assist in its analysis of the cyber security uplift requirement, including assessing the proposed expenditure against industry benchmarks and best practices.

In April 2022 the *Security Legislation Amendment (Critical Infrastructure Protection) Act 2022* amended the *Security of Critical Infrastructure Act 2018*, requiring responsible entities to have and comply with a critical infrastructure risk management program (RMP). The RMP requires energy providers to meet obligations set out in the Australian Energy Market Operator's (AEMO) 2020-21 AESCSF Version 1 (V1) Framework Core, which requires entities to meet a cyber maturity level of SP-1.⁵⁶

AEMO's AESCSF V1 program also includes the Electricity Critical Assessment Tool (E-CAT), which is designed to assess the relative criticality of network service providers and other

⁵⁴ TasNetworks, *TN402 TasNetworks - Cyber Security Program of Work Investment Evaluation Summary - Oct 22 - Public*, October 2022, p. 20.

⁵⁵ TasNetworks, *Combined Proposal 2024–2029, Attachment 8 Operating expenditure*, January 2023, p. 10.

⁵⁶ Australian Government, *Security of Critical Infrastructure (Critical infrastructure risk management program) Rules (LIN 23/006)*, February 2023, Section 8.4.

participants in the electricity sector. E-CAT's criticality banding for the electricity sub-sector rates a transmission business with a high criticality rating.⁵⁷ The high criticality rating translates to guidance that a business should be achieving a SP-3 maturity level. AEMO also states that the E-CAT should be treated as general guidance only and that results obtained from the E-CAT do not indicate that an entity has obligations under or is compliant with applicable Commonwealth legislation.⁵⁸ In recent AER determinations for transmission cyber security step changes we have considered that is prudent and good industry practice that transmission businesses uplift their cyber security maturity above the legislative obligation (SP-1), which is consistent with the AESCSF's guidance.⁵⁹

To assist our assessment, we engaged EMCa to provide a technical review of TasNetworks' proposal. EMCa's overall finding is that it considered TasNetworks' cyber security program objectives were reasonable and its targets adequately justified. EMCa also considered that TasNetworks' cost forecasts were reasonably derived, however, it considered that it had included some expenditure items that are not cyber security related.⁶⁰

EMCa considered the inclusion of additional FTE roles for physical security and personnel vetting to be not appropriate for the cyber security opex step change, as they relate to other aspects of the RMP rules.⁶¹ EMCa also considered that it was reasonable to include a real cost escalation of an average of 20% over the next regulatory control period, to account for TasNetworks' likely costs in recruiting and retaining scarce cyber security FTEs. This was in lieu of TasNetworks' proposed 30% contingency.

The RMP rules contain obligations relating to protections with four key hazard vectors being physical security, cyber and information security, personnel and supply chain.⁶² We agree with EMCa that TasNetworks' proposed FTE roles for physical security and personnel vetting relate to other vectors of the RMP rules and are not required for TasNetworks to achieve its proposed maturity level relating to the cyber and information security vector. Therefore, we have not included these costs in our alternative estimate as TasNetworks has not provided sufficient information or evidence to support these roles being prudent or required in order to meet obligations under the *Security of Critical Infrastructure Act 2018*.

We consider, based on our review, EMCa's findings and the AESCSF's E-CAT criticality rating guidance, that it is prudent and good industry practice for TasNetworks as a transmission business to uplift its cyber security levels by investing in prioritised cyber security practices that go beyond the SP-2 maturity level in the 2024–29 regulatory control period. However, we are not satisfied that TasNetworks' proposal reflects the efficient costs required. We agree with EMCa's advice that an average real cost escalation of 20% over the next regulatory control period, to account for TasNetworks' likely costs in recruiting and

⁵⁷ AEMO, *AESCSF Electricity Criticality Assessment Tool (E-CAT)*, AESCSF V1

⁵⁸ AEMO, *AESCSF Framework Overview – 2022 program*, p. 3.

⁵⁹ AER, *Transgrid 2023-28 – Final decision – Attachment 6 Operating expenditure*, April 2023, pp. 14–16.
AER, *ElectraNet 2023-28 – Final decision – Attachment 6 – Operating expenditure*, April 2023, p. 21.

⁶⁰ EMCa, *TasNetworks 2024 to 2029 Regulatory Proposal – Review of proposed expenditure on ICT cyber security*, August 2023, p. 18.

⁶¹ EMCa, *TasNetworks 2024 to 2029 Regulatory Proposal – Review of proposed expenditure on ICT cyber security*, August 2023, p. 25.

⁶² Australian Government, *CISC Factsheet – Risk Management Program*, August 2022, p. 2.

retaining scarce cyber security FTEs, is a reasonable cost escalation rate to apply and more likely to reflect efficient costs.

Our alternative estimate of \$11.0 million (\$2023–24) has removed the expenditure related to the physical security and personnel vetting costs and also applied a cost escalation rate of 20% to calculate incremental FTE costs. We have also corrected TasNetworks' inflation indexation, to apply the correct inflation rates to convert TasNetworks' proposed expenditure into \$2023–24.

In terms of stakeholder submissions, the Tasmanian Small Business Council noted the step change for cyber security needs to be examined in detail to ensure that the costs are prudent and efficient costs.⁶³

6.4.5 Category specific forecast

TasNetworks' proposal included debt raising costs as a category specific forecast, which was not forecast using the base-step-trend approach.⁶⁴ We have included category specific forecast for debt raising costs in our alternative estimate of total opex.

6.4.5.1 Debt raising costs

We have included debt raising costs of \$4.3 million (\$2023–24) in our alternative estimate. This is \$0.1 million (\$2023–24) higher than the \$4.2 million (\$2023–24) proposed by TasNetworks.⁶⁵

Table 6.12 Debt raising costs (\$million, 2023–24)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
TasNetworks' proposal	0.9	0.8	0.8	0.8	0.8	4.2
AER's alternative estimate	0.9	0.9	0.9	0.9	0.8	4.3
Difference	0.0	0.0	0.0	0.0	0.0	0.1

Source: TasNetworks, *Combined Proposal 2024–2029, Attachment 8 Operating expenditure*, January 2023, p. 13.; AER analysis.

Note: Numbers may not add up to totals due to rounding. Values of '0.0' and '-0.0' represent small non-zero amounts and '-' represents zero.

Debt raising costs are transaction costs incurred each time a business raises or refinances debt. Our preferred approach is to forecast debt raising costs using a benchmarking approach rather than a service provider's actual costs in a single year. This provides consistency with the forecast of the cost of debt in the rate of return building block.

We used our standard approach to forecast debt raising costs, which is discussed further in Attachment 3 to the draft decision.

⁶³ Tasmanian Small Business Council, *Submission – 2024–29 Combined Regulatory Proposal – TasNetworks*, received May 2023, p. 24.

⁶⁴ TasNetworks, *Combined Proposal 2024–2029, Attachment 8 Operating expenditure*, January 2023, p. 13.

⁶⁵ TasNetworks, *Combined Proposal 2024–2029, Attachment 8 Operating expenditure*, January 2023, p. 13.

Shortened forms

Term	Consideration
ABS	Australian Bureau of Statistics
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulatory
AESCSF	Australian Energy Sector Cyber Security Framework
capex	Capital expenditure
CCP27	Consumer Challenge Panel, sub-panel 27
CPI	Consumer price index
EBSS	Efficiency benefit sharing scheme
EMCa	Energy Market Consulting associates
ESOO	Electricity Statement of Opportunities
the Guideline	Expenditure forecast assessment guideline
MPFP	Multilateral partial factor productivity
MTFP	Multilateral total factor productivity
NEL	National Electricity Laws
NEM	National Electricity Market
NER	National Electricity Rules
NTP	Network Transmission Planning
opex	Operating expenditure
PPI	Partial performance indicator
PTRM	Post Tax Revenue Model
RBA	Reserve Bank of Australia
RIN	Regulatory Information Notice
TNSP	Transmission Network Service Provider
WPI	Wage price index
