

The Reset Advisory Committee (RAC) is TasNetworks' peak advisory group, comprised of six members who provided in-depth expertise and input into TasNetworks [Regulatory Proposals](#) for the 2024-29 regulatory period (1 July 2024 to 30 June 2029). The RAC played a role in shaping TasNetworks' plans by complementing the engagement program for TasNetworks' Revenue Proposals to the Australian Energy Regulator (AER) for the 2024-29 regulatory period (R24). The RAC has met around every six weeks since October 2021 and engaged on topics of interests in more depth and detail than other forms of consultation. More information about the RAC and its role can be found at: [Reset Advisory Committee \(RAC\) | Talk With TasNetworks](#).

The RAC welcomes to opportunity to provide further commentary now that TasNetworks has made its revised submission to the AER.

The RAC reiterates the position it reached in its submission on the combined proposal. In general, the RAC was happy with the process, but concerned about the contingent projects and also the lack of discussion around price impacts for consumers. The RAC considered that during the course of engagement leading up to the combined proposal TasNetworks actively engaged in the process and kept the RAC generally well informed and tended to take on board its comments. Up to that point the combined proposal sought to reflect the priority issues of consumers and other stakeholders as reflected in the consultative processes. These are shown below.

Figure 6. Customer and stakeholder priorities



The RAC remains concerned, however, that the pricing changes which occurred between the original draft, the combined proposal, and the revised proposal were not adequately discussed and tended to not fully reflect what TasNetworks stated they had heard. When the pricing impacts changed substantially it seemed that there wasn't as much engagement or opportunity to influence.

Once the combined proposal had been submitted the RAC considers that TasNetworks took a backward step in its engagement and is unsure as to whether or not this was due to the AER guidelines, or simply the company failing to build on the engagement learnings. The consultation became quite one sided and from the RAC’s perspective TasNetworks saw the process as one of simply informing. There was strong resistance to considering the issues which were being raised, particularly around affordability. This can be summarised by considering the table below.

	Draft (July 22)		Combined (Feb 23)		Revised (December 23)	
	\$/household	% change	\$/household	% change	\$/household	% change
19/20	821		858		856	
20/21	763	-7.06%	796	-7.23%	795	-7.13%
21/22	776	1.70%	810	1.76%	809	1.76%
22/23	752	-3.09%	786	-2.96%	784	-3.09%
23/24	750	-0.27%	763	-2.93%	755	-3.70%
Average	772.4		802.6		799.8	
24/25	756	0.80%	808	5.90%	836	10.73%
25/26	756	0.00%	820	1.49%	883	5.62%
26/27	755	-0.13%	833	1.59%	932	5.55%
27/28	754	-0.13%	845	1.44%	923	-0.97%
28/29	754	0.00%	860	1.78%	913	-1.08%
Average	755		833.2		897.4	
% change on average	-2.25%		3.81%		12.20%	
% change on 23/24	0.67%		9.20%		18.86%	
\$ Change	-\$17.40		\$30.60		\$97.60	

Not only did the data around the outcomes from R19 change with each reiteration of the process, but the overall consumer impact went from being very limited to quite significant for consumers. The RAC considers that the process failed to adequately take into consideration the price pressures on consumers and the “Affordable to All” priority identified by the stakeholder engagement process. This is especially apparent when considering that R19 provided consumers with a reduction in network costs of around \$70 to \$100, depending upon which data is used and R24 is now seeking an increase in consumer costs of around \$180.

The outcome in the revised proposal has significant implications for all customers from an affordability perspective. This is a concerning outcome and will simply create pressure upon the state government for bill relief, not just for residential and small business customers, but probably also for some of the bigger customers and new loads.

In relation to the 4th priority “A transparent socially responsible approach that ensures a sustainable solution for Tasmania”, the revised proposal has not readily demonstrated that this priority has been adequately addressed.

The two middle priorities have been largely met by the revised proposal. Arguably these priorities lie within the comfort zone of TasNetworks as they are largely engineering based and TasNetworks has considerable resources available to fully address these priorities. However it is a bit vague as to how TasNetworks believes it has addressed the priority of "unlocks associated community benefits".

If the process requires a TNSP/DNSP to collect data on the customer and stakeholder priorities, then at the end of the day it is incumbent upon TasNetworks to demonstrate how those priorities have been addressed, and if not why not.

Of significant concern to the RAC is that during the process following the submission of the combined proposal there was no apparent revisiting of the proposed investment and operating plan. The RAC considers that TasNetworks response to questioning on this issue was inadequate. Is this in part a weakness in the AER's guidelines? The RAC identifies this as an issue for both TasNetworks and the AER, that the customer and stakeholder priorities need to be better reflected in the process, particularly as the submissions are refined following the presentation of the first draft.

The RAC considers that the first draft strongly reflected these priorities and these priorities had a strong role in shaping that draft.

However, from that point on the RAC considers that the process failed to adequately consider the risk return trade-offs which are necessary as cost and benefit estimates are refined. To this point the RAC has not seen the analysis underlying the reasons TasNetworks has doggedly stuck with the planned works and activities developed during the consultative processes associated with preparing the draft proposal. Had the initial draft proposed significant increases in the cost to consumers of the magnitude we now see the RAC would have been highlighting how that was not consistent with the agreed customer and stakeholder priorities.

In this regard the RAC would have sought information around revising that program of works and activities and the risks that would bring.

There is a need for proposals to reflect in detail how things change over the course of the proposal's development. In this regard TasNetworks has taken on board some of the feedback we have provided as reflected in this table below, taken from the revised proposal.

**Table 2 Distribution network comparison – Original Proposal, AER draft decision and Revised Proposal (\$2023-24)**

	Original Proposal	AER draft decision	Revised Proposal
Total revenue – smoothed (\$m)	\$1,549.2m	\$1,677.0m	\$1,676.7m
Net capital expenditure (\$m)	\$729.4m	\$729.3m	\$729.3m
Operating expenditure (\$m)	\$541.0m	\$541.0m	\$541.0m
Rate of return (%)	5.71%	5.80%	5.80%
Return on capital (\$m)	\$640.3m	\$655.7m	\$649.1m
Depreciation – return of capital (\$m)	\$327.3m	\$440.0m	\$450.9m
Revenue adjustments (\$m)	\$7.8m	(\$3.4m)	(\$9.0m)
Corporate tax (\$m)	\$32.2m	\$42.8m	\$43.1m
Inflation Forecast	3.35%	2.80%	2.80%
Regulated asset base – end of period	\$2,268.0m	\$2,235.0m	\$2,208.0m
Residential Prices <sup>1</sup>	\$833 (2.4%)	\$898 (4.5%)	\$897 (4.0%)
Small Business Prices <sup>2</sup>	\$2,960 (1.3%)	\$3,167 (3.1%)	\$3,171 (2.7%)

**Table 3 Transmission network comparison – Original Proposal, AER draft decision and Revised Proposal (\$2023-24)**

	Original Proposal	AER draft decision	Revised Proposal
Total revenue – smoothed (\$m)	\$784.1m	\$809.1m	\$801.2m
Net capital expenditure (\$m)	\$287.8m	\$287.8m	\$287.8m
Operating expenditure (\$m)	\$209.2m	\$209.2m	\$209.2m
Rate of Return (%)	5.68%	5.77%	5.77%
Return on capital (\$m)	\$492.2m	\$479.0m	\$480.7m
Depreciation – return of capital (\$m)	\$70.9m	\$104.4m	\$100.5m
Revenue adjustments (\$m)	\$4.4m	\$4.4m	(\$1.90m)
Corporate tax (\$m)	\$7.7m	\$12.0m	\$13.0m
Inflation Forecast	3.35%	2.80%	2.80%
Regulated asset base – end of period	\$1,697.8m	\$1,628.1m	\$1,635.8m
Transmission \$/MWh <sup>3</sup>	\$11.33/MWh 1.0%	\$11.65/MWh <sup>4</sup> 2.6%	\$11.63/MWh 2.6%

While this table goes some way towards highlighting how estimates have changed, it seeks to minimise the impact of those changes. This is perhaps best highlighted when comparing the TasNetworks Table with the Table shown earlier. The TasNetworks table indicates only a minor change in the consumer impact between the original proposal, where reworking of the data, sourced directly from various TasNetworks documents, shows a significant impact. Rather than the residential price impact increasing from 2.4% to 4%, a largely trivial increase, looking at the data provided by TasNetworks in the various reports, since the draft, the impact, when comparing the average consumer price from R19 with that proposed under R24, rises from -2.25% to over 12.2% or from a consumer saving of \$17.40 to an increase of \$97.60. When compared to the final consumer cost for R19 in 2023/24 the revised proposal shows an increase of 18.86% on average. The actual impact by the end of the reset period is worse at nearly 21% based on the data provided in the revised proposal.

That such analysis has been done in a manner to skew the results considerably suggests a need for AER to provide some stronger guidelines around the consultative processes associated with revisions to costs and benefits and also some clear guidelines around the type of risk management processes which should

be associated with changes in costs and benefits during the course of moving from the initial draft report to the revised proposal and beyond.

But notwithstanding regulatory requirements, TasNetworks also has some responsibility here, - their own commitment to '*a transparent socially responsible approach*' suggests that they don't just rely on the Regulator's requirements. They need to own this and hold themselves to account - noting this is a cultural change perhaps for both TasNetworks and the AER.

The program of works and activities cannot be virtually set in stone and any cost impacts simply passed through to consumers as it appears the current process has undertaken.

The RAC had considerable concerns about the impact of contingent projects, especially given the large capital costs involved. Despite repeated requests from the RAC, TasNetworks was very reluctant to provide any pricing impacts until November 2023, just one week prior to the lodgement of its revised proposal. If the numbers provided can be believed, in terms of who pays for what, the impact for R24 is significantly less than what was perceived, with most of the project costs to be carried by the development which triggered the construction of that project. The RAC is unsure why this could not have been relayed earlier in the process, rather than having it as an on-going concern and an unnecessary distraction from dealing with other matters.

The contingent projects issue does raise a number of important points that need to be considered from a whole of electricity industry perspective. Many of these projects deliver benefits to specific consumers and/or generators. The regulatory arrangements for the electricity supply industry are very dated and based around the concept of a small number of concentrated generators supplying a widely dispersed group of consumers. At a household level it is based on households using a mix of energy sources and with a relatively stable household demand. But this is not the network of the future.

What we see now is a massive amount of change. Generation is becoming highly decentralised. There are increasing demands for interconnection. Major new industrial loads are coming on board such as hydrogen and green metal production. The nature of a household is changing. Increasingly households are both generators and consumers. Increasingly households are changing the nature of their demand through the encouragement of the all-electric household and also the replacement of internal combustion engine (ICE) cars with EVs.

There are quite different drivers for the transmission and distribution network than has traditionally been the case. However, the regulatory process does not reflect this and this impacts on the reset process. The overall impact of this is that those consumers who are unable to adjust their demand or source of supply are being increasingly loaded with what are regressive price impacts. Other consumers who can adjust their demand, or source their supply from alternative sources have become major beneficiaries of the current regulatory processes.

As the nature of benefits flowing from investment change so does the need for the regulatory environment to change. There must become closer alignment of network



costs to network beneficiaries through changes in how capex and opex are allocated between the differing types of loads, especially those emerging loads.

Finally, the RAC considers that now is an appropriate time to revisit the original intent of the RAC process. This can be found in the document entitled “Customer and Stakeholder Engagement Strategy” from December 2022. This document builds upon work done by TasNetworks during the early part of 2021. In the 2021 document the measures of success were identified as:

## 2.6 Measures of success

Both workshop attendees and survey participants agreed that participant attendance, post-engagement surveys and substantial feedback are good measures of a successful engagement process.

Workshop participants also consider the process would be successful if:

- TasNetworks is hearing feedback it has not heard before
- TasNetworks is transparent about engagement, including:
  - Statistics about attendance
  - What happened, what was shared and what was heard
  - What went well and what did not go well

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## REPORT

- Surveys and other feedback mechanisms are diverse in their methodology and questions, and generate substantial and valuable feedback. TasNetworks may partner with other organisations to achieve this, such as the Centre for Social Impact (CSI)
- The right people are engaged
- Feedback reflects what TasNetworks is doing or was asking about
- Time is taken to digest and respond to feedback.

Survey participants suggested the following mechanisms or insights would demonstrate successful engagement:

- Increased community understanding, and other changes as a result of the engagement
- People feel their voices have been heard and considered, even if the feedback is not positive for TasNetworks
- The engagement process and post-engagement feedback process is transparent
- Diverse voices have been engaged
- Eventual take-up rates and KVA demand shifts
- Feedback from industry associations about their members' experience of the revenue reset
- Increased enquiries and website traffic
- Volume of questions received during engagement.

The December 2022 document outlined the elements of an engagement strategy as:

**Increasing impact on decision**

	<b>Inform</b>	<b>Consult</b>	<b>Involve</b>	<b>Collaborate</b>	<b>Empower</b>
<b>Public participation goal</b>	To provide our customers and stakeholders with balanced and objective information to assist them in understanding our business, the revenue reset process and associated alternatives, opportunities and/or solutions.	To obtain feedback from our customers and stakeholders on analysis, alternatives and/or decisions relating to our Proposals.	To work directly with our customers and stakeholders throughout the development of our Proposals to ensure their concerns and aspirations are consistently understood and considered.	To partner with our customers and stakeholders at every stage of the drafting of our Proposals, including the development of alternatives and the identification of their preferred solutions.	To place final decision making regarding our Proposals in the hands of our customers and stakeholders.
<b>Promise to the public</b>	We will keep you informed.	We will keep you informed, listen to and acknowledge your concerns and aspirations, and provide feedback on how public input influenced the decision.	We will work with you to ensure that your concerns and aspirations are directly reflected in the alternatives developed and provide feedback on how your input influenced our Proposals.	We will look to you for advice and innovation in formulating solutions and incorporate your advice and recommendations into our Proposals to the maximum extent possible.	We will implement what you decide regarding our Proposals.

(Source: [iap2.org.au/resources/spectrum](http://iap2.org.au/resources/spectrum))

On reflection, the RAC considers that collaboration occurred during the early stages of the RAC process, but as we got closer to the end we fell back and in a number of instances the engagement became simply a process of TasNetworks informing consumers and stakeholders.

The 2022 document identified what success looked like. it stated:

### What success looks like

Feedback gathered during the co-design phase in July and August 2021 revealed that participants would consider the engagement program successful based on the following outcomes:

- Participants felt that their voices were heard and considered, even if the feedback was not positive for TasNetworks
- That participants' understanding of the revenue reset process, the energy sector, and TasNetworks' operations had increased
- Participants received post-engagement feedback that is transparent and timely.

The document also identified how successful would be measured:

## Measuring success (planning)

To measure the success and quality of our engagement program, we must return to our objectives. The following table outlines our objectives, how we intend to measure them according to our minimum standard for engagement quality, and by what method. These measures were informed by feedback received during the co-design phase. Please see Appendix D to view the full evaluation survey.

TasNetworks Engagement Strategy | Revenue reset

Objective	Metric/s	Evaluation method
To build our customers' and stakeholders' understanding and knowledge of TasNetworks' operations, the energy sector and the revenue reset process	<ul style="list-style-type: none"> <li>70% of participants agreed that the information they were provided improved their knowledge and/or understanding of: <ul style="list-style-type: none"> <li>TasNetworks' operations</li> <li>The energy sector</li> <li>The revenue reset process.</li> </ul> </li> <li>The number of times and frequency that TasNetworks reported the following points to participants and stakeholders: <ul style="list-style-type: none"> <li>Statistics about attendance</li> <li>What happened, what was shared and what was heard</li> <li>What went well, and what did not go well.</li> </ul> </li> </ul>	<p>Completion of post-engagement evaluation survey at the end of each event, or set of events (see Appendix D). Related questions:</p> <ul style="list-style-type: none"> <li>The information provided improved my knowledge and/or understanding of TasNetworks' operations</li> <li>The information provided improved my knowledge and/or understanding of the energy sector</li> <li>The information provided improved my knowledge and/or understanding of the revenue reset process</li> </ul> <p>Providing regular updates on the following key points to participants and stakeholders via email and on Talk with TasNetworks:</p> <ul style="list-style-type: none"> <li>Statistics about attendance</li> <li>What happened, what was shared and what was heard</li> <li>What went well, and what did not go well.</li> </ul>
To identify those areas that customers and stakeholders can influence, and enable them to shape our Combined Proposal	<ul style="list-style-type: none"> <li>70% of participants agreed that the objective/s of the engagement activity/process was clear</li> <li>70% of participants agreed they were clearly informed to what extent they were able to shape TasNetworks' Combined Proposal for given topics</li> </ul>	<p>Completion of post-engagement evaluation survey at the end of each event, or set of events (see Appendix D). Related questions:</p> <ul style="list-style-type: none"> <li>The objectives of the activity were clear and easy to understand</li> <li>It was clear if the topics we discussed could be influenced or not.</li> </ul>
To build customer and stakeholder trust in our Combined Proposal	Increase in trust measure for all participants over the course of engagement program, with initial benchmark to be established in Phase 2 engagement.	<p>Completion of post-engagement evaluation survey at the end of each event, or set of events (see Appendix D). Related questions:</p> <ul style="list-style-type: none"> <li>I trust TasNetworks to act in the best interests of its customers.</li> </ul>
To drive internal cultural change	<ul style="list-style-type: none"> <li>Revenue reset engagement is adopted as an embedded business activity, with dedicated resources to enable ongoing, iterative engagement.</li> </ul>	The extent to which customers and stakeholders have been able to shape our Combined Proposal (measured by, but not limited to, the number of initiatives/projects that have changed as a direct result of their feedback).

The RAC understands that these metrics were influenced by the AER “Better Resets Handbook”. It is incumbent upon all parties, regulators, NSPs and stakeholder groups such as the RAC to reflect upon these items at the end of the process. Whilst it is important to evaluate each element in the engagement process, eg each RAC meeting, it is also appropriate and necessary to reflect on the process and outcomes as a whole.

In conclusion the RAC considers that TasNetworks did a reasonable job within the bounds of the process it was working with and within the timelines provided. Like all processes it became tight towards the end. There are a few areas where the RAC considers that TasNetworks dropped the ball, principally around the issue of affordability. However, the fact that the RAC has been readily able to source documents from the start of the process to now from the TasNetworks website



should count as a big plus. That the documents are readily readable should also be acknowledged given the complexity of what was being considered by the RAC.

Members of the RAC, from widely divergent backgrounds, all learned a lot and were able to make effective input. Sometimes that input was discounted by technical experts, however, at the end of the day it is consumers who foot the bill and the RAC consider it is incumbent upon those with technical expertise to better understand – and in some cases prioritise - the consumer impact of their decisions.

The Revenue Reset process, outcome, and regulatory framework could all do more to keep consumer impacts, especially affordability, at the forefront of considerations. For example, rather than assuming that it is appropriate for customers to absorb whatever costs emerge in the final stages of the process, hold the customer impacts at a level that has been considered by consumer representatives, and make adjustments elsewhere.

5 February 2024