

2 September 2022

Warwick Anderson
General Manager – Network Pricing
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Dear Warwick

RE Annual Pricing Process Review – Stage Two

TasNetworks welcomes the opportunity to make a submission to the Australian Energy Regulator (**AER**) in response to the *Annual Pricing Process Review Stage 2 Position Paper* released on 1 August 2022. We also appreciate the opportunity to review the updated versions of the AER's standardised pricing models that accompanied the position paper.

1. Pre-lodgement engagement process

TasNetworks is supportive of the AER's plans to improve the annual pricing process and we recognise that the availability of pre-filled pricing models for year one of a regulatory control period has the potential to minimise re-work for both distributors and the AER, and to speed up the approval process for year one pricing. We note however, that additional detail about the pre-engagement process envisaged by the AER would enable us to better assess the implications of the proposal and its potential benefits.

We hold certain reservations about condensing the annual pricing process which in relation to years 2 – 5 of a regulatory control period takes around 12 weeks, into a timeframe that only spans 6 – 8 weeks for year one. From the position paper it appears that the condensed timelines being targeted for year one pricing proposals are being made possible by the omission of the initial engagement stages which under the current year 2-5 pre-lodgement process take place during February and early March¹. While a single annual pricing iteration in year one does not deviate from current practices, it does provide less time for early engagement between distributors and the AER, and it removes an opportunity to address identified issues prior to the final submission.

2. Side constraint mechanism

TasNetworks has reviewed the AER's position paper and the accompanying technical paper prepared by Argyle Consulting in consort with the scenarios provided. In addition, TasNetworks undertook separate analysis of potential side constraint outcomes particular to our

¹ [AER Annual Pricing Process Review - Stage 1 Position Paper](#)

circumstances. As a result of this analysis, TasNetworks is not currently in a position to endorse the proposed changes to the side constraint mechanism.

The proposed amendment to the side constraint mechanism is a technically complex issue that can have implications on the tariff setting process. The AER has assessed a number of circumstances, however we think the proposed formulas need to be tested further under a much wider range of possible scenarios to ensure the mechanism works as intended, and to avoid undesired outcomes and consequences.

As part of our assessment of the proposed changes, TasNetworks has re-calculated the side constraints for its last five annual pricing iterations using the proposed side constraint mechanism outlined in the AER position paper. We maintained the currently applicable STPIS 1.2 approach in our calculations and generally observed an increased volatility in the annual side constraints under the proposed methodology. Instances where $SCR(t-1) > TAR(t-1)$ ³ seem to reduce the permissible percentage compared to the current approach, and instances where $SCR(t-1) < TAR(t-1)$ seem to increase it, in some instances providing significantly more flexibility for tariff movements than the current approach. The observed fluctuations could potentially expose customers to stronger price movements and result in less stable and predictable pricing outcomes.

While our calculations indicate that the 2 per cent weighted average headroom prescribed in the NER seems to have been maintained in most instances, our ability to progress tariff reform would seemingly have been affected under the proposed framework. It also seems that certain circumstances may have the potential to prevent us from fully recovering our revenue entitlement under the proposed framework.

We further noticed that the alternative side constraint seems to essentially be a re-formulation of the proposed side constraint, and we consider that the proposed side constraint mechanism provides the preferred and more transparent framework.

3. Stakeholder usage of outputs

In the position paper, the AER noted that it intends on revising the standardised pricing models to provide data and outputs that are regularly used by other stakeholders. While recognising that the need for some stakeholders to seek help from the AER when navigating the pricing models is potentially burdensome for the AER, as well as an impost on those stakeholders, we would not be supportive of changes to the models that increase the administrative burden and the time taken for distributors to develop annual pricing proposals. It may be preferable to collate key stakeholder information in separate summaries, outside the actual pricing models.

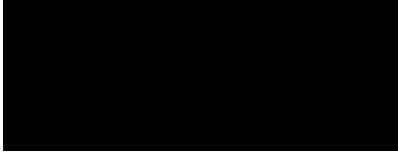
4. Model revisions

Consistent with comments made under 3. *Stakeholder usage of outputs*, TasNetworks would caution against adding further complexity into the pricing models. We do however support a simplification of the model setup and the development of additional checks and validations to reduce input errors where possible.

³ Side Control Revenue *SCR* and Total Allowable Revenue *TAR* as per AER Position paper

Once again, thank you for the opportunity to contribute to stage two of the annual pricing process review. Should you have any questions or wish to discuss any aspect of TasNetworks' submission, please contact Julie Morrison, Specialist Regulatory & Network Analytics, on [REDACTED] or at [REDACTED].

Yours sincerely

A large black rectangular redaction box covering the signature area.

Chantal Hopwood

Leader Regulation