

Consumer
Challenge
Panel

CCP27 Advice to the AER

**TasNetworks Combined Revenue Reset Proposal
(Transmission and Distribution)**

7 May 2023

CCP27: Helen Bartley, Robyn Robinson and Mike Swanston

Table of Contents

1 Focus of this advice..... 4

2 Summary of TasNetworks consumer engagement 5

2.1 Overview.....5

2.2 A focus on affordability6

2.3 Overall conclusion6

3 Assessment of consumer engagement activities 8

4 Further thoughts on key substantive issues 17

4.1 Affordability.....17

4.2 Capex – contingent projects18

4.3 Capex – network resilience and reliability.....18

4.4 Opex.....19

4.5 Customer Service Incentive Scheme (CSIS).....20

4.6 Future engagement plans.....20

Appendix: TasNetworks engagement activities 22

Acknowledgement of Country

The networks and facilities owned by TasNetworks traverse the lands of the palawa as the original owners and custodians of lutruwita (Tasmania). We recognise the traditional owners of these lands and honour their customs and traditions and special relationship with the land as well as those where this report is being prepared. We respect the elders of these nations, past, present and emerging.

Confidentiality

To the best of our knowledge this report does not present any confidential information.

CCP27 Advice to the AER – TasNetworks Proposal

1 Focus of this advice

CCP27 was appointed in November 2021 to review the following resets:

- Power and Water Corporation (Northern Territory) electricity distribution (2024-29)
- TasNetworks (Tasmania) electricity distribution and transmission (2024-29)

This Advice relates to the TasNetworks proposal, which was lodged with the Australian Energy Regulator (AER) on 31 January 2023. Hereafter we refer to this document as the *TasNetworks Proposal*.

In line with our role agreed with the AER, and within the time and resources available, our Advice focuses on the following:

- An assessment of networks' consumer engagement activities, including the extent the *Proposals* reflect consumer preferences in line with the AER's expectations for consumer engagement as outlined in the *Better Resets Handbook*
- Other key issues that we have identified from the AER's *Issues Paper for TasNetworks' Transmission and Distribution determination 2024-29*

2 Summary of TasNetworks consumer engagement

2.1 Overview

TasNetworks commenced its consumer engagement for its 2024-29 regulatory proposal to the AER for its combined transmission and distribution businesses in 2021. It conducted focus groups with consumers and met with other stakeholder groups to identify issues of interest to consumers and assess their interest in engaging with the business for its revenue reset.

In November 2021 TasNetworks published its draft *Customer and Stakeholder Engagement Strategy* for its proposal, which it developed with direct input from consumer representatives, other stakeholders and subject matter specialists. The draft was subject to public consultation, and subsequently revised with an updated version published in March 2022, incorporating customer and stakeholder feedback.

Whilst detailed evidence of TasNetworks preliminary engagement activities to inform its *Engagement Strategy* is available on its website, CCP27 was only appointed in November 2021, so is not in a position to comment on the effectiveness of TasNetworks early engagement or processes around the establishment of its Reset Advisory Committee (RAC), other than relying on TasNetworks' documentation.

Important features of TasNetworks' engagement are:

- It was based on five clearly defined phases, with each phase having a distinct purpose, defined target audiences, topics for engagement, engagement activities and outcomes
- TasNetworks' engagement for its proposal was both broad and deep – capturing the views of individual customers in each phase (breadth) and more deeply engaging with other stakeholders including groups especially formed to consider TasNetworks' proposals (e.g. its RAC) and previously established groups such as its Customer Council, and Policy and Regulatory Working Group (PRWG)
- TasNetworks engaged with individual customers in all phases, using face to face methods (at multiple locations across Tasmania) and online methods, as well as drawing on evidence of customer preferences through business as usual (BAU) engagement activities such as its customer surveys
- TasNetworks engaged with other stakeholder groups in all phases, via online and face to face methods (including hybrid workshops, allowing stakeholders to attend online or face to face as they preferred)

In August 2022, TasNetworks published its *Draft Plan* and continued to engage with customers and other stakeholders to inform its combined transmission and distribution proposal, which it lodged with the AER on 31 January 2023.

Given CCP27's resource constraints, we made a strategic decision to focus our review of TasNetworks' engagement on its interaction with its RAC, given their ongoing interaction with TasNetworks and central role in shaping TasNetworks' *Proposal*. The RAC is comprised of a cross-

CCP27 Advice to the AER – TasNetworks Proposal

section of TasNetworks customers. Members are knowledgeable and were prepared to challenge TasNetworks' analysis and position on many issues that directly affect consumers.

We have prepared a table of TasNetworks' engagement activities from July 2021 by stakeholder group, which is provided in Appendix 1. In the table we have indicated the engagement activities since November 2021 that CCP27 members observed to help inform this Advice. While most of our observations focused on RAC meetings we also observed a selection of TasNetworks' broader customer engagement activities.

Additionally, CCP27 conducted feedback sessions with TasNetworks (online) and separately with members of their RAC (also online). These sessions provided us with an opportunity to gather further evidence of the quality of TasNetworks' engagement from both TasNetworks and its RAC's perspectives. Our questions were aligned with the AER's expectations of consumer engagement as detailed in the *Better Resets Handbook*. Importantly we were looking for feedback on perceptions of the quality of engagement and consistency of responses between TasNetworks and RAC members. AER representatives observed these meetings.

CCP27 also facilitated a structured question and answer session at the AER's online Stakeholder Forum on 4 April 2023 in which it presented TasNetworks with a series of open-ended questions (provided to TasNetworks in advance of the Forum) and elicited TasNetworks' responses. Stakeholders who joined the forum were also invited to comment and directly question TasNetworks.

2.2 A focus on affordability

Consumers expressed a clear theme of affordability throughout all phases of engagement, reflecting the impacts of broader cost of living influences across Tasmanian communities. TasNetworks responded to this theme and highlighted the need for affordability and value throughout its proposal. Whilst TasNetworks sought some opportunities to reduce costs and expenditure to help address affordability concerns, CCP27 considers TasNetworks could adopt a more aggressive approach to affordability and be more consistent with other networks' proposals.

The RAC also sought greater transparency from TasNetworks including deeper insights into its investment governance, any possible change in TasNetworks' risk position and any 'give and take' in delivering customer value.

TasNetworks should affirm its commitment to affordability by considering a sixth phase of engagement to revisit and confirm its top-down revenue position once consumers have more exposure to recent changes in energy prices, and they can more adequately consider the implications of contingent projects. TasNetworks commitment to affordability can then be better reflected in its revised proposal (see also Section 4.1 of this Advice).

2.3 Overall conclusion

We have reflected on CCP13's advice to the AER on TasNetworks' 2019-24 proposal, in which it concluded TasNetworks was genuinely engaged with its customers and stakeholders and its

CCP27 Advice to the AER – TasNetworks Proposal

engagement was of a high standard, with the exception of its engagement on contingent projects.¹ CCP13 did not explicitly comment on TasNetworks' level of engagement with various customers and stakeholders from an IAP2 perspective.

CCP27's observations around TasNetworks' engagement are similar to those observed by CCP13. In relation to this reset, we acknowledge TasNetworks' engagement improved as its engagement moved through the various phases. Regardless, overall TasNetworks predominantly appeared to inform and consult with a diversity of customer and stakeholder groups, who continued to emphasise the importance of affordability to TasNetworks.

TasNetworks' engagement on contingent projects was predominantly around informing customers and stakeholders.

Our comments regarding TasNetworks' limited engagement on contingent projects largely respond to TasNetworks rationale to defer any deep engagement on contingent projects given the projects' uncertainty and unknown costs. However, CCP27 believes a number of these contingent projects could significantly affect affordability for customers. We therefore strongly encourage TasNetworks to engage deeply with customers on the cost implications of contingent projects and consider customers' concerns when preparing its revised proposal.

We commend TasNetworks for its collaborative approach with customers to develop its Customer Service Incentive Scheme (CSIS), although we question whether providing customers and stakeholders with a defined choice between a Service Target Performance Incentive Scheme (STPIS) or a CSIS² is consistent with empowering customers.

We encourage TasNetworks to draw from its experiences over the last two resets when planning its ongoing customer engagement activities and in particular to reflect on comments in the RAC's *Engagement Process Report*,³ particularly around engaging earlier and openly on its contingent projects.

¹ Consumer Challenge Panel Sub-Panel 13, *Response to proposals from TasNetworks for a revenue reset for the 2019-24 regulatory period*, 16 July 2018.

² TasNetworks, *Combined Proposal 2024-2029, Attachment 14, Customer service incentive scheme*, p.3

³ TasNetworks Reset Advisory Committee, *Engagement Process Report*, 20 January 2023

3 Assessment of consumer engagement activities

Our assessment of the networks’ engagement considers the context for their engagement, our observations, engagement review meetings with TasNetworks and members of their RAC. We have also considered other evidence we have gathered from TasNetworks engagement platform⁴ for its *Proposal*, which includes details of all its engagement activities and related materials. Importantly we have framed our assessment in terms of the AER’s expectations as outlined in the *Better Resets Handbook*⁵.

Table 3-1: Overall assessment of TasNetworks’ engagement against the *Better Resets Handbook*

<i>Better Resets Handbook</i>	Strengths/improvements	Concerns – issues for the AER to consider
Engage sincerely, openly and genuinely with consumers, such that consumers have confidence in the process	<ul style="list-style-type: none"> • TasNetworks’ engagement commenced early involving stakeholders and customers in the development of its <i>Engagement Plan</i> • As evidenced on the ‘<i>Talk with TasNetworks</i>’ website, and articulated by TasNetworks, engagement: <ul style="list-style-type: none"> ○ Included a <i>Framework and Approach</i> codesigned with customers, which according to TasNetworks was a positive experience for all parties ○ Was well planned, and identified aspects of its service it believed customers could influence ○ Involved sharing materials well in advance of sessions whether they be TasNetworks’ Customer Circles, RAC meetings or other meetings 	<ul style="list-style-type: none"> • While TasNetworks made a genuine effort to engage with its broader customer base at different stages, and in different ways (focus groups and surveys, face to face and online), in terms of quantitative evidence of customer preferences limited numbers of customers (around 130 customers) participated in activities directly related to its proposal. Hence evidence of customer expectations and preferences is largely qualitative or drawn from TasNetworks BAU survey. • TasNetworks engagement on its contingent projects was limited despite persistent questioning from RAC members around the projects, customer benefits and cost impacts

⁴ TasNetworks, Revenue Reset (R24), <https://talkwith.tasnetworks.com.au/tasnetworks-r24>

⁵ AER, *Better Resets Handbook*, December 2021

CCP27 Advice to the AER – TasNetworks Proposal

<i>Better Resets Handbook</i>	Strengths/improvements	Concerns – issues for the AER to consider
	<ul style="list-style-type: none"> • TasNetworks continued to engage with customers over more than two and a half years with regular meetings with key groups such as the RAC, the Customer Council and their PRWG • TasNetworks has engaged broadly with consumers, consumer representatives, retailers and others both directly and through groups such as its RAC and deeply on some issues of interest to customers (with contingent projects being a key exception) • TasNetworks has provided participants with detailed presentations and based on the activities we observed and written documentation, participants were encouraged to ask questions and TasNetworks has been responsive either answering their questions at the time or providing feedback in subsequent sessions • TasNetworks published details of all its engagement activities, associated presentations, agenda and meeting minutes, as far as we can tell generally close to the time of the event on its Talk with TasNetworks website • We observed a genuine uplift in RAC members’ knowledge and willingness to question and challenge TasNetworks, with TasNetworks instigating a detailed actions register to record and respond to RAC members queries and providing the RAC with updated briefing papers and information in response to their questions 	

CCP27 Advice to the AER – TasNetworks Proposal

<i>Better Resets Handbook</i>	Strengths/improvements	Concerns – issues for the AER to consider
<p>Consider consumers as “partners”, rather than simply being asked for feedback</p>	<ul style="list-style-type: none"> • Through the RAC, Customer Council and TasNetworks’ PRWG in particular, a number of consumer representatives and retailers have attended numerous engagement activities • TasNetworks’ ongoing engagement has allowed these stakeholders to become sufficiently informed that they can meaningfully provide feedback to TasNetworks to help shape its proposal • We have observed various individuals challenging TasNetworks in workshops and other forums on a range of issues such as affordability, reliability and network resilience • TasNetworks has published the contents of detailed discussions in deep dives and RAC meetings as evidence of engagement beyond direct feedback • In our feedback session, RAC members <i>described “feeling involved”, and “helping influence the proposal”</i> 	<ul style="list-style-type: none"> • While TasNetworks may consider members of the RAC as “partners”, we question the extent those members genuinely felt like they were partners. • Based on RAC members’ reflections in our feedback session, we also question TasNetworks’ enthusiasm to genuinely and openly engage, as partners: <ul style="list-style-type: none"> ○ <i>“We were given the cards they wanted us to see”</i> ○ <i>“It was a really hard slog to get them to open up on contingent projects.”</i>

CCP27 Advice to the AER – TasNetworks Proposal

<i>Better Resets Handbook</i>	Strengths/improvements	Concerns – issues for the AER to consider
<p>Equip consumers with accurate and unbiased information so they can engage effectively</p>	<ul style="list-style-type: none"> • TasNetworks provided stakeholders with copies of presentation materials to help them scrutinise and challenge the business • TasNetworks encouraged stakeholders to ask questions • TasNetworks published meeting agenda, presentation material, meeting notes and summary reports on its ‘Talk with TasNetworks’ website; including materials related to RAC meetings, online forums with Councils, electrical contractors, its Networks PRWG, stakeholder forums and customer panels • RAC members commended TasNetworks on the briefing they received on the outcomes of its customer research and how TasNetworks evaluated the information 	<ul style="list-style-type: none"> • RAC members acknowledged they received accurate and timely information, but also queried aspects of the information: <ul style="list-style-type: none"> ○ <i>“They tell us what they know and what [they think] we want to know”</i> ○ <i>“Information asymmetry is difficult for them to manage and for us to establish – where do they start, who explains and how they give details.”</i> ○ <i>“We got the detail but not always the thinking, context and background.”</i> ○ <i>“Understanding customer impact and dollar value has taken a lot to get to this point – even indicative [information on] the scale and impact on a customer bill.”</i>

CCP27 Advice to the AER – TasNetworks Proposal

<i>Better Resets Handbook</i>	Strengths/improvements	Concerns – issues for the AER to consider
<p>Be accountable to consumers</p>	<p>TasNetworks demonstrated accountability by:</p> <ul style="list-style-type: none"> • Being transparent about its terms of reference for its RAC, articulating its role and functions and remuneration • Encouraging customers, stakeholders an opportunity to talk and ask questions during engagement activities and assigned time to providing feedback on questions • Publishing agenda, meeting minutes, research reports, draft plan and proposal on the Talk with TasNetworks R24 website • Describing in its proposal four key customer-oriented themes, supported by examples of what they heard from customers and how they responded in the proposal⁶ <p>From a RAC perspective:</p> <ul style="list-style-type: none"> • TasNetworks was generally responsive to members’ questions • TasNetworks shared information with the RAC that may not have been available to the public • Members felt those “in the room” listened to them • TasNetworks “went further to satisfy our needs, supported us” 	<ul style="list-style-type: none"> • RAC members were concerned that TasNetworks was “network focused” rather than consumer oriented: <ul style="list-style-type: none"> ○ <i>“They very much have a network focus, even the name ‘TasNetworks’, building networks should be a last resort, they should be renamed to become TasDistribution.”</i> ○ <i>“We want a customer focus, rather than network solution.”</i> • TasNetworks appeared reluctant to address RAC members’ questions around contingent projects, although RAC members acknowledge the political constraints and sensitivities: <ul style="list-style-type: none"> ○ <i>“They [TasNetworks] are in a unique situation with many contingent projects. There is a reluctance to consider the scenarios. We can’t consider the answers until they are known – we only got traction yesterday [i.e. at the previous day’s RAC meeting].”</i> • RAC members were concerned that the “right” person or people were not always “in the room”; <i>“the engagement people are excellent but are they the influencers?”</i> • RAC members were also concerned when capital expenditure people were present that <i>“it was just to defend their projects”</i>

⁶ See TasNetworks 2024-2029 Regulatory Proposal – Customer and Stakeholder Snapshot, pages 7 to 10 and TasNetworks Combined Proposal 2024 – 2029 – Overview, Section 4.2

CCP27 Advice to the AER – TasNetworks Proposal

<p>Engage broadly and deeply with consumers, including defining their expected level of participation and influence</p> <p>Allow consumers to guide the development of network proposals, based on consumers' desired outcomes</p>	<ul style="list-style-type: none"> • TasNetworks developed and published a detailed and principles-based <i>Engagement Strategy</i> that guided its engagement for its reset: <ul style="list-style-type: none"> ○ According to TasNetworks its approach was shaped from feedback received from its Customer Council and PRWG during a 'co-design phase' in July 2021⁷ ○ The strategy articulated TasNetworks engagement objectives and indicators of success ○ Its strategy allowed for both broad and deep engagement through a variety of methods • A sample of meeting agendas we reviewed indicated TasNetworks intended level of engagement for each meeting topic, for example 'for information' or 'for information and discussion' • TasNetworks published detailed engagement reports after each of its phases which provides evidence of its engagement consistent with its <i>Engagement Plan</i> and illustrates the breadth and depth of engagement <p>RAC members commented:</p> <ul style="list-style-type: none"> • <i>"Fantastic to bring people together with diverse perspectives"</i> • <i>"[We] emphasised affordability and people struggling to pay their bills."</i> <p>In the April 2023 Stakeholder Forum, TasNetworks committed to continued engagement throughout 2023 including with its transmission and distribution customers and other stakeholders</p>	<p>As noted above, RAC concerns related to:</p> <ul style="list-style-type: none"> • Network focus rather than customer focus • RAC members at most felt "involved" <p>We are unclear about the extent TasNetworks intends to continue to engage broadly with consumers, on matters specific to its proposal, noting we anticipate its BAU research will continue</p>
--	---	---

CCP27 Advice to the AER – TasNetworks Proposal

<i>Better Resets Handbook</i>	Strengths/improvements	Concerns – issues for the AER to consider
Use a variety of engagement methods	<ul style="list-style-type: none"> TasNetworks used a range of engagement methods consistent with those outlined in its <i>Engagement Strategy</i> TasNetworks adapted its methods to suit different customer and stakeholder groups’ preferences, skills and knowledge of the subject matter in line with the engagement purpose. 	Nil
Provide evidence of consumer impacts on their regulatory proposal	<p>CCP27 notes, as mentioned above, TasNetworks proposal documents describe key customer-oriented themes based on what TasNetworks heard from customers and how they responded in the proposal</p> <p>TasNetworks provided the following examples of customer impacts on its thinking, elements of its draft plan and <i>Proposal</i>:</p> <ul style="list-style-type: none"> TasNetworks’ focus on affordability and low pricing for customers, whilst maintaining service reliability Seeking customers’ priorities regarding discretionary elements of service and using customer feedback to inform their proposal, for example according to TasNetworks the RAC discussion on reliability in Zeehan and challenges in selecting the right solution resulted in a decision being deferred until the 2029-34 regulatory period 	<ul style="list-style-type: none"> It is not entirely clear to CCP27 how TasNetworks <i>balanced</i> customer and stakeholder views to shape its <i>Proposal</i>. CCP27 questioned TasNetworks on this issue in the April 2022 Stakeholder Forum. In its response, TasNetworks emphasised its consistent affordability theme and referenced scenario testing around customers’ willingness to pay for reliability and network resilience. However neither TasNetworks’ response nor its <i>Proposal</i> specifically explain <i>how</i> the balanced was achieved

⁷ TasNetworks, *Customer and Stakeholder Engagement Strategy Quick Guide TasNetworks’ Revenue Reset*, February 2023

CCP27 Advice to the AER – TasNetworks Proposal

<i>Better Resets Handbook</i>	Strengths/improvements	Concerns – issues for the AER to consider
	<ul style="list-style-type: none"> From a RAC perspective, when TasNetworks provided information to the group and more information was sought TasNetworks was generally responsive 	
<p>Demonstrate independent consumer support for the proposal</p>	<p>TasNetworks commissioned the RPS Group in Melbourne to prepare an <i>Independent Engagement Report</i> at the end of each of TasNetworks engagement phases 1 to 5 and published these reports on the Talk with TasNetworks website. The reports provide considerable detail of engagement purposes, groups engaged and methods of engagement, the outcomes and the processes</p> <p>Key findings from the RPS <i>Final Engagement Report</i>⁸ (after phase 5) include customer and stakeholder support for:</p> <ul style="list-style-type: none"> TasNetworks to build, maintain and operate its transmission and distribution networks with current revenue levels, provided reliability is not impacted Increased action to address inequities in network resilience (strong support) A CSIS scheme to include some performance measures <p>With funding from Energy Consumers Australia, the RAC produced an independent engagement report which TasNetworks lodged with the AER alongside its <i>Proposal</i> on 31 January 2023</p>	<p>Key findings from the RPS <i>Final Engagement Report</i>⁹ (after phase 5) include customer and stakeholder concerns or expectation around:</p> <ul style="list-style-type: none"> Increased transparency about the TasNetworks’ proposals and stakeholder influence, including cost implications of different R24 scenarios Continued engagement on contingent projects, especially those related to Marinus Link as well as other issues including hydrogen, the Marinus Link rule change, Tasmanian Renewable energy Zones and System strength <p>The RAC indicated it is “<i>hopeful it had influence</i>” and thinks it “<i>represented the customers as best we could</i>”</p> <p>The RAC’s <i>Independent Engagement Report</i> is not entirely supportive of TasNetworks with members noting concerns around:</p> <ul style="list-style-type: none"> Limited background information provided to them Insufficient focus on affordability and a late explanation on the pricing impacts on customers of TasNetworks’ proposal

⁸ RPS, R24 Phase Five Engagement Report, March 2023

⁹ RPS, R24 Phase Five Engagement Report, March 2023

CCP27 Advice to the AER – TasNetworks Proposal

<i>Better Resets Handbook</i>	Strengths/improvements	Concerns – issues for the AER to consider
	<ul style="list-style-type: none"> RAC members appreciated their engagement with TasNetworks’ staff and opportunities to ask difficult and challenging questions and TasNetworks’ increasing openness towards the RAC over time <p>CCP27 also observed over time:</p> <ul style="list-style-type: none"> TasNetworks developed the knowledge of RAC members to the extent they felt confident to question and challenge TasNetworks on important issues, such as bill impacts if contingent projects were to proceed <p>The RAC demonstrated independence:</p> <ul style="list-style-type: none"> In the way members challenged TasNetworks, for example to advocate for rule changes, and persisting with questioning about contingent projects In the tone and content of some aspects of its Engagement Process Report, as mentioned earlier 	<ul style="list-style-type: none"> Greater emphasis by TasNetworks on opex and capex costs than benefits to customers A perceived lack of willingness by TasNetworks to advocate for rule changes to account for contemporary network issues such as climate change, and demand reduction Limited information provided to the RAC on TasNetworks’ contingent projects, especially as they have potential to significantly impact customers’ bills <p>Overall, the RAC is uncertain about the difference it made to TasNetworks’ proposal</p>

4 Further thoughts on key substantive issues

In this section we provide some brief comments on key substantive issues referenced in the AER’s *Issues Paper*¹⁰, and considerations for the AER in the context of TasNetworks customer and stakeholder interests.

4.1 Affordability

TasNetworks reports that its customer and stakeholder engagement revealed “*the top concern for our customers was affordability.*”¹¹ To address this customer concern in its *Proposal*, TasNetworks states that it has responded in several ways including:

- Constraining capital expenditure, resulting in forecasts below the AER’s approved allowances for the current regulatory period; and
- Aiming to achieve opex productivity improvements of 3% in 2024-25, and 0.5% for each subsequent year.¹²

Despite TasNetworks’ actions to address affordability concerns, its *Proposal* indicates electricity distribution consumers will still incur an increase in their charges, including:

- Approximately \$45 for residential consumers in the first year, with increases of around 1.5% each year thereafter.
- For small businesses, the increase is approximately \$62 in the first year, with increases of around 1% per annum in following years.¹³

CCP27 appreciates that some increases will be driven by factors outside TasNetworks’ control, such as interest rates and inflation. To this end transparency of TasNetworks’ *Proposal* would be enhanced by identifying how much of the increase is due to such ‘uncontrollable’ factors, and how much TasNetworks’ can influence.

CCP27 commends TasNetworks for its fiscal discipline inherent in its ambition to constrain capital expenditure, and we note that this ambition aligns with the AER’s capex expectations expressed in the *Better Resets Handbook*¹⁴. However, consistent with the RAC¹⁵, we question whether that benchmark is sufficient for the 2024-2029 regulatory period, and whether further trade-offs are possible, given the current economic pressures on consumers.

Similarly, we acknowledge TasNetworks’ proposed opex productivity improvements resulting from TasNetworks’ significant business transformation. Like the RAC, we question whether a 3% reduction

¹⁰ AER, *Issues Paper TasNetworks Electricity Transmission and Distribution Determination July 2024 to June 2029*, March 2023

¹¹ TasNetworks, *Combined Proposal Attachment 1 – Customer and stakeholder Engagement Summary*, January 2023, p5

¹² *Ibid*, p6

¹³ TasNetworks, *Combined Proposal Overview*, January 2023, p9

¹⁴ AER, *Better Resets Handbook*, December 2021, p20

¹⁵ TasNetworks Reset Advisory Committee, *Response to the TasNetworks Draft Plan*, July 2022, p2

in Year 1 adequately reflects savings achieved by the business, and whether it is consistent with the benefits identified for customers in the transformation program¹⁶.

4.2 Capex – contingent projects

Contingent projects have been a major topic of discussion throughout TasNetworks' engagement program. Details of the nominated contingent projects were shared with TasNetworks' RAC, PRWG, Customer Council, Customer Panels and transmission customers during one-on-one meetings.¹⁷

From our observations, and review of TasNetworks' engagement reports, we agree the main areas of interest for customers and stakeholders were:

- Who pays; and
- What is the potential bill impact?

It is therefore disappointing that in spite of multiple requests from the RAC and others, TasNetworks did not provide customers or the RAC estimates of bill impacts before TasNetworks lodged its *Proposal*¹⁸. Even a range of scenarios based on possible bill impacts from 'most likely' to 'worst case' would have given customers more confidence that affordability was being appropriately considered as part of the planning processes. This lack of information also calls into question the validity of other 'willingness to pay' assessments made by customers, as their views may have been different had they been aware of the full extent of possible price increases (see also Section 4.3 below). We note that following an Information Request to TasNetworks, the AER published indicative bill impacts for typical residential and small business customers in its *Issues Paper*.¹⁹

Although we observed some TasNetworks' discussions with customers and the RAC and on contingent projects, we did not observe or are aware of any detailed customer engagement on the need for the proposed contingent projects or the definition of the triggers for them to be implemented.

Importantly all customer and stakeholder groups have continued to express interest in being involved in TasNetworks' decisions on contingent projects. TasNetworks has indicated it will continue to engage on contingent projects.²⁰ Further, to address a key customer and RAC concern any ongoing engagement needs to include progressive updates of indicative bill impacts of contingent projects for customers.

4.3 Capex – network resilience and reliability

TasNetworks asked members of the collaborative customer panels to express their support or otherwise for a range of approaches to address network reliability and resilience. TasNetworks'

¹⁶ Ibid, p2

¹⁷ TasNetworks, Combined Proposal, Attachment 7, p5

¹⁸ As verbally advised by RAC members during the CCP27 initiated feedback session with RAC members on 14 February 2023, and observed by AER staff

¹⁹ AER, *Issues Paper, TasNetworks Electricity Transmission and Distribution Determination July 2024 to June 2029*, March 2023, p17

²⁰ TasNetworks, Combined Proposal, Attachment 7, p5

Customer Panel *Phase 3 Process Summary Report*²¹ indicates that the Panel’s preferred option for addressing reliability was to:

“Maintain current levels and increase for poor performance areas faster at a higher cost (0.08– 0.1% increase on average residential bill)”

They marginally preferred this option over:

“Increasing poor performing areas without increasing costs (nominally 0% increase on average residential bill)”

While the Panels’ preferred option for addressing resilience was:

“Reliable and resilient (1–2% percent increase on average residential bill)”

However, TasNetworks’ details of its proposed actions to address resilience were not provided, although they were described in general terms, for example:

“Increase rate of installation of alternative construction to address the network in poor performing areas and high bushfire consequence areas such as non-network solutions, covered conductor and undergrounding”²².

Estimated bill impacts in dollar amounts were not specified in either case. The report also notes:

“Some participants across both customer panels provided caveats to their support for option two. These included the requirement for a guarantee that there will be no further price increases from TasNetworks and retailers during the upcoming five-year revenue period”²³

TasNetworks’ Customer Collaborative Panels were conducted during May and June 2022. Since that time, economic conditions in Australia have declined. TasNetworks is forecasting an increase in charges for residential customers of around \$45. Across NEM jurisdictions without regulated retail prices, retail energy bills are forecast to increase by around 20% on 1 July 2023. Tasmanian retail prices will also be revised on 1 July 2023. In addition, TasNetworks is now able to quantify potential bill impacts of contingent projects, which has been a significant concern for customers.

Once informed about these revised bill estimates, customers may not express the same reliability and resilience preferences that result in bill increases. These customer preferences should be re-tested prior to TasNetworks’ lodging its Revised Proposal.

4.4 Opex

We have not observed or are aware of any in-depth engagement with consumers or other consumer representatives on opex forecasts, including opex step changes totalling \$22.1 million for transmission and \$23.0 million for distribution. Therefore, we are not able to comment further in this regard.

²¹ TasNetworks, Revenue Reset (R24), <https://talkwith.tasnetworks.com.au/70268/widgets/358753/documents/248873>

²² TasNetworks, Revenue Reset (R24), <https://talkwith.tasnetworks.com.au/70268/widgets/358753/documents/248876>

²³ Ibid

4.5 Customer Service Incentive Scheme (CSIS)

CCP27 observed that TasNetworks engaged collaboratively with customers and stakeholders to:

- a) Confirm that a new CSIS should be adopted to replace the telephone answering component of STPIS; and
- b) Identify proposed customer service measures.

TasNetworks discussed the CSIS with its Customer Council as well as a specially recruited sample of end use customers. Each group developed a set of possible customer service measures. Preferred metrics for inclusion for end use customers included:

- The duration of unplanned outages
- A Customer satisfaction rating of complaints

In contrast, preferred metrics from a Customer Council perspective included:

- A customer satisfaction rating of planned and unplanned outages
- An overall customer satisfaction rating
- A new connections customer satisfaction rating²⁴

TasNetworks successfully resolved the differences by proposing a blend of preferences from the two groups which omitted any duplicated measures, resulting in the following proposed CSIS measures:

- Complaints handling
- Outages (both planned and unplanned)
- New connections

TasNetworks' further discussions with the Customer Council on targets and incentive rates were inconclusive and were not completed before TasNetworks lodged its *Proposal*. TasNetworks will need to further engage on these aspects of the proposed CSIS to ensure that customers fully support the proposed scheme to be included in its Revised Proposal.

4.6 Future engagement plans

CCP27 commends TasNetworks for preparing a Draft Engagement Plan extending to December 2023. As discussed in Section 4.3, it will be important for TasNetworks to re-test end customers' investment preferences, given the changing economic conditions.

Further, the *Better Resets Handbook* expects networks to engage with consumers as an ongoing business-as-usual activity, rather than a one-off process only undertaken in preparing for regulatory proposals. CCP27 challenges TasNetworks to consider how to harness the knowledge, insights and interest built up through the various customer and stakeholder groups it established to participate in

²⁴ TasNetworks, Revenue Reset (R24), <https://talkwith.tasnetworks.com.au/70268/widgets/358753/documents/241593>

engagement activities for the current regulatory reset, with a view to creating new mechanisms for deeper ongoing customer engagement.

Appendix: TasNetworks engagement activities

The following table lists TasNetworks engagement activities, noting those observed by CCP members:

Stakeholder group and activity	Date	CCP27 Observed	No. of stakeholders in attendance ²⁵
Reset Advisory Committee			
Meeting #8: Executive business update, revenue reset update, forward engagement program	12 Apr 2023	No	Not established
Meeting #7: Reset update, Marinus Link, contingent projects, preliminary expenditure and revenue and overview of the RAC's Independent engagement report	30 Nov 2022	Yes	4/6 RAC members
Meeting #6: Reset update (phases 3 and 4), overview of Draft Plan, capex forecasts, Better Resets	7 Sep 2022	Yes	All 6 RAC members
Meeting #5: Reset update, feedback on customer panels, preliminary forecasts, reliability, non-network capex (cyber)	27 May 2022	Yes	?
Meeting #4: TasNetworks transformation, capex and repex Q&A	23 Mar 2022	No	All 6 RAC members
Meeting #3: Background information	9 Feb 2022	No	?
Meeting #2: Background information	2 Dec 2021	No	?
Meeting #1: Background information	20 Oct 2021	No*	?
Collaborative customer panel - individual customers			
Draft Plan update, test support for direction	21 Jul 22	No	
CSIS/STPIS	4 Apr 22	Yes	
Hobart: inform on reset, identify customer priorities and support for reliability, network resilience and DER proposals	29 May 22	Yes	
Hobart: inform on reset, identify customer priorities and support for reliability, network resilience and DER proposals	1 May 22	No	
Launceston: inform on reset, identify customer priorities and support for reliability, network resilience and DER proposals	4 Jun 22	No	

²⁵ Excludes CCP, AER/ACCC observers

Customer discussion circles to understand customer preferences, topics of importance to customers, support for network resilience and reliability proposals			
Hobart	2 Jun 22 5 May 22 31 Mar 22	No No No	
Launceston	30 May 22 2 May 22 28 Mar 22	Yes No No	
Ulverstone	31 May 22 3 May 22 29 Mar 22	No No No	
Customer focus groups			
Inform, gather customer expectations of TasNetworks' R24 engagement, assess interest in future R24 engagement	30 Nov 21 to 13 Dec 21	No	
Other customers/stakeholders			
Local council - online forum - draft Plan update, test support for direction	25 Aug 22	No	
Local council - online forum - inform and seek feedback on public lighting, customer connection and consumption forecasts etc.	19 May 22	No	
Electricity retailers - online forum - overview and update on TasNetworks' Revenue Reset program and distribution pricing strategy	3 Mar 22	No	
Stakeholders – online forum - draft plan update, test support for direction	27 Jul 22	No	
Transmission stakeholders – online forum - update on reset, TasNetworks investment, contingent projects	13 Jul 22	No	
Customer Council – online workshop - CSIS update and feedback from CC	13 Jul 22	No	
Customer Council and TasNetworks Policy and Regulatory Working Group - deep dives on preliminary investment, transmission, future distribution and CSIS discussion	7 Apr 22	Yes	
TasNetworks Policy and Regulatory Working Group - deepen participants' knowledge and understanding of TasNetworks' operations and the Revenue Reset process, and to identify topics for deeper engagement in Phase 3 of the engagement program	16 Nov 21	No*	
TasNetworks Policy and Regulatory Working Group - Revenue recovery and CSIS discussion	7 Apr 22	No	

TasNetworks Policy and Regulatory Working Group - Connections, alternative and standard control services (F&A)	7 Apr 22	No	
TasNetworks Policy and Regulatory Working Group - Tariffs	16 Aug 22	No	
Customers - Inform on reset, identify customer priorities and support for reliability, network resilience and DER proposals	7 May 22	No	