



Response to AER TasNetworks Issues paper

2024 – 2029 Regulatory Control Period

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1. PURPOSE

The purpose of this submission is to respond to the AER 'Issues Paper' (TasNetworks Electricity Transmission and Distribution Determination - 1 July 2024 to 30 June 2029) dated March 2023 and to highlight continued and sustained cultural blockers specifically during the regulatory engagement process.

2. SUMMARY

The AER's – TasNetworks Electricity Transmission and Distribution Determination, Issues Paper provides an AER perspective and assessment (of its preliminary review) on TasNetworks proposals and in the way the DNSP has engaged.

As is the case with any proposal that has many different elements that require consideration, most stakeholders are only interested in the areas/aspects of the regulatory process and proposal which affect their area of concern. Anything outside their area of interest is generally outside their area of understanding or care.

DNSP focus is on the continuation of its operations, i.e. maintaining the status quo and doing what it believes is in the best interests of the organisation, which has historically failed to deliver an optimal consumer outcome. This regulatory period risks leading to a similar outcome if the DNSP is allowed to continue to operate without more rigorous oversight. The absence of effective incentives to ensure the DNSP is accountable and does what it says it is doing further instills a culture of waste and allows the DNSP to simply dismiss the concerns of other stakeholders.

TasNetworks annual reports and proposals detail positive details and data that in most instances cannot and is not verified, the practice of DNSP's self-reporting and self-evaluating allows DNSPs to be less accountable and to continue to operate in the manner they always have with little or no efficiency improvements. As mentioned previously, part of this problem is due to cultural issues that prevent the business from effectively engaging with stakeholders, i.e. listening to concerns and ideas, providing meaningful answers to questions raised and addressing stakeholders concerns that if addressed would reduce waste and costs to the business.

It is important to provide credit to TasNetworks in that it has engaged stakeholders much differently in this regulatory period compared to previous years. However, TasNetworks continues to lead the narrative by only informing stakeholders of what it proposes to do but does not allow stakeholders to influence outcomes or to be part of the decisions.

Throughout this regulatory engagement period, TasNetworks has continually failed to provide answers to questions and/or delays its responses allowing very little time for stakeholders to consider and respond, leaving stakeholders to feel that the engagement process is no more than a box ticking exercise and TasNetworks is only wanting to push their own agenda through without scrutiny or input from others. This point is demonstrated in that TasNetworks has continued to exclude some stakeholders from almost all engagement & correspondence opportunities that have been provided to other stakeholders whilst not closing the loop on issues, concerns and questions raised. Most notable is that TasNetworks self-evaluated engagement data is at odds with the experiences of stakeholders. A point that should be scrutinised further.

There is also concern that there is an absence of penalty or enforcement of ring-fencing rules in that TasNetworks continues to perform work on private assets (as it has always done) even though the new services it has proposed to perform around rectification of private works, which officially would not commence until 1 July 2024. The question that has been put to both TasNetworks and the AER is what should occur between now and 1 July 2024, e.g. should a waiver be applied for and further discussion occur as to why TasNetworks continues to breach ring fencing rules; *how can the industry collectively address this area.*

To date, TasNetworks has indicated it does not want to discuss any alternatives outside what they have proposed which demonstrates a lack of willingness to genuinely engage with stakeholders and find a solution that provides best outcomes for consumers and the industry.

With regard to TasNetworks stakeholder engagement, ENTATAS would like to understand how the figure of 567 individuals engaged by TasNetworks has been determined? Our understanding is that a smaller number of individuals were engaged multiple times across the 61 activities, (and 64 topics) which would not account for ‘567 individuals’ being engaged. Further analysis of these engagement figures is suggested to ensure that this is a true reflection of stated values and data.

As a final point, technical aspects have been cited as being of less importance when making a regulatory determination, although the services a DNSP provides is in most instances technical in nature and its these technical aspects that heavily influence overall costs to a Network Service Provider. The AER is generally not focused on technical elements nor has the expertise to understand this element. The AER and regulatory determination process would benefit immensely in having subject matter experts who can advise the AER on technical aspects and ensure DNSP’s cannot dismiss important areas that are currently overlooked and can impact overall value of the regulatory process.

3. RESPONSE TO ISSUES PAPER QUESTIONS

Consumer engagement

1. *Do the key themes from TasNetworks’ engagement resonate with your own preferences? Are there additional issues you would like to see influence its proposal and our assessment of the proposal?*

Yes, transparency on:

- what the consumer is actually paying for at all levels is critical to allow the consumer to be able to make an informed decision and to express their sentiment.
- how DNSP have actually improved efficiency from previous proposals and whether they have delivered on the expectations of consumers (and how is this actually measured)

2. *Do you think TasNetworks has engaged meaningfully with consumers on all key elements of its 2024–29 proposal?*

No.

Are there any key elements that require further engagement?

Yes, Specifically in relation to, ‘A transparent socially responsible approach that ensures a sustainable solution for Tasmania’ & ‘Reliable now, resilient for the future for the entire state’–

more discussion on ‘Rectification of private works under fault’ as questions, concerns, and discussions have continued to be avoided/not answered by TasNetworks; there has been reluctance/refusal to discuss sustainable & more socially responsible options outside what TasNetworks has already proposed.

3. *To what extent do you consider you were able to influence the topics engaged on by TasNetworks? Please give examples.*

To no extent:

As indicated in previous question; questions, concerns, and discussions have continued to be avoided/not answered by TasNetworks; there has been a reluctance/refusal to discuss sustainable & more socially responsible options outside what TasNetworks has already proposed. e.g. ‘Rectification of private works under fault’.

Regulatory asset base

4. *Do you have views on TasNetworks’ proposed depreciation approach for either transmission or distribution, as set out in its 2024–29 proposal?*

No.

Capital expenditure

5. *Do you consider TasNetworks capex proposal addresses the concerns of electricity consumers as identified in the course of its engagement on the proposal?*

No. Refer to comments in question 6 below.

6. *Has TasNetworks engaged constructively with its stakeholders on its capex proposal? Please provide reasons for your response.*

No. Discussion with many stakeholders indicates that stakeholders that have been engaged by TasNetworks, specifically consumers and local government bodies such as local councils do not understand the language used by TasNetworks and therefore do not understand what is being presented to them. Further work in providing target groups with information that is relevant to their areas of influence and information that they can understand is crucial in stakeholders providing constructive and meaningful feedback/input. Just ticking a box to say stakeholders have been engaged is not only unhelpful but deceptive.

7. *Are there particular areas of TasNetworks capex proposal that you would expect further engagement on?*

No, not at this stage.

8. *Has TasNetworks clearly identified the need for its proposed contingent projects, and are the triggers well defined.*

From the data that we have been able to obtain, yes it appears so.

Operating expenditure

9. *Do you consider TasNetworks’ transmission and distribution opex forecasts for the 2024–29 period reasonably reflect the efficient costs of a prudent operator?*

This question is difficult to answer particularly because of intimate knowledge, history and direct exposure to the inefficiencies that exist within the DNSP within the operational sphere. However, if evaluated with relation to previous revenue proposals and how costs have been managed and

how truly reflective forecasting has been (and implemented) then the answer would be a conclusive no.

10. Do you consider TasNetworks' transmission and distribution opex proposals were sufficiently considered as a part of the stakeholder engagement processes and adequately address the themes and issues raised by stakeholders?

Again this question is difficult to quantify and answer as most stakeholders engaged by TasNetworks do not understand opex/capex and so cannot engage in meaningful discussion around this topic.

Further discussion around TasNetworks current restructure, the cost of this activity and who pays for this would be beneficial. To date, ENTATAS has struggled to obtain clear answers to any question raised and the reason often provided is that it is due to the current restructuring. This has been an extremely drawn-out process, and with many employees leaving and redundancy of experienced people, this does not resonate with the theme that TasNetworks proposal is attempting to portray. How does a business operate cost effectively if it has reduced its workforce and is at the same time requesting to provide additional new services?

Taxable income

11. Do you have views on the approach to corporate income tax in TasNetworks' 2024–29 proposal?

No

Incentive schemes and allowances

12. Do you consider TasNetworks proposed EBSS carryover amounts provide for a fair sharing of the efficiency gains and losses it has achieved in the 2019-2024 period?

Unable to comment on this question

13. Do you consider applying the EBSS to TasNetworks in the 2024–29 period would provide it a continuous incentive to reduce its opex and do you consider that the proposed exclusions from the scheme are appropriate?

Unable to comment on this question

14. Do you consider TasNetworks proposed CESS carryover amounts provide for a fair sharing of the efficiency gains and losses it has achieved in the 2019–24 period?

Unable to comment on this question

15. Do you have views on TasNetwork's CSIS? Does it meet the customer priorities identified through its customer engagement program? Please provide examples.

Unable to comment on this question

Network Pricing

16. What do you consider to be an appropriate rate for a margin recovered on quoted services? Should this be set at the average nominal WACC for the period, or some fixed value (e.g., 6%)?

Unable to comment on this question

17. Do you consider the tax component of the quoted services price control formulae should be set at the corporate tax rate of 30%, or an alternative rate?

This is a discussion that has not been part of stakeholder engagement sessions and should be an area discussed more broadly with stakeholders.

18. *Do you consider the AER should review the current price cap form of control for legacy metering services following the AEMC's decision?*

ENTATAS believes that the AER should review and understand why TasNetworks has not proactively exited this space considering that they have been aware of Power of Choice meter changes since 2009. TasNetworks continued existence in this space continues to create layers of confusion within the industry. Like private works, TasNetworks continues to lack the visibility (or the appetite to understand) what its field crews are actually doing in these spaces and the true costs associated with these activities.

19. *More generally, do you have any comments on TasNetworks' proposed control mechanisms?*

Yes. What control mechanisms? It is difficult to understand what those controls are if detailed explanations have not been provided, including when a detailed outline of costs is not provided to stakeholders to review. For example, 'Rectification of private work under fault conditions' is not specifically mentioned within pricing. Although this is said to be a 'proposed new service', TasNetworks has always provided (and continues to deliver) this service which has to date had inconsistent approaches and quoted outcomes depending on who attends or which jurisdiction it falls in. How does this promote/support competition if the DNSP cannot be honest, transparent and/or willing to discuss alternate options that could provide more optimal outcomes?

Tariff structure statement

20. *Do you consider TasNetworks has demonstrated reasonable progress on tariff reform considering its customer feedback and circumstances?*

Yes

Ancillary network services

21. *Do you consider that sufficient justification has been provided in the provision of new services?*

This is the wrong question to be asking. Should the DNSP provide this service? The answer is both the DNSP and private sector must play an equal role in providing this service initially whilst working on what this should look like now and into the future. TasNetworks has limited the ability for stakeholders to discuss these new services and answers to many questions remain unanswered. Requests to discuss alternate options have continually been dismissed by TasNetworks who have continually advised they do not wish to discuss alternate options.

22. *Do you consider the proposed labour rates and fee-based prices to be reasonable?*

No. There is not enough information to clearly inform the consumer/stakeholders on the costs of the new services. Most obvious is the absence of a specific service that states 'Rectification of private works'. It is important to note that TasNetworks still has not provided a detailed document for stakeholders to review detailing/defining what bare minimum work would be performed when performing this service or the supporting processes around the proposed service nor what mechanisms will be put in place to ensure consistency and to ensure ring fencing rules will be adhered to (as this currently does not occur).

Metering

23. Do you consider legacy metering cost recovery should be socialised at the network level, or be left to retailers?

This should be the Retailers responsibility.

24. Do you consider accelerated depreciation of the legacy metering asset bases to be preferable to phase out legacy metering charges?

Yes

25. Do you consider there are risks that may materially impact the 2026 target for rolling out smart meters, and if so, do you consider the current control mechanism (price cap) appropriate when such a volume risk applies?

No

26. More generally, do you have any comments on TasNetworks' proposed cost recovery for legacy metering services?

Yes. More specifically the costs associated with meter panels. TasNetworks is not able to provide the industry, consumers and stakeholders with clear direction on what panels it still owns, i.e. which meter panels are currently owned by TasNetworks. Therefore, TasNetworks cannot provide an accurate forecast on meter panel expenditure. Stakeholders have been requesting clear direction on this point since August 2017 prior to implementation of Power of Choice metering changes. Is this relevant to meter services & cost? Yes, it is.

The question is why we are talking about this now (still talking about this), why has this not already been resolved.

Public Lighting

27. Do you consider TasNetworks public lighting proposal generally incorporates stakeholder inputs from this pre-lodgement engagement? If not, did TasNetworks communicate these potential departure points to stakeholders and provide adequate explanation during pre-lodgement engagement?

No. TasNetworks did not engage critical stakeholders appropriately or effectively in this area.

28. Do you support TasNetworks proposed suite of public lighting services and prices?

No, does TasNetworks and local council areas know what streetlight assets they own? There are indications that they do not so what are we actually paying for?

29. Do you have any other comments on TasNetworks public lighting proposal and pre-lodgement engagement?

A review of previous regulatory proposals should occur to ensure the DNSP has met AER & consumer expectations. Is TasNetworks meeting its service level obligations around streetlighting. Has it previously?

Transmission Pricing Methodology

30. Do you consider TasNetwork's proposed changes to its transmission pricing methodology for the 2024–29 period appropriate and that they give effect to the pricing principles for prescribed transmission services and the pricing methodology guidelines?

Unable to comment on this question as is not our area of experience.

31. More generally, do you have any comments on TasNetwork's proposed transmission pricing methodology for the 2024–29 period?

Unable to comment on this question as is not our area of experience.