

# Engagement Process Report by the TasNetworks Reset Advisory Committee

20 January 2023

## Introduction

The Reset Advisory Committee (RAC) is TasNetworks' peak advisory group, comprised of six members who provide in-depth expertise and input into TasNetworks [Regulatory Proposals](#) for the 2024-29 regulatory period (1 July 2024 to 30 June 2029). The RAC plays 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 interest 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](#). A list of RAC members and brief biographies is attached at Appendix 1.

The RAC provided a report on TasNetworks' Draft Plan in August 2022 and a copy is attached at Appendix 2.

As the time approaches for TasNetworks to make its submission to the AER it is timely for the RAC to provide a report on its views on the engagement process to date with TasNetworks.

## Education

The membership of the RAC is quite eclectic with some members having considerable past experience and exposure to the intricacies of the electricity industry as large and small customers and also network managers, whilst other RAC members had limited experience other than being a residential customer themselves.

So it was very appropriate that the initial meetings of the RAC were of an educational nature with TasNetworks' Subject Matter Experts (SMEs) providing information on the Regulatory framework within which monopoly businesses operate. This included the Building Block approach to determine how much revenue TasNetworks is allowed to earn from its regulated business and the pricing strategy for recovering allowable revenue from its various customers.

In addition to this "in house" education, RAC members were able to participate in a Consumer Advocacy Training Program conducted by Energy Consumers Australia in conjunction with the Australian Energy Regulator. Unfortunately, these external sessions were held quite late in the process; it would have been much more beneficial if these sessions had been held much earlier in the process.

The RAC acknowledges the investment by TasNetworks in educating the RAC about how the National Electricity Market works and, more specifically, how the complex rules and regulations apply to network businesses like TasNetworks.

## History

The RAC considers that more emphasis on the outcome of TasNetworks' previous Revenue Reset, R19, would have been useful in setting the context and starting point for R24. It was not clear what

lessons had been learned, if any, and what improvements had been identified for R24. Whilst admirable, TasNetworks' stated upfront that the objective was for the overall R24 capex to be not greater than that for R19. The RAC did not consider this to be the appropriate starting point and sought clearer evidence that a "bottom up" risk based analysis had been conducted to determine the appropriate capex level for R24.

The outcome of R19 would also have been an appropriate opportunity to discuss the methodologies and outcomes of the various incentive schemes that TasNetworks is subject to under the Rules.

### **Affordability**

The RAC supports the basic principles espoused by TasNetworks of providing network services to Tasmanian customers that are affordable, reliable and resilient.

However, from the RAC's perspective the affordability issue did not rate highly enough in the focus shown by TasNetworks whose focus was very much more about the technical and costs inputs associated with its proposed opex and capex activities, as opposed to either the customer benefits or indeed the impact on electricity customers' bills. It was only in November 2022 that some potential pricing impacts of the outcome of R24 were detailed for the RAC.

### **Costs versus benefits**

Detail provided to the RAC on opex and capex programs tended to be heavy on costs but much lighter on benefits. Cost benefits analysis as prescribed by the Rules, such as the Regulated Investment Test – Transmission (RIT-T) do not, in the view of the RAC, necessarily result in a realistic outcome for Tasmanian customers. Where the net benefit to customers is dependent on an energy cost reduction being greater than the corresponding increase in network charges, TasNetworks can control the network cost increases but has no control over the asserted energy cost reduction which is in the hands of the competitive energy generation market.

Network investment to reduce network losses in the hope of a reduction in energy prices is one augmentation capex example, and indeed the same can be said for Project Marinus where very significant network investment costs that will land on Tasmanian customer's bills are expected to be more than offset by lower energy costs. If, for whatever reason the perceived energy cost reductions do not eventuate, this represents a major shift of investment risk to Tasmanian customers who will remain liable for the network investment costs for the next 40 years!

The RAC is also concerned about ongoing cost increases associated with cyber security, especially as this risk is likely to increase as the grid faces more consistent and sophisticated attacks by hackers.

### **Culture**

Thirty years ago, yes it's 30 years, when the National Electricity Market (NEM) began, the electricity system was basically large generators connected to customers by unidirectional monopoly transmission and distribution networks, and the National Electricity Rules (NER) were written to reflect this situation. Of note is that the NER and associated regulatory investment tests for approval of proposed Capex projects were based solely on economic analysis and to this day do not allow other aspects such as environmental or social benefits to be taken into account.

Wind forward to today and the electricity system is a very different beast, with emergence of small and large scale intermittent renewable generation and storage resources spreading throughout the networks and a greater global focus on climate change and other non-economic benefits.

The RAC felt that TasNetworks was overly driven by a “Them’s the Rules” approach rather than being prepared to challenge the rules that in some cases:

- *Are clearly out of date* e.g., limited room within the current regulatory framework for consideration of environmental and social benefits. In addition, current Australian design/standards do not necessarily take into climate change consideration, so technical design may not be best for future conditions.
- *Don’t reflect the current situation* either:
  - nationally, or
  - in Tasmania where locally the dispersed nature of Tasmania’s hydro generation system and domination by one player, Hydro Tasmania, creates some unique circumstances that need to be taken into account.
- *Don’t reflect customer feedback*: TasNetworks has undertaken considerable stakeholder engagement as part of R24, and while affordability and reliability are a strong themes, so are themes around sustainable solutions (e.g. consideration of climate change, and environmental and social benefits) and proactive investment in renewable energy.

Historically, the solution to providing electricity delivery services to customers was very much about building more network assets. Indeed, the nomenclature used, such as Network Service Provider implies that the core function is all about providing networks as opposed to customer service. However, current and future expectations within a growing renewable energy market, as demonstrated by TasNetworks’ customer feedback, is that electricity delivery services are more than network assets and include non-network solutions.

Another “outside the rules” issue concerning the RAC is the lack of focus on reducing demand for energy through more attention to energy conservation. Increasing energy efficiency and reducing demand would have a significant impact on the cost of living for domestic users. What can TasNetworks do to promote and encourage this?

The RAC considers there is a need for greater cultural change, both within TasNetworks and the Regulator, to shift the focus to reflect the situation that building more network assets should be the solution of last resort, after all other opportunities to provide a better economic, environmental and socially acceptable solution have been exhausted. While some areas within TasNetworks are open to such thinking, as demonstrated in their interactions with the RAC, others appear more reluctant and focused on engineering/network solutions (part rule driven, part culture driven).

### **Contingent Projects**

Typically the quantum of contingent projects in a Revenue Application would be small, relative to the overall revenue the regulated business is applying for. But this is not the case for R24 for TasNetworks, where the scale of contingent projects is very large, predominantly driven by Project Marinus, and where the likelihood of them proceeding within the R24 period is high. As such, the R24 contingent projects have the potential to have a significant impact on R24 and customer bills, especially in a time when many customers will be facing financial hardship due to rising interest rates and inflation.

The RAC felt that TasNetworks was reluctant to provide any analysis of the impact on customers bills if many or all of these contingent projects were triggered, because they were still contingent and there was too much uncertainty about costs and how they would be apportioned. However, recently legislated targets of 200% renewable energy in Tasmania and the Battery of the Nation project, all reliant on Project Marinus, make it pretty clear that there is a very strong political strategy for

Project Marinus to eventuate. Also, with cost sharing arrangements agreements now agreed between the various governments, the RAC considers that enough information is now available to provide some level of detail about the impact on customers' bills.

Without better consideration of the effect of the contingency projects within the R24 period, the RAC believe the R24 proposal will underpredict the impact to customer bills. While this may allow the revenue proposal to meet TasNetworks' original goal of the R24 Capex being similar to R19, this is not necessarily best for customers or transparent, in terms of the realistic cost of electricity supply in R24 given the high likelihood of several contingent projects to proceed.

### **Did the RAC make a Difference?**

Whilst the RAC saw and responded to TasNetworks' Draft Report in August 2022, we will not have the opportunity to review TasNetworks submission to the AER which is due in late January 2023. Thus, we do not know what changes to the Draft have occurred as a result of RAC involvement and feedback, or not. However, over the course of the process the RAC has observed changes to the proposals put by TasNetworks in response to its questions and comments.

The RAC looks forward to seeing the draft R24 proposal when it is released and providing further input on the proposal.

### **Willingness of TasNetworks' staff**

The RAC appreciated the support of the TasNetworks R24 engagement team who encouraged the RAC to ask the difficult and challenging questions. The RAC also appreciated the willingness of TasNetworks' staff to provide information to, and respond to requests from, the RAC. Over time, TasNetworks became more open in relation to providing direct answers to questions. It was somewhat disappointing that it took so long for TasNetworks to be so open with the RAC as the RAC felt all along the group has sought to assist TasNetworks and not pursue individual agendas.

The SME's were well prepared and willing to openly discuss issues with the RAC (both within formal RAC meeting and outside), and in some cases shared the RAC's frustration with the limitations of the current rules.

It was unfortunate that two key staff members, including the RAC Co-Chair, departed TasNetworks in late 2022.

### **Appendices**

1. TasNetworks Reset Advisory Committee bios
2. Submission by the TasNetworks Reset Advisory Committee in response to the TasNetworks Draft Plan – July 2022.

# Appendix 1

## TasNetworks

### Reset Advisory Committee

Member bios (updated 20 Jan 2023)



#### **Councillor Bill Harvey**

RAC member and Co-Chair since: October 2021

Bill has qualifications in Urban Studies, Education, Bushcare and Environmental Management and is a former educator. He spent a decade teaching English in China, Malaysia and at the University of Tasmania where he focused on education for sustainability.

He is an experienced local government councillor and was first elected to the City of Hobart in 2007 and currently chairs the council's sustainability portfolio. He is also an experienced board member and currently chairs Landcare Tasmania and sits on the board of the National Landcare Network.

Bill is committed to Hobart becoming a national leader in environmental sustainability through leadership, innovation, good governance and policy. He was instrumental in Hobart becoming the first jurisdiction in Australia to introduce regulation banning a range of single-use plastics - an initiative that saw the removal up to 10 million items of single-use plastics from the waste stream yearly in the City of Hobart. He was also responsible for Hobart becoming the first capital city in Australia to declare a climate and biodiversity emergency on the 17th June 2019.

Bill is also committed to the UN Sustainable Development Goals (UN SDGs) and in 2019 founded the UN SDGs Network Tasmania, which aims to create a collective impact approach across public, private and not-for-profits sectors towards achieving positive outcomes underpinned by the UN SDGs.



## **Dr Cynthia Townley**

**RAC member since: October 2021**

Dr Cynthia Townley has been working in community sector policy and advocacy for ten years, in areas such as housing and homelessness policy, energy, and digital inclusion. Her expertise draws on a professional background in philosophy, with work including rights and inclusion for disadvantaged groups, professional and research ethics, and political philosophy.

Cynthia has a sound understanding of social justice principles, as well as practical knowledge of how these apply to the everyday circumstances of energy consumers in Tasmania, especially households earning low incomes.



## **Dr Eleni Taylor-Wood**

**RAC member since: October 2021**

Dr Eleni Taylor-Wood has over twenty years' experience in project management, sustainable infrastructure, and environmental and social assessment and management. Whilst Eleni's initial career was focused on ecological assessment and management and the protection of cultural heritage, she focussed later on the sustainable development and operation of infrastructure (hydropower, renewable energy, transmission lines and roads) and water supply projects.

Eleni has also been involved in training and capacity building. Eleni has worked across Tasmania, mainland Australia and Internationally (Pacific, South East Asia, South Asia, Africa, South America, Europe).



## **John Pauley**

**RAC member since: October 2021**

John has a Bachelor of agricultural economics and a Post Graduate Diploma in computing science.

He has an extensive public policy background, having worked in the Tasmanian Government agencies of Premier and Cabinet, Treasury, Primary Industries, Transport and Infrastructure for three decades until his retirement in 2010.

John is passionate about the financial and social well-being of older Tasmanians. He uses his knowledge and experience in economics, finance and business management to advocate for the interests of older Australians on key issues affecting their well-being. John also has a strong interest in good nutrition, being active and socially engaged as a means to maintaining personal health and well-being.

In addition to his RAC membership, John also contributes to a wide range of organisations, including Chair of the COTA Tasmania Policy Council, board member of Health Consumers Tasmania, and President Australian Council of Public Sector Retiree Organisations (ACPRSRO) – among others.



## **Leigh Darcy**

**RAC member since: October 2021**

Leigh holds an Associate Diploma in electrical engineering and is the Principal Advisor Energy and Strategy for Bell Bay Aluminium. He has over 30 years in the Aluminium Industry. His roles have focused on asset management in the form of planning, supervising, team leadership, management of capital projects and high voltage electrical assets for the smelter. Leigh also manages the energy contracts for the smelter, both from a commercial and operational aspect.

In addition to his RAC membership, Leigh is also a non-executive Director for the Tasmanian Minerals, Manufacturing and Energy Council, and Chair of the Bell Bay Advanced Manufacturing Zone Limited.



## **Richard Bevan**

**RAC member since: October 2021**

Richard is a professional electrical engineer and company director experienced in the electricity, mining and building services consulting industries.

In 1994 Richard was appointed Hydro Tasmania's General Manager Network and in 1998 appointed inaugural CEO and Managing Director of Transend Networks, a position he held for twelve and a half years until December 2010.

Richard is a retired Chartered Professional Engineer and Fellow of both Engineers Australia and the Australian Institute of Company Directors.

Richard is currently a director of Crisp Bros. & Haywards, chairman of the Clarence City Council Audit Panel, Commodore of The Royal Yacht Club of Tasmania and chairman of the Tasmanian Regional Advisory Committee for Australian Sailing.

## Appendix 2

### Submission by the TasNetworks Reset Advisory Committee in response to the TasNetworks Draft Plan – July 2022.

19 August 2022

#### Introduction

The Reset Advisory Committee (RAC) is TasNetworks' peak advisory group, comprised of six members who provide in-depth expertise and input into TasNetworks' [Regulatory Proposals](#) for the 2024-29 regulatory period (1 July 2024 to 30 June 2029). The RAC plays 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. The RAC has met around every six weeks since October 2021 and is engaged on topics of interests with more detail than other forms of consultation. More information about the RAC and its role can be found at this link [Reset Advisory Committee \(RAC\) | Talk With TasNetworks](#).

#### Opening Comments

The TasNetworks Reset Advisory Committee (RAC) welcomes the opportunity to provide comment on the TasNetworks Draft Plan – July 2022.

The RAC acknowledges the investment by TasNetworks in educating the RAC about how the National Electricity Market works and more specifically how the complex rules and regulations apply to network businesses like TasNetworks.

The RAC supports the basic principles espoused by TasNetworks of providing network services to Tasmanian customers that are affordable, reliable and resilient.

From a customer's perspective, there are three basic questions that TasNetworks needs to address in its plans:

1. What needs to be done?
2. How much is it going to cost?
3. Who should be paying for it?

The RAC's responses to TasNetworks draft Plan are couched around these three questions as they relate to the significant building blocks that determine TasNetworks' Maximum Allowable Revenue (MAR) for its next revenue period 2024-2029.

#### Operational Expenditure

Opex reflects the cost of running the current business, something that TasNetworks should be good at; it's core business! It is good to see that TasNetworks benchmarks well, nationally and

internationally, compared to similar businesses. The RAC notes and welcomes TasNetworks' goal of reducing distribution and transmission Opex costs over time through innovation and improved business processes, although the projected 3% reduction as required by the AER benchmarking guidelines doesn't seem to be representative of savings being sold to customers. The RAC would like to see more information about how TasNetworks' plan reconciles what the RAC is being told against what TasNetworks proposes, and why the transformation initiatives and significant reduction in human resources recently announced only delivers a 3% reduction in opex.

TasNetworks should continue to encourage innovation utilising its internal resources as well as participating and contributing to national and international best practice forums such as the Australian Energy Networks Association and Cigre.

## Capital Expenditure

The RAC welcomes TasNetworks' objective of keeping overall capex below the AER's allowance for the current 2019-2024 revenue period allowance but notes that such a benchmark is only valid if firstly the current allowance was appropriate and secondly if the required level of capex for the 2024-29 period is similar to that of the current period. The RAC is [more interested in knowing, from a zero based capex model, what has been used to determine the appropriate capex forecast. How low can the capex forecast be versus the risk of reliable supply or public safety risk?](#)

Distribution Capex requirements tend to comprise a larger volume of lower cost items, compared to transmission capex that typically comprises fewer larger, but more expensive investments. Distribution capex by its nature is generally closer to the end use customer and therefore the issue of "who pays" is clearer cut. By comparison, transmission capex is often more closely associated, either directly or indirectly, with the large-scale connections requirements of large generators or large consumers, and the issue of determining who should be paying for what becomes more difficult.

The RAC has had the opportunity, in previous meetings with TasNetworks, to be briefed in more detail about some of the projects in the distribution and transmission capex plans. Unfortunately the lack of detail in the draft report, especially regarding benefits to customers, is insufficient for any meaningful comments to be made on the veracity of these projects.

In relation to the Targeted Reliability Improvement Program Initiatives listed in Table 7, more detail is required to enable an appropriate assessment of the benefit to customers projects to be made, especially in terms of what levels of improvement in reliability are anticipated and at what cost, and how these projects have been determined as appropriate in the context of TasNetworks' asset management strategies. Also, what non-network alternatives may have been considered. Specifically, the proposed action of installing a new 220/22kV transformer and switchgear at Pieman Switching Station would seem to be an expensive network solution to satisfy a relatively small number of customers in the Zeehan area. Is this project an opportunity for some creative thinking around community based distributed energy schemes and alternative energy sources including battery storage? Seeking a creative solution such as DER with battery storage could attract additional funding from the Commonwealth as it seeks demonstration projects at a community scale to show how its climate goals can be delivered while at the same time delivering significant benefits to remote and regional consumers.

TasNetworks Draft Plan forecast includes one transmission substation augmentation project, but no detail is provided (page 57). If this is the Waddamana Substation network transformer installation project that the RAC was briefed on in January 2022 then further scrutiny is required because in the view of the RAC that the key beneficiary of this project is the local generator, and Tasmanian customers should not be paying for it.

The RAC notes the significant increase in costs of ICT in the transmission capex program but there is very little detail about how the customer benefits from this increased expenditure. It would be useful to know how TasNetworks arrived at its required expenditure in ICT, and what risk assessment processes were undertaken to support that outcome.

What costs associated with Cyber-security compliance due to national level requirements are anticipated in the future? The current trend looks like exponential increase. If this trend continues, there may be a point at which the costs of being part of the NEM outweigh the benefits. How would cyber-security risk assessments differ if Tasmania were not part of the NEM? These increasing costs were not part of earlier decisions to be part of the NEM or earlier revenue reset calculations. These costs are becoming part of business as usual, but there needs to be very clear justification for both the current costs and for continuing this direction in the future, because these costs may constitute a material re-balance of the costs and benefits to Tasmanian residential customers. This calculation may be different for commercial and industrial customers, because the counterfactual options are different.

As telephony costs have now been reassigned to the ICT budget, has there been an associated reduction in costs elsewhere in the budgets?

## **Contingent Projects**

The scale of contingent transmission project costs and the potential impact on customer bills is quite alarming.

The RAC notes the comment (page 63) *“However, there is a high degree of uncertainty regarding the future timing of these projects and Tasmanian electricity customers will only have to pay for them if they proceed.”*

The significant question in the mind of the RAC is... what proportion of these project costs should be assigned to Tasmanian customers, as opposed to being funded through other sources?

On page 38 of the draft, it states that Tasmania is the first Australian state to achieve 100% renewable energy generation. Furthermore the draft outlines that Tasmania has a renewable generation target of 200% or double the current level of generation of 10,500 GWh by 2040 and some 15,750 GWh by 2030.

It would seem unreasonable to require that Tasmanian electricity consumers fund expansion of the transmission and distribution network which is required to support additional generation which is not required to meet existing consumer demand. Bringing this additional investment within the existing TasNetworks' capital and operating base which is to be funded within the draft plan will only add to consumer electricity prices at a time when consumers are already facing significant price rises for a wide range of essential services and commodities.

Seeking to have these contingent projects incorporated into the asset base is not compatible with a number of the issues which have been identified as critical to customers, including “affordable to all”, page 21, and “a transparent, socially responsible approach which ensures a sustainable solution for Tasmania”, page 23.

As is stated in the last paragraph on page 63, “each (contingent project) is required to undertake a cost benefit analysis in accordance with the AER’s RIT-T that demonstrates there is a net economic benefit to those who produce, consume and transport electricity in the market”. While this approach may be appropriate when dealing with projects which support the current level of electricity consumption, its relevance is questionable where investment is likely to be associated with completely new demands on the network and which are unrelated to existing underlying consumption.

An obvious example is Marinus Link which has been assessed as providing a limited benefit for Tasmanian consumers, with the bulk of the benefit being experienced by mainland consumers. It is arguable that renewable generators, such as Hydro Tasmania and wind and solar farm operators will be the major Tasmanian beneficiaries of an investment like Marinus, not Tasmanian energy consumers.

The potential consequences of Marinus latest costings and funding arrangements on Tasmanian customers’ network charges need to be clearly explained.

In such an environment, where consumer demand is already satisfied by the network investment and further investment delivers minor benefits to consumers, while at the same time creating business opportunities for others it would seem that some strong caveats should be applied in relation to the contingent projects outlined in the draft and the extent to which they would be funded by consumers.

For example:

a) the \$200m identified against new hydrogen connections in George Town would appear to provide very limited benefit to existing Tasmanian electricity consumers and this should be stated in the draft, and an estimate provided as to what proportion of this expenditure would be applied to the existing regulated network and what proportion would be applied to the new businesses which have triggered this extension of the network infrastructure;

b) similarly investment required to improve system strength and/or inertia is a major benefit for those generators who seek to access the network, but use generation systems which do not provide system strength and/or inertia such as spinning turbines. Without this investment, permitting extensive access of additional renewable generators would only downgrade the system, and in a system which already provides 100% renewable energy to Tasmanian customers, the beneficiaries of such investment are clearly those generators, not consumers.

c) similarly where enhancements to the network are required to support developments in the Central Highlands and North-West REZ the beneficiaries are not necessarily Tasmanian consumers who already have access to 100% renewable energy. The beneficiaries are those businesses investing in the REZ.

In each of these cases if the expectation is that the full cost of investment will be passed onto Tasmanian consumers then this represents a clear case of cross subsidy from consumers to these businesses and an increase in consumer costs for negligible consumer benefit. If there are wider economic benefits from such investments then are there more appropriate ways to fund these than through increased consumer charges for using the transmission and distribution network?

Looking at each contingent project in isolation makes it hard to see the cumulative impact - but that is what consumers will experience. So is there a threshold or something that would trigger a limit where the capacity to afford another project (given what is already loaded up) has been reached, or is it like a train and unstoppable whatever the impact on people's ability to pay?

Given we already meet our electricity needs additional generation should only have 'open access' access to the network where capacity already exists. Any additional capacity should be a cost associated with that additional, and excess, supply which must obviously be used within some other market and not within the existing Tasmanian energy market.

## **Financial parameters**

Financial parameters that ultimately combine to determine the Weighted Average Cost of Capital (WACC) are largely outside the control of TasNetworks. However some scenario analysis would be useful to give some context to the likely consequences of say a plus/minus 2.5% in WACC on TasNetworks revenue.

Assuming a perfect technical submission, any movement in WACC during the reset period, either up or down, disadvantages the customer. If WACC goes up (higher than what is allowed for in the revenue determination) the network business can't deliver its full program, if WACC goes down the network business has a revenue windfall. The customer loses either way.

## **Regulatory Issues**

It is incumbent upon TasNetworks in its plan to identify not only what investment and expenditure requirements it has identified in order to meet consumer expectations, but to also identify limitations of the regulatory system which will skew investment decisions and lead to considerable cross subsidies from consumers, and suggest potential regulatory changes required to address these issues.

There are many references in the plan to AER oversight, especially in relation to contingent projects. In a period where we are moving into a rapidly changing energy future, oversight by a regulator whose regulatory environment is based on an historical transmission and distribution topology is likely to fall well short of what will be required if we are to ensure ongoing efficient and sustainable investment in energy resources in Tasmania.

These issues are alluded to in the section on recovering the cost of future contingent projects and the discussion around the "open access" nature of electricity networks. However, when we are considering significant new demands such as Marinus and hydrogen generation and significant new supplies such as additional wind farms in order to meet Tasmania's now legislated 200% renewable energy target the underlying assumptions of open access fall down very quickly.

The draft should provide some guidance as to how changes could be required to the AER regulatory environment for each of the proposed contingent projects. TasNetworks, through its involvement in Marinus Link has experience in seeking changes to the AER processes and this experience should be incorporated into the draft. For example, the draft needs a section which outlines how changes are being sought under Marinus and how that changes the potential impact upon Tasmanian consumers

relative to the existing regulatory environment. Then based on these learnings the draft should propose potential changes to be considered by the AER in relation to each of the other contingent projects.

In doing so TasNetworks is providing some future policy direction from its existing learnings and giving a clear heads up that the regulatory environment is not necessarily fit for purpose as Australia proceeds into the coming decade of massive change within our electricity system as we move to 82% renewables nationally.

## **Climate Change Strategy**

The draft stipulates TasNetworks is developing a climate change strategy which is acknowledged by the RAC. However it is not clear if allowances or planned costs have been allowed for in the draft proposal. The Tasmanian Government has legislated zero emissions for Tasmania by 2030, although not by industry sector, all sectors are expected to demonstrate how they are reducing emissions. This is about TasNetworks reducing its own carbon footprint, not about renewable projects being completed by others.

## **Concluding comments**

The latest ABS data shows that Tasmanian incomes are the lowest of all states and territories (Tasmanian median weekly income is \$701, while the Australian median income is \$805) but Hobart rents are higher than in Melbourne. Tasmanian residential consumers are facing significant increases in housing costs, whether purchasing or renting. According to CoreLogic's November 2021 report, Tasmania's wages have seen the lowest increase in the country over the last 20 years, and house purchase prices have seen the highest increase over that period.<sup>1</sup> Since 2018, on the standard measure that compares income to rental cost, the Rental Affordability Index has shown that Hobart is Australia's least affordable capital city for renters. On the same measure, the 'Rest of the State' area in Tasmania is also the least affordable of all Australian states.<sup>2</sup>

After housing, energy is the highest cost faced by households. Here, too, Tasmanians have high energy costs for heating homes in winter. The cumulative impact of the proposed step changes, WACC and contingent projects on the revenue could have a dramatic and negative impact on customers in Tasmania. Present poverty is not offset by any potential long term gains, in fact energy poverty has significant negative impacts on children, families and individuals. It is essential that affordability is central to TasNetworks revenue planning, and given the context of increasing cost of living pressures for Tasmanians, restraining the growth of the Regulated Asset Base, and operational costs is imperative.

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<sup>1</sup> [https://www.corelogic.com.au/news/how-much-has-house-price-growth-outstripped-growth-wages?utm\\_medium=email&utm\\_source=newsletter&utm\\_campaign=20211122\\_propertypulse](https://www.corelogic.com.au/news/how-much-has-house-price-growth-outstripped-growth-wages?utm_medium=email&utm_source=newsletter&utm_campaign=20211122_propertypulse)

<sup>2</sup> <https://www.sgsep.com.au/projects/rental-affordability-index>

