

25 October 2017

Tony Weir
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Australian Energy Regulator
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Dear Tony

RE TasNetworks response to 2017 AER draft benchmarking report for transmission networks

Thank you for opportunity to review and comment on the Australian Energy Regulator's 2017 Draft Benchmarking Report (the Report) for transmission network service providers, before its public release in November of this year. TasNetworks is supportive of the AER's efforts to benchmark what are extremely complex and disparate businesses. However, we continue to have reservations about some of the output measures incorporated into the AER's preferred Multi-lateral Total Factor Productivity (MTFP) benchmarking model for transmission networks, which are discussed below.

Energy throughput

In response to a recent inquiry by the AER regarding significant variations in the energy throughput of our transmission network in years when our distribution network's throughput remained steady, we noted that the fluctuations in energy throughput were being driven by the trading of energy over the Basslink interconnector. On this basis, changes between years in the energy throughput of our transmission network are not necessarily a function of TasNetworks' performance, yet the variations in energy throughput impact on the AER's measures of our business' productivity and efficiency. This is because energy throughput is one of the five outputs used in the AER's MTFP benchmarking model for transmission networks.

There is an inherent risk associated with drawing inferences about productivity change on the basis of a variable which is subject to exogenous influences. We remain concerned, therefore, that the metrics in the Report potentially present an assessment of TasNetworks which is not always representative of our business' performance and that most users of the Report are unlikely to be aware of this limitation.

This has the potential to lead our stakeholders to reach inappropriate conclusions about TasNetworks' performance, which may cause them to approach their assessment of our upcoming Revenue Proposal for both the transmission and distribution networks with inaccurate preconceptions about the business' performance.

We would, therefore, request that the AER provide a qualification or commentary in the presentation of its benchmarking metrics which recognises that the flow of electricity over Basslink has a material impact on TasNetworks' benchmarking results, and that caution should be exercised when comparing TasNetworks' performance over time. The advice previously provided to the AER regarding this matter is reproduced in Attachment A.

End-user numbers

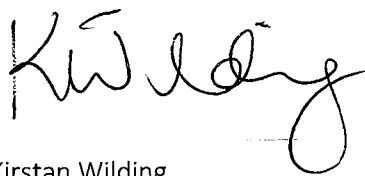
In the draft Report, the AER notes that there was "general support for the revisions proposed in the position paper other than for the substitution of end-user numbers for the voltage-weighted number of connections." At the time the changes were being contemplated TasNetworks argued against the use of downstream customer numbers and our position has not changed.

While the previous output measure of voltage-weighted connection numbers was not without its own shortcomings, replacing it with customer connections is not a superior solution. Customer connections are relevant to distribution network service providers because they are a driver of cost. Transmission network service providers, on the other hand, incur no costs when a new customer connects to the distribution network. They do, however, incur costs when providing access to generators and distributors to the network, which the use of voltage-weighted connection numbers, whilst imperfect, at least recognised.

The relevance of distribution customer numbers as an output measure for TasNetworks is even more questionable when you consider that large industrial customers account for around 60 per cent of Tasmania's electricity consumption, including four major industrial users that, between them, use around half of the energy supplied by our transmission network. In this context, we cannot concur with the opinion expressed by the AER's consultants, Economic Insights, that incorporating end-user numbers in the MTFP model is 'beneficial in capturing important aspects of scale and complexity'.

Once again, thank you for the opportunity to comment on the AER's draft 2017 Annual Benchmarking Report for transmission network service providers. To discuss the views expressed in this submission, please contact Chantal Hopwood, Revenue and Pricing Regulation Team Leader, on 6271 6511 or at chantal.hopwood@tasnetworks.com.au.

Yours sincerely



Kirstan Wilding
Leader Regulation

Attachment A

Energy throughput

AER question

Over time, TND's energy throughput has generally shown small variations while TNT's energy throughput has been more erratic. What might account for the difference?

TasNetworks' response

The energy throughput for the transmission network varies largely in response to the level of energy transferred across Basslink. The following statistics, published by the Office of the Tasmanian Economic Regulator in its *Energy in Tasmania Report 2015-16*, illustrate the significant impact that energy transfers over Basslink can have on the energy throughput for the transmission network in total.

Electricity Industry	2013-14	2014-15	2015-16
National Energy Market information²			
Tasmanian demand (GWh)	10 720	10 513	10 487
Basslink²			
Imports (GWh)	20	2 203	1 097
Exports (GWh)	3 113	772	473

Source: *Energy in Tasmania Report 2015-16*, Office of the Tasmanian Economic Regulator

Tasmanian demand is reasonably consistent in the three years presented in the above table. However, in 2013-14 Basslink delivered net exports of 3,093 GWh, over and above the level of on-island demand. On this basis, our transmission network would have had an energy throughput of 13,833 MWh in that year.

In 2014-15, however, the energy flows over Basslink resulted in net imports of 1,431 GWh. The throughput of our transmission network would have been 11,285 MWh, which is 2,548 MWh (18.4 per cent) less than in the previous year.

The turnaround between years is not dependant on changes in on-island demand and is driven by the trading of energy over Basslink, which in itself is a function of the prevailing hydrological conditions in Tasmania and Hydro Tasmania's trading strategies.

In 2015-16 Basslink also experienced a well-documented outage from 20 December 2015 to 14 June 2016, which impacted significantly on the energy conveyed over the interconnector and, therefore, the throughput of our transmission network.

TasNetworks notes that energy throughput is one of the five outputs used in the AER's MTFP benchmarking model for transmission networks. As demonstrated above, changes between years in the energy throughput of our transmission network are not necessarily a function of TasNetworks' performance, yet the variations in energy throughput will impact on the AER's measures of our business' productivity and efficiency.

