



Tasmanian Council of Social Service Inc.

Submission to AER Issues Paper
**TasNetworks Distribution and Transmission
Determination 2019-2024**

May 2018



**INTEGRITY
COMPASSION
INFLUENCE**

About TasCOSS

TasCOSS is the peak body for the community services sector in Tasmania. Our membership includes individuals and organisations active in the provision of community services to low income, vulnerable and disadvantaged Tasmanians. TasCOSS represents the interests of its members and their clients to government, regulators, the media and the public. Through our advocacy and policy development, we draw attention to the causes of poverty and disadvantage, and promote the adoption of effective solutions to address these issues.

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The views expressed in this document do not necessarily reflect the views of Energy Consumers Australia.

Introduction

TasCOSS welcomes the opportunity to respond to the AER *Issues Paper* for the TasNetworks Distribution and Transmission Determination 2019-2024. TasCOSS represents the interests of low income and disadvantaged Tasmanians, who often struggle with the cost of electricity. Electricity bills are the most challenging regular household expense, after housing costs. The approach taken by TasNetworks to revenue and spending has a direct impact on the wellbeing of Tasmanians, because Networks services make up about half of a typical household electricity bill.

TasCOSS appreciates TasNetworks' constructive approach to consumer engagement in the course of this revenue determination process. We acknowledge the efforts that TasNetworks makes to manage its costs. However, we remain concerned that ongoing increase in TasNetworks' Regulated Asset Base (RAB) will be unsustainable, leaving consumers to pay more and more for the energy they need.

Electricity is an essential service for all Tasmanians. As an essential service, electricity needs to be available to all who need it, at a price they can afford, in an environment where their rights are respected and protected. Paying for energy is a non-discretionary expense. When people cannot afford the electricity they need, they will go without for essentials like heating, cooking, cleaning and lights. Without power, they often lose access to study options, to information about work opportunities and to online government services. When power is disconnected or rationed, people suffer directly in areas such as physical wellbeing, mental health, and social inclusion.

In Tasmania, energy costs, especially in winter, drive people into hardship. Emergency Relief Providers report that the electricity bill is the most common reason for clients to present for assistance.¹ Unlike customers in other jurisdictions, Tasmanians have very few opportunities to reduce costs by switching to a different provider or offer.

In response to the AER *Issues Paper* for the 2019-24 TasNetworks Revenue Determination, our primary focus is on affordability, reliability and a fair deal for low income and disadvantaged Tasmanians who rely on electricity as an essential service.

Background

Many people struggle with electricity prices. Tasmanians typically face a large electricity bill every 3 months, or daily costs that are hard to manage. Winter bills are generally about twice as much as summer bills. Approximately 1.2% of Tasmanian households are in the Aurora

¹ TasCOSS 2017, Our Voices series, *Energy: the Lived Experiences of Tasmanian Consumers* p2.
<https://www.tascossilibrary.org.au/the-vault>

Hardship program, which is considered a high proportion.² Although the Tasmanian Government has placed a cap on electricity price increases for residential consumers, the number of Tasmanians needing hardship support may increase due to cost of living pressures and factors such as the scarcity of affordable housing leading to larger household sizes and higher bills.

The State Government energy policy limits regulated electricity price rises to CPI.³ While helpful, this does not alleviate the current level of energy poverty. Eventually, when prices increase again, more people will find their bills hard to manage.

TasNetworks Revenue 2019-24

TasNetwork charges make up almost half of the electricity bills paid by Tasmanian customers. When these costs increase, everyone, including people on low incomes and those already in energy hardship, will pay more.⁴ For these reasons, TasNetworks revenue increases, and especially increases to the RAB need to be very well justified. All price rises, and in particular, price rises above CPI will be very difficult for people to manage.

Households will face increasing cost of living pressures during the five years of the regulatory period. People's capacity to pay for the energy they need will be heavily influenced by the current trends in housing and financial markets. Interest rates are very low at present and will certainly increase in the future. People's mortgage payments, and other loan repayments will increase. Rents and house prices in Tasmania are already at unprecedented levels. The revenue returned to TasNetworks through the RAB will increase at the same time as rising interest rates make housing less and less affordable. In combination, these pressures will intensify the financial hardship that people are experiencing.

The TasNetworks revenue proposal for 2019-2024 includes substantial planned and contingent capital expenditure. Capital expenditure that becomes part of the RAB is effectively locked in to provide a guaranteed return to the business that is paid for by customers. A larger RAB and increasing interest rates both mean that TasNetworks is able to recover more revenue from customers.

² AER March 2018 *Issues Paper TasNetworks Distribution and Transmission Determination 2019-2024* p 11. In recent years, Aurora's hardship program has been increasingly proactive in early intervention and responding to need. Aurora's increasing commitment to supporting Tasmanians through their hardship program may be reflected in the high proportion of hardship customers.

³ <https://www.tas.liberal.org.au/sites/default/files/Tasmanian%20First%20Energy.pdf>;
<https://www.tas.liberal.org.au/sites/default/files/Lowest%20Energy%20Prices.pdf>

⁴ This assumes that the Network costs will be passed through by the retailer, as is standard practice. The overall bill to customer can be reduced by other means, for example, if the Govt were to reduce their dividend from TasNetworks, Hydro or Aurora, or use an energy subsidy model or other strategy.

The RAB cannot keep expanding indefinitely while customers pay more for the energy they need. TasCOSS acknowledges that TasNetworks is seeking to improve efficiencies, but we would like to see more achievement in this direction. When investments in IT systems are made, for example, we would like to see the benefits to customers clearly articulated and the efficiency gains quantified and monitored.

In the period 2019-2024, significant capex increases are proposed, although TasNetworks states it can absorb some of the cost increases. The AER *Issues Paper* states that the Transmission Capex is going up by 30% and the Distribution Capex by 23%.⁵ If all the contingent projects were included in the Transmission RAB, it would increase by 60%. Increased capex would likely be accompanied by increased opex, so customers would end up paying even more.⁶

TasCOSS would like to see more exploration of how non-network solutions can reduce the need for substantial capex increases. We are aware that TasNetworks is undertaking trials (including emPowering You, the Bruny Island trial, and the State Government-announced solar powered microgrid trial in Nubeena), and it would be helpful to understand the potential benefits and additional costs of these trials and the expectations of their scalability. It would be valuable to see these initiatives reducing the need for expanding capex.

The Second Interconnector (listed as a contingent project) presents particular concerns, due to its substantial cost and unclear benefit to Tasmanian energy consumers. In 2016, TasCOSS provided the following view to the consultation for *Feasibility of a second Tasmanian interconnector Preliminary Report*:

TasCOSS does not support the gambling of public finances on this project in present circumstances; its commercial risks are substantial – especially in an environment of policy uncertainty, and almost inevitable change – and the *Preliminary Report* does not explore how Tasmania’s energy security could be enhanced through more affordable means. As with the Basslink experience, were this project to fail to fulfil the terms of its business case, it is likely that the people of Tasmania will pay for it, through both their power bills and reduced dividends returned to the Tasmanian Government.⁷

TasCOSS appreciates that there are many steps along the way to a final decision about a second interconnector, including a RIT-T process and AEMO’s work on the integrated system plan.⁸ We remain concerned about the risks to Tasmanians as energy consumers and as citizens through

⁵ AER March 2018 *Issues Paper TasNetworks Distribution and Transmission Determination 2019-2024* p 25

⁶ For the \$550M second interconnector project, there would be around \$22M in additional opex over 8 years. (indicative costs from consumer challenge panelist – personal communication)

⁷ TasCOSS submission to the *Feasibility of a second Tasmanian interconnector Preliminary Report* 2016, p4, available from TasCOSS Vault <https://www.tascossilibrary.org.au/the-vault>

⁸ <https://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Planning-and-forecasting/Integrated-System-Plan>

the risk to the Tasmanian Government Budget, both in direct costs and/or through poor returns to the Government as the owner of Hydro Tasmania if the project were to proceed.

At this stage, too little is known about how a second interconnector might interact with Basslink, and the cost that would be borne by consumers if one or both became stranded or partially stranded assets.

Tariff reform and cost reflective pricing

TasCOSS participates in the TasNetworks Pricing Reform Working Group, and tariff reform and cross-subsidy are frequently discussed. There is currently in Tasmania a discounted tariff for heating and hot water that is part of the Standing Offer. Most households are connected to both Tariff 31 and 41 (the discounted heating and hot water tariff).

A discounted tariff for heating and hot water is in the public interest, because of the cold climate, and the health and other benefits of having adequate access to heating and hot water. Evidence tells us that lack of heating has social, health and other costs, up to and including preventable deaths.⁹ People in the Tasmanian community have told TasCOSS about their efforts to manage the cost of energy:

I use a hot water bottle instead of a heater. Our shower in our share house runs out of hot water after 1 or 2 showers, and when there are 5 people living in the house you can often get caught having a cold shower. In winter particularly I go to public showers quite often.

Over 2 winter quarters [half the year] we go out less as the bills are going to be much higher and need payment within a short time frame once received.¹⁰

Paying more for heating and hot water will be a significant adjustment for many low income households, and if any reduction in discounted tariff is made, we strongly support a gradual transition, as TasNetworks has indicated, of up to 15 years. We see the current discounted rate as a public interest arrangement, not merely a cross-subsidy. While businesses pay more (for example, on Tariff 22), they can use tax deductions to off-set the costs of running business and investments in efficient appliances. Businesses also have opportunities to pass on costs that households do not have. Equity, fairness and social outcomes are not optimized by a 'one price fits all' approach to tariffs.

⁹ Keith B G Dear and Anthony J McMichael, The health impacts of cold homes and fuel poverty *British Medical Journal* BMJ 2011;342:d2807

¹⁰ TasCOSS *Lived Experience of Tasmanian Energy Consumers* 2017
https://issuu.com/tascoss7/docs/tascoss_energy_consultation_report

Safety

TasNetworks rightly sees safety as a priority. However, an appeal to 'safety' is not an adequate justification for any capex or opex increase. For example, if there were 'pre-emptive' replacement of every pole every 5 years, this would be extremely safe and risk-averse. However, it would be cost prohibitive, and any marginal safety benefit would not advance the interests of consumers.

There are always trade-offs between safety, risk and activity. It would be good to see more transparency about the risk assessments undertaken, how TasNetworks' risk analysis compares with other networks, and how and why safety is costing so much more over time.

Technology projects

TasNetworks is proposing significant investment in technology projects.

It is unclear what tangible benefits these projects deliver for customers, and how these will be measured and monitored. The expected efficiency dividend over time and impact on future opex are unclear. Will reduced opex be achieved by increased automation (of reporting, for example) and reduced people costs or some other mechanism? TasCOSS would like to see only those costs that have delivered clear and measurable benefits passed through to customers.

Cost recovery of legacy meters

TasNetworks has traditionally been responsible for electricity meters. The rule change effective on 1 December 2017 requires that new and replacement meters are 'smart' meters. In Tasmania, a new energy business has become responsible for these new meters.

The legacy meters remain the responsibility of TasNetworks, who will continue to recover the costs of those meters from revenue from customers. TasNetworks has proposed to expedite this cost recovery over five years, rather than have the meter costs recovered over the life of the meters, say about 10-15 years.

This approach has no clear benefit to consumers. The pathway would mean that the customers finish paying for the TasNetworks legacy meters before they reach end of life and need to be replaced by new meters (by the new provider), but it increases cost in the short term. TasCOSS does not support expedited cost recovery for meters.

Conclusion

The priority for residential customers is safe, reliable and affordable power supply. TasCOSS does not support exposing customers to actual or potential costs beyond what is needed to deliver the service they depend on.