11 May 2023

Cleaner.
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Mr Warwick Anderson
General Manager
Australian Energy Regulator
GPO Box 3131
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Via email: AERresets2024-29@aer.gov.au

Dear Mr Anderson,

Re: Submission: TasNetwork's 2024–29 Regulatory Proposal

Thank you for the opportunity afforded to the Tasmanian Minerals, Manufacturing and Energy Council (TMEC) to provide feedback on the TasNetwork's 2024–29 Regulatory proposal and the AER's proposed Negotiated distribution service criteria.

TMEC's membership base represents an important wealth creating sector within the Tasmanian economy. The combined minerals and manufacturing sector employs 21,000 people and contributed $3.1B in exports as of the 12 months to June 2022. Most of our members are based in regional areas of Tasmania and therefore provide critical employment opportunities away from public funded employers. Minerals exports alone account for 65% of Tasmania's commercial exports and is the foundation stone of many regional communities with 5,200 direct jobs.

TMEC welcomes the opportunity to provide a stakeholder submission on the TasNetworks Electricity Transmission and Distribution Determination 1 July 2024 to 30 June 2029

TMEC has been pleased with the engagement it has had with TasNetworks by being able to have a representative on the R24 Reset Advisory Committee. This has provided TMEC some level of comfort that consumer representatives have been listened to, TasNetworks were challenged in this forum and to their credit responded with several effective briefings. TMEC would like to positively acknowledge that TasNetworks were more open and transparent than in previous consultations.

TMEC would like to challenge the AER that it is holding true to its role and as listed in the Better Resets Handbook:

2. 1 *As the economic regulator of energy networks, we are required to make decisions that best advance the long-term interests of consumers, as expressed in the National Electricity Objective and National Gas Objective. If a network business meets our expectations this will increase the likelihood that its regulatory*

proposal advances the long-term interests of consumers, giving us the confidence to rely on a more targeted assessment to meet our obligations.

Cost to consumers of delivered energy price is always going to be a source of tension between providers and consumers. TMEC acknowledges TasNetworks has been prudent over the last two reset periods to bring costs down and minimise impacts. The R24 reset has continued to have a focus of minimal cost impact to consumers. However, it is difficult for TMEC to make an insightful comment on the whether the actual transmission capital requested is essential or desirable. Comparing capital to previous reset period being 3 percent lower provides a comparative budgeting outcome, but says nothing about the risks, probabilities, and consequences and therefore the prudent use of expenditure of not committing to the project or considering an alternative option. Year on year comparisons has not been the best asset-based industry practice for many years now. Best practice shows asset expenditure built from a zero base.

Putting aside the comment above, the main concern TMEC would like to highlight is the risk of a substantial cost increase to existing consumers should any of the large contingent projects be triggered. The ones to be brought to AER's attention are Marinus Link, North West Transmission Development (NWTD) and load growth in Bell Bay for proposed hydrogen load. Understanding that Marinus Link and NWTD have been removed from TasNetworks contingent projects due to other funding mechanisms, being the actionable ISP. TasNetworks is doing its consumers a disservice by not showing the potential price impacts should any of the projects trigger and pass a RIT-T test. Of concern and absent from the R24 is that the NWTD has elements that are still required to connect new generation irrespective of Marinus Link being built yet cost impacts to consumers are not shown if these were to materialise. Noting generators do not pay TUoS and therefore cost of any new transmission assets will be worn by the consumers.

Lack of investment and vision to decarbonise TasNetworks as a business, being a government owned business who for Tasmania has a legislated net zero emissions by 2030 target is a concern. It would be good to understand if costs have been allowed, at what value and what projects will be undertaken to reduce TasNetworks emissions footprint. TasNetwork's proposal focuses on providing interconnection for others, being new renewables to market or new load connection.

It is somewhat disappointing to see capital expenditure for traditional transmission and distribution projects utilising the same technology and not being very innovative. Why is the AER not incentivising TasNetworks to use other technologies for delivering energy? Examples could be microgrids to remove the expense of installing replacement or new transmission or distribution lines. Alternatively, why are TasNetworks not at least providing options with transparency of costs for consumers?

OPEX cost saving at 3% in the first year then 0.5% YOY, will meet the AER benchmark and to a non-educated consumer look like a good outcome. However, TasNetworks are on public record stating substantial restructuring and role reductions are underway yet the savings in employee costs appear to have been eroded by other increases given a headline reduction of 0.5 percent. What is the full explanation? For transparency should the reset not show the exact planned savings then the increase in OPEX from other drivers can be shown more clearly. This has been shown clearly in Figure 16 of the AER Issues paper for the 2023-24 year.

With regards to rate of return, the challenge for TMEC to make an informed comment relates to the fact that TasNetworks has a low interest borrowing rate given it is a state government owned business, yet it is not clear how the savings from this is included in the calculated approved revenue from the AER guidelines. Is this an opportunity missed to demonstrate a way of reducing costs to consumers?

In summary, TasNetworks are to be congratulated on the effort they have put into this reset with regards to engagement and listening to consumers. The engagement has set a new precedent and TMEC encourages this standard to continue on an ongoing basis and is not limited to an obligatory reset requirement.

In closing, it would be remiss to not reiterate the primary and most material concern remains with the potential impacts if a trigger occurs which brings any of the contingent projects into the cost recovery and the impact this would have on the long-term interests and pricing to consumers, as per *Section 2.1* of *"Better Resets Handbook"*.

Please do not hesitate to contact me should you require further clarification on any of the points raised in this submission.

Yours sincerely,

[redacted]

Chief Executive Officer