

Ask for: John Sayers
Telephone: (03) 6271 6469
E-mail: john.sayers@tasnetworks.com.au
Your reference: ERC0180
In reply quote: R0000136901



Tasmanian Networks Pty Ltd
ABN 24 167 357 299
PO Box 606
Moonah TAS 7009

23 March 2015

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Pierce

Proposed Rule Change Consultation Paper – Aligning TasNetworks’ Regulatory Control Periods

Thank you for the opportunity to provide comment on the consultation paper, *National Electricity Amendment (Aligning TasNetworks’ Regulatory Control Periods) Rule 2015*, (Consultation Paper) published by the Australian Energy Market Commission (AEMC) on 26 February 2015.

Tasmanian Networks Pty Ltd, ABN 24 167 357 299, (TasNetworks) is Tasmania’s electricity transmission, distribution and telecommunication business. TasNetworks is seeking a one-off reduction in the length of the regulatory control period for the provision of distribution services which is to commence on 1 July 2017.

The reduction from the prescribed minimum of five years to two years will result in the subsequent distribution regulatory control periods being aligned with the transmission regulatory control periods. TasNetworks considers that this shorter distribution regulatory control period will allow TasNetworks, and its customers, to more quickly realise the benefits associated with the merger of the Tasmanian transmission and distribution network businesses that occurred on 1 July 2014.

In its consultation, the AEMC has raised a number of specific questions. TasNetworks responds to these in turn.

Question 1 Are the disadvantages of a two year regulatory control period to achieve alignment material enough to outweigh the benefits from alignment?

TasNetworks acknowledges that a two year regulatory control period will have some disadvantages, namely an initial overlap in resource effort and a need to make changes to detailed incentive scheme operation. TasNetworks does not consider these disadvantages outweigh the benefits from alignment, for the reasons set out below.

Resource effort

Any alignment will create an overlap in the preparations for a subsequent regulatory control period, with potential impacts on the AER and stakeholders. TasNetworks considers that the benefits of a more rapid alignment of determinations, provided by the shorter duration distribution regulatory control period, far outweigh any potential issues that are associated with the overlap. TasNetworks notes that these benefits include:

- alignment of the planning processes for transmission and distribution to promote longer term efficiency in asset utilisation with associated long-term reduction in rate of network price increases;
- alignment of revenue determinations that will allow the AER to consider the total impact of network expenditure in the Tasmanian jurisdiction;
- a customer engagement and consultation period that will provide ongoing educational and process awareness as the business transitions through a range of changes to its internal and external environment; and
- the efficiency gained in the business, and resulting lower customer costs, by working concurrently to address the regulatory requirements relating to revenue determinations made under the National Electricity Law.

Incentive schemes

TasNetworks, supported by its shareholders, will continue to ensure that the business explores options to provide its customers with the most efficient level of service.

TasNetworks does not consider that the operation of incentive schemes should be weakened by a shorter regulatory control period. TasNetworks notes that such considerations were not of significant concern to prevent the shortened “place-holder” determinations when the amended pricing framework was implemented in 2012.

However, TasNetworks will work with the AER to ensure that arrangements are in place for the forthcoming regulatory period to support appropriate incentive outcomes. For example, there are ways that the existing schemes’ sharing ratios and timeframes can be modified for the transition period.

Question 2 To what extent are stakeholder resourcing issues a problem with the proposed rule?

This question is a question for other stakeholders to respond to. In the consultation TasNetworks has undertaken, there is broad support for fast alignment and recognition that any transition will have some stakeholder resourcing implications.

Question 3 Please provide any comments you have on the alternative drafting of the proposed rule?

TasNetworks considers that the alternative drafting will meet the National Electricity Objective (NEO).

Question 4 Do either of the two alternative solutions better meet the NEO than the solution proposed by TasNetworks, and why?

TasNetworks acknowledges that the two alternatives proposed by the AEMC to a two-year distribution regulatory control period will provide similar outcomes in the longer term, in that the regulatory control periods for the provision of transmission and distribution services will be aligned. However, both alternative options delay the full efficiencies that can be obtained by the merger and the benefits that will therefore accrue to TasNetworks' customers:

- One alternative option is a shortened transmission determination that provides alignment in 2022. This option suffers from the same challenges as the option the AEMC outlines with respect to a shortened distribution regulatory period. A later date may however allow more time for resource planning. TasNetworks considers that this is not a significant advantage in the face of the additional duplication.
- The other alternative option, extending the next distribution regulatory control period to seven years, is even less desirable. A longer regulatory control period effectively delays the full customer benefits of the efficiencies of the business merger until at least 2024. TasNetworks considers that the NEO is less likely to be satisfied with a delay of nine years in the realisation of business efficiencies from concurrent transmission and distribution regulatory control periods.

TasNetworks therefore considers that the two year distribution regulatory control period provides the outcome that is most likely to satisfy the NEO.

If you have any queries on this submission please contact John Sayers on 03 6271 6469 or via email at john.sayers@tasnetworks.com.au.

Yours sincerely



Lance Balcombe
Chief Executive Officer