



Tasmanian Council of Social Service Inc.

Submission to TasNetworks Directions and Priorities Consultation Paper

September 2017



**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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Introduction

TasCOSS welcomes the opportunity to respond to the TasNetworks Directions and Priorities Consultation Paper. 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.

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. When people miss out on the electricity they need, for essentials like heating, cooking, cleaning, study, and access to online government services, they suffer directly in areas such as physical wellbeing, mental health, and social inclusion. In response to the Directions and Priorities Consultation paper, 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.

TasCOSS supports the ongoing efforts of TasNetworks to communicate with customers and advocates. We participate in the TasNetworks Customer Council and Pricing Reform Working Group, and we appreciate the additional opportunities for direct briefings that have been provided. A good deal of information has been provided by TasNetworks in these contexts, and we appreciate TasNetworks' readiness to discuss and clarify this information. In responding to the Consultation paper, we identified additional areas where we require greater clarity and context to have effective input.

For TasCOSS to represent our members and stakeholders throughout the Revenue Determination process, we seek to understand the extent to which cost outcomes for customers can be influenced in each of the main expenditure areas, and what kinds of decisions are likely to make a difference to cost and other outcomes for customers. It appears that many costs are set (p18), and many of the variable factors will be determined in line with the AER's position. For example, the Consultation paper states "When considering the costs of providing services each year, the majority of the costs are for the existing assets that provide our services (depreciation and the cost of capital returns). These past decisions cannot be influenced by customers or TasNetworks." (p 18). The Revenue Building Blocks Consultation paper states that TasNetworks will adopt AER's position and guidelines for gearing ratios, WACC and gamma, and the AER's preferred method for inflation forecasting. The Consultation paper does not state explicitly how these factors constrain the outcomes, and which decisions remain open. A 'user-friendly' package containing this information is needed to enable TasCOSS and other stakeholders to respond effectively to TasNetworks proposals.

Responses to questions

The discussion questions are addressed below.

1. Overwhelmingly, people have told us they want about the same reliability for about the same price, is this consistent with what you think?

Affordability and reliability affect people and customer groups differently, so a finer-grained account of how different customer groups rate the importance of reliability is needed to answer this question. There may be different experiences of reliability and different degrees of significance between regions, or between urban and rural areas, or between general households and members of the business community. Some have greater capacity to pay than others, and for some customer cohorts, the main concern with unreliability is financial detriment, for others it is household wellbeing, or meeting essential needs such as keeping warm in winter. People's experience of reliability or failures of reliability will vary according to the time of day when outages take place, and the particular circumstances they encounter at the time.

People in Tasmania who are struggling most with the costs of electricity cannot afford to pay more. In considering reliability and cost, TasCOSS is concerned that the least well off will not be paying for a benefit that has a greater financial value for others. In general, we agree that there should be no reduction in reliability or increase in cost, but we would add that any reduction in cost without compromising reliable service will assist people who are now struggling to pay for the energy they need.

2. Are there any other key issues or messages that you want us to know about as we finalise our service and expenditure proposals?

TasCOSS has identified the following four issues with the potential for significant impact on low income and vulnerable Tasmanians.

2.1 For all Tasmanians, and especially those Tasmanians who have low and fixed incomes, it is important that energy costs decrease, or stay at or below CPI increases. It is vital to know if any of the proposed revenue changes are predicted to lead to increases for residential customers above CPI, and to see very careful justification for the benefits to customers if this is expected to happen during 2019-25.

2.2 How would the proposed expenditure affect the bill paid by a typical customer if price changes were passed through by the retailer? Explicit modelling of customer impact (using,

say, the OTTER typical customer model) is required to understand what the proposals mean for Tasmanian households in general, and especially for households on low incomes.

2.3 Incentive payments are discussed at section 7.2. Are these used to benefit customers, especially to reduce costs? An explanation of how and when these payments are returned to customers is needed.

2.4 There are no changes proposed to the GSL Scheme. Does this mean that the payments to customers are remaining the same? According to <https://www.tasnetworks.com.au/about-us/policies/supply-reliability-guarantee/> the reliable supply payment is \$80. According to the OTTER website, the amount was \$80 in 2012.¹ The Guideline does not preclude a Distributor from committing to a higher standard of service or payment.

It is timely to review this payment amount, to reflect higher cost of living pressures and increases in electricity bills since 2012. In fairness to customers who experience disrupted service, this payment should keep pace with other increases such as disconnection/reconnection costs. It would be manifestly unfair to customers to leave this compensation payment unchanged at \$80 until 2024.

3. Do you share our 2025 vision for TasNetworks? If not, how should it be amended and why?

Networks costs are over half of a typical residential consumer electricity bill in Tasmania, and many households suffer energy hardship, especially in winter. TasCOSS recommends greater consideration to keeping energy affordable, especially for low income and disadvantaged Tasmanians. Making electricity affordable for all Tasmanians should be stated explicitly as a priority for TasNetworks, alongside safety and caring for customers.

4. Do you agree with our direction and priorities for 2019-24? If not, how should they be amended and why?

TasCOSS agrees that safety is the top priority for TasNetworks, however more information is required to understand how much expenditure is directly related to this priority and whether this changes or stays the same over time.

TasCOSS welcomes TasNetworks' attention to cost and reliability in the directions and priorities consultation paper. This aligns with our priorities of affordability, reliable service and fairness,

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[http://www.economicregulator.tas.gov.au/domino/otter.nsf/LookupFiles/12_2653_Final_Guaranteed_Service_Level_Scheme_Guideline_Version%203.pdf/\\$file/12_2653_Final_Guaranteed_Service_Level_Scheme_Guideline_Version%203.pdf](http://www.economicregulator.tas.gov.au/domino/otter.nsf/LookupFiles/12_2653_Final_Guaranteed_Service_Level_Scheme_Guideline_Version%203.pdf/$file/12_2653_Final_Guaranteed_Service_Level_Scheme_Guideline_Version%203.pdf)

with particular attention to the impacts on the people who are least well-off in our community. We recommend augmenting the current priorities with deeper attention to fairness, and to ensuring that any imbalances in the energy system work to protect or advantage the people who are vulnerable and who have lowest incomes and resources.

We are concerned that some customers, for example, those who cannot access rooftop solar and other bill-lowering technology, may bear costs while others may enjoy benefits of network services. Structural measures to ensure equitable access to new technologies and new opportunities will be increasingly important in 2019-25 period. Otherwise, Tasmanians with fewest resources and those who are renting are likely to incur a disproportionate burden, when others are paying less for using the network.

It is definitely important to ‘communicate effectively with and listen to our [TasNetworks’] customers’ (Consultation paper, p4). However, more focus on understanding and acting in interests of the least well off customers, and in particular those with least capacity to engage, is needed.

5. Do you have any feedback on our preliminary forecast capital and operating expenditure for transmission and distribution?

In general, more information and detail is required to understand which parts of the expenditure are required for compliance with national rules and where there may be more latitude for deferring or changing expenditure.

Given the changing nature of the energy environment, we think residential consumers will likely benefit from caution with respect to large investments in areas where different requirements and opportunities are likely to emerge. Additional costs when people are already struggling with energy bills are very detrimental to the well-being of the community.

IT and Comms expenditure is increasing markedly from 2021-22 (p21). Why is this increase in expenditure required, and why is it required at this time? If the increase is a response to changing customer expectations, then how and why are these changing, and are changed expectations uniform across customer groups? Tasmania has the lowest standing of all states on the digital inclusion index, so what are the clear benefits that are anticipated from this increased cost, and what are the implications for any customer groups likely to miss out?² TasCOSS is concerned that low income Tasmanians are less likely to benefit from some kinds of expenditure in this area, so should not be burdened with higher costs. Some Tasmanians will be exposed to new technologies without having chosen them, and some may not benefit due to a

² The Australian Digital Inclusion Index Report is available at <https://digitalinclusionindex.org.au/the-index-report/report/>

lack of access, affordability or digital literacy. Fairness to these customers means they do not pay an increased price when they are not choosing or benefiting from advanced technology services.

6. What information would you like to better understand in our preliminary forecast capital and operating expenditure for transmission and distribution?

Where expenditure is increasing, it is likely to impose additional costs (or displace possible reductions) for all customers. Additional costs are always harder to manage for people with the lowest incomes, so these need to be minimised. To be confident that low income and disadvantaged Tasmanians gain real benefits from increased expenditure, we need to understand drivers of increasing expenditure – is there an increase in load, replacement of assets or augmentation, safety and compliance or something else? What steps have been or could be taken to reduce, defer or avoid expenditure? What risks are there if expenditure is delayed or not undertaken?

More information is required to understand how demand is forecast, and how forecast and actual demand have played out in previous determination periods.

More detail about the assumptions of transitions to different patterns of energy generation and use in households and the investments needed to support different possible projected pathways would also be required to be able to provide appropriate feedback.

Clearer explanation of the elements in Fig 8 would be helpful – for example, what is included under innovation, in both the network and non-network areas?

With respect to contingent projects, we would like to see greater clarity and transparency about which of these are likely to benefit Tasmanian residential customers, and which are being considered for other reasons. Where proposals are linked to new generation and ‘market benefits’, it is arguable that generators, not customers should bear these costs. The distribution of economic costs and benefits is critically important. Where benefits will accrue to generators, not local customers, it is important to know who would be paying.

For example, the Energy Security Taskforce Report recommends on-island generation sufficient to meet Tasmanian demand. Consequently, the benefits to Tasmanian consumers of a second interconnector are not clear. Although this is a ‘contingent’ proposal, it would be good to see some indicative analysis for this and other major expenditures about precisely how they benefit Tasmanian consumers, and whether and how many Tasmanian consumers will receive direct benefits.

7. Do you support aligning the timing of our service incentive schemes across transmission and distribution services?

Yes, this seems sensible. However, some explanation of the advantages and disadvantages would be helpful.

8. Our transmission outage performance has improved over time. Do you support us changing the measures for big and small transmission outages to provide clearer incentives to maintain or improve performance?

TasCOSS is unable to answer this question based on current information. We require more information to understand what the changed measures would look like, how the performance trend would look in the light of changed measures, and what else (other than incentives) could account for transmission outage performance improvement.

Other important information for consideration includes, do networks routinely set their own measures for incentives? What are the costs and benefits of this approach, and what are the alternatives?

9. Do you have any feedback on our preliminary revenue requirements and indicative pricing outcomes?

Table 1 shows above inflation revenue from distribution customers. Such an increase would present difficulties for people on low incomes who are already struggling with energy prices and cost of living pressures.

10. What information would you like to better understand in our tariff reform plan?

It would be beneficial to have more information about social impacts of losing Tariff 41 – hot water and heating, including the public health benefits of the essential services of heating and hot water, and the costs incurred by the whole community when people cannot afford the energy they need.

11. Do you support our approach to tariff reform?

We would like to see greater clarity about the impacts of proposed tariff reforms on people who will struggle to enact behavioural change (or who cannot do so) and who will pay a financial penalty if they fail to do so. In some areas, there may be little to no benefit to the Network of imposing certain price structures, whereas in other ‘hot-spot’ areas, there may be substantial benefit. So some analysis of localized pricing in contrast to global pricing could be helpful.