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From: John Pauley [redacted]
Sent: Monday, 12 August 2024 9:51 AM
To: Economic Regulator
Subject: Fwd: Review of the Approach to Regulating Retail Electricity Prices - Meeting Summary
Attachments: 20240802 COTA, Salvation Army, TasCOSS summary of issues.DOCX; 20240802 COTA, Salvation Army, TasCOSS summary of issues.DOCX

Hi [redacted]

Thank you for the summary of the session we held last week. It is most appreciated that OTTER have prepared this summary.

I have a few comments to make in respect of that summary.

1. In relation to the duration of the regulatory period the summary provides an accurate representation of the comments I provided at the session.

2. In relation to the discussion around Aurora's tariff strategy I think it is appropriate to record that the Regulator has a strong view in relation to demand based tariffs. I think that, given the Regulator's view, it will be very important as we move into an environment where an ever increasing portion of a consumers bill will be contingent upon fixed infrastructure investments in transmission and distribution and where TNSPs and DNSPs are using a demand based tariff in their B2B relationship with retailers that the Regulator clearly identifies how the retail tariff is appropriately structured to ensure that consumers with a low impact on the transmission and distribution system are not cross subsidising those who have a higher impact on the system. Demand based tariffs, while increasing a degree of complexity can better match the costs incurred by consumer behaviour with the tariffs they face.

3. On the day I did not provide a view on the WEP strategy. I note that the Regulator offered 3 options. In my view there are some other options which should have been presented. If consideration is given to an option with "no future price" then I would like to see the impact of an April calculation with no future price. Alternatively I would like to understand why such an option was not presented.

Secondly, given the analysis provided in the paper on the alternative approaches used by other regulators, I would have liked to either seen how the WEP would be affected by adopting those alternate methodologies or reasons why such approaches are no relevant for the Tasmanian context.

I trust such information can be circulated to enable me to express a preference on the WEP strategy.

4. I remain very concerned at the effective ratcheting up of retail tariffs if BassLink costs are incorporated into the transmission and distribution component of the tariffs should it become a regulated assets. The regulation of BassLink will introduce a significant and material change in the cost structure of Hydro Tasmania. To move into the next regulatory period without providing full and transparent consideration of current BassLink costs is not appropriate. The current WEP, while not cost based, is obviously determined in the context of providing an appropriate return to Hydro Tasmania. As such it may be an appropriate measure where there are no material change in Hydro

Tasmania's cost structure. However, the regulation of BassLink will introduce such a material change to the cost structure. Under these circumstances it is critical that the nature of how BassLink is currently funded is made transparent to ensure that Tasmanian electricity consumers are not, in effect, paying twice for BassLink. If no quid pro quo is proposed for the current costs of BassLink then it would be totally inappropriate to impose a BassLink charge upon consumers via the transmission and distribution component of their bill. Under these circumstance it would be more appropriate for TasNetworks to seek compensation for these extra costs from Hydro Tasmania who will clearly experience a windfall gain should BassLink become a regulated asset.

5. In relation to CTS the summary is reasonably accurate.

6. In relation to metering I consider it is becoming critical for the review to clearly detail the assumptions relating to metering costs. Since the roll out of smart meters, costs have grow substantially. In 2016/17 metering costs were just $13.25 million. Today they have risen nearly 3 fold to $38.8 million, including a 15.2% increase in the latest determination. I would strongly suggest that such increases in metering costs cannot be sustained and there is a need for significant pressure to be placed upon metering providers to better control their costs. The options to reduce the current excessive cost increases for metering need to clearly be part of the review in relation to the next regulatory period. Smart meter technology should deliver efficiencies in the electricity system, not just add to consumer costs. While ever costs are simply passed through there is no incentive for the metering provider to improve the efficiency of metering services for the consumer. If the metering provider is also delivering services to others in the system - generators, TNSPs, DNSPs and retailers and perhaps also government there is a real risk of double counting within the system.

7. The comments in relation to Aurora's retail margin are accurately summarised. I will repeat, however, that any review must seriously query and justify the continuation of such a high margin for Aurora given the margins which are received by retailers on the mainland, both large and small.

8. The comments in relation to unaccounted energy are accurate, and I again emphasise that if this cost is placed in a location where those paying it cannot control it there is no incentive to remove unaccounted energy from the system. Simply increasing consumer charges to account for unaccounted energy, where consumers have no ability to control this cost is totally inappropriate. It simply becomes a pass through inefficiency within the system.

9. The future of RET or related charges as we move to a system where retailers are required to obtain more of their energy from renewable resources is an issue which must start to be canvassed in relation to the next regulator period. In particular the expected substantial expansion of grid scale solar and wind and the 4 fold increase in roof top solar which is identified in the AEMO ISP must be considered as part of the review of the next regulatory period. This would include the future impact of feed in tariffs on retail tariffs under the various ISP options as the proportion of roof top solar increases.

Again thank you for the notes of the meeting. I would be happy for you to publish both the notes of the meeting and the comments above on your website.

Regards

John Pauley