

16 May 2016

Hon Ivan Dean MLC
Chair Parliamentary Standing Committee of Public Accounts
Parliament House
HOBART TAS 7000

Dear Mr Dean

RE TasNetworks Submission to Public Accounts Committee – Inquiry in to Government Owned Energy Businesses

Please find attached our submission and supporting documents to the above inquiry.

We welcome the opportunity to appear before the committee.

Yours sincerely



Dan Norton
Chairman

Submission from TasNetworks

Parliamentary Standing Committee of Public Accounts Inquiry into Government Owned Energy Entities

16 May 2016

Introduction

Tasmanian Networks Pty Ltd (TasNetworks) welcomes the opportunity to make a submission to the Parliamentary Standing Committee of Public Accounts managing the Inquiry into Government Owned Energy Entities.

TasNetworks is a State Owned Corporation that commenced operations on 1 July 2014 by merging Tasmania's electricity distribution and transmission networks into one network business. Our vision is to be trusted by our customers to deliver today and create a better tomorrow. We are putting this vision into action.

We own, operate and maintain the network that delivers electricity to more than 280,000 households, businesses and organisations on mainland Tasmania. We also own, operate and maintain a telecommunication network to enable safe and efficient operation of the electricity system.

As a newly created business we are on a journey of transformation to deliver the lowest sustainable prices to customers and appropriate returns to our shareholders. Our merged business is already delivering benefits to customers as a result of network synergies and operating efficiencies.

We have provided a range of documents to assist the committee to appreciate the scope and nature of our business as well as our recent performance. The documents submitted to the committee are:

- TasNetworks Annual Report 2014–15
- TasNetworks Annual Planning Report 2015
- TasNetworks 2015–16 half year report – including unaudited half year financials
- TasNetworks Corporate Plan 2015–16
- TasNetworks Statement of Corporate Intent 2015–16
- TasNetworks Corporate Plan 2016–17
- TasNetworks Distribution Regulatory Proposal Overview 2017 – 19
- TasNetworks Transmission Revenue Proposal Overview 2014 – 19
- Australian Energy Regulator Fact Sheet – Final Decision for TasNetworks Transmission Determination 2014 – 19



These documents provide a comprehensive overview of TasNetworks, our current and forecast financial position, our investment plans and the strategies we are implementing.

In our transmission revenue determination for 2014 – 19 we proposed significant reductions in capital and operating expenditure requirements. In an unprecedented outcome, our proposal was accepted by the AER and has resulted in substantial reductions in transmission charges to our customers.

In preparing our recent distribution regulatory proposal for 2017 to 2019 we have made a concerted effort to engage with and listen to our customers so that we better understand their needs. A stronger customer voice will drive us to deliver better outcomes. Customers have told us that they are satisfied with the reliability of our network, but want us to do more to reduce electricity prices. We are responding to this challenge by committing to the delivery of ongoing cost savings and efficiencies, over and above the savings already factored into our transmission charges.

Our downward pressure on costs will not compromise the safety of our employees or the public. In fact, have identified a need to increase capital expenditure in some areas of the distribution network in order to address emerging safety risks. Overall though, we are planning to reduce distribution network capital expenditure by approximately \$39 million or nearly seven per cent over the five years from 1 July 2017, compared to the five years to 1 July 2017. We also propose reductions in operating expenditure and a lower rate of return for our shareholders.

The total impact of these changes is to reduce our annual distribution revenue by approximately \$30 million on 1 July 2017, which is a 13 per cent annual reduction in real terms from the Australian Energy Regulator’s 2016–17 revenue allowance. We believe this reduction is achievable without any decline in our service performance. We plan to sustain this lower level in 2018—reducing revenue slightly in real terms on 1 July 2018. This is an excellent outcome for our customers and supports the Tasmanian Energy Strategy of delivering lower electricity prices.

Below we provide a response to each of the committee's Terms of Reference.

1. *The financial positions of the Government owned energy entities (Aurora Energy, Tasmanian Networks and Hydro Tasmania) and their interrelationships, considering their recent financial reporting, including their half yearly financial statements and Corporate Plans.*

TasNetworks' most recent annual audited financial position is disclosed in its Annual Report 2014–15. Our half year report to 31 December 2015 contains unaudited financial statements based on management accounts.

TasNetworks current financial position is relatively robust. At present, over 90% of our revenue is subject to economic regulation by the Australian Energy Regulator (AER).

Our financial forecasts show that:

- Net profits (and resultant returns to our owners) decline over the planning period due to lower forecast returns from our regulated services, higher interest costs to service increasing debt, and rising depreciation resulting from our investment in short life assets. Our profitability outlook also reflects an underlying plateauing in demand for traditional network services in Tasmania.
- Debt levels are forecast to peak at over \$1.9 billion during the planning period.

2. *Factors currently impacting on the financial performance of the energy entities.*

Several key factors currently impact the financial performance of TasNetworks:

- An environment of low interest rates reduces the regulated return on assets and is reflected in reduced customer charges. Our forecasts incorporate assumptions about future returns and they remain relatively low in historical terms.
- TasNetworks funds the solar feed in tariff policy as directed by government. The current cost is approximately \$12 million per annum.
- In general terms, there is a trend of customers consuming less electricity than in previous years.

3. *Any strategies being implemented by the energy entities to address their current and future financial performance*

The TasNetworks Corporate Plan 2016–17 has been developed to balance the needs of today with the challenges and opportunities of the future. TasNetworks is operating in an industry which is in transition, while continuing to serve the needs of our existing customer base which has an ongoing requirement for access to a safe and reliable electricity supply at a reasonable cost.

Given this context the key aspects of our plan for 2016-17 include:

- The ongoing need to run and transform our business to drive more efficient outcomes for our customers and owners

- Continuing initiatives to fully realise the benefits of operating as one network business.

4. Past and current Government's energy security policies and management including risk management strategies and plans

As the network service provider in Tasmania, TasNetworks is responsible for network security. We work closely with Australian Energy Market Operator (AEMO), the Jurisdictional System Security Coordinator (managed by Tasmanian Department of State Growth) and other key stakeholders to ensure that there are appropriate network security management strategies and plans, including risk management, in place.

5. Past and current Government's and Government owned energy entities energy mix policy decisions and challenges

TasNetworks works with all types of generators (including hydro, gas, wind, solar and mini-hydro) to enable them to connect to the Tasmanian distribution and transmission network. We have designed and implemented many innovative solutions that minimise connection costs and enable the generators to efficiently dispatch their energy into the market.

6. Any other matter incidental thereto

There are no other matters TasNetworks wishes to raise in this submission.

Parliamentary Inquiry into Government Owned Energy Entities – May 2016

Schedule of documents submitted and web links

1. TasNetworks Annual Report 2014–15
<http://www.tasnetworks.com.au/about-us/publications/annual-report>
2. TasNetworks 2015–16 half year report – including unaudited half year financials
Provided to committee
3. TasNetworks Corporate Plan 2015–16
<http://www.tasnetworks.com.au/about-us/publications/corporate-plan>
4. TasNetworks Statement of Corporate Intent 2015–16
Provided to committee
5. TasNetworks Corporate Plan 2016–17
Provided to committee
6. TasNetworks Annual Planning Report 2015
<http://www.tasnetworks.com.au/our-network/planning-and-development/planning-our-network>
7. TasNetworks Distribution Regulatory Proposal Overview 2017 – 19
<http://www.tasnetworks.com.au/TasNetworks/WebParts/TasNetworks/EWP/DownloadDD17.ashx?d=9404&m=v>
8. TasNetworks Transmission Revenue Proposal Overview 2014 – 19
<http://www.tasnetworks.com.au/TasNetworks/media/pdf/our-network/TasNetworks-Transmission-Revenue-Proposal-Overview-Paper-1.pdf>
9. Australian Energy Regulator Fact Sheet – Final Decision for TasNetworks Transmission Determination 2014 – 19
<http://www.aer.gov.au/system/files/AER%20-%20Final%20decision%20TasNetworks%20transmission%20determination%20-%20Fact%20sheet%20-April%202015.pdf>

