

Annual Pricing Proposal

for 1 July 2015 to 30 June 2016



Tasmanian Networks Pty Ltd

Who is TasNetworks?

TasNetworks commenced operations on 1 July 2014. It has been formed by a merger between Aurora's distribution network (the poles and wires) and Transend's network (the big towers and lines). TasNetworks is a Tasmanian State Owned Corporation that supplies power from the generation source to homes and businesses through a network of transmission towers, substations and powerlines.

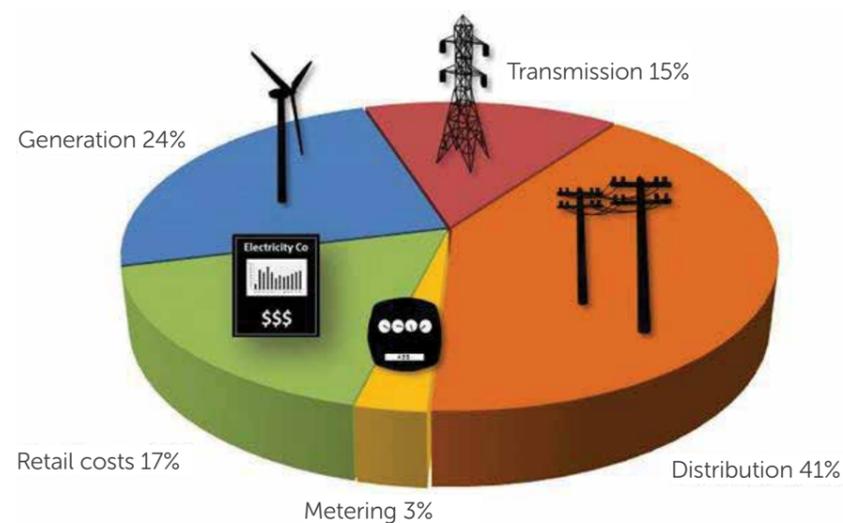
Tasmania's transmission system was developed predominantly to connect remotely located hydro generators to a range of dispersed load centres. The transmission network transports electricity long distances at very high voltage. Large industrial customers are directly connected to the transmission system.

Our distribution network supplies electricity to approximately 235,000 residential and 45,600 business customers across mainland Tasmania.

We provide the network assets that ensure our customers obtain a safe and reliable electricity supply. TasNetworks also operates and maintains approximately 47,000 public lights.

An electricity bill includes all elements of the supply chain – including generation, network costs, metering and retail services. A typical residential bill is shown in Figure 1 below.

Figure 1 | A typical residential bill



The figure right shows the cost breakdown of a typical residential customer's bill, which includes the percentage of network costs, generation costs, retail costs, and other costs.

Regulation of network charges

TasNetworks is committed to delivering the lowest sustainable prices to customers, safely and reliably. To ensure customers do not pay more than necessary for maintaining and upgrading our poles and wires, we propose revenue allowances to the Regulator that are efficient and based on prudent spending on infrastructure.

Each year we must submit a pricing proposal (called an 'Annual Pricing Proposal') to the Regulator. The Annual Pricing Proposal describes our proposed tariffs and demonstrates that any changes comply with our regulatory obligations. Following these proposals, the amount of revenue we are able to earn from our customers each year is then set by the Australian Energy Regulator (AER).

Our Annual Pricing Proposal for 1 July 2015 through to 30 June 2016 outlines the prices which will be charged to recover our revenue.

In the following sections, we highlight some of the particular price changes that we propose from 1 July 2015.



Our Services and Charges

In broad terms, we provide the following services:

- build, maintain and operate the transmission and distribution network;
- establish new connections where infrastructure does not currently exist;
- respond to, and repair, network outages and faults;
- operate and maintain Customer Service Centre;
- read, replace and repair meters; and
- provide education, advice and information about electrical safety.

More specifically, we provide a number of different types of services:

Standard control services.

Our network tariffs recover the costs of providing these services, which are the 'standard services' that our customers require each and every day. The majority of our revenue is earned through network tariffs. Retailers use our network tariffs as an input to your electricity bill.

We currently have 24 different types of tariffs. We assign customers to particular tariffs according to the customer type (e.g. residential or commercial or industrial) and the customer's forecast usage. If a customer prefers a different type of tariff, a change can be requested either through us or through the customer's retailer.

We will discuss our network tariffs in further detail shortly.

Metering services and public lighting.

We set separate charges for metering and public lighting, as the costs vary depending on the type of equipment used.

From 1 July 2015, our metering charges will increase in line with inflation, which is 1.33%, while our public lighting charges will decrease by 1.30%. These increases comply with the Regulator's decision in April 2012, which determined how these charges should increase each year.

Fee-based services

These are services that a customer may commonly request from time to time. The costs of providing these services are easy to estimate and we publish our fees annually. These services include (but are not limited to):

- de-energisation or re-energising a connection when a customer changes premises
- supply abolishment – removal of meters and service connection
- testing the accuracy of a meter.

From 1 July 2015, all of our fee-based services will decrease by 0.39%. The proposed increase is also consistent with the Regulator's decision in April 2012.

Quoted services.

These services are not commonly requested by customers and will vary significantly depending on the customer's specific requirements. We prepare a customer-specific quotation for these services, which include (but are not limited to):

- removal or relocation of our assets
- providing network services at a higher standard of reliability
- providing overhead and underground subdivisions for developers
- more frequent meter reading.

In April 2012, the Regulator approved the labour rates that we must apply when preparing a quote (in addition to materials and other costs). From 1 July 2015, our approved labour rates will increase in line with inflation, as required by the Regulator's decision.

Network Tariffs from 1 July 2015

Further information

Our 24 network tariffs include different tariff components, as described below:

- **Fixed charge** – Customers pay the same dollar amount, regardless of how much electricity they use. All our tariffs (with the exception of the Streetlights tariff) include a daily charge.
- **Energy charge** – Customers pay a price for each unit of electricity they use.
- **Time of Use charges** – Customers pay different prices depending on the time of day electricity is consumed. Some of our tariffs include 'peak', 'shoulder' and 'off-peak' charges.
- **Demand charges** – Customers pay depending on the maximum amount of electricity they use during a particular period. Some of our tariffs include a demand charge.

Our network tariffs from 1 July 2015 have been revised so that:

- Our total revenue complies with the limits set by the Regulator.
- Each tariff better satisfies the principle of 'cost reflectivity', which means that the tariff charges reflect our costs of providing the service.

In broad terms, we consider the following principles to help guide us in changing our tariffs:

- Tariffs should be as simple as possible and developed in consultation with customers and other stakeholders.
- Tariffs should provide 'price signals' to all customers, recognising that the costs of using the network varies at different times.
- We should calculate our tariffs according to a well defined and clearly explained methodology.
- We should consider the impacts on customers of any tariff change, and introduce change over a period of time to manage the impact on particular customers.
- Our tariffs must comply with the regulatory rules, both nationally and locally.

From 1 July 2015, we are proposing to increase the fixed charges in all our tariffs by 9%. The only exception relates to the General Network – Business Curtilage tariff, which is for rural customers having a single low voltage connection point but requiring more than one meter due to site layout. This tariff will see a larger increase in the fixed charge because the current charge is lower than our costs of providing the service.

Customers on the General Network – Nursing Homes network tariff have previously received a discounted energy rate. In line with TasNetworks' Tariff Strategy, for the 2015-16 regulatory year, the nursing home network tariff has been increased by CPI + 6 per cent. The process of removing the discounted energy rate inherent has been underway for a number of years.

To ensure that we remain within the overall limit set by the Regulator, the majority of our other tariff components – such as our energy charges – will increase by a much lower amount. In fact, many tariff components will increase by less than inflation from 1 July 2015.

We are increasing our fixed charges by more than average because the current fixed charges are low compared to our costs. The current tariffs are favourable to customers that use a small amount of electricity, but unfair for customers that are larger users. Our view is that all customers benefit if they pay their 'fair share.'

We are currently consulting with customers on the longer term reform of our network tariffs. For further information on this consultation – please see 'Improving the way we price our services', which is available on our website.

We have published the following documents, which explain our services and pricing in more detail:

- Network Tariff Application and Price Guide
- Metering Services Application and Price Guide
- Public Lighting Application and Price Guide
- Fee-based Services Application and Price Guide
- Quoted Services Application and Price Guide

The above documents are available, including our Annual Pricing Proposal on the TasNetworks web site at: www.tasnetworks.com.au/our-network/network-revenue-pricing

Customers and retailers who have questions about our services or prices are encouraged to contact TasNetworks at:

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