

TasNetworks Pricing Reform Working Group meeting

May 2019

Agenda

9 May 2019

- Introduction
- TasNetworks 2019-24 Final Regulatory Decision
- Network Prices Overview
- Pricing Strategy
 - Recap
 - Update
- Discussion and Questions

Break - Afternoon Tea

- Metering, Public Lighting and Fee Based Services
 - AER Final Decision
- Next Steps for the Pricing Reform Working Group
- Closing Comments

TasNetworks 2019-24 Final Regulatory Decision

Regulatory Proposal Timeline

- January 2018 TasNetworks submitted original proposal
- August 2018 Australian Energy Regulator released its Draft Decision
 - All contingent projects were rejected
 - Reductions made to proposed capital expenditure
 - 14 per cent transmission
 - 25 per cent distribution
 - Proposed operating expenditure accepted
- Significant effort was undertaken to justify replacement expenditure
 - **Renewal** capex re-analysed with improved risk quantification method
- November 2018 TasNetworks submitted the Revised Proposal
- April 2019 the Australian Energy Regulator released it's Final Decision
- 4 • 1 July 2019 the decision applies until 30 June 2024

January 2018
**Original
Proposal**

August 2018
Draft Decision

November 2018
**Revised
Proposal**

April 2019
Final Decision

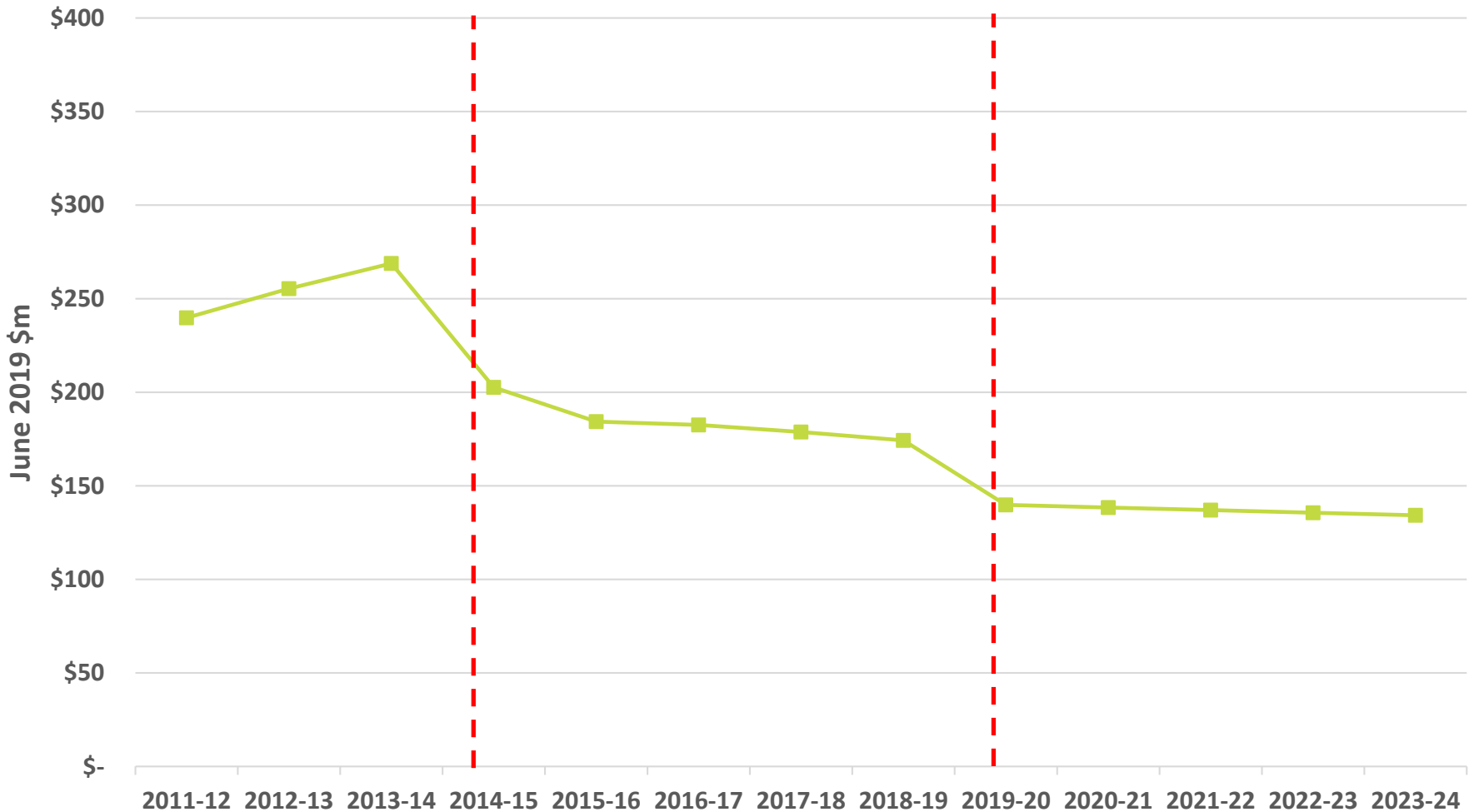
July 2019
**Final Decision applies
from 2019-24**

TasNetworks Final Determination Summary

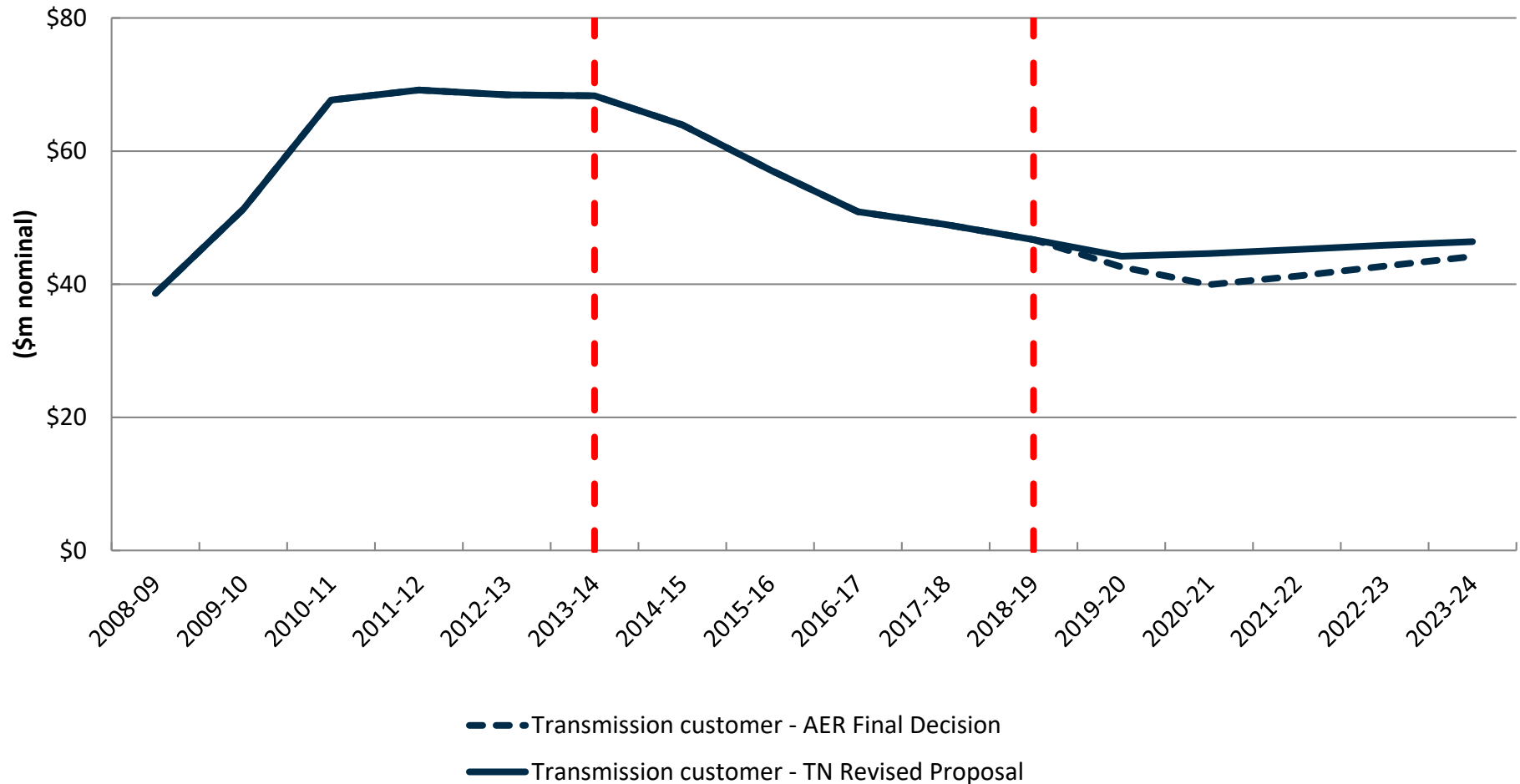
- Contingent projects accepted
- Operating expenditure accepted for both transmission and distribution
- Capital expenditure reduced by around 7% for both transmission and distribution
- Transmission rate of return 5.55 per cent for the first year of the 2019-24 period
- Distribution rate of 5.28 per cent for the first year of the 2019-24 period

(\$m, 2018-19)	AER Draft Decision	TasNetworks Revised Proposal	AER Final Decision
Capital expenditure			
Transmission	222.6	260.4	241.4
Distribution	550.9	703.0	651.1
Total	773.5	963.4	892.5
Operating expenditure			
Transmission	192.1	151.6	151.6
Distribution	410.5	446.8	446.8
Total	602.6	598.4	598.4
Revenue			
Transmission	732.1	730.5	685.0
Distribution	1,215.6	1,250.8	1,186.3
Total	1,947.7	1,981.3	1,871.3

Transmission Prescribed Revenue Outcome

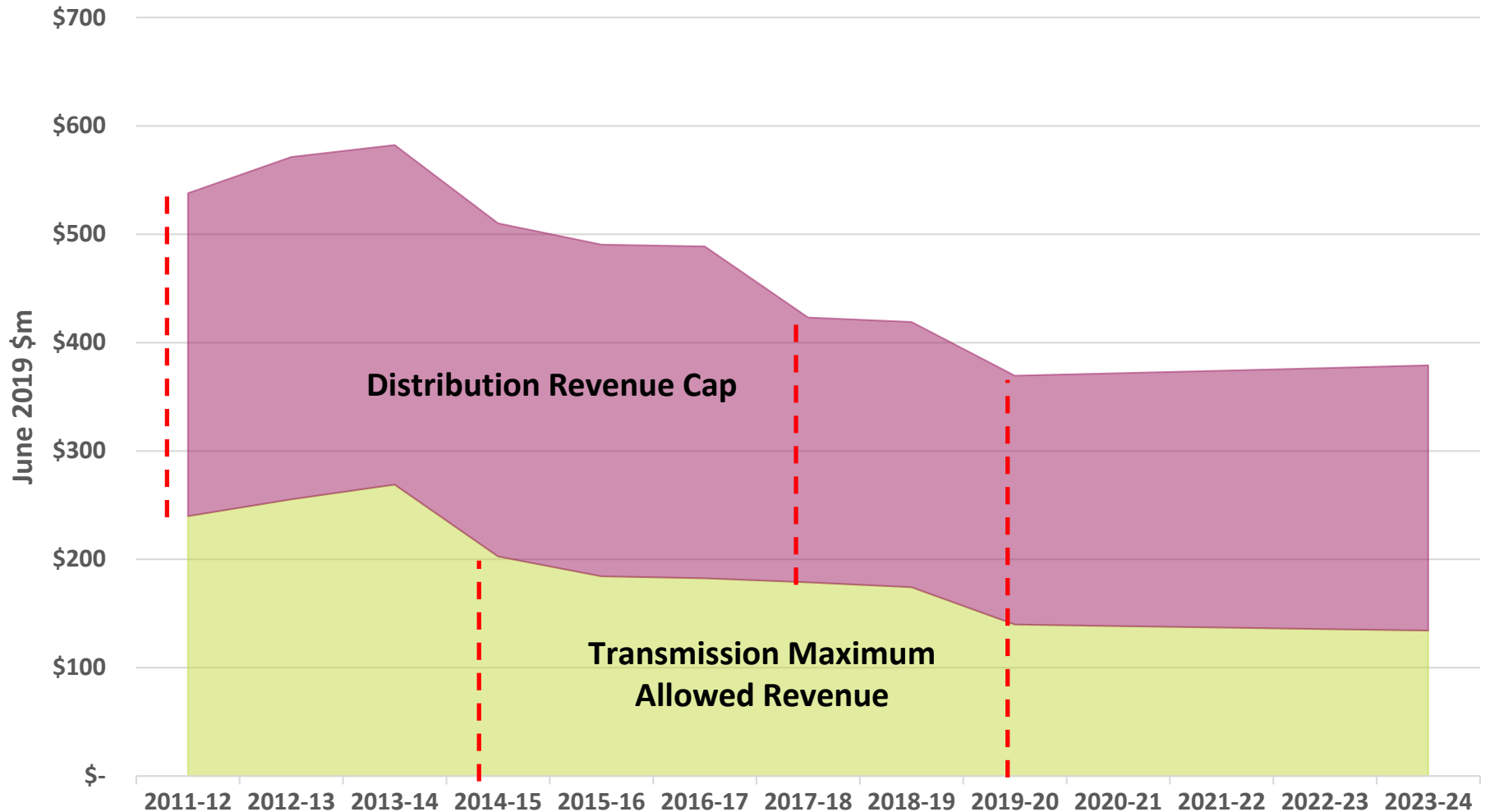


Transmission Forecast Pricing Outcomes: \$ nominal

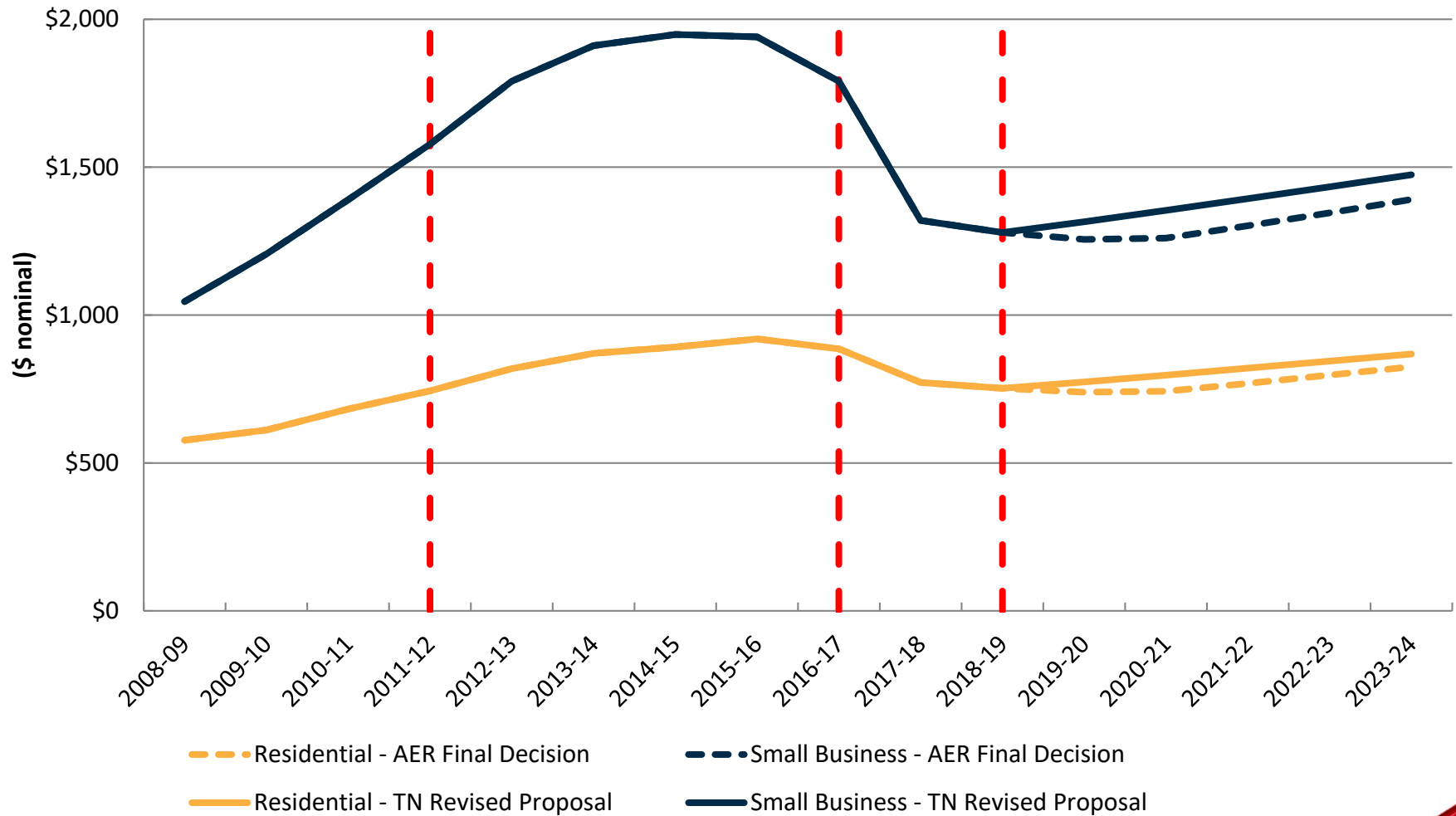


Average Pricing Movement (%)	2019-20	2020-21	2021-22	2022-23	2023-24	2019-24 Average
Transmission customer – Final Decision	(8.8%)	(8.2%)	2.7%	3.3%	3.1%	(1.7%)

Distribution Standard Control Services Revenue Outcome



Distribution Forecast Pricing Outcomes: \$ nominal



Typical Customer Price Outcomes 2019-20

\$ nominal

Customer type	2018-19 (\$)	2019-20 (\$)	2019-20 %
Residential Low Voltage General (TAS31) & Uncontrolled Low Voltage Heating (TAS41) – Medium	752	743	-1.2%
Residential Low Voltage Time of Use (TAS93) - Medium	740	729	-1.4%
Business Low Voltage General (TAS22) – Average	1,279	1,263	-1.3%
Business Low Voltage Time of Use (TAS94) - Average	1,049	1,047	-0.2%
Business Low Voltage kVA demand (TAS82) - Medium	18,859	18,790	-0.4%
Business High Voltage kVA Specified Demand (TASSDM) - Medium	61,207	60,880	-0.5%
Irrigation Low Voltage Time of Use (TAS75) - Large	5,183	5,152	-0.6%

Distribution Forecast Pricing Outcomes: \$ nominal

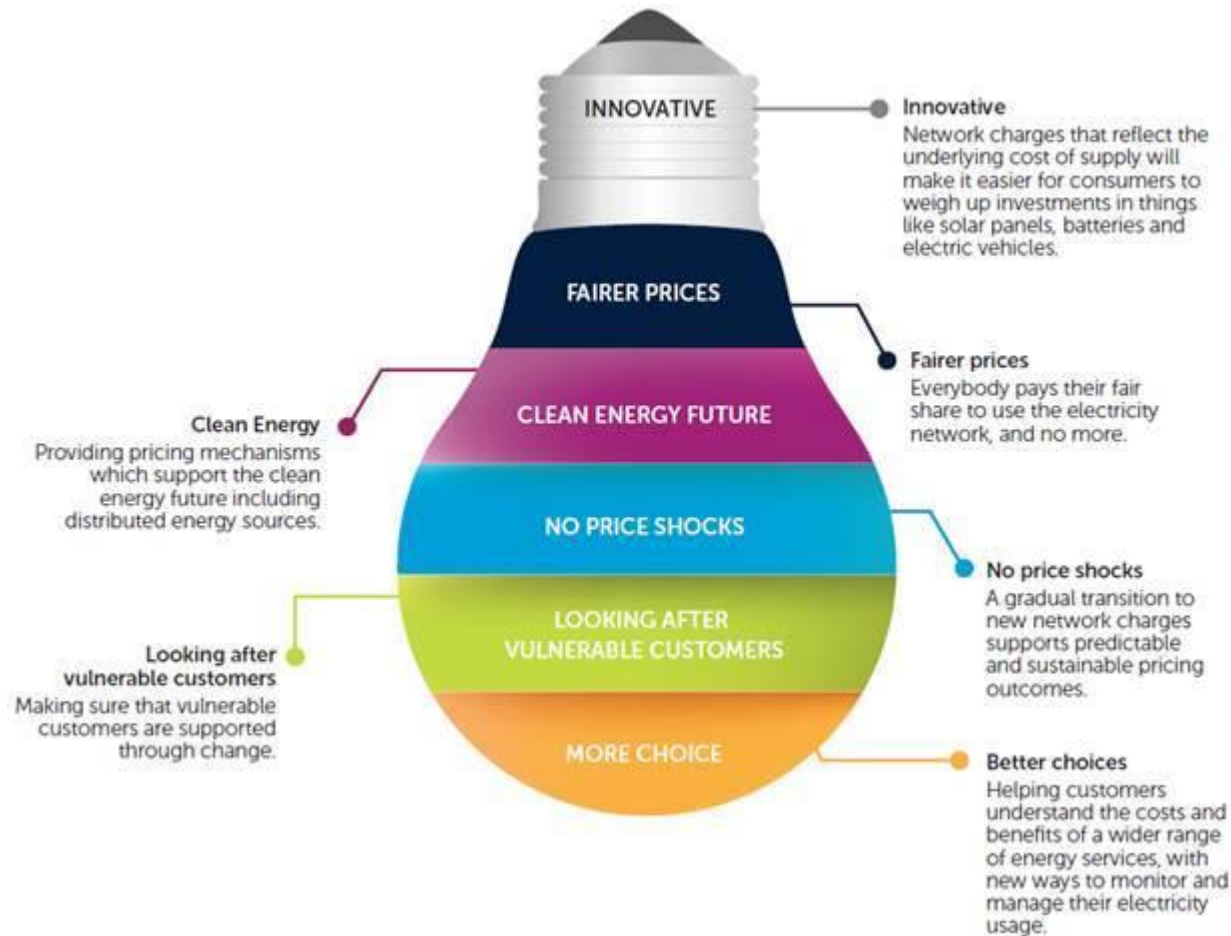
Typical Customer Movements (\$)	2019-20	2020-21	2021-22	2022-23	2023-24	2019-24 Average
Residential	(\$9)	(\$1)	\$27	\$28	\$28	\$15
Small Business	(\$16)	(\$2)	\$42	\$44	\$45	\$22

Typical Customer Movements (%)	2019-20	2020-21	2021-22	2022-23	2023-24	2019-24 Average
Residential	(1.2%)	(0.1%)	3.6%	3.6%	3.5%	1.9%
Small Business	(1.3%)	(0.2%)	3.3%	3.4%	3.4%	1.7%

Electricity distribution network charges across Tasmania will increase moderately over the next five years. We're forecasting an overall average annual increase of less than 2 per cent in network charges from 2018-19 levels.

Our Pricing Principles

The key benefits for our customers of network tariff reform and the principles which guide our plans for reform.



TasNetworks Pricing Strategy 2019-24 Recap

In November 2018, we proposed for the 2019-24 period that we will:

Continue to transition towards more cost-reflective network tariffs by

- Changing the assignment policy for residential customers from opt-in to *opt-out* to a time of use consumption based network tariff for residential customers; and
- Adopting an *opt-in* approach for time of use consumption based network tariffs for small business customers.

- The AER assessed our pricing strategy and released their Final Decision on 30 April 2019.
- This decision determines TasNetworks pricing approach for the 2019-24 period, beginning 1 July 2019 to 30 June 2024.

Pricing Reform Australia-wide

ACCC Retail Electricity Pricing Report:

- Recommended an accelerated take up of cost reflective network pricing; and
- Encouraged the take up of advanced meters.
- A compulsory 'data sampling period' for consumers following the installation of an advanced meter.

Australian Energy Regulator:

"With the typical long life of network assets we consider that 'standing still' on the uptake of cost-reflective network tariffs will work against the long term interests of consumers."*

Essential Energy: 2017 opt-out ToU consumption

AusGrid: proposed demand tariffs 1 July 2019 with a 12 month data sampling period

EvoEnergy: 2010 introduced opt-out ToU consumption

Endeavour Energy: 2018 opt-out ToU consumption

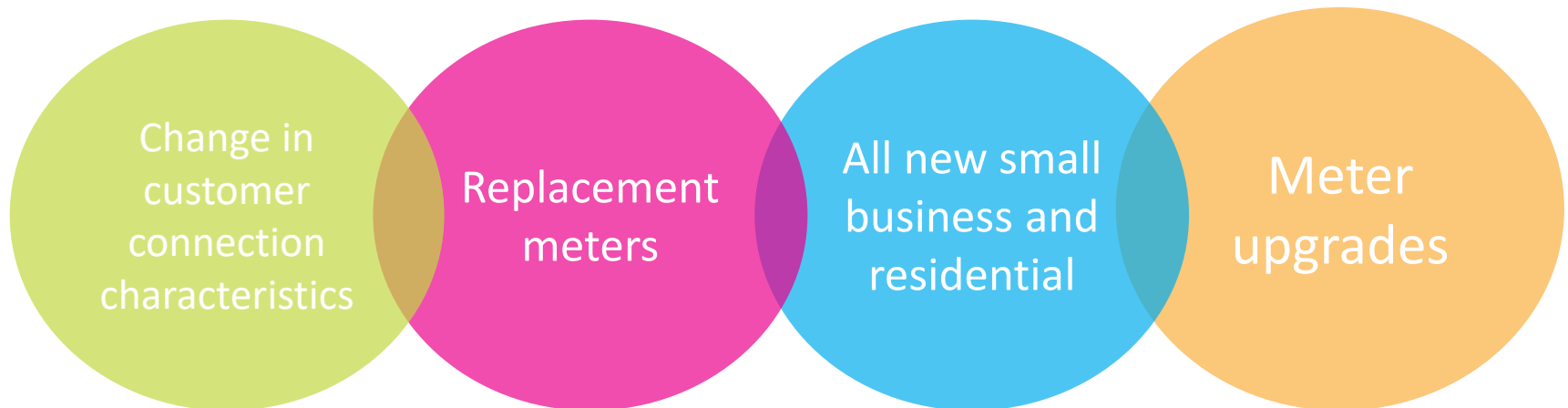
TasNetworks: Tasmania has adopted a faster pace of pricing reform for the 2019-24 period.

TasNetworks Pricing Strategy 2019-24

The Australian Energy Regulator's Final Decision

- ✓ From 1 July 2019 consumption based ToU network tariffs will become the default network tariffs for all new small business and residential connections.
- ✓ The decision includes a 12 month delay to be applied to each customer for the 2019-24 regulatory period.
- ✓ At the conclusion of the delay period, TasNetworks will begin billing the customer's retailer on a ToU basis, unless the customer elects, through their retailer, to opt out of the default ToU network tariff.

Change triggers



Discussion and Questions



Afternoon Tea Break

AER Decision - Alternative Control Services



Overview of Alternative Control Services (ACS)

- ✓ Regulated services that can be more directly attributed to an individual customer
- ✓ Distribution services priced outside the revenue cap using service-specific charges. ACS services are:
 - ✓ public lighting services
 - ✓ metering services for selected regulated meters
 - ✓ ancillary network services (fee based and quoted services).
- ✓ Alternative Control Services are price capped not revenue capped
- ✓ Our pricing strategy is full cost recovery and a (modest) return to the business
- ✓ Greater clarity on the appropriate level and allocation of costs will see some step changes in prices due to increased cost allocation to ACS
- ✓ A glide path was proposed for public lighting prices to support strategy but avoid large price shocks
- ✓ The final decision results in an increase in the average nominal price for public lighting services of 3 percent in 2019-20, followed by real price increases of 1.7 per cent in each of the remaining four years.

Terms of Reference



TasNetworks' Policy and Regulatory Working Group

Australian Energy Regulator: We consider that TasNetworks continues to recognise the importance of consumer engagement and the value it delivers for the network business and customers.

- The Pricing Reform Working Group made valuable contributions over the Reset process to help develop our pricing strategy and we want to continue this.
- Our vision is that the newly named, TasNetworks' Policy and Regulatory Working Group (**Working Group**), will contribute to the direction of energy Regulatory, Policy and Pricing outcomes and reform in Tasmania.
- We have several significant projects which we're looking forward to this group contributing.
 - The North West strategy
 - The forward works program
 - Asset management plans
 - Our pricing plans
- We're looking forward to hearing your feedback on the expanded Terms of Reference document.

Thank you

We looking forward to engaging with you further.

In the meantime, should you have any questions please don't hesitate to contact Ms Chantal Hopwood, Leader Regulation, at chantal.hopwood@tasnetworks.com.au or on (03) 6271 6511.

