

Annual Distribution Pricing Proposal

1 July 2016 to 30 June 2017

Overview

Who is TasNetworks?



Delivering your power

TasNetworks is the Transmission Network Service Provider and Distribution Network Service Provider (DNSP) for the Tasmanian region of the National Electricity Market, which includes mainland Tasmania, but not the Bass Strait islands.

We own, operate and maintain the network of power lines that take high-voltage power from the point of generation and delivers low-voltage electricity to more than 280,000 Tasmanian households, businesses and organisations. TasNetworks also operates and maintains nearly 50,000 public lights on behalf of councils and other government authorities.

With total assets of more than \$3 billion, we provide the network that ensures our customers receive a safe, reliable and affordable electricity supply.

Our network charges are regulated

Electricity prices cover more than just the cost of generating the energy customers use. Prices also include the cost of transporting electricity via the high-voltage transmission network and the low-voltage poles and wires that make up the distribution network, as well as the costs associated with selling electricity.

Network tariffs are the fees and charges through which we recover the cost of building, running and maintaining the network in Tasmania. Every household, business and organisation connected to the network makes a contribution towards its cost.

The amount of revenue we are able to earn from our customers each year and the prices we charge to recover that revenue are approved by the Australian Energy Regulator (AER). The AER sets our revenue allowances for up to five years in advance and then approves the prices we charge to recover that revenue for each of those five years.

Our Annual Distribution Pricing Proposal for 2016-17 sets out the prices we will charge to recover our allowable revenue for that year.

Even though network charges make up more than half of most customers' electricity bills¹, our network tariffs are not visible to most customers. This is because rather than bill customers directly for their use of the network, we charge electricity retailers for each of their customers' use of the network. Retailers then pass on these costs to their customers through the retail tariffs that appear on electricity bills. As a result, the electricity bills received by most residential and small business customers don't break down the delivered cost of electricity into its various components.

This document summarises our *Annual Distribution Pricing Proposal* for the year 1 July 2016 to 30 June 2017. It outlines the prices that will be charged to recover our allowable revenue for the year and explains some of the price changes we propose from 1 July 2016.

¹ Office of the Tasmanian Economic Regulator, Comparison of Australian Standing Offer Energy Prices, March 2015

Our services and charges

Network charges (for standard control services)

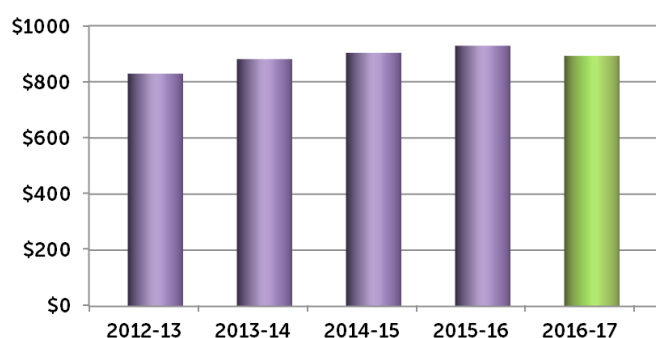
Standard control refers to an approach taken by the AER to the regulation of our prices that involves setting a cap on the amount of revenue we are permitted to recover, rather than setting prices. The AER classifies the generic distribution network services that are relied on by all customers – including connections to our distribution network – as standard control services.

The annual revenue allowance that applies to our standard control services is recovered through general network charges (network tariffs). Most of our revenue is earned through network tariffs and the amount of that revenue each year is capped by the AER. Retailers use our network tariffs as an input to customers' electricity bills.

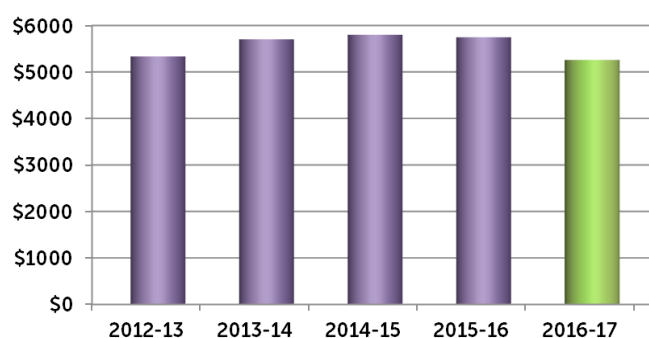
For most customers, the movement in network prices for 2016-17 will place downward pressure on retail prices.

For most customers, the movement in network prices for 2016-17 will place downward pressure on retail prices. The decrease in overall network charges is due to a reduction in the amount of revenue TasNetworks is permitted by the AER to recover from its operation of Tasmania's distribution network, compared to 2015-16.

Annual network charges for a typical residential customer



Annual network charges for an energy-intensive small business



Indicative price changes

- For residential customers, the **standard service charge will increase by 5%** from 45.584 cents a day in 2015-16 to 47.864 cents a day, while the cost for delivering each kilowatt hour (kWh) of electricity used will **decrease by just under 9%**, from 15.555 cents/kWh to 14.168 cents/kWh. The same changes will apply to low-voltage businesses customers on the standard consumption-based network tariff with no time-of-use conditions.
- For large low-voltage businesses with three-phase supplies on a combined consumption and demand-based network tariff, the **daily service charge will increase** from \$2.22 in 2015-16 to \$2.45 in 2016-17, an increase of 10%. At the same time, the charge for delivering each kWh of electricity used by the customer will **decrease by 6%** from 3.119 cents/kWh to 2.925 cents/kWh. The **demand charge will decrease (by just over 7.5%)** from 51.766 cents per kW in 2015-16 to 47.792 cents in 2016-17.





Metering services

Metering services are services relating to the provision, installation and maintenance of standard meters and the associated services provided to customers. The type of meter provided depends on the connection characteristics and the network tariff applying to each customer. We set separate charges for metering, rather than include them in network tariffs, as the cost of metering customers' use of electricity varies depending on the type of metering equipment used.

From 1 July 2016, our **metering charges will increase by 1.31%**, which is in line with inflation. The change in metering charges complies with the AER's decision in April 2012, which determined how these charges should be adjusted during each year of the current five-year regulatory period.

Indicative price changes

-  For customers living in a private residential dwelling with a Type 6 meter, when compared to 2015-16, the annual cost of their meter will **increase by just 28 cents** in 2016-17 to \$27.52.
-  For a business with a low-voltage power supply and a Type 6 meter, compared to 2015-16, the annual cost of its meter will **increase by only 29 cents** in 2016-17 to \$28.46.



Fee-based services

Fee-based services are works that benefit a specific customer rather than the wider customer base. Because we provide these services on a frequent basis and the costs involved don't vary materially between customers, we are able to set fixed fees for these services. These services include (but are not limited to):

- De-energising 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 2016, all of our prices for fee-based services will **decrease by 0.39%**. The proposed decrease is consistent with the AER's decision in April 2012.

Indicative price changes

-  In 2015-16, the price for a de-energisation, re-energisation or special meter read conducted on a scheduled service day² was \$53.56. In 2016-17, the same service will **decrease** to \$53.34.
-  In 2015-16, TasNetworks charged \$293.73 for a visit to a customer's premises to undertake the testing of a basic metering installation, regardless of the customer's location. In 2016-17, the same test will **decrease** to \$292.52.

² To deliver services to customers throughout the state efficiently, TasNetworks divides Tasmania into roughly 40 service areas and schedules regular days every week in each area for the delivery of services requested by customers (or retailers). In some areas, services are available on every day of the working week, but in some regional and remote areas, there may only be one scheduled day for the delivery of services each week.





Public lighting

Public lighting services consist of the provision of new public lighting, as well as repair, replacement and maintenance of existing public lighting assets. Public lighting charges are based on the costs associated with installing and maintaining both the light fitting and the bracket. Public lighting tariffs do not include charges for the utilisation of TasNetworks' distribution network, which are recovered through network tariffs. Public lighting charges vary depending on the type of equipment used and are calculated in accordance with the AER's Distribution Determination applying to TasNetworks.

From 1 July 2016, our public lighting charges will **decrease by 1.30%**. This decrease complies with the AER's decision in April 2012, which determined how these charges should be adjusted during each year of the current five-year regulatory period.

Indicative price changes

The majority of new fittings installed for major public lighting are high-pressure sodium vapour fittings.

-  The annual cost of a 100W sodium vapour light will **decrease by just over \$2 per light fitting**, from \$128 in 2015-16 to \$126 in 2016-17.
-  The annual cost of a 250W sodium vapour light will **decrease by just over \$2 per light fitting**, from \$142 in 2015-16 to around \$140 in 2016-17.

Quoted services





These services are not often requested by customers and their cost will vary significantly depending on the customer's needs. We prepare customer-specific quotations for these services, which include (but are not limited to) services like:

- 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 AER approved the labour rates we apply when preparing a quote (in addition to materials and other costs). From 1 July 2016, our approved labour rates for the provision of quoted services will **decrease**, except for the rate applying to apprentices, as required by the AER's decision.

Indicative price changes

TasNetworks is unable to provide indicative prices for specific quoted services because their costs may vary significantly between customers, depending on their requirements and circumstances. However, as a guide, some examples of the changes in the hourly charges for the provision of labour associated with quoted services in the period 1 July 2016 to 30 June 2017 are below.

-  Customer connections service crew: \$60.02 an hour in 2015-16, **decreasing to \$59.22 an hour**
-  Designer: \$74.95 an hour in 2015-16, **decreasing to \$74.06 an hour**
-  Distribution lineworker (live line): \$59.58 an hour in 2015-16, **decreasing to \$58.78 an hour**
-  Pole tester: \$50.13 an hour in 2015-16, **decreasing to \$49.54 an hour**

Changes to network tariffs in 2016-17

Making network tariffs fairer

TasNetworks has previously highlighted changes in network tariffs and tariff structures in its annual pricing proposals. Various network tariffs have been made obsolete or are under transitional arrangements. Our *Network Tariff Application and Price Guide* provides details of the alternative tariffs customers affected by the discontinuation of a tariff can transition to over time.

A process of realigning the prices for a number of network tariffs, in order to reduce some longstanding cross-subsidies between (and within) a number of tariff classes is already underway. This process will continue during the 2016-17 regulatory year.

A rebalancing of the service and variable charging parameters of most of our existing network tariffs has also begun. This change involves gradually increasing the emphasis on service charges and reducing the extent to which variable consumption-based charges are used to recover the cost of providing network services. This is because the majority of our costs are fixed, which is inconsistent with the recovery of those costs using charges that vary according to the volume of electricity customers use.

To ensure we remain within the overall revenue limit set by the AER, the majority of our tariff components will decrease.

As a result, from 1 July 2016, the service charges in most of our tariffs will increase on average by 5%. Exceptions relate 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 daily service charge because the current charge is lower than our costs of providing the service.
- High-voltage network tariffs (Business High Voltage kVA Specified Demand and Business High Voltage kVA Specified Demand (>2.0MVA)). These tariffs will see a larger increase in the daily service charge because the current tariffs recover a disproportionate amount of revenue through volume-based tariff components, compared to service charges.
- The demand tariff applying to low-voltage business customers will see a larger increase in the daily service charge, offset by significant reductions in demand charges and consumption-based charges.

To ensure we remain within the overall revenue limit set by the AER, the majority of our other tariff components – such as our energy-based charges – will decrease. One exception to this will be customers on the General Network – Nursing Homes network tariff, who have previously received a discounted energy rate. In line with TasNetworks' Tariff Strategy, the nursing home network tariff will increase in 2016-17 by the long-term average change in the CPI plus 6%. The process of removing the discounted energy rate for nursing homes has been underway for a number of years. There are currently only a small number of customers who remain on the nursing home tariff.


We are also continuing to rebalance the service and variable charging parameters of most of our network tariffs. Increasing the emphasis on service charges better reflects the unavoidable nature of much of our network costs and also supports the move to more efficient, cost-reflective price signals to customers. The increased service charge also recognises the value to customers of a network connection, both as a source of energy and a way for customers with solar generation to sell their surplus electricity.

The following table provides a summary of the movement in network charges 2016-17.

Changes in network charges 2016-17

Tariff class	Tariff	Tariff component	Network charge 2015-16 (cents)	Network charge 2016-17 (cents)	Change
Residential	TAS31	Service charge	45.584	47.864	5.00%
		Energy charge	15.555	14.168	-8.92%
	TAS101	Service charge	45.584	47.864	5.00%
		Energy charge	8.233	8.301	0.83%
	TAS93 / TAS92	Service charge	45.584	47.864	5.00%
		Peak energy	15.029	19.020	26.56%
		Off-peak energy	1.552	2.811	81.12%
Uncontrolled energy	TAS41	Service charge	4.936	5.183	5.00%
		Energy charge	5.206	5.302	1.84%
Controlled energy	TAS61	Service charge	9.253	9.716	5.00%
		Energy charge	1.713	1.715	0.12%
	TAS63	Service charge	9.253	9.716	5.00%
		Energy charge	1.530	1.362	-10.98%
High voltage	TAS15	Service charge	2062.9	2475.5	20.00%
		Peak energy	1.936	1.897	-2.01%
		Shoulder energy	0.524	0.514	-1.91%
		Off-peak energy	0.066	0.065	-1.52%
		Specified demand	12.300	12.054	-2.00%
		Excess demand	61.500	60.270	-2.00%
		Connection specified demand	0.447	0.438	-2.01%
		Excess connection specified demand	2.235	2.190	-2.01%
	TASSDM	Service charge	155.657	186.788	20.00%
		Peak energy	1.450	1.243	-14.28%
		Shoulder energy	1.092	0.938	-14.10%
		Off-peak energy	0.619	0.525	-15.19%
		Specified demand	24.989	24.280	-2.84%
		Excess demand	249.890	242.796	-2.84%
Irrigation	TAS75	Service charge	219.051	230.006	5.00%
		Peak energy	15.614	15.553	-0.39%
		Shoulder energy	9.585	9.535	-0.52%
		Off-peak energy	1.489	1.505	1.07%

More movements on the next page.



Tariff class	Tariff	Tariff component	Network charge 2015-16 (cents)	Network charge 2016-17 (cents)	Change
Large low voltage	TAS82	Service charge	222.458	244.704	10.00%
		Energy charge	3.119	2.925	-6.22%
		Demand charge	51.766	47.792	-7.68%
Small low voltage	TAS22	Service charge	45.584	47.864	5.00%
		Energy charge	15.555	14.168	-8.92%
	TAS34	Service charge	45.584	47.864	5.00%
		1st 500kWh energy	15.555	14.168	-8.92%
		Remaining energy	8.818	8.904	0.98%
	TASCURT	Service charge	31.909	36.695	15.00%
		Energy charge	15.555	14.168	-8.92%
	TAS94	Service charge	46.518	48.844	5.00%
		Peak energy	15.029	13.901	-7.51%
		Shoulder energy	9.601	8.876	-7.55%
		Off-peak energy	1.552	1.554	0.13%
Unmetered	TASUMS	Service charge	45.584	47.864	5.00%
		Energy charge	18.400	18.245	-0.84%
Streetlights	TASUMSSL	Demand charge	0.148	0.142	-4.05%

The future of network tariffs

The journey towards cost-reflective pricing

In the coming regulatory control period, beginning 1 July 2017, and in the regulatory control periods that follow, the process of tariff reform and transitioning towards more cost-reflective pricing will continue.

Like network companies across Australia, TasNetworks is looking to change the way it charges for the delivery of electricity and access to its distribution network. Technological and customer driven changes in the electricity market, such as the widespread uptake of solar panels, mean the current consumption-based network tariffs used to recover the cost of network services are no longer fit for purpose.

Our aim is to encourage a customer-led shift to demand-based network tariffs, with our customers understanding and recognising the value proposition associated with demand-based network tariffs, as opposed to the current consumption-based network tariffs. From 1 July 2017, we will be offering new time-of-use demand-based network tariffs to electricity retailers as a choice for their residential and low-voltage business customers.

We will continue consulting with customers on the longer-term reform of our network tariffs. For more information on the consultation we have undertaken to date please see *Improving the way we price our services (Tariff Structure Statement - Overview)*, which is available on our website.³

For more information

Each year we publish the following documents explaining 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*

These documents, along with our *Annual Distribution Pricing Proposal* for 2016-17, are available on our website at tasnetworks.com.au/our-network/network-revenue-pricing. Customers and retailers who have questions about our services or prices are encouraged to contact TasNetworks.

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³ *Improving the way we price our services (Tariff Structure Statement for Regulatory Control Period 1 July 2017-30 June 2019, Overview)*.

