



Statement of Expected Price Trends

2012-13 – 2016-17

June 2016



TasNetworks Pty Ltd
PO Box 606
Moonah TAS 7009
ABN 24 167 357 299

Enquiries regarding this document should be addressed to:
TasNetworks Revenue and Pricing Regulation Team Leader
PO Box 606
Moonah TAS 7009
Email: networktariff@TasNetworks.com.au



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1. Preface

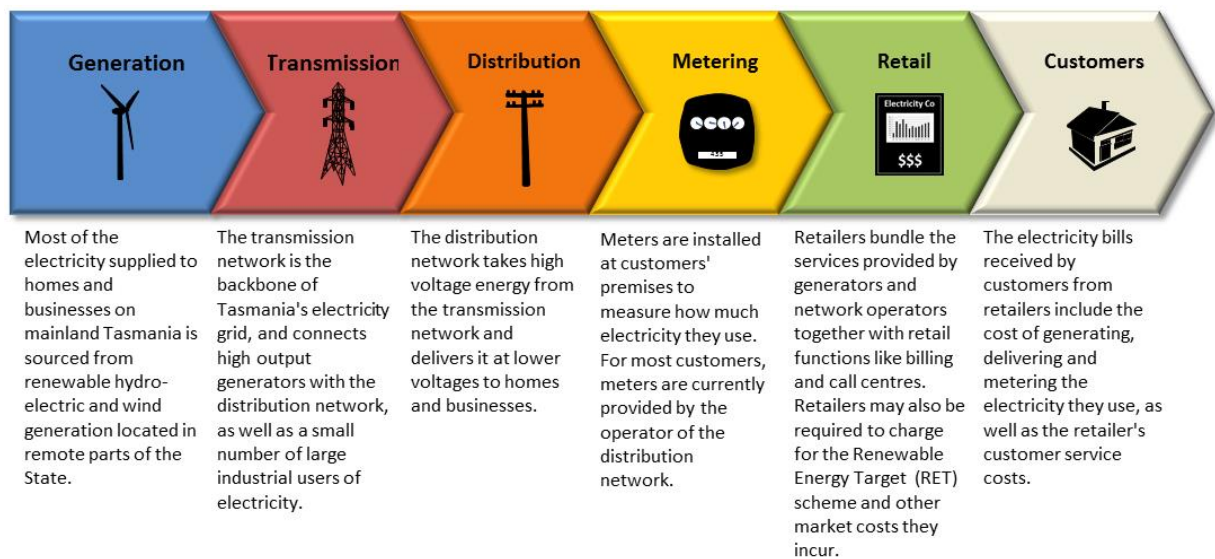
The version¹ of the National Electricity Rules (the Rules) applying to TasNetworks' current regulatory control period (which began in 2012-13) requires TasNetworks to publish a statement of expected price trends each year on its website. The statement provides an indication of how TasNetworks' expects distribution network charges to change during the balance of the current regulatory control period.

The current regulatory control period applying to TasNetworks' distribution network ends on 30 June 2017. Therefore, this statement provides an overview of the approved price path distribution services for the current regulatory control period. All prices indicated in this statement of expected price trends, unless otherwise noted, do not include GST.

2. Introduction

2.1. The delivered cost of electricity

The cost of electricity consumed by households and small businesses covers much more than the cost of generating that energy. It also includes the cost of transporting electricity from the point of generation via the high voltage transmission network and the low voltage poles and wires which make up the distribution network. The prices paid by end users also cover the costs associated with retailing electricity to end-users. The following diagram illustrates the different links in the electricity supply chain and provides an overview of each function. TasNetworks is responsible for the transmission² and distribution functions, as well as metering for most customers.

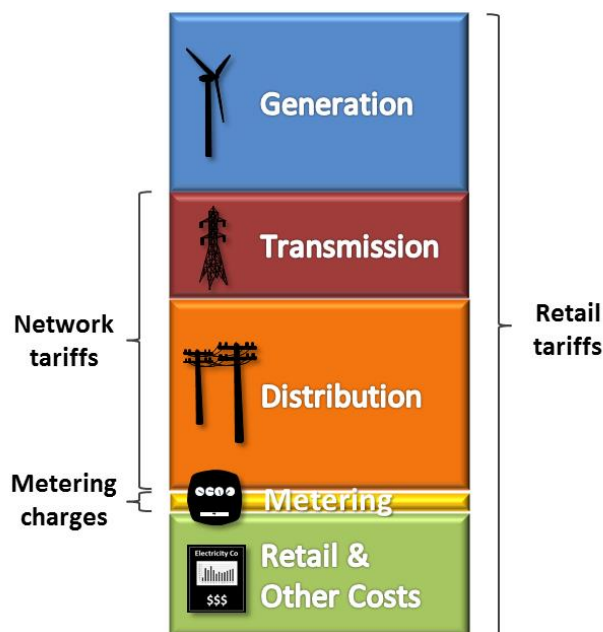


¹ Version 65

² In addition to linking generators with the distribution network and major industrial users of electricity, Tasmania's transmission network also connects with the privately owned Basslink interconnector, which enables electricity to be transported to, and imported from, mainland Australia.

The following diagram illustrates the different costs which make up the electricity bill received by a residential customer and the approximate contribution that each element makes to the delivered cost of electricity.³ As can be seen from the diagram, network tariffs in Tasmania currently represent just over half of a typical residential customer's total electricity costs. This breakdown can vary over time, however, as the cost of electricity incorporated into the retail electricity tariffs – the next largest component after network costs – can vary between years.

The delivered cost of electricity



2.2. The role of TasNetworks

TasNetworks owns, operates and maintains the electricity transmission and distribution networks in Tasmania. The transmission network connects large generators like wind farms and hydro-electric power stations with the distribution network, as well as a small number of large industrial users of electricity. The distribution network takes high voltage energy from the transmission network and conveys it at lower voltages to around 280,000 homes and businesses across Tasmania. Increasingly, the distribution network also receives and distributes the surplus energy generated by customers with photo-voltaic solar panels.

TasNetworks also reads and maintains the meters that measure how much electricity each of those homes and businesses use, and how much energy they export if they have solar panels. TasNetworks is currently the sole provider of meters and related services, such as meter reading, for residential and small business customers, although changes being made to national regulations mean that in the future this may not be the case.

2.3. Recovering the cost of delivering electricity

TasNetworks recovers the cost of providing and running the shared distribution network from customers who are connected to the network by charging network tariffs.

³ For reasons of simplicity, the cost of Renewable Energy Certificates and energy market charges have been included in Retail costs.



The cost of providing and reading meters is recovered through specific metering charges, based on the type of meter in use at a customer's premises.

Separate network and metering charges apply to each different power supply at a customer's premises. This means that for customers with two different supplies (e.g. one for general light and power and another for water and/or home heating), separate network charges and metering charges will apply to both, even though they share the one connection with the network.

With the exception of the charges applying to non-network services, such as establishing a new connection, most customers will never receive a bill from TasNetworks. This is because TasNetworks charges electricity retailers for the cost of providing distribution network services to their customers, and the retailers pass those charges on in the prices they charge their customers for electricity.

Retailers do this by bundling TasNetworks' network tariffs into their own prices and charges, along with the other costs of supplying electricity. This means that most residential and small business customers won't see TasNetworks' network costs itemised on their electricity bill. The bills issued to larger customers, such as energy intensive businesses, on the other hand, generally provide a detailed break-down of the separate costs that go into supplying them with their electricity.

3. Setting the price for delivering electricity

In small markets like Tasmania, the provision of the electricity network by a single entity makes economic sense because a single network, and a single operator, can serve the entire market more cost effectively than multiple networks and/or multiple operators. TasNetworks is the sole provider of both transmission and distribution services in Tasmania.

Even though TasNetworks is a publicly owned utility, as a monopoly provider TasNetworks is subject to economic regulation by the Australian Energy Regulator (**AER**). While TasNetworks is run on a commercial basis and is working hard to sustainably reduce costs, economic regulation provides the Tasmanian community with independent assurance that TasNetworks is operating its assets reliably and cost effectively, despite the absence of a competitive market for many of its core services.

In order to do this, the AER sets the maximum revenue that TasNetworks can recover in any given year from its customers for the provision of the network. This is known as a 'revenue cap'. The AER also approves the prices that TasNetworks charges in order to recover that revenue. The AER uses price caps, rather than revenue caps, to regulate a range of other services, such as metering, where the costs – and the associated benefits from the service – can be directly attributed to specific, identifiable customers.



4. The outlook for network prices

TasNetworks was created with the expectation that it would achieve operational efficiencies which would help deliver sustainably lower power prices. We are conscious of the effect that rising electricity prices have on customers and have implemented a business-wide strategy to ensure that we realise ongoing savings that deliver genuine price relief for customers.

Since commencing operations in July 2014, TasNetworks has made millions of dollars in savings. Many of those savings are reflected in the transmission network revenue proposal submitted by TasNetworks for the period 2015-16 to 2018-19, and will put sustained downward pressure on the transmission network costs passed on to all customers connected to the distribution network in the future. The transmission network costs passed on to distribution network customers are based on the revenue allowances set for the transmission network by the AER, less the amount to be recovered from large industrial users of electricity which are directly connected to the transmission network at high voltages.

The distribution network tariffs applying in the remainder of the current regulatory control period (which ends on 30 June 2017) will be driven by the recovery of efficient revenue allowances for both the distribution and transmission networks. The movement in network prices for 2016-17 will place downward pressure on retail prices for most customers. Based on the AER's determination of TasNetworks' revenue, the annual revenue requirement that TasNetworks is permitted to recover from users of the shared distribution network will decrease in 2016-17 by 2.45 per cent in nominal terms, when compared to 2015-16. This follows on from an increase of only 0.1 per cent in 2015-16 and less than two per cent in the year before that. This means that, in recent years, TasNetworks' annual revenue requirement has been decreasing in real terms.

In January 2016, TasNetworks submitted a revenue proposal for its distribution network covering the (shorter than usual) regulatory control period from 2017-18 to 2018-19. That proposal, which at the time of writing is still subject to approval by the AER, requests revenue allowances which involve further, significant reductions in TasNetworks revenue requirements.

The network prices shown in the following table have all been approved by the AER. The approved network tariffs for 2016-17 take into account:

- TasNetworks' maximum allowable revenue in 2016-17;
- energy consumption and demand forecasts;
- forecast under recoveries in prior year; and
- movement in the Consumer Price Index during the 12 months to the end of March 2016;
- any annual revenue adjustments approved by the AER; and
- the annual pricing proposals submitted to the AER by TasNetworks for approval.

The network tariffs applying to customers connected to the distribution network also incorporate the recovery of the transmission charges for the year (which will also reflect any prior year under or over recoveries). The network charges in Table 1 combine distribution network related charges with the transmission network costs recovered from customers connected to the distribution network.

Following AER approval of TasNetworks' annual pricing proposal for 2016-17, the approved tariffs for a given year are published on the TasNetworks website.



The network charges applying to each tariff class over the course of the current five year regulatory control period are provided in Table 1. Normally, this table would include confirmed prices for the coming year as well as projections of the network charges that will apply in the remainder of the current regulatory control period. Those indicative network charges are usually subject to change, as they rely on forecasts of the CPI, customer numbers, consumption and demand. But because 2016-17 is the final year in the current regulatory control period, all of the network charges in Table 1 are final prices approved by the AER.

Table 1: Network charges over the regulatory period

All prices include Transmission Use of System (TUoS) and Distribution Use of System (DUoS) charges.

Tariff class	Tariff	Tariff Component	2012-13 (cents)	2013-14 (cents)	2014-15 (cent)	2015-16 (cents)	2016-17 (cents)
Residential	TAS31	Service charge	38.131	39.084	41.820	45.584	47.864
		Energy charge	14.478	15.505	15.748	15.555	14.168
	TAS101	Service charge	38.131	39.084	41.820	45.584	47.864
		Energy charge	7.502	8.020	8.142	8.233	8.301
	TAS93 / TAS92	Service charge	38.131	39.084	41.820	45.584	47.864
		Peak energy	12.831	13.195	13.670	15.029	19.020
		Shoulder energy	7.862	8.233	8.460	n/a	n/a
Off-peak energy		1.412	1.518	1.535	1.552	2.811	
Uncontrolled Energy	TAS41	Service charge	4.129	4.232	4.528	4.936	5.183
		Energy charge	4.364	4.688	4.744	5.206	5.302
Controlled Energy	TAS61	Service charge	7.740	7.934	8.489	9.253	9.716
		Energy charge	1.524	1.638	1.670	1.713	1.715
	TAS63	Service charge	7.740	7.934	8.489	9.253	9.716
		Energy charge	1.433	1.543	1.496	1.530	1.362
Small LV	TAS22	Service charge	38.131	39.084	41.820	45.584	47.864
		Energy charge	14.478	15.505	15.748	15.555	14.168
	TAS34	Service charge	38.131	39.084	41.820	45.584	47.864
		1 st 500kWh energy	13.935	14.993	15.748	15.555	14.168
		Remaining energy	6.952	7.543	8.216	8.818	8.904
	TASCURT	Service charge	15.252	19.542	25.092	31.909	36.695
		Energy charge	14.478	15.505	15.748	15.555	14.168
	TAS94	Service charge	38.131	39.885	42.667	46.518	48.844
		Peak energy	13.395	14.260	14.637	15.029	13.901
		Shoulder energy	8.509	9.213	9.422	9.601	8.876
Off-peak energy		1.412	1.518	1.546	1.552	1.554	
Irrigation	TAS75	Service charge	183.236	187.817	200.964	219.051	230.006
		Peak energy	14.342	15.287	15.642	15.614	15.553

Statement of Expected Price Trends
2012-13 to 2016-17

Tariff class	Tariff	Tariff Component	2012-13 (cents)	2013-14 (cents)	2014-15 (cent)	2015-16 (cents)	2016-17 (cents)
		Shoulder energy	8.807	9.554	9.582	9.585	9.535
		Off-peak energy	1.415	1.521	1.498	1.489	1.505
Large LV	TAS82	Service charge	186.086	190.738	204.090	222.458	244.704
		Energy charge	2.873	3.028	3.098	3.119	2.925
		Demand charge	49.417	52.206	52.621	51.766	47.792
HV	TAS15*	Service charge	1,725.700	1,768.800	1,892.600	2,062.900	2,475.500
	<i>* DUOS only</i>	Peak energy	1.557	1.677	1.794	1.936	1.897
		Shoulder energy	0.422	0.454	0.486	0.524	0.514
		Off-peak energy	0.053	0.057	0.061	0.066	0.065
		Specified demand	9.891	10.653	11.399	12.300	12.054
		Excess demand	49.455	53.265	56.995	61.500	60.270
		Connection specified demand	0.359	0.387	0.414	0.447	0.438
		Excess connection specified demand	1.795	1.935	2.070	2.235	2.190
	TASSDM	Service charge	127.472	133.463	142.805	155.657	186.788
		Peak energy	1.504	1.611	1.624	1.450	1.243
		Shoulder energy	1.200	1.287	1.220	1.092	0.938
		Off-peak energy	0.698	0.747	0.703	0.619	0.525
		Specified demand	21.476	22.979	23.491	24.989	24.280
		Excess demand	214.760	229.790	234.910	249.890	242.796
Unmetered	TASUMS	Service charge	38.131	39.084	41.820	45.584	47.864
		Energy charge	16.081	17.189	18.023	18.400	18.245
Streetlights	TASUMSSL	Demand charge	0.130	0.141	0.144	0.148	0.142



Network tariff reform

TasNetworks recognises that customers want stable, predictable and fair network pricing, along with greater control over their electricity costs. Traditional volume-based network charges can no longer deliver those outcomes, which is why TasNetworks is working towards the implementation of fairer and more cost-reflective ways of charging customers for the provision of the network.

Network charges that recover the cost of the shared network in a way that better reflects the characteristics of the network user and the demands they place on the network will be central to this reform. Rather than basing network charges on the volume of energy a customer uses, in the future charges will transition to reflect the fact that networks costs are a function of customer (peak) demand.

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 that the current consumption-based network tariffs used to recover the cost of network services are no longer fit for purpose.

A process of realigning the prices for a number of network tariffs is already underway, in order to reduce some long-standing cross-subsidies between and within a number of tariff classes, as is a rebalancing of the service and variable charging parameters of most of our existing network tariffs. This latter 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 process will continue during the 2016-17 regulatory year. However, in the coming regulatory control period, beginning on 1 July 2017, and in the regulatory control periods that follow, the process of tariff reform and transitioning towards more cost reflective pricing will gather momentum. This will begin with the introduction of time of use, demand based network tariffs for residential and low voltage business customers from 1 July 2017. These new network tariffs will initially be available as a choice for our customers (on an opt-in basis) through their retailer.

Our aim in the medium to long term is to incentivise a customer led shift to demand-based network tariffs, with our customers understanding and recognising the inherent value associated with network tariffs that are not based on the consumption of energy.



5. Metering services

'Metering services' refers to the provision, installation and maintenance of standard meters and the associated services, such as meter reading, provided to customers by TasNetworks. This includes the metering services using Type 5 – 7 metering installations as defined in the National Electricity Rules (NER) that are provided by TasNetworks' in its role as metering provider and meter data provider.

TasNetworks' standard metering services exclude:

- acting as Metering Data Provider (MDP) for Type 1 – 4 metering installations as defined in the NER;
- the provision of meters in support of the Aurora Energy Retail prepayment metering product (PAYG); and
- metering to a standard in excess of that required for the billing of customer services.

The prices for metering services are determined using the AER's approved formula, which is based upon price cap control mechanisms. The prices set by the AER are adjusted annually by escalation factors. The actual prices for each year are subject to an annual escalation process in accordance with the AER's distribution determination.

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

The prices for the provision of metering services are shown in Table 2.



Table 2: Indicative metering services price impacts

Tariff	Metering services prices (c/day)				
	2012-13 (approved)	2013-14 (approved)	2014-15 (approved)	2015-16 (approved)	2016-17 (approved)
Domestic LV – single phase	6.961	7.135	7.344	7.442	7.539
Domestic LV – multi phase	14.445	14.806	15.240	15.443	15.645
Domestic LV – CT meters	17.876	18.323	18.860	19.111	19.361
Domestic LV – single phase (remote read)	5.983	6.133	6.313	6.397	6.481
Domestic LV – multi phase (remote read)	13.531	13.869	14.275	14.465	14.654
Domestic LV – CT meters (remote read)	19.499	19.986	20.572	20.846	21.119
Business LV – single phase	7.200	7.380	7.596	7.697	7.798
Business LV – multi phase	14.403	14.763	15.196	15.398	15.600
Business LV – CT meters	18.625	19.091	19.650	19.911	20.172
Business LV – single phase (remote read)	5.983	6.133	6.313	6.397	6.481
Business LV – multi phase (remote read)	13.531	13.869	14.275	14.465	14.654
Domestic LV – CT meters (remote read)	19.499	19.986	20.572	20.846	21.119
Other meters (PAYG)	12.711	13.029	13.411	13.589	13.767



6. Public lighting services

TasNetworks provides a range of public lighting services including:

- the provision, maintenance and replacement of public lighting assets that are owned by TasNetworks;
- the maintenance of public lighting assets which are owned by customers (contract lighting); and
- the provision, maintenance and replacement of TasNetworks owned public lighting poles.

The prices for public lighting services are determined using a formula approved by the AER. This formula caps the prices TasNetworks charges rather than cap the amount of revenue TasNetworks is allowed to earn from the provision of public lighting. The public lighting services prices for the 2012-17 regulatory control period, published in the AER's distribution determination, are adjusted annually to account for escalation factors. The actual prices TasNetworks charges for public lighting are based on those prices, subject to an annual escalation process in accordance with the AER's distribution determination.

The prices for the provision of public lighting services are shown in Table 3. The prices shown in Table 3, including the prices for 2016-17, are as approved by the AER and not subject to change.

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.

Table 3: Public lighting services prices

Lighting type	Public lighting prices (c/day)				
	2012-13 (approved)	2013-14 (approved)	2014-15 (approved)	2015-16 (approved)	2016-17 (approved)
50W mercury vapour (obsolete)	33.065	33.010	33.094	32.662	32.230
80W mercury vapour – Aeroscreen	33.065	33.010	33.094	32.662	32.230
80W mercury vapour – Artcraft decorative (obsolete)	52.380	52.294	52.427	51.743	51.058
125W mercury vapour (obsolete)	38.073	38.010	38.106	37.609	37.111
250W mercury vapour (obsolete)	38.514	38.450	38.548	38.045	37.541
400W mercury vapour (obsolete)	42.789	42.718	42.826	42.267	41.707
70W sodium vapour	35.215	35.157	35.246	34.786	34.325
100W sodium vapour	35.477	35.418	35.508	35.045	34.581
150W sodium vapour	39.214	39.149	39.248	38.736	38.223
250W sodium vapour	39.334	39.269	39.369	38.855	38.341
400W sodium vapour	39.530	39.465	39.565	39.049	38.532
150W metal halide	39.214	39.149	39.248	38.736	38.223
250W metal halide	39.334	39.269	39.369	38.855	38.341
42W compact fluorescent	35.159	35.101	35.190	34.731	34.271



Prices for the provision of contract lighting services are shown in Table 4.

Table 4: Contract lighting services prices

Lighting type	Contract lighting prices (c/day)				
	2012-13 (approved)	2013-14 (approved)	2014-15 (approved)	2015-16 (approved)	2016-17 (approved)
50W mercury vapour (obsolete)	22.587	22.550	22.607	22.312	22.017
80W mercury vapour (obsolete)	22.576	22.539	22.596	22.301	22.006
125W mercury vapour (obsolete)	23.592	23.553	23.613	23.305	22.996
250W mercury vapour (obsolete)	23.662	23.623	23.683	23.374	23.065
400W mercury vapour (obsolete)	23.715	23.676	23.736	23.426	23.116
70W sodium vapour	22.766	22.728	22.786	22.489	22.191
150W sodium vapour	24.280	24.240	24.302	23.985	23.667
250W sodium vapour	24.247	24.207	24.268	23.951	23.634
400W sodium vapour	24.318	24.278	24.340	24.022	23.704
150W metal halide	24.280	24.240	24.302	23.985	23.667
250W metal halide	24.247	24.207	24.268	23.951	23.634
400W metal halide	24.247	24.207	24.268	23.951	23.634
1 x 20W fluorescent (obsolete)	22.639	22.602	22.659	22.363	22.067
2 x 20W fluorescent (obsolete)	22.754	22.716	22.774	22.477	22.179
1 x 40W fluorescent (obsolete)	22.647	22.610	22.667	22.371	22.075
2 x 40W fluorescent (obsolete)	23.771	23.732	23.792	23.482	23.171
3 x 40W fluorescent (obsolete)	23.893	23.854	23.915	23.603	23.290
4 x 40W fluorescent (obsolete)	24.694	24.653	24.716	24.394	24.071
60W incandescent (obsolete)	22.574	22.537	22.594	22.299	22.004
100W incandescent (obsolete)	23.577	23.538	23.598	23.290	22.982
Pole surcharge (obsolete)	20.715	20.681	20.733	20.463	20.192



7. Further Information

Each year, TasNetworks publishes 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 Distribution Pricing Proposal (and a summary of that proposal), on the TasNetworks web site at:

<http://www.tasnetworks.com.au/our-network/network-revenue-pricing/distribution-fees-and-tariffs>

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

Revenue and Pricing Regulation Team Leader
TasNetworks Pty Ltd
PO Box 606
Moonah TAS 7009
Phone 1300 132 007
Email: networktariff@TasNetworks.com.au

