

Draft Decision

TasNetworks

Electricity Distribution

Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Attachment 16

Alternative Control Services

September 2023

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16 Alternative control services

This attachment sets out our draft decision on prices TasNetworks is allowed to charge customers for the provision of the following alternative control services: ancillary network services and public lighting. We also make a draft decision on metering, which we classify as an alternative control service, in Attachment 20.

Alternative control services are customer specific or customer requested services and so the full cost of the service is attributed to a particular customer, or group of customers, benefiting from the service.

We set service specific prices to provide a reasonable opportunity to the distributor to recover the efficient cost of each service from customers using that service. This is in contrast to standard control services where costs are spread across the general network customer base.

16.1 Ancillary network services

Ancillary network services are non-routine services provided to individual customers as requested. Our F&A paper outlines several types of services that meet this broad definition.¹

Ancillary network services are charged to customers on a user-pays approach on either a fee or quotation basis, depending on the nature of the service.

We determine price caps for fee-based services for the 2024–29 period as part of our decision, based on the cost inputs and the average time taken to perform each service. These services tend to be homogenous in nature and scope and can be costed in advance of supply with reasonable certainty, such as disconnections and special meter reads.

By comparison, prices for quoted services are based on the quantities of labour and materials required, with the quantities dependent on a particular task. Prices for quoted services are determined at the time of a customer's enquiry and reflect the individual requirements of the customer's service request.

For this reason, it is not possible to list prices for quoted services in our decision. However, our draft decision sets the maximum labour rates to be applied to quoted services.

16.1.1 Draft decision

16.1.1.1 Form of control for ancillary network services

Our draft decision is to maintain our final F&A position to apply price caps to ancillary network services as the form of control.

Under a price cap form of control, we set a schedule of price caps for fee-based services and maximum labour rates for quoted services for the first year of the period, 2024–25. For each

¹ See AER, *Final framework and approach for TasNetworks for the 2024-29 regulatory control period*, July 2022, pp. 5–6. Our F&A paper outlines several types of services that can be considered as meeting this broad definition such as network ancillary services, basic connection services and non-routine metering services.

year thereafter, we adjust the price caps and maximum labour rates for inflation, the X factor,² and any relevant adjustments. This mechanism is set out in greater detail in section 14.5.2 of Attachment 14 – Control mechanisms.

As ancillary network services have a high share of labour and labour-related inputs, we use labour price growth forecasts as the ancillary network services X factor. Consistent with our previous decisions, we derived the X factor by averaging wage price index growth forecasts from KPMG (provided by the AER) and BIS Oxford Economics (provided by the distributor).³ Our draft decision X factors for ancillary network services are set out in appendix A.

16.1.1.2 Fee-based and quoted services

Our draft decision does not accept TasNetworks' proposal as submitted. Based on our analysis and updated inputs, our draft decision is to:

- Substitute TasNetworks' proposed X factors with our draft decision labour price growth forecasts (see Table A.1 in in appendix A).
- Accept the following proposed fee-based services (FBS) and quoted services (QS) labour rates as they are below the maximum labour rates which we consider are efficient:
 - Technical Specialist FBS
 - Field Worker FBS
 - Administration FBS
 - Construction Coordinator QS
 - Designer QS
 - Engineer QS
 - Field Worker QS
 - Labourer QS.
- Not accept the following labour rates as they are above the maximum labour rate which we consider efficient. As a result, we have substituted them with our labour rate benchmarks:
 - Administration QS
 - Distribution Operator QS
 - Project Administration QS.
- Not accept, for fee-based services, the application of a margin allowance of 5.86%, outside of its overhead rate, as we consider its already accounted for in the overhead rate.

² Under the CPI–X framework, the X factor measures the real rate of change in prices from one year to the next. For ancillary network services, the X factor is the wage price growth given that labour is the primary cost input for providing these services.

³ For more detail on the reasons for this decision, see the discussion in section 6.4.2 of Attachment 6 – Operating expenditure.

- Substitute TasNetworks' proposed year one (2024–25) fee-based service price caps with our draft decision price caps for 2024–25 (see section 16.1.4.2 and Table A.2 in appendix A).

16.1.2 TasNetworks proposal

TasNetworks proposed to continue offering many of its fee-based services from the 2019–24 period into the 2024–29 period. TasNetworks also proposed to introduce a new traffic control service to their fee-based services offerings. This fee will only apply when delivering other fee-based services, predominantly connection-related, and the cost will be recovered from the customer(s) who requested the service.⁴

TasNetworks conducted a bottom-up review of its fee-based services. TasNetworks stated this review identified administration and field labour service timings and material costs were understated in the current 2019–24 period. Based on this conclusion, TasNetworks proposed to increase their service timings to administration and field workers and material costs to accurately reflect incurred costs.⁵

For year 1 of the 2024–29 period, TasNetworks applied the price control formulae set out in our Framework and Approach using the AER's standardised ancillary network services model to derive prices.⁶

Through stakeholder engagement, TasNetworks reduced the number of labour categories it uses from 16 down to 8 to simplify the charging of their quoted services. TasNetworks also proposed that the vehicle costs will be recovered in the material cost of the quoted service rather than in some labour rates.⁷ TasNetworks' also proposed a separate margin of 5.86% for all fee-based services outside of the allocated 61% overhead rate.⁸

TasNetworks stated that while its after-hours labour cost is higher, most of the services undertaken are during normal business hours. Therefore, TasNetworks modified the standard model's formulas that reduce the overhead allocated to delivery of after-hour services, effectively halving the overhead recovery applied to overhead services.⁹

Tables 16.1 and 16.2 in section 16.1.4.1 contain TasNetworks' proposed labour rates for business hours and after hours, respectively.¹⁰

⁴ TasNetworks, *TasNetworks-Combined Proposal Attachment 18 - Alternative Control Services-Jan 23-Public*, p. 4.

⁵ TasNetworks, *TasNetworks – information request TAS IR003 – ANS Fee Based Services – 20230222*, Received 23 Feb 2023.

⁶ TasNetworks, *TasNetworks-Combined Proposal Attachment 18 - Alternative Control Services-Jan 23-Public*, p. 3.

⁷ TasNetworks, *TasNetworks-Combined Proposal Attachment 18 - Alternative Control Services-Jan 23-Public*, p. 5.

⁸ TasNetworks, *TasNetworks-Ancillary Services Model-Dec 22-Public*.

⁹ TasNetworks, *TasNetworks-Combined Proposal Attachment 18 - Alternative Control Services-Jan 23-Public*, p. 3.

¹⁰ The labour rates in table 16.1 are specifically for quoted services, though they are consistent with the labour rates for fee-based services. The difference is that "base" labour rates and on-costs are the explicit labour input for fee-based services, with overheads being calculated at a later stage based on total direct costs (labour, materials and so on).

16.1.3 Assessment approach

The regulatory framework for assessing alternative control services is less prescriptive than for standard control services. That is, there is no requirement to apply the building block model exactly as prescribed in Part C of the National Electricity Rules (NER).

On this basis, our approach involves an assessment of the main costs of providing ancillary network services. Labour costs are the major input in the cost build-up of prices for ancillary network services. Therefore, our assessment focuses on comparing TasNetworks' proposed labour rates against maximum total labour rates, which we consider efficient.

Where TasNetworks' proposed labour rates exceed our maximum efficient labour rates, we apply our maximum efficient labour rates to determine prices. We follow this assessment process for services provided on a fee or quotation basis.

We also considered relevant stakeholder feedback raised throughout the consultation process and benchmarked TasNetworks' proposed ancillary network services prices against its prices for the 2019–24 period and the prices of other distributors. We made further adjustments to TasNetworks' ancillary network services prices where we considered it appropriate to do so.

16.1.4 Reasons for draft decision

Section 16.1.4.1 discusses the maximum labour rates we consider are appropriate for TasNetworks.

Section 16.1.4.2 sets out how we assessed TasNetworks' proposed fee-based prices and, where appropriate, adjusted them to derive our draft decision prices for 2024–25. This includes substituting our draft decision labour rates (among other draft decision factors), where necessary, following our considerations as set out in section 16.1.4.1.

16.1.4.1 Proposed labour rates

For ancillary network services we typically review the key inputs in determining the price for the service. We focus on labour rates as these are the principal input.

Consistent with the 2019–24 period, we continue to categorise TasNetworks' proposed labour rates into five different categories. This is on the basis that although distributors use different labour category and descriptions, the types of labour used to deliver ancillary networks broadly fall into the following categories: administration, technical specialists, field workers, engineers, and senior engineers.

This methodology is a continuation of Marsden Jacob's previous reports for the AER in relation to labour rates and ancillary network services. In assessing the reasonableness of the proposed labour rates, we:

- derived salary ranges for our labour categories using Tasmanian salary data for various electricity distribution-related occupations from the most recent, publicly available Hays Salary Guide (Hays). Where unavailable we used the minimum of NSW/NT/ACT salary data, consistent with our previous approach.
- derived the raw hourly rate using the maximum salaries in each of the categories, dividing by number of weeks in a year and hours in a week

- escalated for on-costs (leave, superannuation, workers compensation, payroll tax)
- escalated for overheads – we continue to use a maximum overhead rate of 61%, based on Marsden Jacob's recommendation. We note the profit margin allocation is already included within the overall overhead allowance. This is not consistent with TasNetworks' proposal where it included a separate margin allowance (see section 16.1.2)
- escalated for assumed inflation, labour rate escalators (reflecting the wage price index) and an allowance to account for salary stickiness in the Hays survey data
- added an hourly vehicle cost, where required.

In aggregate, these elements are referred to as the 'maximum reasonable benchmark rate', which is expressed as an hourly rate.

Compared to our 2019–24 period decision, we have made the following changes to the way we derive our maximum reasonable benchmark rate:

- using a 38-hour week, rather than a 40-hour week, consistent with the latest Hays report.
- excluding salary data from the 'Transmission line engineer' and 'Generator technician' occupations from our analysis
- uplift the engineer rate by 20% to obtain the senior engineer rate
- using Hays 2022–23 data (instead of the most recent 2023–24 data) for technical specialists, field workers and engineering managers
- using actual inflation (CPI) and X factors to convert labour rates and the vehicle allowance to \$2024–25.

Excluding occupations and the uplift for engineers

In considering labour rate benchmarks in the lead-up to our issues paper, we benchmarked the distributors' proposed labour rates with the most recent (at the time) labour rates derived from the Hays 2022–23 data. We found that, under our methodology, engineers and senior engineers would have the same hourly rate.

We applied several changes in deriving the raw labour rates. Upon consultation with our internal technical experts, we removed the roles of 'Transmission line engineer' (categorised as engineer) and 'Generator technician' (technical specialist) from their respective benchmarks as they are not typically employed by distributors.

Further, we consider it is not appropriate to assign occupations to the senior engineer category because senior engineer salaries reflect time in role, not particular occupations. Instead, we applied a 20% uplift from engineer salaries as a reasonable premium for time in role.

Changes to Hays Salary Guide

In July 2023, Hays released its 2023–24 salary data. There were some significant changes with the report no longer including wage data for the technical specialist and field worker roles. It also did not update salaries for engineering managers. To derive our benchmarks for these labour categories, we instead use the latest data that we have, which is the Hays 2022–23 data.

For the administration and engineer labour categories, we used the Hays 2023–24 data as the relevant rates are still available.

In addition, we note that the Hays 2023–24 data is based on a 38-hour week.¹¹ We have therefore derived our maximum reasonable benchmark rates using a 38-hour week as we consider the Hays data captures the conditions of the broad labour pool from which TasNetworks draws its labour.

Determining labour rates in \$2024–25

Finally, we applied one or two-year's worth of real inflation and X factors to convert the 2022–23 and 2023–24 labour rates (respectively, depending on which was applicable) to \$2024–25. To convert \$2022–23 nominal rates into \$2023–24 nominal terms (where relevant), we used actual CPI consistent with the method applied in annual pricing proposals and consistent with our draft decision on control mechanisms.¹² To convert \$2023–24 nominal rates into \$2024–25 nominal terms, we have applied forecast CPI from the Reserve Bank of Australia as a placeholder for this draft decision. We will use actual CPI consistent with our control mechanism for our final decision.

TasNetworks proposed that vehicle costs be recovered through their materials cost of their quoted service rather than in the labour rate. We consider this reasonable considering TasNetworks' stakeholder engagement and its simplified labour categories removing any price inconsistencies.¹³ We also consider this is more cost reflective as the vehicle costs are incurred only where they are used. Therefore, we did not include a vehicle allowance in our maximum labour rates when assessing TasNetworks' proposed labour rates (See Tables 16.1 and 16.2).

To obtain the benchmark after hour rates, we continue to apply 1.75 times the business hourly rate, as recommended by Marsden Jacob.

Using this method, Table 16.1 sets out our maximum hourly labour rate for the five labour benchmark categories and TasNetworks' proposed prices for business hours. Table 16.2 contains the same information for the after-hours rates.

Table 16.1 AER draft decision maximum benchmark and TasNetworks' proposed hourly labour rates for 2024–25 (business hours, including on-costs and overheads, \$2024–25)

	AER Benchmark category	AER maximum labour rate ¹⁴	TasNetworks' proposed labour rate (business hours)
Administration QS	Admin	\$109.65	\$114.52

¹¹ Hays plc, *Hays Salary Guide FY23/24 Australia and New Zealand*, p. 2.

¹² AER, *Draft decision – TasNetworks distribution determination 2024–29 - Attachment 14 - Control mechanisms*, September 2023.

¹³ TasNetworks, *TasNetworks-Combined Proposal Attachment 18 - Alternative Control Services-Jan 23-Public*, p. 5.

¹⁴ These rates do not include a vehicle allowance as TasNetworks proposed to recover their vehicle costs in the materials component of quoted services.

	AER Benchmark category	AER maximum labour rate ¹⁴	TasNetworks' proposed labour rate (business hours)
Administration FBS	Admin	\$109.65	\$108.28
Field Worker QS	Field Worker	\$167.27	\$155.37
Field Worker FBS	Field Worker	\$167.27	\$157.23
Technical Specialist FBS	Technical Specialist	\$185.39	\$168.17
Construction Coordinator QS	Technical Specialist	\$185.39	\$181.64
Designer QS	Engineer	\$257.99	\$186.94
Distribution Operator QS	Technical Specialist	\$185.39	\$185.67
Engineer QS	Engineer	\$257.99	\$206.77
Labourer QS	Field Worker	\$167.27	\$134.32
Project Administration QS	Admin	\$109.65	\$141.68

Source: AER analysis TasNetworks-Ancillary Services Model-Dec 22-Public, 'Output|Quoted'|D12:D17.

Table 16.2 AER draft decision maximum benchmark and TasNetworks' proposed hourly labour rates for 2024–25 (after hours, including on-costs and overheads, \$2024–25)

	AER Benchmark category	AER maximum labour rate	TasNetworks' proposed labour rate (after hours)
Administration FBS	Admin	\$191.89	\$108.28
Field Worker QS	Field Worker	\$292.72	\$271.91
Field Worker FBS	Field Worker	\$292.72	\$275.14
Technical Specialist FBS	Technical Specialist	\$324.43	\$294.30
Construction Coordinator QS	Technical Specialist	\$324.43	\$317.87
Labourer QS	Field Worker	\$292.72	\$235.07

Source: AER analysis. TasNetworks did not propose after hour rates for the Administration FBS, Field Worker QS, Field Worker FBS, Technical Specialist FBS and Construction Coordinator QS. Hence, we did not include these roles in Table 16.2.

Outcomes of our benchmarking

As a result of our benchmarking, we do not accept the following labour rates for TasNetworks and replaced them with our maximum labour rates (for only business hours):

- Administration QS
- Distribution Operator QS
- Project Administration QS

Table A.3 to Table A.6 in appendix A sets out our draft decision on the labour rates TasNetworks' can utilise in the provision of fee-based and quoted services.

Section 16.1.4.2 discusses the effect of our draft decision on labour rates on TasNetworks' prices for fee-based services.

16.1.4.2 Proposed fee-based services and benchmarking

Our draft decision is to not accept TasNetworks' proposed prices for fee-based services. We adjusted the following inputs in the calculation of TasNetworks' prices for fee-based services:

- labour inputs (see section 16.1.4.2).
- removing the proposed margin allowance.

Appendix A sets out our draft decision prices for TasNetworks' fee-based services incorporating these adjustments.

As we detailed in section 16.1.4.2, we have adjusted TasNetworks' proposed labour rates to reflect the outcome of our assessment of efficient labour rates. We have incorporated our draft decision labour rates and revised adjustments (as discussed below) in the standardised ancillary network services model, which reduced TasNetworks' proposed prices by an average of 4.16% across all proposed fee-based services.¹⁵

TasNetworks' margin allowance and overheads

We do not accept TasNetworks' proposed margin of 5.86% because we consider a margin is already accounted for in the total overhead allowance.

For fee-based services, our benchmark approach allows for a maximum overhead rate of 61% which is inclusive of a profit margin. This benchmark was based on Marsden Jacob's review of efficient costs for ancillary network services in our previous decisions for the NSW, Tasmanian, Northern Territory and ACT distribution determinations.¹⁶

Marsden Jacob considered that where a proposal includes an explicit profit margin, then the total of the profit margin and overhead allowance should be benchmarked against the maximum overhead rate of 61%.¹⁷ We note the sum of TasNetworks' proposed margin and the total overhead allowance is 66.86%, which is above the 61% benchmark.

As such, our draft decision is to not accept TasNetworks' proposed margin but apply the maximum overhead rate of 61%. We consider this maximum overhead rate will enable TasNetworks to recover at least its efficient costs in providing fee-based services.

¹⁵ This average is unweighted and does not consider the quantity of services performed.

¹⁶ See, for example, Marsden Jacob, *Review of Alternative Control Services - September 2018*, p. 7.

¹⁷ See, for example, Marsden Jacob, *Review of Alternative Control Services - September 2018*, p. 8.

Benchmarking fee-based services

In addition to our labour rates analysis, we benchmarked TasNetworks' fee-based services by comparing its prices and input assumptions for its most commonly requested services with other distributor's proposals, as well as comparing the proposed prices against those we approved for the 2019–24 period.

We observed large nominal increases in prices of up to 20% when we compared all of TasNetworks' proposed 2024–25 fee-based service prices with their 2023–24 equivalents (which we approved for the 2019–24 period).

To better understand the drivers of the increases we sought further information from TasNetworks. TasNetworks responded that it undertook a review of the inputs into providing these services and consequently the price increases is due to updated administration and field labour service timings and material costs that are understated in the current 2019–24 period.¹⁸

We subsequently benchmarked TasNetworks' revised service timings and material costs against similar services provided by other electricity distributors. Our analysis demonstrated that TasNetworks assumptions were reasonable.

We also benchmarked the prices of TasNetworks' most commonly requested fee-based services against similar services provided by other electricity distributors. We found that the proposed fee-based service prices tended to benchmark well.

As such, we consider TasNetworks' revised inputs are reasonable. However, our draft decision prices have adjustments that apply our maximum benchmark labour rates where relevant and removes the explicit margin.

16.2 Public lighting services

Public lighting services include the provision, construction and maintenance of public lighting assets.¹⁹ This definition includes new technologies such as energy-efficient light emitting diode (LED) luminaires and emerging public lighting technologies such as smart-enabled luminaires.²⁰

The main customers of public lighting services are local government councils and jurisdictional main roads departments.

There are several different tariff classes and prices for public lighting services. Factors influencing prices for a particular installation include which party is responsible for capital provision, and which party is responsible for maintaining and/or replacing installations.

In Tasmania, around 75% of public lighting is supported on distribution network poles with TasNetworks owning most of the luminaires. The remainder are mostly privately owned by

¹⁸ TasNetworks, *TasNetworks – information request TAS IR034 – ANS Follow-up questions – 20230515*, Received 22 May 2023.

¹⁹ AER, *Final framework and approach for TasNetworks for the 2024-29 regulatory control period*, July 2022, p. 36.

²⁰ AER, *Final framework and approach for TasNetworks for the 2024-29 regulatory control period*, July 2022, p. 36.

local governments, State Government agencies and business enterprises, as well as contract clients and these are mounted on dedicated poles.²¹

TasNetworks provides ‘public lighting services’ and ‘contract lighting services.’²² Public lighting services include the provision, construction and maintenance of public lighting assets owned by TasNetworks. Contract lighting services include the maintenance of public lighting assets owned by customers.²³

16.2.1 Draft decision

Our draft decision is to not accept TasNetworks’ proposed prices for public lighting services.

We consider TasNetworks’ public lighting proposal to be largely reasonable. However, we have updated TasNetworks’ proposal to apply our draft decision on labour escalators, weighted average cost of capital (WACC) and consumer price index (CPI) for consistency with other aspects of our draft decision on TasNetworks regulatory proposal (see section 16.2.4.1). These substituted inputs are entered into the model and result in minor adjustments to TasNetworks public lighting capital and operating expenditure (opex) prices.

Our draft decision public lighting prices for 2024–25 and X factors are set out in appendix B. The X factors are used to adjust prices annually for years 2 to 5 of the 2024-29 period. The prices for 2024-25 are on average 0.14% higher than TasNetworks’ initial proposed prices. For subsequent years, the X factor has been set at 0% and prices are updated by CPI following the control mechanism formula.

16.2.2 TasNetworks proposal

For the 2024–29 period TasNetworks’ proposed to continue the transition to light-emitting diode (LED) technology. TasNetworks intends to use LED fittings for all new public and private contract light installations. In response to legislative requirements, TasNetworks proposed to end the like-for-like replacement of mercury and sodium vapour globes, and LED fittings will be installed instead.²⁴

TasNetworks applied a building block approach to determine the efficient costs of providing public lighting services under the price cap control mechanism. TasNetworks proposed that its approach is in accordance with that set out by the AER in our Framework and Approach Paper.²⁵

TasNetworks proposed a reduction in public lighting rates of approximately 15% on average across its light types from 2023–24 to 2024–25. This is due to the transition to LED fittings which do not require a replacement ‘globe’ over their twenty-year life. This extends the maintenance cycle to a ten year cycle rather than a four year cycle.²⁶ TasNetworks’ proposed

²¹ TasNetworks, *Att. 18 – Alternative control services*, Jan 2023, p. 16.

²² In this draft decision, the term “public lighting services” refers to these two streams—consistent with the terminology in our final F&A—unless otherwise indicated.

²³ TasNetworks, *Att. 18 – Alternative control services*, Jan 2023, p. 16.

²⁴ TasNetworks, *Att. 18 – Alternative control services*, Jan 2023, p. 16.

²⁵ TasNetworks, *Att. 18 – Alternative control services*, Jan 2023, p. 17.

²⁶ TasNetworks, *Att. 18 – Alternative control services*, Jan 2023, p. 16.

X factors of 1.04% across the 2024–29 period to escalate prices on the basis of labour price growth.²⁷

Stakeholders were consulted on TasNetworks proposed strategy to replace all legacy streetlights with LED fittings. Stakeholders mostly consisted of the 29 local governments who represent the largest component of the customer base for TasNetworks' public lighting services. TasNetworks stated more than 90% of the stakeholders polled agreed with its LED replacement proposal.²⁸

16.2.3 Assessment approach

To determine prices for public lighting services we assessed TasNetworks public lighting model, considered historical data and benchmarked proposed costs against other NEM distributors and against independent data and information as relevant. Specifically, we assessed proposed labour price growth rates, other input assumptions and stakeholder submissions to derive proposed public lighting charges.

We consulted with TasNetworks and interested stakeholders through information requests and meetings to clarify and potentially resolve outstanding issues.

We also engaged Marsden Jacob to quality-assure public lighting models to ensure they are internally consistent, accurate and fit-for-purpose.

We updated model parameters where appropriate after taking the factors described above into consideration.

16.2.4 Reasons for draft decision

We have amended TasNetworks' proposed public lighting prices to reflect our draft decision labour escalators, WACC and CPI (as set out in section 16.2.4.1).

Overall, we consider TasNetworks' public lighting proposal is largely reasonable. Our analysis is that TasNetworks' proposed prices benchmarked well against similar services offered by the NSW distributors. We also consider TasNetworks overall price reductions are good outcomes for councils.

We agree the transition to LED fittings will enable TasNetworks to realise savings in the maintenance of public lights. LED fittings do not require a replacement 'globe' over their twenty-year life, allowing TasNetworks to maintain light fittings on a ten year instead of a four yearly cycle. The associated reduction in opex has resulted in proposed public light rates approximately 15% lower for the 2024–29 period.²⁹ This will result in real price decreases throughout the period.

²⁷ TasNetworks, *Public Lighting Model – General Inputs Sheet (Row 15)*, Jan 2023.

TasNetworks, *Information request Response TAS IR050 – Public Lighting Modelling*, Received 7 September 2023.

²⁸ TasNetworks, *Att. 18 – Alternative control services*, Jan 2023, p. 17.

²⁹ TasNetworks, *Att. 18 – Alternative control services*, Jan 2023, p. 16.

We did not receive any stakeholder submissions in response to our issues paper. However, TasNetworks stated in its proposal that more than 90% of the stakeholders polled agreed with its LED replacement proposal.³⁰

We received a late submission from ENTATAS which questioned the scope TasNetworks' consultation on its public lighting proposal.³¹ We subsequently met with ENTATAS and they informed us they are seeking more ongoing consultation with TasNetworks around the technical aspects of TasNetworks public lighting network. TasNetworks advised us that they agreed with ENTATAS to set up a technical working group that would meet regularly to discuss the technical aspects around public lighting.³²

We do not accept the proposed X factor of 1.04 which was proposed on the basis of expected labour price growth.³³ We do not consider it is reasonable to escalate all public lighting prices on the basis of expected labour price growth, as labour prices are not the only driver of public lighting prices.

Instead we set the X factors at 0 and public lighting prices in years 2 to 5 will be escalated annually on the basis of actual CPI following the control mechanism.

16.2.4.1 Labour escalators, WACC and CPI

We have amended the following inputs into TasNetworks public lighting model. These amendments are consistent with our draft decision on other relevant aspects of TasNetworks regulatory proposal.

Labour Escalators

We substituted in the Labour Escalators in TasNetworks' public lighting model to be consistent with our draft decision on TasNetworks' opex (see attachment 6).

Rate of return

We substituted the WACC inputs in TasNetworks' public lighting model to be consistent with our draft decision on TasNetworks' rate of return (see attachment 3).

Inflation

We have substituted the forecast inflation input for the 2024–25 year in TasNetworks' public lighting model with the RBA forecast inflation for December 2023 as a placeholder in this draft decision.³⁴ We will update this for actual inflation in our final decision consistent with our final decision on TasNetworks' control mechanisms.

³⁰ TasNetworks, *Att. 18 – Alternative control services*, Jan 2023, p. 17.

³¹ ENTATAS, *Submission - 2024-29 Combined Regulatory Proposal*, TasNetworks - May 2023, p. 8.

³² Email from TasNetworks, "Re Looking for an ENTATAS contact" received 23 June 2023.

³³ TasNetworks, *Public Lighting Model – General Inputs Sheet (Row 15)*, Jan 2023.

TasNetworks, *Information request Response TAS IR050 – Public Lighting Modelling*, Received 7 September 2023.

³⁴ <https://www.rba.gov.au/publications/smp/2023/aug/forecasts.html>

In addition, we substituted the inflation figures in the public lighting model for the 2022–23 and 2023–24 regulatory years. We included the actual inflation for those years as defined in the control mechanism that applied to TasNetworks in the 2019–24 period.³⁵

16.2.4.2 Introducing new services during a regulatory control period

Our draft decision is that TasNetworks must price any new public lighting services it introduces during the 2024–29 period.

period according to the control mechanism for quoted services. TasNetworks should only introduce new services because customers want them (customer driven). In proposing new services, we require that TasNetworks demonstrates customer support for such prices and services.

We acknowledge smart technologies have potential to bring significant efficiencies to public lighting services. We therefore encourage distributors to deploy such technologies—with associated pricing—where they can provide benefits to customers.

We understand “smart lighting” or “smart technologies” are catch-all terms for technologies with a variety of applications. These include metering individual lights, as well as dimming based on ambient lighting levels or pedestrian/vehicle activity. Distributors and public lighting customers therefore need to engage on the types of smart lighting solutions appropriate to their needs.

Given its status as an emerging technology, the industry is also deliberating on regulatory issues regarding aspects of these applications such as individually meter lighting installations.

We understand that distributors are at different stages in their deployment of smart technologies. We note that TasNetworks has not put forward any smart lighting services in its proposal but we are open to TasNetworks introducing pricing for new public lighting technologies during the 2024–29 period where there is demand for such technologies.

We consider TasNetworks can price smart lighting in accordance with the control mechanism formula for quoted services should it introduce such services during the 2024–29 period (see attachment 14 section 14.5.3).

We consider this is consistent with our previous distribution determinations. We stated new alternative control services introduced during a regulatory control period with characteristics that are the same or essentially the same as other alternative control services should be priced as a quoted service until the next regulatory control period (see attachment 14 section 14.5.3).

A point of difference for smart lighting is it is an emerging technology. Hence, there would be no other alternative control services “with characteristics that are the same or essentially the same.” Customer support is therefore vital to introducing such new technologies during the 2024–29 period.

³⁵ AER - Final decision - TasNetworks distribution determination 2019-24 - Attachment 13 - Control mechanisms - March 2021, p. 12.

We note TasNetworks needs to be able to demonstrate that the price it charges a customer for smart lighting services reflects the efficient costs of those services, in accordance with the control mechanism formula (see attachment 14 section 14.5.2).

It is worth considering that quoted services generally apply to one-off services. So the control mechanism poses no administrative issues where, for example, a council agrees to pay for the installation of new technologies up-front.

However, some councils may prefer to pay for new technologies over its economic or useful life. We consider this is possible under the control mechanism for quoted services.

This could involve determining the up-front costs based on the control mechanism formula as a first step. The distributor would then calculate an annual fee using a method appropriate to the service. We consider an annuity approach using TasNetworks' public lighting model is reasonable for this purpose.

Further information about quoted services and introducing new prices within the 2024–29 period is set out in see attachment 14 section 14.5.3.

A Ancillary network services prices

Table A.1 X factors for each year of the 2024–29 regulatory control period for ancillary network services, draft decision (per cent)

	2025–26	2026–27	2027–28	2028–29
X factor	-1.3219%	-0.9254%	-0.9014%	-1.0650%

Note: We do not apply an X factor for 2024–25 because we set 2024–25 ancillary network services prices in this determination. To be clear, the labour escalators in this table are operating as de facto X factors. Therefore, positive labour escalators are represented as negative in this table and vice versa. X factors in this table are rounded to 4 decimal places but distributors should use the raw X factors in the draft decision model.

Table A.2 Fee-based ancillary network services prices for 2024–25, draft decision (\$2024–25)

Service (business hours unless otherwise noted)	Service Category	Initial proposal	Draft decision
Site visit - no appointment	De-energisation, re-energisation, special reads and retail contract terminations	\$93.18	\$89.70
Site visit - no appointment - special read	De-energisation, re-energisation, special reads and retail contract terminations	\$58.90	\$56.70
Site visit - non-scheduled visit	De-energisation, re-energisation, special reads and retail contract terminations	\$154.45	\$148.19
Site visit - same day premium service	De-energisation, re-energisation, special reads and retail contract terminations	\$215.29	\$206.56
Site visit - after hours	De-energisation, re-energisation, special reads and retail contract terminations	\$403.10	\$385.13
Site visit - credit actions or site issues	De-energisation, re-energisation, special reads and retail contract terminations	\$167.45	\$161.18
Site visit – credit actions pillar box/pole top	De-energisation, re-energisation, special reads and retail contract terminations	\$360.18	\$345.13
Site visit – current transformer (CT) metering	De-energisation, re-energisation, special reads and retail contract terminations	\$157.89	\$151.99
Site visit – pillar box/pole top	De-energisation, re-energisation, special reads and retail contract terminations	\$360.18	\$345.13
Site visit - pillar box/pole top Wasted Visit	De-energisation, re-energisation, special reads and retail contract terminations	\$211.57	\$202.80
Meter test - single phase	Meter test	\$370.61	\$356.95

Service (business hours unless otherwise noted)	Service Category	Initial proposal	Draft decision
Meter test - multi phase	Meter test	\$557.57	\$536.71
Meter test – current transformer (CT)	Meter test	\$618.48	\$595.34
Meter test - after hours	Meter test	\$1,110.23	\$1,060.75
Meter test - wasted visit	Meter test	\$102.59	\$98.78
Tee-up/Appointment	Tee-up	\$193.18	\$185.20
Tee-up/Appointment – after hours	Tee-up	\$872.15	\$832.65
Tee-up/Appointment – no truck – after hours	Tee-up	\$442.24	\$422.59
Traffic Control	Tee-up	\$187.69	\$172.32
Open turret	Miscellaneous service	\$159.46	\$152.78
Alteration to unmetered supply	Miscellaneous service	\$286.96	\$275.09
Meter relocation	Miscellaneous service	\$231.63	\$223.04
Administration	Miscellaneous service	\$52.37	\$50.53
Network tariff change	Miscellaneous service	\$9.35	\$9.02
Emergency maintenance contestable meters	Miscellaneous service	\$136.44	\$131.52
Emergency maintenance contestable meters after hours	Miscellaneous service	\$461.60	\$441.12
Meter recovery and disposal	Miscellaneous service	\$129.04	\$124.26
Miscellaneous service	Miscellaneous service	\$150.06	\$143.83

Service (business hours unless otherwise noted)	Service Category	Initial proposal	Draft decision
Miscellaneous service – after hours	Miscellaneous service	\$700.37	\$667.33
Miscellaneous service – wasted visit	Miscellaneous service	\$116.28	\$111.48
Creation of a NMI	Connection establishment charges	\$46.76	\$45.12
Overhead service, single span - single phase	Connection establishment charges	\$840.43	\$796.96
Overhead service, single span - multi phase	Connection establishment charges	\$1,099.56	\$1,039.74
Underground service in turret/cabinet - single phase	Connection establishment charges	\$218.65	\$210.43
Underground service in turret/cabinet - multi phase	Connection establishment charges	\$284.05	\$273.16
Underground service with pole mounted fuse - single phase	Connection establishment charges	\$591.31	\$566.30
Underground service with pole mounted fuse - multi phase	Connection establishment charges	\$781.83	\$746.35
Basic connection – after hours	Connection establishment charges	\$1,421.27	\$1,354.27
Connection establishment - wasted visit	Connection establishment charges	\$305.04	\$293.73
Disconnect/reconnect overhead service - single phase	Temporary Disconnection/Reconnection	\$598.07	\$575.15
Disconnect/reconnect overhead service - multi phase	Temporary Disconnection/Reconnection	\$723.72	\$695.90
Temporary disconnect/reconnect	Temporary Disconnection/Reconnection	\$593.35	\$570.83

Service (business hours unless otherwise noted)	Service Category	Initial proposal	Draft decision
Temporary disconnect/reconnect – reconnect only	Temporary Disconnection/Reconnection	\$402.52	\$387.55
Temporary disconnect/reconnect – after hours	Temporary Disconnection/Reconnection	\$1,156.87	\$1,104.44
Temporary disconnect/reconnect – wasted visit	Temporary Disconnection/Reconnection	\$313.02	\$301.30
Connection alteration – overhead single phase	Basic connection alteration	\$463.08	\$445.38
Connection alteration – overhead multi phase	Basic connection alteration	\$588.72	\$566.13
Connection of new consumer mains to an existing installation – underground single phase to turret	Basic connection alteration	\$264.47	\$253.50
Connection of new consumer mains to an existing installation – underground single phase to TasNetworks' pole	Basic connection alteration	\$584.00	\$561.81
Connection of new consumer mains to an existing installation – underground multi phase to turret	Basic connection alteration	\$332.01	\$318.19
Connection of new consumer mains to an existing installation – underground multi phase to TasNetworks' pole	Basic connection alteration	\$709.64	\$682.56
Augment single phase overhead service to multi phase supply	Basic connection alteration	\$1,149.78	\$1,087.83

Service (business hours unless otherwise noted)	Service Category	Initial proposal	Draft decision
Augment multi phase overhead service to single phase supply	Basic connection alteration	\$861.60	\$817.03
Augment single phase overhead service to underground supply (turret)	Basic connection alteration	\$530.51	\$509.96
Augment multi phase overhead service to underground supply (turret)	Basic connection alteration	\$718.73	\$690.87
Augment single phase overhead service to underground supply (TasNetworks' pole)	Basic connection alteration	\$699.63	\$670.46
Augment multi phase overhead service to underground supply (TasNetworks' pole)	Basic connection alteration	\$890.15	\$850.51
Basic connection alteration – after hours	Basic connection alteration	\$1,497.84	\$1,429.96
Basic connection wasted visit	Basic connection alteration	\$306.22	\$294.81

Table A.3 Fee-based service hourly labour rates (business hours) for 2024–25, draft decision (\$2024–25)

	Initial proposal	Draft decision
Labourer QS	\$168.17	\$168.17
Field Worker QS	\$157.23	\$157.23
Construction Coordinator QS	\$108.28	\$108.28

Table A.4 Fee-based service hourly labour rates (after hours) for 2024–25, draft decision (\$2024–25)

	Initial proposal	Draft decision
Technical Specialist FBS AH	\$294.30	\$294.30
Field Worker FBS AH	\$275.14	\$275.14
Administration FBS AH	\$108.28	\$108.28

Table A.5 Quoted service hourly labour rates (business hours) for 2024–25, draft decision (\$2024–25)

	Initial proposal	Draft decision
Administration QS	\$114.52	\$109.65
Construction Coordinator QS	\$181.64	\$181.64
Designer QS	\$186.94	\$186.94
Distribution Operator QS	\$185.67	\$185.39
Engineer QS	\$206.77	\$206.77
Field Worker QS	\$155.37	\$155.37
Labourer QS	\$134.32	\$134.32
Project Administration QS	\$141.68	\$109.65

Table A.6 Quoted service hourly labour rates (after hours) for 2024–25, draft decision (\$2024–25)

	Initial proposal	Draft decision
Labourer QS	\$235.07	\$235.07

	Initial proposal	Draft decision
Field Worker QS	\$271.91	\$271.91
Construction Coordinator QS	\$317.87	\$317.87

B Public lighting prices

Table B.1 AER's draft decision on X factors for each year of the 2024–29 period for public lighting services

	2025–26	2026–27	2027–28	2028–29
X factor	0%	0%	0%	0%

Table B.2 AER's draft decision on public lighting prices for 2024–25 (cents per day per light)

2024–25 Private contract lights	Initial proposal	Draft decision	% difference
50W Mercury Vapour	14.54	14.56	0.15
80W Mercury Vapour	14.53	14.55	0.16
125W Mercury Vapour	17.01	17.04	0.17
250W Mercury Vapour	17.28	17.31	0.17
400W Mercury Vapour	18.12	18.15	0.16
70W Sodium Vapour	15.46	15.48	0.14
100W Sodium Vapour	18.49	18.52	0.16
150W Sodium Vapour	17.80	17.83	0.16
250W Sodium Vapour	18.48	18.51	0.16
400W Sodium Vapour	18.74	18.77	0.15
250W Sodium Vapour - Flood Light	18.96	18.99	0.15
400W Sodium Vapour - Flood Light	18.74	18.77	0.15
1x20W Fluorescent	14.81	14.84	0.16

2024–25 Private contract lights	Initial proposal	Draft decision	% difference
1x40W Fluorescent	14.81	14.84	0.16
2x20W Fluorescent	14.81	14.84	0.16
2x24W Fluorescent	14.81	14.84	0.16
2x40W Fluorescent	14.81	14.84	0.16
4x40W Fluorescent	14.81	14.84	0.16
32W Compact Fluorescent	14.81	14.84	0.16
42W Compact Fluorescent	14.81	14.84	0.16
60W Incandescent	15.46	15.48	0.14
100W Incandescent	18.50	18.53	0.16
100W Metal Halide	18.14	18.17	0.16
150W Metal Halide	19.84	19.87	0.15
250W Metal Halide	19.03	19.06	0.15
400W Metal Halide	18.57	18.60	0.16
400W Metal Halide - Flood Light	18.57	18.60	0.16
LED 18	9.95	9.96	0.06
LED 20	9.95	9.96	0.06
LED 200	10.79	10.80	0.07
LED 240	10.79	10.80	0.07

2024–25 Private contract lights	Initial proposal	Draft decision	% difference
LED 25	9.95	9.96	0.06
LED 265	10.79	10.80	0.07
LED 30	9.95	9.96	0.06
LED 75	10.38	10.39	0.06
LED 155	10.79	10.80	0.07
LED 14	9.95	9.96	0.06
LED 17	9.95	9.96	0.06
LED 175	10.79	10.80	0.07
LED 14 New Tech	9.95	9.96	0.06
LED 75 New Tech	10.38	10.39	0.06

2024–25 Public road lights	Initial proposal	Draft decision	% difference
50W Mercury Vapour	34.28	34.35	0.18
80W Mercury Vapour	34.27	34.33	0.18
125W Mercury Vapour	37.10	37.18	0.20
250W Mercury Vapour	37.37	37.45	0.20
400W Mercury Vapour	40.70	40.78	0.18
70W Sodium Vapour c	35.18	35.24	0.18

2024–25 Public road lights	Initial proposal	Draft decision	% difference
100W Sodium Vapour	38.99	39.07	0.19
150W Sodium Vapour	39.18	39.25	0.19
250W Sodium Vapour	40.46	40.53	0.19
400W Sodium Vapour	41.16	41.24	0.18
250W Sodium Vapour - Flood Light	41.97	42.04	0.18
400W Sodium Vapour - Flood Light	41.16	41.24	0.18
1x20W Fluorescent	36.18	36.24	0.17
1x40W Fluorescent	36.18	36.24	0.17
2x20W Fluorescent	36.18	36.24	0.17
2x24W Fluorescent	36.18	36.24	0.17
2x40W Fluorescent	36.18	36.24	0.17
4x40W Fluorescent	36.18	36.24	0.17
32W Compact Fluorescent	36.18	36.24	0.17
42W Compact Fluorescent	36.18	36.24	0.17
60W Incandescent	35.18	35.24	0.18
100W Incandescent	38.57	38.64	0.20
100W Metal Halide	38.27	38.35	0.20
150W Metal Halide	41.14	41.21	0.18

2024–25 Public road lights	Initial proposal	Draft decision	% difference
250W Metal Halide	40.27	40.35	0.19
400W Metal Halide	48.04	48.12	0.16
400W Metal Halide - Flood Light	40.84	40.92	0.19
LED 18	32.38	32.43	0.14
LED 20	46.00	46.04	0.10
LED 200	45.20	45.26	0.12
LED 240	45.20	45.26	0.12
LED 25	42.64	42.68	0.11
LED 265	41.73	41.78	0.13
LED 30	32.44	32.49	0.14
LED 75	40.41	40.45	0.11
LED 155	30.88	30.94	0.17
LED 14	31.34	31.39	0.15
LED 17	37.15	37.20	0.12
LED 175	40.77	40.82	0.13
LED 14 New Tech	31.97	32.01	0.14
LED 75 New Tech	40.41	40.45	0.11

Shortened forms

Term	Definition
AEMC	Australian Energy Market Commission
AER	Australian Energy Regulator
capex	capital expenditure
CCP26	Consumer Challenge Panel, sub-panel 26
CPI	consumer price index
F&A	framework and approach
LED	light-emitting diode
NEM	national electricity market
NER	national electricity rules
NMI	national meter identifier
opex	operating expenditure
PE cell	photoelectric cell
RBA	Reserve Bank of Australia
RIN	regulatory information notice
WACC	weighted average cost of capital