

Draft Decision

TasNetworks

**Electricity Distribution and
Transmission Determination
2024 to 2029**

(1 July 2024 to 30 June 2029)

Overview

September 2023

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Invitation for submissions

TasNetworks has the opportunity to submit a revised proposal in response to this draft decision by **30 November 2023**.

Interested stakeholders are invited to make a submission on both our draft decision and TasNetworks revised proposal (once submitted) by 19 January 2024.

Submissions should be sent to: [AERresets2024-29@aer.gov.au](mailto:AERresets2024-29@ aer.gov.au)

Alternatively, submissions can be sent to:

Kris Funston, Executive General Manager
Australian Energy Regulator
GPO Box 1313
Canberra ACT 2601

Submissions should be in Microsoft Word or another text readable document format.

We prefer that all submissions be publicly available to facilitate an informed and transparent consultative process. We will treat submissions as public documents unless otherwise requested.

Parties wishing to submit confidential information should:

1. Clearly identify the information that is the subject of the confidential claim.
2. Provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential submission will be published on our website.

Pre-determination conference

Consumer engagement is a valuable input to our determination. We encourage all interested stakeholders to join us and TasNetworks at an online public forum on Tuesday, **10 October 2023**. Details of how to register for this forum are available on our website and through Eventbrite ([external link](#)).

List of attachments

This attachment forms part of the AER's draft decision on the transmission and distribution determination that will apply to TasNetworks for the 2024–29 period. It should be read with all other parts of the draft decision.

The draft decision includes the following attachments:

Overview

Distribution determination

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

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Transmission determination attachments

Attachment 1 – Maximum allowed revenue

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

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Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 11 – Demand management incentive scheme and demand management innovation allowance mechanism

Attachment 12 – Pricing methodology

Attachment 13 – Pass through events

Executive summary

The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable, and affordable energy future for Australia as it transitions to net zero emissions. The regulatory framework governing electricity transmission and distribution networks is the National Electricity Law and Rules (NEL and NER). Our work in this area is guided by the National Electricity Objective (NEO) as one of the National Energy Objectives.

A regulated network business must periodically apply to us to determine the maximum allowed revenue it can recover from consumers for using its network. On 31 January 2023, we received a revenue proposal from Tasmanian electricity transmission and distribution network service provider TasNetworks, for the period 1 July 2024 to 30 June 2029 (2024–29 period). This is our draft decision on that combined proposal.

Ensuring consumers pay no more than necessary for safe and reliable energy while supporting the energy transition

Our draft decision comes at a challenging time for energy consumers and the sector more broadly. It seeks to balance affordability with necessary expenditure required to support the energy transition.

Consumers are facing cost-of-living pressures and affordability is a key issue. In SEC Newgate’s Mood of the Nation report June 2023¹, the number one issue among the Australian public is reducing cost increases for household bills and 84% of Australians are extremely or quite concerned about electricity bills. Energy Consumers Australia (ECA) similarly noted in a June 2023 energy consumer sentiment survey² that Australian consumers are increasingly worried about the affordability of rising energy costs, with more than 50% concerned about being able to pay electricity bills.

Cost of living pressures are high in Tasmania. The Tasmanian Council of Social Service (TasCOSS) said in June 2023 that one-in-four households are already unable to afford the cost of living.³ TasCOSS says that increases in electricity prices will lead to further energy debt, greater financial pressure and increased hardship for many Tasmanian households.⁴ Our analysis shows that TasNetworks’ combined transmission and distribution network charges make up around 35% of its residential customers electricity bills.

At the same time, the energy sector is undergoing a significant decarbonisation and electrification transition requiring expenditure to enable additional utility-scale and distributed renewables and storage connections. The June 2023 sentiment survey by ECA⁵ also revealed that 27% of households think Australia should transition to a 100% renewable energy market by 2030, while a further 16% of households think this should happen by 2040.

¹ SEC Newgate Australia, *SEC Newgate Mood of the Nation – June 2023*.

² Energy Consumers Australia, *June 2023 - Energy Consumer Sentiment Survey*, June 2023.

³ TasCOSS, [Energy price hike the latest blow to Tasmanian households at breaking point](#), June 2023.

⁴ TasCOSS, [Energy price hike the latest blow to Tasmanian households at breaking point](#), June 2023.

⁵ Energy Consumers Australia, *June 2023 - Energy Consumer Sentiment Survey*, June 2023.

On 31 August 2023, the Australian Energy Market Operator released its annual *Electricity Statement of Opportunities* (ESOO).⁶ The report highlights that ‘Australia’s NEM is perched on the edge of one of the largest transformations since the market was formed over 20 years ago.’⁷ The ESOO flags that the ‘scale of opportunity to meet an imminent and growing need for firm capacity, new forms of energy production and significant consumer energy investments is unparalleled in Australia’s energy history’.⁸ The sentiments of the report are timely for our draft decision and assessment of how to move towards the future.

Many households are actively investing in consumer energy resources (CER) such as solar, batteries and electric vehicles (EVs). While these investments will provide benefits to individual households and the overall energy system, their integration into the existing energy network will require increased expenditure by network businesses.

Tariff reform is required to support the energy transition, particularly around CER such as EVs. Appropriately structured tariffs can enable growth in the value of and number of people with CER, while creating investment signals that limit the level of network investment required and resulting price increases for consumers. For example, export reward tariffs are now being proposed to deal with two-way flows on networks and contingent tariff adjustments are being proposed to deal with uncertainty about the rate of change in uptake of CER. We are also encouraging network businesses to explore additional tariff options to deal with increasing EV numbers.

These changes are occurring at the same time as networks are needing to increase expenditure in order to address important emerging issues such as network cyber security, climate resilience and digitalisation.

In making this draft decision, we have sought to balance the need for efficient and prudent investments in these new and emerging areas that support the energy transition, while at the same time ensuring consumers facing cost-of-living pressures pay no more than necessary for electricity services that meet their current and future needs. We recognise and support the need for innovative approaches to help drive an affordable energy transition.

Our assessment of TasNetworks’ transmission and distribution proposal

TasNetworks transmission and distribution regulatory proposal has been shaped by customer and stakeholder insights. TasNetworks says four key themes were identified during engagement as priorities for customers and stakeholders and responded to in the proposal. These are affordability for all customers; long-term investment in networks that increases renewable energy capability; reliability now and resilience for the future; and a transparent, socially responsible approach to the provision of network services.

This draft decision allows TasNetworks to recover an estimated \$880.1 million (\$nominal, smoothed) for operating its transmission and \$1,826.0 million (\$nominal, smoothed) for operating its distribution networks, from consumers over the 2024–29 period. Our draft decision is a 1.5% increase from the TasNetworks forecast overall transmission revenue and a 6.5% increase from the TasNetworks forecast overall distribution revenue.

⁶ AEMO, [Electricity Statement of Opportunities](#), August 2023.

⁷ AEMO, [Electricity Statement of Opportunities](#), August 2023, p.3

⁸ AEMO, [Electricity Statement of Opportunities](#), August 2023, p.3

The drivers for the increase in TasNetworks' revenue requirements for transmission and distribution are the same. Lower expected inflation impacts the regulatory depreciation building block and there is a slight increase in the Weighted Average Cost of Capital (WACC). Our corrections to errors in the depreciation modules within TasNetworks' roll forward models increase the revenue requirement for distribution while it decreases the revenue requirement for transmission.

For illustrative purposes, we estimate that the total revenue from this draft decision would result in an average increase of \$47 per annum to the average electricity bill for TasNetworks' residential customers over the 2024–29 period.

TasNetworks has provided a reasonable quality regulatory proposal that has been developed in some areas through genuine consumer engagement. TasNetworks has engaged constructively with us through information requests to allow us to better understand the drivers of their proposal and correct for issues in the quality of its initial documentation. We accept many aspects of TasNetworks' combined proposal. This includes capital expenditure (capex) for both transmission and distribution, operating expenditure (opex), and its tariff structure statement (including their Export Tariff Transition Strategy which does not propose to introduce two-way pricing in this regulatory period). We also accept TasNetworks' proposed new Customer Service Incentive Scheme (CSIS).

As discussed above, uncertainty, evolving threat around cybersecurity, climate risk and the transitioning energy market have been central considerations for all businesses in developing their current proposals. Similar to other network businesses, TasNetworks has proposed investments in the new and emerging areas of CER integration, climate resilience, and cybersecurity. We recognise the need for investments in these important areas as part of the energy transition.

We acknowledge the significant work network businesses have undertaken to understand these challenging areas of expenditure and the considerable and genuine efforts to engage with customers to understand their preferences. For some expenditure such as CER, we assess the forecast investment to not be consistent with prudent and efficient decision-making and not consistent with our integration expenditure guidance note. Having considered its proposal against each of the criteria under the NER, we also found that our alternative forecast at the total capex and opex levels to not be materially different from TasNetworks' total forecast. We have set out areas of improvement in our draft decision for TasNetworks to consider in future processes. In doing so, we have also been mindful that these decisions consider new areas of expenditure such as CER integration, climate resilience and cybersecurity, where our assessment approaches are evolving.

One of the more material aspects of TasNetworks transmission proposal is the seven contingent projects that may be required to connect load for the production of green hydrogen and other new load and generation. The projects are estimated at \$905 million of capex.

Our draft decision is to not accept the project triggers for the seven transmission contingent projects put forward by TasNetworks at this time. We are generally supportive of the need for these projects in advancing the energy transition, however the associated triggers do not as yet meet the requirements of the NER. TasNetworks recently provided us with updated contingent project triggers. However, the timing did not allow us to appropriately consider whether these addressed our concerns before this draft decision. The guidance in our draft decision will also provide an opportunity for TasNetworks to consider what further information

and analysis in relation to the triggers may be required to support these proposed investments in its revised proposal.

We encourage TasNetworks to consult with stakeholders and provide an updated set of triggers that comply with the NER in its revised proposal.

TasNetworks' distribution tariff reforms are modest, balancing influences from the Tasmanian Government, retailers and other stakeholders. We consider that given the significant stakeholder support, in line with Better Resets Handbook expectations⁹, the modest tariff reforms reflected in the Tariff Structure Statement (largely continuing its existing tariffs and tariff assignment policies in the 2024-29 period) can be accepted. However, we encourage TasNetworks to continue to investigate options for tariffs associated with EV charging, such as a controlled load tariff suitable for flexible load. We consider it acceptable that TasNetworks did not propose two-way pricing at this stage because there is not an expectation that solar PV will drive network constraints in the 2024–29 period.

Our draft decision on metering takes into consideration the Australian Energy Market Commission's metering review. In particular, our draft decision sets price caps to allow TasNetworks to recover costs from all historical legacy metering customers, instead of a progressively decreasing legacy metering customer base. This change mitigates the inequitable price increases that are likely to occur for any individual customer and ensures a more equitable contribution to the roll out of smart meters.

While our draft decision maintains classifying metering services as alternative control services (ACS), we consider a reclassification to standard control services (SCS) the most equitable solution as it would allow cost recovery across all customers. We consider this appropriate since all customers benefit from the transition. We encourage TasNetworks to engage with stakeholders in considering this change in settings for their revised proposals.

In this Overview and the accompanying detailed attachments, we have set out the assessment approaches applied, and enquiries made, as part of our review, with the benefit of which we have been able to arrive at this draft decision.

This draft decision is the key mid-point in our assessment of TasNetworks' combined transmission and distribution proposal. Where we have not accepted its proposal, TasNetworks now has the opportunity to respond in a revised proposal that incorporates the substance of the changes required by, and addresses matters raised in, this draft decision.

The role of consumer engagement in driving regulatory proposals

In December 2021, we released the Better Resets Handbook (the Handbook) for the purpose of encouraging networks to better engage and have customers preferences drive the development of regulatory proposals.¹⁰ The principles for considering consumer engagement in network revenue determinations is set out in the Handbook, with the objective stating:

Networks that engage in genuine engagement with consumers are likely to result in better quality proposals being submitted to the AER. Proposals that reflect consumer preferences, and meet our expectations, are more likely to be

⁹ AER, *Better resets handbook – Towards consumer-centric network proposals*, December 2021, pp. 34-36.

¹⁰ AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 1.

largely or wholly accepted at the draft decision stage, creating a more effective and efficient regulatory process for all stakeholders.¹¹

The Handbook provides guidance on our expectations for how a network business can engage with consumers. It also sets out our expectations under the NER framework, in topic areas such as capex and opex, regulatory depreciation and tariff structure statements, which tend to have the most significant impact on consumers.¹²

Consumer engagement is an important facet of our assessment; however, we are still required to ensure we are satisfied that the proposed forecast reasonably reflects prudent and efficient costs and a realistic expectation of future demand and cost inputs. We are looking to see how consumer values and preferences are shaping engagement. When assessing a proposal, we should be able to see how a business has linked customer preferences to the expenditure proposed. Where consumer views on an issue are diverse, a business needs to set out those views and how they have balanced the divergence of preferences. Diversity of views will always be prevalent between stakeholders and a business should seek to find mutually acceptable solutions where there are divergent consumer views.¹³

Our role in understanding consumer engagement is not to validate or invalidate the engagement undertaken by a business. All network businesses are distinct, and the engagement undertaken should reflect the purposes and needs identified for that business. We recognise that consumer engagement is dynamic and will involve continuous improvement.

We also recognise the different roles stakeholders will play in developing a business’s engagement process and acknowledge this is an evolving space. The nature of how a network engages with its consumers may include examples such as: an advisory panel, or a representative peoples panel. How a business undertakes this engagement is not prescribed in the Handbook, but it asks that engagement is undertaken sincerely with consumers to understand and reflect their preferences in proposals.¹⁴ The AER’s Consumer Challenge Panel may also have a role in a business’ engagement, for example in specific circumstances of a pre-lodgement engagement process or the observation of a specific, unique piece of engagement.

In accepting much of what TasNetworks has proposed, we observe that TasNetworks has demonstrated a significant step-up in consultation with customers and stakeholders in accordance with the Handbook expectations. However, the quality of consumer engagement varies across the proposal.

Our view, informed by the Consumer Challenge Panel (CCP27), is that TasNetworks has met the Handbook expectations around genuine consumer engagement on both transmission and distribution capex projects¹⁵, primarily through the Reset Advisory Committee (RAC) (peak advisory group). The CCP27 stated that TasNetworks engagement

¹¹ AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 3.

¹² The expectations being for electricity distribution businesses only. AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p.4.

¹³ AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 16.

¹⁴ AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 12.

¹⁵ AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, pp. 19-23.

with their RAC and through other customer engagement activities, showed that TasNetworks' engagement was broad and deep, with the quality of the engagement improving over time. However, the CCP27 and some stakeholders noted limited engagement and a lack of transparency regarding the bill impacts of up to \$905 million of capex for contingent transmission projects.

Despite the overall improved quality of TasNetworks consumer engagement, our view is that TasNetworks did not undertake wide and extensive consumer engagement on opex.¹⁶ In particular, it did not consult with customers on its opex forecast and does not appear to have consulted with customers on its insurance and cybersecurity step changes. The CCP27 raised with us that it was unaware of any in-depth engagement on opex step changes. However, TasNetworks noted it responded to the 'affordable for all' theme customers raised via its efficient base year opex and including 3.0% productivity growth improvements in 2024–25. Although we acknowledge the shortcomings in TasNetworks opex consumer engagement, we have accepted TasNetworks transmission and distribution proposed opex, as it is not materially different to our alternative estimates and is reasonable.

There was no comment from CCP27 on any consumer engagement around network resilience, the transition to net zero or emissions reduction.

TasNetworks reported that its engagement revealed the top concern for consumers was affordability. However, we note TasNetworks' overall proposal and our draft decision will result in an increase in TasNetworks charges that is likely to be reflected in retail bills. TasNetworks has engaged with stakeholders on tariffs and in July 2023 secured customer support on a Customer Service Incentive Scheme (CSIS). We encourage TasNetworks to effectively consult with customers and stakeholders on all capital expenditure, operating expenditure and contingent projects proposals that could materially impact customer affordability, in their revised proposal.

The amended NEO and the current regulatory determination resets

A new emissions objective has been added to the existing economic efficiency framework in all three energy objectives, including the NEO. The long-term interests of consumers will extend to the achievement of Commonwealth, State and Territory targets for reducing Australia's greenhouse gas emissions, or that are likely to contribute to reducing Australia's greenhouse gas emissions. This is based on the *National Energy Laws Amendment (Emissions Reduction Objectives) Act* which passed the South Australian Parliament in September 2023. The Act states that the amended NEO applies to the revenue determinations for Ausgrid, Endeavour Energy, Essential Energy, Evoenergy, TasNetworks Distribution, TasNetworks Transmission and Power and Water Corporation (NT), for the 2024-29 regulatory control period.

We published final guidance on the amended national energy objectives in September 2023. This guidance included how we will operationalise the amended NEO and applies only to the affected network service providers for the 2024–29 regulatory determinations.

We think inclusion of emissions reduction in the NEO is a significant reform in how energy systems are governed and will be invaluable to progressing the energy transition. As the independent regulator, the NEO guides our work to promote the long-term interests of

¹⁶ AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, pp. 24-29.

consumers with respect to achieving emission reduction targets, alongside our existing considerations including price, quality, safety and reliability of energy supply.

We recognise that the transition to net zero and emissions reduction is being considered by TasNetworks, but it does not strongly feature in the 2024–29 regulatory proposal. We appreciate that TasNetworks support for increasing its renewable energy capabilities is reflected in its transmission contingent projects in its proposal and other proposals such as Marinus Link, Battery of the Nation and the development of Renewable Energy Zones. We also support TasNetworks commitment in November 2022 to analysis of a net zero target, including a high-level emissions reduction plan and assessment.

If TasNetworks' revised proposal includes material new expenditure items because of the amended NEO, we would expect it to demonstrate that the expenditure aligns with consumer preferences and the criteria for prudent and efficient expenditure, consistent with the Better Resets Handbook. We will continue to work with the affected network service providers as they prepare and consult on their revised regulatory proposals.

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1 Our draft decision

Our draft decision would, if implemented, allow TasNetworks to recover total revenues of \$880.1 million (\$ nominal, smoothed) for its transmission network and \$1,826.0 million (\$ nominal, smoothed) for its distribution network from consumers from 1 July 2024 to 30 June 2029.

In the sections below we briefly outline what is driving TasNetworks' revenues for its transmission and distribution networks, and the key differences between our draft decision transmission and distribution revenues compared to the \$866.9 million for transmission (a 1.5% increase) and \$1,714.5 million for distribution (a 6.5% increase) in TasNetworks' proposal.

1.1 What is driving revenue?

Revenue is driven by changes in real costs and inflation. We assess costs (such as capital and operating expenditures) in real terms.

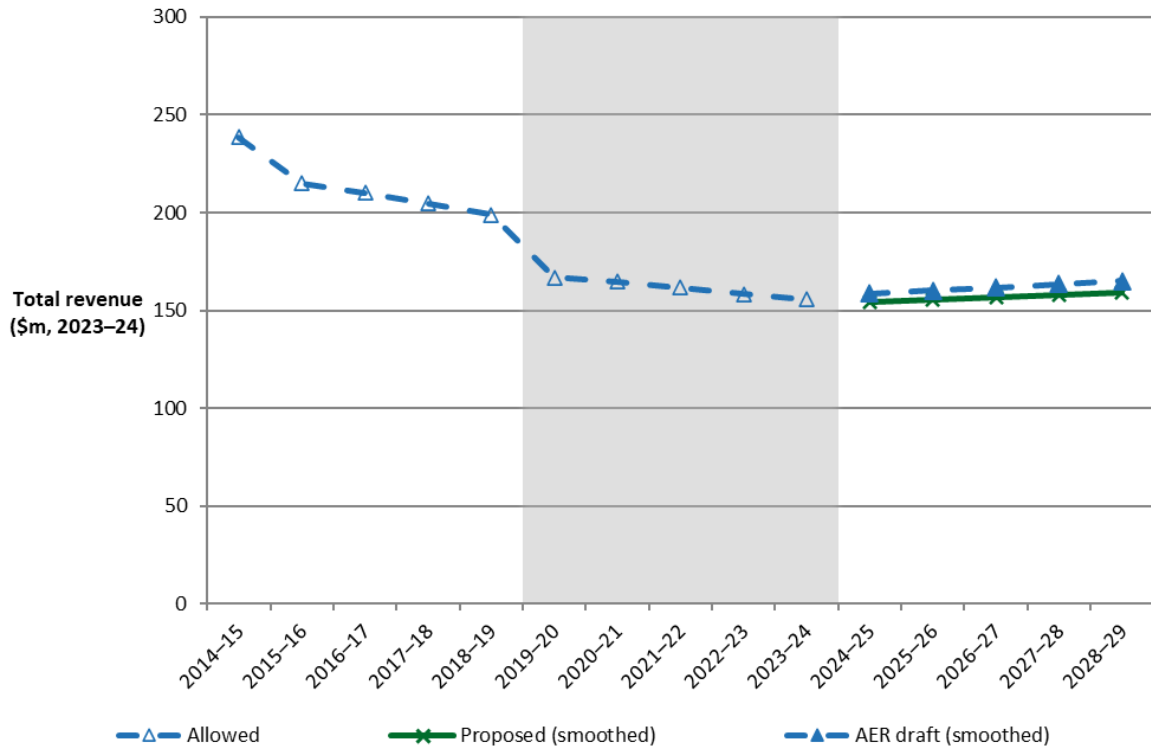
Over time, inflation impacts the spending power of money. To compare revenue from one period to the next on a like-for-like basis, in this section we use 'real' values based on a common year (2023–24) that have been adjusted for the impact of inflation instead of the nominal values above.

Transmission

In real terms, this draft decision would allow TasNetworks to recover \$809.1 million (\$2023–24, smoothed) for its transmission network from consumers over the 2024–29 period.

This is 0.2% higher than our decision for the 2019–24 period. Changes in TasNetworks’ transmission revenue over time are shown in Figure 1.

Figure 1 Changes in transmission regulated revenue over time (\$ million, 2023–24)



Source: AER analysis.

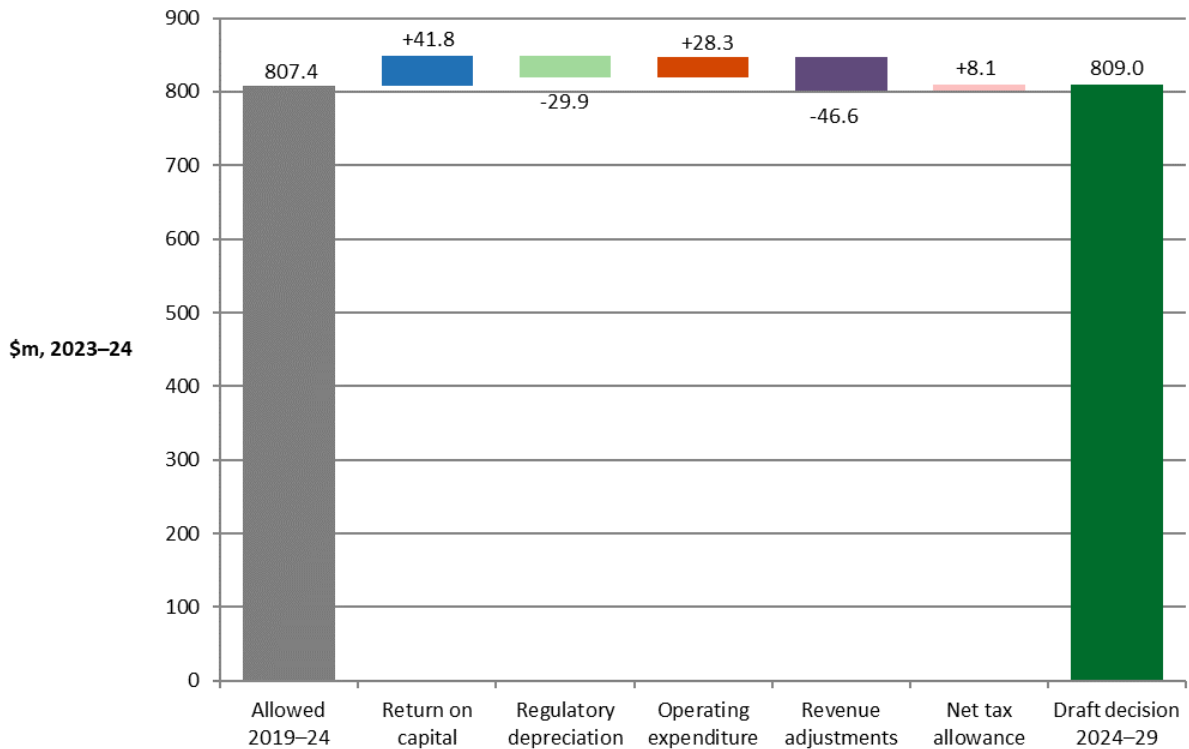
In real terms, this draft decision would allow TasNetworks to recover a total building block revenue of \$809.0 million (\$2023–24, unsmoothed) over the 2024–29 period for its transmission network. Figure 2 highlights the key drivers of the change between the transmission revenue approved for TasNetworks for the 2019–24 period and in this draft decision for the 2024–29 period. It shows that our draft decision provides for increases in the building blocks for:

- return on capital, which is based on the opening regulatory asset base (RAB), capex and rate of return. This is \$41.8 million (9.6%) higher than the 2019–24 period, driven by an increase in the RAB and a higher rate of return being applied in the 2024–29 period, in accordance with the 2022 Rate of Return Instrument
- operating expenditure (opex), which is \$28.3 million (15.6%) higher than the 2019–24 period, largely driven by two step changes for insurance premiums and cyber security costs
- net tax allowance, which is \$8.1 million (205.7%) higher than the 2019–24 period, primarily due to a higher return on equity determined in this draft decision compared to the 2019–24 period.

Figure 2 also shows that our draft decision provides for reductions in the building blocks for:

- return of capital (depreciation), which is \$29.9 million (22.3%) lower than the 2019–24 period, driven primarily by a higher indexation of the RAB compared to the value we determined in the 2019–24 determination
- revenue adjustments, which are \$46.6 million (91.4%) lower than the 2019–24 period, mainly due to the efficiency benefit sharing scheme (EBSS) penalties determined in this draft decision compared to a EBSS reward in the 2019–24 period.

Figure 2 Changes in transmission total revenue between 2019–24 period and 2024–29 period (\$ million, 2023–24, unsmoothed)

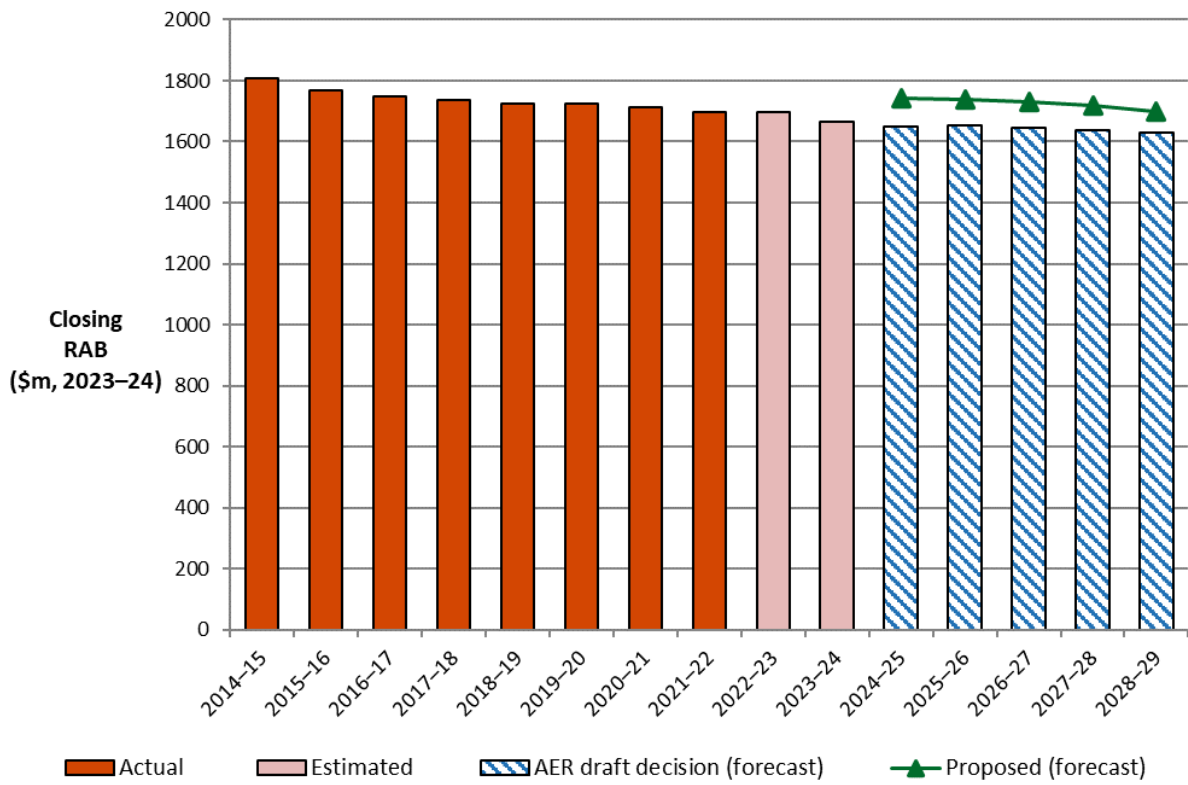


Source: AER analysis.

Note: This comparison is based on converting 2019–24 forecast opex for inflation to 2023–24 dollar terms using lagged CPI.

Figure 3 shows the value of TasNetworks’ transmission RAB over time. After a RAB reduction of 3.5% over the 2019–24 period, our draft decision results in a further forecast reduction of the RAB by \$36.9 million (\$2023–24) or 2.2% over the 2024–29 period. This reduction is mainly driven by lower forecast capex and higher depreciation over the 2024–29 period.

Figure 3 TasNetworks’ transmission RAB value over time (\$ million, 2023–24)



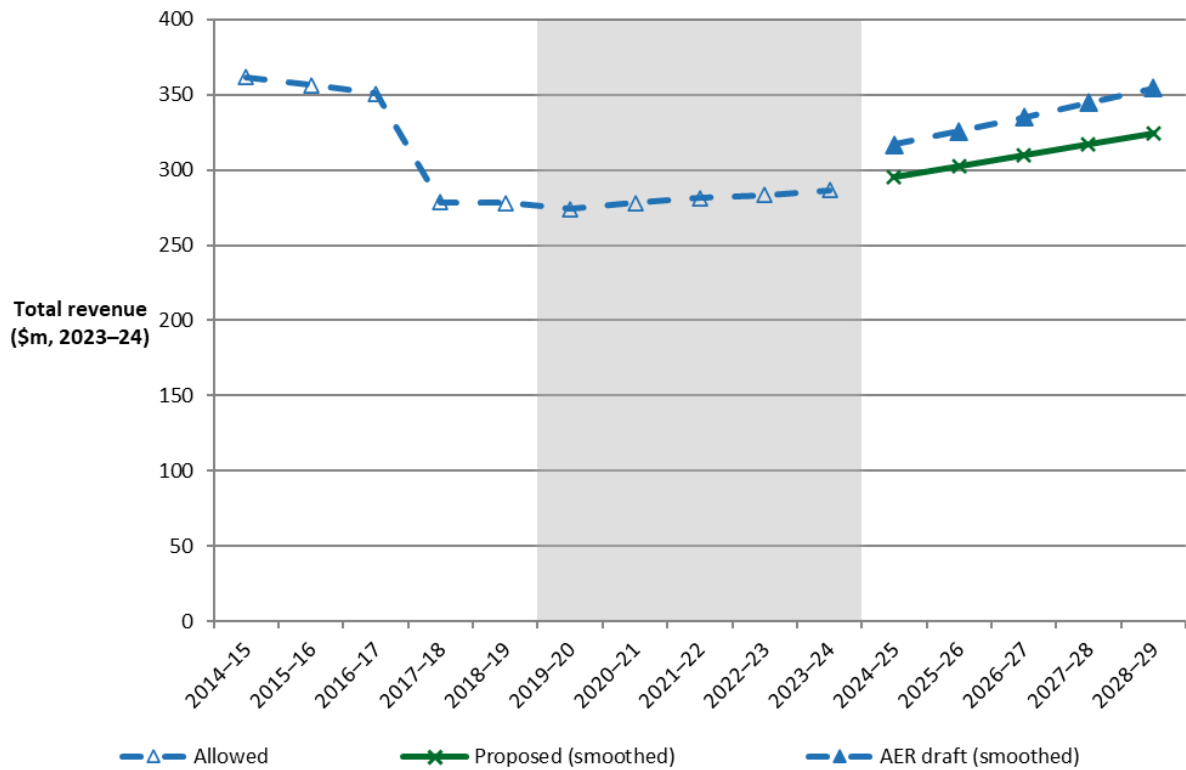
Source: AER analysis.

Distribution

In real terms, this draft decision would allow TasNetworks to recover \$1,677.0 million (\$2023–24, smoothed) for its distribution network from consumers over the 2024–29 period.

This is 19.5% higher than our decision for the 2019–24 period. Changes in TasNetworks’ distribution revenue over time are shown in Figure 4.

Figure 4 Changes in distribution regulated revenue over time (\$ million, 2023–24)



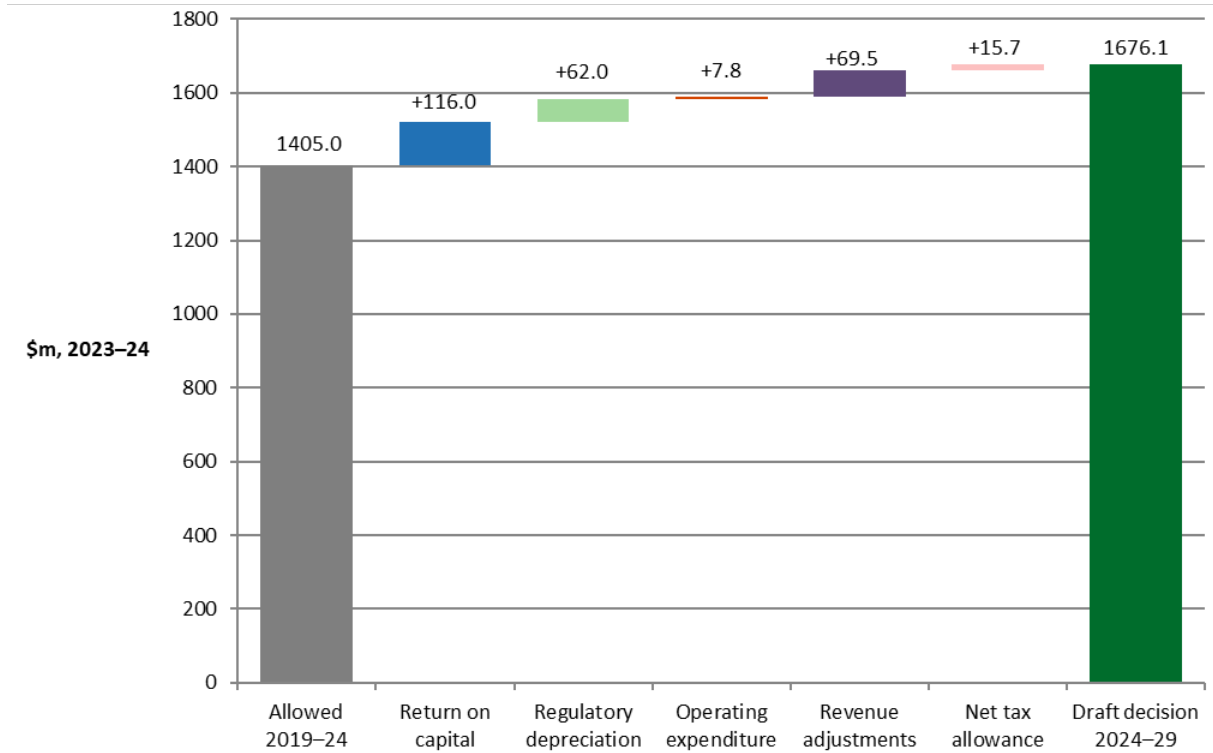
Source: AER analysis.

In real terms, this draft decision would allow TasNetworks to recover a total building block revenue of \$1,676.1 million (\$2023–24, unsmoothed) over the 2024–29 period for its distribution network. Figure 5 highlights the key drivers of the change between the distribution revenue approved for TasNetworks for the 2019–24 period and in this draft decision for the 2024–29 period. It shows that our draft decision provides for increases in the building blocks for:

- return on capital, which is \$116.0 million (21.5%) higher than the 2019–24 period, driven by an increase in the RAB and a higher rate of return being applied in the 2024–29 period, in accordance with the 2022 Rate of Return Instrument
- regulatory depreciation, which is \$62.0 million (16.4%) higher than the 2019–24 period, driven primarily a higher opening RAB as at 1 July 2024 compared to the value we determined in the 2019–24 determination and an increase in capex spent on short lived assets
- opex, which is \$7.8 million (1.5%) higher than the 2019–24 period, and as for transmission this slight increase is largely driven by step changes for insurance premiums and cyber security costs
- net tax allowance, which is \$15.7 million (57.8%) higher than the 2019–24 period, primarily due to a higher return on equity determined in this draft decision compared to the 2019–24 period

- revenue adjustments, which are \$69.5 million higher than the 2019–24 period, mainly due to significantly lower EBSS penalties determined in this draft decision compared to the 2019–24 period.

Figure 5 Changes in distribution total revenue between 2019–24 period and 2024–29 period (\$million, 2023–24, unsmoothed)

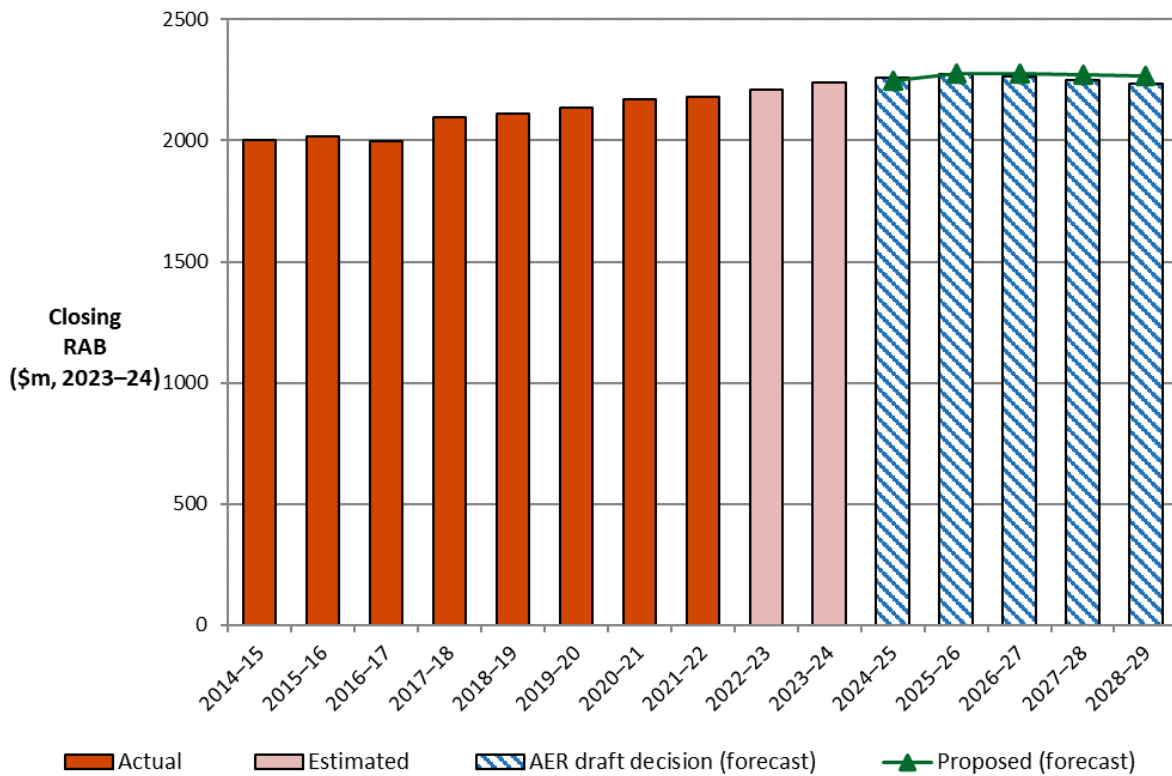


Source: AER analysis.

Note: This comparison is based on converting 2019–24 forecast opex for inflation to 2023–24 dollar terms using lagged CPI.

Figure 6 shows the value of TasNetworks’ distribution RAB over time. After RAB growth of 6.1% over the 2019–24 period, our draft decision results in a forecast reduction of the RAB by \$7.0 million (\$2023–24) or 0.3% over the 2024–29 period. This reduction is mainly driven by lower forecast capex and higher depreciation over the 2024–29 period.

Figure 6 TasNetworks’ distribution RAB value over time (\$ million, 2023–24)



Source: AER analysis.

1.2 Key differences between our draft decision and TasNetworks’ proposal

Transmission

Our draft decision accepts much of TasNetworks’ proposal for its transmission network, including its total capex forecast and total opex forecast. The main difference between our draft decision and TasNetworks’ proposal is on revenue adjustments from the application of the EBSS for opex outcomes in the 2019–24 period.

Movements in some market variables such as updates for expected inflation and rate of return have also led to revenue outcomes that are higher in our draft decision than in TasNetworks’ proposal. Our draft decision includes a higher regulatory depreciation amount, driven primarily by the lower expected inflation rate in our draft decision than at the time of TasNetworks’ proposal. This higher regulatory depreciation amount in turn leads to an increase to the estimated cost of corporate income tax amount. This increase is partly offset by a lower return on capital amount, which is driven primarily by a lower opening RAB value as at 1 July 2024 adopted in our draft decision due to corrections to the depreciation amounts for the 2019–24 period and the updates to actual/estimated inflation for 2022–23 and 2023–24.

Distribution

Our draft decision accepts much of TasNetworks’ proposal for its distribution network, including its total capex forecast and total opex forecast. The main difference between our

draft decision and TasNetworks' proposal is on revenue adjustments from the application of the EBSS for opex outcomes in the 2019–24 period.

Movements in some market variables such as updates for expected inflation and rate of return have also led to revenue outcomes that are higher in our draft decision than in TasNetworks' proposal. Our draft decision includes a higher return on capital, which is driven primarily by a higher rate of return and a slightly higher opening RAB value as at 1 July 2024 adopted in our draft decision. Our draft decision also includes a higher regulatory depreciation amount, driven primarily by the lower expected inflation rate in our draft decision than at the time of TasNetworks' proposal. The higher return on capital and regulatory depreciation in turn leads to an increase to the estimated cost of corporate income tax amount.

1.3 Expected impact of our draft decision on electricity bills

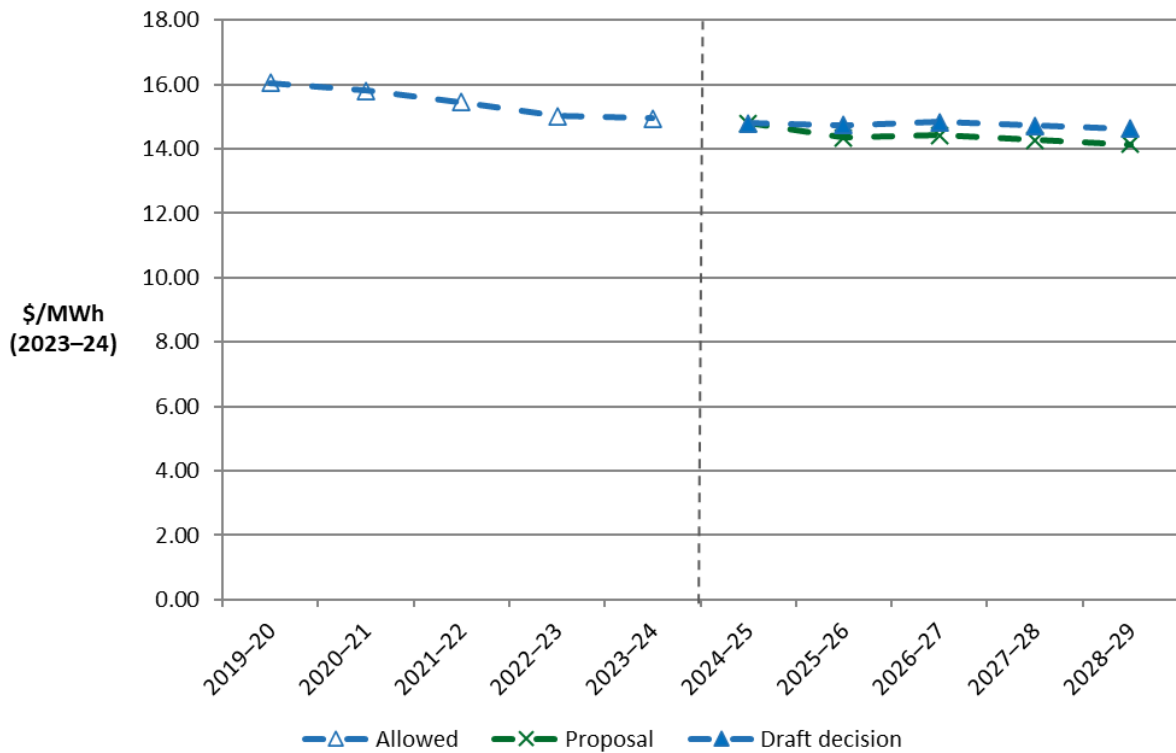
Transmission

TasNetworks recovers its transmission regulated revenue through transmission charges, set annually in accordance with the pricing methodology approved by us as part of this decision. Our draft decision is not to accept the proposed pricing methodology, as discussed in Attachment 12.

For illustrative purposes only, we estimate the modelled impact of this draft decision would be a total reduction to average transmission charges of around 2.0% in real terms by 2028–29, compared to 2023–24 levels, or an average reduction of 0.4% per annum.

Figure 7 compares this indicative price path for the 2024–29 period to the 2019–24 period.

Figure 7 Change in indicative transmission tariffs for 2019–24 to 2024–29 (\$2023–24, \$/MWh)



Source: AER analysis.

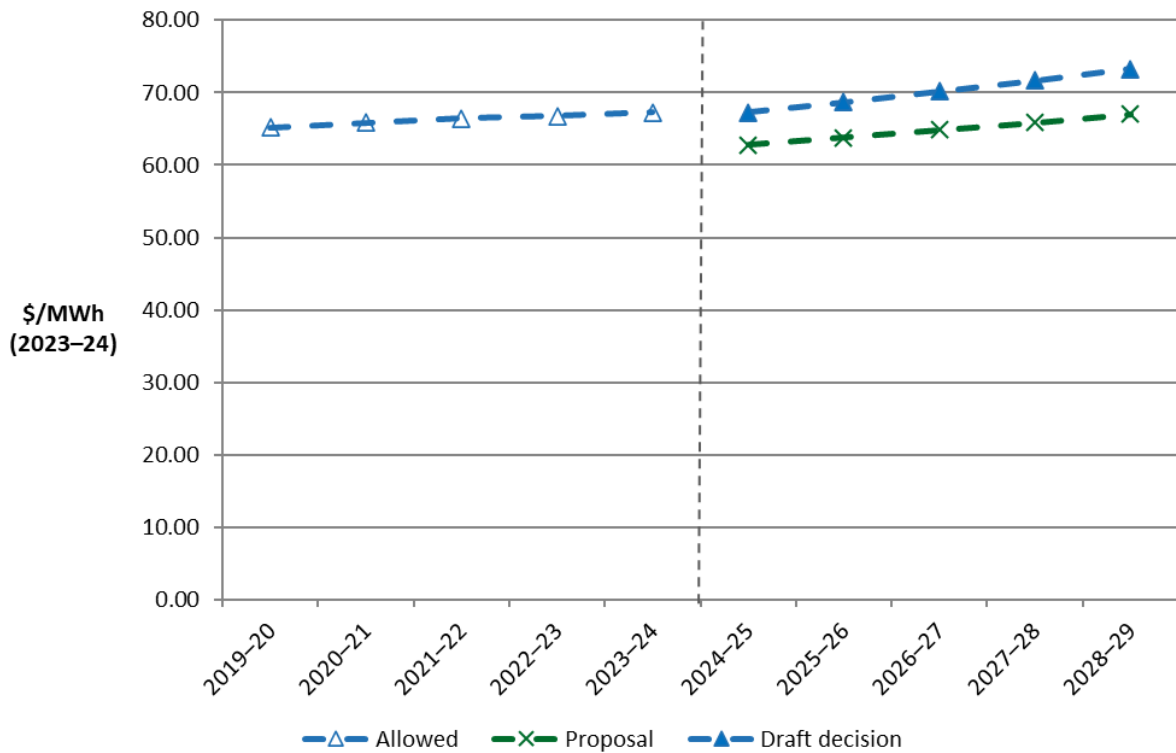
Distribution

TasNetworks recovers its distribution regulated revenue through distribution charges, set annually by reference to the tariff structure statement and pricing formulae approved by us as part of this decision.

For illustrative purposes only, we estimate the modelled impact of this draft decision would be a total increase to average distribution network charges of around 8.9% in real terms by 2028–29, compared to 2023–24 levels, or an average increase of 1.7% per annum.

Figure 8 compares this indicative price path for the 2024–29 period to the 2019–24 period.

Figure 8 Change in indicative distribution charges for 2019–24 to 2024–29 (\$2023–24, \$/MWh)



Source: AER analysis.

Potential bill impact

TasNetworks’ combined transmission and distribution network charges make up around 34.9% of its residential customers’ electricity bills and 36.2% of its small business customers’ electricity bills. Other components of the electricity supply chain—the cost of purchasing energy from the wholesale market, environmental schemes and the costs and margins applied by electricity retailers in determining the prices they will charge consumers for supply—also contribute to the prices ultimately paid by consumers.¹⁷ These sit outside the decision we are making here but will also continue to change throughout the period.

This is a draft decision, and final decision outcomes are likely to change. In nominal terms, which include the impact of expected inflation, the impact of this draft decision would be an increase to the network component of customers’ energy bills. For illustrative purposes only, the modelled impact of our draft decision on the average annual electricity bill for a residential customer in Tasmania, as it is today, would be an increase of \$235 (10.8%) by 2028–29, or an average of \$47 per annum. For small business customers, the impact would be an increase of \$331 (11.5%), or an average of \$66 per annum.

¹⁷ AEMC, *Data Portal*, [Trends in Tasmania supply chain components 2023/24](#).

Our decisions on TasNetworks’ proposals for its transmission and distribution networks will set the revenue allowances that form the overall component of its network charges for the next 5 years. It provides a baseline or starting point for that period.

Over the 2024–29 period there are several additional mechanisms under the NER that may operate to increase or decrease those charges. These may include cost pass through events defined in the NER. They may also include any contingent projects that may be approved in our final decision and additional cost pass through events proposed by TasNetworks and approved in this draft decision. The triggers we set out for these projects and events in the final decision will, if met, allow TasNetworks distribution to apply for additional revenue for these projects throughout the period, at which point proposed costs will be subject to further consultation and assessment.

1.4 TasNetworks’ consumer engagement

The 2024–29 determinations are the first cohort of decisions to be made since publishing the Handbook. We believe that genuine, high quality consumer engagement by TasNetworks is essential to ensuring that its proposal is driven by consumer preferences, supports delivery of services that meet the needs of its consumers, and does so at a price that is affordable and efficient.

TasNetworks 2024–29 proposal has been, in parts, shaped by consultation with its customers and stakeholders over its 18-month engagement program. Its engagement program has been a concerted effort by the business to mature its engagement approach with its customers. However, some stakeholders have still noted shortcomings in parts of the engagement. TasNetworks says it has sought to identify and understand what is important to its customers and stakeholders to help shape the development of its combined proposal.¹⁸

In developing its 2024–29 proposal, TasNetworks has stated that:

We developed an engagement program for the Combined Proposal that has sought to identify and understand what is important to our customers and stakeholders, and to build their knowledge and understanding of the energy sector and our business so they can participate in the program. We have used their subsequent insights to help shape a Proposal that is reflective of the feedback we have received.¹⁹

It also stated that it has helped created a more accessible, customer-focused program through its engagement, evidenced by the fact that participant trust in TasNetworks to act in the best interests of customers has risen from a benchmark of 66% in the early stages of the engagement program to 89% in latter stages.²⁰

¹⁸ TasNetworks, *Combined proposal Overview – January 2023*, p.13.

¹⁹ TasNetworks, *Combined proposal Attachment 1 Customer and stakeholder engagement summary*, January 2023, p. 2.

²⁰ TasNetworks, *Combined proposal Attachment 1 Customer and stakeholder engagement summary*, January 2023, p. 3

1.4.1 TasNetworks’ engagement on its proposal

Our Issues paper for TasNetworks outlined its extensive consultation (in terms of quantity) undertaken regarding the nature, breadth and depth, and impact of its consumer engagement. This included a high-level summary of how TasNetworks developed a framework to ensure engagement was both deep and broad, and used appropriate methods and channels to overcome barriers to engagement. It did this by co-designing customer advocate engagement model, which included a number of stakeholders, such as its:

- Reset Advisory Committee (RAC), independent from TasNetworks, the key objective of the RAC was ‘to support TasNetworks development of a Combined Proposal that balances the needs of our customers, owners and the AER’.²¹
- Policy and Regulatory Working Group (PRWG), established in 2014, the PRWG provides guidance on customer needs and acts as an advisory group on the development of its Tariff Structure Statement.²²
- Customer Council, established in 2015 to enable ongoing conversations about issues that matter to Tasmanian energy users. Members include, individual customers, business representatives, regulators and TasNetworks’ partners.²³

TasNetworks also engaged its customers through annual customer surveys, individual customer panels, discussion circles, focus groups and forums, with the findings used to provide direction for its more deliberative groups, to ensure their thinking is aligned with, and representative of our broader customer base.²⁴

TasNetworks stated its engagement framework was built from the ground-up using direct input from its representative voices, individual customers and key stakeholders during the early phases of the engagement program.²⁵ This work ultimately culminated in the development and release of TasNetworks 2024–29 Customer and Stakeholder Engagement Strategy in January 2022.²⁶ TasNetworks’ acknowledged its engagement activities have tended towards the ‘Inform’ to ‘Consult’ end of the spectrum. However, for the development of the 2024–29 Combined Proposal it sought to mature its approach, developing a program with activities ranging from ‘Inform’ through to ‘Collaborate’.²⁷

TasNetworks noted it sought to engage representative voices across its network, directly engaging with residential energy customers and bill-payers. Its engagement also sought to

²¹ TasNetworks, *Combined proposal Attachment 1 Customer and stakeholder engagement summary*, January 2023, p. 25.

²² TasNetworks, *Combined proposal Attachment 1 Customer and stakeholder engagement summary*, January 2023, p. 25

²³ TasNetworks, *Combined proposal Attachment 1 Customer and stakeholder engagement summary*, January 2023, p. 24

²⁴ TasNetworks, *Combined proposal Attachment 1 Customer and stakeholder engagement summary*, January 2023, p. 27.

²⁵ TasNetworks, *Combined proposal Attachment 1 Customer and stakeholder engagement summary*, January 2023, p. 12.

²⁶ TasNetworks, *Combined proposal Attachment 1 Customer and stakeholder engagement summary*, January 2023, p. 12.

²⁷ TasNetworks, *Combined proposal Attachment 1 Customer and stakeholder engagement summary*, January 2023, p. 17.

include customer voices who are experiencing vulnerability, such as those on low incomes or living with a disability.²⁸ Across five-phases, 134 customers were engaged through a variety of mechanisms, including both in-person and online focus groups.²⁹

Small to medium businesses make up around 11.5% of TasNetworks' total distribution network s customer base. The interests of these stakeholders were represented within TasNetworks Customer Council and PRWG by a number of peak bodies and their advocates.³⁰ Transmission customers were engaged through tailored online forums, one-on-one meetings with TasNetworks, mixed online stakeholder forums, online surveys and email updates.³¹

TasNetworks' proposal noted affordability for all users was a priority, and had responded by constraining its capex, selecting 2020–21 as the most efficient base year for opex, aiming to achieve opex productivity gains, developing initiatives that address cost of living pressures and continuing to develop cost-reflective network tariffs.³² TasNetworks reports that its engagement revealed “the top concern for our customers was affordability.”³³

CCP27 observed that consumers expressed a clear theme of affordability throughout all phases of TasNetworks consumer engagement. Whilst TasNetworks responded to this theme and sought some opportunities to reduce costs and expenditure to address affordability concerns, CCP27 consider they could have adopted a more aggressive approach to affordability and been more consistent with other networks' proposals.³⁴

Of the listed objectives that TasNetworks was working to, it clearly identified it wanted to deepen customer and stakeholder trust in the process and outcomes of the proposal through genuine engagement.³⁵ In its proposal TasNetworks said "understanding what our customers value and their concerns was fundamental to the successful development of our Proposal."³⁶

1.4.2 What we've heard from stakeholders

In our Issues paper, we asked stakeholders to consider a number of questions in relation to TasNetworks engagement. This included whether the key themes of engagement resonated

²⁸ TasNetworks, *Combined proposal Attachment 1 Customer and stakeholder engagement summary*, January 2023, p. 23.

²⁹ TasNetworks, *Combined proposal Attachment 1 Customer and stakeholder engagement summary*, January 2023, p. 23.

³⁰ TasNetworks, *Combined proposal Attachment 1 Customer and stakeholder engagement summary*, January 2023, p. 23.

³¹ TasNetworks, *Combined proposal Attachment 1 Customer and stakeholder engagement summary*, January 2023, p. 23.

³² TasNetworks, *Combined proposal Attachment 1 Customer and stakeholder engagement summary*, January 2023, p.6.

³³ TasNetworks, *Combined Proposal Attachment 1 – Customer and stakeholder Engagement Summary*, January 2023, p. 5

³⁴ TasNetworks, *Combined proposal Attachment 1 Customer and stakeholder engagement summary*, January 2023, p. 6.

³⁵ TasNetworks, *Combined proposal Attachment 1 Customer and stakeholder engagement summary*, January 2023, p. 14.

³⁶ TasNetworks, *Combined proposal Attachment 1 Customer and stakeholder engagement summary*, January 2023, p. 23

with their own preferences, if stakeholders thought TasNetworks engaged meaningfully with consumers on all elements of its proposal, and to what extent stakeholders felt able to influence the topics engaged on by TasNetworks.³⁷

We received a number of submissions on TasNetworks’ proposal as outlined at Section 8 of this decision. These submissions covered issues such as: TasNetworks’ capex and opex, tariff reform, contingent projects, revenue drivers, and legacy meter recovery.

CCP27 focussed its review on TasNetworks engagement with its RAC, and a selection of other customer engagement activities.³⁸ The CCP27 advice acknowledged that TasNetworks has strongly adopted the Handbook framework in its pre-lodgement engagement. It has said TasNetworks’ engagement was both broad and deep – capturing the views of individual customers in each phase (breadth) and deeply engaging with other stakeholders, including groups especially formed, to consider TasNetworks’ proposals across multiple locations.³⁹ However, CCP27 also said that they have not observed or are aware of any in-depth engagement with consumers or other consumer representatives on opex forecasts, including opex step changes for transmission and distribution.⁴⁰

The CCP27 acknowledged TasNetworks’ engagement improved as its engagement moved through the various phases and they appeared to inform and consult with a diversity of customer and stakeholder groups.⁴¹ The CCP27 also stated that TasNetworks should affirm its commitment to affordability by considering a 6th phase of engagement to revisit and confirm its top-down revenue positions once consumers have more exposure to recent changes in energy prices and can more adequately consider implications of contingent projects.⁴² The CCP27 noted that TasNetworks committed to ongoing engagement and has prepared a Draft Engagement Plan through to December 2023. They also noted it will be important for TasNetworks to re-test end customers’ investment preferences, given the changing economic conditions.⁴³

The Tasmanian Minerals, Manufacturing and Energy Council (TMEC) was a member on TasNetworks’ RAC. TMEC noted its contentment with the engagement it was involved in as a representative of the RAC.⁴⁴ It stated:

This has provided TMEC some level of comfort that consumer representatives have been listened to, TasNetworks were challenged in this forum and to their

³⁷ AER, *Issues Paper - TasNetworks - 2024-29 Distribution revenue proposal*, March 2023, p.10.

³⁸ CCP27, *Consumer Challenge Panel 27 - Advice to AER - 2024-29 Combined Regulatory Proposal – TasNetworks*, May 2023, p.5.

³⁹ CCP27, *Consumer Challenge Panel 27 - Advice to AER - 2024-29 Combined Regulatory Proposal – TasNetworks*, May 2023, p.5.

⁴⁰ *Ibid.* p.19.

⁴¹ CCP27, *Consumer Challenge Panel 27 - Advice to AER - 2024-29 Combined Regulatory Proposal – TasNetworks*, May 2023, p.7.

⁴² CCP27, *Consumer Challenge Panel 27 - Advice to AER - 2024-29 Combined Regulatory Proposal – TasNetworks*, May 2023, p.6.

⁴³ CCP27, *Consumer Challenge Panel 27 - Advice to AER - 2024-29 Combined Regulatory Proposal – TasNetworks*, May 2023, p.20.

⁴⁴ Tasmanian Minerals, Manufacturing and Energy Council, *Submission – 2024-29 Combined Regulatory Proposal – TasNetworks*, May 2023, p.1

credit responded with several effective briefings. TMEC would like to positively acknowledge that TasNetworks were more open and transparent than in previous consultations.⁴⁵

TMEC’s views are supported by the key messages in the RAC’s report that indicated that over the course of its engagement TasNetworks staff became more open in to providing direct answers to questions posed and appreciated that TasNetworks encouraged the group to provide challenge.⁴⁶

The Tasmanian Small Business Council (TSBC) recognised there had been considerable consumer engagement by TasNetworks. However, TSBC noted there remains important gaps in TasNetworks’ approach to engagement, especially how far it still has to go in empowering consumers. The TSBC stated that TasNetworks has had sufficient opportunity, across a number of resets, to address the gaps in its consumer engagement approach.⁴⁷ It noted that TasNetworks’ use of engagement to influence their proposal is limited and its building block proposals could be more focussed on the key affordability objective.⁴⁸

The Tasmanian Renewable Energy Alliance (TREA) submitted there is a need for more targeted engagement rather than just further engagement.⁴⁹ TREA noted it is not clear on what topics could be influenced by consumer engagement and that the regulatory process is complex for consumer representatives to engage with effectively. TREA appreciated the various consultation documents provided by TasNetworks; however, they noted that comprehensive information alone does not maximise stakeholder engagement and an issue for consumers and industry representatives is knowing which areas to focus on.⁵⁰

ENTATAS (a registered entity that is an independent body who provides support, advice and education to Tasmanian electricity industry stakeholders) stated it is crucial that more active involvement by industry representatives/associations, consumer groups and consumers should occur to ensure a higher level of accountability and transparency.⁵¹ ENTATAS considered that TasNetworks engagement was selective, and questions raised during engagement were skewed to obtain a specific outcome for TasNetworks.⁵²

CCP27 commended TasNetworks’ fiscal discipline inherent in its ambition to constrain capex and noted that this ambition aligns with the AER’s capex expectations expressed in the

⁴⁵ Tasmanian Minerals, Manufacturing and Energy Council, *Submission – 2024-29 Combined Regulatory Proposal – TasNetworks*, May 2023, p.1

⁴⁶ TasNetworks *Reset Advisory Committee Engagement Report*, January 2023, p. 4.

⁴⁷ Tasmanian Small Business Council, *Submission - 2024-29 Combined Regulatory Proposal - TasNetworks*, May 2023 p. 3

⁴⁸ Tasmanian Small Business Council, *Submission - 2024-29 Combined Regulatory Proposal - TasNetworks - May 2023* p. 3

⁴⁹ Tasmanian Renewable Energy Alliance, *Submission - 2024-29 Combined Regulatory Proposal – TasNetworks*, May 2023, p. 1.

⁵⁰ Tasmanian Renewable Energy Alliance, *Submission - 2024-29 Combined Regulatory Proposal – TasNetworks*, May 2023, p. 3.

⁵¹ ENTATAS, *Submission – 2024–29 Combined Regulatory Proposal – TasNetworks*, January 2023 p. 8

⁵² ENTATAS - *Submission – 2024–29 Combined Regulatory Proposal – TasNetworks*, January 2023 p. 9

Handbook.⁵³ However, consistent with the RAC⁵⁴, the CCP27 questioned whether that benchmark is sufficient for the 2024–29 period, and whether further trade-offs are possible, given the current economic pressures on consumers. CCP27 stated that TasNetworks' engagement on the transmission contingent projects was mostly around informing customers and stakeholders. They believe that the reasoning behind TasNetworks' limited engagement on contingent projects was uncertainty and unknown costs.⁵⁵ CCP27 believe a number of these contingent projects could significantly affect affordability for customers.

The RAC considered that issues around TasNetworks pricing need to be much more transparent, including how prices are determined, costs are allocated, and what cross subsidies there are and how they are being managed.⁵⁶ The RAC 'notes with concern that the extent and potential consequences of the 'several additional factors' noted by the AER (contingent, ISP, Marinus, NW Transmission Development, and REZ projects plus pass throughs) are extraordinarily large, compared to what might be normally expected in a revenue proposal. The RAC considers that TasNetworks is not being open and transparent about the potential consequences of these additional factors.'⁵⁷

The TSBC has also raised concerns around increasing tariffs for both transmission and distribution, the rate of return, tariff reform, RAB, contingent project capex (augex) and opex. The TSBC noted that TasNetworks stated it has struck a balance between affordability and its need for investment and reliability in its capex forecasts. TSBC welcomed this, but queried whether the balance is as focused on affordability as it could be and if customers should be paying for investments driven by Tasmanian Government renewable and hydrogen industry development objectives.⁵⁸

In providing encouragement for future engagement, the CCP27 noted:

We encourage TasNetworks to draw from its experiences over the last two resets when planning its ongoing customer engagement activities and in particular to reflect on comments in the RAC's Engagement Process Report, particularly around engaging earlier and openly on its contingent projects.⁵⁹

⁵³ AER, *Better Resets Handbook*, December 2021, p20

⁵⁴ TasNetworks Reset Advisory Committee, *Response to the TasNetworks Draft Plan*, July 2022, p. 2.

⁵⁵ CCP27, *Consumer Challenge Panel 27 - Advice to AER - 2024-29 Combined Regulatory Proposal – TasNetworks*, May 2023, p.7.

⁵⁶ TasNetworks Reset Advisory Committee, *Response to the TasNetworks Draft Plan*, July 2022, p. 2.

⁵⁷ TasNetworks Reset Advisory Committee, *Response to the TasNetworks Draft Plan*, July 2022, p. 2.

⁵⁸ Tasmanian Small Business Council - *Submission - 2024-29 Combined Regulatory Proposal – TasNetworks*, May 2023 p. 4.

⁵⁹ CCP27, *Consumer Challenge Panel 27 - Advice to AER - 2024-29 Combined Regulatory Proposal – TasNetworks*, May 2023, p.7.

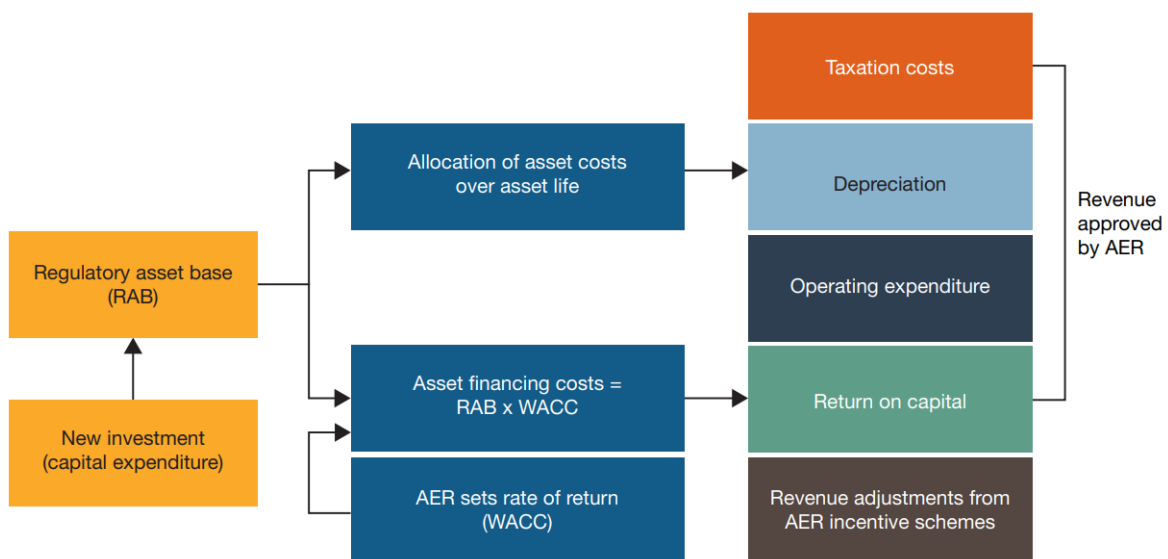
2 Key components of our draft decision on revenue

The foundation of our regulatory approach is a benchmark incentive framework to setting maximum revenues: once regulated revenues are set for a five-year period, a network that keeps its actual costs below the regulatory forecast of costs retains part of the benefit. This provides an incentive for service providers to become more efficient over time. It delivers benefits to consumers as efficient costs are revealed and drives lower cost benchmarks in subsequent regulatory periods. By only allowing efficient costs in our approved revenues, we promote delivery of the NEO and ensure consumers pay no more than necessary for the safe and reliable delivery of electricity.

TasNetworks’ combined proposed revenue reflects its forecast of the efficient cost of providing transmission and distribution network services over the 2024–29 period. Its revenue proposal, and our assessment of it under the Law and Rules, are based on a ‘building block’ approach which looks at five cost components (see Figure 9):

- return on the RAB – or return on capital, to compensate investors for the opportunity cost of funds invested in this business
- depreciation of the RAB – or return of capital, to return the initial investment to investors over time
- forecast opex – the operating, maintenance and other non-capital expenses, incurred in the provision of network services
- revenue increments/decrements – resulting from the application of incentive schemes, such as the EBSS and CESS
- estimated cost of corporate income tax.

Figure 9 The building block model to forecast network revenue



Source: AER.

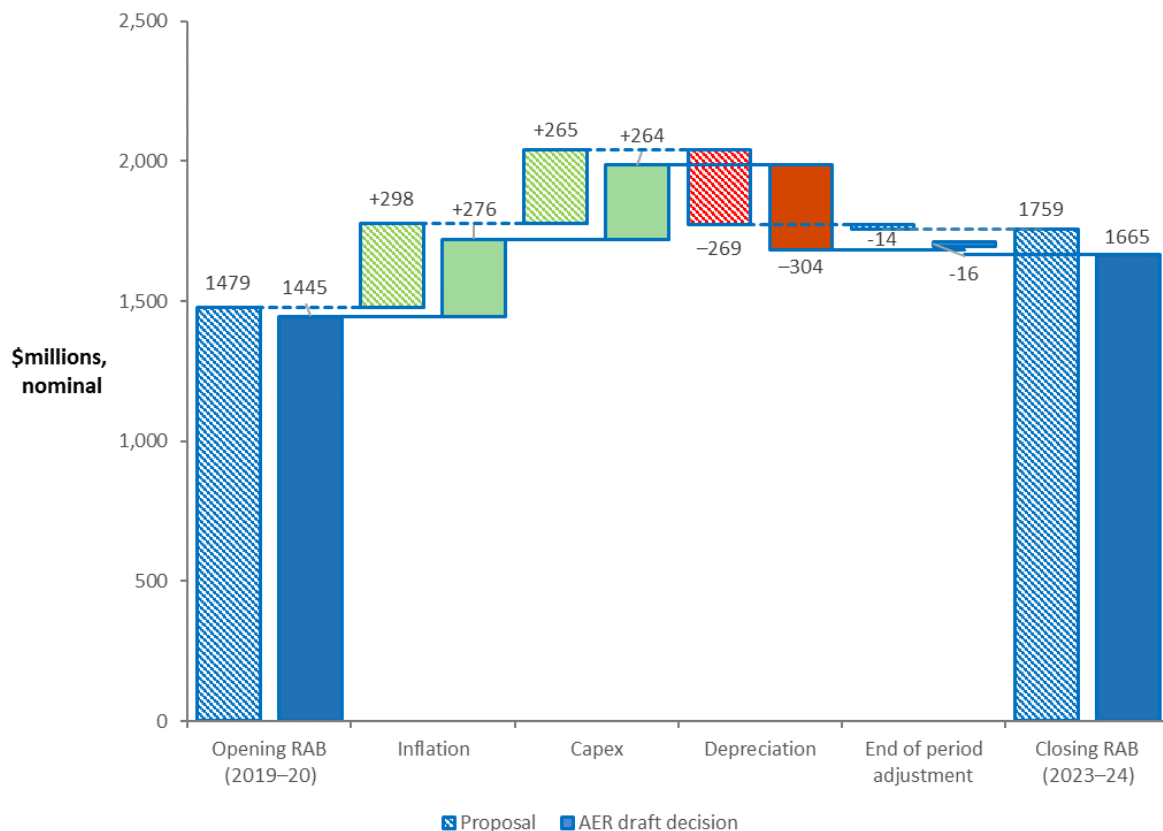
2.1 Regulatory asset base

The RAB accounts for the value of regulated assets over time. To set revenue for a new regulatory period, we take the opening value of the RAB from the end of the last period and roll it forward year by year by indexing it for inflation, adding new capex and subtracting depreciation and other possible factors (such as disposals). This gives us a closing value for the RAB at the end of each year of the regulatory period. The value of the RAB is used to determine the return on capital and depreciation building blocks. It substantially impacts TasNetworks’ transmission and distribution revenue requirements, and the price consumers ultimately pay. Other things being equal, a higher RAB would increase both the return on capital and depreciation components of the revenue determination.

2.1.1 Transmission

For this draft decision, we have determined an opening transmission RAB value of \$1,665.1 million (\$ nominal) as at 1 July 2024. This value is \$93.6 million (5.3%) lower than TasNetworks’ proposed opening transmission RAB of \$1,758.7 million. This reduction is largely due to our corrections for various inputs in the roll forward model (RFM) and updates we made to the consumer price index (CPI) inputs for 2022–23 and 2023–24 to reflect more up-to-date values. Figure 10 shows the key drivers of the change in TasNetworks’ transmission RAB over the 2019–24 period compared to its proposal.

Figure 10 Key drivers of changes in the transmission RAB over the 2019–24 period – proposal compared with AER’s draft decision (\$ million, nominal)

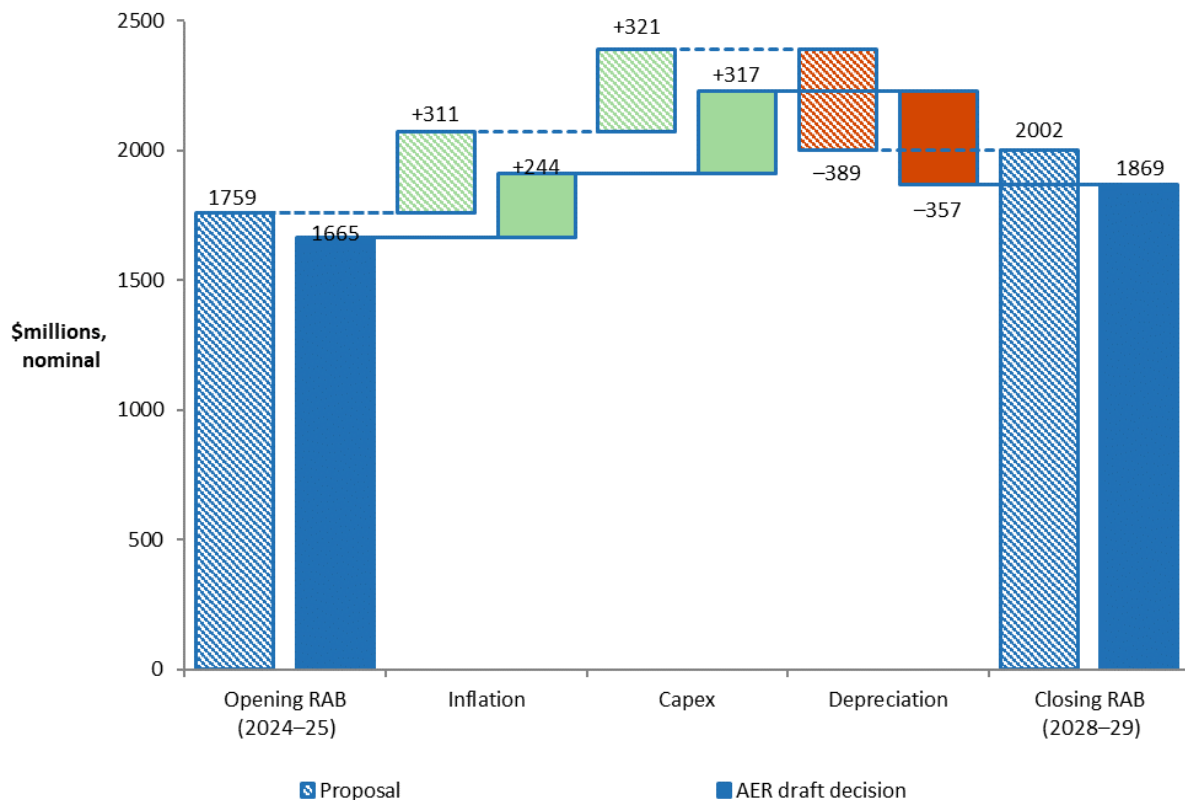


Source: AER analysis.

Note: Capex is net of disposals. It is inclusive of the half-year WACC to account for the timing assumptions in the roll forward model.

Figure 11 likewise shows the key drivers of the change in TasNetworks’ transmission RAB over the 2024–29 period compared to its proposal. Our draft decision projects an increase of \$204.2 million (12.3%) to the RAB by the end of the 2024–29 period compared to the \$242.9 million (13.8%) increase in TasNetworks’ proposal. We have determined a projected closing RAB of \$1,869.3 million (\$ nominal) as at 30 June 2029, which is \$132.7 million (6.6%) lower than TasNetworks’ proposed \$2,001.7 million. This reduction is mainly due to the lower opening RAB as at 1 July 2024. It also reflects our draft decisions on the expected inflation rate and forecast depreciation (discussed in the sections below).

Figure 11 Key drivers of changes in the transmission RAB over the 2024–29 period – proposal compared with AER’s draft decision (\$ million, nominal)



Source: AER analysis.

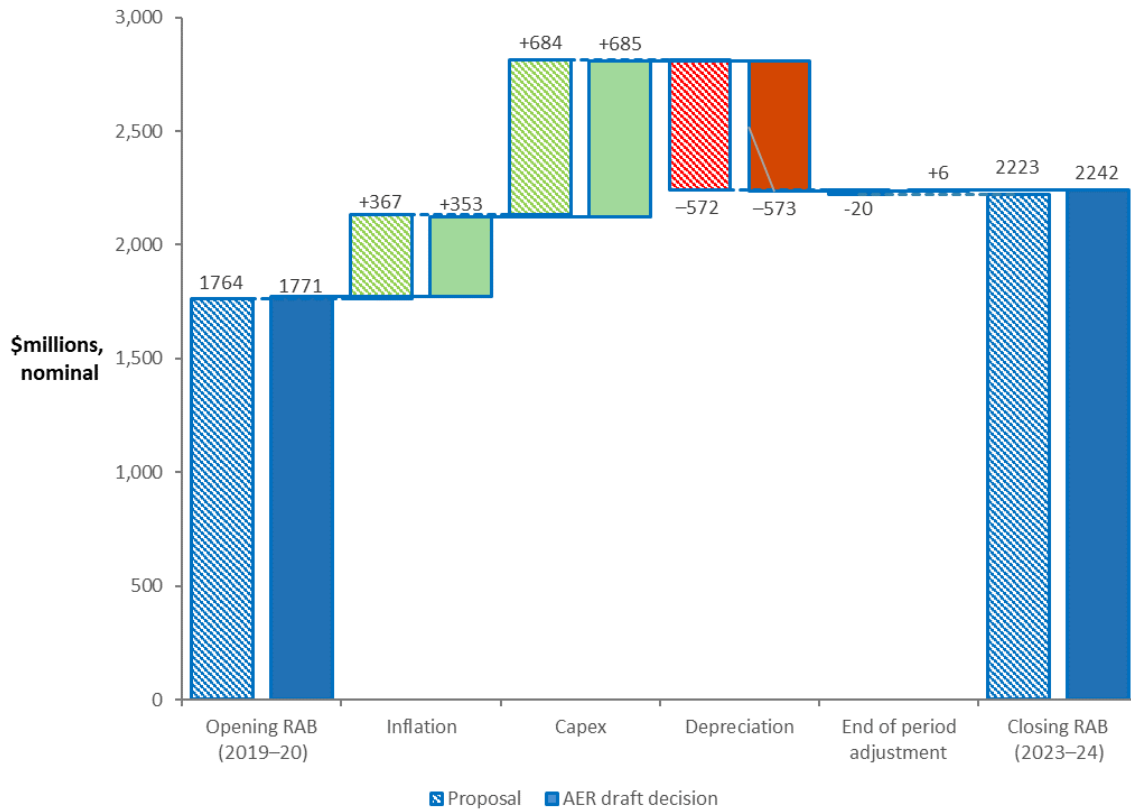
Note: Capex is net of forecast disposals. It is inclusive of the half-year WACC to account for the timing assumptions in the post-tax revenue model.

2.1.2 Distribution RAB

For this draft decision, we have determined an opening distribution RAB value of \$2,242.0 million (\$ nominal) as at 1 July 2024. This value is \$19.0 million (0.9%) higher than TasNetworks’ proposed opening distribution RAB of \$2,223.0 million. The increase is mainly driven by the correction to the 2018–19 and 2019–20 actual gross capex values, and the correction to the inputs used to calculate the adjustment for the difference between actual and forecast net capex for the final year of the previous 2014–19 period. This increase is partially offset by the updates to the actual CPI for 2022–23 and estimated CPI for 2023–24.

Figure 12 shows the key drivers of the change in TasNetworks’ distribution RAB over the 2019–24 period compared to its proposal.

Figure 12 Key drivers of changes in the distribution RAB over the 2019–24 period – proposal compared with AER’s draft decision (\$ million, nominal)

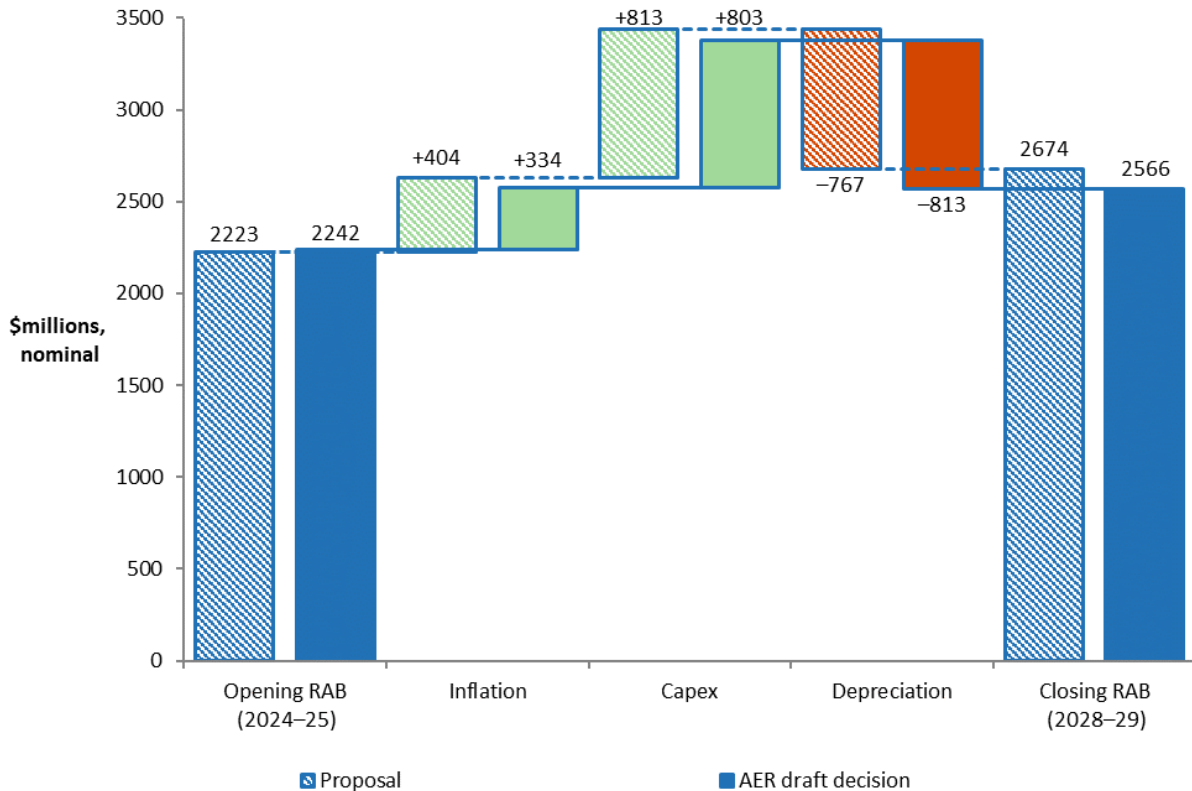


Source: AER analysis.

Note: Capex is net of disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the RFM.

Figure 13 likewise shows the key drivers of the change in TasNetworks’ distribution RAB over the 2024–29 period compared to its proposal. Our draft decision projects an increase of \$323.9 million (14.4%) to the RAB by the end of the 2024–29 period compared to the \$450.9 million (20.3%) increase in TasNetworks’ proposal. We have determined a projected closing RAB of \$2,565.9 million (\$ nominal) as at 30 June 2029, which is \$108.0 million (4.0%) lower than TasNetworks’ proposed \$2,674.0 million. This reduction is mainly due to our draft decision on the expected inflation rate. It also reflects our draft decisions on the opening RAB as at 1 July 2024 and forecast depreciation (discussed in the sections below).

Figure 13 Key drivers of changes in the distribution RAB over the 2024–29 period – proposal compared with AER’s draft decision (\$ million, nominal)



Source: AER analysis.

Note: Capex is net of forecast disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the post-tax revenue model.

2.2 Rate of return and value of imputation credits

The return each business is to receive on its capital base (the ‘return on capital’) is a key driver of proposed revenues. We calculate the regulated return on capital by applying a rate of return to the value of the capital base. We estimate the rate of return by combining the returns of two sources of funds for investment – equity and debt. The allowed rate of return provides the business with a return on capital to service the interest rate on its loans and gives a return on equity to investors.

TasNetworks’ combined transmission and distribution proposal applied our 2018 Rate of Return Instrument to estimate the rate of return.⁶⁰ This draft decision applies the new 2022 Rate of Return Instrument:⁶¹

⁶⁰ AER, *Rate of return Instrument*, December 2018. See <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/rate-of-return-guideline-2018/final-decision>

⁶¹ The 2022 Rate of Return Instrument was amended in August 2023. See <https://www.aer.gov.au/publications/guidelines-schemes-models/rate-of-return-instrument-2022/final-decision>

- For transmission networks, our draft decision applies a rate of return of 5.77% for the first year of the regulatory period, compared to the placeholder rate of return of 5.68% used in TasNetworks' proposal.
- For distribution networks, our draft decision applies a rate of return of 5.80% for the first year of the regulatory period, compared to the placeholder rate of return of 5.71% used in TasNetworks' proposal.
- The small differences between our draft decision and TasNetworks' proposed rates are due to updates to the return on debt, the risk-free rate, and the market risk premium in the 2022 Instrument.
- Our draft decision applies a value of imputation credits (gamma) of 0.57 as set out in the 2022 Instrument,⁶² compared to 0.585 in the 2018 Instrument.⁶³

Our estimate of expected inflation for the purposes of this draft decision is 2.80% per annum. It is an estimate of the average annual rate of inflation expected over a five-year period based on the approach adopted in our 2020 Inflation Review⁶⁴ and the forecast from the Reserve Bank of Australia's August 2023 Statement on Monetary Policy.⁶⁵ This is lower than the estimate used in TasNetworks' proposal (3.35%), which was taken from an earlier Statement on Monetary Policy.

Figure 14 and Figure 15 isolate the impact of expected inflation from other parts of our draft decision, to illustrate its impact on the return on capital and regulatory depreciation building blocks and the total revenue allowances for transmission and distribution, respectively. Other elements held constant, lower inflation reduces the return on capital but increases regulatory depreciation.

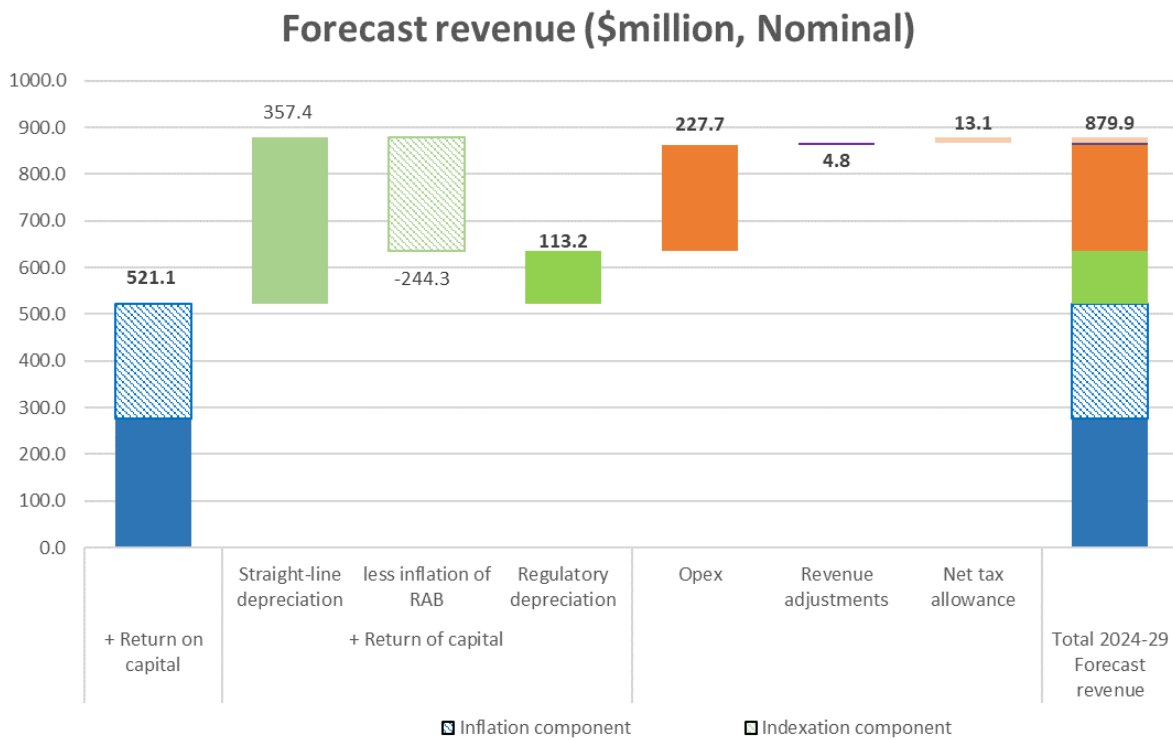
⁶² AER, *Rate of return Instrument, Explanatory Statement*, February 2023, pp. 240–250.

⁶³ AER, *Rate of return Instrument, Explanatory Statement*, December 2018, pp. 307–382.

⁶⁴ AER, *Final position – Regulatory treatment of inflation*, December 2020.

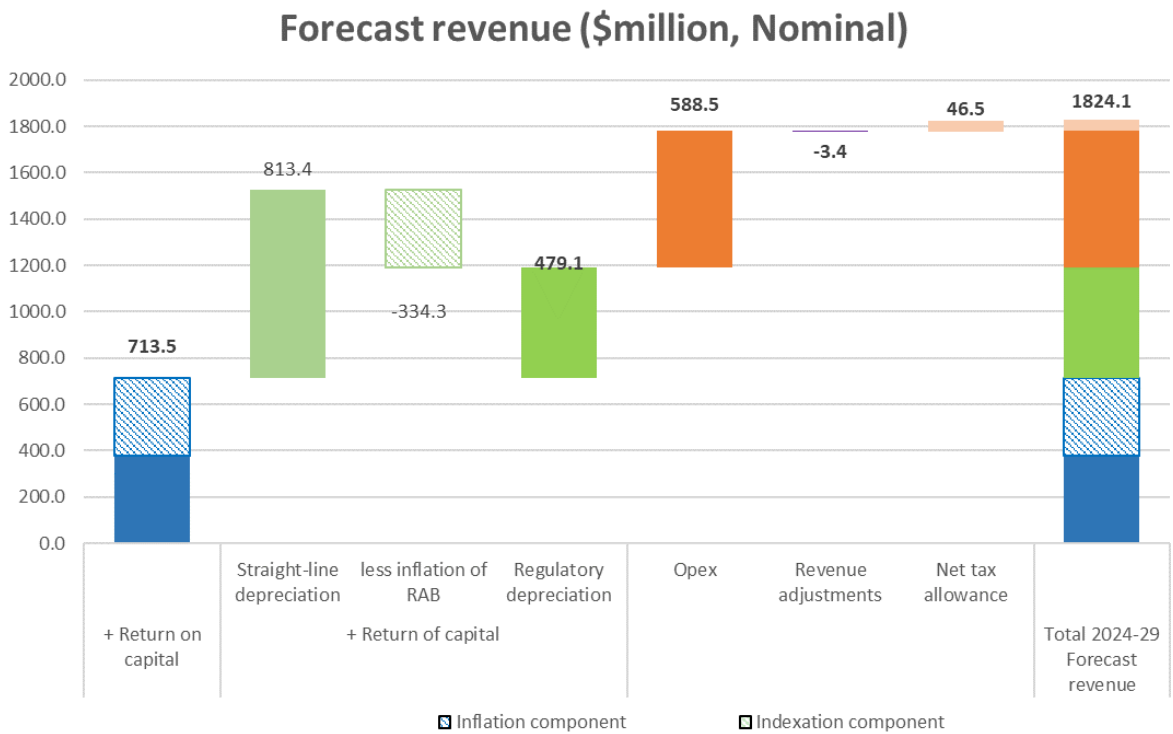
⁶⁵ RBA, *Statement on Monetary Policy*, August 2023, Table 1: Forecast Table. See <https://www.rba.gov.au/publications/smp/2023/Aug/forecasts.html>

Figure 14 Inflation components in draft decision transmission revenue building blocks (\$ million, nominal)



Source: AER analysis.

Figure 15 Inflation components in draft decision distribution revenue building blocks (\$ million, nominal)



Source: AER analysis.

2.3 Regulatory depreciation (return of capital)

Depreciation is a method used in our decision to allocate the cost of an asset over its useful life. It is the amount provided so capital investors recover their investment over the economic life of the asset (otherwise referred to as ‘return of capital’). When determining total revenue, we include an amount for the depreciation of the projected RAB. The regulatory depreciation amount is the net total of the straight-line depreciation less the indexation of the RAB.

2.3.1 Transmission

Our draft decision determines a regulatory depreciation amount of \$113.2 million (\$ nominal) for TasNetworks’ transmission network in the 2024–29 period. This is an increase of \$34.6 million (44.1%) from TasNetworks’ proposal of \$78.5 million.

This increase is primarily due to our draft decision on the expected inflation rate for the 2024–29 period, which affects the projected RAB over this period. The lower expected inflation rate applied in the draft decision reduces the indexation of the RAB that is offset against straight-line depreciation in determining regulatory depreciation. Forecasts of expected inflation and components that make up the projected RAB will be updated again in TasNetworks’ revised proposal and our final decision.

2.3.2 Distribution

Our draft decision determines a regulatory depreciation amount of \$479.1 million (\$ nominal) for TasNetworks’ distribution network in the 2024–29 period. This is an increase of \$116.8 million (32.2%) from TasNetworks’ proposal of \$362.4 million.

This increase is primarily due to our draft decision on the expected inflation rate for the 2024–29 period, which affects the projected RAB over this period, and our corrections to the depreciation module that increases the straight-line depreciation amount. The lower expected inflation rate applied in the draft decision reduces the indexation of the RAB that is offset against straight-line depreciation in determining regulatory depreciation. Forecasts of expected inflation and components that make up the projected RAB will be updated again in TasNetworks’ revised proposal and our final decision.

2.4 Capital expenditure

Capital expenditure (capex) refers to the investment made in the transmission/distribution network to provide prescribed transmission/distribution services. This investment mostly relates to assets with long lives (30–50 years is typical) and these costs are recovered over several regulatory periods. On an annual basis, the financing and depreciation costs associated with these assets are recovered through the return of, and on, capital building blocks that contribute to the total revenue requirement.⁶⁶

2.4.1 Transmission capital expenditure

Our draft decision accepts TasNetworks proposed \$290 million (\$2023–24) gross transmission capex for the 2024–29 period. Our alternative estimate was \$279 million (\$2023–24) gross transmission capex for the 2024–29 period. This is a 3.7% reduction and is

⁶⁶ NER, cl. 6A.5.4(a).

not considered a material difference. In arriving at our draft decision on transmission total forecast capex, we have applied a top-down assessment approach. Overall, we are satisfied with total forecast capex.

We consider this capex forecast will provide a prudent and efficient network service to maintain the safety, reliability and security of electricity supply on its transmission network. Table 2.1 shows the annualised amount of the capex forecast inclusive of overheads for TasNetworks’ proposal.

Table 2.1 AER draft decision for gross capex (m, \$2023-24)

(m, \$2023–24)	2024–25	2025–26	2026–27	2027–28	2028–29	Total
TasNetworks' proposal and AER draft decision	52	68	59	58	52	290

Source: AER analysis. Numbers may not sum due to rounding.

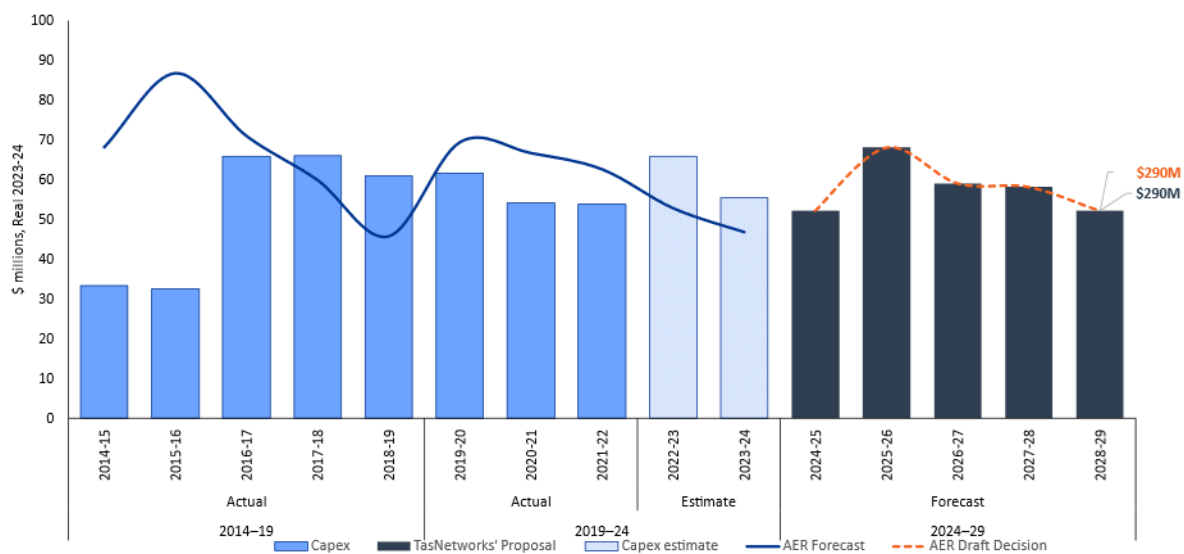
Our draft decision is:

- \$7 million (or 2%) higher than TasNetworks actual (and estimated) gross capex in the 2019–24 period.
- \$2 million (or 0.6%) higher than the TasNetworks' gross capex forecast we approved in our final decision for the 2019–24 period.

We had some concerns with TasNetworks’ proposal. We observed that several repex, augex and Operational Support Systems programs overstated risk and benefit. Whilst our revised estimates of risk and benefit did not change the outcomes, we believe TasNetworks should improve its development of its business cases.

Figure 17 shows TasNetworks' historical capex trend, capex changes from historical, actual and forecast regulatory periods, inclusive of overheads. This represents an increase of approximately 2% compared to actual and expected gross capex over the 2019–24 period.

Figure 16 Comparison of past and forecast gross transmission capex (\$2023-24, million)



Source: AER Analysis

2.4.2 Transmission contingent projects

Capital expenditure (capex) related to transmission contingent projects refers to the investment made in the transmission network for a proposed contingent project that is determined by the AER as accepted in a revenue determination or is an actionable Integrated System Plan (ISP) project, provided the associated trigger event has occurred.⁶⁷

TasNetworks has proposed seven contingent projects for the 2024–29 period totalling \$905 million (\$2023–24). These relate to new load and/or generation impacting thermal and/or stability limits or other system requirements to comply with the NER. TasNetworks proposed a Palmerston to Sheffield Upgrade contingent project to be triggered by new load and/or generation, which may separately be triggered as part of the Marinus Actionable ISP project.⁶⁸ Our draft decision does not approve the triggers for the associated \$905 million (\$2023–24) contingent projects capex for the 2024–29 period. We have assessed the proposed triggers for the contingent projects under the NER. We are of the view that the trigger definitions are not sufficient to allow us to objectively assess that the projects have been triggered. We asked TasNetworks to consider resubmitting the triggers with an explicit reference to new load in the triggers. TasNetworks provided us updated contingent project triggers on 11 August 2023. This timing did not allow us to appropriately consider whether these addressed our concerns before this draft decision.

Our approach is consistent with our usual method of assessing contingent projects, where we may agree with projects in principle, but not agree that the triggers are sufficient as yet to meet the requirements of the NER. Publishing this in the draft decision will give TasNetworks the opportunity to address any issues with its triggers in their revised proposal.

We approved five of TasNetworks' contingent projects in the 2019–24 period. None of these projects were triggered.

2.4.3 Distribution capital expenditure

Our draft decision approves TasNetworks' proposed \$729.1 million (\$2023–24) distribution capex for the 2024–29 period. We consider this capex forecast will provide a prudent and efficient network service to maintain the safety, reliability and security of electricity supply on its distribution network. Table 3.2 shows the annualised amount of the net capex forecast for TasNetworks' proposal.

Table 3.2 Annualised distribution net capex forecast and accepted in draft decision for TasNetworks' proposal

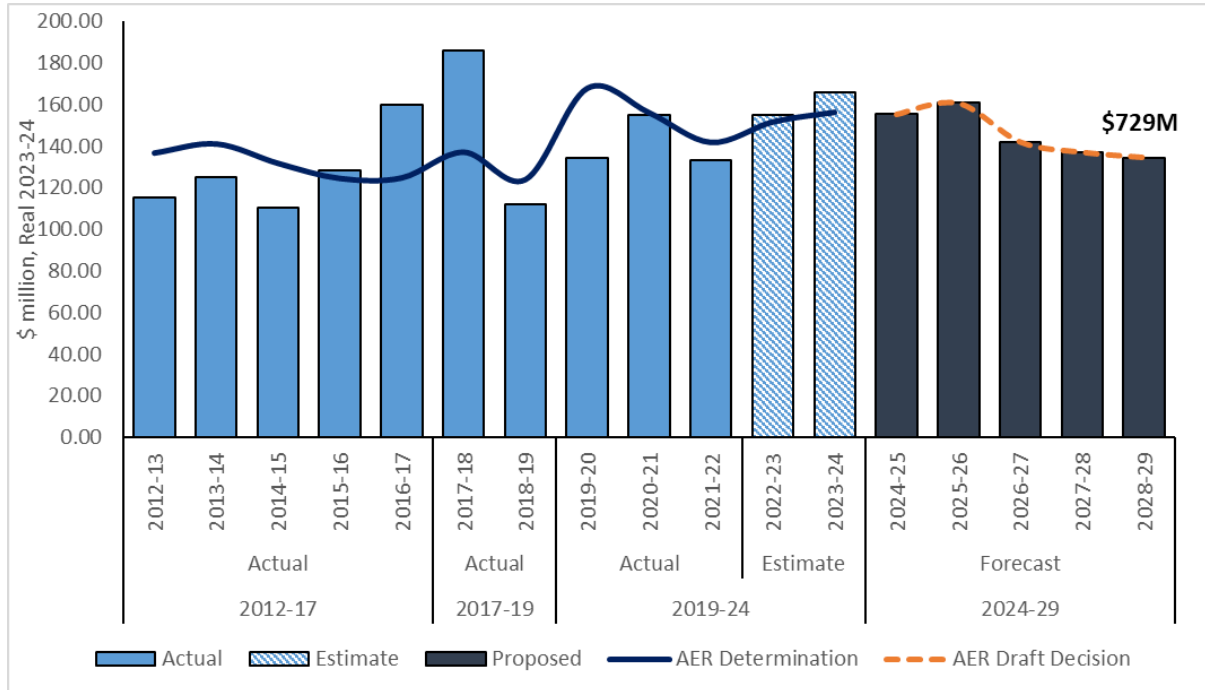
	2023–24	2024–25	2025–26	2026–27	2027–28	Total
TasNetworks' proposal and AER draft decision	155.3	160.7	141.9	136.9	134.4	729.1

⁶⁷ NER, cl. 6A.8.

⁶⁸ TasNetworks, *TasNetworks-Combined Proposal Attachment 7 – Contingent projects-Jan 23*, 31 January 2023

Figure 19 shows TasNetworks' historical capex trend, capex changes from historical, actual and forecast regulatory periods. TasNetworks' forecast for the 2024–29 period represents a decrease of approximately 1.8% compared to actual and expected expenditure over the 2019–24 period.

Figure 17 Comparison of past and forecast distribution capex (\$real, million)



Source: AER analysis. Capex is net of asset disposals.

In arriving at our draft decision on distribution total forecast capex, we have applied a top-down assessment approach. Overall, we are satisfied with total forecast capex because TasNetworks' forecast is 1.8% below its current period capex.

Although we are broadly satisfied that TasNetworks' total capex is prudent and efficient. We have identified issues with the supporting the information TasNetworks provided in its proposal. TasNetworks' forecasting approach was not consistent with our Better Resets Handbook capex expectations. For example, TasNetworks did not apply our repex model and the CER capex was not consistent with our distributed energy resources integration expenditure guidance note. We note some of TasNetworks' forecast capex categories are higher than what we consider to be a reasonable amount such as CER expenditure. However, this is largely offset by other categories which are lower than our standard assessment approach such as capitalised overheads.

We also acknowledge TasNetworks' focus on affordability which it has achieved by forecasting a decrease in capex relative to the current period. Additionally, we note that TasNetworks engaged extensively with its stakeholder in developing the capex included in its draft plan which is also largely reflected in its initial proposal.

2.5 Operating expenditure

Operating expenditure (opex) is the forecast of operating, maintenance and other non-capital costs incurred in the provision of standard control services. Forecast opex is one of the building blocks we use to determine TasNetworks' total regulated revenue requirements.

2.5.1 Transmission operating expenditure

Our draft decision is to accept TasNetworks' proposed transmission opex of \$209.2 million (\$2023–24), including debt raising costs, for the 2024–29 period.⁶⁹ Our alternative estimate of \$210.7 million (\$2023–24), including debt raising costs, is not materially different (\$1.5 million or 0.7% higher) from TasNetworks' proposal. Therefore, we consider that TasNetworks' total opex forecast reasonably reflects the opex criteria.⁷⁰

TasNetworks' total opex forecast of \$209.2 million (\$2023–24) for the 2024–29 period is \$26.3 million (\$2023–24), or 14.4% higher than the amount we determined in our 2019–24 decision⁷¹ for TasNetworks and \$31.4 million (\$2023–24), or 17.6% higher than its actual / estimated spend over the 2019–24 period.

A key driver of increasing transmission opex is the inclusion of two step changes totalling \$22.1 million (\$2023–24) (or 10.6% of total forecast opex). These are for insurance premiums (\$6.7 million (\$2023–24)) and cyber security costs (\$15.4 million (\$2023–24)). We have assessed these step changes and consider it is prudent for TasNetworks to incur these costs. However, our alternative estimate has determined efficient costs which are \$6.3 million (\$2023–24) lower for these two step changes combined. This is offset by our higher alternative estimate of opex in the base year, and application of productivity growth consistent with the transmission industry average, such that overall, our alternative estimate of total proposed opex is not materially different to that proposed by TasNetworks.

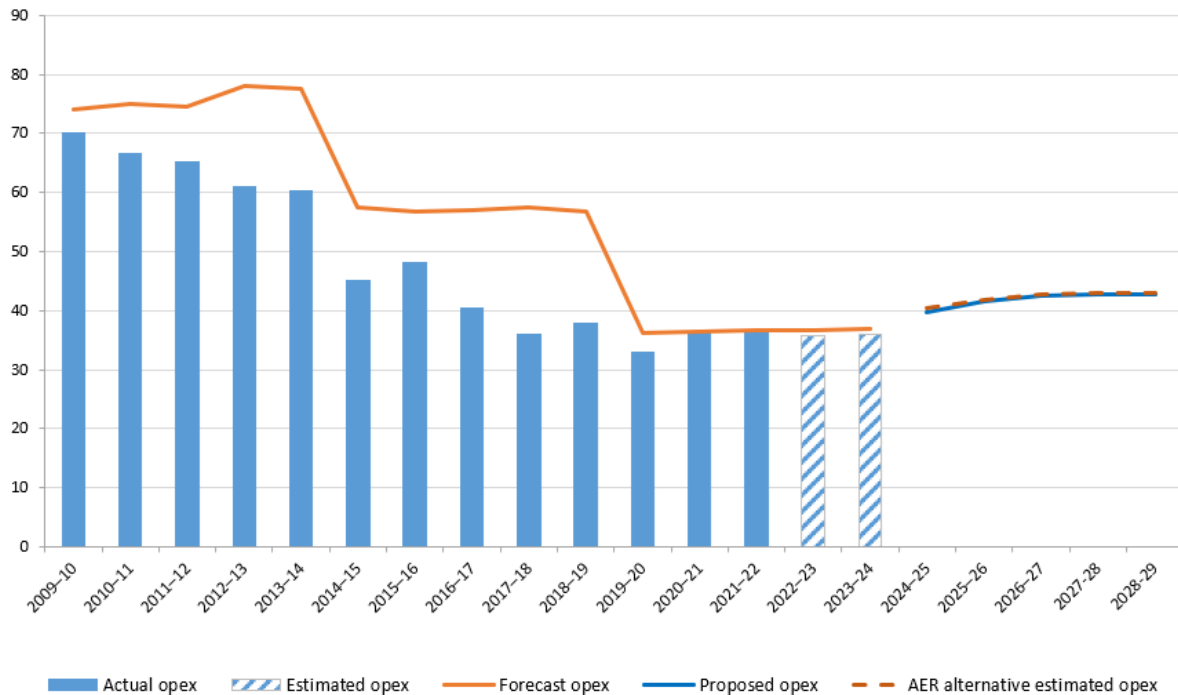
Figure 18 compares TasNetworks' opex forecast to our alternative estimate for the 2024–29 period as well as its past actual and estimated opex and our previous decisions.

⁶⁹ TasNetworks, *Combined Proposal 2024–2029, Attachment 8 Operating Expenditure*, January 2023, p. 3.

⁷⁰ NER, cl. 6A.6.6(c).

⁷¹ The difference is calculated using the opex allowance for the five-year 2019–24 period converted to real 2023–24 dollars using unlagged inflation. The difference of \$28.3 million (15.6%) stated in section 1.1 (Transmission) has been calculated using lagged inflation.

Figure 18 Comparison of past and forecast transmission opex (\$2023–24, million)



Source: TasNetworks, *Transmission economic benchmarking – regulatory information notice response 2009–10 to 2021–22*; AER, *TasNetworks’ transmission revenue determination, PTRM – Final decision (multiple periods 2009–14, 2014–19, 2019–24)*; TasNetworks, *2024–2029 Post Tax Revenue Model – Prescribed, December 2022*; TasNetworks, *2024–2029 Operating Expenditure Model – Prescribed, December 2022*; AER analysis.

Note: Includes debt raising costs.

2.5.2 Distribution operating expenditure

Our draft decision is to accept TasNetworks’ proposed distribution opex of \$541.0 million (\$2023–24), including debt raising costs, for the 2024–29 period.⁷² Our alternative estimate of \$540.9 million (\$2023–24), including debt raising costs, is not materially different (\$0.1 million or 0.0% lower). Therefore, we consider that TasNetworks’ total opex forecast reasonably reflects the opex criteria.⁷³

TasNetworks’ total opex forecast of \$541.0 million (\$2023–24) for the 2024–29 period is \$1.9 million (\$2023–24) (or 0.4%) higher than the amount we determined in our 2019–24 decision⁷⁴ for TasNetworks and \$37.6 million (\$2023–24) (or 7.5%) higher than its actual / estimated spend over the 2019–24 period.

A key driver of the slight increase in distribution opex is the inclusion of two step changes totalling \$23.0 million (\$2023–24) for insurance premiums (\$19.1 million (\$2023–24)) and cyber security costs (\$3.9 million (\$2023–24)). As for transmission, we have assessed these

⁷² TasNetworks, *Combined Proposal 2024–2029, Attachment 8 Operating Expenditure*, January 2023, p. 3.

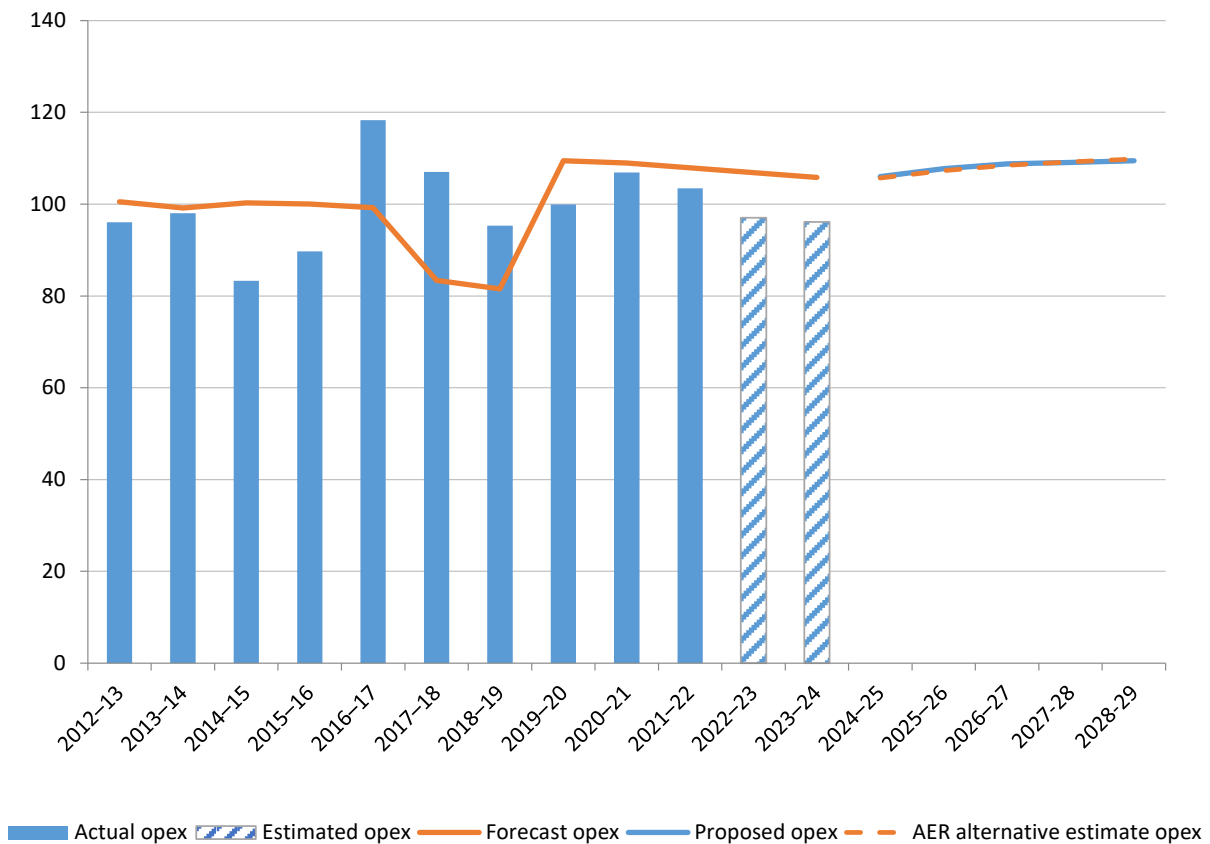
⁷³ NER, cl. 6.5.6(c).

⁷⁴ The difference is calculated using the opex allowance for the five-year 2019–24 period converted to real 2023–24 dollars using unlagged inflation. The difference of \$7.8 million (1.5%) stated in section 1.1 (Distribution) has been calculated using lagged inflation.

step changes and consider it is prudent for TasNetworks to incur these costs. However, our alternative estimate has determined efficient costs which are \$6.6 million (\$2023–24) lower for these two step changes combined. This is largely offset by our higher alternative estimate of opex in the base year, and application of productivity growth consistent with our standard approach for distribution sector, such that overall, our alternative estimate of total proposed opex is not materially different to that proposed by TasNetworks.

Figure 18 Figure 19 compares TasNetworks’ opex forecast to our alternative estimate for the 2024–29 period, as well as its past actual and estimated opex and our previous decisions.

Figure 19 Comparison of past and forecast distribution opex (\$2023–24, million)



Source: TasNetworks, *Distribution economic benchmarking – regulatory information notice response 2011–12 to 2021–22*; AER, *TasNetworks’ distribution revenue determination, PTRM – Final decision (multiple periods 2012–17, 2017–19, 2019–24)*; TasNetworks, *2024–2029 Post Tax Revenue Model – Standard control, December 2022*; TasNetworks, *2024–2029 Operating Expenditure Model – Standard control, December 2022*; AER analysis.

Note: Includes debt raising costs

2.6 Corporate income tax

Our draft decision of the transmission and distribution total revenue requirements includes the estimated cost of corporate income tax for 2024–29 period. Under the post-tax framework, this amount is calculated as part of the building blocks assessment using our post-tax revenue model (PTRM).

2.6.1 Transmission

Our draft decision determines an estimated cost of corporate income tax amount of \$13.1 million (\$ nominal) for TasNetworks' transmission network over the 2024–29 period. This is an increase of \$4.6 million or 53.5% from TasNetworks' proposal of \$8.5 million. This increase is primarily due to our draft decision on a higher regulatory depreciation, which in turn increased the estimated taxable income for TasNetworks and therefore the cost of corporate income tax.

2.6.2 Distribution

Our draft decision determines an estimated cost of corporate income tax amount of \$46.5 million (\$ nominal) for TasNetworks' distribution network over the 2024–29 period. This is an increase \$11.1 million from TasNetworks' proposal of \$35.4 million. This increase is primarily due to our draft decision on a higher regulatory depreciation amount, which in turn increased the estimated taxable income for TasNetworks and therefore the cost of corporate income tax.

2.7 Revenue adjustments

Our calculation of TasNetworks' total transmission and distribution revenue includes adjustments under the Efficiency Benefit Sharing Scheme (EBSS) and Capital Expenditure Sharing Scheme (CESS) that applied in its determination for the current period. These mechanisms provide a continuous incentive for TasNetworks to pursue efficiency improvements in transmission and distribution opex and capex, and a fair sharing of these between TasNetworks and its users.

Transmission

Our draft decision for transmission includes a revenue adjustment (reward) of \$6.6 million (\$2023–24) under the CESS. This revenue adjustment is comprised of a \$1.3 million (\$2023–24) revenue increment for spending in the 2019–24 period and a \$5.3 million (\$2023–24) carry over true up for 2018–19. This is higher than TasNetworks' proposed revenue adjustment of \$3.2 million (\$2023–24). Our draft decision is different primarily due to corrections to the calculation of the true-up, but also due to updates to WACC and inflation.

Our draft decision for transmission includes a revenue adjustment (penalty) of \$3.3 million (\$2023–24) under the EBSS. This is \$3.5 million (\$2023–24) lower than TasNetworks' proposed because we have adjusted for the movement in provisions, updated base year actual opex, updated excludable costs, and updated forecast inflation.

Our draft decision for transmission also includes an allowance of \$1.0 million (\$2023–24) for the Demand Management Innovation Allowance Mechanism (DMIAM). In each year of the 2024–29 period, TasNetworks will submit demand management projects for approval under the DMIAM. Any part of the \$1.0 million that is not spent on an approved project will be returned to consumers in the subsequent regulatory control period.

The combined effect of these transmission revenue adjustments is a positive \$4.4 million (\$2023–24) revenue adjustment building block in this draft decision and comparable to the positive \$4.4 million in TasNetworks’ proposal.⁷⁵

Distribution

Our draft decision for distribution includes a revenue adjustment (reward) of \$5.4 million (\$2023–24) under the CESS. This revenue adjustment is comprised of a \$7.6 million (\$2023–24) revenue increment for spending in the 2019–24 period and a –\$2.2 million (\$2023–24) carry over true up for 2018–19. This is lower than TasNetworks’ proposed revenue adjustment of \$10.5 million (\$2023–24). Our draft decision is different due to updates to WACC, inflation and corrections to the calculation of the true up.

Our draft decision for distribution includes a revenue adjustment (penalty) of \$9.3 million (\$2023–24) under the EBSS. This is higher than TasNetworks’ proposed penalty of \$3.1 million (\$2023–24) because we have adjusted for the movement in provisions and used an updated estimate for inflation.

Our draft decision for distribution also includes an allowance of \$2.5 million (\$2023–24) for the DMIAM. In each year of the 2024–29 period, TasNetworks will submit demand management projects for approval under the DMIAM. Any part of the \$2.5 million that is not spent on an approved project will be returned to consumers in the subsequent regulatory control period.

The combined effect of these distribution revenue adjustments is a negative \$3.4 million (\$2023–24) revenue adjustment building block in this draft decision compared to the positive \$7.8 million in TasNetworks’ proposal.⁷⁶

⁷⁵ TasNetworks’ proposal is marginally lower at two decimal places.

⁷⁶ TasNetworks’ proposed revenue adjustment amount is based on TasNetworks’ proposed PTRM submitted on 31 January 2023. TasNetworks, *TasNetworks-Post Tax Revenue Model – Standard Control -Dec 22-Public*, January 2023.

3 Incentive schemes

Incentive schemes are a component of incentive-based regulation and complement our approach to assessing efficient costs. They provide important balancing incentives under network determinations, encouraging businesses to pursue expenditure efficiencies while maintaining the reliability and overall performance of its network. Our draft decision is that the following incentive schemes will continue to apply to TasNetworks transmission and distribution in the 2024–29 period:

- Efficiency benefit sharing scheme (EBSS). This provides a continuous incentive to pursue efficiency improvements in opex and provide for a fair sharing of these between networks and network users. Consumers benefit from improved efficiencies through lower opex in regulated revenues for future periods.
- Capital expenditure sharing scheme (CESS). This incentivises efficient capex throughout the period by rewarding efficiency gains and penalising efficiency losses, each measured by reference to the difference between forecast and actual capex. Consumers benefit from improved efficiencies through a lower RAB, which is reflected in regulated revenues for future periods.
- Service target performance incentive scheme (STPIS) transmission. The purpose of the STPIS is to provide incentives to transmission network service providers to improve or maintain a high level of service for the benefit of participants in the National Electricity Market and end users of electricity. The parameters that will apply to each component of the STPIS have been published as part of this draft decision.
- STPIS distribution. The STPIS balances a business' incentive to reduce expenditure with the need to maintain or improve service quality. It achieves this by providing financial incentives to businesses to maintain and improve service performance and not by simply reducing costs at the expense of service quality. Once improvements are made, the benchmark performance targets will be tightened in future years. The parameters that will apply to each component of the STPIS have been published as part of this draft decision.
- Demand Management Incentive Scheme (DMIS) and Demand Management Innovation Allowance Mechanism (DMIAM). The DMIS provides network service providers with financial incentives for undertaking efficient demand management activities. The DMIS does not apply to transmission networks. The DMIAM funds research and development in demand management projects that have the potential to reduce long term network costs.

Since our last determination for TasNetworks, we have introduced two new incentive schemes:

- A Customer Service Incentive Scheme (CSIS), which is designed to encourage electricity distributors to engage with their customers, identify (through customer engagement) the customer services their customers want improved, and then set targets to improve those services based on their customers' preferences and support.

Our draft decision is that a CSIS will apply because TasNetworks has met the incentive design of the scheme.

- An Export Services Incentive Scheme (ESIS), which allows distributors to propose bespoke incentives related to export services based on their network circumstances, customer preferences and evidence-based performance data. The scheme is a product of our consultation with stakeholders on incentivising and measuring export service performance, which considered appropriate incentive arrangements for export services to balance existing incentive schemes related to consumption services, as well as the introduction of network performance reporting on export service performance metrics.

The ESIS was first published in June 2023, and was not available at the time of TasNetworks' proposal. Our draft decision is that an ESIS will not apply.

4 Tariff structure statement

TasNetworks' 2024–29 distribution proposal includes its third tariff structure statement. Its current tariff structure statement applies to 30 June 2024.

The requirement on distributors to prepare a tariff structure statement stemmed from significant reforms in 2014 to the rules governing distribution network pricing. The purpose of the reforms is to empower customers to make informed choices by:

- providing better price signals—tariffs that reflect what it costs to use electricity at different times so that customers can make informed decisions to better manage their bills
- transitioning to greater cost reflectivity—requiring distributors to explicitly consider the impacts of tariff changes on customers, and engaging with customers, customer representatives and retailers in developing network tariff proposals over time
- managing future expectations—providing guidance for retailers, customers and suppliers of services such as local generation, batteries and demand management by setting out the distributor's tariff approaches for the 5-year regulatory control period.

It is important to note that distributors charge retailers for the network services they provide to the retailer's customers (end-customers). There is no obligation on retailers or energy service providers to pass the network tariff structure through to their end-customers. The structure of retail offers is determined by retailers responding to consumer preferences and competitive pressures, while also deciding how best to manage the network price signals. A retailer may choose to pass on the network price signals exactly or repackage them into their retail offers (including in insurance style flat rate retail offers).

Network tariff reform aims to help distributors charge retailers in a manner which more closely reflects the cost of providing electricity network capacity to their end customers and can support the energy transition currently underway. Where price signals are passed through and if customers are well placed to respond to these price signals, appropriately structured tariffs can enable growth in the value and number of people with CER. At the same time, this response to price signals can reduce network constraints and limit the level of network investment required, resulting in lower prices for all consumers.

The tariff structure statement must set out a number of matters. These include tariff classes, proposed tariffs and the structures and charging parameters, the strategy for introduction of export tariffs, and the approach to setting tariff levels in each year of the regulatory control period.⁷⁷ The policies and procedures it will use to assign customers to tariffs or reassign customers from one tariff to another must also be outlined.

In this determination, we decide the structure of tariffs that will form the basis of annual pricing proposals throughout the 2024–29 period.⁷⁸ We are also required to decide the

⁷⁷ NER, cl. 6.18.1A(a).

⁷⁸ NER, cl. 6.12.1(14A).

policies and procedures for assigning or re-assigning customers to tariff classes.⁷⁹ While an indicative pricing schedule must accompany the tariff structure statement, the tariff levels for each tariff for each year of the 2024–29 period are not set as part of this determination.⁸⁰

Tariff levels for the regulatory year commencing 1 July 2024 will be subject to a separate approval process in May 2024, after we have made our final revenue determination in April 2024. Tariffs for the four years from 1 July 2025 will also be approved on an annual basis.⁸¹

TasNetworks submitted a tariff structure statement that was developed with thoughtful engagement with consumers and responsiveness to their views. We have given weight to the involvement of consumers in developing TasNetworks' tariff structure statement, as well as the submissions we have received.

TasNetworks' tariff structure statement demonstrates incremental progress on tariff reform consistent with the pricing principles. TasNetworks is largely maintaining its tariff assignment policy with a default time-of-use cost reflective tariff and customers reassigned due to a meter replacement being able to opt-out (via their retailer) to flat tariffs for 12 months. However, in this proposal flat tariffs are no longer available to new customers which will gradually increase the proportion of customers on cost reflective tariffs. This will progress tariff reform while addressing stakeholders' concerns about the impacts to customers experiencing vulnerability of increasing reassignments due to the accelerated smart meter rollout in Tasmania.

TasNetworks is continuing to explore tariff mechanisms to accommodate accelerated EV and other CER growth from 2030. TasNetworks' opt-in CER tariffs provide an option for customers who understand and are able to respond to network price signals which improves network utilisation to the benefit of all customers. At this stage TasNetworks is not proposing to introduce two-way tariffs because exports from rooftop solar are not currently expected to drive network expenditure for the 2024–29 period.

In Attachment 19 we describe our assessment of TasNetworks' tariff structure statement proposal and explain our draft decision to approve it.

⁷⁹ NER, cl. 6.12.1(17)

⁸⁰ NER, cl. 6.8.2(d1).

⁸¹ This will occur pursuant to obligations in cl. 6.18.2 and cl. 6.18.8 of the NER.

5 Metering

Smart meters are foundational to a more connected, modern, and efficient energy system and one mechanism to ensure that future technologies, services, and innovations are supported. The Australian Energy Market Commission (AEMC) has been considering the transitioning of meters owned by distributors (legacy meters) and in December 2020, initiated a review of the regulatory framework for metering services.

In our final Framework and approach (F&A) for the NSW distributors⁸², and Issues paper for TasNetworks,⁸³ we signalled that the outcomes of the AEMC’s review may require different classification and price/revenue control settings in our draft or final decisions.

5.1 The AEMC’s final decision

The AEMC’s draft report noted that smart meters provide whole-of-system benefits which should be realised as soon as possible.⁸⁴ The AEMC’s final decision was released on 30 August 2023,⁸⁵ and confirms that it will target a 100% replacement of distribution network owned accumulation meters with smart meters offered by other parties by 30 June 2030.⁸⁶

We consider the AEMC’s final decision constitutes a material change in circumstances for TasNetworks which justifies departure from the classification of legacy meter services in the F&A.⁸⁷ However, due to the proximity of the release of our draft decision, we have not had the opportunity to fully incorporate the findings into this decision. In preparation for the AEMC’s decision, we have been working with the affected distribution businesses to identify a proposed approach that ensures customers are not inequitably impacted from rising costs in the transition and prevented from realising the benefits the smart meters provide.

5.2 Material change in circumstances

For TasNetworks to achieve the AEMC’s targets it will be required to develop a legacy metering retirement plan (LMRP) in consultation with retailers, metering parties, and other stakeholders. It is envisaged that a LMRP will schedule bulk meter replacements (replace legacy meters with smart meters) on a geographical basis to leverage economies of scale. Customers may have little choice as to when their meter will be replaced as the replacement cycle will be determined by the distributors and other providers.

Under the F&A regulatory settings, TasNetworks’ customers with meters replaced later in the LMRP implementation will be charged inequitably higher costs for metering services than customers with meters replaced earlier, even though there is no change in the service they receive.

⁸² AER, *Final framework and approach for Ausgrid, Endeavour Energy and Essential Energy*, July 2023.

⁸³ AER, *Issues Paper - Ausgrid – 2024–29 Distribution revenue proposal*, March 2023.

⁸⁴ AEMC, *Review of the regulatory framework for metering services draft report*, 3 November 2022, pp. ii.

⁸⁵ AEMC, [Final Report: Review of the regulatory framework for metering services](#), August 2023.

⁸⁶ AEMC *Final Report: Review of the regulatory framework for metering services*, August 2023.

⁸⁷ We must not depart from the classification of distribution services determined in the F&A unless we consider that a material change in circumstances justifies the departure: cl. 6.12.3(b) of the NER.

5.3 Proposed approach

Our proposed approach and guidance for legacy metering services, is set out in Attachment 20 –Metering Services. Due to timing of the AEMC’s final decision, we have retained the classification for metering services as alternative control services with costs recovered over a subset of customers. However, our view is that a reclassification of legacy meter services to standard control services is likely to be more appropriate. This approach will result in the benefit of recovering TasNetworks’ metering services costs across a wider customer group during the smart meter transition and maintain compliance with the pricing principles in the NER.⁸⁸

We have engaged with all impacted distribution networks on this proposed approach. However, we have had limited opportunity to engage with other stakeholders to date on the proposed broader cost recovery and change in classification. When submitting its revised proposal, we encourage TasNetworks to have regard to and consider the AEMC’s final decision of targeting the 100% replacement by 2030, and other relevant considerations. Our draft decision has also applied accelerated depreciation to wind up legacy meter asset bases within the 2024–29 period, accepting TasNetworks' proposal.

⁸⁸ Clause 6.18.5 of the NER.

6 Transmission constituent decisions

Our draft decision on TasNetworks’ transmission revenue determination for the 2024–29 regulatory control period includes the following constituent components:⁸⁹

Constituent component
In accordance with clause 6A.14.1(1)(i) of the NER, the AER’s draft decision is not to approve the total revenue cap set out in TasNetworks’ building block proposal. Our decision on TasNetworks’ total revenue cap is \$880.1 million (\$ nominal, smoothed) for the 2024–29 regulatory control period. The reasons for our draft decision are set out in Attachment 1 of this draft decision.
In accordance with clause 6A.14.1(1)(ii) of the NER, the AER’s draft decision is not to approve the maximum allowed revenue (MAR) for each regulatory year of the 2024–29 regulatory control period set out in TasNetworks’ building block proposal. Our decision on TasNetworks’ MAR for each year of the 2024–29 regulatory control period is set out in Attachment 1 of this draft decision.
In accordance with clause 6A.14.1(1)(iii) of the NER, the AER’s draft decision is to apply the service component, network capability component and market impact component of Version 5 of the service target performance incentive scheme (STPIS) to TasNetworks for the 2024–29 regulatory control period. The values and parameters of the STPIS that are approved by the AER are set out in Attachment 10 of this draft decision.
In accordance with clause 6A.14.1(1)(iv) of the NER, the AER’s draft decision on the values that are to be attributed to the parameters for the efficiency benefit sharing scheme (EBSS) that will apply to TasNetworks in respect of the 2024–29 regulatory control period are set out in Attachment 8 of this draft decision.
In accordance with clause 6A.14.1(1)(v) of the NER, the AER’s draft decision is to approve the commencement and length of the regulatory control period as TasNetworks proposed in its revenue proposal. The regulatory control period will commence on 1 July 2024 and the length of this period is five years, expiring on 30 June 2029.
In accordance with clause 6A.14.1(2)(i) of the NER and acting in accordance with clause 6A.6.7(c), the AER’s draft decision is to accept TasNetworks’ proposed total net forecast capital expenditure of \$227 million (\$2023), gross \$290 million for the 2024–29 regulatory control period. The reasons for our draft decision are set out in Attachment 5 of this draft decision.
In accordance with clause 6A.14.1(3)(i) of the NER and acting in accordance with clause 6A.6.6(c), the AER’s draft decision is to accept TasNetworks’ proposed total forecast operating expenditure inclusive of debt raising costs of \$209.2 million (\$2023–24). The reasons for our draft decision are set out in Attachment 6 of this draft decision.
In accordance with clause 6A.14.1(4) of the NER, the AER has determined that the proposed contingent projects are not contingent projects for the purpose of the revenue determination. The reasons for our decision, having regard to the requirements of clause 6A.8.1(b) are set out in Attachment 5 of this draft decision.

⁸⁹ NEL, s. 16(1)(c).

<p>In accordance with clause 6A.14.1(5A) of the NER, the AER’s draft decision is that we will apply the capital expenditure sharing scheme (CESS) as set out in the Capital Expenditure Incentives Guideline will apply to TasNetworks in the 2024–29 regulatory control period. The reasons for our draft decision are set out in Attachment 9 of this draft decision.</p>
<p>In accordance with clause 6A.14.1(5A) of the NER, the AER’s draft decision is that the demand management innovation allowance mechanism (DMIAM) for electricity transmission networks will apply to TasNetworks in the 2024–29 regulatory control period. The reasons for our draft decision are set out in Attachment 11 of this draft decision.</p>
<p>In accordance with clause 6A.14.1(5B) of the NER, the AER’s draft decision is that the allowed rate of return for the 2024–25 regulatory year is 5.77% (nominal vanilla), as set out in Attachment 3 of this draft decision. The rate of return for the remaining regulatory years of the 2024–29 period will be updated annually because our decision is to apply a trailing average portfolio approach to estimating debt which incorporates annual updating of the allowed return on debt.</p>
<p>In accordance with clause 6A.14.1(5C) of the NER, the AER’s draft decision is that the value of allowed imputation credits is 0.57. The reasons for our draft decision are set out in Attachment 3 of this draft decision.</p>
<p>In accordance with clause 6A.14.1(5D) of the NER, the AER’s draft decision, in accordance with clause 6A.6.1 and schedule 6A.2, is that the opening regulatory asset base (RAB) as at the commencement of the 2024–29 regulatory control period, being 1 July 2024, is \$1,665.1 million (\$ nominal). The reasons for our draft decision are set out in Attachment 2 of this draft decision.</p>
<p>In accordance with clause 6A.14.1(5E) of the NER, the AER’s draft decision is that the depreciation approach to be used to establish the RAB at the commencement of TasNetworks’ regulatory control period as at 1 July 2029 is to be based on forecast capex (forecast depreciation). The reasons for our draft decision are set out in Attachment 2 of this draft decision.</p>
<p>In accordance with clause 6A.14.1(8) of the NER, the AER’s draft decision is to not approve TasNetworks’ current proposed pricing methodology. The reasons for our draft decision are set out in Attachment 12 of this draft decision.</p>
<p>In accordance with clause 6A.14.1(9) of the NER, the AER’s draft decision is to apply the following nominated pass through events to TasNetworks for the 2024–29 regulatory control period in accordance with clause 6A.7.3(a1)(5):</p> <ul style="list-style-type: none"> • Insurance coverage event • Insurer’s credit risk event • Terrorism event • Natural disaster event • Renewable energy zone design report event <p>The definitions of these events and the reasons for our draft decision are set out in Attachment 13 of this draft decision.</p>

7 Distribution constituent decisions

Our draft decision on TasNetworks’ distribution determination for the 2024–29 regulatory control period includes the following constituent components:

Constituent component
<p>In accordance with clause 6.12.1(1) of the NER, the AER's draft decision is that the classification of services set out in Attachment 13 will apply to TasNetworks for the 2024–29 regulatory control period, for the reasons set out in that attachment.;</p>
<p>In accordance with clause 6.12.1(2)(i) of the NER, the AER's draft decision is to not approve the annual revenue requirement set out in TasNetworks building block proposal. Our draft decision on TasNetworks annual revenue requirement for each year of the 2024–29 regulatory control period is set out in Attachment 1 of the draft decision.</p>
<p>In accordance with clause 6.12.1(2)(ii) of the NER, the AER's draft decision is to approve TasNetworks proposal that the regulatory control period will commence on 1 July 2024. Also in accordance with clause 6.12.1(2)(ii) of the NER, the AER's draft decision is to approve TasNetworks proposal that the length of the regulatory control period will be five years from 1 July 2024 to 30 June 2029.</p>
<p>The AER did not receive a request for an asset exemption under clause 6.4.B.1 (a) (1) and therefore has not made a decision in accordance with clause 6.12.1(2A) of the NER.</p>
<p>In accordance with clause 6.12.1(3)(i) and acting in accordance with clause 6.5.7 (c) of the NER, the AER's draft decision is to accept TasNetworks proposed total forecast capital expenditure for the 2024–29 regulatory control period of \$729.1 million (\$2023–24). The reasons for our draft decision are set out in Attachment 5.</p>
<p>In accordance with clause 6.12.1(4)(i) and acting in accordance with clause 6.5.6(c) of the NER, the AER's draft decision is to accept TasNetworks’ proposed total forecast operating expenditure, inclusive of debt raising costs and exclusive of DMIAM for the 2024–29 regulatory control period of \$541.0 million (\$2023–24). The reasons for our draft decision are set out in Attachment 6 of this draft decision.</p>
<p>TasNetworks did not propose any contingent projects and therefore the AER has not made a decision under clause 6.12.1(4A) of the NER.</p>
<p>In accordance with clause 6.12.1(5) of the NER and the 2022 Rate of Return Instrument, the AER's draft decision is that the allowed rate of return for the 2024–25 regulatory year is 5.80% (nominal vanilla), for the reasons set out in Attachment 3 of the draft decision. The rate of return for the remaining regulatory years of the 2024–29 period will be updated annually because our decision is to apply a trailing average portfolio approach to estimating debt which incorporates annual updating of the allowed return on debt.</p>
<p>In accordance with clause 6.12.1(5A) of the NER and the 2022 Rate of Return Instrument, the AER's draft decision on the value of imputation credits as referred to in clause 6.5.3 is to adopt a value of 0.57. The reasons for our draft decision are set out in Attachment 3 of this draft decision.</p>
<p>In accordance with clause 6.12.1(6) of the NER the AER's draft decision on TasNetworks regulatory asset base as at 1 July 2024 in accordance with clause 6.5.1 and schedule 6.2 is \$2,242.0 million (\$ nominal). The reasons for our draft decision are set out in Attachment 2 of the draft decision.</p>

Constituent component

In accordance with clause 6.12.1(7) of the NER, the AER's draft decision on TasNetworks' estimated cost of corporate income tax is \$46.5 million (\$ nominal) for the 2024–29 regulatory control period. This is discussed in Attachment 7 and the amount for each regulatory year of the 2024–29 regulatory control period is set out in the table below.

(\$million, nominal)	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Tax payable	22.3	21.4	20.1	21.3	22.9	108.0
Less: value of imputation credits	12.7	12.2	11.5	12.1	13.1	61.6
Net cost of corporate income tax	9.6	9.2	8.6	9.2	9.9	46.5

In accordance with clause 6.12.1(8) of the NER, the AER's draft decision is to not approve the depreciation schedules submitted by TasNetworks. Our draft decision substitutes alternative depreciation schedules that accord with clause 6.5.5(b). The regulatory depreciation amount approved in this draft decision is \$479.1 million (\$ nominal) for the 2024–29 regulatory control period. The reasons for our draft decision are set out in Attachment 4 of this draft decision.

In accordance with clause 6.12.1(9) of the NER the AER makes the following draft decisions on how any applicable efficiency benefit sharing scheme (EBSS), capital expenditure sharing scheme (CESS), export services incentive scheme (ESIS), service target performance incentive scheme (STPIS), demand management incentive scheme (DMIS), demand management innovation allowance mechanism (DMIAM) or small-scale incentive scheme (customer service incentive scheme) is to apply:

- We will apply version 2 of the EBSS to TasNetworks in the 2024–29 regulatory control period. Our reasons are set out in Attachment 8 of this draft decision.
- We will apply the CESS as set out in the Capital Expenditure Incentives Guideline to TasNetworks in the 2024–29 regulatory control period. This is discussed in Attachment 9.
- We will not apply the ESIS for the 2024-29 regulatory control period.
- We will apply our STPIS version 2 to TasNetworks for the 2024–29 regulatory control period. Our reasons are set out in Attachment 10 of this draft decision.
- We will apply the DMIS and DMIAM to TasNetworks for the 2024–29 regulatory control period. Our reasons are set out in Attachment 11 of this draft decision.
- We will apply the customer service incentive scheme (CSIS) to TasNetworks for the 2024–29 regulatory control period. Our reasons are set out in Attachment 12 of this draft decision.

In accordance with clause 6.12.1(10) of the NER, the AER's draft decision is that all other appropriate amounts, values and inputs are as set out in this draft determination including attachments.

In accordance with clause 6.12.1(11) of the NER and our framework and approach paper, the AER's draft decision on the form of control mechanisms (including the X factor) for standard control services is a revenue cap. The revenue cap for TasNetworks for any given regulatory year is the total annual revenue calculated using the formula in Attachment 14, which includes any adjustment required to move the Distribution Use of Service (DUoS) unders and overs account to zero. The reasons for our draft decision are set out in Attachment 14 of this draft decision.

Constituent component
<p>In accordance with clause 6.12.1(12) of the NER and our framework and approach paper, the AER's draft decision on the form of the control mechanism for alternative control services is to apply price caps for all alternative control services. The reasons for our draft decision are set out in Attachment 14 of this draft decision.</p>
<p>In accordance with clause 6.12.1(13) of the NER, to demonstrate compliance with its distribution determination, the AER's draft decision is that TasNetworks must maintain a DUoS unders and overs account. It must provide information on these accounts to us in its annual pricing proposal. The reasons for our draft decision are set out in Attachment 14 of this draft decision.</p>
<p>In accordance with clause 6.12.1(14) of the NER the AER's draft decision is to apply the following nominated pass through events to TasNetworks for the 2024–29 regulatory control period in accordance with clause 6.5.10:</p> <ul style="list-style-type: none"> • Insurance coverage event • Insurer's credit risk event • Terrorism event • Natural disaster event <p>The definitions of these events and our reasons for this decision are set out in Attachment 15 of this draft decision.</p>
<p>In accordance with clause 6.12.1(14A) of the NER, the AER's draft decision is to approve the tariff structure statement proposed by TasNetworks. The reasons for our draft decision are set out in Attachment 19 of this draft decision.</p>
<p>In accordance with clause 6.12.1(15) of the NER, the AER's draft decision is that the negotiating framework as proposed by TasNetworks will apply for the 2024–29 regulatory control period. The reasons for our draft decision are set out in Attachment 17 of this draft decision.</p>
<p>In accordance with clause 6.12.1(16) of the NER, the AER's draft decision is to apply the negotiated distribution services criteria published in February 2023 to TasNetworks. The reasons for our draft decision are set out in Attachment 17 of this draft decision.</p>
<p>In accordance with clause 6.12.1(17) of the NER, the AER's draft decision on the procedures for assigning retail customers to tariff classes for TasNetworks is set out in Attachment 19 of this draft decision.</p>
<p>In accordance with clause 6.12.1(18) of the NER, the AER's draft decision is that the depreciation approach to be used to establish the RAB at the commencement of TasNetworks' regulatory control period as at 1 July 2029 is to be based on forecast capex. The reasons for our draft decision are set out in Attachment 2 of this draft decision.</p>
<p>In accordance with clause 6.12.1(19) of the NER, the AER's draft decision on how TasNetworks is to report to the AER on its recovery of designated pricing proposal charges and account for the under and over recovery of designated pricing proposal charges is the unders and overs mechanism. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our draft decision are set out in Attachment 14 of this draft decision.</p>
<p>In accordance with clause 6.12.1(20) of the NER, the AER's draft decision is to require TasNetworks to maintain a jurisdictional scheme unders and overs account. It must provide</p>

Constituent component

information on this account to us in its annual pricing proposal as set out in Attachment 14X of the draft decision.

In accordance with clause 6.12.1(21) of the NER, the AER's draft decision is to not approve the connection policy proposed by TasNetworks. Our draft decision is to amend TasNetworks proposed connection policy as set out, and for the reasons given, in Attachment 18 of this draft decision.

8 List of submissions

We received 8 submissions in response to TasNetworks revenue proposal. These are listed below.⁹⁰

Submission from
Aurora Energy
Consumer Challenge Panel 27
ENTATAS (January and May 2023)
Tasmanian Minerals, Manufacturing and Energy Council
Tasmanian Renewable Energy Alliance
Tasmanian Small Business Council
TasNetworks RAC

⁹⁰ Submissions are available on the AER website at <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/tasnetworks-determination-2024%E2%80%9329/proposal#step-86573>

Shortened forms

Terms	Definition
ACS	alternative control services
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASP	Accredited Service Provider
capex	capital expenditure
CCP26	Consumer Challenge Panel, sub-panel 26
CESS	capital expenditure sharing scheme
CSIS	customer service incentive scheme
CER	Consumer Energy Resources
DMIAM	demand management innovation allowance mechanism
DMIS	demand management incentive scheme
DNSP or distributor	Distribution Network Service Provider
DUoS	Distribution Use of System Charges
EBSS	efficiency benefit sharing scheme
ECA	Energy Consumers Australia
ENA	Energy Networks Australia
ESB	Energy Security Board
F&A	framework and approach
GSL	guaranteed service level
ICT	information and communication technologies
NEL	National Electricity Laws
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
opex	operating expenditure
PIAC	Public Interest Advocacy Centre
PTRM	Post-tax revenue model
RAB	regulated asset base
repex	replacement expenditure
SAPS	stand-alone power systems
SCS	standard control service
Service classification guideline	Electricity distribution service classification guideline 2018
STPIS	service target performance incentive scheme
TSBC	Tasmanian Small Business Council
VCR	value of customer reliability