



TasNetworks 2019-24: our draft decision

Pre-determination conference

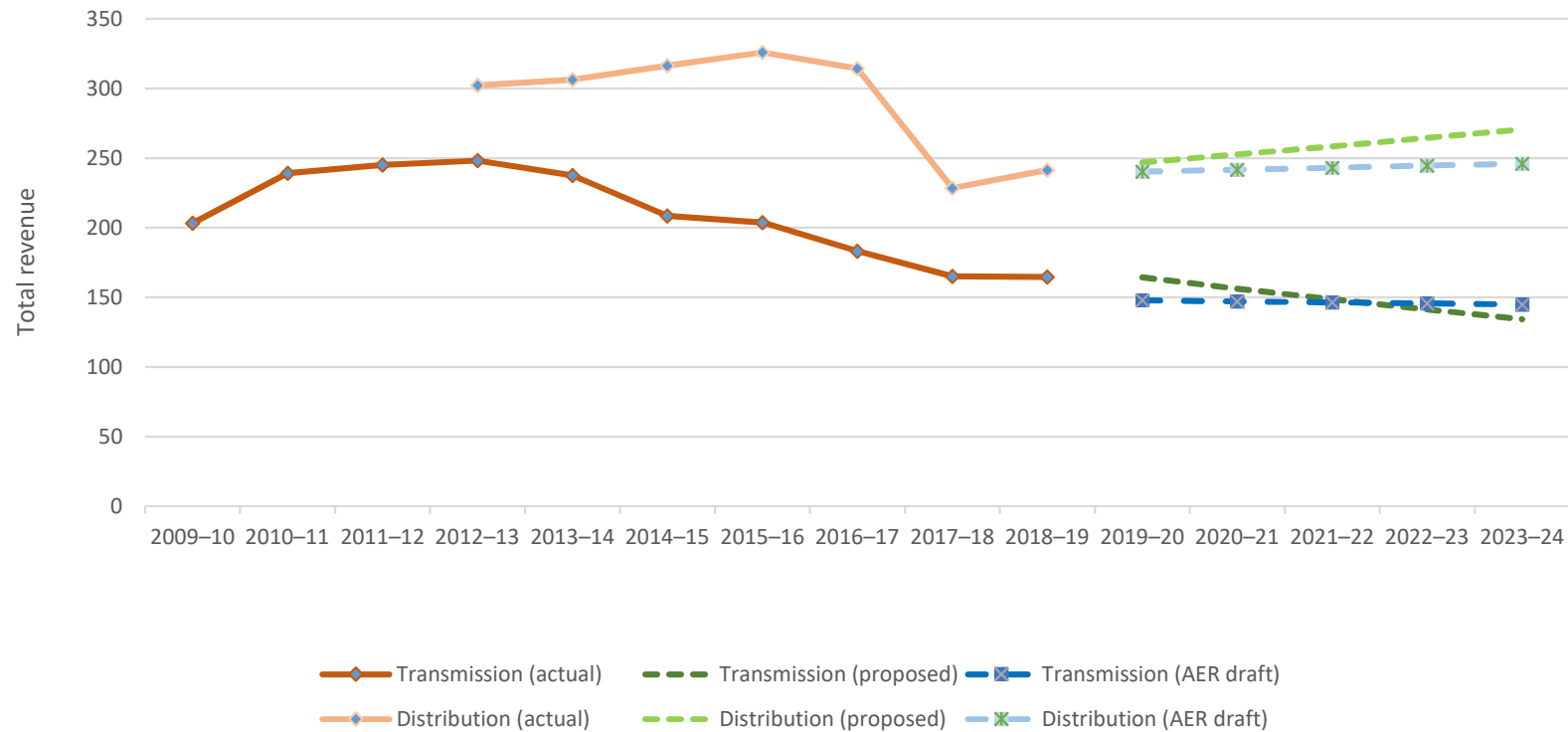
23 October 2018

Agenda

- Welcome and introductions
- The AER's draft decision
- *Insights from the Consumer Challenge Panel*
- *Insights from TSBC*
- *Next steps for TasNetworks*
- Thank you and close

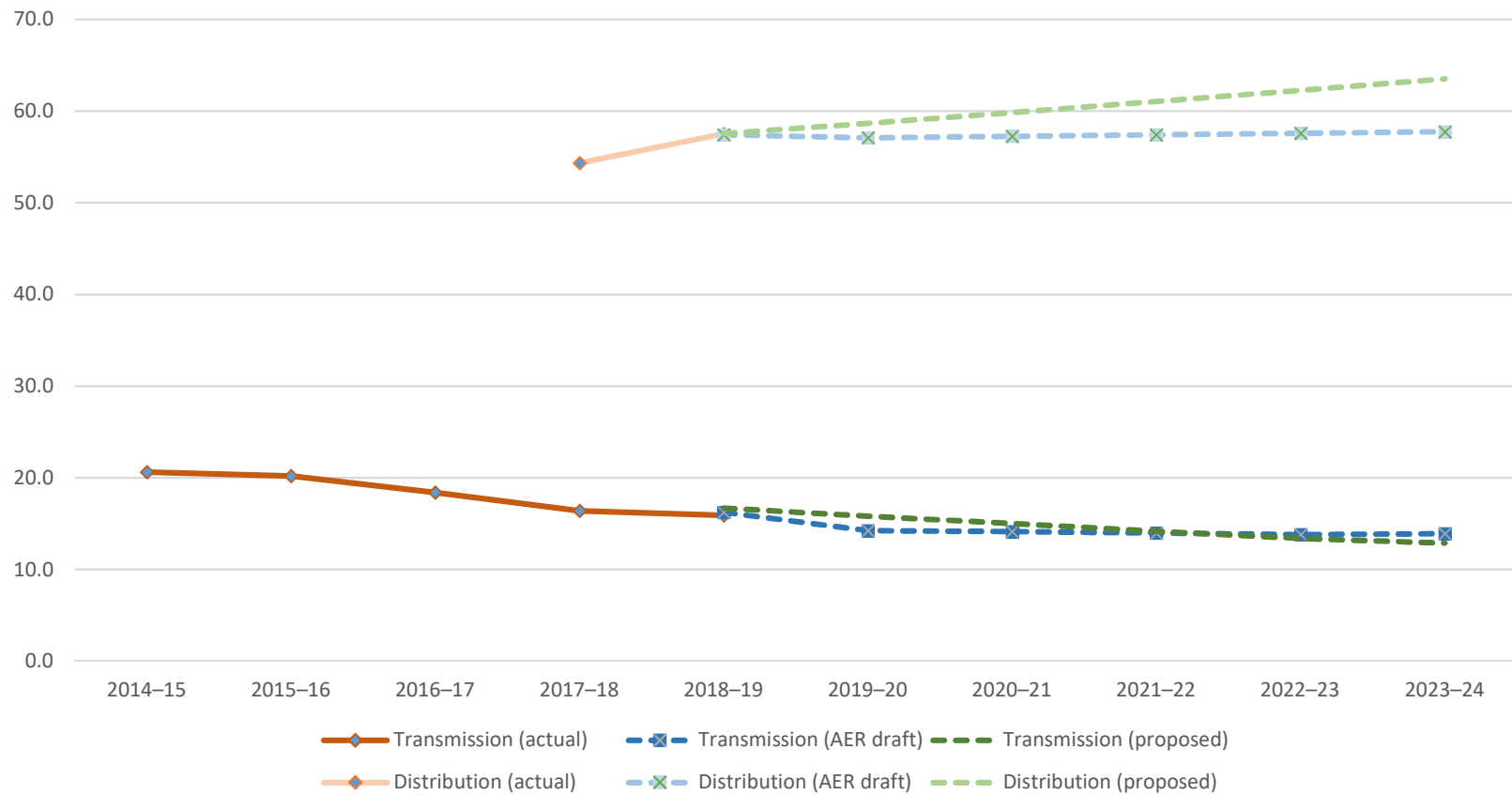
What is our draft decision?

Revenue over time - distribution and transmission (\$million, 2018/19)



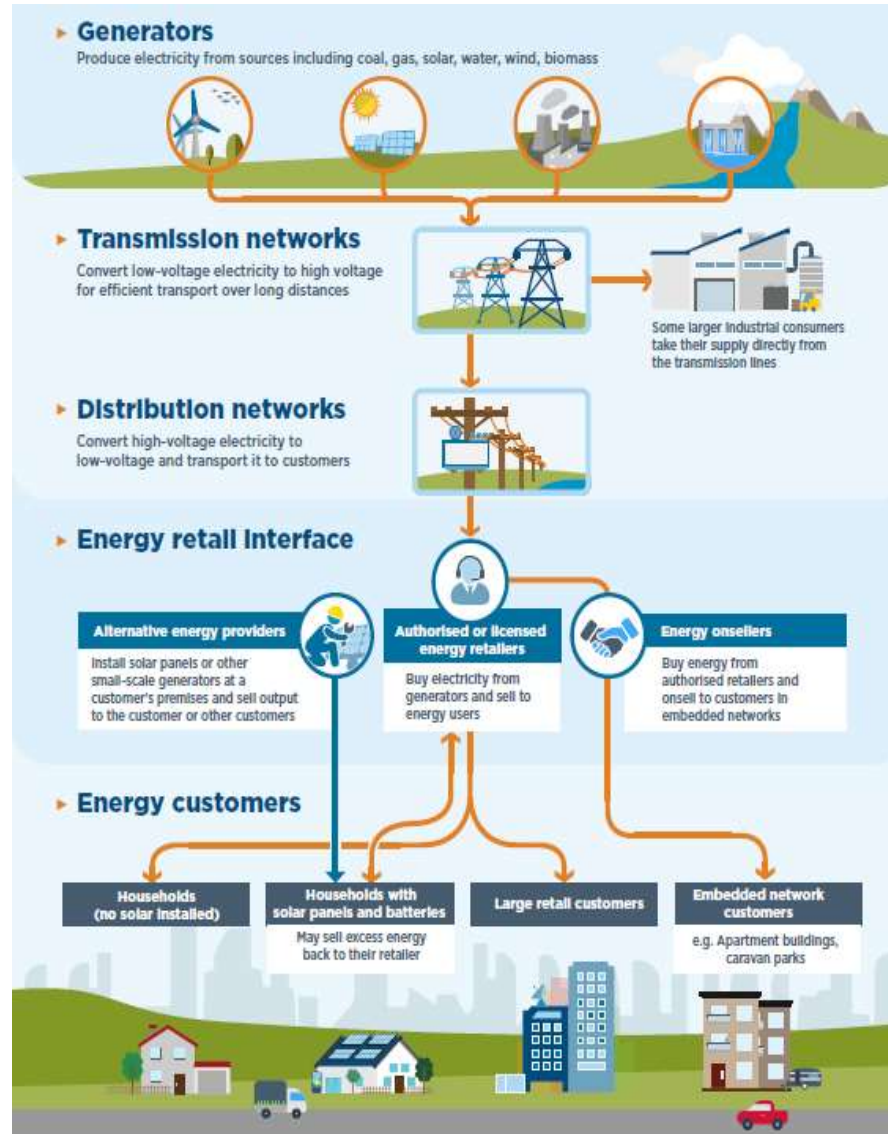
How would our draft decision affect distribution network tariffs?

Indicative price path for transmission and distribution – (\$/MWh, 2018–19)



What would this mean for customers?

Electricity network service providers are subject to revenue caps set by the AER.



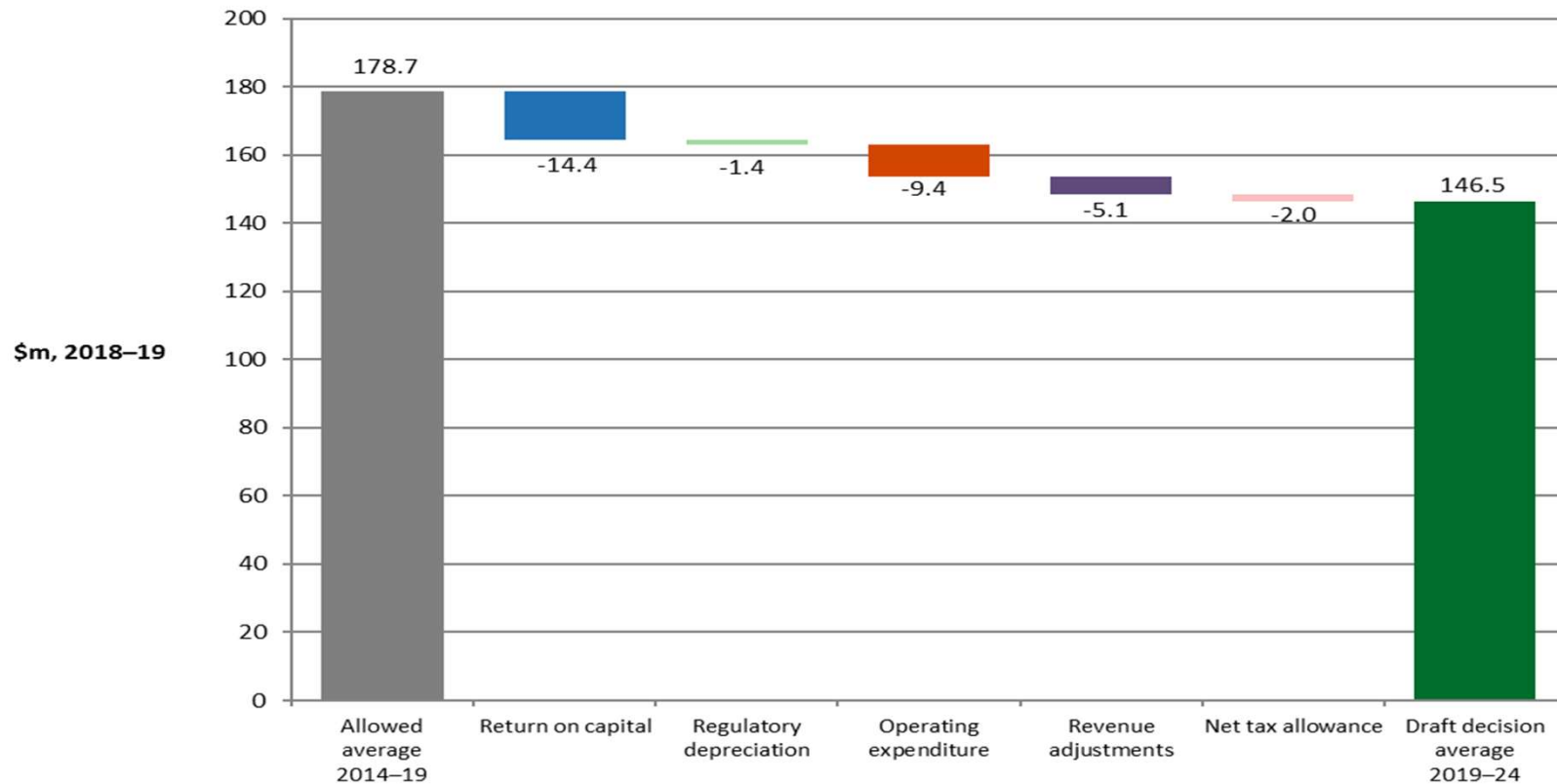
What would this mean for customers (cont.)?

Estimated impact on average annual electricity bills – combined transmission and distribution (\$nominal)

	2018–19	2019–20	2020–21	2021–22	2022–23	2023–24
AER draft decision						
Residential annual bill	1916	1905	1927	1948	1970	1996
Annual change		-11 (-0.6%)	22 (1.1%)	21 (1.1%)	22 (1.1%)	26 (1.3%)
Small business annual bill	6485	6450	6520	6587	6656	6739
Annual change		-35 (-0.5%)	69 (1.1%)	68 (1%)	69 (1%)	83 (1.2%)
TasNetworks' proposal						
Residential annual bill	1916	1938	1963	1988	2015	2047
Annual change		22 (1.2%)	25 (1.3%)	25 (1.3%)	27 (1.3%)	32 (1.6%)
Small business annual bill	6485	6555	6633	6713	6798	6898
Annual change		70 (1.1%)	78 (1.2%)	80 (1.2%)	84 (1.2%)	101 (1.5%)

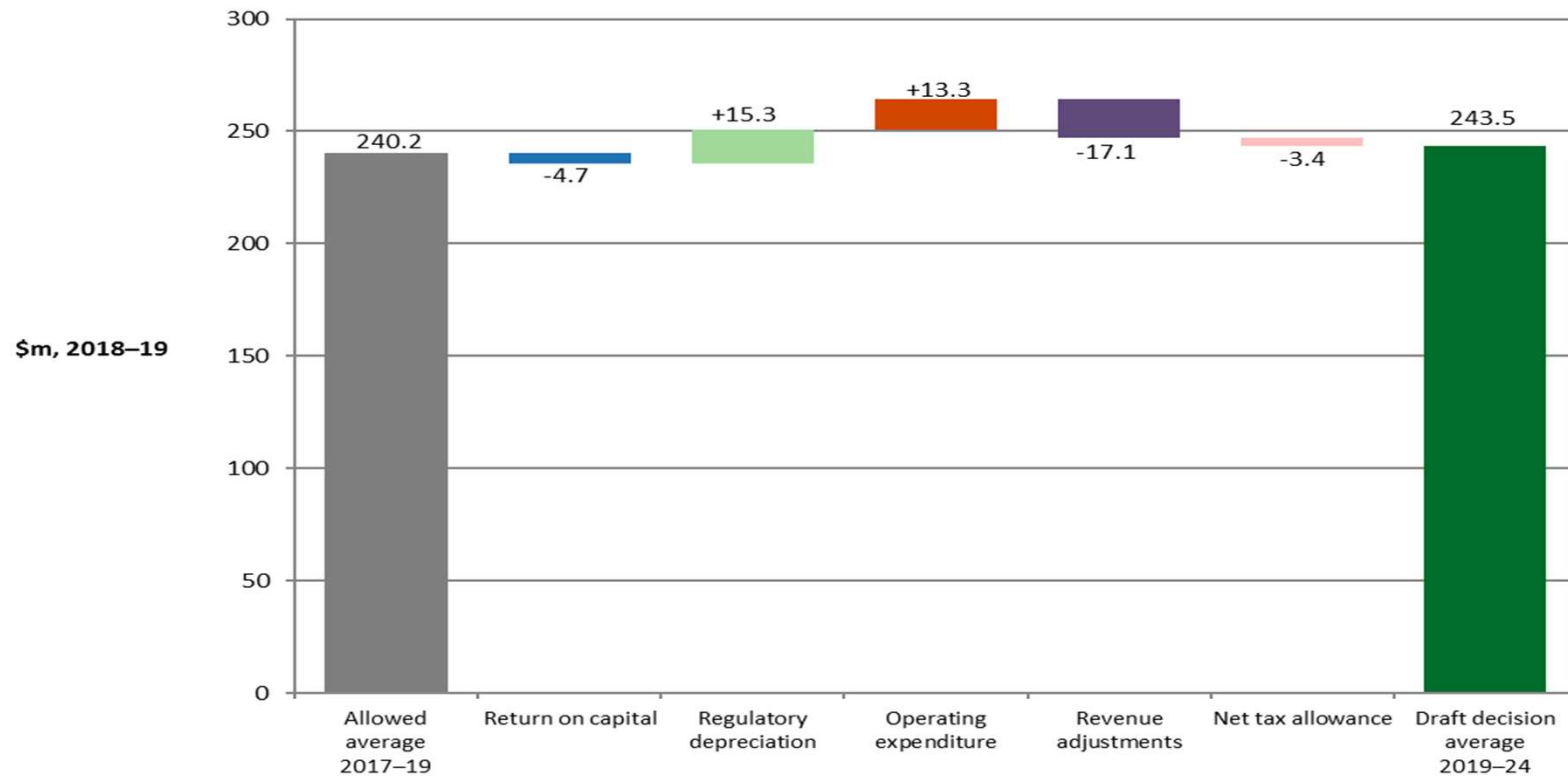
Key drivers – transmission

Change in (unsmoothed) revenue 2014-19 to 2019-24 - transmission (\$m, 2018/19)



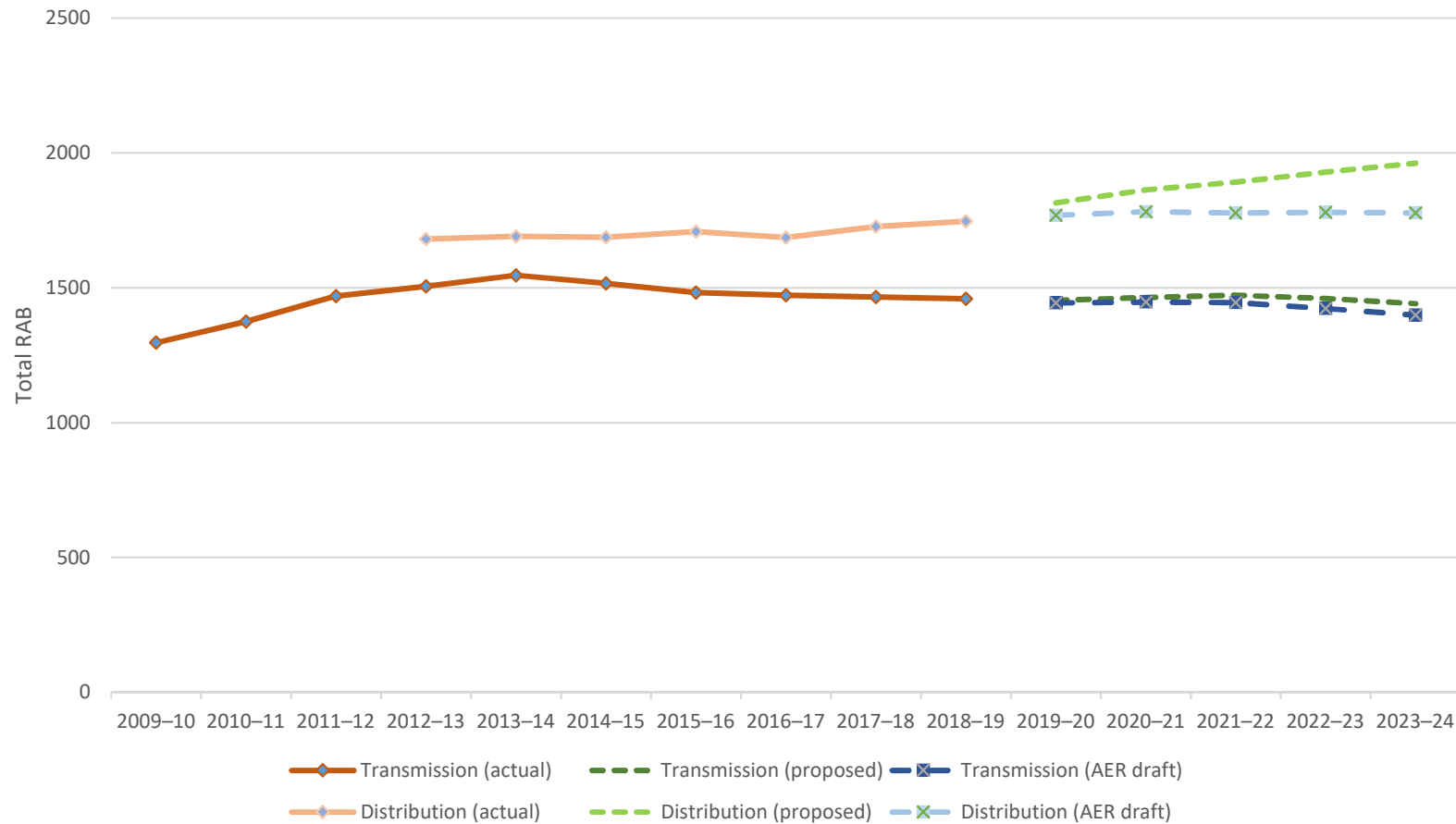
Key drivers – distribution

Change in (unsmoothed) revenue 2017-19 to 2019-24 - distribution (\$m, 2018/19)



Key drivers (cont.): RAB

Projected RAB – distribution and transmission (\$million, 2018/19)



How do we differ from TasNetworks?

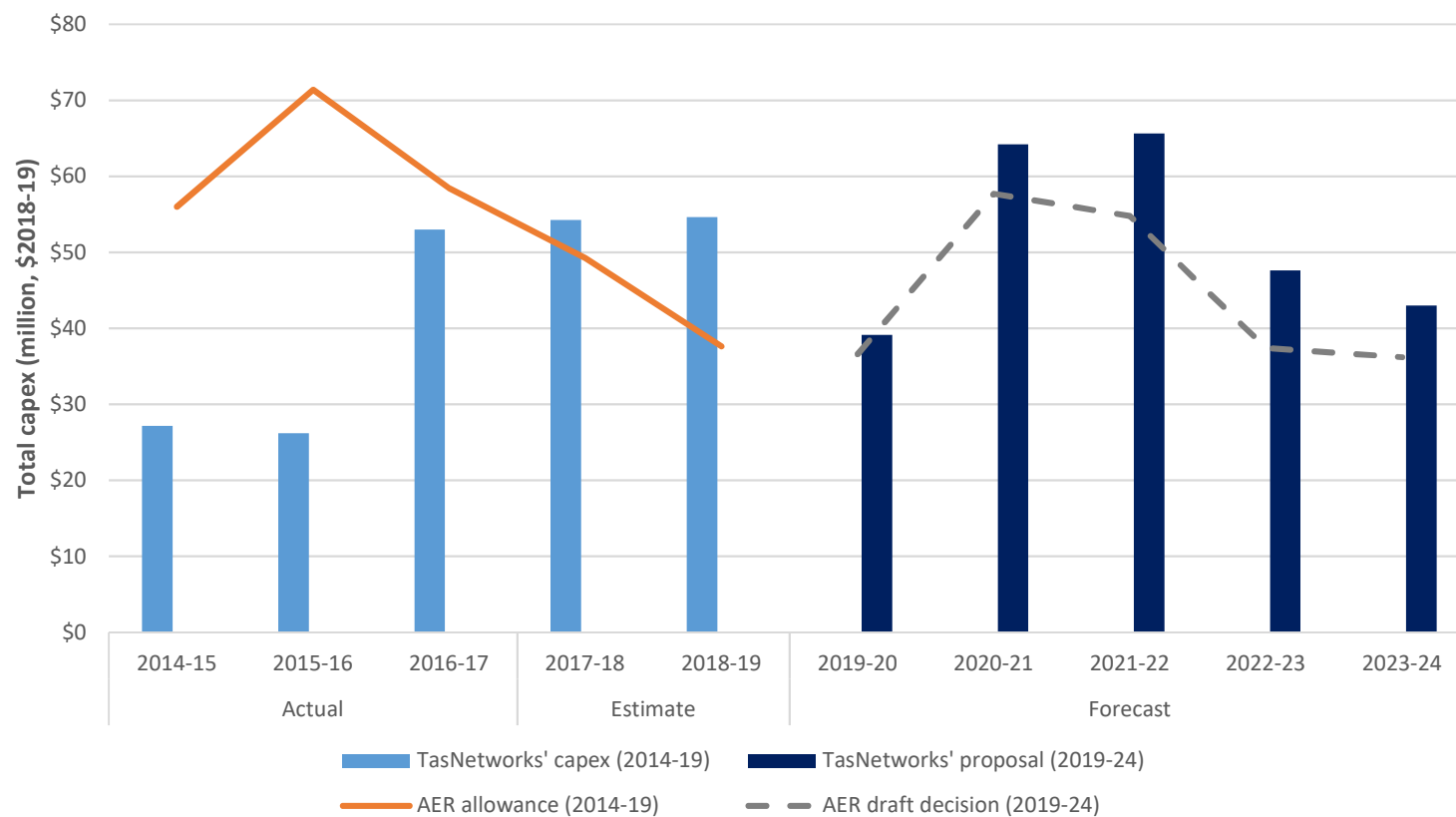
- Draft 2018 rate of return guideline
- Forecast expenditure – Capex
- Parallel consultations on:
 - Corporate income tax allowance
 - Productivity

Rate of return – transmission and distribution

- TasNetworks' proposed a rate of return of 5.89 per cent for both transmission and distribution.
- We have applied our 2018 rate of return guideline draft decision.
- We have maintained the current transition paths for TasNetworks' transmission and distribution networks and not aligned the two.
- Rate of return of 5.77 per cent for transmission and 5.51 per cent for distribution (nominal vanilla, indicative) for the first year of the 2019–24 regulatory control period
- These are lower than the current period – driven by lower returns on equity and debt.

Our draft capex forecast - transmission

Capex over time (\$2018/19, m)

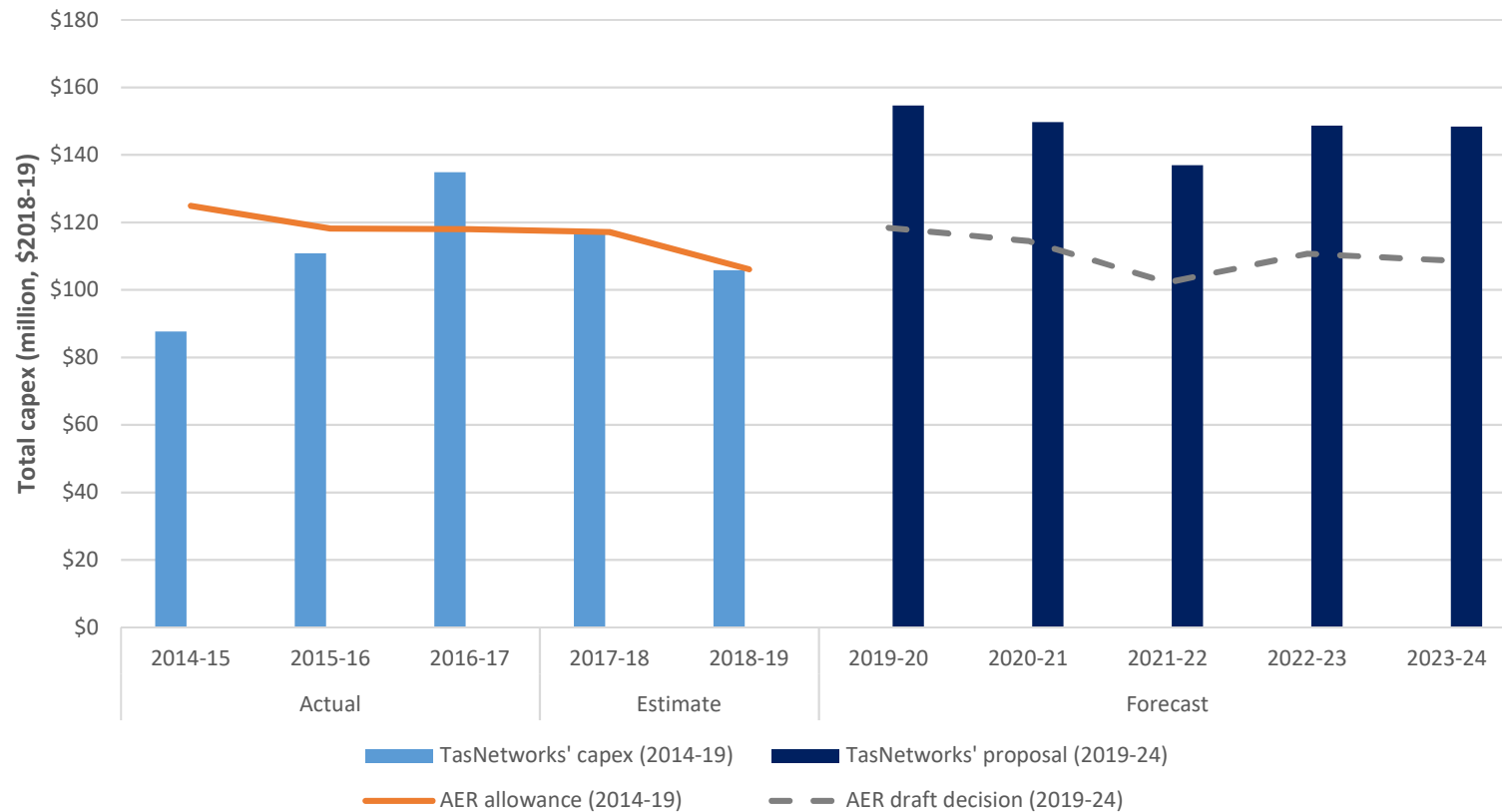


Our draft capex forecast (cont.) - transmission

Category	TasNetworks	Our alternative estimate	Difference
Augmentation	\$21.2	\$21.2	-
Connections	\$3.0	\$3.0	-
Replacement	\$204.5	\$167.0	(18.3%)
Non-network	\$31.9	\$31.9	-
Modelling adjustments*		(\$0.5)	N/A
Gross capex	\$260.0	\$222.6	(14.4%)
Less disposals	-	-	-
Net capex	\$260.0	\$222.6	(14.4%)
*Modelling adjustments relate to 2017-18 CPI and labour cost escalator changes.			

Our draft capex forecast - distribution

Capex over time (\$2018/19, m)



Our draft capex forecast (cont.) Distribution

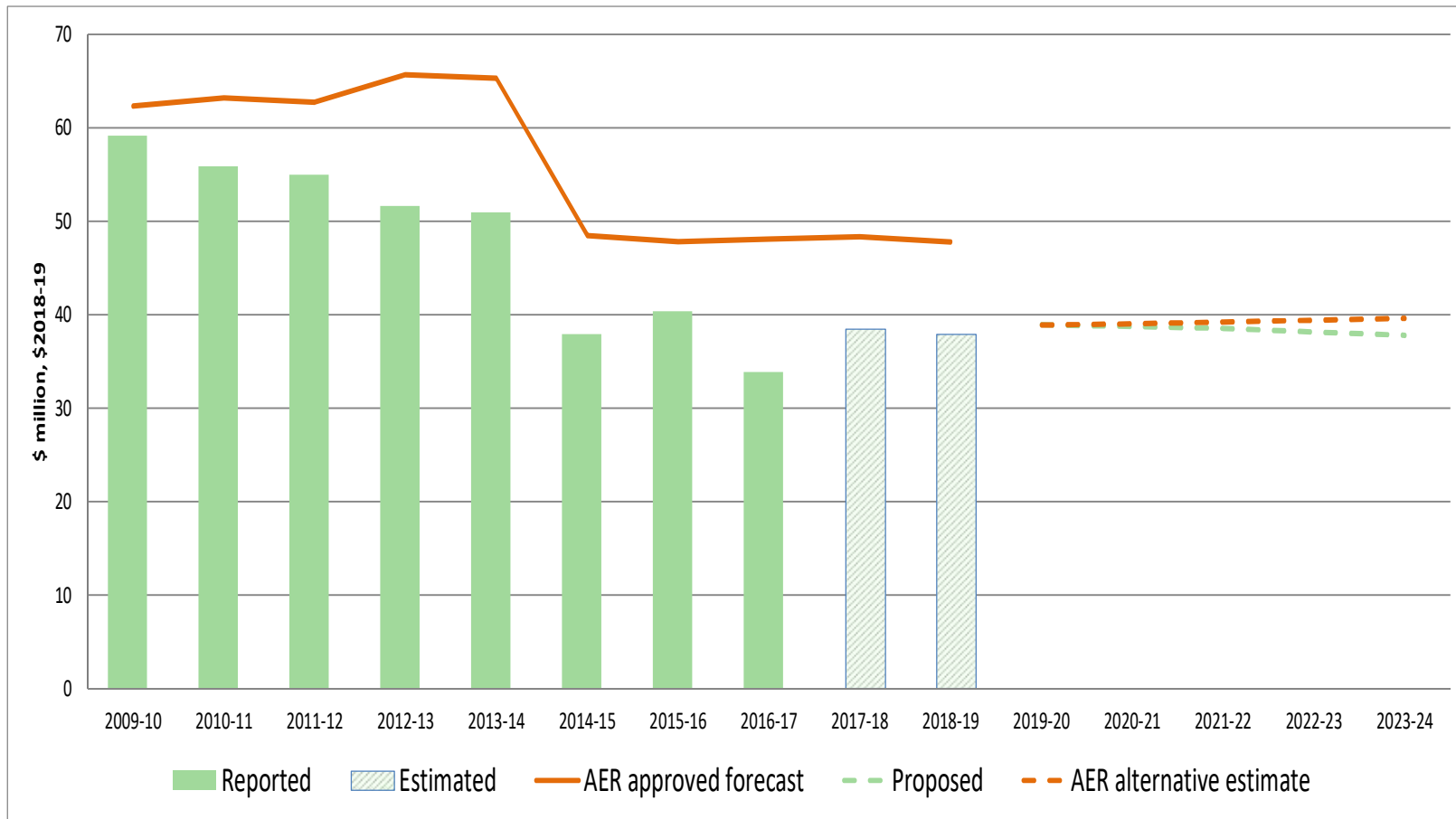
Category	TasNetworks	Our alternative estimate	Difference
Augmentation	\$32.4	\$32.4	-
Connections	\$123.0	\$123.0	-
Replacement	\$463.0	\$306.4	(33.8%)
Non-network (ICT and 'other')	\$151.6	\$127.8	(15.7%)
Modelling adjustments*		(\$3.6)	N/A
Gross capex	\$770.0	\$586.0	(23.9%)
Less capital contributions	\$31.4	\$31.2	(0.6%)
Less disposals	\$4.0	\$4.0	-
Net capex	\$734.4	\$550.9	(25.0%)
*Modelling adjustments relate to 2017-18 CPI and labour cost escalator changes.			

Contingent projects - transmission

- TasNetworks proposed five contingent projects with a total estimated capital cost of \$938 million. The largest of these relates to a second Bass Strait interconnector (\$550 million).
- TasNetworks has not sufficiently justified the inclusion of the contingent project trigger events.
- TasNetworks should provide additional information and amended project trigger events for all proposed contingent projects in its revised proposal:
 - revise the contingent project trigger events to ensure they are reasonably specific and probable to occur
 - include the successful completion of the RIT-T (a transparent cost benefit analysis) as a necessary project trigger
 - analysis to demonstrate that the proposed contingent capex is reasonably required.
- TasNetworks should also continue to engage with consumers to provide greater transparency around the drivers, scope, timing, costs and benefits of these projects.
- TasNetworks has undertaken to conduct further engagement with stakeholders, and to update its assumptions and re-examine appropriate contingent project triggers as part of its revised revenue proposal

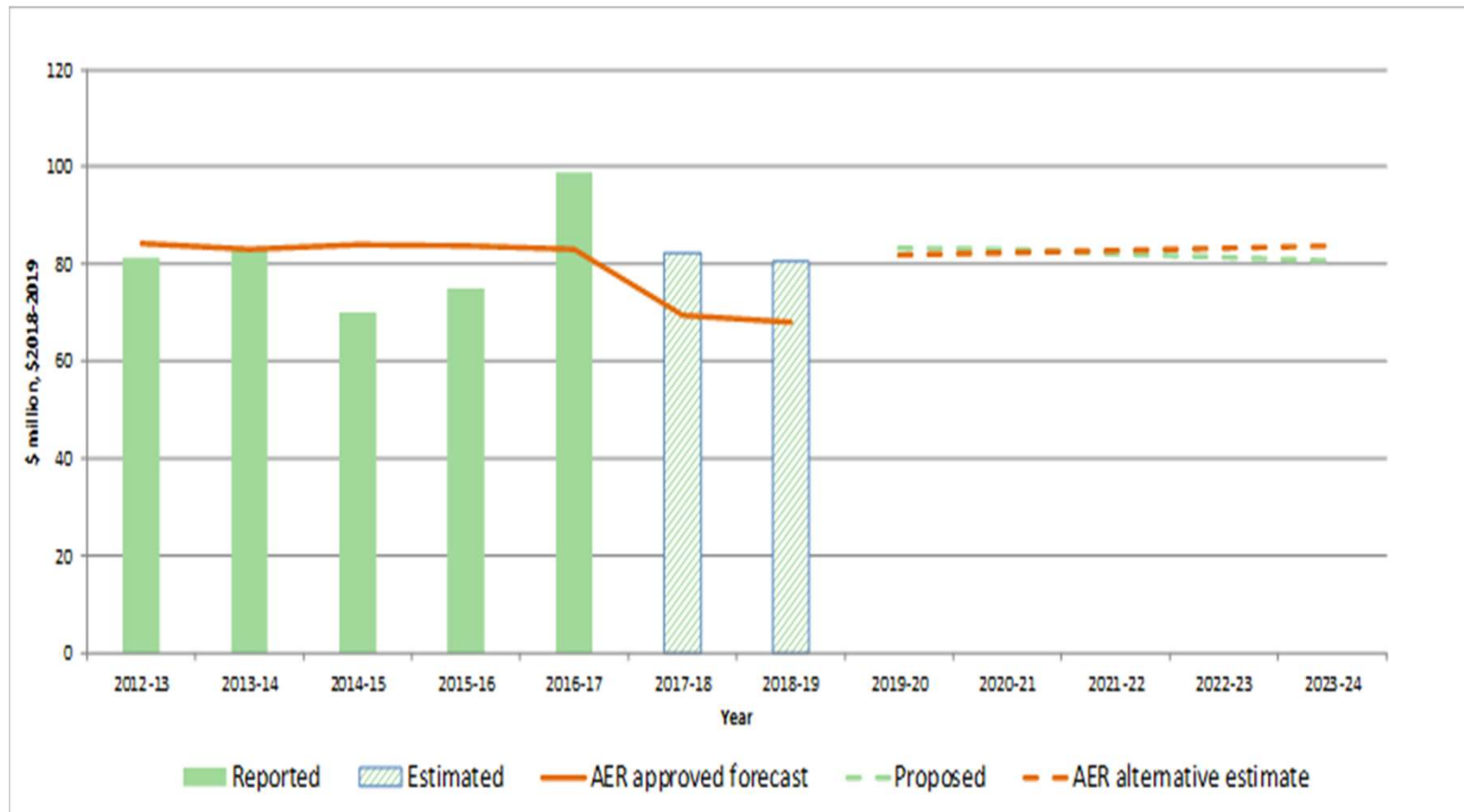
Our draft opex forecast - transmission

Opex over time



Our draft opex forecast - distribution

Opex over time



Incentive schemes

- opex efficiency benefit sharing scheme (EBSS)
- capital expenditure sharing scheme (CESS)
- service target performance incentive scheme (STPIS)
- demand management incentive scheme (DMIS)
- demand management innovation allowance mechanism (DMIAM).

Tariff structure statement (TSS)

- TasNetworks' 2019–24 TSS seeks to continue the pricing reform commenced as part of its 2017–19 TSS
- Our draft decision is broadly supportive of TasNetworks' TSS.
- However, we have set out a series of changes to aspects of TasNetworks' tariff strategy, which are required before we can approve the TSS, including:
 - Moving to an 'opt out', rather than continuing with the 'opt in' approach to tariff assignment and reassignment
 - The removal of the embedded network tariffs
 - Further clarity on the policy and procedures for assigning customers to tariffs

Next steps

Milestone	Date
<i>TasNetworks submits its proposal</i>	<i>31 January 2018</i>
<i>AER issues paper published</i>	<i>29 March 2018</i>
<i>Public forum on TasNetworks' proposal</i>	<i>10 April 2018</i>
<i>Submissions on TasNetworks' proposal due</i>	<i>16 May 2018</i>
<i>AER draft decision published</i>	<i>27 September 2018</i>
→ Public forum on draft decision	23 October 2018
TasNetworks submits its revised proposal	29 November 2018
Submissions on draft decision and revised proposal due	11 January 2019
AER final decision published	April 2019