FACT SHEET

Transmission Revenue Proposal 2019-24

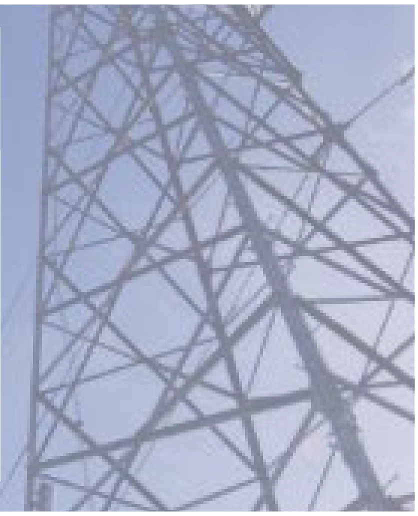
In preparing our Revenue Proposal we have consulted with customers, listened to their feedback and responded.

We have taken this feedback into account in finalising our proposal, by ensuring that our expenditure is aimed at maintaining current overall performance while meeting our safety and compliance obligations.

In response to customers' feedback that affordability is their major concern, we have made further reductions to our provisional expenditure plans.

Snapshot of our five-year forecasts compared to the previous five years (June 2019 $)

Revenue	% Change	$ Change million
Revenue Allowance - Transmission	-19%	-$172
Capex (allowance) - Transmission	-7%	-$19
Opex (allowance) - Transmission	-23%	-$56



Key points:

Capital Expenditure

Forecast $261m in 2019-24 compared to estimated $280m in 2014-19 (June 2019 $)

Our transmission investment in the 2019-24 period will be focussed on:

- Renewing assets in poor condition - Our expenditure requirements are primarily driven by asset condition and risk in our aging protection and control systems, circuit breakers and power transformers.

- Security of the system, supporting the clean energy transition - This work is driven by voltage and ancillary services support – including a significant investment in excess of $15 million for a new static var compensator at the George Town Substation. The compensator will support more stable and efficient operation of our transmission network with changing generation and interconnector flows, and allow dispatch of lower cost generation. This project alone will increase our level of development capital expenditure when compared to the current period, in which little development capital expenditure was required.

Operating Expenditure

Forecast $187m in 2019-24 compared to estimated $243m in 2014-19 (June 2019 $)

We are continuing to drive efficiency improvements over the forthcoming regulatory period, so that over the period we constrain our operating expenditure increases to around the rate of inflation. In effect, this means that we are aiming to absorb the cost pressures associated with factors such as increasing labour rates and the additional costs associated with serving a growing load and generator customer base, factors that the AER typically accepts in its regulatory determinations as legitimate drivers of higher operating expenditure.

Even though our costs already benchmark well against our peers, we are continuing to seek efficiency savings in the forthcoming regulatory period. These proposed operating expenditure levels are therefore ambitious – and reflect a continued focus on prioritising our activities and driving our business to achieve the lowest sustainable prices for our customers.

Incentive Mechanisms

We accept the application of the following incentive schemes in the forthcoming regulatory period:

- Efficiency Benefit Sharing Scheme;
- Capital Expenditure Sharing Scheme;
- Service Target Performance Incentive Scheme, consisting of:
    - a service component;
    - a market impact component; and
    - a network capability component.

Rate of Return

Forecast rate of return (weighted average cost of capital) of 5.89%

We have applied the December 2013 Rate of Return Guideline in estimating the weighted average cost of capital (WACC) for our transmission assets.

However, the application of the AER's Guideline would produce a higher WACC for our transmission assets compared to distribution. We have decided to reduce the rate of return on our transmission assets to match the distribution rate of return. This is a reduction from 6.15 per cent to 5.89 per cent. This discount benefits all our customers, easing price pressures in an era of unprecedented change.

This rate will be updated as part of the AER's decision and then annually to reflect the movement in the cost of debt.

Revenue Allowance

Forecast $745m in 2019-24 compared to estimated $917m in 2014-19 (June 2019 $)

Forecast to reduce by 4.9 per cent per annum in real terms in each year of the 2019-24 period.

Our Regulatory Proposal is based on the post-tax building block approach outlined in clause 6A.5.4 of the National Electricity Rules (the Rules), the Post Tax Revenue Model and the roll forward model.

It should be noted, however, that our actual transmission revenue may vary from the forecast revenue path for the following reasons:

- The AER will update our allowed return on debt for each year within the forthcoming regulatory period. This is likely to change our allowed return on debt which will flow through to our revenue allowance. As explained previously, we have decided to reduce the rate of return on our transmission assets to align to the distribution rate of return; this alignment will be continued as part of the annual update process.
- Our service performance in a year may vary from the targets, resulting in penalties or bonuses being subtracted from or added to our allowed revenue.
- For a range of reasons, our actual transmission revenue recovery each year may vary from the total amount we are entitled to recover, which may lead to adjustments in subsequent years.
- Contingent projects and pass through events may lead to additional costs which, subject to the AER's approval that the expenditure is in the long-term interests of consumers, may be recovered from customers.

Transmission Prices

Forecast average prices to be 21 per cent lower over 2019-24 compared to 2014-19 (June 2019 $)

For transmission customers, our prices are set in accordance with our pricing methodology prepared in accordance with the Rules. Transmission charges for our Tasmanian customer s are affected annually by intra-regional settlements residue payments from AEMO and inter-regional charging between Tasmania and Victoria.

The price impact of our proposal will vary for particular customers, depending on their particular circumstances and the annual adjustments to revenue described above.

Our Regulatory Proposal provides detailed information regarding our plans for the future on these issues together with other associated information.

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TasNetworks
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