

TasNetworks
Delivering your power

TasNetworks revised regulatory proposal

October 2018



Topics

- Our journey so far
- Overview of draft decision
- TasNetworks' approach to revised proposal
- Key focus areas
 - Replacement expenditure
 - Information technology
 - Augmentation and contingent projects
 - Network pricing

Increasing Level of Customer Participation

Customer Engagement Goal

Inform:

To provide our customers with balanced and objective information to assist in understanding the problem, alternatives, opportunities &/or solutions.

Consult:

To obtain customer feedback on analysis, alternatives and/or decisions.

Involve:

To work directly with our customers throughout the process to ensure that customer concerns and aspirations are consistently understood and considered.

Collaborate:

To partner with our customers in each aspect of the decision, including the development of alternatives and the identification of the preferred solution.

Empower:

To place final decision making in the hands of our customers.

Promise to our Customers

We will keep you informed.

We will keep you informed, listen and acknowledge concerns and provide feedback on how customer input influenced the decision.

We will work with you to ensure your concerns and issues are directly reflected in alternatives we develop and provide feedback on how customer input influenced the decision.

We will look to you for direct advice and innovation in formulating solutions and will incorporate your recommendations into decisions where possible to the maximum extent.

We will implement what you decide.

Customer Engagement Tools

Fact sheets
Newspaper/TV/radio
Letters/Customer cards
Social Media
Customer charter
Brochures

Focus Groups
Community Forums
Public Meetings
Trade Nights
Surveys

Workshops
Consumer Engagement Forums

Advisory committees
Contracts/Legal Agreements

Delegated decisions

Customers have previously told us.....

Customers want **'the same for about the same'**

Customers **value reliability** as the most important service

Greatest **concern** is **affordability/cost**

Relationship with TasNetworks, including communication, is important

Customers value the **convenience** of their grid connection

High satisfaction with current reliability levels

Support for a moderate increase in capex to **maintain** existing levels of reliability



Feedback helped shape our priorities



Direction and Priorities Consultation Paper

Transmission and Distribution Determination 2019-24
August 2017



1. Ensuring the safety of our customers, employees, contractors and the community
2. Keeping the power on, maintaining service reliability, network resilience and system security
3. Delivering services for the lowest sustainable cost
4. Innovating in a changing world to meet customers' changing expectations
5. Continuing to communicate effectively with, and listen to our customers
6. Bringing the community on the journey of pricing reform

Overview of draft decision

Draft decision	Initial Regulatory Proposal
Total revenue \$2095.8m	(4.4% less than TN's initial Proposal)
Capital expenditure 777.2m	22% less
Five contingents Projects	None accepted
Operating expenditure accepted	
Rate of Return – transmission 5.77%, distribution 5.51%	Whole-of-business Proposal of 5.89%
Average transmission prices \$14/MWh	down from \$18 over 2014-19
Average distribution prices \$57.4/MWh	Slight increase from \$55.9 over 2017-19

Approach to revised proposal

- Keep network prices affordable for all Tasmanian customers, **no greater than inflation (CPI)**;
- Maintain safety, security and reliability by renewing assets in poor condition; and
- Continue to drive efficiencies and extract the value of our investments in technology.

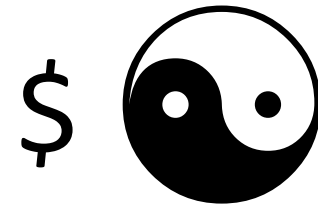
Revised Proposal compared to initial proposal



Augmentation Expenditure
Asset Information Systems
Cyber Security
Innovation Capital Expenditure



Revenue
Replacement Expenditure
Information Technology
Contingent Projects
Metering charges



Public Lighting Charges
Fee-based Services Charges
Quoted Services Charges



AER draft decision response

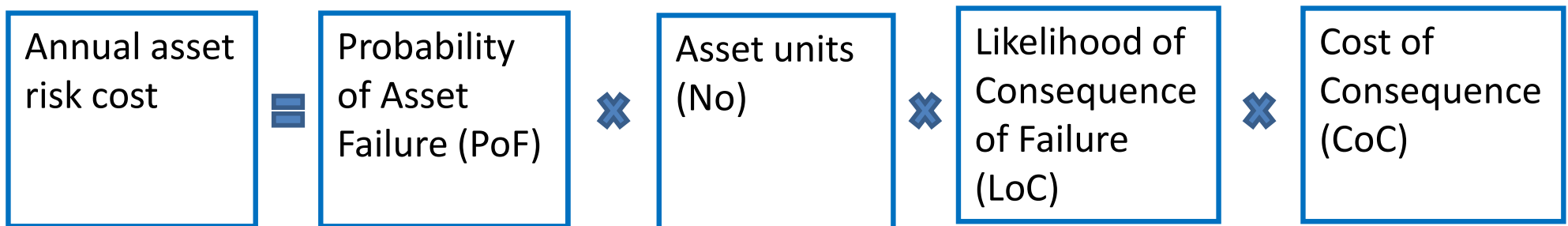
Replacement expenditure

Replacement expenditure

- Quantification of Risk Cost
- Sensitivity analysis – Value Customer Reliability, Likelihood of Failure, Likelihood of Cost, Consequence of Cost
- Bushfire risk not fully substantiated
- Key projects in which expenditure was reduced
 - Overhead conductor
 - Bushfire Risk Mitigation Programs
 - Underground cables (CONSAC)
 - Service Lines
 - Transmission transformers
 - Transmission Lines
 - Transmission Switchgear

AER Draft Decision response - Replacement expenditure – Risk Cost

- Modification of Nett Present Value (NPV) economic modelling to include quantified risk costs
- Alignment with TasNetworks Corporate Risk Framework and AER’s repex planning guideline
- AON corporate insurer provided Cost of Consequence (CoC) and Likelihood of Consequence (LoC)
- Represents the expected annual cost of risk events (\$ million) associated with the failure of asset



Outcome of revised approach

- Areas of focus:

- Overhead conductor ↓ =
- Underground cables (CONSAC) ↓
- Service Lines ↓
- Transmission transformers ↓
- Transmission Lines ↓
- Transmission Switchgear ↓
- Threatened birds mitigation ↑
- Bushfire Risk Mitigation Programs ↓ =

Program reduced in light of review of risk



AER draft decision response

Information technology

Information Technology & Asset Information Systems



We will be seeking to increase our investments in **Asset Information Systems** to uplift our asset management maturity



We are responding to feedback from Stakeholders and the AER and progressing “Option 2” – to undertake an upgrade over replacement of our **Market Systems**



We will be seeking to increase our IT Capital Expenditure in **Cyber Security**, consistent with AEMO’s recommendations

AER draft decision response

Augmentation and contingent projects

Augmentation expenditure (additional)

- Transmission
 - Supply security projects - Farrell and Waratah
 - Strategic easement and land acquisition
- Distribution
 - Supply security project - Crotty Dam







Contingent projects

Contingent Project	Description
1	Second Bass Strait Interconnector
2	Palmerston to Sheffield 220 kV Augmentation
5	North West 220 kV Network Redevelopment

AER draft decision response

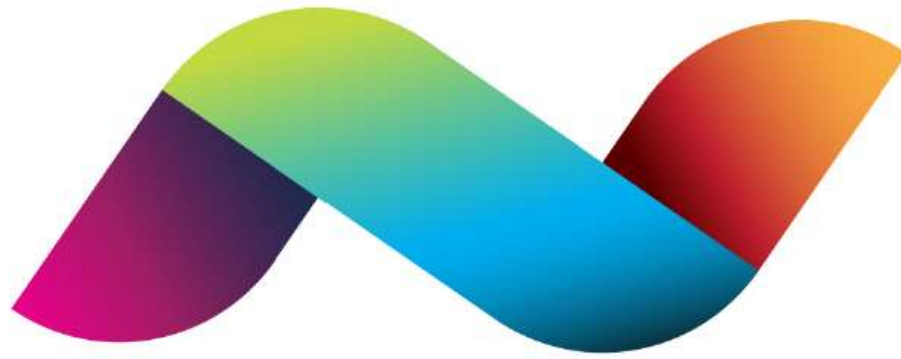
Network tariff reform

Network tariff reform

Draft decision	Initial Regulatory Proposal
Continue unwinding longstanding discounts associated with some tariffs 	Progressive reduction of longstanding cross subsidies between customers and between tariffs
Accepted including DER tariffs in the form proposed 	New demand based time of use tariffs for households & small businesses with Distributed Energy Resources
Move from opt-in approach to default ToU pricing for new residential customers & customers changing their connection or meter, on an opt-out basis 	Opt-in take up of ToU network tariffs for households & small businesses
AER supported application of discount to all demand based ToU small business & residential tariffs 	Introductory, declining discounts of off-peak charges in demand based ToU network tariffs for residential & small business customers, with the cost of the discount to be absorbed by TasNetworks
Rejected embedded network tariff proposal 	Introduce new network tariffs for embedded networks
Accepted the peak demand charging windows of 7-10am and 4-9pm weekdays + off-peak weekends but asked TasNetworks to consider seasonal charging windows in the future 	Changing measurement of peak demand for small business & residential customers from single monthly peaks in peak and off-peak charging windows to an average of the 4 highest peaks recorded during peak and off-peak charging windows

QUESTIONS?

Thank you



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