

2019-24 Regulatory and Revenue Proposals

10 April 2018

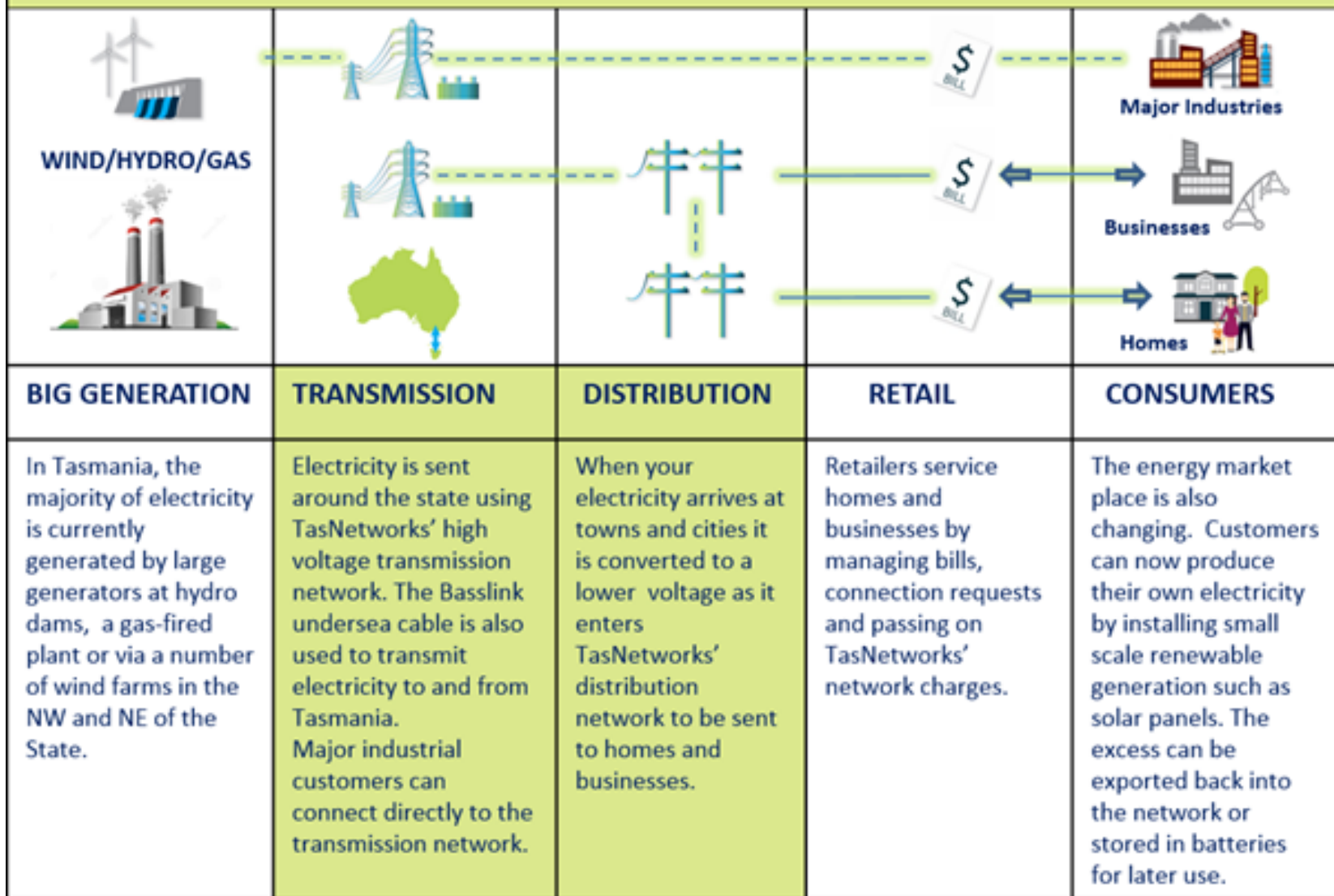
Lance Balcombe, Chief Executive Officer

Introduction

Our proposals continue TasNetworks' reputation for:

- No ambit claims
- Making a submission the AER and our customers can accept
- Building on a solid foundation of customer preferences
- Working constructively with the AER and other stakeholders throughout the process

How your electricity gets to you



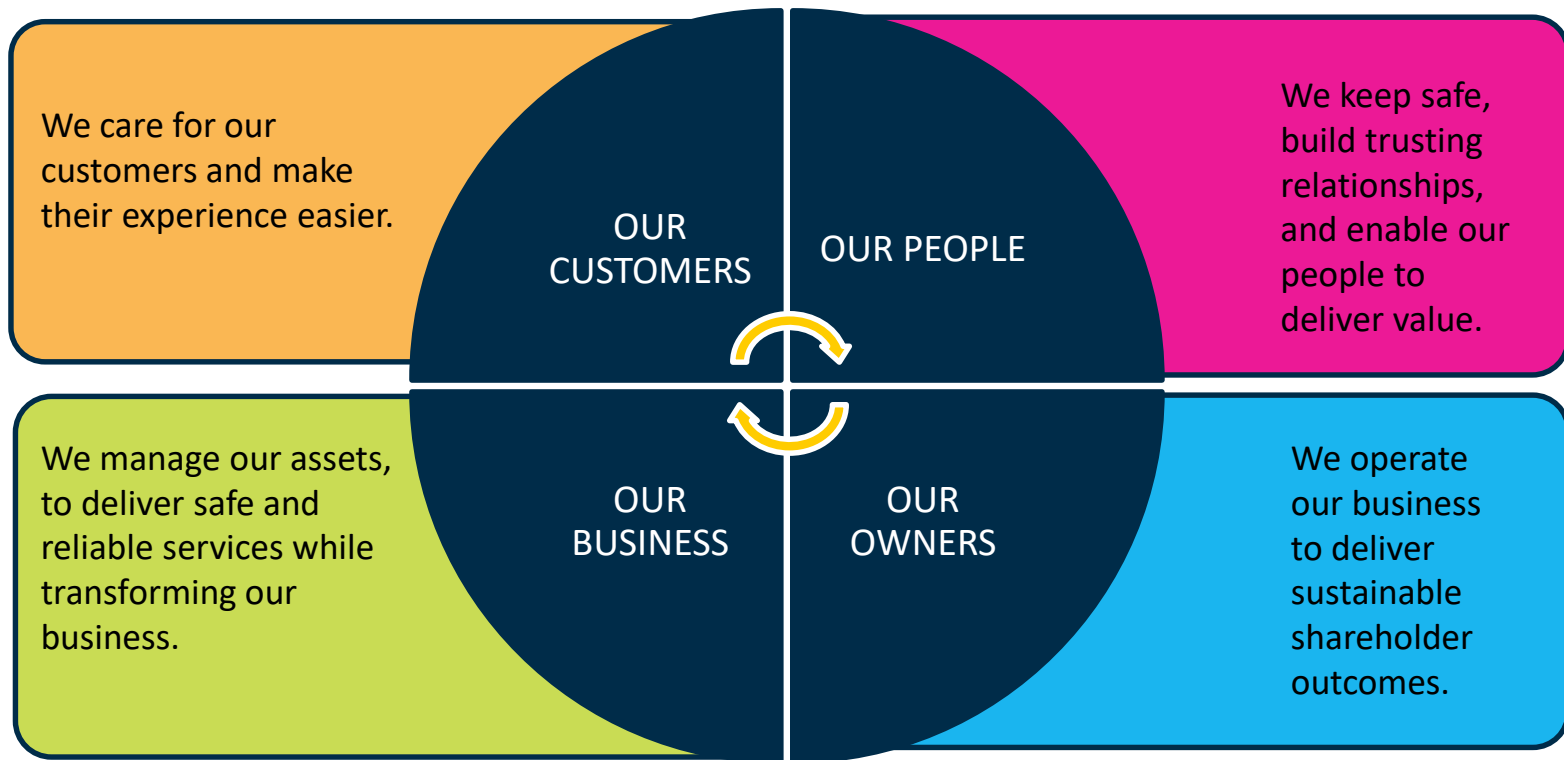
TasNetworks Strategic Summary 2017/18

Our vision:

Trusted by our customers to deliver today and create a better tomorrow

Our purpose:

We safely deliver electricity and telecommunications network services and complementary services, creating value for our customers, our owners and our community



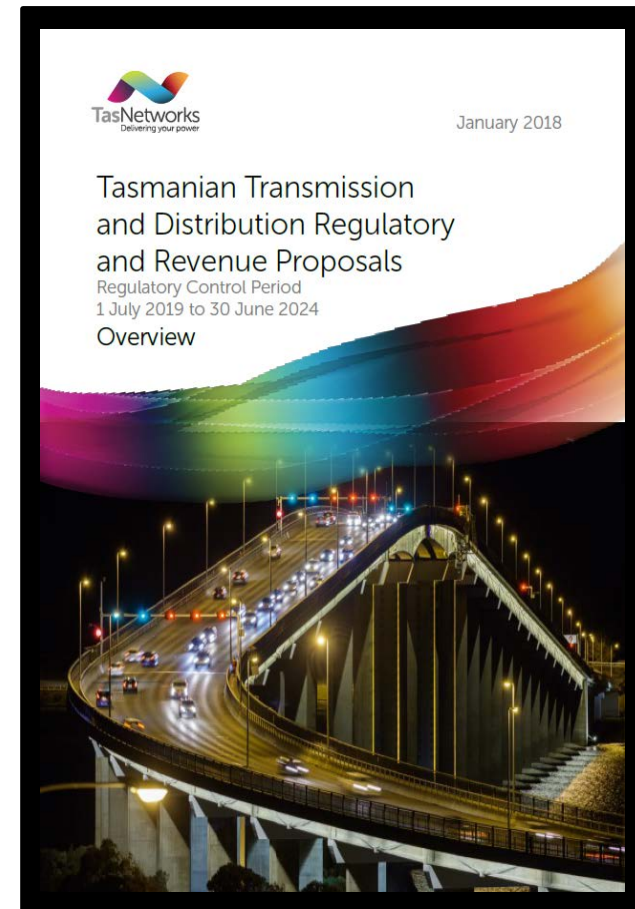
How we engage with our customers



Our direction and priorities

1. improving how we communicate with, and listen to, our customers
2. ensuring the safety of our customers, employees, contractors, and the community
3. keeping the power on, maintaining service reliability, network resilience and system security
4. innovating in a changing world
5. delivering services for the lowest sustainable cost
6. bringing the community on the journey of pricing reform

It's all part of our vision to be trusted by our customers to deliver today and create a better tomorrow.



Key messages

- Our first combined reset for transmission and distribution
- We are:
 - keeping network prices affordable for all Tasmanian customers
 - continuing to prioritise keeping the lights on by renewing assets in poor condition
 - managing our risks including public safety and bushfire mitigation
 - continuing to drive efficiencies and extract the value of our investments in technology

Key messages

- The industry is undergoing significant change and the proposal balances keeping the lights on and investing to address the challenges ahead.
- In preparing the proposal we consulted widely with customers and stakeholders and responded to their feedback

Responding to feedback

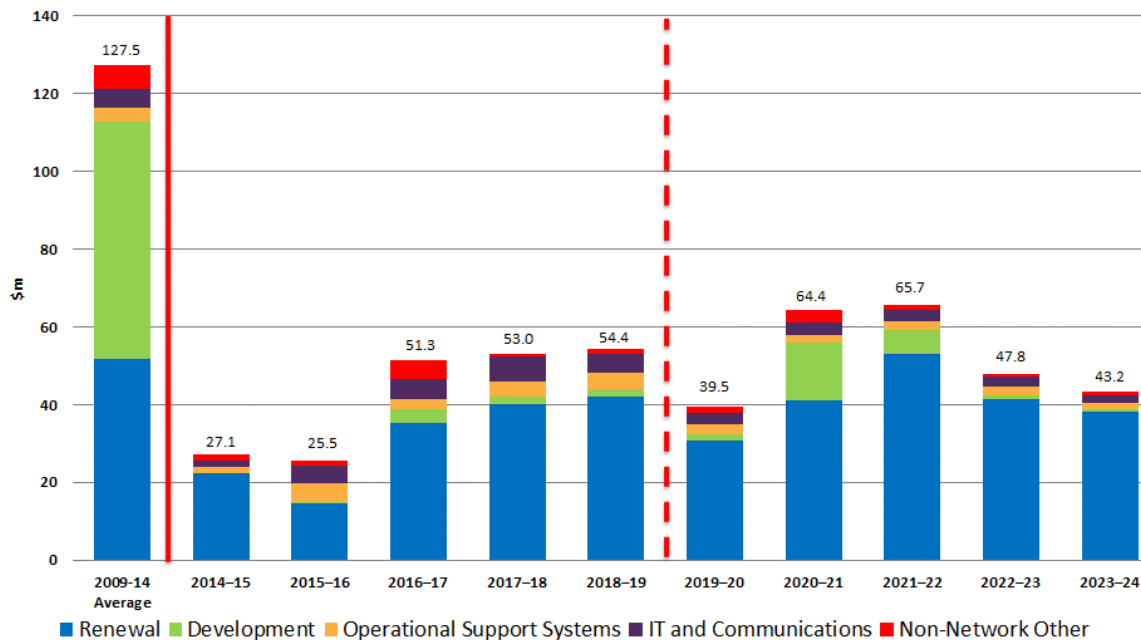
- In response to customers' feedback that affordability is their major concern, we have made further reductions to our revenue building block inputs, for example:
 - **WACC** - We have decided to reduce the transmission rate of return, which would apply under the AER's Guideline (6.15 per cent) to align with the lower distribution rate of return (5.89 per cent) to further ease price pressures on customers.
 - **CAPEX** - Our capital program needs to increase as we renew assets in poor condition, replace technology platforms that are at the end of their life, manage increased bushfire related risk and connect new customers. We have applied a top down discipline to optimise our preliminary capital forecasts. We will therefore deliver the same programs for less cost.
 - **OPEX** - We have addressed customer feedback regarding affordability by amending our operating expenditure forecasts by constraining the forecasts to absorb growth on existing expenditure above CPI and to seek further incremental efficiencies to achieve a 0.5 per cent reduction in year two; and further one per cent per annum reduction in years three, four and five.

Transmission

Snap shot (previous five years compared to forecast (June 2019 \$))

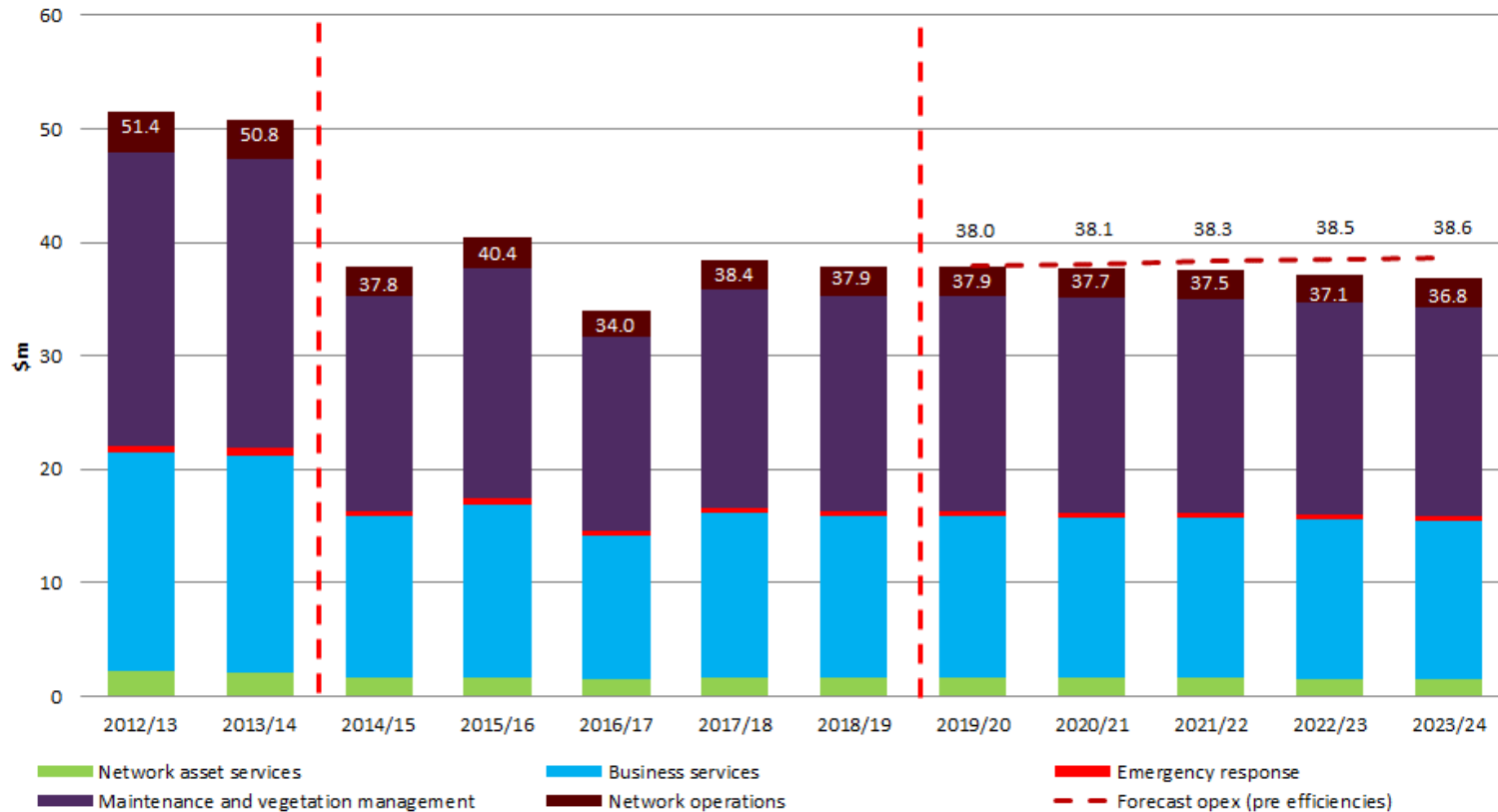
Revenue	% Change	\$ Change million
Revenue Allowance - Transmission	-19%	-\$172
Capex (allowance) - Transmission	-7%	-\$19
Opex (allowance) - Transmission	-23%	-\$56

Historic and forecast transmission capital expenditure by category (June 2019 \$m)



Transmission operating expenditure

Historic and forecast transmission operating expenditure by category
(June 2019 \$m)



Contingent projects

Our contingent projects are becoming increasingly credible in a rapidly changing environment. We are working hard to understand the costs involved bearing in mind the need to conduct a rigorous assessment of the investment need, timing, costs and benefits. We are keeping our focus on maintaining lowest sustainable prices for our customers.

- Contingent Project 1: Second Bass Strait Interconnector (\$550m)
- Contingent Project 2: Sheffield to Palmerston 220 kV Augmentation (\$120m)
- Contingent Project 3: Rationalisation of Upper Derwent 110 kV Network (\$118m)
- Contingent Project 4: North West 110 kV Network Redevelopment (\$70m)
- Contingent Project 5: North West 220 kV Network Redevelopment (\$80m)

The five projects total \$938m and will only proceed if the value and benefit to customers can be demonstrated

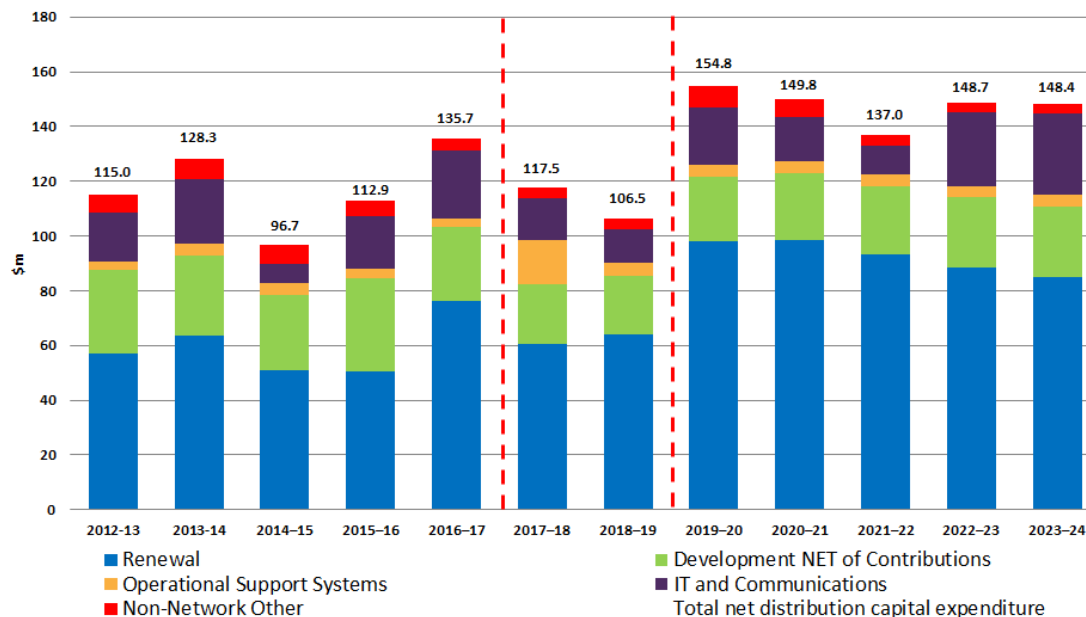
Distribution

Snap shot (previous five years compared to forecast (June 2019 \$))

Revenue	% Change	\$ Change million
Revenue Allowance - Distribution	-8%	-\$108
Capex (allowance) - Distribution	+31%	\$176
Opex (allowance) - Distribution	+3%	\$12

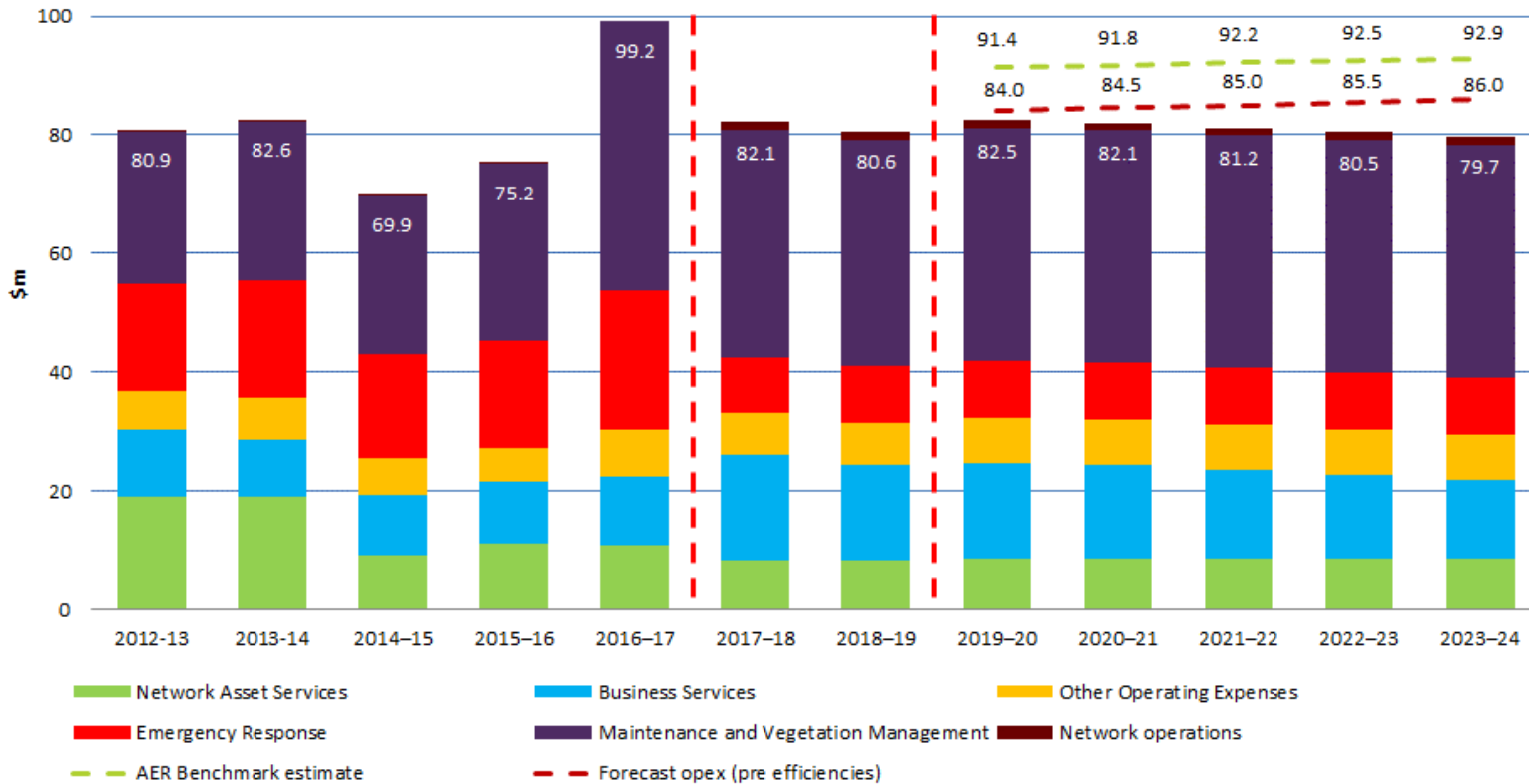


Historic and forecast distribution capital expenditure by category (June 2019 \$m)

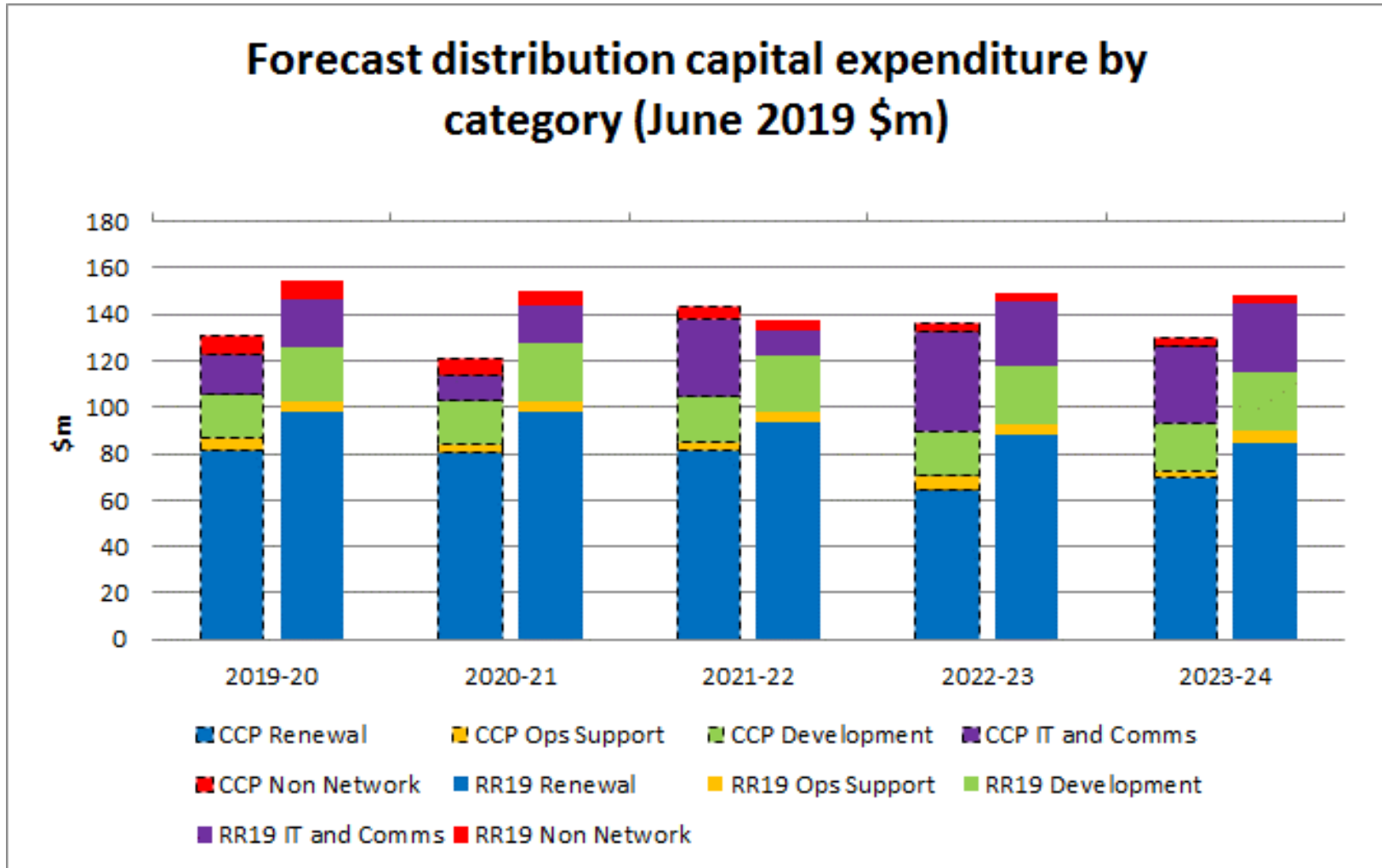


Distribution operating expenditure

Distribution Opex Actual/ Forecast– by expenditure category
(June 2019 \$m)



Capital expenditure in Direction and Priorities Consultation Paper compared to Revenue Proposal



Key changes in capital expenditure forecasts between our Direction and Priorities and Proposal

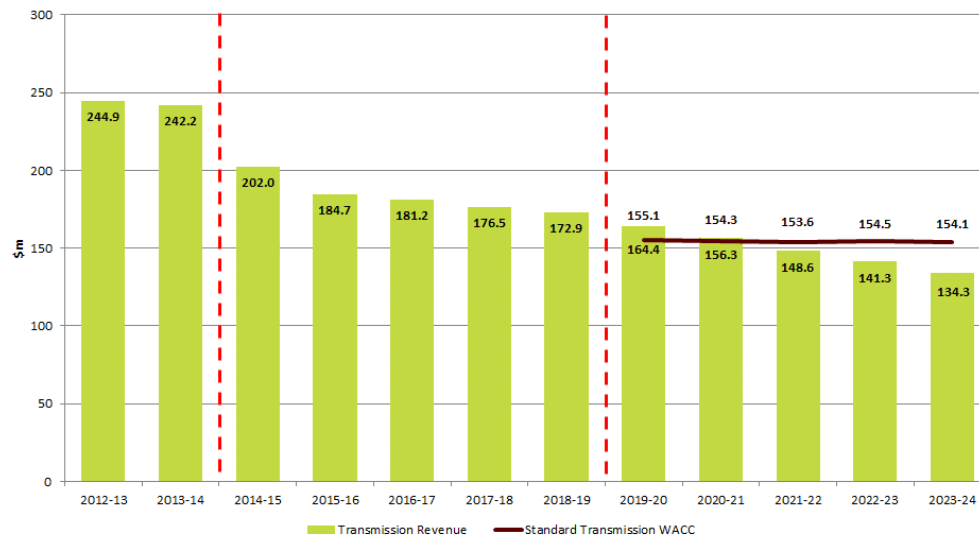
- Distribution renewal capex increase targeted at managing the identified safety risks, which reflects age-related asset deterioration, known technical issues, and contemporary practices, for example
 - Bushfire mitigation programs aligned with the applicable recommendations from Victoria State Government commissioned reports, specifically targeting risk of bushfire start in the High Bushfire Consequence Loss Area (HBCLA)
 - Pole replacements volumes due as early staked pole population reach end of useful life
 - Mitigate against the risk of Customer shock associated with the high failure rate and mode of low voltage connections services and low voltage CONSAC underground cables

Key changes in capital expenditure forecasts between our Direction and Priorities and Proposal

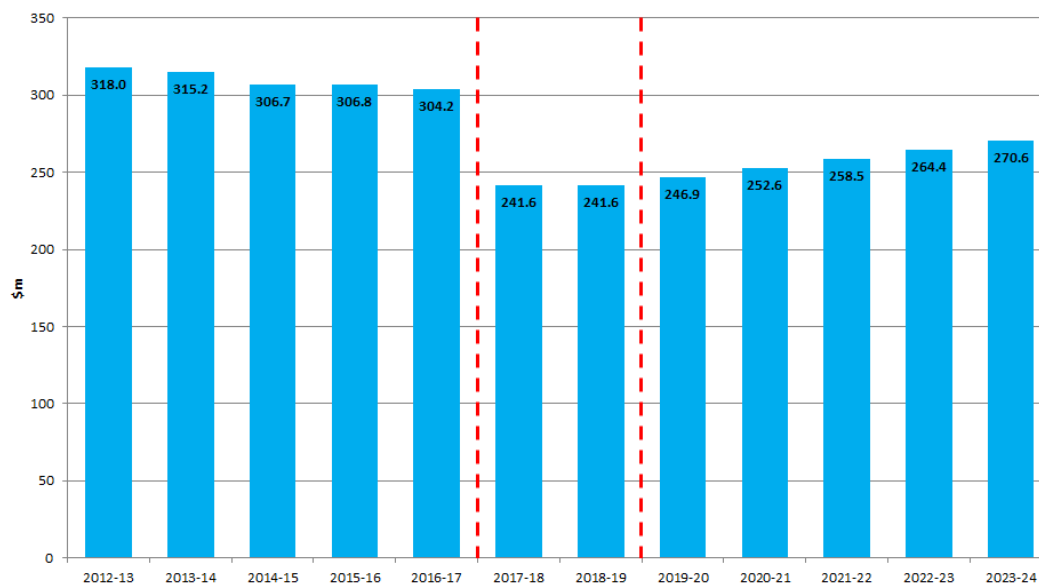
- Distribution development capex marginal increase primarily associated with:
 - Re-estimation on the required expenditure associated with Customer Initiated activity. Includes activity associated with the provision of new, or modification to existing, negotiated customer connection services
 - Review of overvoltage compliance operational program
- We also made reductions to our technology investments by re-profiling and therefore deferring \$32m beyond 2024 for our market systems upgrades.

Revenue

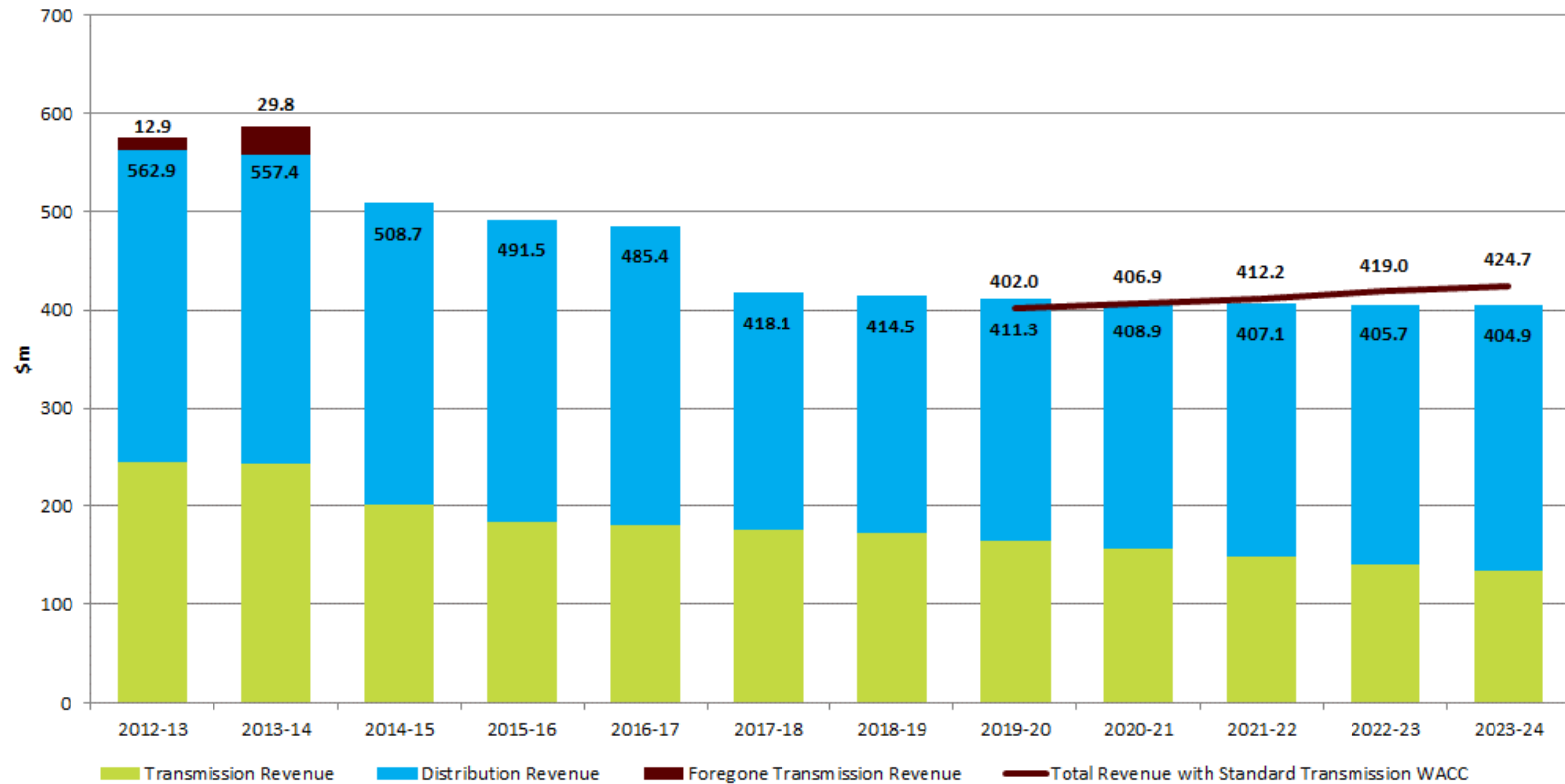
Transmission: Revenue allowance for prescribed transmission services (June



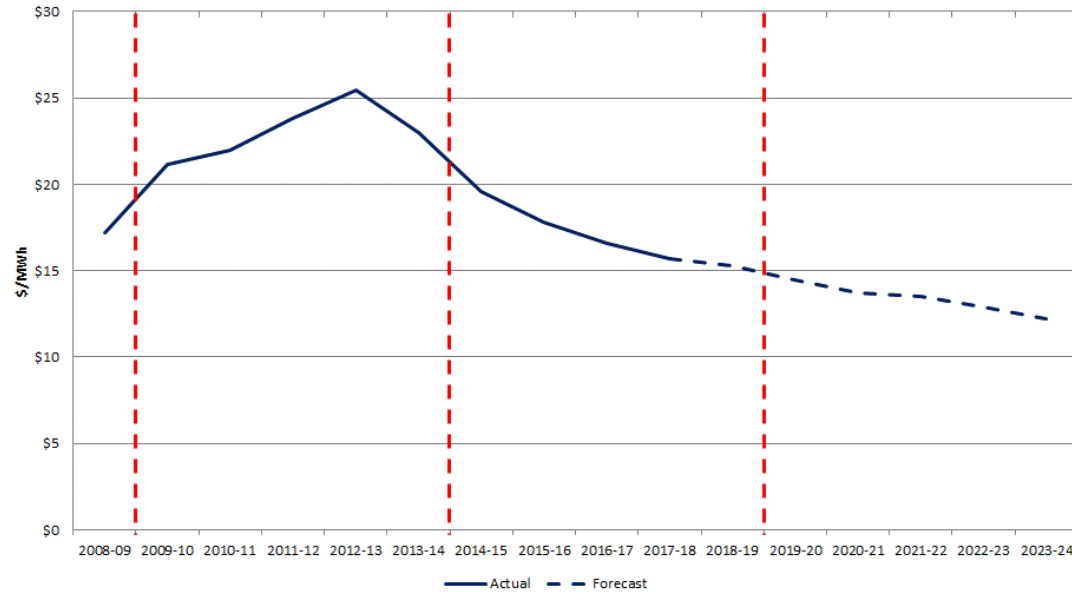
Distribution: Revenue allowance for standard control distribution services (June 2019 \$m)



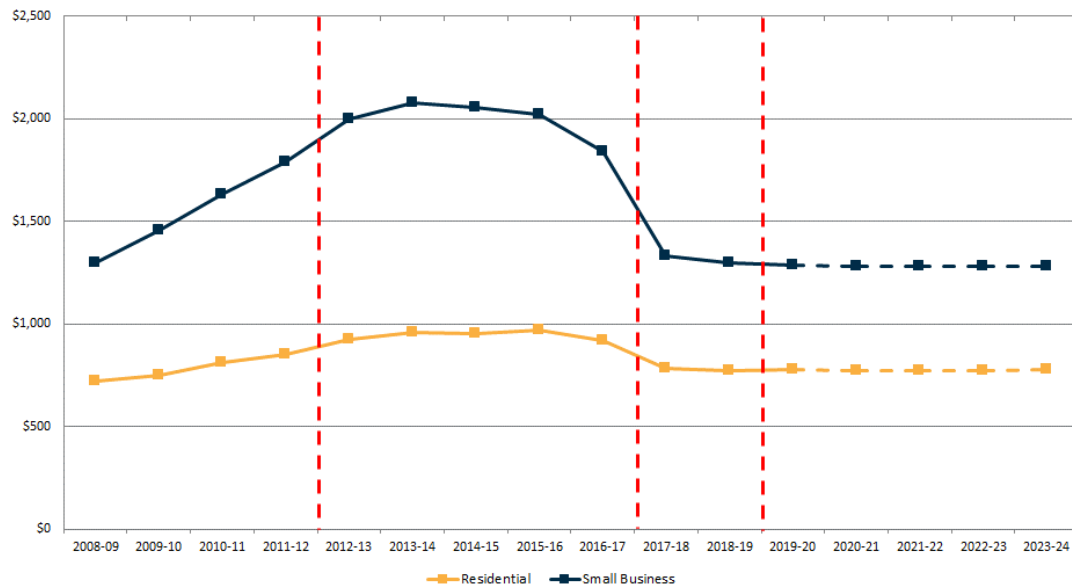
Total Revenue (distribution standard control and transmission prescribed) (June 2019 \$m)



Indicative average transmission charges (\$/MWh) (June 2019 \$)



Indicative average annual network charge (June 2019 \$m)



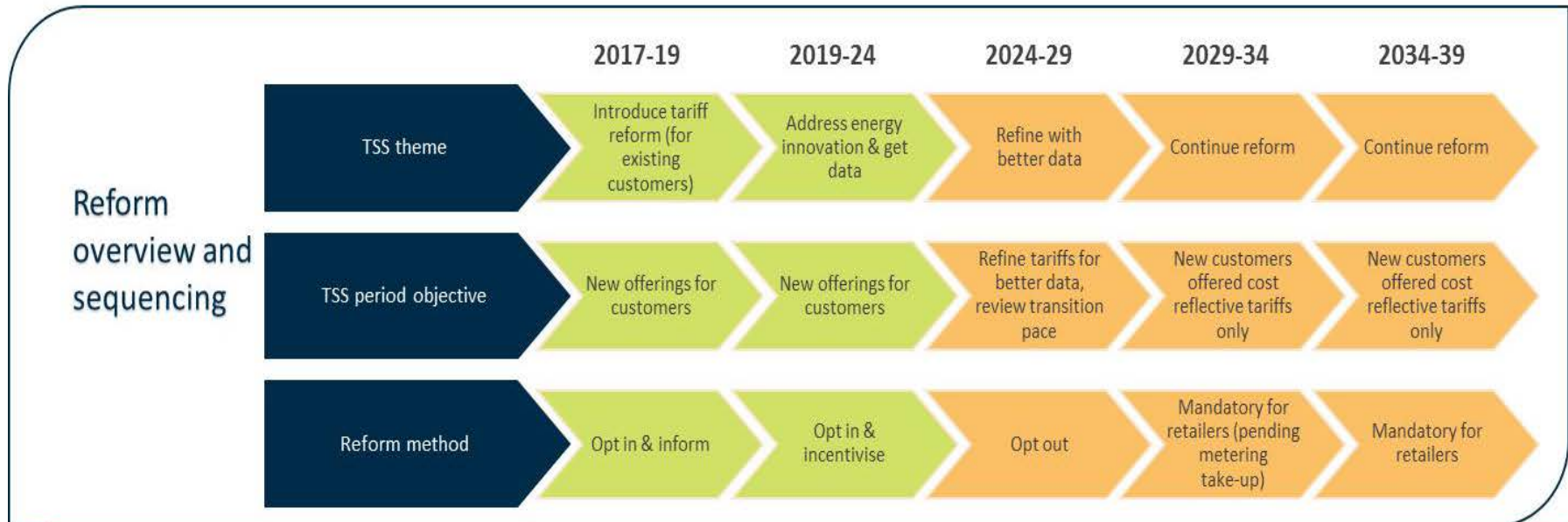
Proposed 2019-24 Tariff Structure Statement



- **2017-19 continuing our reforms by:**
 - developing cost reflective (time of use consumption and demand) tariffs for existing customer types, where our customers can choose to opt in
 - gradual rebalancing of our tariffs and revenues
- **We are proposing the 2019-24 TSS will:**
 - continue gradual reforms, which includes removal of nursing home, curtilage and controlled off peak (T61) no longer available to new customers
 - trial incentives to encourage all customers to consider demand based tariff options – 1 Dec 2018 start (end of grandfathered feed in tariff)
 - introduce new Distributed Energy Resources tariffs targeted to new customer types with emerging energy technologies, so all customers can benefit from lower costs
 - gather data to refine our tariff suite and transition plan
 - prepare for transition from mid-2024 to cost reflective pricing to retailers
- **Post June-2024 we are proposing:**
 - cost reflective pricing to retailers (opt-out instead of opt-in)
- **Advanced metering technology underpins the progress of pricing reform**



Network pricing reform overview

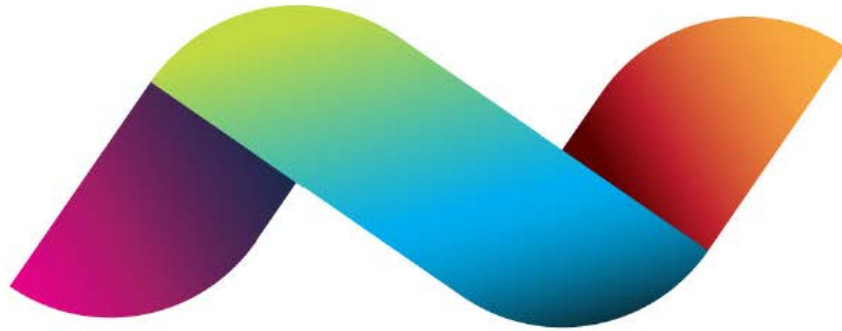


Where to from here

- We will continue to engage constructively with the AER and our customers
- We will be holding a 'Q&A' session for customers and stakeholders to further explain our proposal and areas of interest identified in the AER's Issues Paper
- We will be releasing further analysis of the impacts of our contingent projects, should they proceed
- We will consider the AER's draft decision in September and respond with our Revised Proposal in late November, including consideration of the revised draft Rate of Return Guideline

Closing comments

- We have listened to our customers.
- We are continuing to provide safe and reliable network services while maintaining downward pressure on prices and transforming our business to meet the challenges that lay ahead.



TasNetworks
Delivering your power