

Final Decision

TasNetworks Electricity Distribution and Transmission Determination 2024 to 2029 (1 July 2024 to 30 June 2029)

Overview

April 2024

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Inquiries about this publication should be addressed to:

Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601
Tel: 1300 585 165

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1	30 April 2024	65

List of attachments

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

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. In these circumstances, our draft decision reasons form part of this final decision.

The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision.

The final decision includes the following documents:

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Distribution determination attachments

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 7 – Corporate income tax

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

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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 is guided by the National Electricity Objective (NEO).

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 Tasmania (TAS) electricity distribution and transmission network service provider TasNetworks, for the period 1 July 2024 to 30 June 2029 (2024–29 period).

This final decision is the conclusion of over two and a half years work to determine what TasNetworks can recover from its customers in the 2024–29 period.

On 25 October 2021, TasNetworks formally requested we revise its Framework and approach (F&A) paper. The F&A is responsible for determining which services we will regulate, and why, and the broad nature of the regulatory arrangement. Our final decision on TasNetworks F&A was published in July 2022.

TasNetworks states that its combined distribution and transmission initial proposal, submitted on 31 January 2023, was shaped by consultation with its customers and stakeholders over its 18-month engagement program. It had been guided by the Better Resets Handbook (the Handbook), and while not on the early signal pathway, worked to develop an initial proposal that reflects consumer preferences and is capable of being accepted.¹

In March 2023, our Issues paper highlighted key elements of TasNetworks' proposal, based on our preliminary review that we considered likely to be the focus of our assessment. We also highlighted that additional factors impacting the Australian economy may affect TasNetworks' total revenue for the 2024–29 period. In particular, there has been increases in interest rates and inflation over the 2019–24 regulatory period.

We held a public forum in April 2023, to assist stakeholders in their consideration of TasNetworks' proposal, and received a number of submissions prior to publishing our draft decision on 28 September 2023.

Our draft decision acknowledged TasNetworks has provided a reasonable quality proposal, which it developed in some areas through a genuine engagement process. We accepted many aspects of TasNetworks' combined proposal, including proposed capital expenditure (capex) and operating expenditure (opex) for both distribution and transmission, and its tariff structure statement. We did not accept the projects triggers for any of 7 transmission contingent projects in the proposal. TasNetworks responded to our draft decision in its revised proposal, submitted 30 November 2023. Interested stakeholders were invited to provide submissions on our draft decision and TasNetworks' revised proposal.

¹ TasNetworks, *Combined Proposal 2024-29*, 31 Jan 2023, p. 2, 8 and pp. 15-18.

Our assessment has been balanced so that consumers only pay for what is necessary and in their long-term interests. When we undertake our expenditure assessments, we consider whether or not we are satisfied that proposed expenditure reasonably reflects prudent and efficient costs and a realistic expectation of future demand and cost inputs (the capex and opex criteria).² We must make our decision in a manner that will, or is likely to, deliver efficient outcomes in terms of the price, quality, safety, reliability and security of supply, and to achieve targets for reducing Australia's greenhouse gas emissions that benefit consumers in the long term (as required under the NEO).³

In practice, this has involved us applying our various analytical tools, such as the replacement capital expenditure (repex) model and our economic benchmarking for operating expenditure, scrutinising the business cases and supporting information provided by the businesses, and having regard to the advice provided by our expert consultants. In addition, our findings have been informed by the various stakeholder submissions we received, and the information on consumer preferences and priorities elicited through the consumer engagement processes of the businesses and from our Consumer Challenge Panel.

We have assessed that the majority of expenditure TasNetworks has proposed is likely to deliver these efficient outcomes and is therefore in the long-term interests of consumers.

Our final decision on TasNetworks' revised proposal

Our final decision is that TasNetworks can recover \$1,850.3 million (\$nominal, smoothed) for operating its distribution and \$886.6 million (\$nominal, smoothed), for operating its transmission network, from consumers over the 2024–29 period. Our final decision for distribution is \$24.7 million (1.4%) more than TasNetworks' revised proposal, and \$24.3 million (1.3%) more than our draft decision. Our final decision for transmission is \$15.7 million (1.8%) more than TasNetworks' revised proposal, and \$6.4 million (0.7%) more than our draft decision.

The increase in overall distribution and transmission revenues in this final decision compared to TasNetworks' revised proposal is mainly driven by updates in data related to external economic factors, such as a lower expected inflation rate (which increases the regulatory depreciation building block) and a higher forecast rate of return. For distribution, there are also higher revenue adjustment amounts, driven primarily by a lower Efficiency Benefit Sharing Scheme (EBSS) penalty compared to the revised proposal.

For illustrative purposes, we estimate that the total revenue from this final decision would result in an average increase of \$56 per annum to the average electricity bill for TasNetworks residential customers over the by 2024–29 period. For small business customers, the impact would be \$79. TasNetworks' revised proposal has sought to balance customer and stakeholder support for investment in renewables, uniform reliability and a commitment to sustainability against customer bill affordability as the number one concern. TasNetworks submitted that it kept downward pressure on costs in its revised proposal by keeping combined capex and opex lower than in the current period. TasNetworks also submitted that it did so without compromising its priorities around reliability, safety and other issues.

² National Electricity Rules (NER), cl.6.5.6(c) and cl. 6.5.7(c).

³ National Electricity Law (NEL), ss. 7, 16(1)(a).

We acknowledge that Tasmanian consumers face significant affordability issues. We have taken heed of the concerns expressed in submissions from several stakeholders on how these issues are taken into consideration in our determination.

As noted above, the higher costs compared to the 2019–24 determination are largely being driven by:

- external factors, being higher rates of return, higher actual inflation
- higher regulatory depreciation due to increased expenditure on short-lived assets
- impact of the EBSS penalty imposed during the 2019–24 period.

For TasNetworks, proposed expenditure is not a driver for higher distribution network costs, but is a driver of higher transmission network costs.

We are mindful that the increase in combined revenue for the final decision versus the decision for the 2019–24 period would have a significant impact on network charges for TasNetworks' customers. Consequently, we have smoothed the increase in expected revenues for TasNetworks over the first 4 years of the 2024–29 period. This will help ease the price increases for customers in the earlier years of the 2024–29 period.

Our final decision approves TasNetworks' proposed total forecast distribution net capex of \$729.1 million (\$2023–24). TasNetworks proposed \$729.3 million (\$2023–24) in its revised proposal. As in our draft decision, we are satisfied that this reasonably reflects prudent and efficient costs to maintain the safety, reliability and security of the network. We do however note that TasNetworks' forecasting approach was not consistent with our Better Resets Handbook capex expectations in some areas. Our final decision distribution capex forecast for TasNetworks is in accordance with our draft decision.

Our final decision approves TasNetworks' proposed total forecast transmission gross capex of \$289.8 million (\$2023–24). As in our draft decision, we are satisfied that this reasonably reflects prudent and efficient costs to maintain the safety, reliability and security of the network. Our final decision transmission capex forecast for TasNetworks is in accordance with our draft decision.

We did not accept any of TasNetworks' 7 transmission contingent projects in the initial proposal with a total estimated investment cost of \$905 million (\$2023–24). Since our draft decision and after consultation, TasNetworks has included 6 transmission contingent projects in its revised proposal. Of these, 5 are re-proposed from 6 of the original contingent projects, with 2 of these being consolidated into a single project. These 5 projects were re-proposed with revised triggers so that they meet the requirements of the NER.⁴ TasNetworks has also included in its revised proposal a new transmission contingent project to support the energy transition by improving the hosting capacity of the network in north west Tasmania with an estimated investment cost of \$174 million (\$2023–24).

We have accepted all 6 of TasNetworks' revised proposal contingent projects in our final decision at a total estimated potential investment of \$955 million. TasNetworks advises that they don't expect an increase in the network cost for customers over time if these projects are all triggered, as they expect the increased volumes that arise to offset any higher network

⁴ NER, cl. 6A.8.1(c).

cost. We will assess the impacts for customers when we receive these contingent project applications.

Our final decision is to approve total forecast distribution opex of \$541.0 million (\$2023–24), including debt raising costs, for the 2024–29 period. TasNetworks’ revised proposal accepted our distribution opex draft decision of \$541.0 million and did not update any aspects of the opex forecast. The key driver of the increase in distribution (and transmission) opex in the 2024–29 period relative to actual (and estimated) 2019–24 opex is the inclusion of two step changes for insurance premiums and cyber security costs. As in our draft decision, we are satisfied that this reasonably reflects prudent and efficient costs to maintain the safety, reliability and security of the network.

Our final decision is to approve total forecast transmission opex of \$209.2 million (\$2023–24), including debt raising costs, for the 2024–29 period. TasNetworks’ revised proposal accepted our transmission opex draft decision of \$209.2 million and did not update any aspects of the opex forecast. As in our draft decision, we are satisfied that this reasonably reflects prudent and efficient costs to maintain the safety, reliability and security of the network.

Our final decision is to approve TasNetworks’ revised 2024–29 TSS. TasNetworks accepted our draft decision on its tariff structure statement.⁵ Our final decision is consistent with our draft decision. We are satisfied that all elements of the TSS comply with the pricing principles for direct control services in the National Electricity Rules (NER) and are consistent with other applicable requirements of the NER.

We note stakeholder concerns around TasNetworks’ assignment policy for small customers and the slow pace of tariff reform. We consider the concerns stem from a misinterpretation of those policies, and we consider the pace of reform acceptable for Tasmania as discussed in Attachment 19 of our draft decision. We also accept TasNetworks’ reasons for not proposing new tariff options targeting flexible load like electric vehicles (EVs). We consider the suite of residential tariffs and tariff assignment policy is appropriate currently for managing EV charging load.

For TasNetworks, our final position is to maintain legacy metering as an alternative control service, with price caps. TasNetworks will use these services and accompanying tariffs to recover legacy metering costs from all historical legacy metering customers, consistent with our draft decision. In effect, legacy metering costs will be socialised, at network level, across remaining customers.

In Tasmania, metering costs are already socialised at the retail level under the Office of the Tasmanian Economic Regulator’s 2022 *Standing Offer Price Determination*, resulting in Tasmanian customers paying the same for metering services irrespective of their metering type (legacy or advanced). The Tasmanian Government has also committed to installation of advanced meters across Tasmania by the end of 2026.

TasNetworks’ revised proposal notes that it will seek to recover any residual metering costs (if any) as part of standard control in the 2029–34 period.⁶

⁵ TasNetworks, *Revised proposal*, 30 November 2023, p. 44.

⁶ TasNetworks, *Revised Proposal*, November 2023, p. 53.

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

Our draft decision reflected that the 2024–29 revenue determinations had been developed during a challenging time for energy consumers. Economy wide factors have resulted in higher inflation and interest rates, and cost-of-living pressures and affordability concerns continue to be important to consumers. Energy Consumers Australia’s recent sentiment survey observed that 54% of households believe having affordable energy prices is the most important issue for the future energy system (up 5%).⁷ While consumers note current cost-of-living pressures and the challenges ahead for the energy system in terms of the importance of affordable energy prices for all Australians, they are also considering the importance of the energy transition and the pace at which this should be occurring.⁸

Our final decisions for the 2024–29 businesses continue to seek the balance of affordability, with necessary expenditure required to support the energy transformation, and to address important emerging issues such as network cybersecurity, climate resilience, integration of Consumer Energy Resources (CER) and digitalisation.

Our draft decisions noted the role distributors could play in the energy transition. We also noted that the Australian Energy Market Operator’s (AEMO’s) recent Draft Integrated System Plan stated that the lowest cost way to supply electricity throughout Australia’s transition to a net zero economy is with new transmission and modernised distribution networks. These will connect a diverse mix of utility-scale renewables, rooftop solar and distributed solar, and firming technologies such as energy storage to consumers.⁹

AEMO’s Optimal Development Path (Step Change) includes a forecast of a four-fold increase in rooftop solar capacity by 2050, representing almost a third of total generation capacity. It also includes facilitating consumer-owned batteries and coordinated CER via Virtual Power Plants to deliver flexible demand response to the National Electricity Market, representing almost half of the total dispatchable capacity. AEMO’s draft 2024 Forecasting Assumptions update also outlines that electric vehicle (EV) uptake is forecast to increase from the 2023 yearly projections under all scenarios.¹⁰

Given these ongoing developments, we maintain that flexibility in response to a rapidly changing energy industry is important. We consider the national regulatory framework can adapt to changes in technology, emerging business models and evolving customer preferences.

Alongside the transitioning energy market, the current environment has several uncertainties that network businesses are required to consider, including evolving threats around cybersecurity and climate risk. These issues have been considerations for all businesses in developing their 2024–29 proposals. All have proposed, to varying extents, investments in the new and emerging areas of CER integration, climate resilience, and cybersecurity.

⁷ Energy Consumers Australia, <https://ecss.energyconsumersaustralia.com.au/sentiment-survey-dec-2023/>

⁸ See <https://ecss.energyconsumersaustralia.com.au/sentiment-survey-dec-2023/featured-content-household-sentiment-dec-2023/> ('Challenges ahead for the energy system' and 'Speed of transition')

⁹ AEMO, *Draft 2024 Integrated System Plan (ISP)*, 17 January 2024, pp. 9-11.

¹⁰ AEMO, *Draft 2024 Forecasting Assumptions Update*, December 2023, p. 24

We recognise the continuing need for investments in these important areas. We have provided efficient levels of funding to enable the businesses to continue to respond prudently to the cyber security risks and climate change-related risks that their networks face.

In addition, our decisions provide both necessary funding for export service levels so customers with rooftop solar may export their excess electricity to the grid, and appropriate price signals to optimise network capacity. Where network tariff price signals are passed through in a retail offer, and customers are well placed to respond, appropriately structured network tariffs can enable growth in the value and number of people with CER, particularly rooftop solar. Energy storage operating in line with the right price signals will direct more renewables to peak evening periods when fossil fuel generation still dominates supply.

Similarly for the forecast increase in electricity demand from a continued uptake of EVs, the right mix of investment and price will facilitate new, clean, forms of transport at least cost to electricity customers.

Innovation will assist customers who are able to respond with greater opportunities to reduce their bills. The accelerated roll-out of smart meters to customers, flagged by the AEMC's metering review, is a critical enabler for the energy transition, including the integration of CER work programs. Our decisions facilitate cost recovery of old legacy network-delivered meters in the quickest, least cost way to all customers.

The amended National Electricity Objective and the current regulatory determination resets

The NEL requires us to make our decision in a manner that contributes, or is likely to contribute, to achieving the NEO. The focus of the NEO is on promoting efficient investment in, and operation and use of, electricity services (rather than assets) in the long-term interests of consumers. This is not delivered by any one of the NEO's factors in isolation, but rather by balancing them in reaching a regulatory decision. Prior to the emissions objective rule change, the 2024–29 businesses' proposals were already considering the challenges faced by the energy transition, including the steps needed to deliver net zero.

Many of the businesses have been proactive in considering the impact of emissions reduction as part of their regulatory proposals. In considering customer and stakeholder engagement provided as part of the regulatory resets, many of these network service providers noted that stakeholders were advising that climate change mitigation was a priority to them and should be incorporated or prioritised accordingly in regulatory proposals.

We have had regard to the recently published interim value of emissions reduction in these final decisions where relevant. In the 2024–29 regulatory determinations, only a limited number of businesses used a quantitative value in their initial and revised proposals, and it was related to a relatively small component of the proposed overall expenditure, such as in the case of certain CER-related expenditure. In those cases, we have considered the interim value of emissions reduction in assessing whether to accept or reject specific programs as part of our final decisions.

Consumers at the centre of proposals

As outlined in our draft decision, consumer engagement is an important facet of our assessment; together with ensuring we are satisfied that the proposed forecast reasonably reflects prudent and efficient costs and a realistic expectation of future demand and cost inputs. Genuine engagement with consumers is resulting in better quality proposals.

Since the release of the Handbook we have seen a strong commitment from all 2024–29 businesses to engage with customers and have their preferences considered and reflected in their revenue proposals.¹¹

We acknowledged in our draft decision that TasNetworks has demonstrated a significant step-up in consultation with customers and stakeholders. However, it has been limited on some issues, particularly around affordability, contingent projects and opex. Since the draft determination TasNetworks has undertaken engagement in a more limited manner, primarily informing customers on the process and key issues. We consider there is scope for TasNetworks to improve its engagement at the revised proposal stage. We also urge TasNetworks to undertake more comprehensive engagement on the contingent projects.

TasNetworks maintained that consumer preferences heard through engagement have shaped its revised proposal. Support for investment in the energy transition has been actioned through transmission contingent projects. TasNetworks maintains there is moderation of potential customer bill impacts due to the contingent projects by updated triggers that result in new connecting loads contributing to the cost of network upgrades. TasNetworks also contends it has supported affordability by not proposing changes to expenditure in the revised proposal, despite increasing real costs and inflation. TasNetworks submitted that it will continue to absorb cost increases and pass efficiencies back to customers through the EBSS and CESS.

We think TasNetworks has also supported affordability through its proposed smoothing approach to establish the maximum allowed revenue. This is designed to moderate distribution customer bill shock early in the 2024–29 regulatory period.

The Consumer Challenge Panel, sub-panel 27 (CCP27) has highlighted that ongoing engagement is likely to deliver considerable benefits. Consumer engagement is likely to reduce the volume of bespoke reset-related engagement activities that are needed to adequately inform regulatory proposals, through businesses having a better understanding of the long-term insights from their consumers.¹²

CCP27 highlighted in its submission on TasNetworks' revised proposal the Handbook expectation to engage with consumers as an ongoing business-as-usual activity. CCP27 suggested that TasNetworks' Reset Advisory Committee (RAC), Customer Council (CC), and Policy and Regulatory Working Group (PRWG) have developed sound knowledge of TasNetworks operations and confidence to challenge the network. However, CCP27 has not seen evidence that TasNetworks retested customer preferences prior to lodging the revised proposal. CCP27 challenged TasNetworks to consider how to harness its various customer and stakeholder groups to establish a deeper ongoing engagement program. CCP27 also challenged TasNetworks to engage more broadly with customers, with test and retest of proposals to ensure customer preferences are considered at all stages.

¹¹ AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 13.

¹² Consumer Challenge Panel 27, *Advice to AER – TasNetworks Combined Revenue Reset Revised Proposal (Transmission and Distribution)*, January 2024, p. 19.¹³ The average increase to indicative distribution charges of 4.7% (\$2023–24) per annum reflects two components: 1) The final decision smoothed revenue average increase of 5.4% per annum (\$2023–24); and 2) The forecast energy delivered in TasNetwork's distribution network area which is expected to increase on average by 0.7% per annum.

Following this decision, we encourage TasNetworks to build on the work undertaken during this process to ensure consumer engagement becomes a sustainable and continuous business-as-usual process.

The 2024–29 final decisions mark the completion of the first businesses whose proposals have been developed using the expectations and guidance in the Handbook. We have heard from consumer stakeholders broadly, that while the guidance of the Handbook has been valuable, there should be consideration of the application of the Handbook and early signal pathway.

The Handbook not only sets important expectations on how network businesses engage with consumers, but outlines our expectations for capex, opex, regulatory depreciation and tariff structure statements. These aspects are important to ensure we continue to encourage networks to develop high quality proposals through genuine engagement with consumers and that meet our expectations to constrain cost increases.

We acknowledge the importance of seeking insights and learning from this process for future regulatory determinations. We are not undertaking a formal review of the Handbook at this stage, however we are capturing the feedback already provided and have been refining our process in response. We will continue to develop the successful application of the Handbook as we work with the businesses on current and upcoming determinations.

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1 Our final decision

Our final decision allows TasNetworks to recover total revenues of \$1,850.3 million (\$ nominal, smoothed) for its distribution network and \$886.6 million (\$ nominal, smoothed) for its transmission 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 distribution and transmission networks, and the key differences between our final decision distribution and transmission revenues compared to the \$1,826.0 million for distribution and \$880.1 million for transmission in our draft decision, and the \$1,825.6 million for distribution and \$870.9 million for transmission in TasNetworks' revised proposal.

1.1 What is driving revenue?

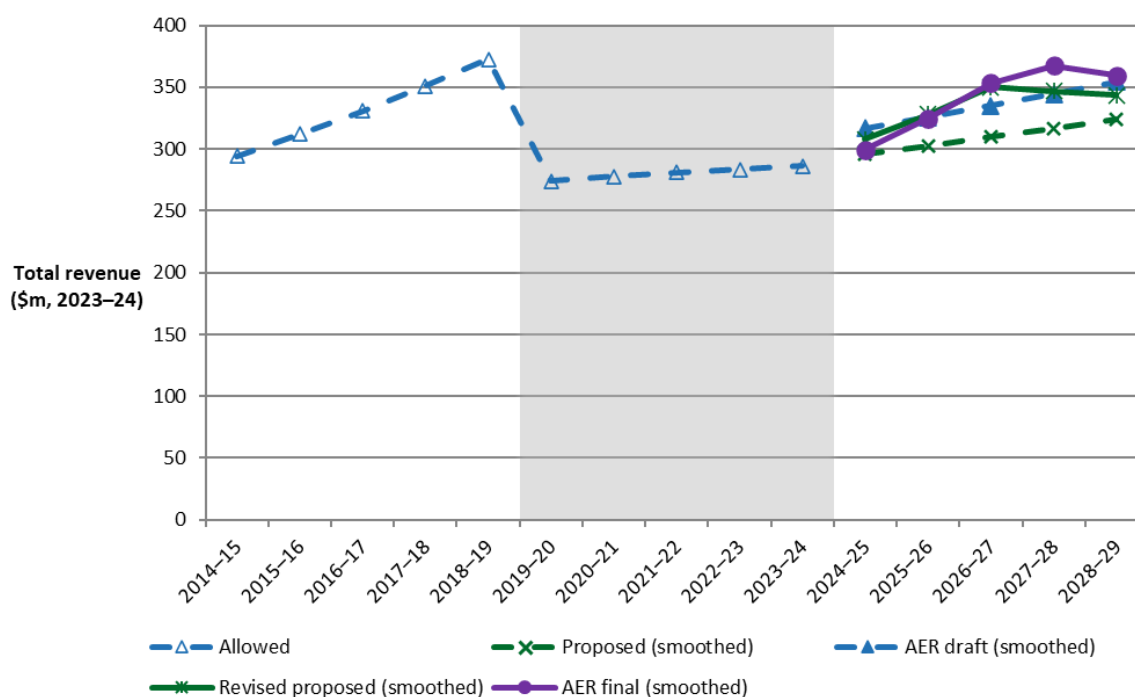
Revenue is driven by changes in real costs and inflation. We assess costs (such as capex and opex) in real terms.

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.

Distribution

In real terms, this final decision would allow TasNetworks to recover \$1,704.7 million (\$2023–24, smoothed) for its distribution network from consumers over the 2024–29 period. This is 21.5% higher than our decision for the current (2019–24) period. Changes in TasNetworks' distribution revenue over time are shown in Figure 1.

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

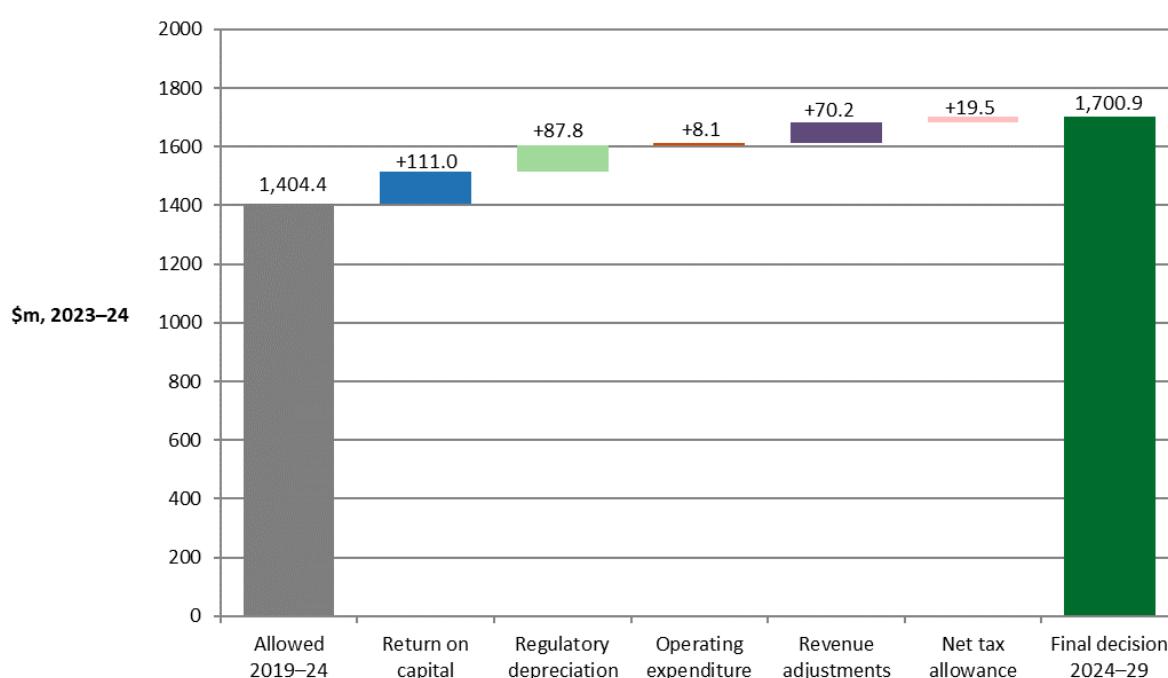


Source: AER analysis.

In real terms, this final decision would allow TasNetworks to recover a total building block revenue of \$1,700.9 million (\$2023–24, unsmoothed) over the 2024–29 period. Figure 2 highlights the key drivers of the change between the distribution revenue approved for TasNetworks for the 2019–24 period and in this final decision for the 2024–29 period. Similar to our observations in the draft decision, it shows that our final 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 \$111.0 million (20.6%) higher than the 2019–24 period, driven by higher actual inflation indexation of the RAB in that period, and a higher rate of return being applied in the 2024–29 period, in accordance with the 2022 Rate of Return Instrument
- return of capital (regulatory depreciation), which is \$87.8 million (23.2%) higher than the 2019–24 period, driven primarily by 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 \$8.1 million (1.5%) higher than the 2019–24 period, driven primarily by step changes for insurance premiums and cyber security costs
- revenue adjustments, which are \$70.2 million higher than the 2019–24 period, mainly due to significantly lower EBSS penalties determined in this final decision compared to the 2019–24 period
- net tax allowance, which is \$19.5 million (71.9%) higher than the 2019–24 period, primarily due to a higher return on equity and a higher regulatory depreciation amount determined in this final decision compared to the 2019–24 period.

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

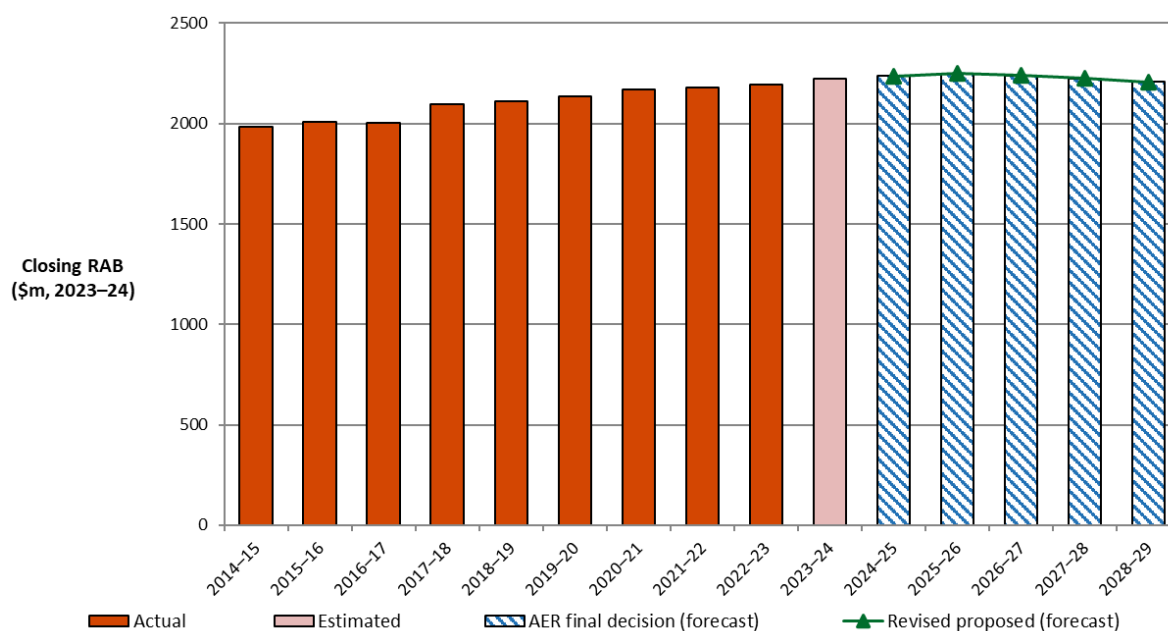


Source: AER analysis.

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

Figure 3 shows the value of TasNetworks' distribution RAB over time. After a RAB increase of 5.2% in real terms over the 2019–24 period, our final decision results in a forecast reduction of the RAB by \$14.0 million (\$2023–24) or 0.6% over the 2024–29 period. As we observed in the draft decision, this reduction is mainly driven by higher forecast straight-line depreciation and lower forecast capex over the 2024–29 period compared to the 2019–24 period.

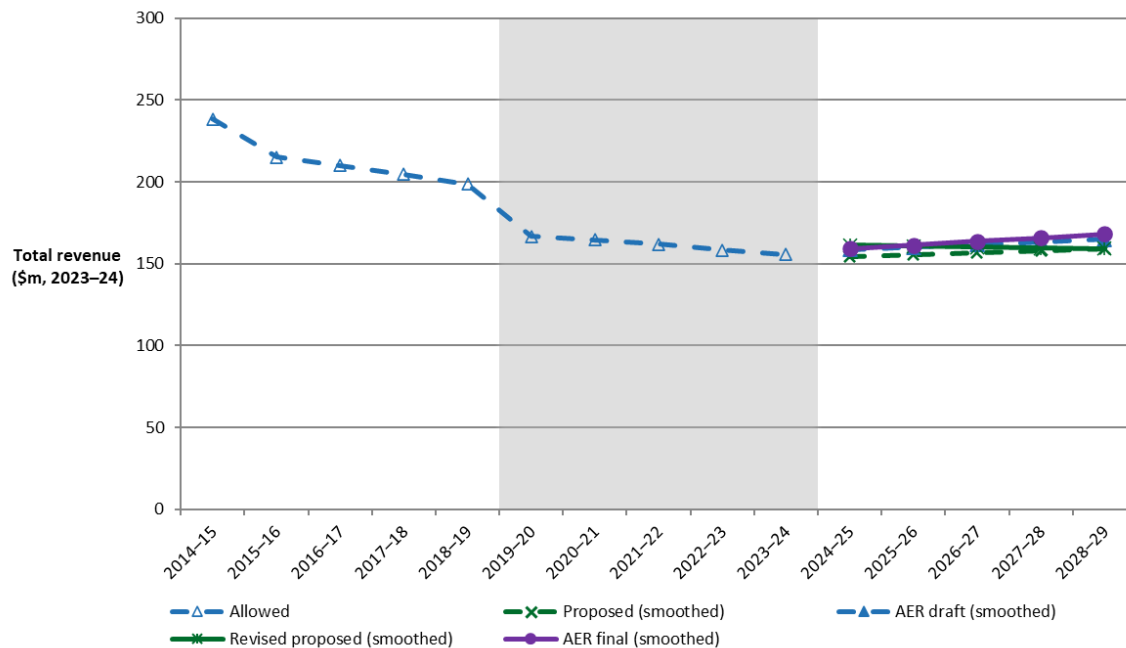
Figure 3 TasNetworks' distribution RAB value over time (\$ million, 2023–24)



Source: AER analysis.

Transmission

In real terms, this final decision would allow TasNetworks to recover \$818.3 million (\$2023–24, smoothed) for its transmission network from consumers over the 2024–29 period. This is 1.4% higher than our decision for the current (2019–24) period. Changes in TasNetworks' transmission revenue over time are shown in Figure 4.

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

Source: AER analysis.

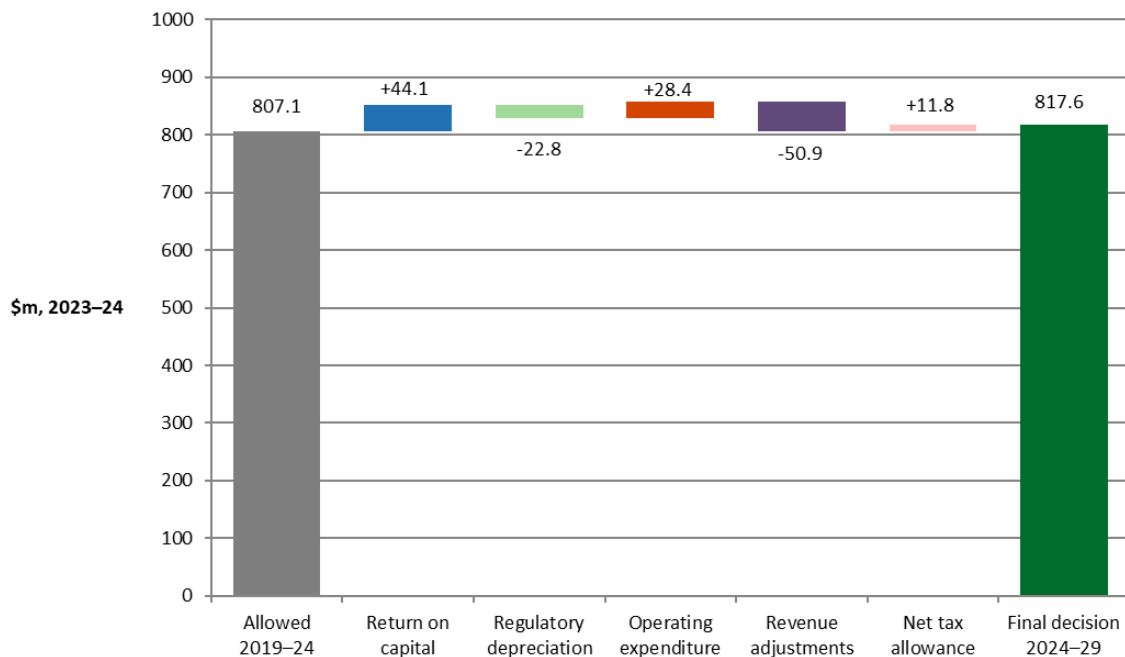
In real terms, this final decision would allow TasNetworks to recover a total building block revenue of \$817.6 million (\$2023–24, unsmoothed) over the 2024–29 period for its transmission network. Figure 5 highlights the key drivers of the change between the transmission revenue approved for TasNetworks for the 2019–24 period and in this final decision for the 2024–29 period. Similar to our observations in the draft decision, it shows that our final decision provides for reductions in the building blocks for:

- return of capital (regulatory depreciation), which is \$22.8 million (17.0%) lower than the 2019–24 period, driven primarily by a higher indexation of the RAB for the 2024–29 period
- revenue adjustments, which are \$50.9 million lower than the 2019–24 period, mainly due to the lower EBSS penalties determined in this final decision compared to a EBSS reward in the 2019–24 period.

Figure 5 also shows that our final decision provides increases in the building blocks for:

- return on capital, which is \$44.1million (10.1%) higher than the 2019–24 period, driven by higher actual inflation indexation of the RAB in that period, and a higher rate of return being applied in the 2024–29 period, in accordance with the 2022 Rate of Return Instrument
- opex, which is \$28.4 million (15.7%) higher than the 2019–24 period, largely driven by two step changes for insurance premiums and cyber security costs
- net tax allowance, which is \$11.8 million 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 5 Changes in transmission total revenue between 2019–24 period and 2024–29 period (\$ million, 2023–24, unsmoothed)

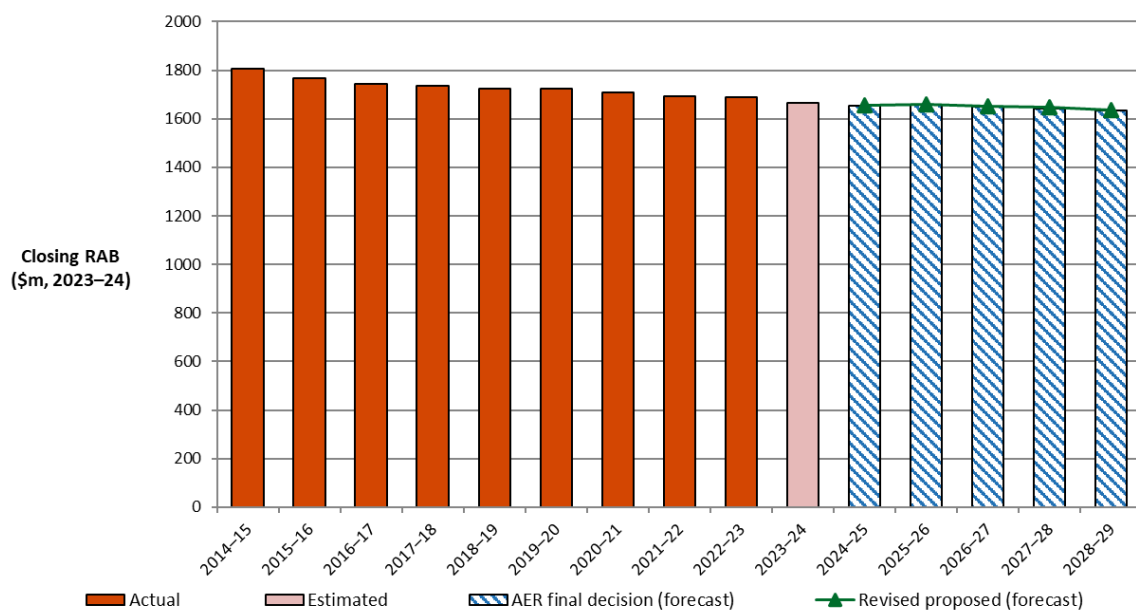


Source: AER analysis.

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

Figure 6 shows the value of TasNetworks' transmission RAB over time. After a RAB reduction of 3.3% in real terms over the 2019–24 period, our final decision results in a further forecast reduction of the RAB by \$33.3 million (\$2023–24) or 2.0% over the 2024–29 period. As we observed in the draft decision, this reduction is mainly driven by lower forecast capex and higher straight-line depreciation over the 2024–29 period compared to the 2019–24 period.

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



Source: AER analysis.

1.2 Key differences between our final decision and TasNetworks' revised proposal

Our draft decision accepted much of TasNetworks' proposal for its distribution and transmission networks, including its total capex and opex forecasts. TasNetworks' revised proposal accepted our draft decision with minor updates, which reflected the latest available inputs (such as the rate of return and inflation) and the subsequent mechanistic updates that need to be made to revenue requirements.

Distribution

Our final decision determines a total unsmoothed revenue that is \$25.8 million (1.5%) (\$2023–24) higher than TasNetworks' revised proposal. This is primarily due to a higher regulatory depreciation amount, driven by a lower expected inflation rate in our final decision than at the time of TasNetworks' revised proposal. Our final decision also determines higher revenue adjustments, driven primarily by a lower EBSS penalty compared to TasNetworks' revised proposal.

Transmission

Our final decision determines a total unsmoothed revenue that is \$16.1 million (2.0%) (\$2023–24) higher than TasNetworks' revised proposal. This is primarily due to a higher regulatory depreciation amount, driven by a lower expected inflation rate in our final decision than at the time of TasNetworks' revised proposal.

1.3 Expected impact of our final decision on electricity bills

Distribution

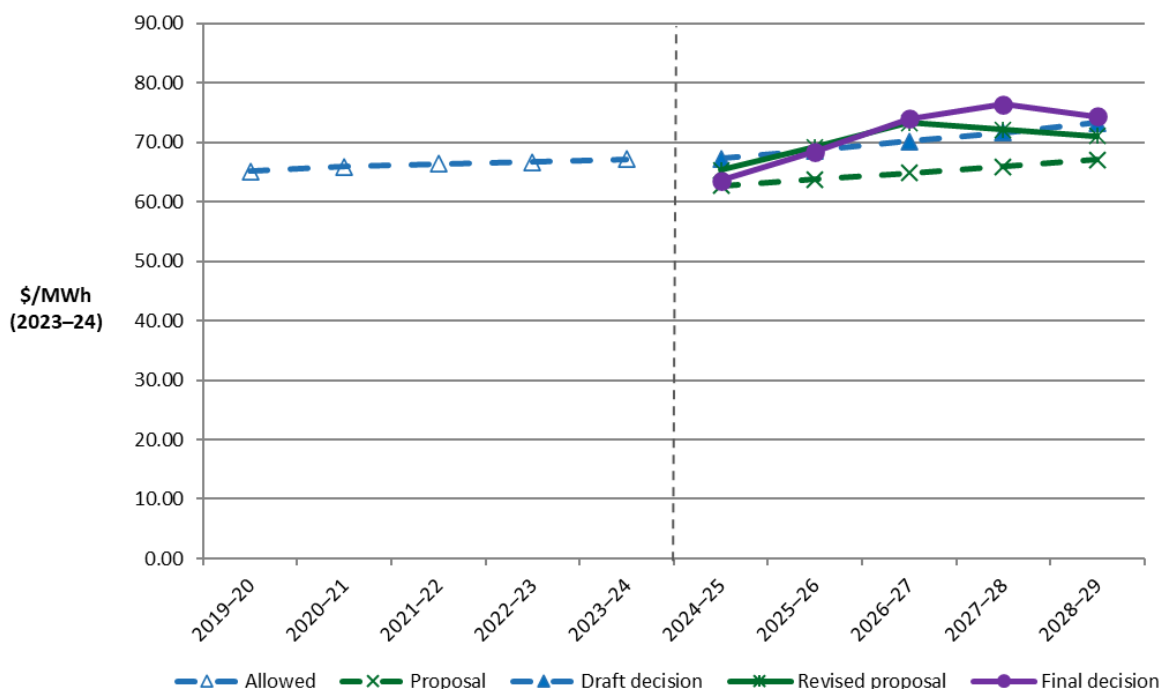
TasNetworks recovers its distribution regulated revenue through distribution charges, set annually by reference to the tariff structure statement and pricing formulae approved by us as part of this decision.

For illustrative purposes only, we estimate the impact of this final decision would be a total increase to TasNetworks' distribution network charges of around 25.7% in real terms by 2028–29 compared to 2023–24 levels, or an average increase of 4.7% per annum.¹³ This estimate will be subject to ongoing revenue adjustments and changes in consumer energy consumption.

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

¹³ The average increase to indicative distribution charges of 4.7% (\$2023–24) per annum reflects two components: 1) The final decision smoothed revenue average increase of 5.4% per annum (\$2023–24); and 2) The forecast energy delivered in TasNetwork's distribution network area which is expected to increase on average by 0.7% per annum.

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



Source: AER analysis.

Transmission

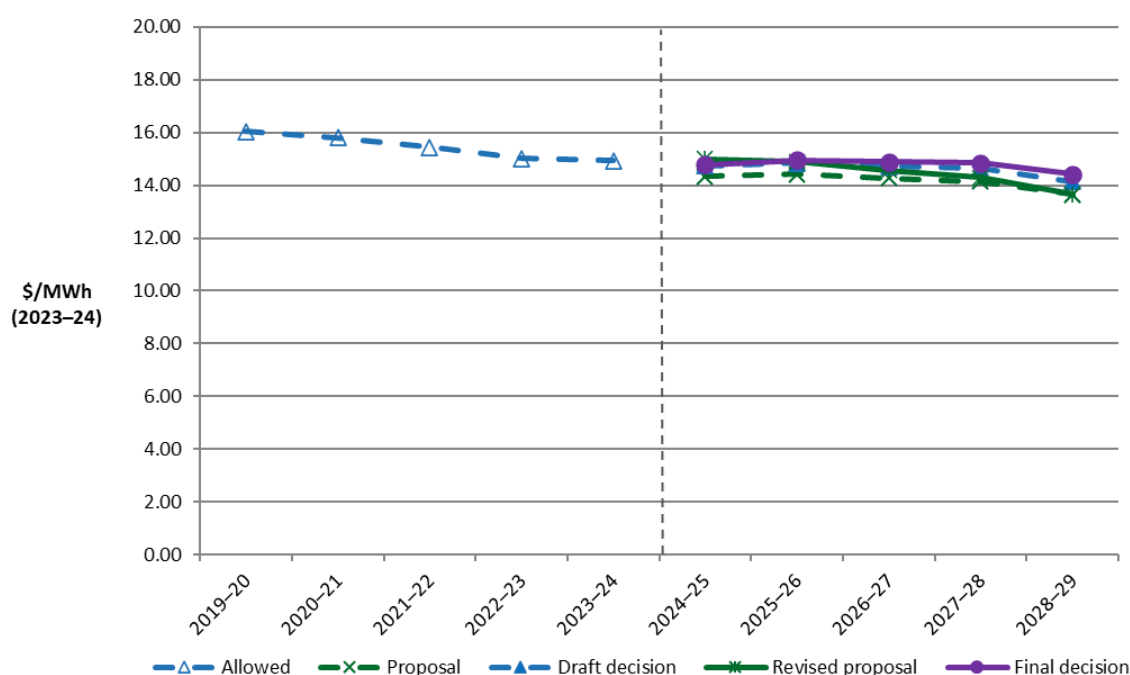
TasNetworks recovers its transmission regulated revenue through transmission charges, set annually in accordance with the pricing methodology approved by us as part of this decision.

For illustrative purposes only, we estimate the impact of this final decision would be a total reduction to TasNetworks' transmission network charges of around 2.6% in real terms by 2028–29 compared to 2023–24 levels, or an average reduction of 0.5% per annum.¹⁴

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

¹⁴ The average reduction to indicative transmission charges of 0.5% (\$2023–24) per annum reflects two components: 1) The final decision smoothed revenue average increase of 1.4% per annum (\$2023–24); and 2) The forecast energy delivered in TasNetwork's transmission network area which is expected to increase on average by 1.9% per annum.

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



Source: AER analysis.

1.3.1 Potential bill impact

TasNetworks' combined distribution and transmission network charges make up around 35% of its residential customers' electricity bills and 36% 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.¹⁵ These sit outside the decision we are making here and will also continue to change throughout the period.

In nominal terms, which include the impact of expected inflation, the impact of this final decision would be an increase to TasNetworks' distribution and transmission component of consumers' energy bills. For illustrative purposes only, we estimate the impact of our final decision on the average annual electricity bill for a customer in Tasmania, as it is today, would be:

- an increase of \$280 (12.9%) by 2028–29, or an average of \$56 per annum for a residential customer
- would be an increase of \$395 (13.7%) by 2028–29, or an average of \$79 per annum for a small business customer.¹⁶

¹⁵ AEMC, *Data Portal*, [Trends in Tasmania supply chain components](#) 2023/24.

¹⁶ Our estimated bill impact is based on the typical annual electricity usage of 7,428 kWh and 8,782 kWh for residential and small business customers in Tasmania, respectively. Source: TasNetworks, *TasNetworks-(D) Workbook 5 Indicative Bill-Dec-22-Public*, January 2023. Office of the Tasmanian Economic Regulator, *Typical Electricity Customers in Tasmania*, September 2022.

Our decisions on TasNetworks' revised proposals for its distribution and transmission 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 include cost pass through events or contingent projects approved in this final decision. The triggers we have set out for these events or contingent projects in this decision will, if met, allow TasNetworks to apply for additional revenue throughout the period, at which point proposed costs will be subject to further consultation and assessment.

1.4 Consumer Engagement

Our draft decision acknowledged that TasNetworks had demonstrated a significant step-up in consultation with customers and stakeholders in accordance with the Better Resets Handbook expectations.¹⁷ However, the quality of consumer engagement varied across the proposal, with limited engagement on the implications of contingent projects.

Our Consumer Challenge sub-panel 27 (CCP27) observed that TasNetworks met Handbook expectations and carried out genuine consumer engagement in relation to both distribution and transmission capex projects up till the draft decision. However, CCP27, along with other stakeholders, observed that there was limited engagement and a lack of transparency surrounding the bill impacts of contingent transmission projects. CCP27 also observed that TasNetworks did not undertake wide and extensive consumer engagement on opex.

Following submission of its initial proposal, TasNetworks focused on addressing the area of greatest contention which were contingent projects triggers and price impacts. TasNetworks also undertook collaborative engagement around the proposed introduction of a Customer Service Incentive Scheme (CSIS) and associated targets, and price path options for residential and small business distribution customers.

The key customer and stakeholder engagement themes identified by TasNetworks in its revised proposal included:

- keeping customers and stakeholders informed on the revenue reset process
- affordability for all customers as a priority
- transmission contingent project triggers and price impacts as the area of greatest concern
- the proposed Customer Service Incentive Scheme (CSIS) and associated targets
- price path options for residential and small business distribution customers.

We think that TasNetworks consultation prior to the revised proposal in relation to the contingent projects could have been better. Consultation is important, as in the absence of adequate consultation, we are less able to take consumer responses into account that reflect positively on the proposed expenditure.

¹⁷ AER, *Draft Decision Overview – TasNetworks – 2024-29 Distribution and Transmission revenue proposal*, September 2023.

TasNetworks submitted that engagement on contingent projects was to inform while CSIS and price path options was at a collaborative level.

TasNetworks submitted that consumer preferences have shaped its revised proposal. This includes support for the energy transition through proposed transmission contingent projects, with moderated bill impacts by updated triggers that ensure new loads contribute to the cost of the network upgrades. TasNetworks also submitted it has supported affordability by not increasing proposed expenditure in its revised proposal, despite cost increases.

TasNetworks submitted that it will continue to absorb cost increases and pass efficiencies back to customers through the EBSS and CESS. TasNetworks also flagged a proposed smoothing approach to maximum allowed revenue to moderate distribution customer bill shock.

CCP27 observed in its submission on the revised proposal and draft decision that the engagement process focused on keeping stakeholders aware of the process and of TasNetworks' considerations for the revised proposal. CCP27 was not confident that TasNetworks' has formally tested customer support for its revised proposal beyond informing customers and stakeholders. CCP27 also expressed concern and disappointment that TasNetworks, when questioned by customers, did not engage beyond providing basic information on approaches to developing proposals.

On affordability, CCP27 submitted that the size of expected bill increases is inconsistent with other networks, and that TasNetworks has not continued to broadly engage with customers to re-test support for elements of its proposals it can control. The revised proposal capex and opex forecasts are unchanged from those we accepted in the draft decision, leading CCP27 to question how customer preferences in relation to overall affordability have been reflected.

For contingent projects, CCP27 submitted that the revised proposal does not indicate customer support or engagement beyond informing of contingent project triggers. CCP27 further noted that customers remained uncertain and disengaged on triggers, bill implications for large customers, and project benefits.

CCP27 expressed concern that initial customer support for TasNetworks' commitment to renewable energy and sustainability may have changed due to cost-of-living pressures and forecast increases in network prices. CCP27 submitted it had not observed evidence of TasNetworks retesting of customer preferences.

Submissions from 4C Energy, ABEL Energy, Recurrent Energy and TasRex supported the proposed transmission contingent projects. However, Aurora Energy and Tasmanian Small Business Council expressed concerns for potential pressure on retail prices due to contingent projects and increases in proposed total revenue recovered from distribution and transmission. Concerns were expressed by Andrew Bowen, Salvation Army Housing Tasmania, ENTATAS and Tasmanian Renewable Energy Alliance on a lack of consultation around proposed obsolescence of flat rate tariffs for retail customers.

The Reset Advisory Committee, TasNetworks' peak advisory group, raised concerns about the potential impact of the contingent projects, particularly on consumer bills. It submitted that despite repeated requests, TasNetworks was reluctant to provide contingent project pricing impacts until immediately prior to submitting its revised proposal. The Reset Advisory Council considered that after the initial proposal was submitted, consultation became

informing only, with resistance to considering issues being raised, including affordability. It concluded that TasNetworks did a “reasonable job” on its revised proposal, with a few areas where TasNetworks “dropped the ball”, particularly around affordability.

We consider TasNetworks’ consumer engagement has been genuine in informing customers, with a significant step-up in consultation with customers and stakeholders in accordance with Better Resets Handbook expectations. However, it has been limited on some issues, particularly around affordability, contingent projects and opex.

2 Key components of our final decision on revenue

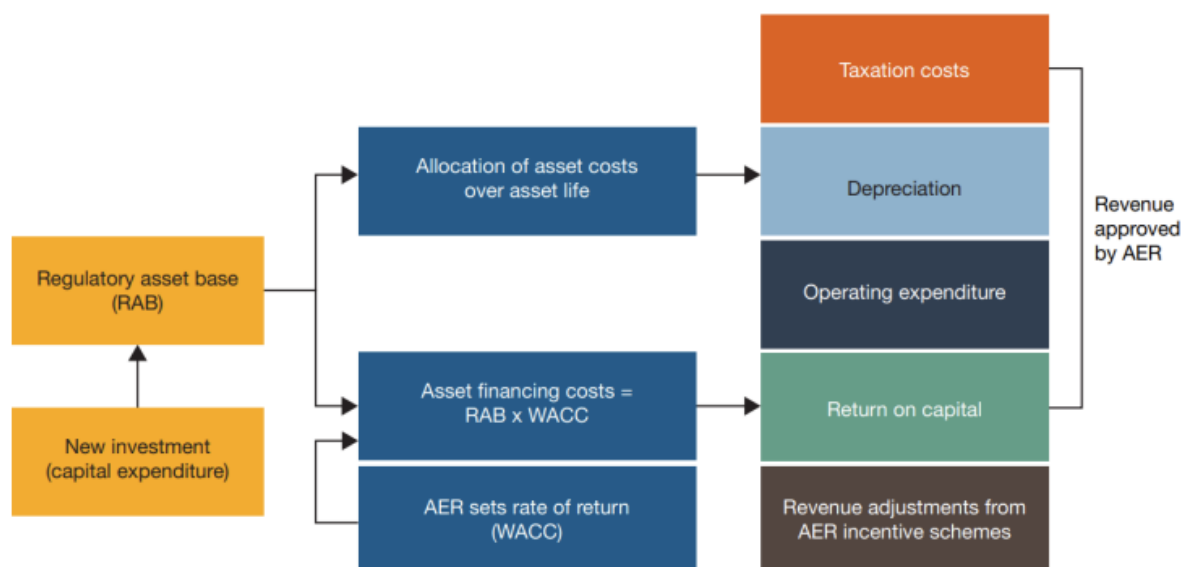
Building block approach

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 drive 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 distribution and transmission network services over the 2024–29 period. Its revenue proposal, and our assessment of it under the NEL and NER, 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 cost 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.

Revenue smoothing

Our final decision includes a determination of TasNetworks' annual revenue requirement (ARR) (unsmoothed revenue) for its distribution network and a determination of TasNetworks' annual building block revenue requirement (unsmoothed revenue) for its transmission network. We also determine the annual expected revenue (smoothed revenue) for TasNetworks' distribution network and the annual maximum allowed revenue (MAR) (smoothed revenue) for its transmission network across the 2024–29 period. The smoothed revenues we set in this final decision are the amounts that TasNetworks will target for its annual pricing purposes, and recover from its customers for the provision of standard control services and prescribed transmission services for each year of the 2024–29 period.¹⁸

The unsmoothed revenue is the sum of the various building block costs for each year of the regulatory control period, which can be lumpy over the period. To minimise price shocks, revenues are smoothed within a regulatory control period while maintaining the principle of cost recovery under the building block approach. As such, revenue smoothing requires diverting some of the cost recovery to adjacent years within the regulatory control period.

Revenue smoothing also helps to minimise any potential large revenue variance (and thus price shocks) at the commencement of the 2029–34 period. Our standard approach has been to keep a divergence of up to $\pm 3\%$ between the smoothed and unsmoothed revenues for the last year of the regulatory period, if this can achieve smoother price changes across the regulatory control periods.

For this final decision, we approved higher revenues than those in the draft decision and TasNetworks' revised proposal. This is mainly driven by external economic factors, which involves updating data to reflect a lower expected inflation rate, which increases the regulatory depreciation building block and a higher interest rate, which increases the allowed rate of return. For distribution, there are also higher revenue adjustments, driven primarily by a lower EBSS penalty compared to the revised proposal.

TasNetworks' unsmoothed revenues for the first year of the 2024–29 period (2024–25) are about 21.1% (\$ nominal) and 8.1% (\$ nominal) higher than its approved revenues for the last year of the 2019–24 period (2023–24) for its distribution and transmission networks, respectively. We are mindful that the magnitude of these increases in revenues would have a significant impact on network charges for TasNetworks' customers.

Consequently, we have smoothed the increase in revenues over the 2024–29 period for TasNetworks. We have also relaxed our standard approach to the final year difference between the smoothed and unsmoothed revenue being kept to $\pm 3\%$ for TasNetworks' distribution network, to further help ease the price increases for customers in the earlier years of the 2024–29 period. In the present circumstances, we have determined that the final year revenue difference is about 5%.

Our final decision results in:

¹⁸ Our final decision smoothed revenues have not factored in any changes arising from incentive scheme amounts, cost pass throughs or unders/overs reconciliation that usually occur in the annual pricing process to come up with the total allowed revenue.

- for distribution, an initial increase of 11.2% (\$ nominal) to the smoothed revenue in 2024–25, followed by average increases of 7.5% per annum over the remaining 4 years of the 2024–29 period.
- for transmission, constant increases of 4.1% (\$ nominal) per annum over the 2024–29 period.

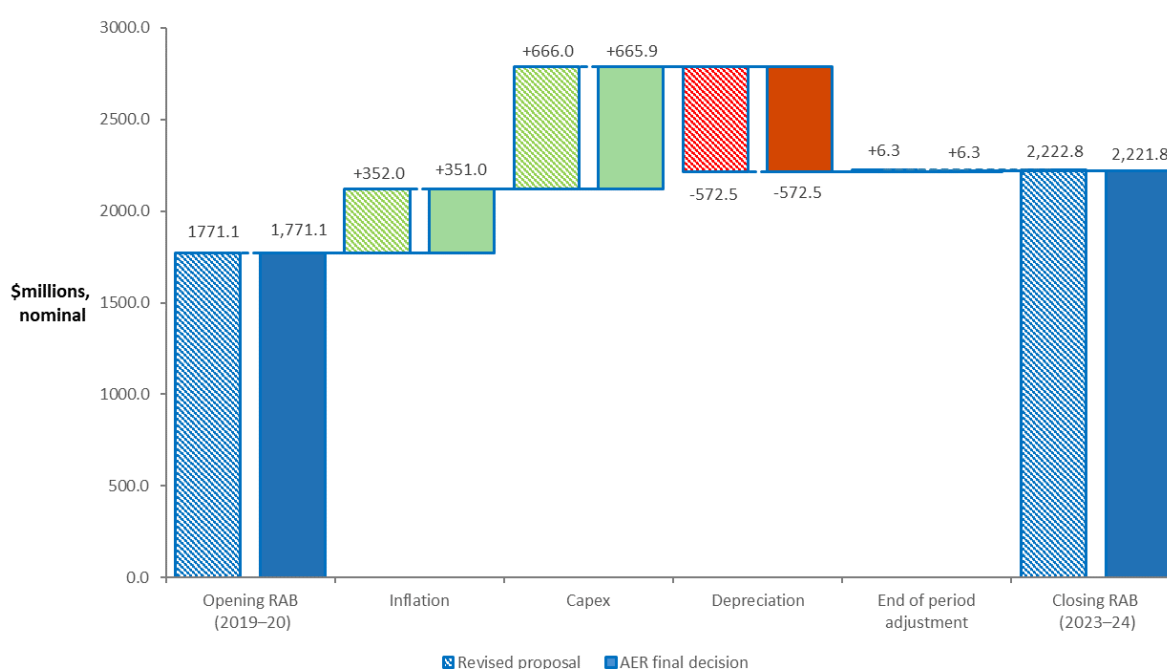
2.1 Regulatory asset base

The RAB accounts for the value of regulated assets over time. To set the value of the RAB for a new regulatory period, we take the opening value of the RAB from the end of the last period and roll it forward each 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 regulatory depreciation building blocks. It substantially impacts TasNetworks' revenue, and the price consumers ultimately pay. Other things being equal, a higher RAB would increase both the return on capital and regulatory depreciation components of the revenue determination.

2.1.1 Distribution

For this final decision, we have determined an opening distribution RAB value of \$2,221.8 million (\$ nominal) as at 1 July 2024. This value is \$1.1 million (0.05%) lower than TasNetworks' revised proposed opening distribution RAB of \$2,222.8 million. This reduction is largely due to the updates we made to the consumer price index (CPI) input for 2023–24 to reflect the actual outcome in the roll forward model (RFM). Figure 10 shows the key drivers of change in TasNetworks' distribution RAB over the 2019–24 period compared to its revised proposal.

Figure 10 Key drivers of change in the distribution RAB over the 2019–24 period – revised proposal compared to the AER's final decision (\$ million, nominal)

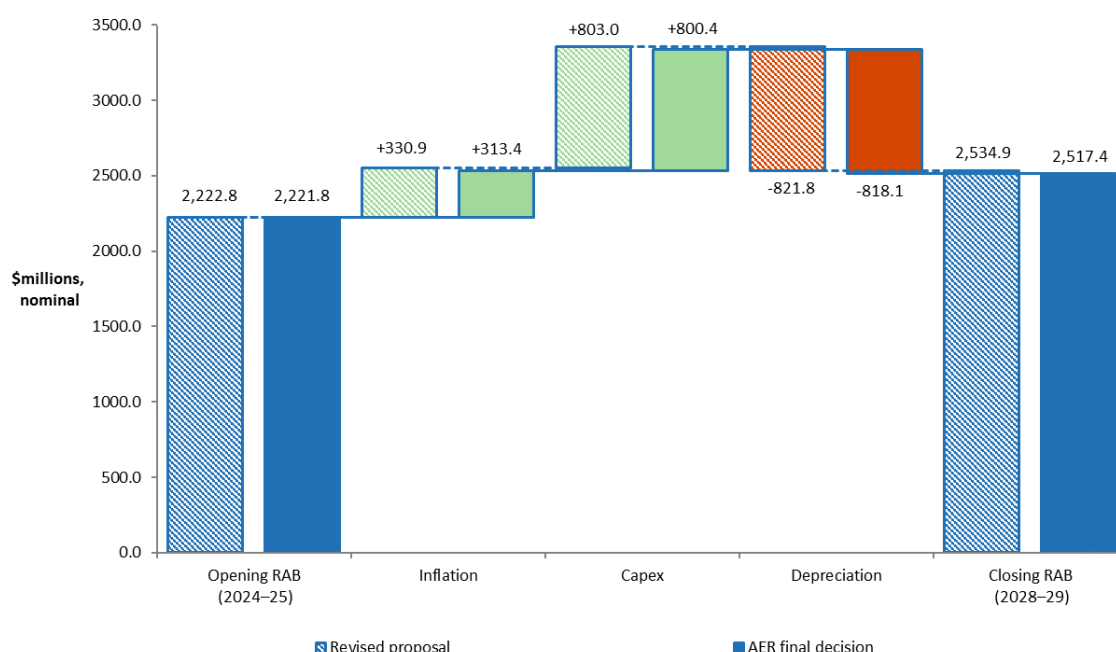


Source: AER analysis.

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 11 likewise shows the key drivers of change in TasNetworks' distribution RAB over the 2024–29 period compared to its revised proposal. Our final decision projects an increase of \$295.7 million (13.3%) to the RAB by the end of the 2024–29 period compared to the \$312.1 million (14.0%) increase in TasNetworks' revised proposal. We have determined a projected closing RAB of \$2,517.4 million (\$ nominal) as at 30 June 2029, which is \$17.5 million (0.7%) lower than TasNetworks' revised proposal of \$2,534.9 million. This lower value is mainly due to a lower expected inflation rate applied in our final decision. It also reflects our final decision on a lower opening RAB as at 1 July 2024, forecast capex and forecast depreciation (discussed in the sections below).

Figure 11 Key drivers of change in the distribution RAB over the 2024–29 period – revised proposal compared to the AER's final decision (\$ million, nominal)



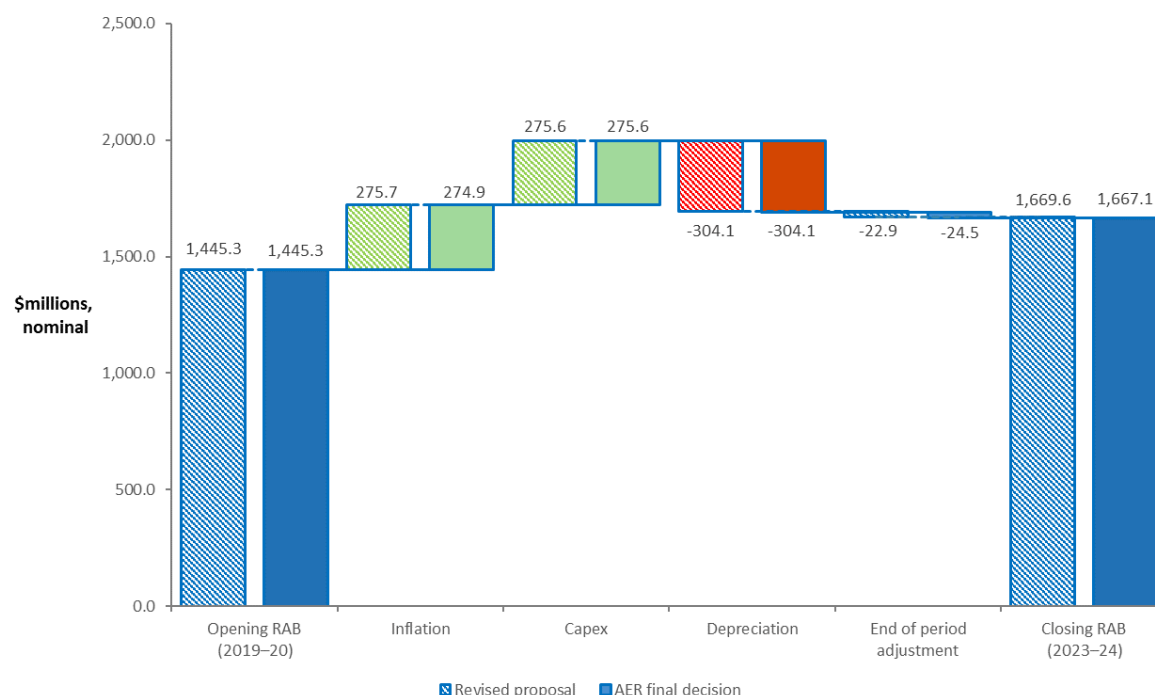
Source: AER analysis.

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 PTRM.

2.1.2 Transmission

For this final decision, we have determined an opening transmission RAB value of \$1,667.1 million (\$ nominal) as at 1 July 2024. This value is \$2.4 million (0.1%) lower than TasNetworks' revised proposed opening transmission RAB of \$1,669.6 million. This reduction is largely due to our decision to remove an additional \$1.6 million assets from TasNetworks' transmission RAB which are no longer providing prescribed connection services compared to the revised proposal. It is also due to the updates we made to the consumer price index (CPI) input for 2023–24 to reflect actual outcome in the roll forward model (RFM). Figure 12 shows the key drivers of change in TasNetworks' transmission RAB over the 2019–24 period compared to its revised proposal.

Figure 12 Key drivers of change in the transmission RAB over the 2019–24 period – revised proposal compared to the AER’s final decision (\$ million, nominal)

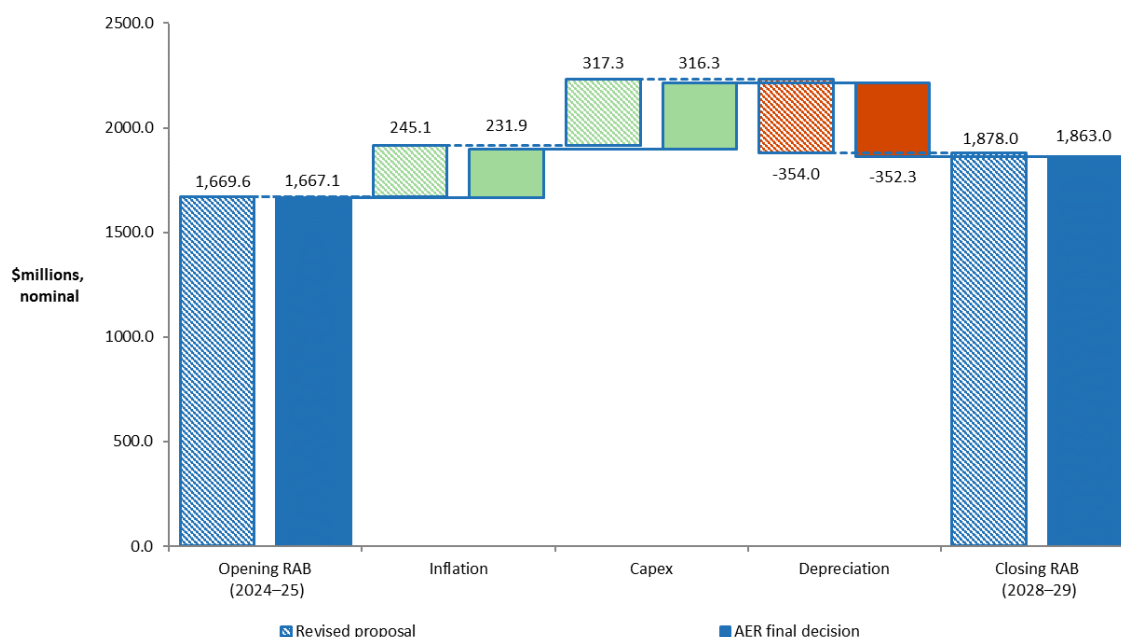


Source: AER analysis.

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

Figure 13 likewise shows the key drivers of change in TasNetworks’ transmission RAB over the 2024–29 period compared to its revised proposal. Our final decision projects an increase of \$195.9 million (11.7%) to the RAB by the end of the 2024–29 period compared to the \$208.4 million (12.5%) increase in TasNetworks’ revised proposal. We have determined a projected closing RAB of \$1,863.0 million (\$ nominal) as at 30 June 2029, which is \$14.9 million (0.8%) lower than TasNetworks’ revised proposal of \$1,878.0 million. This lower value is mainly due to a lower expected inflation rate applied in our final decision. It also reflects our final decision on a lower opening RAB as at 1 July 2024, forecast capex and forecast depreciation (discussed in the sections below).

Figure 13 Key drivers of change in the transmission RAB over the 2024–29 period – revised proposal compared to the AER’s final 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 PTRM.

2.2 Rate of return and value of imputation credits

The return each business is to receive on its RAB (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 RAB.

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 give a return on equity to investors.

The estimate of the rate of return is important for promoting efficient prices in the long-term interests of consumers. If the rate of return is set too low, the network business may not be able to attract sufficient funds to be able to make the required investments in the network and reliability may decline. Conversely, if the rate of return is set too high, the network business may seek to spend too much and consumers will pay inefficiently high tariffs.

The NEL requires us to apply the 2022 Rate of Return Instrument (Instrument)¹⁹ to estimate the rate of return for TasNetworks. TasNetworks’ revised proposal adopted the 2022 Instrument.²⁰ The rate of return (nominal vanilla) for TasNetworks Distribution and Transmission in this final decision are 5.87% and 5.84% respectively. These are higher than

¹⁹ AER, *Rate of return Instrument (version 1.2)*, February 2023. See <https://www.aer.gov.au/publications/guidelines-schemes-models/rate-of-return-instrument-2022/final-decision>

²⁰ TasNetworks, *Revised Proposal 2024-2029*, November 2023, pp. 33-34.

the 5.80% and 5.77% placeholder rates in the revised proposal for TasNetworks Distribution and Transmission respectively, principally due to an increase in interest rates.

Our calculated rate of return in Table 1 for TasNetworks Distribution and Table 2 for TasNetworks Transmission would apply to the first year of the 2024–29 regulatory control period. A different rate of return may apply for the remaining years of the 2024–29 regulatory control period. This is because we will update the return on debt component of the rate of return each year, in accordance with the 2022 Instrument, to use a 10-year trailing average portfolio return on debt that is rolled-forward each year. Hence, only 10% of the return on debt is calculated from the most recent averaging period, with 90% from prior periods.

Our final decision accepts TasNetworks' proposed risk-free rate²¹ and debt averaging periods²² because they satisfied the 2022 Instrument.²³ For TasNetworks Distribution and Transmission final decisions, we adopt the confidential appendices setting out the averaging periods issued with our draft decisions.

Table 1 Final decision on TasNetworks' distribution rate of return (nominal)

	AER's draft decision (2024–29)	TasNetworks' revised proposal (2024–29)	AER's final decision (2024–29)	Allowed return over the regulatory control period
Nominal risk-free rate	3.95%	3.95%	4.20% ^a	
Market risk premium	6.20%	6.20%	6.20%	
Equity beta	0.6	0.6	0.6	
Return on equity (nominal post-tax)	7.67%	7.67%	7.92%	Constant (%)
Return on debt (nominal pre-tax)	4.56%	4.56%	4.51% ^b	Updated annually
Gearing	60%	60%	60%	Constant (60%)
Nominal vanilla WACC	5.80%	5.80%	5.87% ^c	Updated annually for return on debt
Expected inflation	2.80%	2.80%	2.66%	Constant (%)

Source: AER analysis; AER, *Draft Decision Attachment 03 - Rate of return – TasNetworks - 2024-29 Distribution revenue proposal*, September 2023, p. 5; TasNetworks, *Revised Proposal 2024-2029*, November 2023, pp. 33–34.

²¹ AER - *Draft Decision Appendix A - CONFIDENTIAL Appendix to Attachment 3 - Rate of return - TasNetworks - 2024-29 Distribution revenue proposal*, September 2023, p. 4; AER - *Draft Decision Appendix A - CONFIDENTIAL Appendix to Attachment 3 - Rate of return - TasNetworks - 2024-29 Transmission revenue proposal*, September 2023, p. 1.

²² AER - *Draft Decision Appendix A - CONFIDENTIAL Appendix to Attachment 3 - Rate of return – TasNetworks – 2024-29 Distribution revenue proposal*, September 2023, p. 5; AER - *Draft Decision Appendix A - CONFIDENTIAL Appendix to Attachment 3 - Rate of return - TasNetworks - 2024-29 Transmission revenue proposal*, September 2023, p. 2.

²³ AER, *Rate of return Instrument (Version 1.2)*, February 2023, cl 7–8, 23–25.

- (a) Calculated using TasNetworks' actual nominated risk-free rate averaging period from 3 January 2024 to 31 January 2024.
- (b) Calculated using TasNetworks' actual nominated return on debt averaging period.
- (c) Applied to the first year of the 2024–29 regulatory control period.

Table 2 **Final decision on TasNetworks' transmission rate of return (nominal)**

	AER's draft decision (2024–29)	TasNetworks' revised proposal (2024–29)	AER's final decision (2024–29)	Allowed return over the regulatory control period
Nominal risk-free rate	3.95%	3.95%	4.20% ^a	
Market risk premium	6.20%	6.20%	6.20%	
Equity beta	0.6	0.6	0.6	
Return on equity (nominal post-tax)	7.67%	7.67%	7.92%	Constant (%)
Return on debt (nominal pre-tax)	4.51%	4.51%	4.46% ^b	Updated annually
Gearing	60%	60%	60%	Constant (60%)
Nominal vanilla WACC	5.77%	5.77%	5.84% ^c	Updated annually for return on debt
Expected inflation	2.80%	2.80%	2.66%	Constant (%)

Source: AER analysis; AER, *Draft Decision Attachment 03 - Rate of return – TasNetworks - 2024-29 Transmission revenue proposal*, September 2023, p. 5; TasNetworks, *Revised Proposal 2024-2029*, November 2023, pp. 33-34.

- (a) Calculated using TasNetworks' actual nominated risk-free rate averaging period from 3 January 2024 to 31 January 2024.
- (b) Calculated using TasNetworks' actual nominated return on debt averaging period.
- (c) Applied to the first year of the 2024–29 regulatory control period.

Debt and equity raising costs

In addition to providing for the required rate of return on debt and equity, we provide an allowance for the transaction costs associated with raising debt and equity. We include debt raising costs in the opex forecast because these are regular and ongoing costs, and equity raising costs in the capex forecast because these costs are incurred once and would be associated with funding particular capital investments. Our approach to forecasting capital raising costs is set out in more detail in our draft decision.²⁴

²⁴ AER - *Draft Decision - Attachment 3 - Rate of return – TasNetworks – 2024-29 Distribution revenue proposal*, September 2023, pp. 4-7.; AER - *Draft Decision - Attachment 3 - Rate of return – TasNetworks – 2024-29 Transmission revenue proposal*, September 2023, pp. 4-7.

TasNetworks has proposed to use our approach to estimate equity raising costs.²⁵ We have updated our estimate for the 2024–29 regulatory control period based on the benchmark approach using updated inputs. This results in equity raising costs of \$0.24 million and zero for TasNetworks Distribution and Transmission respectively.

Our final decision accepts TasNetworks' revised opex proposal. Therefore, we do not provide substitute estimates of its debt raising cost using our benchmark approach.²⁶

Imputation credits

Our final decision applies a value of imputation credits (gamma) of 0.57 as set out in the 2022 Instrument.²⁷ TasNetworks' revised proposal has also adopted the value of gamma set out in the 2022 Instrument.²⁸

Expected inflation

As set out in Table 3, our estimate of expected inflation is 2.66%. It is an estimate of the average annual rate of inflation expected over a five-year period based on the outcome of our 2020 inflation review.²⁹

TasNetworks' revised proposal adopted our current approach for estimating expected inflation.³⁰

Table 3 Final decision on TasNetworks' forecast inflation (%)

	Year 1	Year 2	Year 3	Year 4	Year 5	Geometric average
Expected inflation	3.10%	2.60%	2.57%	2.53%	2.50%	2.66%

Source: AER Analysis; RBA, Statement on Monetary Policy, February 2024, Table 3.1: Detailed Forecast Table. See <https://www.rba.gov.au/publications/smp/2024/feb/outlook.html#table31>

Our final decision uses the Reserve Bank of Australia's (RBA) February 2024 Statement of Monetary Policy (SMP) which contains a consumer price index (CPI) forecast for the year-ending June 2024 and June 2025. This means the first two years of the 2024–29 regulatory control period are based on RBA forecasts and, thereafter, a linear glide-path from year three to the mid-point of the RBA's inflation target band of 2.5% in year five.

Figure 14 and Figure 15 isolate the impact of expected inflation from other parts of our final decision to illustrate its effect on the return on capital and regulatory depreciation building

²⁵ TasNetworks, *Revised Proposal – Distribution – PTRM*, November 2023; TasNetworks, *Revised Proposal – Transmission – PTRM*, November 2023.

²⁶ TasNetworks, *Revised Proposal – Distribution – PTRM*, November 2023; TasNetworks, *Revised Proposal – Transmission – PTRM*, November 2023.

²⁷ AER, *Rate of return Instrument (version 1.2)*, February 2023, cl. 27.

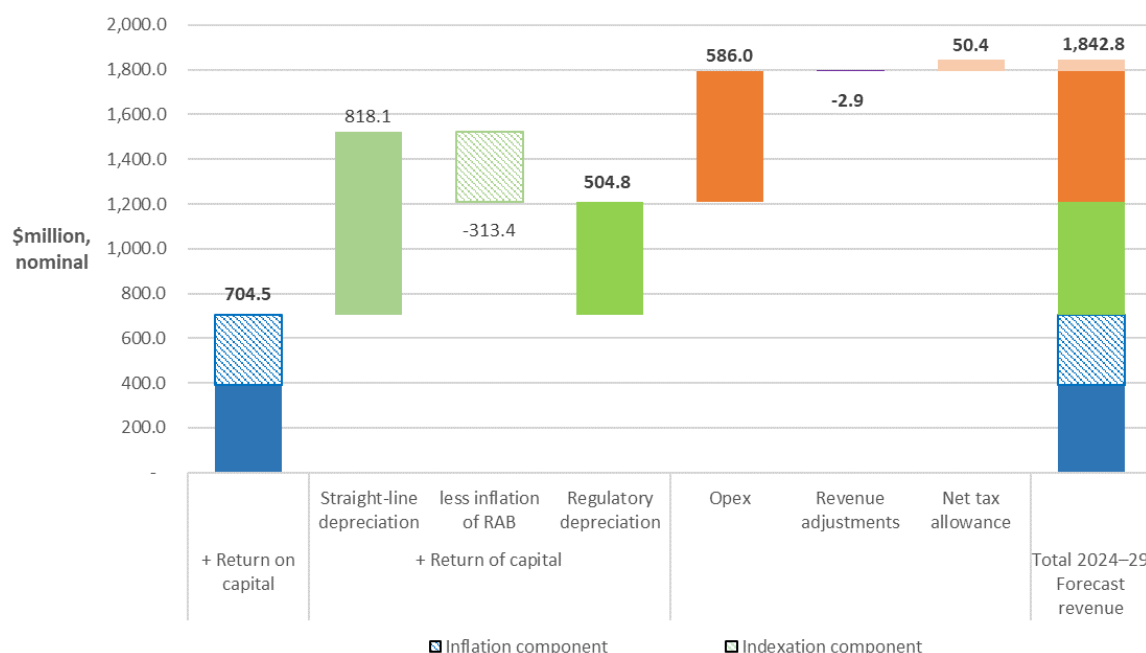
²⁸ TasNetworks, *Revised Proposal 2024-2029*, November 2023, pp. 33-34.

²⁹ AER, *Final position, Regulatory treatment of inflation*, December 2020.

³⁰ TasNetworks, *Revised Proposal 2024-2029*, November 2023, pp. 33-34.

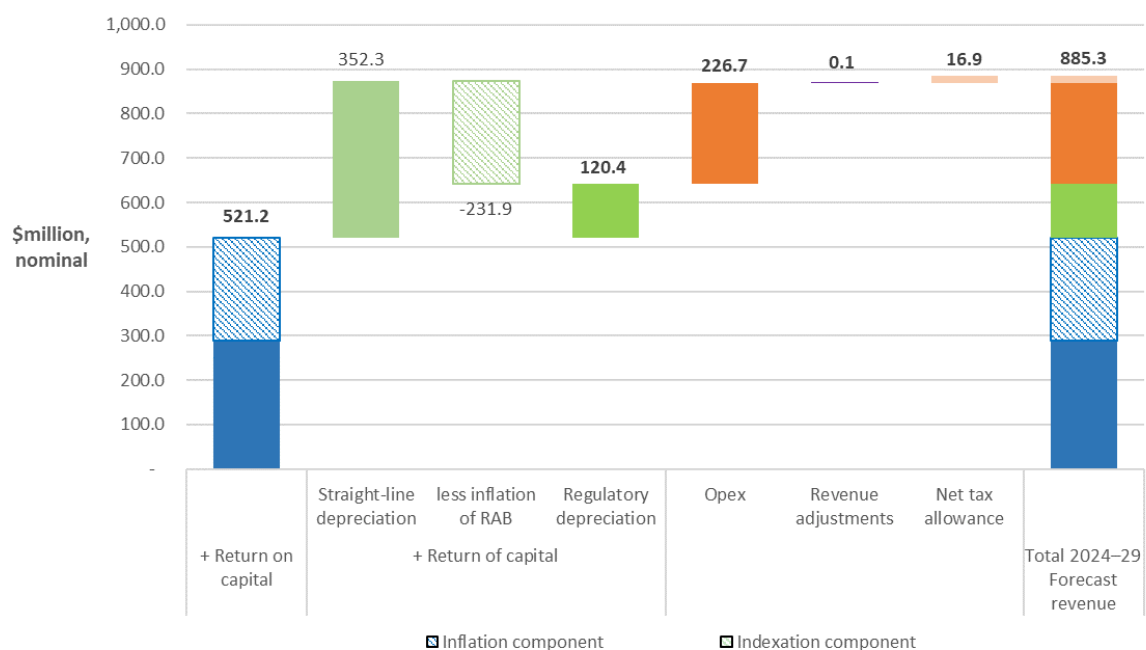
blocks, and the total revenue allowance. Other elements held constant, lower inflation reduces the return on capital, but increases regulatory depreciation.

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



Source: AER analysis.

Figure 15 Inflation components in final decision transmission 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 Distribution

Our final decision determines a regulatory depreciation amount of \$504.8 million (\$ nominal) for TasNetworks’ distribution network in the 2024–29 period. This is an increase of \$13.8 million (2.8%) from TasNetworks’ revised proposal of \$490.9 million.

This increase is primarily due to our final 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 this final decision reduces the indexation of the RAB that is offset against straight-line depreciation in determining regulatory depreciation. The reasons for our decision are discussed in Attachment 4.

2.3.2 Transmission

Our final decision determines a regulatory depreciation amount of \$120.4 million (\$ nominal) for TasNetworks’ transmission network in the 2024–29 period. This is an increase of \$11.5 million (10.5%) from TasNetworks’ revised proposal of \$108.9 million.

This increase is primarily due to our final 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 this final decision reduces the indexation of the RAB that is offset against straight-line depreciation in determining regulatory depreciation. The reasons for our decision are discussed in Attachment 4.

2.4 Capital expenditure

Capital expenditure (capex) refers to the investment made in the distribution and transmission networks to provide standard control 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.³¹

2.4.1 Distribution

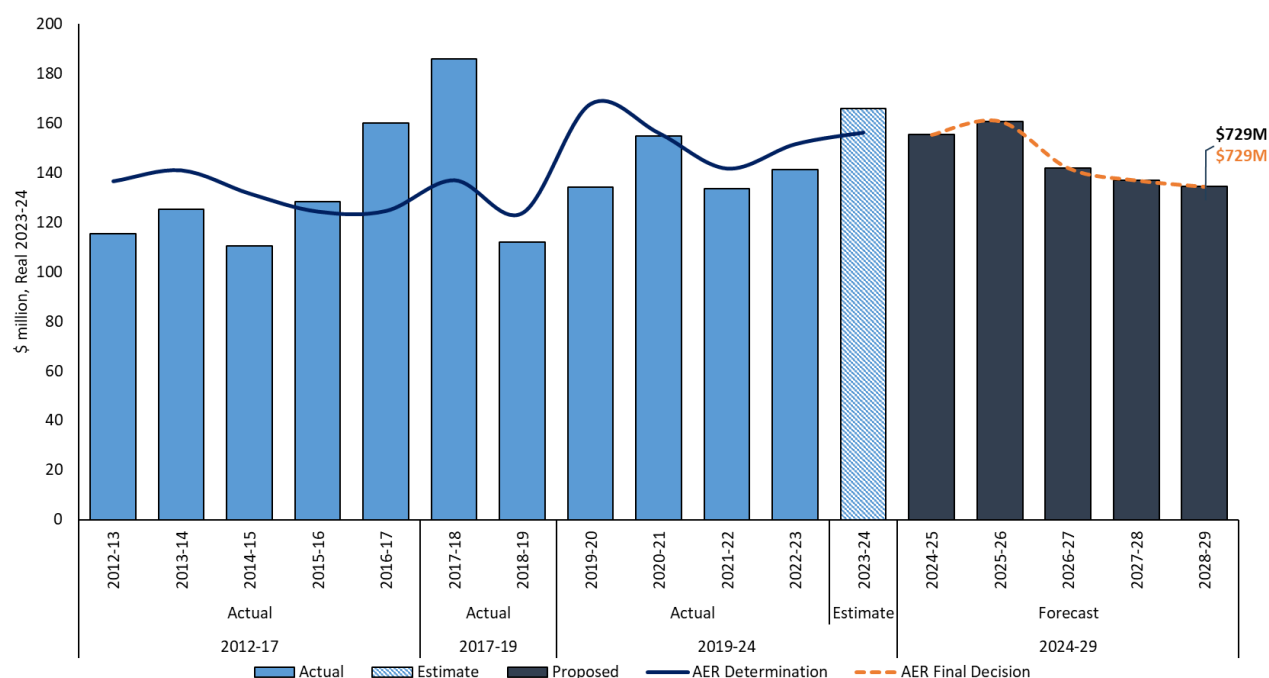
Our final decision approves TasNetworks’ total forecast distribution net capex of \$729.1 million (\$2023–24) for the 2024–29 period. As in our draft decision, we are satisfied that TasNetworks’ proposed distribution capex reasonably reflects prudent and efficient costs to maintain the safety, reliability and security of the network. Table 4 shows the annualised amount of the net capex forecast for TasNetworks’ proposal.

³¹ NER, cl. 6A.5.4(a).

Table 4 Annualised distribution net capex forecast and accepted in final decision for TasNetworks' proposal

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

Figure 16 below shows TasNetworks' historical capex trend for actual and forecast regulatory periods. TasNetworks' total forecast for the 2024–29 period is unchanged in real terms from actual and expected expenditure over the 2019–24 period.

Figure 16 Comparison of past and forecast distribution net capex (\$real, million)

As outlined in our Draft Decision, although we are broadly satisfied that TasNetworks' total capex is prudent and efficient, we have identified issues with the supporting 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 (DER) integration expenditure guidance note.³² 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 unchanged total capex relative to the current period. Additionally, we note that TasNetworks engaged extensively with its stakeholders in developing the capex included in its draft plan which is also largely reflected in its proposal.

³² AER, [DER integration expenditure guidance note](#), June 2022

2.4.2 Transmission

Our final decision approves TasNetworks' total forecast transmission gross capex of \$289.8 million (\$2023–24) for the 2024–29 period. As in our draft decision, we are satisfied that TasNetworks' proposed transmission capex reasonably reflects prudent and efficient costs to maintain the safety, reliability and security of the network. Table 5 shows the annualised amount of the gross capex forecast for TasNetworks' proposal.

Table 5 AER's final decision on TasNetworks' total gross capex forecast (million, \$2023–24)

	2023–24	2024–25	2025–26	2026–27	2027–28	Total
TasNetworks' proposal and AER final decision	52.2	68.1	59.1	58.2	52.2	289.8

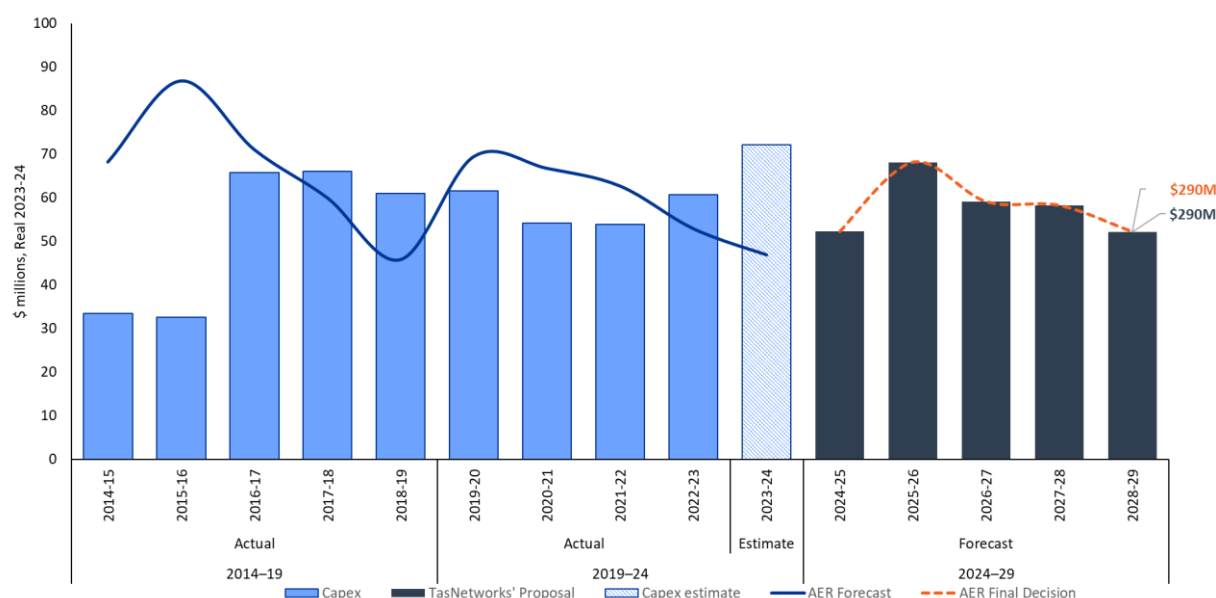
Source: AER analysis. Numbers may not sum due to rounding.

Figure 17 shows TasNetworks' historical gross capex trend for actual and forecast regulatory periods.

Our final decision is:

- \$12.6 million (or 4.2%) lower than TasNetworks' actual (and estimated) gross capex in the 2019 to 2024 regulatory control period.
- \$2 million (or 1%) higher than the TasNetworks' gross capex forecast we approved in our final decision for the 2019 to 2024 regulatory control period.

Figure 17 TasNetworks' transmission gross capital expenditure (million, \$2023–24)



Source: AER Analysis

TasNetworks also proposed 6 contingent projects. Contingent projects are projects which are reasonably required during the regulatory period but the need within the period and costs are

not sufficiently certain.³³ They are triggered by defined “trigger events”.³⁴ Trigger events are future events which are sufficiently likely to occur and are capable of being objectively observed.

In our draft decision, we did not accept TasNetworks set of contingent projects. We considered the triggers for these projects were not specific enough to be objectively verifiable and that further consultation was appropriate. We have engaged with TasNetworks, who subsequently provided a revised set of contingent project triggers. We are now satisfied that the triggers satisfy NER requirements.³⁵ We include the 6 projects in our final decision.

2.5 Operating expenditure

Opex refers to the operating, maintenance and other non-capital expenses incurred in the provision of network services. Forecast opex for standard control and prescribed transmission services is one of the building blocks we use to determine a service provider's annual total revenue requirement.

2.5.1 Distribution

Our final decision is to accept TasNetworks’ revised proposal total opex forecast of \$541.0 million (\$2023–24), including debt raising costs, for the 2024–29 regulatory control period.³⁶ Table 6 sets out the final decision total and annualised distribution opex forecast for the 2024–29 regulatory control period.

Table 6 Final decision on distribution opex (\$million, 2023–24)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
TasNetworks’ revised proposal and AER final decision	106.0	107.7	108.8	109.1	109.4	541.0

Source: TasNetworks, *Revised Proposal – Distribution PTRM*, November 2023; AER analysis.

Note: Includes debt raising costs

TasNetworks’ revised proposal accepted our opex draft decision of \$541.0 million³⁷ and did not update any aspects of the opex forecast. Our draft decision considered our alternative estimate of \$540.9 million (\$2023–24) was not materially different from TasNetworks’ proposed total opex forecast. Therefore, we considered that TasNetworks’ total opex forecast satisfied the opex criteria, having regard to the opex factors.³⁸ As TasNetworks accepted our draft decision without making any updates to its total proposed opex, we have accepted the revised proposal opex in our final decision, having regard to the submissions we received (discussed below). final decision.

³³ NER, cl. 6A.8.

³⁴ NER, cl. 6A.8.1(c).

³⁵ NER, cl. 6A.8.1(c).

³⁶ TasNetworks, *Revised Proposal*, November 2023, p. 26.

³⁷ AER, *Draft Decision TasNetworks Electricity Distribution Determination 2024 to 2029 Attachment 06, Operating expenditure*, September 2023, p. 1.

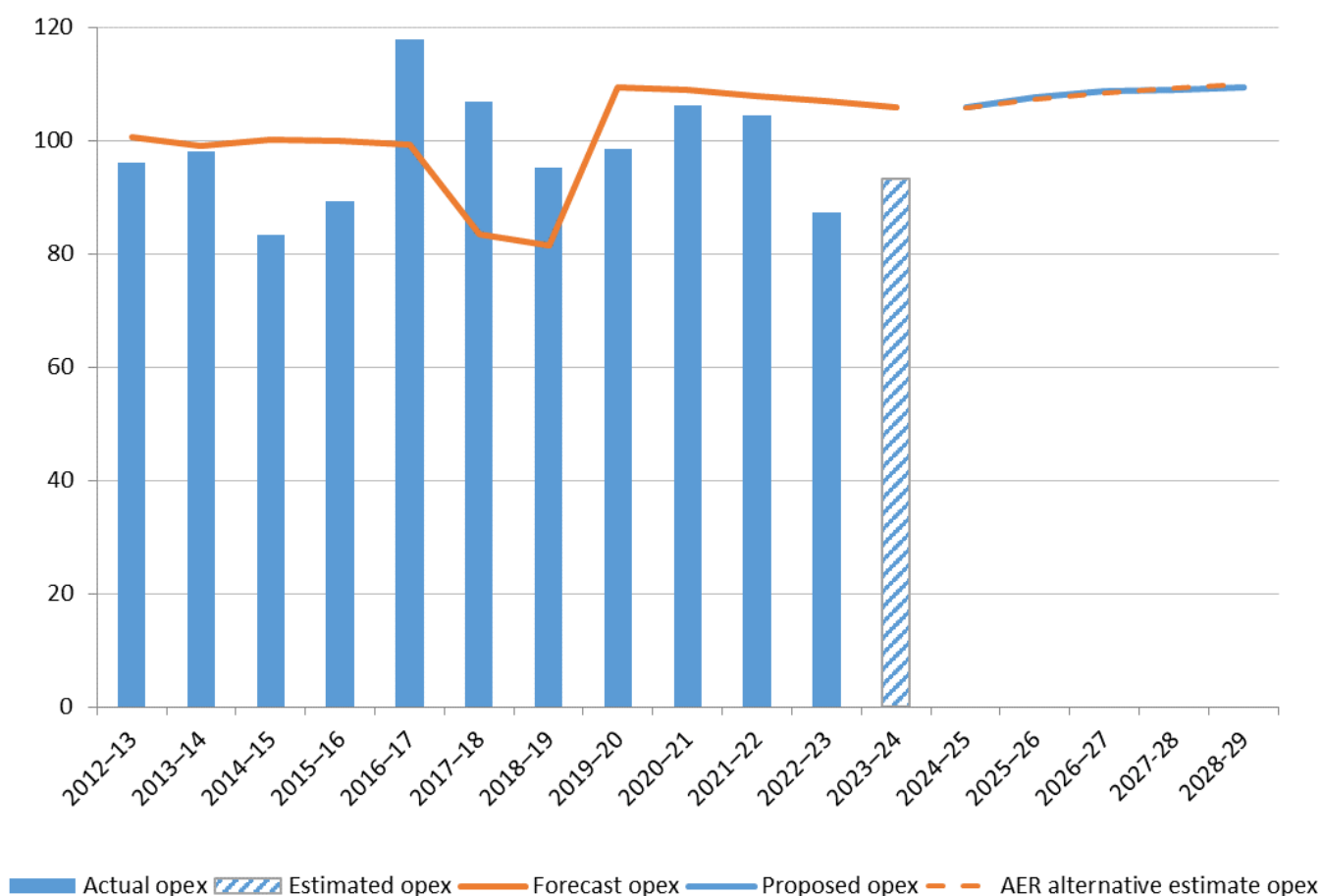
³⁸ NER, cl. 6.5.6(c) and cl. 6.5.6(e).

Figure 18 shows that our final decision opex forecast is:

- \$1.9 million (\$2023–24) or 0.4% higher than the opex forecast we approved in our final decision for the 2019–24 regulatory control period³⁹
- \$47.9 million (\$2023–24) or 9.7% higher than TasNetworks' actual (and estimated) opex in the 2019–24 regulatory control period.

The key drivers of the increase in distribution opex in the next regulatory control period relative to actual (and estimated) opex are the inclusion of two step changes for insurance premiums and cyber security costs.

Figure 18 Historical and forecast opex (\$million, 2023–24)



Source: TasNetworks, *Distribution economic benchmarking – regulatory information notice response (EB RIN) 2011–12 to 2022–23*; AER, *TasNetworks' distribution revenue determination, PTRM – Final decision (multiple periods 2012–17, 2017–19, 2019–24)*; TasNetworks, *2024–2029 PTRM – Standard control*, December 2022; TasNetworks, *2024–2029 Operating Expenditure Model – Standard control*, December 2022; AER analysis.
Note: Includes debt raising costs.

³⁹ This difference is calculated using unlagged inflation whereas the difference in section 1.1 has been calculated using lagged inflation

2.5.2 Transmission

Our final decision is to accept TasNetworks' revised proposal total opex forecast of \$209.2 million (\$2023–24), including debt raising costs, for the 2024–29 regulatory control period.⁴⁰ Table 7 sets out the final decision total and annualised transmission opex forecast for the 2024–29 regulatory control period.

Table 7 Final decision on transmission opex (\$million, 2023–24)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
TasNetworks' revised proposal and AER final decision	39.8	41.6	42.5	42.7	42.7	209.2

Source: TasNetworks, *Revised Proposal – Transmission PTRM*, November 2023; AER analysis.

Note: Includes debt raising costs.

TasNetworks' revised proposal accepted our opex draft decision of \$209.2 million⁴¹ and did not update any aspects of the opex forecast. Our draft decision considered our alternative estimate of \$210.7 million (\$2023–24) was not materially different from TasNetworks' proposed total opex forecast. Therefore, we considered that TasNetworks' total opex forecast satisfied the opex criteria, having regard to the opex factors.⁴² As TasNetworks accepted our draft decision without making any updates to its total proposed opex, we have accepted the revised proposal opex in our final decision, having regard to the submissions we received (discussed below).

Figure 19 shows that our final decision opex forecast is:

- \$26.3 million (\$2023–24) or 14.4% higher than the TasNetworks' opex forecast we approved in our final decision for the 2019–24 regulatory control period⁴³
- \$30.4 million (\$2023–24) or 17.0% higher than TasNetworks' actual (and estimated) opex in the 2019–24 regulatory control period.

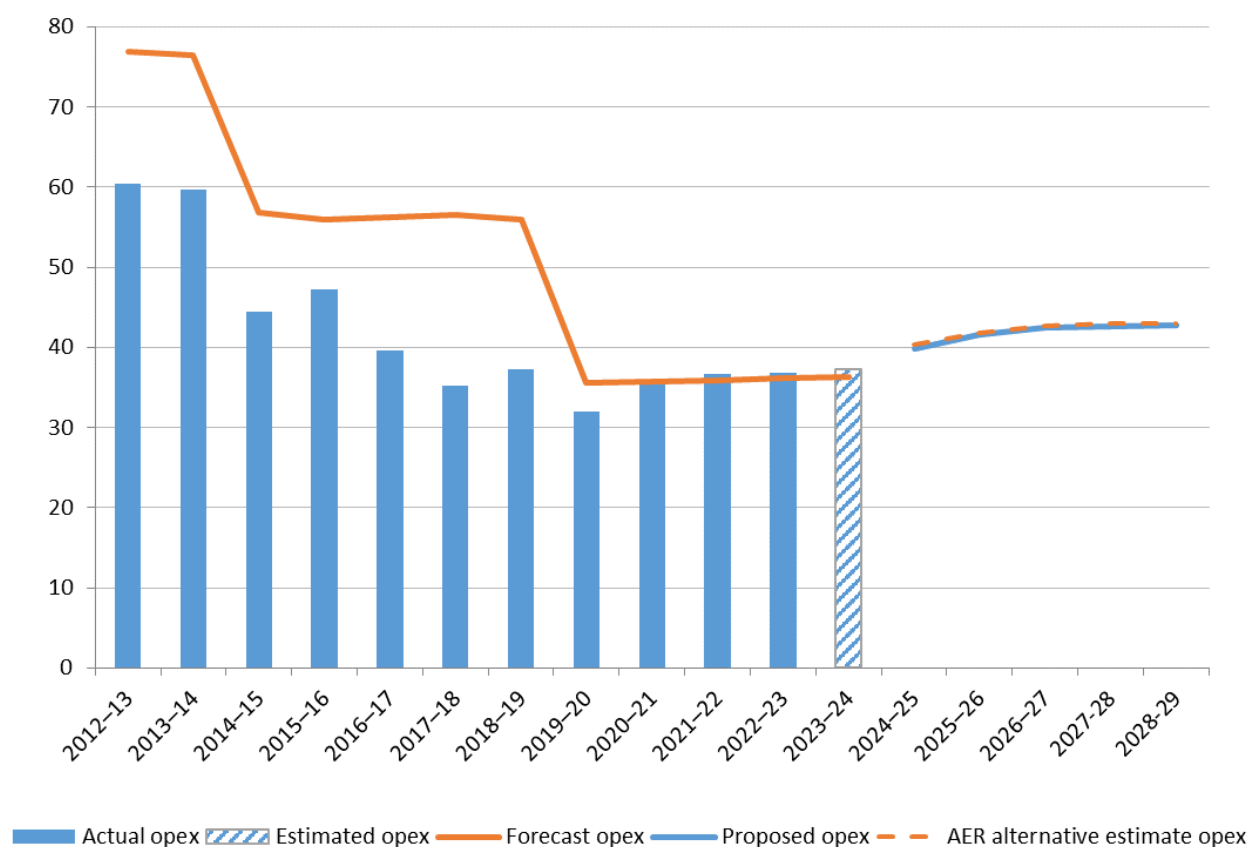
As for distribution, the key drivers of the increase in transmission opex in the next regulatory control period relative to actual (and estimated) opex is the inclusion of two step changes for insurance premiums and cyber security costs.

⁴⁰ TasNetworks, *Revised Proposal*, November 2023, p. 26.

⁴¹ AER, *Draft Decision TasNetworks Electricity Transmission Determination 2024 to 2029 Attachment 06, Operating expenditure*, September 2023, p. 1.

⁴² NER, cl. 6A.6.6(c) and cl. 6A.5.6(e).

⁴³ This difference is calculated using unlagged inflation whereas the difference in section 1.1 has been calculated using lagged inflation.

Figure 19 Historical and forecast opex (\$million, 2023–24)

Source: TasNetworks, *Transmission economic benchmarking – regulatory information notice response 2009–10 to 2022–23*; 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.

2.5.3 Stakeholder views on opex

The Tasmanian Small Business Council (TSBC) questioned the AER's opex assessment approach in the distribution and transmission draft decisions and in effect considered we should accept / reject individual opex items rather than total opex.⁴⁴ It also questioned the AER's use of an industry average productivity forecast of 0.5% per year in our alternative estimate, rather than the more aggressive forecast TasNetworks proposed.

Our standard approach, as applied for TasNetworks, is to accept / reject a network's total opex forecast once we have developed our alternative estimate of prudent and efficient costs. We do this rather than accept / reject individual opex items to ensure our alternative estimate reflects the total opex a prudent NSP operating efficiently would require and which is consistent with the opex criteria. Where our alternative estimate of total opex is not materially different to the networks', we accept the network's forecast. As a part of our alternative estimate we include productivity growth forecast that reflects our expectation of what an efficient service provider in the industry can achieve. This is informed by our

⁴⁴ Tasmanian Small Business Council, *AER Draft Determination on TasNetworks' Combined Regulatory Proposal 2024-29 & TasNetworks' Revised Proposal Submission*, January 2024, p. 15.

benchmarking results, and historical productivity performance across the industry, rather than targets set by businesses.

CCP27 noted it had not observed, or was aware of, any in-depth engagement by TasNetworks with consumers on opex forecasts, including the proposed step changes.⁴⁵ CCP27 was concerned and disappointed that TasNetworks did not engage with consumers beyond providing basic information on approaches to developing opex proposals and forecasts when questioned by customers.

We note that while TasNetworks did not appear to consult widely on its opex proposal, including insurance and cyber security step changes, it considered it responded to the 'affordable for all' theme customers raised via demonstrating its efficient base year opex and proposing 3.0% productivity growth improvements in 2024–25. Further, we assessed the insurance and cyber security step changes as being prudent and included efficient costs in our alternative estimates. These are also common step changes that we have allowed across all recent determinations.

2.6 Corporate income tax

Our determination of the total revenue requirement 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 Distribution

Our final decision determines an estimated cost of corporate income tax amount of \$50.4 million (\$ nominal) for TasNetworks' distribution network over the 2024–29 period. This is an increase of \$3.6 million (7.7%) from TasNetworks' revised proposal of \$46.8 million.

This increase is primarily due to our final decision on a higher regulatory depreciation amount (see section 2.3) and a higher return on equity amount. Regulatory depreciation and return on equity are both components of revenue for tax purposes. Therefore, higher regulatory depreciation and higher return on equity will increase the estimated taxable income for TasNetworks, thereby increasing the estimated cost of corporate income tax.

2.6.2 Transmission

Our final decision determines an estimated cost of corporate income tax amount of \$16.9 million (\$ nominal) for TasNetworks' transmission network over the 2024–29 period. This is an increase of \$2.9 million (20.3%) from TasNetworks' revised proposal of \$14.1 million.

This increase is primarily due to our final decision on a higher regulatory depreciation amount (see section 2.3) and a higher return on equity amount. Regulatory depreciation and return on equity are both components of revenue for tax purposes. Therefore, higher regulatory depreciation and higher return on equity will increase the estimated taxable income for TasNetworks, thereby increasing the estimated cost of corporate income tax.

⁴⁵ Consumer Challenge Panel 27, *Advice to AER – 2024-29 Combined Regulatory Proposal – TasNetworks*, January 2024, pp. 17–18.

2.7 Revenue adjustments

Our calculation of TasNetworks' total transmission and distribution revenue includes adjustments under the Capital Expenditure Sharing Scheme (CESS) and Efficiency Benefit Sharing Scheme (EBSS) 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.

2.7.1 Distribution

Our final decision for distribution includes:

- A revenue adjustment (reward) of \$11.5 million (\$2023–24) under the CESS. This revenue adjustment is comprised of a \$13.7 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 \$13.6 million (\$2023–24). Our final decision is different to our draft decision amount of \$5.4 million due to updates to TasNetworks' current period expenditure, WACC, inflation and corrections to the calculation of the true up.
- A revenue adjustment (penalty) of –\$14.6 million (\$2023–24) under the application of the EBSS in the 2019–24 period. This is lower than the TasNetworks' proposed penalty of –\$20.8 million (\$2023–24)⁴⁶ because we have adjusted for the correct movement in provisions and used an updated estimate for inflation. We tested the movements in provisions correction with TasNetworks and it agreed our adjustments were appropriate.⁴⁷
- An allowance of \$2.52 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 \$2.52 million that is not spent on an approved project will be returned to consumers in the subsequent regulatory control period.
- A shared asset adjustment of –\$2.1 million (\$2023–24) to be shared with customers across the 2024–29 period.

The combined effect of these revenue adjustments is a negative \$2.7 million (\$2023–24) revenue adjustment building block in this final decision compared to the negative \$9.0 million in TasNetworks' revised proposal.

2.7.2 Transmission

Our final decision for transmission includes:

- A revenue adjustment of \$3.05 million (\$2023–24) for the CESS. This is from the application of the CESS in the 2019–24 period and the corresponding CESS carryover true-up for 2018–19. Our final decision is \$5.31 million more than TasNetworks' proposed

⁴⁶ TasNetworks, *Revised Proposal – Distribution – EBSS*, November 2023.

⁴⁷ TasNetworks, *Response to information request #052 TasNetworks distribution and transmission – EBSS and adjustments*, received 8 December 2023.

amount of -\$2.25 million, due to including a true-up carryover amount and updating capex to reflect latest available information.

- A revenue adjustment (penalty) of -\$4.0 million (\$2023–24) under the EBSS in the 2019–24 period. This is a \$1.9 million (\$2023–24) increase compared to TasNetworks' proposed carryover amounts totalling -\$6.0 million (\$2023–24)⁴⁸ because we have corrected for movements in provisions and used an updated estimate of inflation. We tested the movements in provisions correction with TasNetworks and it agreed our adjustments were appropriate.⁴⁹
- 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 revenue adjustments is a positive \$0.1 million (\$2023–24) revenue adjustment building block in this final decision compared to the negative \$1.9 million in TasNetworks' revised proposal.

⁴⁸ TasNetworks, *Revised Proposal – Transmission – EBSS*, November 2023.

⁴⁹ TasNetworks, *Response to information request #052 TasNetworks distribution and transmission – EBSS and adjustments*, received 8 December 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 final decisions in relation to the incentive schemes that will apply to TasNetworks distribution and transmission in the 2024–29 period is set out in the following sections.

3.1 Distribution

3.1.1 Capital Expenditure Sharing Scheme

Our final decision is to include revenue adjustment (reward) of \$11.5 million (\$2023–24) from the application of the CESS in the 2019–24 period. We set out our final decision on the CESS revenue adjustment amounts TasNetworks distribution accrued during the 2019–24 period in Table 8, along with TasNetworks' proposal and the difference.

Table 8 Final decision on distribution CESS revenue adjustments (\$million, 2023–24)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
TasNetworks' revised proposal	2.7	2.7	2.7	2.7	2.7	13.6
AER final decision	2.3	2.3	2.3	2.3	2.3	11.5
Difference	–0.4	–0.4	–0.4	–0.4	–0.4	–2.1

Source: TasNetworks, *Revised Proposal – Distribution CESS Model*, November 2023; AER analysis.

Note: Numbers may not add up to total due to rounding.

Consistent with the draft decision,⁵⁰ our final decision is to apply Version 1 of the CESS for the 2019–24 period. We will apply the CESS as set out in the updated capital expenditure incentives guideline in the 2024–29 period.⁵¹ The reasoning behind our position is also explained in the draft decision.

3.1.2 Efficiency benefit sharing scheme

Our final decision is to include EBSS carryover amounts totalling –\$14.6 million (\$2023–24) from the application of the EBSS in the 2019–24 period. We set out our final decision on the EBSS carryover amounts TasNetworks distribution accrued during the 2019–24 period in Table 9, along with TasNetworks' proposal and the difference.

⁵⁰ AER, *Draft Decision Attachment 09, Capital expenditure sharing scheme – TasNetworks - 2024-29 Distribution revenue proposal*, September 2023.

⁵¹ AER, [Final decision - Capital expenditure incentive guideline - 28 April 2023](#), April 2023, pp. 3–9.

Table 9 Final decision on distribution EBSS carryover amounts (\$million, 2023–24)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
TasNetworks' revised proposal	–5.2	–5.0	2.4	–	–13.0	–20.8
AER final decision	–5.2	–5.0	2.4	–	–6.9	–14.6
Difference	–	–	–	–	6.1	6.1

Source: TasNetworks, *Revised Proposal – Distribution EBSS*, November 2023; AER analysis.

Note: Numbers may not add up to total due to rounding. Differences of '0.0' and '–0.0' represent small differences and '–' represents no differences.

Our final decision, consistent with our draft decision,⁵² is to continue to apply version 2 of the EBSS to TasNetworks' distribution services during the 2024–29 regulatory control period. Version 2 of the EBSS specifies our approach to adjusting forecast or actual opex when calculating carryover amounts.⁵³ Our final decision remain consistent with the approved adjustments to forecast and actual opex that we set out in our draft determinations.⁵⁴

3.1.3 Service Target Performance Incentive Scheme (STPIS)

TasNetworks revised revenue proposal accepted our draft decision to apply STPIS 2.0 for the 2024–29 period without the customer service parameter. TasNetworks proposal also updated its STPIS incentive rates, reliability performance targets and historical reliability performance to account for its actual performance in FY23.⁵⁵

Our final decision is to apply the STPIS 2.0, consistent with our draft decision, albeit with changes to reliability targets, incentive rates and value of customer reliability as a result of updates to the final revenue numbers and the CPI.⁵⁶ The reasoning behind our position is also explained in the draft decision.

Further, TasNetworks must continue to report on the telephone answering parameter in the upcoming regulatory 2024–29 regulatory control period.

Our final decision on each of these parameters is contained in Table 10, Table 11 and Table 12. The parameters that will apply to each component of the STPIS is also published as part of this final decision.

⁵² AER, *Draft Decision TasNetworks Electricity Distribution Determination 2024 to 2029 Attachment 08, Efficiency Benefit Sharing Scheme*, September 2023.

⁵³ AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013.

⁵⁴ AER, *Draft Decision TasNetworks Electricity Distribution Determination 2024 to 2029 Attachment 08, Efficiency Benefit Sharing Scheme*, September 2023, pp. 6–7.

⁵⁵ TasNetworks, *Revised revenue proposal 2024–29*, November 2023, p. 48.

⁵⁶ AER, *Electricity distribution network service providers—service target performance incentive scheme version 2.0*, November 2018. (AER, STPIS v2.0, November 2018); AER, *Draft Decision TasNetworks Electricity Distribution Determination 2024 to 2029 (1 July 2024 to 30 June 2029), Attachment 10 Service target performance incentive scheme*, September 2023, pp. 1–2.

Table 10 Final decision - STPIS reliability targets for TasNetworks for the 2024–29 period

	Critical infrastructure	High density commercial	Urban	High density rural	Low density rural
SAIDI (minutes)⁵⁷	5.9481	38.0115	92.1184	244.0608	398.8985
SAIFI (interruptions)⁵⁸	0.0695	0.3766	1.0154	2.1706	2.9475

Source: AER analysis.

Table 11 Final decision - STPIS incentive rates for TasNetworks for the 2024–29 period

	Critical infrastructure	High density commercial	Urban	High density rural	Low density rural
ir - SAIDI	0.0026	0.0031	0.0331	0.0095	0.0168
ir - SAIFI	0.1463	0.2087	2.0032	0.7115	1.5119

Source: AER analysis.

Note: ir is the incentive rate (expressed in a percentage per unit of the parameter).

Table 12 Value of customer reliability (VCR) (\$/MWh)

	Critical infrastructure	High density commercial	Urban	High density rural	Low density rural
VCR	50,952	50,402	35,384	40,321	52,750

Source: Values based on AER 2019 VCR report, escalated by December 2023 CPI.

3.1.4 Demand Management Incentive Scheme (DMIS) and DMIAM

Our final decision is to apply the DMIS and DMIAM to TasNetworks in the 2024–29 regulatory period. This approach is consistent with TasNetworks' revised revenue proposal⁵⁹ and our draft decision on DMIS and DMIAM. The reasoning behind our position is also explained in the draft decision.⁶⁰

The DMIAM allowance for TasNetworks for the 2024–29 period, based on the final PTRM for TasNetworks is contained in section 2.7.1 of the overview.

⁵⁷ System Average Interruption Duration Index (SAIDI).

⁵⁸ System Average Interruption Frequency Index (SAIFI).

⁵⁹ TasNetworks, *Revised revenue proposal 2024–29*, November 2023, p. 38.

⁶⁰ AER, *Draft Decision, Attachment 11, TasNetworks Electricity Distribution Determination 2024 to 2029 (1 July 2024 to 30 June 2029) Demand management incentive scheme and Demand management innovation allowance mechanism*, September 2023; pp. 4–5.

3.1.5 Customer Service Incentive Scheme (CSIS)

Our final decision is that a CSIS will apply because TasNetworks' incentive design meets the requirements of the scheme. This is consistent with our draft decision and TasNetworks' revised revenue proposal.⁶¹

Table 13 contains our final decision on the applicable performance targets and incentive rates that will apply to TasNetworks for the 2024–29 period.

Table 13 Final decision - CSIS management of planned outage parameters

Parameter	Target	Incentive rate*	Revenue at risk
Total			± 0.5%
Customer satisfaction rating of complaints handling	6.41	0.010%	
Customer satisfaction rating of new connections	7.61	0.005%	
Customer satisfaction with planned and unplanned outages	7.82	0.010%	

Source: AER analysis.

Ongoing compliance with this determination

To comply with this determination, TasNetworks must submit the annual CSIS compliance model (provided as part of its proposal) used to calculate the annual revenue adjustment for the CSIS (H-factor). Robust data oversight is a vital component of the CSIS. The data used to populate the annual CSIS compliance model must be audited in accordance with our explanatory statement on CSIS⁶² and/or the assurance requirements of our regulatory information order.

⁶¹ AER, *Draft Decision, TasNetworks Electricity Distribution Determination 2024 to 2029 (1 July 2024 to 30 June 2029) Attachment 12 Customer Service Incentive Scheme*, September 2023, pp. 2–9; TasNetworks, *Revised revenue proposal 2024–29*, November 2023, pp. 49–50.

⁶² AER, *Customer service incentive scheme*, Explanatory statement, July 2020, p. 13.

3.2 Transmission

3.2.1 Capital Expenditure Sharing Scheme

The CESS mechanism was recently updated in April 2023. The changes to the CESS only apply to its application in the 2024–29 period and onwards. Our decision on CESS revenue increments to be added to capex allowance in the 2024–29 uses the CESS mechanism as it was before the update.⁶³

Our final decision is set out in Table 14, which includes the capital expenditure sharing scheme carryover amount and true up calculation.

TasNetworks has not proposed to exclude any capex from the CESS. In its revised proposal, TasNetworks has not repropoed excluding actionable ISP projects from the CESS, which it proposed in its initial proposal.⁶⁴ TasNetworks acknowledges that our view in the draft decision was that it is more appropriate to consider exclusion as part of the contingent project application.⁶⁵

Table 14 CESS revenue increments in 2024–29 (\$ million 2023–24)

Revenue Adjustments	2024–25	2025–26	2026–27	2027–28	2028–29	Total
CESS revenue increments as per NER 6A.5.4(a)(5)	-0.45	-0.45	-0.45	-0.45	-0.45	-2.27
CESS carryover true-up for 2018–19	1.06	1.06	1.06	1.06	1.06	5.32
AER final decision CESS	0.61	0.61	0.61	0.61	0.61	3.05

Note: Numbers may not sum due to rounding.

Source: AER analysis; TasNetworks, *TasNetworks-Revised Proposal-Transmission-CESS-Nov 2023*, November 2023.

TasNetworks revised proposal adjusted its actual/estimate capex for the current regulatory period, resulting in a reduction in CESS benefit of \$3.56 million.⁶⁶ This adjustment has changed the underspend from our draft decision into an overspend, reducing the CESS total increment to \$3.05 million, which includes the true-up. The reasoning for our final decision is consistent with our draft decision.

⁶³ That is, for CESS revenue increments based on spending in the 2019–24 regulatory period, we follow this guideline: AER, *Capital expenditure incentive guideline*, November 2013. However, in applying the CESS in the 2024–29 period, we refer to this guideline: AER, *Final decision - Capital expenditure incentive guideline*, April 2023.

⁶⁴ TasNetworks, *TasNetworks Revised Proposal November 2023*, November 2023, p. 37.

⁶⁵ For our reasoning, see: AER, *AER - Draft Decision Attachment 09 - Capital expenditure sharing scheme - TasNetworks - 2024-29 Transmission revenue proposal - September 2023*, September 2023, p. 6.

⁶⁶ AER analysis. AER, *AER - Draft decision - TasNetworks transmission revenue proposal 2024–29 - CESS - September 2023*, September 2023; TasNetworks, *TasNetworks-Revised Proposal-Transmission-CESS-Nov 2023*, November 2023.

3.2.2 Efficiency Benefit Sharing Scheme

Our final decision is to include EBSS carryover amounts totalling -\$4.0 million (\$2023–24) (\$2023–24) from the application of the EBSS in the 2019–24 period. We set out our final decision on the EBSS carryover amounts TasNetworks transmission accrued during the 2019–24 period in Table 15, along with TasNetworks' proposal and the difference.

Table 15 Final decision on transmission EBSS carryover amounts (\$million, 2023–24)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
TasNetworks' revised proposal	1.2	–3.9	–1.0	–	–2.2	–6.0
AER final decision	1.2	–3.9	–1.0	–	–0.3	–4.0
Difference	–	–	–	–	1.9	1.9

Source: TasNetworks, *Revised Proposal – Transmission EBSS*, November 2023; AER analysis.

Note: Numbers may not add up to total due to rounding. Differences of '0.0' and '–0.0' represent small differences and '–' represents no difference.

Our final decision, consistent with our draft decision,⁶⁷ is to continue to apply version 2 of the EBSS to TasNetworks' transmission services during the 2024–29 regulatory control period. Version 2 of the EBSS specifies our approach to adjusting forecast or actual opex when calculating carryover amounts.⁶⁸ Our final decision remains consistent with the approved adjustments to forecast and actual opex that we set out in our draft determinations.⁶⁹

3.2.3 Service Target Performance Incentive Scheme

Version 5 of the STPIS contains three standard components—the service component (SC), market impact component (MIC) and network capability component (NCC).

Draft Decision

Our draft decision to apply version 5 of the STPIS was set out in attachment 10.

In our draft decision we did not accept TasNetworks' SC performance targets based on 2017 to 2021 data and determined performance targets, caps and floors based on the 2018 to 2022 performance data available at the time of the draft decision.

In addition, we did not accept TasNetworks' MIC performance target based on 2015 to 2021 data and determined a performance target based on the 2016 to 2022 performance data available at the time of the draft decision.

⁶⁷ AER, *Draft Decision TasNetworks Electricity Transmission Determination 2024 to 2029 Attachment 08, Efficiency Benefit Sharing Scheme*, September 2023.

⁶⁸ AER, *Efficiency benefit sharing scheme for electricity network service providers*, November 2013.

⁶⁹ AER, *Draft Decision TasNetworks Electricity Transmission Determination 2024 to 2029 Attachment 08, Efficiency Benefit Sharing Scheme*, September 2023, pp. 8–11.

TasNetworks’ revised proposal

TasNetworks accepted our draft decision and updated its SC performance targets with the 2022 performance data.⁷⁰

Submissions on the Draft Decision

No submissions were received in relation to the STPIS.

Final Decision

Consistent with our draft decision, our final decision is to apply Version 5 of the STPIS to TasNetworks in the 2024–29 period. The parameters that will apply to each component of the STPIS have been published as part of this final decision⁷¹.

It is worth noting that the AER is undertaking a review of the MIC and NCC of the transmission STPIS. At the time of writing we expect to complete the review by December 2024.

3.2.4 Demand Management Innovation Allowance Mechanism

Under clause 6A.4.2(a)(6A) of the National Electricity Rules, our regulatory determination must specify how any transmission DMIAM is to apply in the next regulatory control period.

Draft Decision

Our draft decision was to apply the DMIAM to TasNetworks for the 2024–29 regulatory control period, without any modification. Our draft decision was set out in attachment 11.

TasNetworks’ revised proposal

TasNetworks accepted our draft decision and updated the DMIAM allowance based on the revenue forecasts in the revised proposal.⁷²

Submissions on the Draft Decision

No submissions were received in relation to the DMIAM.

Final Decision

Consistent with our draft decision, our final decision is to apply the DMIAM to TasNetworks in the 2024–29 period. The allowance available to TasNetworks in the 2024–29 period will be \$1.05 million (\$2023–24).

In each year of the 2024–29 period, TasNetworks will submit demand management projects for approval under the DMIAM. Any part of the allowance that is not spent on an approved project will be returned to consumers in the subsequent regulatory control period.

⁷⁰ TasNetworks, [Revised Proposal 2024-2029](#), 30 November 2023, p. 48

⁷¹ AER - TasNetworks 2024-29 Final Decision - Tx STPIS Model - April 2024

⁷² TasNetworks, [Revised Proposal 2024-2029](#), 30 November 2023, p. 38

4 Tariff structure statement

TasNetworks' revised 2024–29 regulatory proposal includes its third tariff structure statement. This 2024–29 tariff structure statement will apply from 1 July 2024 and remain in effect for the 2024–29 regulatory period.

A tariff structure statement provides consumers and retailers with certainty and transparency in relation to how and when network tariffs will change. It describes:

- the distributor's tariff classes and structures
- the distributor's policies and procedures for assigning customers to tariffs and tariff classes
- the charging parameters for each tariff
- the distributor's approach to setting tariff prices in annual pricing proposals.
- It is accompanied by an indicative pricing schedule.

TasNetworks accepted our draft decision on its tariff structure statement.⁷³ Our final decision is consistent with our draft decision and approves TasNetworks' revised 2024–29 tariff structure statement. We are satisfied that all elements comply with the pricing principles for direct control services in the National Electricity Rules (NER) and are consistent other applicable requirements of the NER.

We note some stakeholders raised concerns about aspects of the revised tariff structure statement. We set out our consideration of these issues below, along with our consideration of tariff options targeting flexible load.

Stakeholder engagement and residential assignment policy

The draft decision approved TasNetworks' assignment policy for small customers and our final decision does not change this. The assignment policy provides existing customers who are automatically reassigned to the default time-of-use tariff with a 12-month period during which they can opt-out of the time-of-use tariff and back to a flat tariff. The policy does not allow new customers to opt-out of cost reflective tariffs and back to flat tariffs. This approach renders the flat tariffs 'obsolete' (but not abolished).

We received 5 submissions on the draft decision and revised proposal that raised concerns over TasNetworks' assignment policy and the pace of tariff reform. Four submissions expressed concern that flat tariffs were being abolished while a fifth submission sought for TasNetworks to speed up the pace of tariff reform.⁷⁴

We note that as per the assignment policy described above, these tariffs have not been abolished. Most existing customers can still opt back onto a flat tariff for a 12-month period after an automatic assignment to a cost reflective tariff. TasNetworks arrived at this position through its Pricing and Regulatory Working Group and after extensive consultation with

⁷³ TasNetworks, *Revised proposal*, 30 November 2023, pg. 44.

⁷⁴ See for example ENTATAS, *Submission on TasNetworks' revised proposal and draft decision 2024-29*, January 2024, TREA, *Submission on TasNetworks' revised proposal and draft decision 2024-29*, January 2024 and TSBC, *Submission on TasNetworks' revised proposal and draft decision 2024-29*, January 2024.

customer advocates, other stakeholders, and Tasmanian government representatives. We encourage TasNetworks to engage with stakeholders concerned over abolishment to improve understanding of its assignment policies and the difference between its terms ‘obsolete’ and ‘abolished’.

We consider TasNetworks’ assignment policy proposal to represent the minimum change necessary for TasNetworks’ tariff structure statement to be compliant with the NER pricing principles.⁷⁵

The discussion above, of the 12-month period to opt back to a flat tariff, describes how the network tariff works and means that retailers continue to have a flat network tariff available on behalf of their customers. This is in addition to having the choice as retailers on how to pass through the network tariff, which could include offering a flat retail tariff that manages any network tariff time-of-use risk for the customer. We encourage Aurora and other retailers operating in Tasmania to provide transparency for customers to understand their options.

Electric vehicles and flexible load tariffs

We accept TasNetworks’ reasons for not proposing new tariff options targeting flexible load like electric vehicles (EVs). We consider that TasNetworks’ suite of residential tariffs and tariff assignment policy is appropriate for managing EV charging load at this time.

Our draft decisions had requested all distributors to consider introducing tariffs for flexible load, including targeted controlled load tariffs, in recognition of the potential rapid uptake of EVs in the 2024–29 period.

TasNetworks, like other distributors, decided to not propose any new tariff option in its revised tariff structure statement. Following publication of the draft decision, the AER met with distributors to discuss the feasibility of a controlled load tariff to target EVs. Most distributors agreed that traditional controlled load tariffs may not be appropriate for flexible loads like EVs.

Instead, TasNetworks relies on its suite of residential tariffs already approved in the draft decision to manage EV charging load. TasNetworks’ time-of-use structures encourage EV charging at times that benefit the network. For TasNetworks, this is principally overnight. Unlike other networks, TasNetworks is yet to experience solar energy induced minimum demand issues, so it is still of most benefit to its network to incentivise flexible load to shift to overnight periods. TasNetworks’ opt-in consumer energy resources tariff provides for this with a ‘super off-peak’ (very low-priced) period from midnight to 4am designed to encourage EV owners to charge vehicles overnight. Similarly, TasNetworks’ default time-of-use tariff has off-peak periods during the middle of the day and overnight.

TasNetworks’ approach supports the energy transition more generally by supporting the integration and further uptake of consumer energy resources. The intended effect of the tariffs in incentivising EV owners (along with battery owners) to charge outside existing demand peaks improves network utilisation and, where it incentivises daytime charging, may prevent the rise of a minimum demand problem and further increase solar energy hosting capacity as solar uptake increases in Tasmania.

⁷⁵ NER, cl. 6.18.5.

5 Other price terms and conditions

In this section, we consider the other aspects of our determination. These may be described as the terms and conditions of our determination that cover how TasNetworks must set its prices. This includes the classification of services and the framework for TasNetworks' negotiated services.

5.1 Metering services

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. Throughout the 2024–29 regulatory determinations we signalled that the AEMC's final decision on the transitioning of legacy meters may require us to consider different classification and/or price/revenue control settings for the businesses.

The key objective of the AEMC's final decision, released in August 2023, is to target a 100% replacement of distribution network owned accumulation meters with smart meters offered by other parties by 30 June 2030.⁷⁶ Our draft decision indicated this would constitute a material change in circumstances, which would justify departure from the classification of legacy meter services in the framework and approach (F&A).⁷⁷

We had identified concerns that customers whose meters are replaced later in the replacement program would incur inequitably higher prices than those whose meters are replaced earlier. While socialisation of metering costs generally occurs at the retail level, we were concerned that retailer's ability to socialise differs based on a number of settings, so socialisation at the network level would produce more consistent outcomes for customers.

Our draft decision asked businesses to consider whether reclassification of legacy meter services to standard control services was likely to be more appropriate, as this would result in the socialisation of metering costs across a wider customer group.

Since the publication of our draft decision, we have engaged with the businesses on the most appropriate outcome to ensure customers are not inequitably impacted from rising costs in the transition and prevented from realising the benefits the smart meters provide.

While we looked to maintain consistency of approach to legacy metering services across the 2024–29 businesses, further consideration of the individual circumstances of the businesses identified that a tailored approach would be required to ensure we are providing an outcome that is in the long-term interest of consumers.

For TasNetworks, our final position is to accept its revised proposal to maintain legacy metering services as alternative control services.

The reasons for our decision are discussed in detail at attachment 20.

⁷⁶ AEMC, [Final Report: Review of the regulatory framework for metering services](#), August 2023.

⁷⁷ AER, *Draft Decision Attachment 20 – Metering services – TasNetworks – 2024-29 Distribution revenue proposal*, September 2023.

5.2 Classification of services

In its revised proposal, TasNetworks did not propose any changes to our draft decision on the classification of the services it provides.⁷⁸ Our final decision is to retain the classification structure and the services list as published in our draft decision for TasNetworks.⁷⁹ The list of classified services TasNetworks will provide for 2024–29 is set out in attachment 13 to this decision.

5.3 Negotiated services framework and criteria

In our draft decision, we approved TasNetworks' proposed distribution negotiating framework for the 2024–29 period.⁸⁰ We did not receive any objections or submissions on our draft decision. Our final decision maintains the decision to approve TasNetworks' negotiating framework.

We are also required to decide on the negotiated distribution service criteria for the distributor. Our final decision is to retain the negotiated distribution service criteria published for TasNetworks in February 2023 for the 2024–29 period.⁸¹ Details of negotiated distribution service criteria are set out in attachment 17 of our draft decision.⁸²

5.4 Connection policy

In our draft decision, we did not approve TasNetworks' proposed connection policy for the 2024–29 period. We modified its connection policy to the extent necessary to enable it to be approved in accordance with the NER requirements.⁸³ The reasoning behind our position is also explained in the draft decision.⁸⁴

In its revised proposal, TasNetworks accepted all changes made to the initial connection policy. The approved connection policy for TasNetworks 2024–29 period is appended to attachment 18 of our final decision.

5.5 Transmission pricing

Our final decision is to approve TasNetworks' revised transmission pricing methodology. We consider TasNetworks' revised proposed pricing methodology that includes the amendments required by our draft decision gives effect to, and is consistent with, the NER pricing principles, and complies with the information requirements as per the pricing methodology guidelines.⁸⁵

⁷⁸ TasNetworks, *TasNetworks Revised Proposal 2024-29*, November 2023.

⁷⁹ AER, *Draft Decision Attachment 13 – Classification of services – TasNetworks – 2024-29 Distribution revenue proposal*, September 2023.

⁸⁰ AER, *Draft Decision Attachment 17 – Negotiated services framework and criteria – TasNetworks – 2024-29 Distribution revenue proposal*, September 2023.

⁸¹ AER, *Proposed negotiated distribution service criteria for TasNetworks*, February 2023.

⁸² AER, *Draft Decision Attachment 17 - Negotiated services framework and criteria – TasNetworks – 2024-29 Distribution revenue proposal*, September 2023, pp. 4-6.

⁸³ NER, Part DA of chapter 6. AER, *Draft Decision Attachment 18 – Connection policy – TasNetworks – 2024-29 Distribution revenue proposal*, September 2023.

⁸⁴ AER, *Draft Decision Attachment 18 - Connection policy, TasNetworks - 2024-29 Distribution revenue proposal*, September 2023, PP. 7–9.

⁸⁵ NER, cll. 6A.23.3 and 6A.24.1(c); AER, *Electricity transmission service providers pricing methodology guidelines*, 25 August 2022.

The role of TasNetworks' transmission pricing methodology is to answer the question 'who should pay how much' in order for TasNetworks to recover its costs relating to its provision of transmission services.⁸⁶ The pricing methodology must provide a 'formula, process or approach' that when applied:⁸⁷

- allocates the aggregate annual revenue requirement to the categories of prescribed transmission services that a Transmission Network Service Provider provides (TNSP)⁸⁸
- provides for the manner and sequence of adjustments to the annual service revenue requirement⁸⁹ and allocates that requirement to transmission network connection points⁹⁰
- determines the structure of prices that a TNSP may charge for each category of prescribed transmission services⁹¹
- for a TNSP who is a system strength service provider, determines, for each system strength node on its transmission network, the system strength unit price for the system strength charging period commencing in the period.⁹²

Our detailed assessment of TasNetworks' pricing methodology is set out in Attachment 12 of our draft decision.

TasNetworks' revised pricing methodology incorporated the amendments required by the draft decision to:⁹³

- incorporate the Connection to dedicated assets rule 2021.⁹⁴
- include further clarifications to pricing arrangements should TasNetworks become the co-ordinating network service provider in Tasmania.⁹⁵
- more clearly outline the arrangements for energy storage systems.⁹⁶
- incorporate changes to clarify how the prudent discount arrangements are consistent with NER clause 6A.26.1.

⁸⁶ AEMC, Rule determination: *National Electricity Amendment (Pricing of Prescribed Transmission Services) Rule 2006 No. 22*, 21 December 2006, p. 1.

⁸⁷ NER, cl. 6A.24.1(b).

⁸⁸ NER, cl. 6A.24.1(b)(1).

⁸⁹ NER, cl. 6A.24.1(b)(2).

⁹⁰ NER, cl. 6A.24.1(b)(3).

⁹¹ NER, cl. 6A.24.1(b)(4).

⁹² NER, cl. 6A.24.1(b)(5).

⁹³ AER - Draft Decision Attachment 12 - *Transmission Pricing methodology - TasNetworks - 2024-29 Transmission revenue proposal* - September 2023; TasNetworks - Revised Proposal - Transmission Pricing Methodology - Nov 2023 - Public.

⁹⁴ NER cl. 6A.23.3(c & e), S6A.3.2(1 & 4) and S6A.3.3(1); AEMC, *Rule determination: National Electricity Amendment (Connection to dedicated connection assets) Rule 2021 No. 7*, 21 December 2021.

⁹⁵ NER cl. 6A.29.1 and 6A.29A.

⁹⁶ AEMC, *Rule determination: National Electricity Amendment (Integrating energy storage systems into the NEM) Rule 2021 No. 13*, 2 December 2021.

6 Distribution constituent decisions

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

Constituent component
In accordance with clause 6.12.1(1) of the NER, the AER's final 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 there.
In accordance with clause 6.12.1(2)(i) of the NER, the AER's final decision is to not approve the annual revenue requirement set out in TasNetworks' building block proposal. Our final decision on TasNetworks' annual revenue requirement for each year of the 2024–29 regulatory control period is set out in Attachment 1 of the final decision.
In accordance with clause 6.12.1(2)(ii) of the NER, the AER's final 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 final 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.
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.
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 final 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 final decision are set out in Section 2.4.
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 final 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 final decision are set out in Section 2.5 of the overview of this final decision.
TasNetworks did not propose any distribution contingent projects and therefore the AER has not made a decision under clause 6.12.1(4A) of the NER.
In accordance with clause 6.12.1(5) of the NER and the 2022 Rate of Return Instrument, the AER's final decision is that the allowed rate of return for the 2024–25 regulatory year is 5.87% (nominal vanilla), for the reasons set out in section 2.2 in the overview. 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.
In accordance with clause 6.12.1(5A) of the NER and the 2022 Rate of Return Instrument, the AER's final 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 final decision are set out in section 2.2 in the overview.

Constituent component

In accordance with clause 6.12.1(6) of the NER the AER's final decision on TasNetworks' regulatory asset base as at 1 July 2024 in accordance with clause 6.5.1 and schedule 6.2 is \$2,221.8 million (\$ nominal). The reasons for our final decision are set out in Attachment 2 of the final decision.

In accordance with clause 6.12.1(7) of the NER, the AER's final decision on TasNetworks' estimated cost of corporate income tax is \$50.4 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	23.5	23.2	22.2	23.5	24.8	117.2
Less: value of imputation credits	13.4	13.2	12.6	13.4	14.1	66.8
Net cost of corporate income tax	10.1	10.0	9.5	10.1	10.7	50.4

In accordance with clause 6.12.1(8) of the NER, the AER's final decision is to not approve the depreciation schedules submitted by TasNetworks. Our final decision substitutes alternative depreciation schedules that accord with clause 6.5.5(b). The regulatory depreciation amount approved in this final decision is \$504.8 million (\$ nominal) for the 2024–29 regulatory control period. The reasons for our final decision are set out in Attachment 4 of this final decision.

In accordance with clause 6.12.1(9) of the NER the AER makes the following final 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 Section 3 of the overview of this final 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 Section 3.

We will not apply the ESIS for the 2024–29 regulatory control period.

We will apply the STPIS version 2 to TasNetworks for the 2024–29 regulatory control period as discussed in section 3.1.2 of this overview.

We will apply the DMIS and DMIAM to TasNetworks for the 2024–29 regulatory control period as discussed in section 3.1.4 of this overview.

We will apply the customer service incentive scheme (CSIS) to TasNetworks for the 2024–29 regulatory control period as discussed in section 3.2.4 of this overview.

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

In accordance with clause 6.12.1(11) of the NER and our framework and approach paper, the AER's final 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

Constituent component
required to move the Distribution Use of Service (DUoS) unders and overs account to zero. The reasons for our final decision are set out in Attachment 14 of this final decision.
In accordance with clause 6.12.1(12) of the NER and our framework and approach paper, the AER's final 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 final decision are set out in Attachment 14, Attachment 16 and Attachment 20.
In accordance with clause 6.12.1(13) of the NER, to demonstrate compliance with its distribution determination, the AER's final 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 final decision are set out in Attachment 14 of this final decision.
<p>In accordance with clause 6.12.1(14) of the NER the AER's final 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> <p>Insurance coverage event</p> <p>Insurer's credit risk event</p> <p>Terrorism event</p> <p>Natural disaster event</p> <p>The definitions of these events and our reasons for this decision are set out in Attachment 15 of the draft decision.</p>
In accordance with clause 6.12.1(14A) of the NER, the AER's final decision is to approve the tariff structure statement proposed by TasNetworks. The reasons for our final decision are set out in section 4 of this overview document.
In accordance with clause 6.12.1(15) of the NER, the AER's final decision is that the negotiating framework as proposed by TasNetworks will apply for the 2024–29 regulatory control period. The reasons for our final decision are set out in Attachment 17 of this final decision.
In accordance with clause 6.12.1(16) of the NER, the AER's final decision is to apply the negotiated distribution services criteria published in February 2023 to TasNetworks. The reasons for our final decision are set out in Attachment 17 of this final decision.
In accordance with clause 6.12.1(17) of the NER, the AER's final decision on the procedures for assigning retail customers to tariff classes for TasNetworks is set out in Attachment 19 of the draft decision.
In accordance with clause 6.12.1(18) of the NER, the AER's final 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 final decision are set out in Attachment 2 of this final decision.
In accordance with clause 6.12.1(19) of the NER, the AER's final decision on how TasNetworks is to report to the AER on its recovery of designated pricing proposal charges, and how it must account for the under and over recovery of designated pricing proposal charges, is that it must use the unders and overs mechanism described in Attachment 14. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our final decision are set out in Attachment 14.

Constituent component

In accordance with clause 6.12.1(20) of the NER, the AER's final decision on how TasNetworks is to report to the AER on its recovery of jurisdictional scheme amounts, and how it must account for the under and over recovery of jurisdictional scheme amounts, is that it must use the unders and overs account described in Attachment 14. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our final decision are set out in Attachment 14.

In accordance with clause 6.12.1(21) of the NER, the AER's final decision is to approve the connection policy proposed by TasNetworks as set out in section 5.4 of this overview.

7 Transmission constituent decisions

Our final decision on TasNetworks transmission determination for the 2024–29 regulatory control period includes the following constituent components:⁹⁷

Constituent component
In accordance with clause 6A.14.1(1)(i) of the NER, the AER's final decision is to not approve the total revenue cap set out in TasNetworks' building block proposal. Our decision on TasNetworks' total revenue cap is \$886.6 million (\$ nominal, smoothed) for the 2024–29 regulatory control period. The reasons for our final decision are set out in Attachment 1 of this final decision.
In accordance with clause 6A.14.1(1)(ii) of the NER, the AER's final 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 final decision.
In accordance with clause 6A.14.1(1)(iii) of the NER, the AER's final 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 as set out in section 3.2.3. The values and parameters of the STPIS that are approved by the AER are set out in the overview and transmission STPIS model spreadsheet of this final decision.
In accordance with clause 6A.14.1(1)(iv) of the NER, the AER's final 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 Section 3 of the overview of this final decision.
In accordance with clause 6A.14.1(1)(v) of the NER, the AER's final 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 final decision is to accept TasNetworks' proposed total net forecast capital expenditure of \$227.4 million (\$2023–24), gross \$289.8 million for the 2024–29 regulatory control period. The reasons for our final decision are set out in Attachment 5 of our 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 final 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 final decision are set out in Section 2.5 of the overview of this final decision.
In accordance with clause 6A.14.1(4) of the NER, the AER's final decision is that the following projects are contingent projects for the purpose of this revenue determination for TasNetworks:

⁹⁷ NEL, s. 16(1)(c).

- George Town Network Upgrade (\$135 million)
- Palmerston to Sheffield Network Upgrade (\$240 million)
- George Town Reactive Support (Stage 2) (\$90 million)
- Sheffield to George Town Network Upgrade (\$188 million)
- Waddamana to Palmerston Transfer Capability Upgrade (\$128 million)
- North West Network Upgrade (\$174 million)

The reasons for our decision, having regard to the requirements of clause 6A.8.1(b) are set out in Attachment 5 of this final decision.

In accordance with clause 6A.14.1(5A) of the NER, the AER's final decision is that we will apply the capital expenditure sharing scheme (CESS) as set out in the Capital Expenditure Incentives Guideline to TasNetworks in the 2024–29 regulatory control period. The reasons for our final decision are set out in Attachment 9 of our draft decision.

In accordance with clause 6A.14.1(5A) of the NER, the AER's final 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 final decision are set out in section 3.2.4 of the overview.

In accordance with clause 6A.14.1(5B) of the NER, the AER's final decision is that the allowed rate of return for the 2024–25 regulatory year is 5.84% (nominal vanilla) as set out in section 2.2 in the overview. 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.

In accordance with clause 6A.14.1(5C) of the NER, the AER's final decision is that the value of allowed imputation credits is 0.57. The reasons for our final decision are set out in section 2.2 in the overview.

In accordance with clause 6A.14.1(5D) of the NER, the AER's final 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 \$1,667.1 million (\$ nominal). The reasons for our final decision are set out in Attachment 2 of this final decision.

In accordance with clause 6A.14.1(5E) of the NER, the AER's final 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 final decision are set out in Attachment 2 of this final decision.

In accordance with clause 6A.14.1(8) of the NER, the AER's final decision is to approve TasNetworks' proposed pricing methodology. Our reasons for this are set out in this Overview as well as Attachment 12 of the AER's September 2023 draft decision.

In accordance with clause 6A.14.1(9) of the NER, the AER's final 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):

- Insurance coverage event
- Insurer's credit risk event

- Terrorism event
- Natural disaster event
- Renewable energy zone design report event

The definitions of these events and the reasons for our final decision are set out in Attachment 13 of the draft decision.

8 List of submissions

We received 13 submissions in response to TasNetworks' revised proposal. These are listed below⁹⁸.

Submission from
ABEL Energy
Andrew Bowen – Tasmanian Electrical CPD Academy
Aurora Energy
Consumer Challenge Panel 27
ENTATAS
Recurrent Energy
Reset Advisory Committee – TasNetworks (late submission)
Salvation Army Housing Tasmania
Tasmanian Renewable Energy Alliance
TasRex
Tasmanian Small Business Council
Tesla
4C Energy

⁹⁸ Submissions are available on the AER website at <https://www.aer.gov.au/industry/registers/determinations/tasnetworks-determination-2024-29/consultation-submissions-draft-decision-and-revised-proposal>

Shortened forms

Term	Definition
ACS	alternative control services
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ARR	Annual Revenue Requirement
ASP	Accredited Service Provider
capex	capital expenditure
CCP27	Consumer Challenge Panel, sub-panel 27
CER	Consumer energy resources
CESS	capital expenditure sharing scheme
CPI	Consumer Price Index
CSIS	customer service incentive scheme
DER	Distributed 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
EV	electric vehicle
F&A	framework and approach
GSL	guaranteed service level
ICT	information and communication technologies
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objectives
NER	National Electricity Rules
opex	operating expenditure
PIAC	Public Interest Advocacy Centre

Term	Definition
RAB	regulated asset base
RBA	Reserve Bank of Australia
repex	replacement expenditure
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SAPS	stand-alone power systems
SCS	standard control service
Service classification guideline	Electricity distribution service classification guideline 2018
SMP	Statement of Monetary Policy
STPIS	service target performance incentive scheme
WACC	Weighted average cost of capital