FINAL DECISION

TasNetworks
Distribution Determination
2019 to 2024

Attachment 18
Tariff structure statement

April 2019

AUSTRALIAN ENERGY REGULATOR

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Note

This attachment forms part of the AER's final decision on TasNetworks' 2019–24 distribution determination. It should be read with all other parts of the final decision.

The final decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

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Attachment 10 – Service target performance incentive scheme

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Shortened forms

Shortened form	Extended form
ACS	alternative control services
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CCP 13	Consumer Challenge Panel, sub-panel 13
CESS	capital expenditure sharing scheme
CPI	consumer price index
DRP	debt risk premium
DMIAM	demand management innovation allowance (mechanism)
DMIS	demand management incentive scheme
distributor	distribution network service provider
DUoS	distribution use of system
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
Expenditure Assessment Guideline	Expenditure Forecast Assessment Guideline for Electricity Distribution
F&A	framework and approach
MRP	market risk premium
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider
opex	operating expenditure
PPI	partial performance indicators
PTRM	post-tax revenue model
RAB	regulatory asset base

Shortened form	Extended form
RBA	Reserve Bank of Australia
repex	replacement expenditure
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue and pricing principles
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SCS	standard control services
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
WACC	weighted average cost of capital

Glossary of terms

Term	Interpretation
Apparent power	See kVA
Anytime demand tariff	A tariff incorporating a demand charge where the demand charge measures the customer's maximum demand at anytime (i.e. not limited to within a peak charging window).
CoAG Energy Council	The Council of Australian Governments Energy Council, the policymaking council for the electricity industry, comprised of federal and state (jurisdictional) governments.
Consumption tariff	A tariff that incorporates only a fixed charge and usage charge and where the usage charge is based on energy consumed (measured in kWh) during a billing cycle, and where the usage charge does not change based on when consumption occurs. Examples of consumption tariffs are flat tariffs, inclining block tariffs and declining block tariffs.
Cost reflective tariff	Consistent with the distribution pricing principles in the NER, a cost reflective distribution network tariff is a tariff that a distributor charges in respect of its provision of direct control services to a retail customer that reflects the distributor's efficient costs of providing those services to the retail customer. These efficient costs reflect the long run marginal cost of providing the service and contribute to the efficient recovery of residual costs.
Declining block tariff	A tariff in which the per unit price of energy decreases in steps as energy consumption increases past set thresholds.
Demand charge	A tariff component based on the maximum amount of electricity consumed by the customer (measured in kW, kVA or kVAr) which is reset after a specific period (e.g. at the end of a month or billing cycle). A demand charge could be incorporated into either an anytime demand tariff or a time-of-use demand tariff.
Demand tariff	A tariff that incorporates a demand charge component.
Fixed charge	A tariff component based on a fixed dollar amount per day that customers must pay to be connected to the network.
Flat tariff	A tariff based on a per unit usage charge (measured in kWh) that does not change regardless of how much electricity is consumed or when consumption occurs.
Flat usage charge	A per unit usage charge that does not change regardless of how much electricity is consumed or when consumption occurs.
Inclining block tariff	A tariff in which the per unit price of energy increases in steps as energy consumption increases past set thresholds.
Interval, smart and advanced meters	Used to refer to meters capable of measuring electricity usage in specific time intervals and enabling tariffs that can vary by time of day.
kW	Also called real power. A kilowatt (kW) is 1000 watts. Electrical power is measured in watts (W). In a unity power system the wattage is equal to the voltage times the current.
kWh	A kilowatt hour is a unit of energy equivalent to one kilowatt (1 kW) of power used for one hour.
kVA	Also called apparent power. A kilovolt-ampere (kVA) is 1000 volt-amperes. Apparent power is a measure of the current and voltage and will differ from real power when the current and voltage are not in phase.

Term	Interpretation
LRMC	Long Run Marginal Cost. Defined in the National Electricity Rules as follows: *"the cost of an incremental change in demand for direct control services provided by a Distribution Network Service Provider over a period of time in which all factors of production required to provide those direct control services can be varied".*
Minimum demand charge	Where a customer is charged for a minimum level of demand during the billing period, irrespective of whether their actual demand reaches that level.
NEO	The National Electricity Objective, defined in the National Electricity Law as follows: *"to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to—* *(a) price, quality, safety, reliability and security of supply of electricity; and* *(b) the reliability, safety and security of the national electricity system".*
NER	National Electricity Rules
Power factor	The power factor is the ratio of real power to apparent power (kW divided by kVA).
Tariff	The network tariff that is charged to the customer's retailer (or in limited circumstances, charged directly to large customers) for use of an electricity network. A single tariff may comprise one or more separate charges, or components.
Tariff structure	Tariff structure is the shape, form or design of a tariff, including its different components (charges) and how they may interact.
Tariff charging parameter	The manner in which a tariff component, or charge, is determined (e.g. a fixed charge is a fixed dollar amount per day).
Tariff class	A class of retail customers for one or more direct control services who are subject to a particular tariff or particular tariffs.
Time-of-use demand tariff (ToU demand tariff)	A tariff incorporating a demand charge where the demand charge measures the customer's maximum demand during a peak charging window. A ToU demand charge might also include an off-peak demand change or minimum demand charge, and may include flat, block or time-of-use energy usage charges.
Time-of-use energy tariff (ToU energy tariff)	A tariff incorporating usage charges with varying levels applicable at different times of the day or week. A ToU energy tariff will have defined charging windows in which these different usage charges apply. These charging windows might be labelled the 'peak' window, 'shoulder' window, and 'off-peak' window.
Usage charge	A tariff component based on energy consumed (measured in kWh). Usage charges may be flat, inclining with consumption, declining with consumption, variable depending on the time at which consumption occurs, or some combination of these.

18 Tariff structure statement

This attachment sets out our final decision on TasNetworks' tariff structure statement that will apply for the 2019–24 regulatory control period.

A tariff structure statement applies to a distributor's tariffs for the duration of the regulatory control period. It describes a distributor's tariff classes and structures, the distributor's policies and procedures for assigning customers to tariffs, the charging parameters for each tariff, and a description of the approach the distributor takes to setting tariffs in pricing proposals. It is accompanied by an indicative pricing schedule.[1] A tariff structure statement provides consumers and retailers with certainty and transparency in relation to how and when network prices will change.

Our final decision deals only with issues unresolved after our draft decision and TasNetworks' revised tariff structure statement proposal. For details of our consideration of previously settled issues please see attachment 18 of our draft decision. [2]

18.1 Final decision

Our final decision is to amend TasNetworks' revised tariff structure statement by:

- changing its tariff assignment policy from opt–in to an opt–out approach for small business (non–residential LV) customers
- adopting a 12 month delay in its tariff reassignment trigger for all customers, to allow a data sampling period
- clarifying procedural aspects relating to individually calculated tariffs, tariff assignment criteria, the document structure and completeness.

Without these amendments we are not satisfied TasNetworks' proposed tariff structure statement complies with the pricing principles in the NER.[3] We have made these amendments on the basis of TasNetworks' tariff structure statement and have only departed from TasNetworks' proposal to the minimum extent necessary to enable it to achieve compliance with the rules.[4]

We discuss our detailed reasons for our decisions below in section 18.4.

18.2 TasNetworks' revised proposal

TasNetworks' revised proposal incorporated our draft decision by:

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1 NER, 6.18.1A(a).

2 AER, *Draft Decision TasNetworks distribution determination 2019–24, Attachment 18 Tariff Structure Statement*, September 2018

3 NER, cl.6.12.3(k).

4 NER, cl. 6.12.3(l).

- changing its assignment policy for residential customers from opt–in to opt–out
- removing its proposal to include an embedded network tariff
- improving the transparency regarding its unwinding of cross customer discounted legacy tariffs.[5]

Our draft decision required TasNetworks to adopt an opt–out approach for small business customers and amend its reassignment trigger. TasNetworks did not apply these requirements in its revised proposal, instead it:

- maintained an opt–in approach for small business customers, citing limited understanding of customer impacts
- rejected the need for a 12 month delay to reassigning customers where triggered by an end of life meter replacement – instead proposing immediate tariff reassignment for customers who have a smart meter installed for any reason.

18.3 Assessment approach

We assessed the proposed tariff structure statement against two sets of requirements under the NER.

First, the NER sets out a number of elements that an approved tariff structure statement must contain.[6] These include the structure of the proposed tariffs, and the policies and procedures the distributor will use to assign customers to those tariffs.

Second, a tariff structure statement must comply with the distribution pricing principles.[7] Broadly, the pricing principles require tariffs to reflect a distributor's efficient costs. An approved tariff structure statement must have regard to the impact on customers in the transition to cost reflective tariffs.

Please refer to our draft decision for more details.[8]

18.4 Reasons for final decision

In this section we discuss the reasons for our positions for each aspect of the revised tariff structure statement we require TasNetworks to amend to achieve compliance with the NER.[9] We also discuss our assessment of TasNetworks' long run marginal cost estimate as well as the completeness of the revised tariff structure statement with the requirements in the NER.[10]

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5 TasNetworks, *Tasmanian Transmission and Distribution Revised Proposals Overview Regulatory Control Period 1 July 2019 – 30 June 2024*, November 2018

6 NER, cl. 6.18.1A(a).

7 NER, cl. 6.18.1A(b).

8 AER, *Draft Decision TasNetworks distribution determination 2019–24, Attachment 18 Tariff Structure Statement,* September 2018, p. 10.

9 NER, cl. 6.18.

10 NER, cll.6.18.1A and 6.18.5.

Opt–out approach to tariff assignment required for small business customers

We require an opt–out approach to tariff assignment policy for small business customers; that is, those small business customers in TasNetworks' LV non–residential tariff class. We consider an opt–out approach better promotes compliance with the pricing principles by balancing customer transition and choice than continuing to rely on opt–in.[11] Under an opt–in approach TasNetworks is projecting no material advance in revenue recovery via cost–reflective tariffs out to 2024. We are not satisfied that this approach will generate a reasonable rate of transition to cost–reflective network tariffs to contribute to the achievement of the network pricing objective.[12] We consider this change to be the minimum necessary to enable compliance with the rules, with the only other additional step being a prescribed approach to tariff assignment.[13]

TasNetworks' revised proposal maintained an opt–in assignment policy for small business customers. It has based this approach on a lack of customer impact analysis for small business customers such that an opt–in approach remains appropriate for these customers.[14]

We requested TasNetworks clarify why it has confidence in the opt–out approach for residential customers but not small business customers, noting there is a lower penetration rate in the residential tariff class.[15] TasNetworks responded that an opt–in approach for small business customers is a prudent strategy at this time, citing:

- its customer engagement focussed primarily on residential customers
- its intention to focus on engaging with small business customers and understanding customer impacts of cost–reflective tariffs on these customers over the coming regulatory period
- an opt–in approach has so far resulted in an encouraging trajectory of the uptake of cost–reflective tariffs for small business customers. [16]

We acknowledge there are varying views from stakeholders regarding an opt–out tariff assignment policy, specifically:

- CCP13 considers an accelerated reform program serves consumers' long-term interests. Given retail price regulation and limited competition it supports opt out arrangements. CCP13 also commended TasNetworks' consultation on the move from opt–in to opt–out tariff assignment and extended this to the AER's approach

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11 NER, cl. 6.18.5(h).

12 NER, cl. 6.18 5(c).

13 NER, cl. 6.12.3(l).

14 TasNetworks, *Tariff Structure Statement Explanatory Statement, Regulatory Control Period 1 July 2019 – 30 June 2024* p.60

15 AER, *Information Request #042,* 16 January 2019.

16 TasNetworks, Response to AER Information Request #042, p. 5, 31 January 2019.

of providing early feedback on the issue to allow targeted consultation in advance of the draft decision[17]

- Aurora Energy does not support an 'opt–out' approach. It submitted that the legislated CPI cap on retail prices compromises Aurora Energy's ability to recover its costs if there are changes to network tariffs[18]
- The Tasmanian Department of State Growth considers the AER needs to remain mindful of costs across the supply chain when determining assignment policy, including Aurora Energy's circumstances given the CPI cap on retail tariffs. It also noted Tasmania's peak demand is flatter than other jurisdictions and as such that the usefulness of time of use based tariffs is less pronounced[19]
- The Tasmanian Small Business Council submitted that the retail price cap, while good for small customers, can act as a brake on retail price reform. It also submitted that a faster pace of network tariff reform is appropriate.

We assessed the market characteristics for small business customers. Around 9 per cent of these customers are on the business low voltage time of use network tariff as at 2018. We consider this is a significant proportion and should enable insightful customer impact analysis. We raised this with TasNetworks which responded that these penetration statistics do not account for variations within the small customer group. That is, most small business customers on time of use consumption tariffs are large users and there is insufficient information available on lower use small business customers to warrant an opt–out approach.

TasNetworks argued that, given that the take-up of time of us tariffs under the current opt-in approach has been encouraging, there is no need to change this approach. Figure 1 below shows that TasNetworks expects time of use consumption charges to make up 33 percent of low voltage tariff class charges in 2019-20, and 7 per cent of charges for the residential tariff class in the same year. But while the proportion of residential charges that are time of use charges is expected to increase over the period to 2023-24, the same is not true for small business charges. It seems that little further progress will be made under the existing assignment policy for small business customers.

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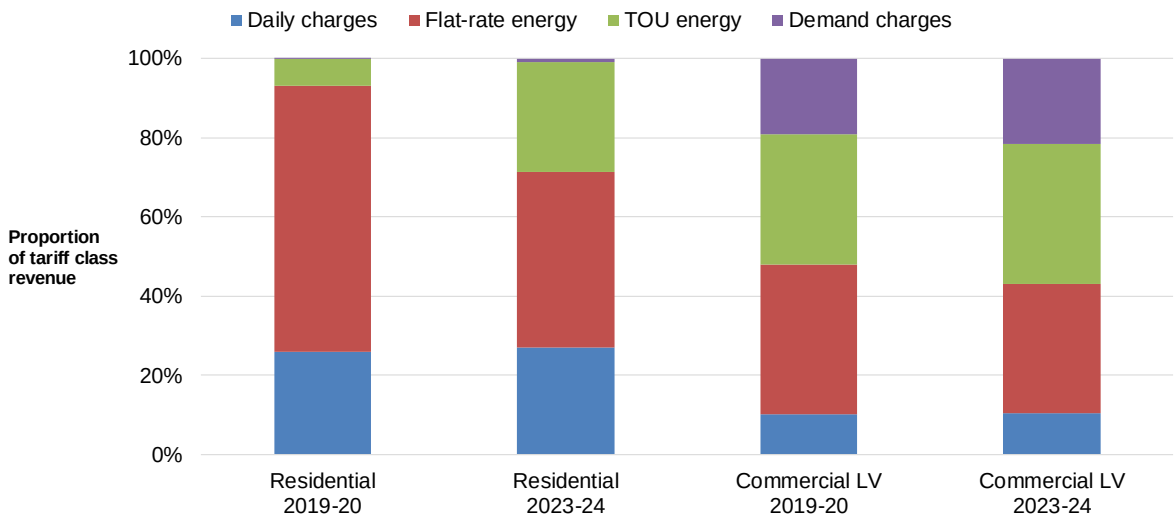
17 Consumer Challenge Panel, CCP Sub-Panel No. 13, *Advice to the AER, Response to TasNetworks revised proposals for a revenue reset for the 2019–24 regulatory period*, 11 February 2019

18 Aurora Energy, *Submission to AER TasNetworks Determination*, 16 January 2019.

19 Tasmanian Government, *Submission on TasNetworks revised proposal,* 11 January 2019.

Figure 1 Tariff class revenue by charging parameter, 2019-20 and 2023-24



Source: AER analysis of TasNetworks response to AER Information request #042

Stakeholder concerns with an opt–out approach are more in respect of the legislated CPI retail price cap and how this constrains other supply side market participants to respond to changes in network tariffs. We recognise customer affordability is a key policy consideration for the Tasmanian Government. However we consider network costs are sufficiently certain with TasNetworks operating under a revenue cap particularly as Aurora Energy serves 99.9 per cent of small customers. Further, we note that TasNetworks' revenue proposal represents a 15 per cent reduction in combined distribution and transmission revenue when compared to the previous 5 years.[20] We consider that a retail price cap that limits price increases to CPI will be able to accommodate the relatively flat network revenue path that our determination provides.

Further, we consider any constraint associated with the CPI retail price cap may not recognise the implications of deferring the transition to efficient network pricing. Without a consistent approach to assignment policy, customers' ability to understand the impact their demand has on the network expenditure of TasNetworks is reduced. LV non–residential customers have a high annual share of total energy consumption on TasNetworks' network (35 per cent in 2019), which highlights the importance of this customer segment in realising the benefits of tariff reform. Further, we see a benefit to aligning tariff assignment policy across the small customer tariff classes (both residential and small business).

With the typical long life of network assets we consider that ‘standing still’ on the uptake of cost–reflective network tariffs will work against the long term interests of

[20] TasNetworks Tasmanian Transmission and Distribution Revised Proposals Overview Regulatory Control Period 1 July 2019 – 30 June 2024, 29 November 2018, p. 72.

consumers. Balancing the above considerations we require TasNetworks to adopt an opt-out approach for small business customers.

Amendment to assignment trigger required to manage customer transition

We require TasNetworks to amend its tariff assignment policy for reassigning customers to cost–reflective network tariffs to include a 12 month data sampling period between the trigger event occurring and tariff reassignment for all customers. We are satisfied that this measure will provide customers with information such that they will be better able to mitigate the impact of changes in tariffs through their usage decisions.[21]

TasNetworks revised tariff structure statement has instead proposed the following triggers for immediate opt-out tariff assignment for residential customers:

- new connecting customers
- customers changing their connection characteristics or arrangements, for example, existing customers upgrading their connection to three-phase or an existing customer who installs solar PV
- customers who receive an advanced meter but do not otherwise alter their connection arrangements (i.e. replacement).

Our draft decision required TasNetworks to amend its assignment trigger to include a 12 month delay when this reassignment results from an end of life meter replacement.[22] We considered this would allow retailers to gather data on these 'passive' customers in advance of a change to their network tariff. TasNetworks revised tariff structure statement submitted our draft decision approach would produce inequitable customer outcomes with implementation inefficient and unjustifiably costly.[23]

While we accept TasNetworks' proposed trigger events, we remain of the view that a 12 month data sampling period is appropriate. Our final decision is to extend this period to all small customers (residential and non–residential) regardless of the reason triggering their reassignment. We consider this will ease implementation and system issues associated with distinguishing between passive and active customers. It will also allow active customers to understand their energy usage characteristics to inform their decisions about their own tariff assignment.

There are varying views from stakeholders regarding the proposed 12 month delay to reassignment policy:

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21 NER, cll. 6.18.5(h)(3) and 6.18.5(i)(2).

22 AER, *Draft Decision TasNetworks distribution determination 2019–24, Attachment 18 Tariff Structure Statement, September 2018,* p. 25–26

23 TasNetworks *Revised Tariff Structure Statement Regulatory Control Period 1 July 2019 – 30 June 2024,* p. 12

- the Tasmanian Department of State Growth supports a 12 month delay in assigning all customers whose meter changes to a cost-reflective tariff. This would provide them with sufficient data to make an informed choice that depends on their individual circumstances. However, the Department suggests that the AER should also consider the costs and benefits that this approach provides to all participants in the supply chain.[24]
- the Tasmanian Small Business Council considers the 12 month delay to re–assigning customers with end of life meter replacement is on balance not justified when considered against the costs.[25]
- the 12 month delay gives practical effect to the recommendation for a data sampling period advocated by the ACCC as part of its Retail Electricity Pricing Inquiry.[26]

With regard to its submissions about equitable treatment, we requested TasNetworks provide its view on whether extending the delay to all reassigned customers would mitigate this concern. TasNetworks reiterated concerns about implementation costs however it considered that if the delay is necessary then it should be extended to all reassigned customers.[27]

With respect to the implementation costs, we sought further explanation of the nature of the constraints in the current billing systems and whether TasNetworks' systems can currently process any period of delay. For example, for a meter replacement, is the current system capable of implementing a delay to the end of financial year.[28] Table 1 below summarises the scenarios TasNetworks costed. [29]

Table 1 TasNetworks implementation costs by scenario

Option	Implementation Costs
1. 12 month delay for replacement meter reassignments (AER draft decision)	$0.545 million in opex
2. 12 month delay for all reassigned customers	$0.339 million in opex
3. Immediate reassignment for all customers	$0.029 million in opex

Source: TasNetworks response to AER info request #042, 8 February 2019.

Comparing the implementation costs with the advantages of managing transitional impacts is difficult as it is hard to quantify benefits. We note that no matter the option there are implementation costs. Notably these are lower for the uniform approach

[24] Tasmanian Government, *Submission on TasNetworks revised proposal,* 11 January 2019.

[25] Tasmanian Small Business Council, *Submission on TasNetworks revised proposal,* January 2019.

[26] ACCC, *Retail Electricity Pricing Inquiry Final Report, June 2018*, p. 185–186.

[27] TasNetworks response to AER, *Information Request #042,* 8 February 2019.

[28] AER, *Information Request #042,* 16 January 2019.

[29] Cost estimates are based on installation of 4000 smart meters per month, based on Aurora energy's replacement plans for its 'Pay as you go' meters and a default time of use consumption based tariff

scenario (option 2) as compared to the replacement meter only approach (option 1), we consider these costings strengthen the case for a 12 month delay approach for all customers.

We are satisfied extending the delay to all customers is appropriate because it:

- addresses concerns regarding inequitable treatment of certain customers
- represents a lower cost solution than having a 12 month sampling period for only end of life meter replacement triggered reassignments
- still provides a mechanism to mitigate transitional impacts to manage the risk of customer backlash.

We are satisfied that this amendment is required to achieve compliance with the distribution pricing principles.[30] Specifically, a data sampling period is required to provide retail customers with the ability to understand the structure of the tariffs they are assigned to. This will provide information on their usage which will allow better informed consultation.[31] Further, we are satisfied that as the data sampling period only applies for a single year this option amends TasNetworks revised tariff structure statements only to the extent necessary.[32]

Amendment to default cost–reflective tariff for small customers

TasNetworks amended its default cost reflective tariff design as part of its revised tariff structure statement. In its initial proposal TasNetworks' default cost–reflective tariff for small customers was based on demand charges, TasNetworks is now instead basing this on time of use energy charges. From the beginning of the 2019–24 regulatory period, TasNetworks will apply time of use consumption based network tariffs as its default cost reflective tariff.[33]

Consistent with our draft decision, we are satisfied that both time of use demand and energy tariffs contribute to the achievement of compliance with the distribution pricing principles at this stage of tariff reform.[34] We consider these tariff structures are cost reflective to the extent TasNetworks' forward looking costs are driven by network expenditure to manage congestion at times of peak demand. We consider time of use based charges signal times when the network is likely to experience congestion and enable customers to shift their usage outside of peak times.

We note TasNetworks' newly proposed time of use tariff structure now matches Aurora Energy's regulated retail tariff 93.[35] We consider that aligning the network tariff with a

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30 NER, cl. 6.18.5.

31 NER, cl. 6.18.5(i).

32 NER, cl. 6.12.3 (l).

33 TasNetworks *Revised Tariff Structure Statement Regulatory Control Period 1 July 2019 – 30 June 2024,* p. 11.

34 AER, Draft Decision TasNetworks distribution determination 2019–24, Attachment 18 Tariff Structure Statement, September 2018, p. 69.

35 Aurora Energy's approved Standing Offer prices from 1 July 2018.

structure within Aurora Energy's regulated retail tariff suite has benefits in terms of managing impacts across the supply chain.

Trajectory for unwinding discounted tariffs

Our draft decision accepted TasNetworks proposal to continue unwinding discounted tariffs.[36] In doing so, we considered TasNetworks revised tariff structure statement should:

- elaborate on the assumptions underlying the trajectory for rebalancing the tariffs
- investigate providing certainty about its approach to removing these discounts
- prioritise price relief to non–discounted tariffs.

TasNetworks revised tariff structure statement notes that it will abolish two of the three discounted tariffs from 1 July 2019 after achieving parity with the relevant general usage tariffs.[37] This leaves the TAS41 – Uncontrolled Low Voltage Heating tariff remaining for realignment with the general usage tariff TAS31. TasNetworks has the aim of achieving this by the end of the 2024–29 regulatory control period. [38]

TasNetworks illustrates the rebalancing trajectory by comparing the ratio of total efficient cost and revenue recovery for the particular tariffs.[39] We have reproduced this below in Figure 2

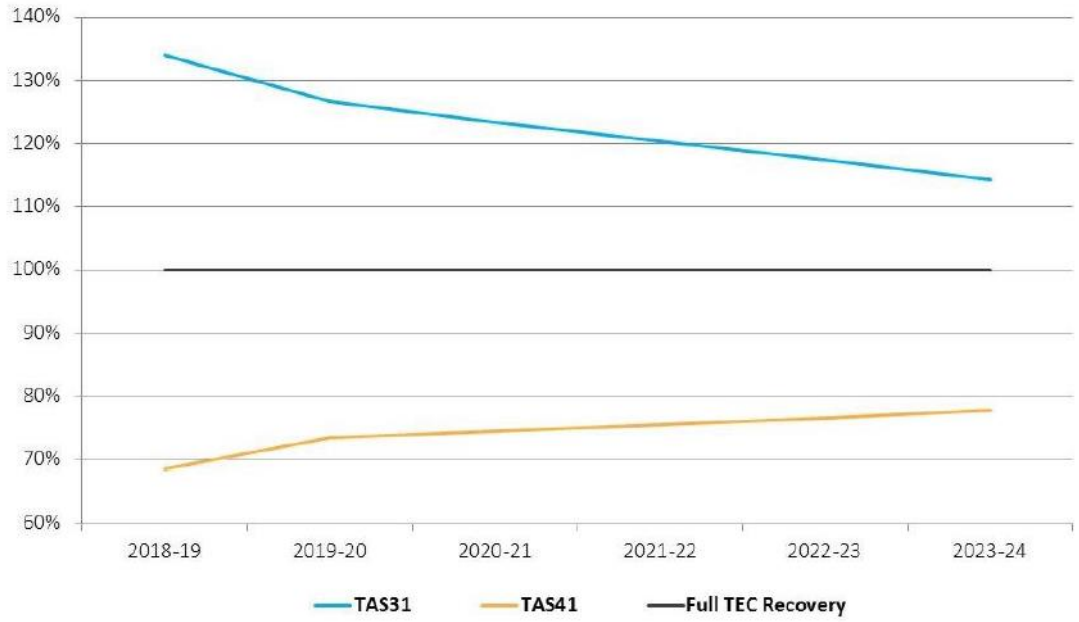
[36] AER, *Draft Decision TasNetworks distribution determination 2019–24, Attachment 18 Tariff Structure Statement, September 2018,* p. 20.

[37] That is, TASCURT and TAS34 have achieved alignment with TAS22. As is described here: TasNetworks *Tariff Structure Statement Explanatory Statement, Regulatory Control Period 1 July 2019 – 30 June 2024* pp. 23–24.

[38] TasNetworks, *Revised Tariff Structure Statement Regulatory Control Period 1 July 2019 – 30 June 2024,* p.25.

[39] TasNetworks, *Revised Tariff Structure Statement Regulatory Control Period 1 July 2019 – 30 June 2024,* p.24.

Figure 2 Total Efficient Cost Recovery – TAS31 v TAS41



Source: TasNetworks *Tariff Structure Statement Explanatory Statement, Regulatory Control Period 1 July 2019 – 30 June 2024* p. 24.

We are satisfied that TasNetworks' revised tariff structure statement provides an appropriate level of detail regarding unwinding the remaining discounted tariff. We expect TasNetworks to continue with this trajectory across the forthcoming regulatory control period and expect its annual pricing proposals to continue to keep stakeholders informed about the progress it is making.

Individually calculated tariffs

TasNetworks' tariff structure statement includes individually calculated tariffs as part of its suite of network tariffs. These tariffs apply to customers with a demand in excess of 2 MVA or where a customer's connection point necessitate an individual calculation of a contribution to the shared network charges.[40]

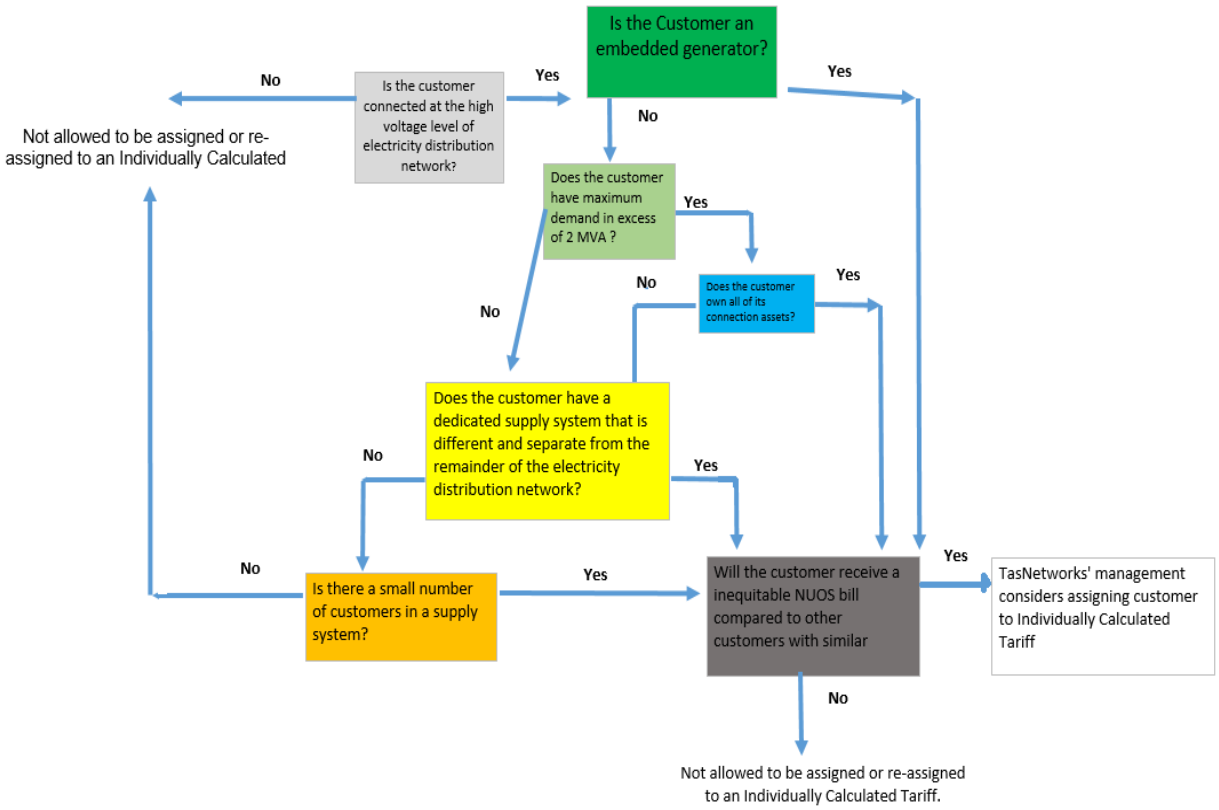
Consistent with our draft decision, we are satisfied that in certain circumstances it is more cost reflective for these customers to be assigned an individually calculated tariff, rather than the highly averaged published tariff.[41] Our draft decision set out our expectation for TasNetworks to provide further description of how it determines customers' eligibility for tariffs. TasNetworks' revised tariff structure statement indicates that Individually Calculated Tariffs apply to customers with electrical demand in excess of 2 MVA or where customer's circumstances in a pricing zone identifies the average

[40] TasNetworks, *Revised Tariff Structure Statement Regulatory Control Period 1 July 2019 – 30 June 2024*, p. 91.

[41] AER, *Draft Decision TasNetworks distribution determination 2019–24, Attachment 18 Tariff Structure Statement, September 2018*, p. 29.

shared network charge to be meaningless or distorted.[42] We requested that TasNetworks provide more detail and in doing so present this in a flow chart. Figure 3 and Table 2 reproduces TasNetworks response.

Figure 3 TasNetworks assignment procedure for individually calculated tariffs



Source: TasNetworks, *Response to AER information request #042*, *Tariff Structure Statements ICT Assignment Criteria flow chart*

Table 2 Individually calculated tariffs – description of eligibility criteria

Eligibility Criteria	Description
Criteria 1	Must be high voltage connected customer.
Criteria 2	Extent of usage criteria i.e. > 2 MVA of demand. For current customer demand is measured on historical data, if significant changes are expected forecast data will also be considered. New customers demand is measured on forecast information
Criteria 3	Ownership of connection assets.

[42] TasNetworks, *Tariff Structure Statement Explanatory Statement, Regulatory Control Period 1 July 2019 – 30 June 2024,* p. 101.

	All HV customer own the majority of their connection assets.
Criteria 4	Dedicated supply arrangement. • Reserved capacity on backup feeder • Special HV asset arrangements (customised switchboards that are connection assets • Special protection arrangements (primary and secondary assets, including script calcs scheme or special protection schemes)
Criteria 5	Number of customers in supply system. Supply system relating to the distribution network only. e.g. Single distribution customer connected to a Transmission substation.
Criteria 6	Equitable treatment between similar customers. • Reserve feeder - receiving a service above standard terms and conditions • Customer is located next to a transmission substation but unable to connect as a transmission customer. (single customer supplied on HV feeder)

Source: AER analysis of TasNetworks, *Response to AER information request #042*, *Tariff Structure Statements ICT Assignment Criteria flow chart.*

We are satisfied that including this information provides clarity on how TasNetworks determines whether customers are eligible for individually calculated tariffs. Including this in our final decision also provides transparency on these arrangements for stakeholders.

We note that historically, electricity distributors have operated in a unidirectional way. This means that all customers use the sub-transmission network segment of the distribution networks, with subsets of customers using the high-voltage network and low voltage networks. As such, we are satisfied that it is appropriate network tariffs distinguish these customers based on their usage. Given the complexity of their connection arrangements, we are satisfied that in certain circumstances that individually calculated tariffs are appropriate for these upstream customers. However w note as the penetration of distributed energy resources increases these arrangements may have to adapt as bidirectional flows increase. We will be monitoring these developments over the 2019–24 regulatory control period to determine what if any impacts there are for individually calculated tariffs.

Long run marginal cost estimates

We are satisfied TasNetworks' approach to estimating long run marginal cost contributes to the achievement of compliance with the distribution pricing principles and to achievement of the network pricing objective. TasNetworks maintained the model and calculation method for estimating LRMC from the initial proposal.[43] As with

[43] TasNetworks used the average incremental cost method using a ten-year forecast horizon.

our draft decision, we consider these meet the requirements of the rules at this stage of tariff reform.[44]

While we accept TasNetworks' long run marginal cost estimation methodology we think it could be improved. TasNetworks stated it included approximately $4.5 million of repex in the initial proposal's LRMC calculations. In our draft decision, we considered this repex was not consistent with the definition of 'marginal costs' because condition and age were the drivers of expenditure.[45]

In its revised proposal, TasNetworks removed the $4.5 million of repex from its initial proposal calculations as these are not consistent with the definition of long run marginal cost.[46] However, TasNetworks made no further comment on how it could incorporate repex into its LRMC estimation method.

We do not consider the process through which TasNetworks excluded repex from LRMC calculations properly accounts for repex that can be considered as marginal costs.[47] We will require TasNetworks to improve its approach, to include repex elements in its LRMC estimates, for its tariff structure statement for the 2024–29 regulatory control period.

Statement structure and completeness

In our draft decision we requested TasNetworks adopt a "two document" approach to structuring the tariff structure statement as part of its revised proposal.[48]

While not a requirement under the NER, we consider dividing TSS material into two parts improves clarity and eases handling of the materials. [49] Therefore we requested:

- the first document only include the elements of the tariff structure statement listed in the NER as the constituent elements
- a further separate document containing TasNetworks' reasons for each of these proposed elements (i.e. an explanatory document).

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44 AER, *Draft decision: TasNetworks distribution determination 2019 to 2024: Attachment 18: Tariff structure statement*, September 2018, p. 33.

45 AER, *Draft decision: TasNetworks distribution determination 2019 to 2024: Attachment 18: Tariff structure statement*, September 2018, pp. 32–33.

46 TasNetworks, *Response to AER information request IR45 – TSS LRMC model*, 5 February 2019, p. 5. Hence, its revised LRMC estimates are on average 9 per cent lower than the initial proposal estimates (AER analysis).

47 We note some distributors did not include repex as a direct input into in their final LRMC estimates. However, the process they used to exclude repex from LRMC their estimation method appropriately accounts for repex that can be considered as marginal cost. For example, see Endeavour Energy's and Evoenergy's methods for deriving their LRMC estimates.

48 AER, *Draft Decision TasNetworks distribution determination 2019–24, Attachment 18 Tariff Structure Statement, September 2018*, p. 35.

49 AER, *Draft Decision TasNetworks distribution determination 2019–24, Attachment 18 Tariff Structure Statement, September 2018*, p. 35.

TasNetworks' revised proposal did include two documents, the revised tariff structure statement and an explanatory statement.[50] However, we note that the revised tariff structure statement included explanatory reasoning. For example, the sections on network tariff reform include TasNetworks' justification for proposing to depart from our draft decision regarding amending the trigger for tariff assignment.[51] We consider this detail should be contained in the explanatory statement.

Further, our draft decision required TasNetworks' revised tariff structure statement to include the detail that it cross–referenced as part of the Network Tariff Application and Price Guide it submits as part of its Annual Pricing proposals.[52] We note that TasNetworks has incorporated more detail into its tariff structure statement regarding the procedures and criteria of reassignment.[53] However, the revised tariff structure statement still refers to these annually updated documents as containing further detail around the assignment process.[54] We consider this detail should be contained in the explanatory statement.

We requested TasNetworks provide revised versions of its documents which give effect to these changes. We also requested the public versions of these documents be in an accessible form.[55] TasNetworks provided updated documents which incorporated the Network Tariff Application and Price Guide into the tariff structure statement and were in an accessible form. TasNetworks revised versions did not however relocate the reasoning from the revised tariff structure statement into the explanatory statement. In its response TasNetworks considered that doing so would require a significant amount of re–drafting which would not have been possible in the time available but committed to doing so in future tariff structure statements.[56] We are satisfied with TasNetworks' response.

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50 TasNetworks, Revised Tariff Structure Statement Regulatory Control Period 1 July 2019 – 30 June 2024, TasNetworks, *Tariff Structure Statement Explanatory Statement, Regulatory Control Period 1 July 2019 – 30 June 2024.*

51 TasNetworks *Revised Tariff Structure Statement Regulatory Control Period 1 July 2019 – 30 June 2024* p.12

52 AER, *Draft Decision TasNetworks distribution determination 2019–24, Attachment 18 Tariff Structure Statement, September 2018,* p. 34–35.

53 TasNetworks *Revised Tariff Structure Statement Regulatory Control Period 1 July 2019 – 30 June 2024,* p. 41.

54 TasNetworks *Revised Tariff Structure Statement Regulatory Control Period 1 July 2019 – 30 June 2024,* p. 23.

55 AER, *Information Request #042*, 16 January 2019.

56 TasNetworks response to AER, Information Request #042, 8 February 2019.

A Assigning retail customers to tariff classes

This appendix sets out our final determination on the principles governing assignment or reassignment of TasNetworks' retail customers for direct control services.[57] We approve TasNetworks procedures for assigning and reassigning retail customers to tariff classes.

Procedures for assigning and reassigning retail customers to tariff classes

The procedure outlined in this section applies to direct control services.

Assignment of existing retail customer to tariff classes at the commencement of the 2019–24 regulatory control period

1. TasNetworks' customers will be taken to be "assigned" to the tariff class which TasNetworks was charging that customer immediately prior to 1 July 2019 if:

   (a) they were a TasNetworks customer prior to 1 July 2019, and

   (b) they continue to be a customer of TasNetworks as at 1 July 2019.

Assignment of new retail customers to a tariff class during the 2019–24 regulatory control period

2. If, from 1 July 2019, TasNetworks becomes aware that a person will become a customer of TasNetworks, then TasNetworks will determine the tariff class to which the new customer will be assigned.

3. In determining the tariff class to which a customer or potential customer will be assigned, or reassigned, in accordance with paragraphs 2 or 5, TasNetworks will take into account one or more of the following factors:

   (c) the nature and extent of the customer's usage

   (d) the nature of the customer's connection to the network

   (e) whether remotely–read interval metering or other similar metering technology has been installed at the customer's premises as a result of a regulatory obligation or requirement.

4. In addition to the requirements under paragraph 3, TasNetworks, when assigning or reassigning a customer to a tariff class, will ensure the following:

   (f) that customers with similar connection and usage profiles are treated on an equal basis

   (g) those customers who have micro–generation facilities are treated no less favourably than customers with similar load profiles but without such facilities.

[57] NER, cl. 6.12.1(17).

Reassignment of existing retail customers to another existing or a new tariff class during the 2019–24 regulatory control period

5. TasNetworks may reassign an existing customer to another tariff class in the following situations:

   (h) TasNetworks receives a request from the customer or customer's retailer to review the tariff to which the existing retail customer is assigned; or

   (i) TasNetworks believes that:

      i. an existing customer's load characteristics or connection characteristics (or both) have changed such that it is no longer appropriate for that customer to be assigned to the tariff class to which the customer is currently assigned, or

      ii. a customer no longer has the same or materially similar load or connection characteristics as other customers on the customer's existing tariff, then TasNetworks may reassign that customer to another tariff class.

Notification of proposed assignments and reassignments and rights of objection for standard control services

6. TasNetworks must notify the customer's retailer in writing of the tariff class to which the customer has been assigned or reassigned, prior to the assignment or reassignment occurring.

7. A notice under paragraph 6 above must include advice informing the customer's retailer that they may request further information from TasNetworks and that the customer or customer's retailer may object to the proposed reassignment. This notice must specifically include:

   (j) a written document describing TasNetworks' internal procedures for reviewing objections, if the customer's retailer provides express consent, a soft copy of such information may be provided via email

   (k) that if the objection is not resolved to the satisfaction of the customer or customer's retailer under TasNetworks internal review system within a reasonable timeframe, then, to the extent resolution of such disputes are with the jurisdiction of an Ombudsman or like officer, the customer or customer's retailer is entitled to escalate the matter to such a body

   (l) that if the objection is not resolved to the satisfaction of the customer or customer's retailer under TasNetworks internal review system and the body noted in paragraph 7(b) above, then the customer or customer's retailer is entitled to seek a decision of the AER via the dispute resolution process available under Part 10 of the NEL.

8. If, in response to a notice issued in accordance with paragraph 6 above, TasNetworks receives a request for further information from a customer or customer's retailer, then it must provide such information within a reasonable timeframe. If TasNetworks reasonably claims confidentiality over any of the information requested by the customer or customer's retailer, then it is not required

to provide that information to the customer or customer's retailer. If the customer or customer's retailer disagrees with such confidentiality claims, he or she may have resort to the complaints and dispute resolution procedure, referred to in paragraph 7 above (as modified for a confidentiality dispute).

9. If, in response to a notice issued in accordance with paragraph 6 above, a customer or customer's retailer makes an objection to TasNetworks about the proposed assignment or reassignment, TasNetworks must reconsider the proposed assignment or reassignment. In doing so TasNetworks must take into consideration the factors in paragraphs 3 and 4 above, and notify the customer or customer's retailer in writing of its decision and the reasons for that decision.
10. If an objection to a tariff class assignment or reassignment is upheld by the relevant body noted in paragraph 7 above, then any adjustment which needs to be made to tariffs will be done by TasNetworks as part of the next network bill.
11. If a customer or customer's retailer objects to TasNetworks' tariff class assignment TasNetworks must provide the information set out in paragraph 7 above and adopt and comply with the arrangements set out in paragraphs 8, 9 and 10 above in respect of requests for further information by the customer or customer's retailer and resolution of the objection.

Notification of proposed assignments and reassignments and rights of objection for alternative control services

12. TasNetworks must make available information on tariff classes and dispute resolution procedures referred to in paragraph 7 above to retailers operating in TasNetworks' distribution area.
13. If TasNetworks receives a request for further information from a customer or customer's retailer in relation to a tariff class assignment or reassignment, then it must provide such information within a reasonable timeframe. If TasNetworks reasonably claims confidentiality over any of the information requested, then it is not required to provide that information. If the customer or customer's retailer disagrees with such confidentiality claims, he or she may have resort to the dispute resolution procedures referred to in paragraph 7 above, (as modified for a confidentiality dispute).
14. If a customer or customer's retailer makes an objection to TasNetworks about the proposed assignment or reassignment, TasNetworks must reconsider the proposed assignment or reassignment. In doing so TasNetworks must take into consideration the factors in paragraphs 3 and 4 above, and notify the customer or customer's retailer in writing of its decision and the reasons for that decision.
15. If an objection to a tariff class assignment or reassignment is upheld by the relevant body noted in paragraph 7 above, then any adjustment which needs to be made to tariffs will be done by TasNetworks as part of the next network bill.

System of assessment and review of the basis on which a retail customer is charged

16. Where the charging parameters for a particular tariff result in a basis charge that varies according to the customer's usage or load profile, TasNetworks will set out in

its pricing proposal a method of how it will review and assess the basis on which a customer is charged.