

# The Australian Energy Regulator



**TasNetworks distribution and transmission reset 2019–24**

**Stakeholder meeting: AER preliminary framework and approach**

**12 April 2017**

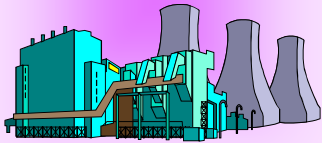
**AER** AUSTRALIAN  
ENERGY  
REGULATOR

# Agenda

- The AER and the Consumer Challenge Panel (CCP)
- Regulatory framework incl. Framework and approach (F&A)
- TAS preliminary F&A
- Reset timeline
- Service classification guideline

# The AER's role in TAS energy

## Wholesale gas & electricity markets

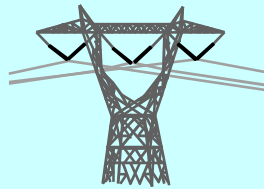


### We monitor wholesale markets and enforce rules

Prices in the NEM are set by the market subject to the NER

AER monitors market outcomes and behaviour

## Transmission networks & pipelines



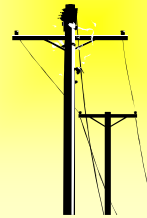
### We regulate revenues of transmission businesses

Charges set by AER

Transmission loss factors method set by AEMO

Regulatory investments tests – AER assesses compliance

## Distribution Networks for gas/electricity



### We regulate revenues of distribution businesses

Distribution prices and structures – AER approves annually subject to determination and NER

Reliability standards – set by TAS Govt.

Incentive schemes – defined in NER and set by AER at reset

Rate of return – NER and AER guideline – set at reset for 5 years

## Retail & other distribution



### We will regulate non-price retail activities

National Energy Customer Framework - AER

Retail price approach – TAS Govt.

# Regulatory framework (1)

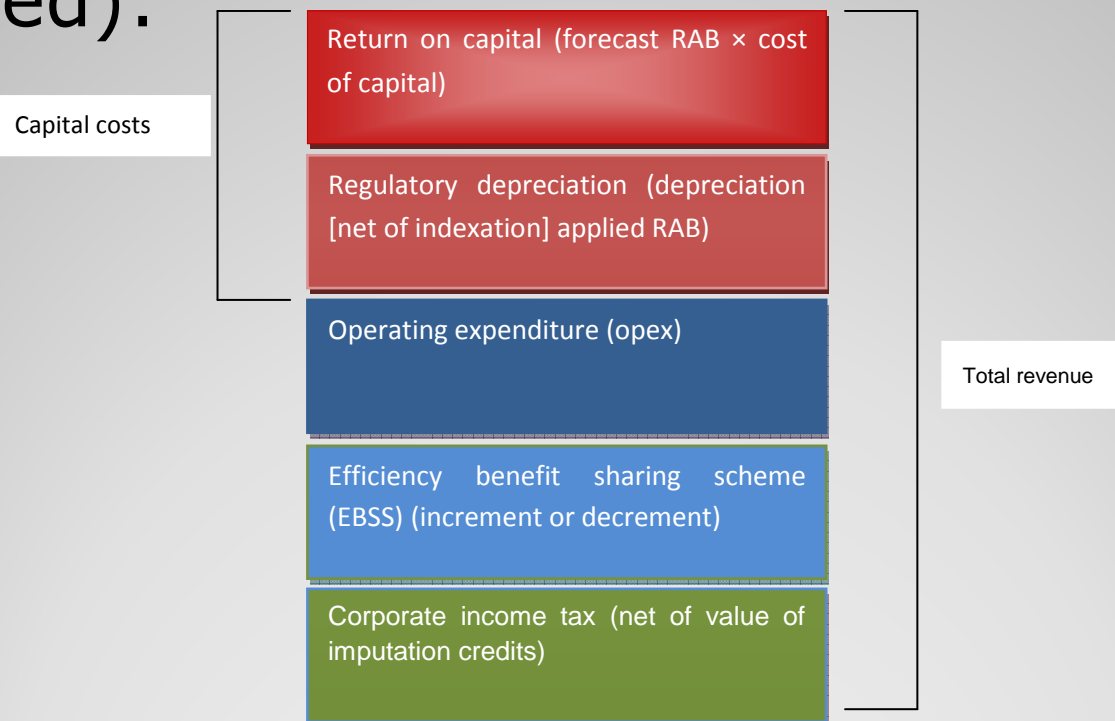
- Decisions must contribute to achievement of the NEO – efficient investment in, & efficient operation & use of, electricity services for the long term interests of consumers.

## Regulatory framework (2)

- Key aspects of NER:
  - Regulatory asset base – not re-valued
  - Rate of return – benchmark efficient firm
  - Capex & opex objectives – efficient, meet demand, obligations
  - Depreciation
  - Tax allowance
  - Incentive schemes

# Regulatory framework (3)

- The building blocks (how prices are derived):

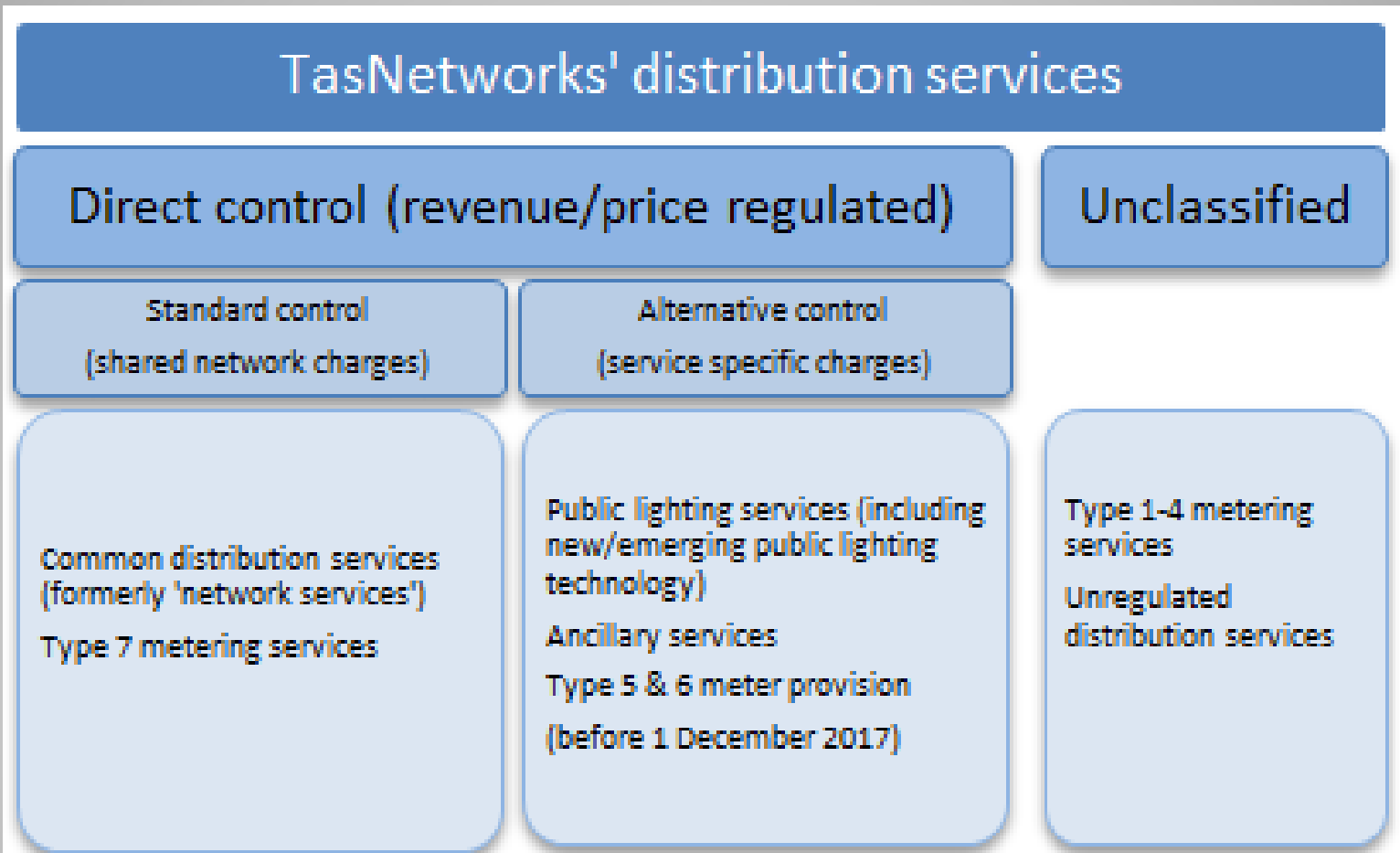


# Framework and approach

- 1<sup>st</sup> step in 2 year reset process
- F&A determines:
  - Service classification (limited discretion and sets ring-fencing obligations)
  - Form of control mechanism (binding)
  - Control mechanism (limited discretion)
  - Application of guidelines and incentive schemes (flexible)
  - Approach to depreciation (flexible)

# TAS preliminary F&A

- Service classification – what service we will regulate





# Service classification

- Proposed changes from 2017-19 are:
  - Type 7 metering from ACS to SCS.
  - New public lighting technology from negotiated to ACS.
  - Metering coordinator, metering provider and metering data provider roles – unregulated.
  - Unregulated distribution services – for TasNetworks to review its revenue streams to propose list of services.
  - Emergency recoverable works from unregulated to SCS.

# Form of control

- No change to current approach:
  - Standard control services – revenue cap
  - Alternative control services – price cap.

# Incentive schemes

- As per current approach, intend to apply:
  - Service target performance incentive scheme (STPIS)
  - Efficiency benefit sharing scheme (EBSS)
  - Capital expenditure share scheme (CESS)
  - Demand management incentive scheme (DMIS)
- DMIS & STPIS review – complete late 2017 and will apply

# Depreciation, benchmarking, DFA

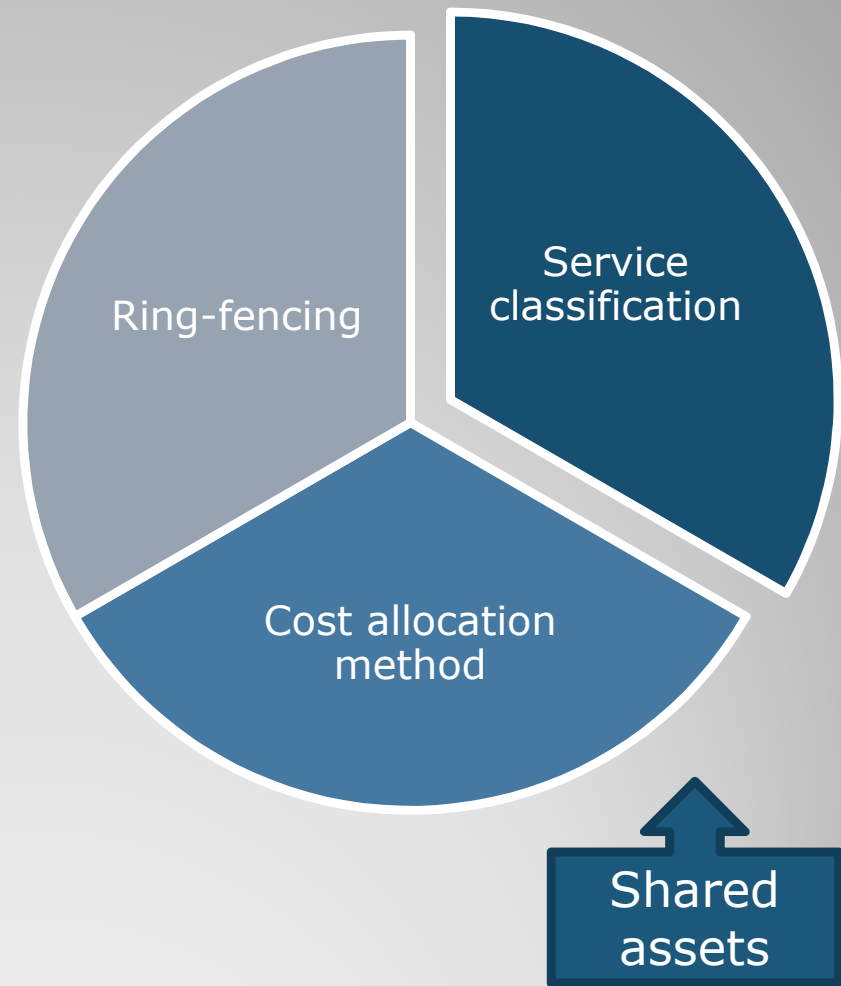
- Intend to apply:
  - Forecast depreciation (combined with CESS provides incentive to pursue capex savings).
  - Forecast expenditure guideline - apply the assessment/analytical tools set out in the guideline and any other appropriate tools for assessing expenditure forecasts.

# TAS reset timeline

Step	Date
Submissions close – preliminary F&A	21 April 2017
AER to publish final F&A for TasNetworks	July 2017
TasNetworks submits regulatory proposal to AER	January 2018
AER publishes Issues paper and holds public forum	Feb/March 2018
Submissions on regulatory proposal close	May 2018
AER to publish draft decision	September 2018
TasNetworks to submit revised regulatory proposal to AER	December 2018
Submissions on revised regulatory proposal and draft decision close	January 2019
AER to publish final distribution and transmission determinations for 2019-24	April 2019

# Service classification guideline

- Guideline development will commence once AEMC contestability rule change complete (late 2017)
- Guideline completed early 2018 – will likely apply to TasNetworks (distribution)



# Questions

- Questions?
- Contact the AER at:
  - [TasNetworksDistribution2019@aer.gov.au](mailto:TasNetworksDistribution2019@aer.gov.au)