



TasNetworks

Ring Fencing Compliance Report

September 2018

Table of Contents

1. Overview	2
2. TasNetworks Ring Fencing Implementation Plan.....	2
2.1 Compliance Plan	2
2.2 Transmission Network Service Provider	3
2.3 Waivers.....	4
2.3.2 Temporary waivers:.....	5
2.3.3 Legal separation implementation:	7
2.3.4 Type 1-4 metering services:	7
2.3.5 Temporary waiver to provide operation and maintenance support services to the Bass Strait Islands.....	8
2.4 Information Sharing Protocol	9
2.5 Information Sharing Register.....	9
2.6 Shared Staff Register	10
2.7 Shared Office Register	10
2.8 Training.....	10
2.9 Service Providers	10
2.10 Other Services	10
3. Establishment of Separate Entity (42-24).....	11
4. Breaches.....	11
4.1 Distribution Asset Rentals	11
5. Appendix A – Ring-fencing waiver application 31 July 2017 (updated 28 September 2017)	12
6. Appendix B – Further ring-fencing waiver applications 21 November 2017	13

1. Overview

On 30 November 2016, the Australian Energy Regulator (**AER**) released its final decision on the Ring Fencing Guideline (**Guideline**). The Guideline was developed as a requirement of the National Electricity Rules (**NER**) to prevent certain cross-subsidisation and discrimination where Distribution Network Service Providers (**DNSPs**) provide direct control services and other services, or where entities affiliated with the DNSP (**affiliated entities**) provide other services. The Guideline, including its subsequent updates, is binding on DNSPs.

The Guideline was effective from 1 December 2016 with a transition period during which DNSPs were required to implement the necessary controls to ensure compliance with the Guideline. Full compliance was required no later than 1 January 2018. To manage transitional issues DNSPs were able to seek waivers from certain obligations from the AER. The waivers TasNetworks sought and were granted are outlined in further detail under 2.3 Waivers.

The Guideline requires DNSPs to report compliance against the Guideline each year. This document (**Report**) is TasNetworks' submission against the reporting requirements of the Guideline for the 2017-18 regulatory year.

Throughout the 2017-18 regulatory year, TasNetworks has implemented a number of compliance activities. These activities, including some controls, have not been operating for the full 2017-18 regulatory year. Notwithstanding this, TasNetworks confirms it is in compliance with the Guideline as at 30 June 2018.

This Annual Ring Fencing Compliance Report has been prepared by TasNetworks and is provided to the AER in accordance with clause 6.2.1(a) of the guideline. TasNetworks does not claim confidentiality over this submission.

2. TasNetworks Ring Fencing Implementation Plan

2.1 Compliance Plan

TasNetworks developed a Compliance Plan (**Plan**) to implement the requirements of the Guideline. The Plan was submitted to the AER on 31 July 2017.

TasNetworks' strategy for compliance strikes the appropriate balance between implementing measures aimed at avoiding the harms the Guideline is intended to avoid while still ensuring good customer and cost outcomes.

The priority for TasNetworks in developing the Plan has been identifying the current level of compliance with the Guideline and evaluating the compliance risks that arise from the Guideline. TasNetworks has taken a hybrid approach to ensuring compliance with the Guideline.

The compliance strategy includes:

- The establishment of a new legal entity (**42-24**) that will offer the small number of non-electricity services currently provided by TasNetworks;
- A series of waivers to ensure compliance for a range of services currently offered by TasNetworks;
- The continued application of our approved Cost Allocation Methodology (CAM) and the establishment of separate accounts for relevant areas of the business; and
- The development of a confidential information register and information sharing protocol to ensure that information is contained and distributed correctly within TasNetworks.

TasNetworks Ring-Fencing Compliance Report

TasNetworks is confident that these core actions of the compliance strategy have ensured compliance with the Guideline since 1 January 2018.

To moderate the remaining residual risks, a mitigation strategy was developed and implemented. These risks include the inadvertent exchange of information between staff performing tasks that relate to 42-24. Our mitigation strategy included rolling out a training package business wide to impacted staff. The training focused on two key areas:

- Training on the protocols around information management and storage for those staff involved in collection of confidential electricity information; and
- Targeted training of staff that will potentially work across the unregulated and regulated business on the implications of the Guideline.

TasNetworks considers that the compliance strategy and the mitigation strategy has addressed and continues to address the residual risks of non-compliance.

2.2 Transmission Network Service Provider

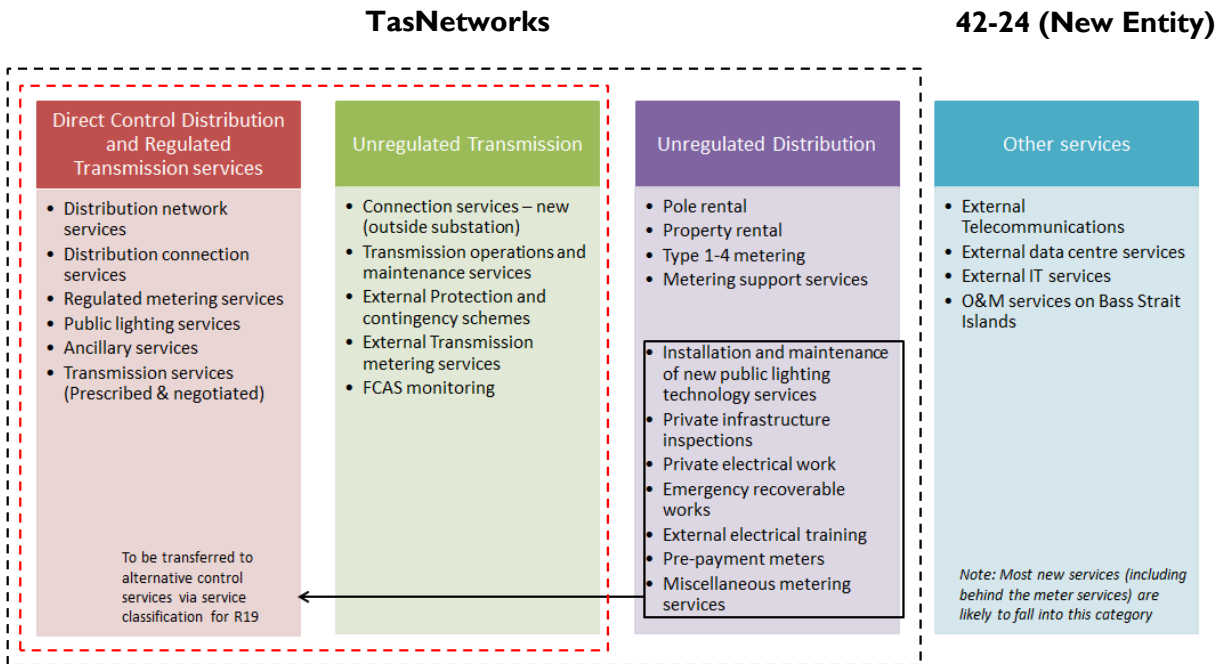
TasNetworks differs from other DNSPs in that the business is an integrated transmission and distribution business. TasNetworks sought a waiver of clause 7.1(a)(ii) of the Transmission Ring Fencing Guidelines to allow it to own and operate both the transmission business and the distribution business. TasNetworks was granted this waiver on 12 May 2014 and as such, the AER waived TasNetworks obligation to comply with clause 7.1(a)(ii).

Accordingly, we have made a key assumption not to separate transmission services from our direct control distribution services. TasNetworks has applied the NER definition of Transmission Services (which includes Prescribed, Negotiated and Unregulated transmission services). These services are able to continue to be provided together with regulated distribution services, with existing cost-allocation and asset sharing provisions continuing to apply. No further ring-fencing of Negotiated or Unregulated transmission services is therefore deemed necessary.

TasNetworks completed the required initial compliance steps before the Guideline became fully effective on 1 January 2018. Tasks completed include:

- Obtaining all waivers required;
- Establishing a Ring-fencing page on the TasNetworks website;
- Developing an information sharing protocol;
- Developing a range of registers required by the Guideline; and
- Developing a training package for team members.

The graphic below illustrates the services attributable to each entity implemented under the Guideline.



2.3 Waivers

2.3.1 Background:

The table below sets out the waivers sought and granted to TasNetworks by the AER. These waivers are also kept up to date and made publically available via TasNetworks’ website. For ease of reference, they can be grouped as follows:

- Waivers of a temporary or transitional nature where the cost of complying immediately from the introduction of the guideline would outweigh any benefits that would accrue in this timeframe; and
- Waivers that reflect the nature of the electricity sector in Tasmania in that there are no viable alternative providers of the service.

Table 1: TasNetworks waivers granted by the AER

Waiver*	Expiry Date
Distribution support services on the Bass Strait Islands (BSI)	30 June 2018
Metering support services to Aurora Energy	31 May 2018
Type 1-4 metering services	30 June 2019
Reclassification waiver – services being reclassified in our next reset**	30 June 2019
Legal separation extension	30 June 2018

*TasNetworks ring-fencing waiver applications are found in Appendix A and Appendix B.

** These include services originally classified as Alternative Control Services which will be changing in the next reset, see table 2 for more detail.

TasNetworks Ring-Fencing Compliance Report

2.3.2 Temporary waivers:

The AER has indicated that it is likely that a number of services will be re-classified as part of the upcoming framework and approach consultation processes. In response, TasNetworks sought a temporary waiver for these services to avoid unintended impacts and costs of separation, prior to them being reclassified as direct control services for the 2019-24 regulatory control period.

Part of the compliance strategy for TasNetworks is to transition a number of currently negotiated, unregulated or unclassified services to alternative control services (as recognised in the updated Framework and Approach) at the beginning of the next regulatory period. In the period between the commencement of the guideline and the beginning of the next regulatory period (1 July 2017) TasNetworks sought and were granted waivers for the services outlined in Table 1. These waivers are purely of a temporary nature and from 1 July 2019 TasNetworks will be in full compliance with the guideline in respect to the services shown in Table 2.

Table 2: Current negotiated, unregulated or unclassified services

Service	Description	Current classification (July 17 – June 19)	Future Classification (July 19 – June 24)
Network safety services	<p>Examples include:</p> <ul style="list-style-type: none"> • Provision of traffic control services by the distributor where required • Fitting of tiger tails, high load escort, night watch (private security and flood lighting services). • De-energising wires for safe approach (e.g. for tree pruning) 	Not classified	Alternative Control Service
Planned Interruption – Customer Requested	Where the customer requests TasNetworks to move a planned interruption and agrees to fund the additional cost of performing this distribution service outside of normal business hours	Not classified	Alternative Control Service
Inspection services - private electrical installation	<p>Inspection of and reinspection by a distributor of:</p> <ul style="list-style-type: none"> • private electrical wiring work undertaken by an electrical contractor • private inspection of privately owned LV and HV network infrastructure 	Not classified	Alternative Control Service

TasNetworks Ring-Fencing Compliance Report

Service	Description	Current classification (July 17 – June 19)	Future Classification (July 19 – June 24)
Miscellaneous metering services	Various new metering services as a result of the power of choice reforms which include: <ul style="list-style-type: none"> • Meter recovery and disposal – type 5 and 6 current transformer metering • Distributor arranged outage for the purpose of replacing metering • Correction of metering and market billing data • Meter disposal 	Not classified	Alternative Control Service
Legacy pre-payment Meters	The operation and maintenance of legacy pre-payment meters, and associated services as a specific service for retailers.	Not classified	Alternative Control Service
Public lighting	Provision, construction and maintenance of public lighting and emerging public lighting technology	Alternative control/negotiated	Alternative Control Service
Provision of electrical training to third parties	The provision of distribution network related training services to third parties	Not classified	Alternative Control Service

TasNetworks Ring-Fencing Compliance Report

TasNetworks Ring-Fencing Waiver Applications, July 2017

2.3.3 Legal separation implementation:

I. Summary

TasNetworks sought a six month delay to allow for a considered transition to a new operating model and legal structure. The waiver allowed TasNetworks time to ensure that the necessary due diligence processes, legal and taxation advice and statutory requirements were in place prior to the establishment of the new entity (42-24). This considered approach has mitigated potential risks, and has allowed TasNetworks to ensure that 42-24 is established in a way that has not imposed additional costs on customers and ensured potential risks are well-managed.

II. Background

TasNetworks commenced operation in 2014 following the merger of Aurora Energy's distribution function with Transend's transmission function. This restructure ensured that the then new TasNetworks business structure was best placed to take advantage of efficiencies and synergies between the network businesses. TasNetworks has been able to significantly reduce operating costs as a result of this restructure.

The restructure of the predecessor TasNetworks business was implemented prior to the introduction of ring fencing for DNSPs. Consequently the service catalogue of TasNetworks includes a number of services that generate external non-regulated revenue. For those services that would be considered 'Other Distribution Services' under the Guideline, TasNetworks implemented a number of measures to ensure compliance with the requirements of the Guideline. For those services that fall outside of our core distribution and transmission services, TasNetworks established 42-24 to provide those services. This has ensured that TasNetworks remains compliant with the guideline in relation to legal separation.

42-24 is a commercial entity that provides a number of services into what are contestable, or potentially contestable, markets. These services fall within 'Other Services' for the purpose of the guideline.

TasNetworks identified the following existing services that will be delivered by 42-24:

- External Telecommunications
- External Data Centres
- External IT Services
- Operation and maintenance support for isolated distribution networks not part of the NEM (Bass Strait Islands)

The necessary work required to establish 42-24 was extensive, and given a realistic timeframe in establishing this business, a temporary waiver was sought which allowed for this work to be completed. The waiver applied from 1 January 2018 to 30 June 2018.

III. AER's Decision

As requested by TasNetworks, the AER decided to grant TasNetworks a temporary, short-term waiver from the legal separation obligations, under Clause 3.1 of the Guideline.

2.3.4 Type 1-4 metering services:

I. Summary

TasNetworks sought a temporary waiver to allow TasNetworks staff and contractors to provide temporary metering support services, and to work from co-located site with the regulated distribution business, including the continued use of the TasNetworks brand to allow the use of TasNetworks branded offices, website, trucks, uniforms and other equipment, until 31 May 2018. This allowed

TasNetworks Ring-Fencing Compliance Report

additional time for TasNetworks, in conjunction with Aurora Energy, to transition these meters over to a new metering provider under the Power of Choice Reforms which came into effect 1 December 2017.

With the exception of performing the Metering Provider role for a small number of type 1 – 4 legacy meters, TasNetworks has not provided services in the contestable metering market from 1 December 2017. However, following discussions with Aurora and relevant market participants, TasNetworks has continued to provide metering support services on a temporary basis.

This waiver allowed TasNetworks to provide metering support services on a temporary basis to allow Aurora and relevant market participants additional time to establish an adequate workforce in a regional market where they have not previously provided small customer metering services. Furthermore, the waiver ensured Tasmanian customers continued to receive good customer service outcomes and enhanced community support during the transition to competitive metering arrangements.

The waiver has supported long-term customer benefits by giving the retailer and new Metering Coordinator (**MC**) time to efficiently establish the full suite of competitive metering services in a new market, while accessing TasNetworks' resources in the interim. A temporary waiver to provide metering services was viewed as unlikely to distort competition or innovation for metering technology in Tasmania over the longer-term.

The Power of Choice reforms created a number of complexities in regards to advanced metering implementation and as such, discussion on the roles and responsibilities between TasNetworks and Aurora is ongoing. TasNetworks also attended a recent Tasmanian metering forum to further discuss the future role of TasNetworks in light of the Power of Choice reforms.

II. Background

The Power of Choice framework came into effect on 1 December 2017. Following commercial considerations, TasNetworks opted not to become a MC, except for existing type 6 regulated meters. However, TasNetworks will continue to act as the Metering Provider for type 1-4 legacy meters until 30 June 2019 under the waiver already approved by the AER.

Aurora Energy provides retail services to almost all small Tasmanian customers. The new MC appointed by Aurora gained responsibility for the vast majority of type 4 meters installed in Tasmania from 1 December 2017. Given the need to ensure continuity of timely, reliable service for customers during this transition period, TasNetworks sought a waiver to provide temporary metering support services until 31 May 2018. From this date, TasNetworks has exited that market for metering services.

III. AER's Decision

The AER decided to grant TasNetworks the waiver from which the functional separation obligations under clause 4.2 and 4.4.1(a) of the Guideline, which relate to offices, staff, branding and promotions, and office and staff registers. The AER noted that this is so TasNetworks can continue to provide type 1-4 contestable metering services for a number of residual meters.

2.3.5 Temporary waiver to provide operation and maintenance support services to the Bass Strait Islands.

I. Summary

TasNetworks sought a temporary functional separation waiver to continue to provide operation and maintenance support services on the Bass Strait Islands (**BSI**) until 30 June 2018. The main grounds for TasNetworks seeking this waiver were:

1. TasNetworks' previous contract to provide support services to the BSI expired in March 2018. A temporary 6 month waiver allowed TasNetworks an opportunity to satisfactorily complete

TasNetworks Ring-Fencing Compliance Report

these negotiations and finalise business arrangements to support Hydro Tasmania moving forward.

2. TasNetworks became aware that Hydro Tasmania was considering taking a number of support services currently provided by TasNetworks to the BSI out to competitive tender. As such, the temporary waiver allowed Hydro Tasmania sufficient time to enter into a new contractual arrangement with contestable energy service providers on favourable terms.
3. There was a need to ensure continuity of service to BSI customers after 1 January 2018. A temporary waiver ensured customers continued to receive good customer service outcomes until a new competitive arrangement for these services are finalised.

II. Background

The electricity system on the BSI is owned and operated by Hydro Tasmania. Currently TasNetworks provides a range of services, including operation and maintenance services, under contract to Hydro Tasmania.

III. TasNetworks role on the Bass Strait Islands

Prior to the formation of TasNetworks, Aurora Energy provided operating and maintenance support services on the BSI. This legacy contract was transferred to TasNetworks when the new business was established. It is a longstanding arrangement, entered into prior to the establishment of TasNetworks, primarily intended to support scale efficiencies for the BSI and therefore put downward pressure in operating costs on BSI.

TasNetworks currently has a contract with Hydro Tasmania to provide operating and maintenance support services including asset management services, IT systems and asset data systems and customer service roles. TasNetworks purchases equipment and materials to perform the services utilising expertise and purchasing power to provide these goods.

The contract has recently been extended to March 2018 with a view to renegotiating the contract with significantly reduced services. TasNetworks is in the process of making a business decision about whether it is involved in the provision of these services going forward.

IV. AER's Decision

The AER decided to grant TasNetworks with a temporary, short-term waiver from our functional separation obligations under clause 4.2 of the Guideline relating to offices, staff, branding and promotions, and office and staff registers.

2.4 Information Sharing Protocol

TasNetworks Information Sharing Protocol outlines the circumstances under which TasNetworks can provide confidential information to other businesses providing contestable electricity services and the process for sharing that information (as prescribed by the Guideline). TasNetworks released its [Information Sharing Protocol](#) on its external website, as per the Guideline requirements. This protocol sets out the process via which TasNetworks will share information pursuant to clause 4.3.4 of the Guideline.

2.5 Information Sharing Register

TasNetworks Information Sharing Register details all the legal entities who have requested to be included on the information sharing register and any confidential information they have requested as

TasNetworks Ring-Fencing Compliance Report

defined by the Guideline. TasNetworks released its [Information Sharing Register](#) on its external website, as per the Guideline requirements.

2.6 Shared Staff Register

TasNetworks Shared Staff Register details all TasNetworks shared staff providing contestable electricity services as defined by the Guideline. TasNetworks released its [Shared Staff Register](#) on its external website, as per the Guideline requirements. As 42-24 was not operating from 1 January 2018 to 30 June 2018, there were no remuneration, incentives or other benefits that existed that would be contrary to the DNSP's obligations under 4.2.2 of the Guideline.

2.7 Shared Office Register

TasNetworks Shared Office Register details all the shared offices where TasNetworks provides direct control services and contestable electricity services as defined by the Guideline. TasNetworks released its [Shared Office Register](#) on its external website, as per the Guideline requirements. From 1 January 2018 to 30 June 2018 TasNetworks had no shared office providing contestable electricity services.

2.8 Training

Training material was developed by the ring fencing project team and has been made available to staff business-wide. This training is still ongoing with not all staff having completed it. The training has focused on these key areas:

- Training on the protocols around information management and storage for those staff involved in collection of confidential electricity information; and
- Targeted training of staff that potentially will work across the unregulated and regulated business on the implications of the guideline.

A training package has been rolled out to educate TasNetworks staff on how to use and share information gained in TasNetworks' role as a DNSP when providing contestable services. The module includes:

- An introduction to ring fencing;
- An overview on obligations to not discriminate per 4.1 (b) and (c) of the ring-fencing guideline;
- Hypothetical scenarios which may be encountered by TasNetworks staff; and
- A short quiz.

The training module was supported by ring fencing communications and other ongoing training reminders and actions.

2.9 Service Providers

TasNetworks has updated its templates for contracting with service providers to include the requirements from section 4.4 of the Guideline.

2.10 Other Services

Clause 6.2.1(b)(iii) of the Guideline requires DNSPs to report all other services provided by the DNSP in accordance with clause 3.1 of the Guideline. TasNetworks has been granted waivers for the provision

TasNetworks Ring-Fencing Compliance Report

of a number of services as detailed in 2.3 above. Excluding these, during the 2017-18 regulatory year, TasNetworks did not provide any Other services.

3. Establishment of Separate Entity (42-24)

It was recognised that over time TasNetworks would continue to provide some services and may want to start providing some services that would not comply with the Guideline. In acknowledgement of this, Fortytwo24 Pty Ltd (42-24), previously called AuroraCom Pty Ltd, became a wholly owned subsidiary of TasNetworks Holdings in order to provide these services from 1 July 2018. Since 42-24 was established after the end of the reporting period there are no compliance issues related to it in this report. In addition, from 1 January 2018 to 30 June 2018 TasNetworks had no transactions between 42-24, or any other affiliated entity, under clause 6.2.1(b)iv of the Guideline.

Currently, TasNetworks does not have any contestable electricity services, however it does undertake a number of ‘other services’ that require legal separation including:

- Telecommunications
- Data centre services
- IT Services (including IaaS)

While the guidelines became effective on 1 January 2018, TasNetworks was granted a six month waiver in order to provide time to establish a complementary services business to legally separate its ‘other services’.

In order to comply with the Guideline, TasNetworks legally separated its unregulated services on 1 July 2018. In order to do this, the following structure was established:

1. A holding company TasNetworks Holdings Pty Ltd was established; and
2. Fortytwo24 Pty Ltd (previously called AuroraCom Pty Ltd) became a wholly owned subsidiary of TasNetworks Holdings. The unregulated services have been provided out of this entity from 1 July 2018.

4. Breaches

Under NER clause 6.2.1(b)ii, any breaches of the Guideline by the DNSP must be reported in the annual compliance report. This means that any material breaches already reported to the AER, and any breaches not already reported to the AER, must be reported within the annual compliance report. Under clause 6.3 of the Guideline, a DNSP must notify the AER in writing within five business days of becoming aware of a material breach of the Guideline. TasNetworks has not identified any breaches of the Guideline since 1 January 2018. However, TasNetworks is currently working with the AER to ascertain whether the current classification and treatment of Distribution Asset Rentals (**DARs**) is consistent with the Guideline.

4.1 Distribution Asset Rentals

The position of DARs under the Guideline is unusual as clause 3.1(d)(i) allows a DNSP to grant third parties access to distribution assets without needing legal separation but as a “not classified” service, technically, legal separation is thought to be required. TasNetworks has become aware that other DNSPs have taken different approaches with respect to legal separation and is thus seeking appropriate guidance from the AER on the correct approach to take moving forward.

5. Appendix A – Ring-fencing waiver application 31 July 2017 (updated 28 September 2017)

TasNetworks

Ring-Fencing Waiver Applications

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



July 2017



Contents

1. Introduction	3
2. Waiver Applications	4
2.1. Introduction.....	4
2.2. Temporary Waivers for negotiated and unclassified services	4
2.3. Temporary Legal Separation Waiver	9
2.4. Type 1-4 legacy meters – Meter Provider Role Waiver	12
3. No Action Letter	15
3.1. No Action Letter	15
3.2. Background to request	15
3.3. Content of the no action letter	15

1. Introduction

This document comprises TasNetworks' applications for waivers from aspects of the Australian Energy Regulator's (AER) distribution ring-fencing guideline (**the guideline**). We also have enclosed a request for a no action letter regarding some aspects of the information access and disclosure provisions related to our new affiliated entity.

Below is a summary of TasNetworks' waiver applications. These waiver applications form a key component of our overall compliance plan and approach which has also been submitted to the AER.

Temporary waivers

The Australian Energy Regulator has indicated that it is likely that a number of services will be reclassified as part of the upcoming framework and approach consultation processes. We are seeking a temporary waiver for these services to avoid unintended impacts and costs of separation, prior to them being reclassified as direct control services for the 2019-24 regulatory control period.

Legal separation implementation

A six month delay allows a considered transition to a new operating model and legal structure. It allows all necessary structural, contractual and operational changes to be efficiently put in place and resourced efficiently and appropriately in light of considered advice, including legal and tax advice, and requires shareholder approval prior to its establishment.

Type 1-4 metering services

We are seeking a temporary waiver to allow TasNetworks staff and contractors to provide this service, and to work from co-located sites with the regulated distribution business, including the continued use of the TasNetworks brand to allow the use of TasNetworks branded offices, website, trucks, uniforms and other equipment. This will allow additional time for TasNetworks, in conjunction with Aurora Energy, to transition these meters over to a new metering provider under the upcoming Power of Choice Reforms.

2. Waiver Applications

2.1. Introduction

The electricity market in Tasmania is unique and there are differences in the role that TasNetworks plays in this market compared to the role of other Distribution Network Service Providers (**DNSPs**). Tasmania is a small market with a limited number of players. As a result of the guideline, TasNetworks will restructure aspects of its business to ensure compliance with the guideline. In addition, TasNetworks is seeking a number of waivers for some specific services that are currently provided.

The following waivers can be grouped into two areas:

- Waivers of a temporary or transitional nature where the cost of complying immediately from the introduction of the guideline would outweigh any benefits that would accrue in this timeframe; and
- Waivers that reflect the nature of the electricity sector in Tasmania in that there are no viable alternative providers of the service.

TasNetworks has provided the following waiver applications based upon the requirements and criteria within the current guideline. Below we have outlined the key considerations as required by the guideline for each.

2.2. Temporary Waivers for negotiated and unclassified services

In July 2017, the AER finalised the Framework and Approach for TasNetworks for the upcoming 2019-24 regulatory period. This initial step in the regulatory process has resulted in a significant update of the service classifications that will apply to TasNetworks from 1 July 2019. The current service classification for our 2017-19 regulatory period will apply until the updated service classification comes into effect on 1 July 2019.

Whilst the guideline is closely linked to the service classification process within the Framework and Approach, the National Electricity Rules, as they currently apply, do not allow for updates to service classification within a regulatory period.

Part of the compliance strategy for TasNetworks is to transition a number of currently negotiated, unregulated or unclassified services to alternative control services (as recognised in the updated Framework and Approach) at the beginning of the next regulatory period. In the period between the commencement of the guideline and the beginning of the next regulatory period (1 July 2017) TasNetworks is seeking waivers for the services outlined in Table 2.1. These waivers are purely of a temporary nature and from 1 July 2019 TasNetworks will be in full compliance with the guideline in respect to the services shown in Table 2.1.

Table 2.1 Current negotiated, unregulated or unclassified services

Service	Description	Current classification (July 17 – June 19)	Future Classification (July 19 – June 24)
Network safety services	Examples include: <ul style="list-style-type: none"> • Provision of traffic control services by the distributor where required • Fitting of tiger tails, high load escort, night watch (private security and flood lighting services). • De-energising wires for safe approach (e.g. for tree pruning) 	Not classified	Alternative Control Service
Planned Interruption – Customer Requested	Where the customer requests TasNetworks to move a planned interruption and agrees to fund the additional cost of performing this distribution service outside of normal business hours	Not classified	Alternative Control Service
Inspection services - private electrical installation	Inspection of and reinspection by a distributor of: <ul style="list-style-type: none"> • private electrical wiring work undertaken by an electrical contractor • private inspection of privately owned LV and HV network infrastructure 	Not classified	Alternative Control Service
Inspection of private assets under Tasmanian Government direction	Private pole inspections (Tasmanian Government stipulates as common distribution service)	Unclassified	Standard Control

Service	Description	Current classification (July 17 – June 19)	Future Classification (July 19 – June 24)
Miscellaneous metering services	Various new metering services as a result of the power of choice reforms which include: <ul style="list-style-type: none"> • Meter recovery and disposal – type 5 and 6 current transformer metering • Distributor arranged outage for the purpose of replacing metering • Correction of metering and market billing data • Meter disposal 	Not classified	Alternative Control Service
Legacy pre-payment Meters	The operation and maintenance of legacy pre-payment meters, and associated services as a specific service for retailers.	Not classified	Alternative Control Service
Registered participant support services	Services and information provided by the distributor and proposed market participant associated with connection arrangements and agreements made under Chapter 5 of the NER	Not classified	Alternative Control Service
Site inspection	Site inspection services in order to determine the nature of the connections service sought by the connection applicant	Not classified	Alternative Control Service
Public lighting	Provision, construction and maintenance of public lighting and emerging public lighting technology	Alternative control/negotiated	Alternative Control Service
Provision of electrical training to third parties	The provision of distribution network related training services to third parties	Not classified	Alternative Control Service

a) The obligation in respect of which the DNSP is applying for a waiver

TasNetworks is seeking a waiver in respect to the obligations under the functional separation provisions for the list of currently unregulated services in Table 2.1. Specifically, TasNetworks is seeking a waiver for the following provisions.

Chapter 4 – Functional Separation

Under clause 4.2.5 of the guideline, TasNetworks is applying for a waiver of all obligations under - 4.2 including:

4.2.1 Physical separation/co-location

4.2.2 Staff sharing

4.2.3 Branding and cross-promotion

4.2.4 Office and staff registers

Additionally, under clause 4.4.2 of the guideline we are seeking a waiver from the following obligation:

4.4.1(a) Conduct of Service Providers

b) The reasons why the DNSP is applying for the waiver

The waiver is a temporary waiver to ensure compliance from the inception of the guideline. The waiver recognises that TasNetworks has made appropriate steps to offer previously unclassified services as direct control services. However given that service classification cannot change during a regulatory control period, the waiver avoids a technical non-compliance with the guideline.

c) Details of the service, or services, in relation to which the DNSP is applying for the waiver

- Network safety services
- Planned Interruption – Customer requested
- Inspection services – Private electrical installation
- Inspection of private assets under Tasmanian Government direction
- Miscellaneous metering services
- Legacy pre-payment meters
- Registered participant support services
- Site inspections
- Public lighting
- Provision of electrical training to third parties

d) The proposed commencement date and expiry date (if any) of the waiver and the reason for those dates.

It is proposed that the waiver for these services will commence on 1 January 2018 until the end of the next regulatory control period on 30 June 2019.

e) Details of the costs associated with the DNSP complying with the obligation if the waiver of the obligation was refused

TasNetworks estimates that most of the additional costs of complying with the guideline for these services would be as a result of temporarily changing business processes and creating staff duplication. It is likely that these costs would be large given the variety of services that are currently unclassified.

In addition, we would also need to establish a new brand, branding material, website and relocate to new premises.

Given the temporary nature of the waiver request and the period of non-compliance it would be an inefficient and costly process to make these changes, and then reverse them in a year and a half as the new service classification comes into effect.

f) The regulatory control periods(s) to which the waiver would apply.

2017-19 (1 January 2018 – 30 June 2019)

g) Any additional measures the DNSP proposes to undertake if the waiver were granted

Through the regulatory process, for these services, TasNetworks will ensure that prices and service descriptions are developed to be aligned with future alternative control prices and service descriptions. The intention of TasNetworks is that customers continue to have access to these services until their classification is changed at the beginning of the next regulatory period.

We will also continue to apply our Cost Allocation Methodology (**CAM**) to these services to ensure no cross-subsidisation exists.

h) The reasons why the DNSP considers the waiver should be granted with reference to the matters specified in clause 5.3.2 (a) including the benefits, or likely benefits, of the grant of the waiver to electricity consumers.

Given that none of the above services are considered competitive (including by the AER in the R19 service classification), and that each of the services will become direct control services from 1 July 2019, there will be no benefits of increased competition for customers to offset the higher costs of implementing functional separation for the short period until 1 July 2019 and then dismantling this separation after 1 July 2019.

The potential for cross subsidisation and discrimination from granting this waiver is negligible as it is unlikely that another entity would look to (or would be able to) compete with TasNetworks in the provision of the services. Our CAM will continue to ensure that cross subsidies will not eventuate through the limited period that the waiver will apply.

2.3. Temporary Legal Separation Waiver

TasNetworks commenced operation in 2014 following the merger of Aurora Energy's distribution function with Transend's transmission function. This restructure ensured that the then new TasNetworks business structure was best placed to take advantage of efficiencies and synergies between the network businesses. TasNetworks has been able to significantly reduce operating costs as a result of this restructure.

The restructure of the predecessor TasNetworks business was implemented prior to the introduction of ring fencing for DNSPs. Consequently the service catalogue of TasNetworks includes a number of services that generate external non-regulated revenue. For those services that would be considered 'Other Distribution Services' under the guideline, TasNetworks is implementing a number of steps to ensure compliance with the requirements of the guideline. For those services that fall outside of our core distribution and transmission services, TasNetworks is proposing to establish a new legal entity to provide those services. This will ensure that TasNetworks is compliant with the guideline in relation to legal separation.

The new legal entity will be a commercial entity that will provide a number of services into what are contestable, or potentially contestable, markets.

TasNetworks has identified the following existing services that will be delivered from the new entity.

- External Telecommunications
- External Data Centres
- External IT Services
- Operation and maintenance support for isolated distribution networks not part of the NEM (Bass Strait Islands)

These services fall within 'Other Services' for the purpose of the guideline.

The necessary work required to establish a new business is extensive, and given a realistic timeframe in establishing this business, a temporary waiver is sought to allow for this work to be completed.

a) The obligation in respect of which the DNSP is applying for a waiver.

TasNetworks is seeking a temporary waiver for the legal separation provisions of the guideline under clause 3.1 Legal Separation. This would allow TasNetworks as a DNSP to provide Distribution and Transmission Services in conjunction with what is considered 'Other Services' under the guideline.

Specifically, under clause 3.1 (e) of the guideline, TasNetworks is seeking a waiver for:

3.1 Legal Separation

b) The reasons why the DNSP is applying for the waiver

TasNetworks is making the appropriate steps to ensure compliance with the guideline. Given TasNetworks' structure prior to the introduction of the guideline, TasNetworks is required to take a number of steps to ensure that the DNSP no longer provides what are considered to be 'Other Services' under the guideline.

The establishment of a new business carries a number of requirements, particularly as TasNetworks is a state-owned company. Our shareholder will need to be comfortable that the new business meets expectations around its role in the Tasmanian market. In addition, any new subsidiary company requires shareholder approval prior to its establishment.

Significant work is also required to establish appropriate governance arrangements, business processes and legal and taxation arrangements for a new entity.

c) Details of the service, or services, in relation to which the DNSP is applying for the waiver

- External Telecommunications
- External Data Centres
- External IT Services
- Operation and maintenance of isolated distribution networks not part of the NEM (Bass Strait Islands)

These four 'Other Services' are currently provided by TasNetworks.

d) The proposed commencement date and expiry date (if any) of the waiver and the reason for those dates.

The waiver will apply from 1 January 2018 – 30 June 2018

e) Details of the costs associated with the DNSP complying with the obligation if the waiver of the obligation was refused

TasNetworks believes that the costs would fall into three categories:

- The additional cost that would be incurred from expediting the establishment of the new business;
- The additional risks that would present themselves from not having undertaken the appropriate steps to ensure the new legal entity is established in an orderly manner (including a thorough due diligence process);
- The risk that current major business initiatives underway will need to be reassessed or re-scoped, duplicating costs; and
- Increased legal and tax expenditure due to expediting the establishment of the new business.

f) The regulatory control periods(s) to which the waiver would apply.

2017-2019 (part only)

g) Any additional measures the DNSP proposes to undertake if the waiver were granted.

We will continue to apply our CAM to these services to ensure no cross-subsidisation exists.

h) The reasons why the DNSP considers the waiver should be granted with reference to the matters specified in clause 5.3.2 (a) including the benefits, or likely benefits, of the grant of the waiver to electricity consumers.

The benefit of granting the waiver will be that TasNetworks will be able to ensure that the necessary due diligence processes, legal and taxation advice and statutory requirements are in place prior to the establishment of the new entity. This considered approach mitigates potential risks, and will allow TasNetworks to ensure that the new business is established in a way that does not impose additional costs on customers due to not taking the appropriate time to ensure risks are well-managed.

For the six months that the waiver is in place, TasNetworks will continue to ensure that the CAM is adhered to and that separate accounting records are maintained (as is currently the case). This will eliminate any risk of cross-subsidisation occurring.

In addition, the services which are intended to be delivered from the new entity are not 'contestable electricity' services, thus the potential for any discrimination prohibited by the guideline in relation to the provision of these services is not present.

2.4. Type 1-4 legacy meters – Meter Provider Role Waiver

Current situation until 30 November 2017

Currently TasNetworks is the Meter Provider (**MP**) for approximately 3,000 type 1-4 meters connected to our distribution network. The Retailer for these sites is currently the responsible person for these sites. TasNetworks is the MP and currently owns the meters on these sites. For the existing type 6 meters on our network TasNetworks is currently the responsible person as well as the MP. TasNetworks, through contractual arrangements, is the responsible person for a number of type 1-4 transmission meters.

The provision of type 1-4 distribution meters is currently a contestable market. Given our ability to leverage existing systems and expertise, TasNetworks has previously been active in this space.

Situation post December 2017

TasNetworks has made the decision not to become a Metering Coordinator (**MC**) for type 1-4 meters under the Power of Choice reforms which come into effect on 1 December 2017. As required under the National Electricity Rules, TasNetworks as the DNSP will continue to be a MC (and MP/Meter Data Provider (**MDP**)) for existing type 6 meters on our network.

TasNetworks has made a commercial decision not to remain in the type 1-4 distribution meter market. It has become clear through discussions with Aurora Energy that they would like TasNetworks to remain as the MP for the existing type 1-4 meters connected to the distribution network. TasNetworks still intends to remove itself from this market however is seeking a waiver to transition out of this role over a longer period. This is purely to allow Aurora to fully implement its strategy for these meters over the next 2 years.

It is TasNetworks' intention that a number of restrictions will be contractually applied between relevant parties. This is to provide certainty to all participants that TasNetworks is only performing a temporary role for legacy meters. TasNetworks will restrict the services it provides from December 1 2017 to our type 1-4 distribution meters. For example, the following scenarios would trigger an end to TasNetworks' transitional MP role for individual sites:

- Communications fault
- Meter fault
- Retail contract ends or is renewed with customer
- Meter test required
- MC engages a different/new MDP.

TasNetworks considers that by only being the MP, and not providing the above associated services, this is likely to support better competition or innovation for metering technology in Tasmania.

a) The obligation in respect of which the DNSP is applying for a waiver

TasNetworks is seeking a waiver in respect to the obligations under the functional separation provisions for all type 1-4 distribution meters that TasNetworks is the MP for as at 1 December 2017. Specifically, TasNetworks is seeking a waiver for the following provisions:

Chapter 4 – Functional Separation

Under clause 4.2.5 of the guideline, TasNetworks is applying for a waiver of all obligations under - 4.2 including:

4.2.1 Physical separation/co-location

4.2.2 Staff sharing

4.2.3 Branding and cross-promotion

4.2.4 Office and staff registers

Additionally, under clause 4.4.2 of the guideline we are seeking a waiver from the following obligation:

4.4.1(a) Conduct of Service Providers

b) The reasons why the DNSP is applying for the waiver

TasNetworks is seeking a temporary waiver to continue to be the MP for approximately 3,000 type 1-4 legacy distribution meters. This will provide additional time for TasNetworks, in conjunction with Aurora Energy, to transition these meters over to a new MP under the Power of Choice reforms.

c) Details of the service, or services, in relation to which the DNSP is applying for the waiver

TasNetworks is seeking to continue to be the MP for the existing type 1-4 distribution meters currently provided to customers connected to the distribution network.

d) The proposed commencement date and expiry date (if any) of the waiver and the reason for those dates.

1 January 2018 – 1 July 2019

These dates will allow TasNetworks to make alternative arrangements for these existing meters without adding unnecessary pressure on Aurora Energy to replace these meters in a narrow timeframe.

e) Details of the costs associated with the DNSP complying with the obligation if the waiver of the obligation was refused.

The costs of complying with the guideline in respect of providing type 1-4 distribution meters would essentially fall onto Retailers and their customers. Should the Retailer or customer go to market for replacement of these meters before 1 January 2018, the ability to source a deal on favourable terms would diminish.

f) The regulatory control periods(s) to which the waiver would apply.

2017-2019 (part thereof)

g) Any additional measures the DNSP proposes to undertake if the waiver were granted.

- TasNetworks will cooperate with Aurora Energy to exit the type 1-4 meter space prior to the end of the waiver period. TasNetworks will also commit to not being the MP for any new Type 1-4 distribution meters from 1 December 2017.
- TasNetworks will seek to provide training to all staff (set out further below) that would be providing these services, prior to the implementation of the guideline.

h) The reasons why the DNSP considers the waiver should be granted with reference to the matters specified in clause 5.3.2 (a) including the benefits, or likely benefits, of the grant of the waiver to electricity consumers.

Should TasNetworks have to comply with the ring fencing guideline and functionally separate existing type 1-4 meters, it is likely that we would choose to exit the market as of December 2017. TasNetworks has done a considerable amount of work around the costs and benefits of our future role in the metering market. Based on this work, TasNetworks will not actively pursue opportunities (either as a DNSP or through an affiliated entity) in the type 1-4 meter space, and we intend to transition out of the type 1-4 meters.

As TasNetworks transitions out, for those customers who have a type 1-4 meter provided by TasNetworks, it is likely they would need to find an alternative MP. Given time constraints and the focus of the major retailer in Tasmania, if TasNetworks exited the market as of December 2017 this is likely to cause significant inconvenience and an increase in costs for customers who use the 3000 type 1-4 distribution meters. These customers would benefit from a gradual transition over to a new MC by July 2019.

TasNetworks will use internal training to ensure that those staff members who work across regulated and unregulated metering do not engage in behaviour that may be discriminatory. We will use the CAM to ensure that cross subsidisation does not occur. This concern is also mitigated by our commitment to not become the MP for any new Type 1-4 distribution meters from 1 December 2017.

3. No Action Letter

3.1. No Action Letter

The final component of TasNetworks' compliance strategy is to seek a no action letter in relation to the provisions of 4.3.2 and 4.3.3 of the guideline.

These clauses require TasNetworks to:

- Keep confidential information confidential;
- Only use the confidential information for the purpose for which it was acquired; and
- Not disclose confidential information to anyone, subject to the requirements of the section.

TasNetworks' reading of these clauses is that this requires information to also be kept confidential from a related entity not providing 'Contestable Electricity Services'.

TasNetworks is committed to complying with the intention of these provisions. TasNetworks believes there is a risk of a technical breach of these clauses due to the utilisation of shared IT systems between TasNetworks and its new legal entity (being established to comply with the guideline).

The no action letter is sought on the basis of the potential breach being technical in nature and of minimal consequence given the nature of the services conducted by the new legal entity.

As previously indicated in this plan, the new legal entity will not contain Contestable Electricity Services. Rather, the entity will be focused on TasNetworks' External Telecommunications, Data Centre, IT services and Bass Strait Islands O&M support currently undertaken within the DNSP. TasNetworks accepts that should the new legal entity begin to provide Contestable Electricity Services then the no action letter would cease to apply and the business would need to take the appropriate steps to ensure that confidential information is retained purely within the DNSP.

3.2. Background to request

Following the merger of Aurora Energy and Transend, TasNetworks has invested significant funds to roll out SAP across the current business to create a single way of working for the business. TasNetworks also utilises a shared internal intranet across all functions. Given recent expenditure to establish these systems, TasNetworks does not believe duplicating aspects of this expenditure to avoid this technical guideline breach is prudent. This is particularly so given the consequence (in relation to the harms the guideline is trying to address) of information being shared across the two entities is low.

TasNetworks is committed to having in place the appropriate controls to ensure that confidential information is handled in a correct manner when dealing with external parties (as is currently the case). The no action letter will only be applicable for information flows between the DNSP and the newly established entity (an entity not providing Contestable Electricity Services).

3.3. Content of the no action letter

TasNetworks would appreciate the opportunity to discuss with the AER the specifics of the requested no action letter, including reviewing a draft of the letter prior to its finalisation to ensure the wording reflects the nature of the request.

6. Appendix B – Further ring-fencing waiver applications 21 November 2017

TasNetworks

Ring-Fencing Waiver Application

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



November 2017



Contents

1. Temporary waiver to provide metering support services	3
2. Temporary waiver to provide operation and maintenance support services to the Bass Strait Islands	6

1. Temporary waiver to provide metering support services

Background

The upcoming Power of Choice framework to introduce competitive metering from 1 December 2017 has major implications for the industry, including TasNetworks. Following commercial considerations, TasNetworks opted not to become a Metering Coordinator (**MC**) for type 4 meters, except as an MC for existing type 6 regulated meters. However, TasNetworks will continue as the Metering Provider for type 1-4 legacy meters until 1 July 2019 under a waiver already approved by the Australian Energy Regulator (**AER**).

Aurora Energy (**Aurora**) provides retail services to almost all small Tasmanian customers. The new MC appointed by Aurora will have responsibility for the vast majority of type 4 meters installed in Tasmania from 1 December 2017.

It has become apparent, through negotiations with Aurora and relevant market participants, that some metering support services may not be sufficiently established in Tasmania by 1 December 2017 to deliver optimal customer service outcomes. Given the need to ensure continuity of timely, reliable service for customers during this transition period, TasNetworks is seeking a waiver to provide temporary metering support services until 31 May 2018.

The waiver would allow TasNetworks to perform a temporary supporting role for metering services, while the necessary capability to provide competitive metering services on an ongoing basis is established.

TasNetworks will provide services to support metering under contract, priced in accordance with the methodology used to build-up our current fee-based services.

a) The obligation in respect of which the DNSP is applying for a waiver

TasNetworks is seeking a waiver in respect to the obligations under the functional separation provisions for metering support services as at 1 January 2018. Specifically, TasNetworks is seeking a waiver for the following provisions:

Chapter 4 – Functional Separation

Under clause 4.2.5 of the guideline, TasNetworks is applying for a waiver of all obligations under 4.2 including:

4.2.1 Physical separation/co-location

4.2.2 Staff sharing

4.2.3 Branding and cross-promotion

4.2.4 Office and staff registers

b) The reasons why the DNSP is applying for the waiver

With the exception of performing the Metering Provider role for a small number of type 1 – 4 legacy meters, TasNetworks will not provide services in the contestable metering market from 1 December 2017. However, Aurora and relevant market participants are in discussions with TasNetworks regarding the provision of metering support services on a temporary basis.

Granting TasNetworks a waiver to provide metering support services on temporary basis would provide Aurora and relevant market participants, additional time to establish an adequate

workforce in a regional market where they have not previously provided small customer metering services. Furthermore, granting a waiver will ensure Tasmanian customers continue to receive good customer service outcomes and enhance community support during the transition to competitive metering arrangements.

c) Details of the service, or services, in relation to which the DNSP is applying for the waiver

If granted a waiver, TasNetworks will provide metering support services on a temporary basis. The detail of services is yet to be agreed, but may include services to support:

- Fault restoration;
- New connections/installations;
- Disconnections and site alterations; and
- Meter reading (for non-communications enabled type 4A meters).

TasNetworks will provide these as fee-based services on request. Contracts to provide these services will terminate on 31 May 2018.

d) The proposed commencement date and expiry date (if any) of the waiver and the reason for those dates.

1 January 2018 – 31 May 2018

e) Details of the costs associated with the DNSP complying with the obligation if the waiver of the obligation was refused.

TasNetworks is not establishing a ring-fenced energy services business. Therefore, without a waiver, TasNetworks would not be able to provide these metering support services.

Without TasNetworks' support to transition to new arrangements, there is a risk that customers will experience service delay and inconvenience. This includes potential risks for the timeliness of new customer connections and service alterations.

TasNetworks believes that by supporting Aurora Energy and relevant market participants as an interim arrangement, customers will receive better service during the introduction of new metering technology.

f) The regulatory control periods(s) to which the waiver would apply.

The current distribution services regulatory control period.

g) Any additional measures the DNSP proposes to undertake if the waiver were granted.

TasNetworks intends to exit the market for metering services. Contracts for metering support service provision will be established with fixed-time frames until 31 May 2018.

We will continue to apply our AER-approved cost allocation methodology to these services to ensure no cross-subsidisation exists.

h) The reasons why the DNSP considers the waiver should be granted with reference to the matters specified in clause 5.3.2 (a) including the benefits, or likely benefits, of the grant of the waiver to electricity consumers.

One of TasNetworks strategic pillars is that 'we care for our customers and make their experience easier'. Ensuring good customer outcomes continue to be delivered throughout this transitional period is consistent with our strategy and the application of the National Energy Objective (NEO) which states that the rules should promote 'efficient operation and use of, electricity services for the long term interests of consumers'.

The waiver will support long-term customer benefits by giving the retailer and new MC time to efficiently establish the full suite of competitive metering services in a new market, while accessing TasNetworks' resources in the interim.

A temporary waiver to provide metering services is unlikely to distort competition or innovation for metering technology in Tasmania over the longer-term.

2. Temporary waiver to provide operation and maintenance support services to the Bass Strait Islands

Background

Bass Strait is the body of water separating Tasmania from mainland Australia. There are two major inhabited islands in Bass Strait, King Island and Flinders Island, collectively termed the Bass Strait Islands (**BSI**). Approximately 1,600 people reside on King Island, and approximately 700 people reside on Flinders Island.

The electricity system on the BSI is owned and operated by Hydro Tasmania. Currently TasNetworks provides a range of services, including operation and maintenance services, under contract to Hydro Tasmania.

The standalone distribution system on King Island supplies electricity to approximately 1,300 connection points through a network of high voltage and low voltage feeders. The HV distribution network on King Island comprises four overhead feeders of around 400 km in length.

The standalone distribution system on Flinders Island, supplies electricity to approximately 650 connection points through a network of high voltage and low voltage feeders. The HV distribution network on Flinders Island comprises three overhead feeders around 330 km in length.

TasNetworks role on Bass Strait Islands

Prior to the formation of TasNetworks, Aurora Energy provided operating and maintenance support services on the BSI. This legacy contract was transferred to TasNetworks when the new business was established. It is a longstanding arrangement, entered into prior to the establishment of TasNetworks, primarily intended to support scale efficiencies for the BSI and therefore put downward pressure in operating costs on BSI.

TasNetworks currently has a contract with Hydro Tasmania to provide operating and maintenance support services including asset management services, IT systems and asset data systems and customer service roles. TasNetworks purchases equipment and materials to perform the services utilising expertise and purchasing power to provide these goods.

The contract has recently been extended to March 2018 with a view to renegotiating the contract with significantly reduced services. TasNetworks is in the process of making a business decision about whether it is involved in the provision of these services going forward.

Ring-fencing compliance and classification of operation and maintenance support for isolated distribution networks not part of the NEM.

In our initial ring-fencing waiver application TasNetworks proposed to provide BSI services via the new affiliate. The AER in its Draft Decision on DNSPs waiver applications suggested certain support services to the BSI are considered contestable electricity services. TasNetworks does not intend to provide electricity services from its affiliate to be established on 1 July 2018. TasNetworks is therefore applying for a temporary waiver from the functional separation obligations, to allow BSI services to be provided by our network business.

a) The obligation in respect of which the DNSP is applying for a waiver

TasNetworks is seeking a waiver in respect to the obligations under the functional separation provisions for operation and maintenance support services to the BSI. Specifically, TasNetworks is seeking a waiver for the following provisions.

Chapter 4 – Functional Separation

Under clause 4.2.5 of the Guideline, TasNetworks is applying for a waiver of all obligations under - 4.2 including:

4.2.1 Physical separation/co-location

4.2.2 Staff sharing

4.2.3 Branding and cross-promotion

4.2.4 Office and staff registers

Additionally, under clause 4.4.2 of the Guideline we are seeking a waiver from the following obligation:

4.4.1(a) Conduct of Service Providers

b) The reasons why the DNSP is applying for the waiver

TasNetworks is seeking a temporary functional separation waiver to continue providing operation and maintenance support services on the BSI until 30 June 2018. The AER should grant the waiver on the following grounds:

1. TasNetworks' current contract to provide support services to the BSI expires in March 2018 and as such, contract negotiations to provide services beyond this date are currently ongoing. A temporary 6 month waiver would give TasNetworks an opportunity to satisfactorily complete these negotiations and finalise business arrangements to support Hydro Tasmania moving forward.
2. It has become apparent that Hydro Tasmania is considering taking a number of support services currently provided by TasNetworks to the BSI out to competitive tender. Granting a temporary waiver will give Hydro Tasmania sufficient time to enter into new contractual arrangements with contestable energy service providers on favourable terms.
3. There is a need to ensure continuity of service to BSI customers after 1 January 2018. A temporary waiver will ensure customers continue to receive good customer service outcomes until new competitive arrangements for these services are finalised.

c) Details of the service, or services, in relation to which the DNSP is applying for the waiver

Currently there is an Asset Management Agreement which has been entered into between Hydro Tasmania and TasNetworks that covers a number of support services. Below is a list of services currently provided by TasNetworks as of 2017. TasNetworks is not currently active in providing all of these services.

- Asset Management
- Asset Data and IT Management

- Network Design and Procedures
- Workforce Training and Accreditation
- Work Standards Procedures and Audit
- Back-up labour
- Cable PI
- Logistics
- Meter Data Service
- Equipment Testing
- Fleet Management
- Fault Centre
- Regulatory Reporting

d) The proposed commencement date and expiry date (if any) of the waiver and the reason for those dates.

1 January 2018 – 30 June 2018

e) Details of the costs associated with the DNSP complying with the obligation if the waiver of the obligation was refused

In the event a temporary functional separation waiver was refused, TasNetworks would need to cease providing distribution support services to the BSI. The cost of TasNetworks ceasing to provide these support services on 1 January 2018 would impose additional costs on Hydro Tasmania and may impact electricity customers on the BSI.

Given the scope of services currently provided, it is unlikely new contractual arrangements and required capability could be established between Hydro Tasmania and new service providers before this date. Therefore, without TasNetworks' support in transitioning to new commercial arrangements for the provision of these services, there is a risk that customers on the BSI will also experience service delay and inconvenience, especially given the remoteness of these networks. In particular, there are potential risks for the timeliness of fault-centre response and fault restoration.

f) The regulatory control periods(s) to which the waiver would apply.

The current distribution services regulatory control period.

g) Any additional measures the DNSP proposes to undertake if the waiver were granted.

- TasNetworks will continue to apply our cost allocation methodology to ensure that no cross-subsidisation exists.
- TasNetworks supports the development of a competitive market for the provision of distribution operation and maintenance support services to the BSI over the long-term, where the market is sufficiently robust to provide cost-effective customer outcomes. TasNetworks accepts it will have a lesser role in relation to services on BSI in future.

h) The reasons why the DNSP considers the waiver should be granted with reference to the matters specified in clause 5.3.2 (a) including the benefits, or likely benefits, of the grant of the waiver to electricity consumers.

First and foremost, should TasNetworks cease to provide these support services as of 1 January 2018, it is probable customers on the BSI will experience a decline in expected service quality and reliability outcomes in the short-term. This is inconsistent with both TasNetworks' strategic pillar which states 'we care for our customers and make their experience easier' and the National Energy Objective.

Additionally, should Hydro Tasmania be required to rapidly enter in to contractual arrangements to ensure ongoing provision of these services to the BSI, it will limit its ability to negotiate favourable contract terms and conduct proper due diligence. Over the medium term, this may mean customers end up paying more for the provision of these services or lead to declining service quality. Granting TasNetworks a temporary waiver in this case should help create a more competitive market for these support services over the long-term.