FACT SHEET

Distribution Regulatory Proposal 2019-24 for Standard Control Services

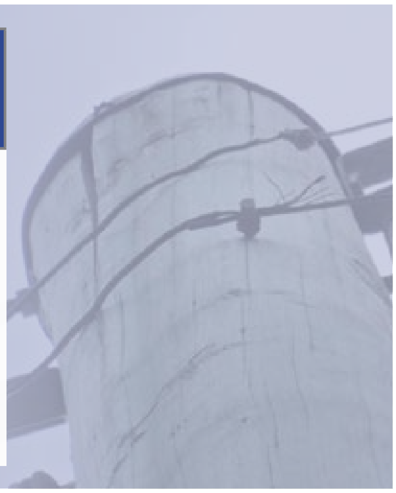
In preparing our Regulatory Proposal we have consulted with customers, listened to their feedback and responded.

We have taken this feedback into account in finalising our proposal, by ensuring that our expenditure is aimed at maintaining current overall performance while meeting our safety and compliance obligations.

In response to customers' feedback that affordability is their major concern, we have made further reductions to our provisional expenditure plans.

Snapshot of our five-year forecasts compared to the previous five years (June 2019 $)

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



Key points:

Capital Expenditure

Forecast $739m in 2019-24 compared to estimated $563m in 2014-19 (June 2019 $)

Our distribution investment plans for the forthcoming regulatory period reflect the following considerations and drivers:

- increased investment to manage safety risks (that may not be fully offset by efficiencies elsewhere), including expenditure on:
    - increased pole renewal and staking over the next ten years;
    - targeted bushfire mitigation programs to align with industry benchmarks;
    - low voltage cable replacement;
    - vegetation management - to manage outage and fire risk capex;
    - service connection renewal; and
    - improving network resilience in response to changing environmental factors.
- the expectation that the growth in distribution customer connections will remain relatively stable, with new connection standards to support network security and two way flows;
- an increase in technology - related spending to support two way flows in the distribution network, by delivering:
    - increased visibility / situational awareness of the distribution network;
    - efficient asset management investment and operation, including in relation to new technology integration;
    - timely customer information and network management; and
    - new services – including potentially paying customers for use of their distributed energy resources such as, services from batteries or generators.
- the continuing need to manage network voltage levels which may be impacted by the growth in embedded generation; and
- increased expectations for technology investments to support improved customer relationship management, SMS notifications, planned outage information, website portals, and network pricing reform.

Operating Expenditure

Forecast $406m in 2019-24 compared to estimated $394m in 2014-19 (June 2019 $)

We are projecting real cost reductions in our distribution operating expenditure even though we are connecting new customers, seeing increased complexity in providing distribution services and facing additional obligations or 'step changes' that will tend to push our costs higher. Our distribution forecast reflects ambitious operating expenditure savings, with a continued focus on prioritising our activities and driving efficiency to achieve the lowest sustainable prices for our customers.

Incentive Mechanisms

We accept the application of the following incentive schemes in the forthcoming regulatory period:

- Efficiency Benefit Sharing Scheme;
- Capital Expenditure Sharing Scheme;
- Demand Management Incentive Scheme (DMIS); and
- Service Target Performance Incentive Scheme (STPIS), consisting of two measures being:
    - outage frequency (SAIFI); and
    - outage duration (SAIDI).

Rate of Return

Forecast rate of return (weighted average cost of capital) of 5.89 per cent

We have applied the December 2013 Rate of Return Guideline in estimating the WACC for our transmission assets.

The Rate of Return Guideline explains that the cost of debt will be estimated using a trailing average approach, which establishes an average cost of debt by assuming that one-tenth of the network business' debt is re-financed annually. The trailing average approach will be introduced over a ten year transitional period. We consider the AER's transitional arrangement to be appropriate.

This rate will be updated as part of the AER's decision and then annually to reflect the movement in the cost of debt.

Revenue Allowance

Forecast $1,293.0 m in 2019-24 compared to estimated $1,401m in 2014-19 (June 2019 $)

Forecast to increase by 2.2 per cent in 2019-20 and 2.3 per cent per annum in each subsequent year of the 2019-24 period in real terms.

Our Regulatory Proposal is based on the post-tax building block approach outlined in clause 6.4.3 of the National Electricity Rules, the Post Tax Revenue Model and the roll forward model.

It should be noted, however, that our actual distribution revenue may vary from the forecast revenue path for the following reasons:

- The AER will update our allowed return on debt for each year within the forthcoming regulatory period. This is likely to change our allowed return on debt which will flow through to our revenue allowance. We have decided to reduce the rate of return on our transmission assets to align to the distribution rate of return; the benefits of this alignment will flow to distribution customers and will be continued as part of the annual update process.
- Our service performance in a year may vary from the targets, resulting in penalties or bonuses being subtracted from or added to our allowed revenue.
- For a range of reasons, our actual distribution revenue recovery each year may vary from the total amount we are entitled to recover, which may lead to adjustments in subsequent years.
- Pass through events may lead to additional costs which, subject to the AER's approval that the expenditure is in the long-term interests of consumers, may be recovered from customers.

Network Charges

TasNetworks charges each customer's retailer, based on the applicable tariff. It is up to the retailer as to whether, and how, network tariffs are passed on to customers in the final retail bill. For many small customers, the Tasmanian Economic Regulator makes pricing decisions that affect how network charges are reflected in 'standing offer' customer bills.

Our proposed transmission and distribution revenue allowance results in the indicative average annual network charges for residential and small business customers as shown below (June 2019 $). Consistent with our strategy of sustainable and predictable pricing, our proposal results in most customers' network charge increasing only slightly above CPI and remaining well below pre-merger levels. The forecast network charge includes forecast transmission charges and distribution charges and assumes no over- or under-recoveries or incentive adjustments.

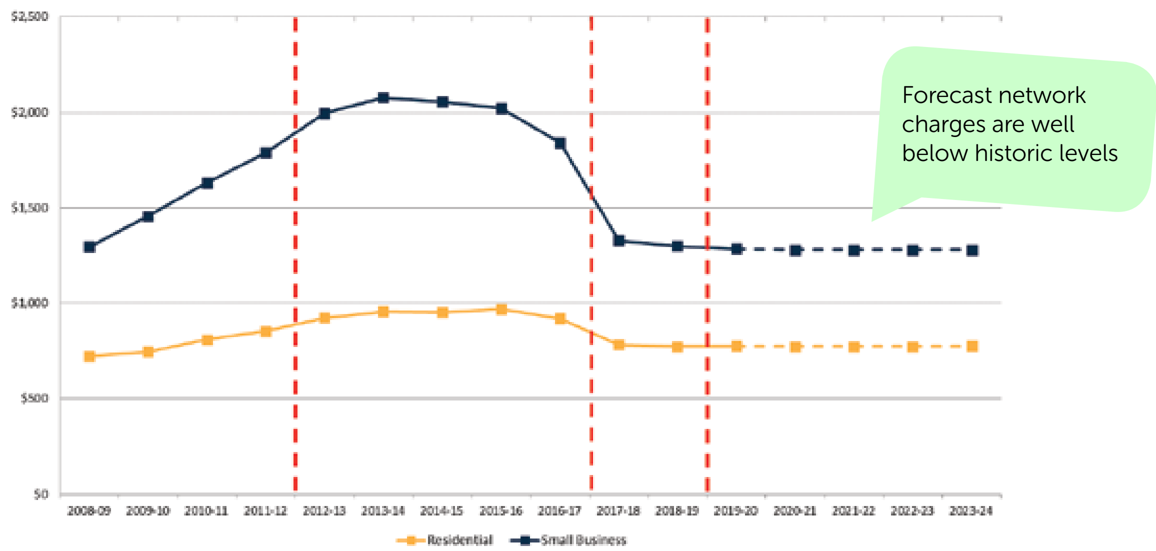
Distribution Pricing Plan

Since commencing operations on 1 July 2014, we have embarked on a process of pricing reform which has seen us gradually moving towards cost reflectivity. The AER approved our first distribution Tariff Structure Statement for the 2017-19 period. This was an 'establishment' phase of our distribution customer pricing reforms that set a pathway for the future by:

- introducing the concept of reform to our stakeholders;
- introducing demand based tariffs for small customers and providing our customers with future investment and price signals; and
- progressing the slow (multi-period) process of unwinding inefficient legacy price levels and cross-subsidies.

We are building on the ground work undertaken to date, considering other networks' experiences, AER feedback and further analysis we have undertaken. For the 2019-24 period, we will continue to progress pricing reform.

Our Regulatory Proposal provides detailed information regarding our plans for the future on these issues together with other associated information.



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