

16 March 2018

Mr Chris Pattas  
General Manager, Networks  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3001

Via email: [classificationguideline2018@aer.gov.au](mailto:classificationguideline2018@aer.gov.au)

Dear Mr Pattas,

### **RE Service Classifications and Asset Exemption Guidelines**

TasNetworks welcomes the opportunity to make a submission to the Australian Energy Regulator (**AER**) on the Service Classifications and Asset Exemption Guidelines issues paper. As the Transmission Network Service Provider (**TNSP**), Distribution Network Service Provider (**DNSP**) and jurisdictional planner in Tasmania, TasNetworks is focused on delivering safe and reliable electricity network services whilst achieving the lowest sustainable prices for Tasmanian customers. In this regard, TasNetworks is appreciative of the AER's efforts in consulting on the regulatory treatment of services offered by DNSPs. The key points in this submission are:

- TasNetworks considers that the existing incremental approach to service classification is fit for purpose. Reviewing all classifications at every determination is likely to be administratively burdensome and overly complex relative to the benefits that might accrue.
- TasNetworks supports harmonisation attempts where like services are offered across jurisdictions. However, there are many instances where jurisdictional offerings are unique and harmonisation is not possible. Pursuing harmonisation at all costs is, therefore, unlikely to be in the customer interest particularly if it confuses customers or results in a reduction in service offerings or service quality.
- TasNetworks supports further clarity on asset exemption decisions and for those services not classified in AER service classification decisions. The increased transparency resulting from such clarification can only benefit customers and stakeholders.
- TasNetworks considers that collaborative engagement with stakeholders and a broad, rather than an overly prescriptive, approach to the interpretation of a distribution service will lead to maximum flexibility and utility of the guidelines over time.
- In those jurisdictions where competition for services is immature and unlikely to develop further, restricting DNSPs' service offerings to ensure alignment with other jurisdictions, or rejecting an application to add an asset to a DNSP's Regulatory Asset Base (**RAB**), may result

in the negation of a service offering altogether. TasNetworks, therefore, supports flexibility in application of the guidelines, where appropriate, to enhance customer service offerings.

TasNetworks' responses to individual questions are below. If you wish to discuss any aspect of this submission, I can be contacted via email ([tim.astley@tasnetworks.com.au](mailto:tim.astley@tasnetworks.com.au)) or by phone on (03) 6271 6151.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Tim Astley', with a horizontal line extending from the end of the signature.

Tim Astley  
Team Leader, NEM Strategy and Compliance

**1) Is our existing 'incremental' approach to service classification fit for purpose? Or should the AER review the classifications of each and every service (or service grouping) at every determination? To what extent is harmonisation desirable? Should a harmonised (all jurisdictions) typology and hierarchy of distribution services be a feature or objective of the guideline? If so, why?**

TasNetworks considers that the existing incremental approach is fit for purpose. Reviewing the classifications of each and every service (or service grouping) at every determination is likely to be administratively burdensome and overly complex relative to the benefits that might accrue. Moreover, with differing determination periods, this is likely to exacerbate differences between jurisdictions and hamper harmonisation attempts.

In this regard, TasNetworks is supportive of harmonisation where like services are offered across jurisdictions. This readily facilitates comparison of service offerings across providers and to relevant benchmarks which are beneficial to customers. However, there are many instances where offerings are unique and harmonisation efforts would run the risk of confusing customers by lumping together services that were in fact different. Furthermore, in those jurisdictions where competition for services is immature and unlikely to develop further, restricting DNSPs' service offerings to ensure alignment with other jurisdictions may result in the negation of a service offering altogether. TasNetworks, therefore, cautions against pursuing harmonisation at all costs as this is unlikely to be in the best interests of customers.

**2) Are there other aspects of the new rule that we should take into account in developing the guidelines?**

TasNetworks considers that aspects covered in the issues paper are appropriate at this time.

**3) Do you agree with our interpretation of the form of regulation factors included in Appendix A? What aspects of the form of regulation factors are unclear?**

TasNetworks agrees with the AER's interpretation of regulation factors included in Appendix A.

**4) What factors should guide our interpretation of a 'distribution service'? Should our views on what is (or is not) a distribution service occur only at the time of service classification, or at other times within the regulatory control period as well?**

TasNetworks considers that collaborative engagement with stakeholders and a broad, rather than an overly prescriptive, approach to the interpretation of a distribution service will lead to maximum flexibility and utility of the guideline over time.

**5) Should our service classification decisions make clear those services we have decided not to classify because they are not distribution services?**

TasNetworks supports the AER making clear those services not classified in AER service classification decisions. The increased transparency resulting from such clarification can only benefit customers and stakeholders. In addition, clarification of non-classified services would enhance the application of, and compliance with, associated regulation such as ring-fencing guidelines.

**6) Is there any other guidance that should be included in the asset exemption guideline?**

TasNetworks considers the guidance included in the asset exemption guideline is appropriate at this time.

**7) What criteria should we use to determine whether a DNSP should be permitted to add an asset to its regulatory asset base? What are some examples of restricted assets that should be granted exemptions, and why? Should conditions be imposed on exemptions, for example a limit on the time during which applications for exemption can be made?**

On page 24 of the issues paper, the AER states that there may be long term benefits to customers from rejecting an exemption for an asset to be added to a DNSP's RAB via the enhancement of competition, and despite short term price impacts to customers. As a general principle TasNetworks agrees that competition is to be encouraged. However, TasNetworks contends that this may not be applicable in all jurisdictions or at all times. In those jurisdictions where service competition is undeveloped, and unlikely to change, rejecting an asset exemption may result in no service being offered to customers at all. TasNetworks supports the inclusion of these considerations in the criteria for assessment, where appropriate, to enhance customer service offerings.

**8) Do you agree that there will be relatively few occasions on which we would grant an exemption beyond those already provided for in the rules (i.e. grandfathered assets and network devices)? Please suggest examples of assets that should be granted exemptions.**

TasNetworks agrees that there may be relatively few occasions where exemptions should be granted. As above, however, flexibility in application of the criteria is required for those occasions where exemptions should be granted in the customer interest.

**9) What are stakeholder views about the likely impact of confidential information affecting the transparency of asset exemption decisions?**

TasNetworks considers that, where possible, asset exemption decisions should be as clear as possible. Despite this, TasNetworks appreciates there may be times where issues of commercial confidentiality and privacy may conflict with and potentially reduce the transparency of asset exemption decisions. However, in these cases there may still be value in providing general guidance without providing identifying information or full detail. Even limited information will help aid transparency, facilitate the proper application of the guideline and provide certainty to stakeholders and customers on asset exemption decisions.

**10) How can the asset exemption guideline address uncertainties about future market development when these markets may often be in their infancy?**

To the extent that any guideline can be future-proofed, and as noted above, TasNetworks considers that a collaborative and broad, rather than an overly prescriptive, approach to construction and application of the asset exemption guideline will lead to maximum flexibility and utility over time.

**11) Do you agree that we should review the service classification and asset exemption guidelines only at this stage but acknowledge the implications this may have for revision of the other guidelines at a later stage?**

TasNetworks considers that so long as interrelationships and consistency between guidelines is preserved going forward, reviewing only the service classifications and asset exemption guidelines at this time is appropriate.