

20 August 2018

Mr Chris Pattas  
General Manager – Networks  
Australian Energy Regulator  
GPO BOX 520  
Melbourne VIC 3001

Dear Chris

**RE Draft Restricted Asset Exemption Guideline**

TasNetworks is committed to ensuring that its customers pay the lowest, sustainable prices possible for network services and understands the need to manage the inclusion of 'behind the meter' assets in distribution networks' Regulatory Asset Bases (**RAB**). As a distribution network service provider (**DNSP**) which already has behind the meter assets in its RAB, like the CablePI neutral integrity monitor (a device which detects potentially life-threatening electrical faults known as broken neutrals) TasNetworks believes that DNSP ownership of behind the meter assets can, in some limited circumstances, be of great benefit to customers.

With this in mind, we appreciate the opportunity to comment on the draft Restricted Asset Exemption Guideline (**the draft Guideline**) released by the Australian Energy Regulator (**AER**) on 6 July 2018. The following attachment (Attachment A) sets out TasNetworks' comments regarding a number of aspects of the draft Guideline.

To discuss the views expressed in this submission or opportunities for further collaboration between TasNetworks and the AER regarding the Restricted Asset Exemption Guideline, please contact Scott Lancaster, Senior Regulatory Analyst, on (03) 6271 6519 or at [Scott.Lancaster@tasnetworks.com.au](mailto:Scott.Lancaster@tasnetworks.com.au).

Yours sincerely



for Kirstan Wilding  
Leader Regulation

## Attachment A

### Defining 'behind the meter'

Greater clarity is needed in the final Guideline regarding the location of the devices that will be captured as restricted, or 'behind the meter' assets.

Figure 1 in the explanatory document accompanying the draft Guideline illustrates the broad principle that restricted assets are located on the same side of the customer's connection point as their meter. However, in practice, the location of the point of supply established between a DNSP and its customers can vary, both between jurisdictions and within the same jurisdiction, as can the terminology used to describe the various points making up a customer connection.

Under the National Electricity Rules (NER)<sup>1</sup>, metering is only required to be "located as close as practicable to the connection point", meaning that it can be either upstream or downstream of the connection point. And the Tasmanian Electricity Code defines a connection point as the agreed *point of supply* between the network service provider and the customer, with the point of supply being defined differently for overhead and underground connections (see Attachment B). In some instances, this means that the point of supply – far from being located at the connection/attachment point illustrated in the AER's explanatory document – can be the point where an electric line crosses the boundary of a customer's property, or even located outside the property boundary.

Unmetered supplies, like public lighting, also pose an added complication in defining what constitutes a restricted asset for the purposes of the Guideline. In the absence of a physical meter, the metering point for a public light could be deemed to be located at either the point of supply or at the light itself. While the intent behind the Guideline is clearly not to capture public lighting assets, care needs to be taken that assets are not inadvertently categorised as restricted assets by the final Guideline.

It is also noted that TasNetworks owns around 20,000 load control time switches for off-peak circuits and approximately 4,500 metering transformers – all of which are located on the same side of the point of attachment as the meter.

Whilst accepting that it may not be possible to draft a Guideline that caters for every possible connection scenario, from the above examples it is clear that the final Guideline will need to be written with a wider range of connection configurations in mind than appears to have informed the draft Guideline.

### Length of exemptions

The draft Guideline provides that the AER may grant an asset exemption for "a term that coincides with part or all of the DNSP's current regulatory control period, next regulatory control period, or both periods." For subsequent periods, DNSPs will be required to submit another asset exemption application, even though the investment in behind the meter assets might be similar or identical to the investment that was the subject of a previous asset exemption.

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<sup>1</sup> Clause 7.8.7

TasNetworks has been supplying the CablePI device – which fits the definition of a restricted asset – to customers since 2009. Had the AER’s draft Guideline applied during that period TasNetworks would already have had to have lodged multiple asset exemption applications to ensure that the expenditure on CablePI continued to be included in TasNetworks’ RAB. TasNetworks’ considers that the requirement to re-submit asset exemption applications for similar or identical investments that span more than two regulatory control periods introduces additional regulatory burden which, with the appropriate protections, could be readily avoided.

TasNetworks is not aware of anything in the NER or the Australian Energy Market Commission’s rule change that requires the AER to limit the duration of an asset exemption, or precludes the AER from making an asset exemption that might endure until circumstances change such that the exemption is no longer required or appropriate.

We consider that in addition to fixed term exemptions, the AER should be able to provide open-ended restricted asset exemptions which can continue until such time as the circumstances which applied at the time of the original application’s assessment have materially changed, with both the AER and DNSPs able to instigate proceedings to bring an asset exemption to an end.

### **Length of exempt assets inclusion in the RAB**

It is also not clear from the draft Guideline what the AER intends regarding the ongoing treatment of behind the meter assets that are included in a DNSP’s RAB under an asset exemption when that asset exemption comes to an end. While the AER has noted in its explanatory material that the definition of restricted assets does not apply to assets that are already included in DNSP RABs, the clause in the National Electricity Rules cited by the AER (clause 11.104.5) provides only transitional arrangements for adjustments to the value of regulatory asset bases.

In cases where the service life of a restricted asset is longer than the duration of the relevant asset exemption, it is not clear to TasNetworks that once that asset has been included in a RAB under an asset exemption it remains there for the duration of its service life. If this were to be the case, the draft Guideline introduces a potential mismatch between asset exemptions that last for potentially a single five year regulatory control period and behind the meter assets which have service lives that are likely to be measured in decades.

### **Competitive environment**

We are mindful of the size of the Tasmanian electricity market and the paucity of genuine competition, even in parts of the electricity supply chain which have been open to competition for some time. With this in mind TasNetworks welcomes the AER’s proposal for an asset exemption test that takes into account the relevant competitive environment, as well as the AER’s decision not to require DNSPs to demonstrate market failure in order to justify an application to own behind the meter assets.

While preserving the possibility of competition (where it exists) and not impeding its development (where it doesn’t) are important considerations when assessing distributor ownership of behind the meter assets, it is also important that the final Guideline does not create a prohibition on distributor ownership of behind the meter assets that might result in

Tasmanian customers missing out on the benefits of new and emerging technology which is best sited behind the meter.

### **Rural, regional and remote beneficiaries**

TasNetworks would like to better understand the rationale behind the draft Guideline's provisions that seek to limit the purposes for which distributors can invest in behind the meter assets to instances where DNSP investment increases the efficiency or effectiveness of service delivery for rural, regional or remote customers.

At least in Tasmania, we consider that the geographical location of customers should not be a consideration in assessing an application for a restricted asset exemption. TasNetworks is required to apply postage stamp pricing to its network services throughout Tasmania and the small scale of the Tasmanian market would mean that restricting the provision of exempt behind the meter assets to rural, regional and remote customers would be likely to increase the cost of providing behind the meter solutions, by diminishing the scale economies available to TasNetworks.

It is noted that the term rural, regional or remote is not defined in the draft Guideline, or in the NER, and that for the purposes of some Australian Government schemes, the entirety of Tasmania is treated as regional. TasNetworks would appreciate clarification as to whether it is the AER's intent to treat Tasmania as a whole as 'regional' for the purposes of the Restricted Asset Exemption Guideline.

### **Risks to electricity system value**

It is important to recognise that in restricting ownership of behind the meter assets to parties other than DNSPs, there is a real risk that those businesses will pursue commercial benefits that will be detrimental to the electricity system as a whole. TasNetworks considers that there is a material risk that third party service providers, particularly those with the capacity to aggregate and control customer's load, may do so in ways that negatively impact on the network services delivered by DNSPs, thus increasing DNSP costs and the costs recovered from customers.

## Attachment B

### Tasmanian Electricity Code definition of *Point of Supply*

<b>point of supply</b>	<p>In relation to an <i>electrical installation</i>,</p> <ul style="list-style-type: none"><li>(a) in the case of an <i>electrical installation supplied</i> by an underground <i>electric line</i>, the load-side terminals of the service protection equipment at the end of the underground <i>electric line</i>; and</li><li>(b) in the case of an <i>electrical installation supplied</i> by an overhead <i>electric line</i>, the first <i>point of connection</i> of that <i>electric line</i> on the land, being:<ul style="list-style-type: none"><li>(1) where the <i>electric line</i> is carried onto the land by one or more poles, the first pole on the land carrying that <i>electric line</i>;</li><li>(2) where the <i>electric line</i> is <i>connected</i> directly to premises on that land, that <i>connection</i> to the premises; or</li><li>(3) where it is not possible to determine a <i>point of supply</i> in accordance with (1) or (2) above, the point at which the <i>electric line</i> crosses the boundary of the land.</li></ul></li></ul>
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Source: Tasmanian Electricity Code, Chapter 14 – Glossary, April 2017