

20 May 2022

Dr Kris Funston
Executive General Manager, Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Kris

RE 2024-29 Framework and approach – AER preliminary positions paper

TasNetworks welcomes the opportunity to provide feedback on the Australian Energy Regulator's (**AER**) initial thinking in relation to TasNetworks' Framework and Approach (**F&A**) for the 2024-29 regulatory control period, as set out in the *F&A preliminary position paper* released by the AER on 11 April 2022. In doing so, at an officer level we would like to acknowledge the AER's engagement to date with TasNetworks, as the business has sought to develop proposals for a new F&A paper that responds to the regulatory and customer driven changes impacting on our networks while delivering improved outcomes for our customers.

As the AER notes in the preliminary F&A paper, the F&A process for the 2024–29 regulatory control period is being conducted at a time of unprecedented transition in the energy market. TasNetworks recognises that there are a number of regulatory reform projects underway, such as the AER's incentive scheme review, that may change some of the AER's thinking by the time the F&A paper applying to TasNetworks' in the coming regulatory control period is finalised. Nonetheless, for the most part, TasNetworks is supportive of the positions articulated by the AER in its preliminary F&A paper.

Attachment 1 to this letter contains TasNetworks' feedback in relation to a number of issues addressed in the AER's preliminary F&A paper that affect TasNetworks and its customers.

I look forward to continuing to work with the AER and other stakeholders on the replacement of TasNetworks' F&A paper. Should you wish to discuss any aspect of this submission or require more information from TasNetworks, please contact Chantal Hopwood, Leader Regulation on [REDACTED]

Yours sincerely

[REDACTED]

Michael Ash
Executive Stakeholder

Attachment 1

Submission on the preliminary framework and approach position paper for NSW, ACT, NT and Tasmanian businesses

Version Number: 1.0

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2024-29 Framework & Approach – preliminary position paper submission

This document contains TasNetworks' feedback in relation to a number of issues affecting TasNetworks and its customers raised by the Australian Energy Regulator (AER) in the *F&A preliminary position paper* released on 11 April 2022.

In October 2021 TasNetworks requested that the AER develop a replacement Framework and Approach paper (**F&A paper**) to be applied to the Tasmanian transmission and distribution networks in the regulatory control period commencing on 1 July 2024 and concluding on 30 June 2029. In doing so, TasNetworks proposed a number of additions to the baseline services listed in the *Electricity Distribution Service Classification Guideline 2018*.

Since the request for a new F&A paper was made, TasNetworks has collaborated extensively with the AER to update and simplify the service classification list that will form a central part of the next F&A paper applying to TasNetworks.

On 11 April 2022 the AER released its *F&A preliminary position paper* for NSW, ACT, NT and Tasmanian distribution networks and the transmission network operated by TasNetworks. The F&A preliminary position paper was accompanied by a preliminary distribution service classification table (Appendix B, Attachment D), in which the AER outlined its draft service classification for TasNetworks' distribution network.

The AER has invited interested parties to make submissions on its framework and approach positions paper and this document is TasNetworks' response to that request. It contains no material of a confidential or sensitive nature that would prevent its publication by the AER.

1 Service classification issues

1.1 Common distribution services

1.1.1 Regulated stand-alone power systems (SAPS)

TasNetworks supports the AER's preliminary position regarding the use of SAPS (including generation) as part of distributor's emergency response. Regarding the provision of regulated SAPS, TasNetworks will be guided in its preparations for the 2024-29 regulatory control period by the AER's final decision on TasNetworks' F&A paper.

TasNetworks acknowledges that several stakeholders in Tasmania have expressed concerns that the provision of SAPS by TasNetworks will somehow impinge on the competitive market for the same. In response to those concerns TasNetworks notes that it will only be able to supply SAPS to customers where doing so is an economically efficient alternative to maintaining an existing connection to the shared distribution network. Under the Rule change that enables distribution networks to provide SAPS, TasNetworks will not be able to supply SAPS to new customers who do not currently have a connection to the Tasmanian distribution network. For new customers, therefore, SAPS will continue to be provided exclusively through the competitive market.

TasNetworks' involvement with the provision of regulated SAPS will not have a detrimental impact on providers of contestable services, and may potentially grow the market for those services, in the event that TasNetworks procures SAPS for eligible customers through that same competitive market, if doing so is a more efficient means of providing SAPS for its customers.

1.1.2 Reliability batteries – planned outage support for life support customer

In its preliminary positions paper, the AER has stated that it does not consider the provision of reliability batteries to be a service that should be separately classified or recognised in TasNetworks' service classification list.

The provision of reliability batteries will bolster the support provided to customers that have a person residing at their premises who requires life support equipment. TasNetworks accepts the AER's preliminary position in relation to this service, on the basis that TasNetworks is in no way precluded from offering the proposed service as part of its common distribution service by the AER's decision not to separately classify or recognise the provision of reliability batteries to life-support customers during unplanned outages.

1.1.3 Customer export services

As noted in the AER's preliminary positions paper, the Australian Energy Market Commission's (AEMC) rule change 2021 (ERC0310)¹ recognised the changing role of the electricity grid, from one of traditionally delivering electricity to consumers to facilitating the two-way flow of energy as a result of the increasingly widespread uptake of Distributed Energy Resources (DER). As a result of the rule change, distribution networks are now able to deliver both consumption and export services for customers.

TasNetworks' is of the view that the distribution component of export services forms part of the common distribution services that are currently classified as an SCS. This is because the ongoing provision of export services involves the same bundle of activities relied on to supply load, (i.e. network planning, design, repair, maintenance, construction and operation). As it is not possible to attribute the costs of those activities to individual customers, the cost needs to be shared between all customers, including customers who export energy as well as consume it.

The cost of these activities is best recovered through the ongoing application of cost-reflective network tariffs, with each customer being assigned to a tariff based on the characteristics of their connection and load, and potentially the level of export capacity they require. TasNetworks is of the view that there is no need to add a distinct export services activity in addition to the existing common distribution services group to enable this to occur. The AER needs do no more than ensure that the provision of export services is included as an example in the description of common distribution services, if only in the interests of clarity.

The other component of export services, connection services, is already classified as an ACS, at least in Tasmania. Like the benefits, the costs involved with the provision of a new or modified connection needed by a customer to inject energy into the distribution network can be directly attributed to the customer that requests the connection service. This, along with the fact that new or modified connections are provided to customers on an infrequent, ad hoc basis, lends the service to classification as an ACS.

TasNetworks currently recovers the costs of providing new or modified connections as either a fee-based service or a quoted service. Simple, standard connections are treated as fee-based services, while more complex connections, or connections that cater for customers wanting to export energy above a threshold level (currently defined by TasNetworks as 10 kW per phase) are treated as quoted services. As such, new and modified connections for customers that intend exporting energy are provided on exactly the same basis as connections for customers who only consume energy delivered by the network, with no need for them to be separately recognised in TasNetworks' service classification list.

The current regulatory classifications of common distribution services and connection services can not only cater for customers receiving a basic level of export services but can also be applied to the provision of 'additional' export services, that is, hosting exports of energy above what might be considered as a 'basic' level. In TasNetworks' view, none of the classification options canvassed in the

¹ AEMC, *National Electricity Amendment (Access, Pricing and Incentive arrangements for Distributed Energy Resources) Rule 2021, Rule Determination*, 12 August 2021.

AER's Preliminary positions paper for services above a basic level represent an advance over the classification of common distribution services as an SCS and connection services as an ACS.

1.1.4 Rectification of private assets under fault

TasNetworks' Customer Charter commits the business to providing a safe and reliable supply for all of its customers and to the timely restoration of supply if their power goes out. For the 2024-29 regulatory control period TasNetworks has proposed that the service classification list applying to TasNetworks be updated to include minor private asset repairs under fault conditions as a SCS, as part of Common distribution services.

The AER's preliminary position paper notes that the proposed service is similar in nature to the "rectification of simple customer fault" activity classified as part of the common distribution service for NSW distributors. The AER has proposed renaming the 'rectification of private asset under fault service' as the 'rectification of simple customer faults', to be consistent with its determination for NSW distributors, and classifying the activity as part of the Common distribution service. The AER is also seeking feedback from stakeholders as to whether there are providers of contestable services who might be impacted by the proposed approach.

Prior to TasNetworks' lodging its proposal for this new service with the AER, the idea that TasNetworks might undertake the rectification of private asset defects under fault, as well as the restrictions on the circumstances in which such work might be undertaken, were tested with a number of key stakeholders. Those stakeholders included representatives of the electrical contracting industry in Tasmania as well as a number of electrical contractors. TasNetworks put forward its proposal for the repair of minor private assets under fault conditions only after those stakeholders had indicated that they were not opposed to the proposal and were satisfied with the protections being proposed to ensure the delivery of contestable services by the electrical contracting industry would not be adversely impacted.

TasNetworks accepts the AER's proposal to name the new service as the 'rectification of simple customer faults', in line with the terminology used for NSW distributors, as well as classification of the activity as part of the common distribution service.

1.1.5 Supply abolishment

TasNetworks' current F&A paper classifies the removal of a customer's service and meters as an ACS. However, if a customer elects not to abolish a service supplying an abandoned site in order to avoid the cost of doing so, without being de-energised and removed the extant supply could pose safety risks.

In keeping with the F&A paper applying to Victorian distribution networks since 1 January 2021, TasNetworks has proposed that the abolishment of basic supplies in Tasmania be reclassified as part of the Common network services grouping in the F&A paper for TasNetworks 2024-29 regulatory determination. In doing so, TasNetworks acknowledges that the costs of removing the service and meters from abandoned premises will be recovered from the wider customer base through general network charges, rather than from individual customers through a fee-based service. However, the cost to the wider customer base of bringing the abolition of basic supplies within the scope of SCS is

considered to be outweighed by the corresponding reduction in the risks to public safety posed by energised service conductors that remain attached to abandoned buildings, which over time are subject to decay.

If a customer elects not to abolish a service supplying an abandoned site in order to avoid the cost of doing so, without being de-energised and removed the extant supply could pose safety risks.

Supply abolishment of basic connections is shown amongst the Common distribution services in the AER's preliminary classification of Tasmanian distribution services, released in April 2022. The activity is shown as a change requested by TasNetworks, although the reclassification from ACS to SCS is not discussed in the AER's preliminary position paper.

TasNetworks reiterates its intention to undertake basic supply abolitions as a standard control service, as part of its commitment to providing a safe and reliable supply for all of its customers.

2 Network ancillary services

2.1 Metering services – types 5 and 6 legacy meters

Network metering charges generally comprise a capital component, which seeks to recover the costs of providing and installing the meter, and a non-capital component, which recovers the ongoing operational costs of providing the service. At least one other distribution network on the same regulatory cycle as TasNetworks is investigating a change in service classification for the recovery of operating costs associated with legacy Type 5 and 6 meters. This would see the costs associated with meter maintenance, reading and data services for legacy meters moved from ACS to SCS.

TasNetworks notes that it is not considering such a change.

2.2 Connection services

2.2.1 Provider of last resort (private asset construction)

As part of the request for a new F&A paper for the 2024-29 regulatory period, TasNetworks proposed the addition of a new service, enabling TasNetworks to undertake private asset construction work as an ACS under Provider of Last Resort provisions.

The AER's preliminary position paper notes that TasNetworks has requested that this private asset construction service be classified as an ACS, which would enable TasNetworks to provide the construction and augmentation of connection-related private assets where a customer is unable to find a competitive third party to provide what is otherwise a contestable service. The AER notes that in doing so TasNetworks has sought to assure the competitive market that such services would only be provided under a strict set of Provider of Last Resort provisions. The AER has acknowledged in its preliminary position paper that the controls TasNetworks has undertaken to implement, to ensure it is only ever acting in a last resort capacity, mimic those approved for Essential Energy in the 2019-24 regulatory control period.

Being mindful of the potential commercial sensitivities surrounding TasNetworks undertaking work on private assets, TasNetworks has tested the concepts for the service with key local stakeholders. The idea for the new service was also canvassed publicly at a forum of electrical contractors, industry bodies and industry stakeholders, convened by TasNetworks as part of its ongoing interaction with the electrical contracting industry.

The feedback gathered by TasNetworks from those stakeholders confirmed that there is a need for a provider of last resort scheme within Tasmania in relation to the construction and augmentation of private electrical assets, to address the negative impacts that a lack of depth in the contracting market in some regions of the State is having on customers. Industry stakeholders were also accepting of TasNetworks' proposed controls and acknowledged that the controls are intended to ensure TasNetworks only undertakes private work in a last resort capacity.

The proposed service was also canvassed with TasNetworks' Customer Council and Policy and Regulatory Working Group (**PRWG**), with both groups supporting the provider of last resort scheme.

2.2.2 Reserve feeder construction and maintenance

In its preliminary positions paper the AER discusses TasNetworks' request to add the activity of reserve feeder construction and maintenance to the Enhanced connection service grouping. The AER notes that while the service is not mentioned in the *Electricity Distribution Service Classification Guideline 2018*, it is consistent with service descriptions in the Victorian electricity distribution classified services list. Consistent with the approach taken in the recent F&A paper for Victorian distribution networks, the AER has proposed including reserve feeder construction and maintenance as part of the enhanced connection services grouping for TasNetworks, classified as a direct control service and further as ACS.

TasNetworks supports the approach proposed by the AER in its preliminary position paper in relation to reserve feeder construction and maintenance. TasNetworks' pricing method will be updated to set out the applicable charging parameters and TasNetworks' initial pricing proposal for the 2024-29 regulatory period will set out the charging parameters, fees, costs and/or labour rates applying to reserve feeder construction and maintenance.

3 Other F&A topics

3.1 Incentive schemes

TasNetworks acknowledges that the AER's upcoming incentive scheme review will have outputs that will apply to our 2024-29 regulatory control period. We look forward to working with the AER to ensure these schemes remain relevant and fit for purpose.

3.1.1 Service Target Performance Incentive Scheme (Distribution)

The AER has indicated in its Preliminary positions paper that the revenue cap formulae for TasNetworks will remain the same as is currently applied, and that this includes a formula that reflects the continued application of the STPIS as currently applied in Tasmania. TasNetworks accepts the AER's preliminary position regarding the STPIS that will apply to our distribution network.

TasNetworks reiterates its intention, however, to develop a Customer Service Incentive Scheme (**CSIS**) to replace the telephone-answering component of the STPIS applying to TasNetworks in the 2019-24 regulatory control period. The CSIS will recognise the business' performance in delivering a wider range of the service activities that our customers value, rather than just TasNetworks' performance in answering incoming calls to its fault centre. TasNetworks also anticipates that Tasmania's jurisdictional guaranteed service level (**GSL**) scheme, which offers customers payments if the service performance received from TasNetworks is worse than a specified level, will remain in place, rather than the GSL that is part of the 'standard' STPIS.

3.1.2 Demand Management Innovation Allowance Mechanism

TasNetworks' request for a new F&A in the 2024-29 regulatory control period included the expectation that the recently finalised Demand Management Innovation Allowance Mechanism (**DMIAM**) would apply to TasNetworks' transmission network. However, the AER's Preliminary position paper on TasNetworks' F&A for the 2024-29 regulatory control period makes no mention of the application of the DMIAM for transmission services to TasNetworks.

TasNetworks confirms its expectation that the AER will apply the recently finalised DMIAM to TasNetworks' transmission network in the 2024-29 regulatory control period.

3.2 Depreciation

TasNetworks supports the proposed continuation of the AER's current approach to determining regulatory depreciation, for the purposes of RAB roll forward at the end of the 2024-29 regulatory control period.