TasNetworks
Delivering your power

Tasmanian Distribution Regulatory Proposal

Regulatory Control Period
1 July 2017 – 30 June 2019

Overview

We communicate with, and listen to, our customers.

We are committed to ensuring the safety of our customers, employees, contractors and the community.

We will keep the power on, maintaining service reliability.

We will innovate in a changing world.

We will deliver our services for the lowest sustainable cost.

It's all part of our vision to be trusted by our customers to deliver today and create a better tomorrow.

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Tasmanian distribution regulatory proposal

Tasmanian households and businesses depend on the availability of a safe, reliable and affordable electricity supply.

TasNetworks is a State Owned Corporation which came into being on 1 July 2014 with the merger of the electricity transmission and distribution networks previously owned and operated by Transend Networks and Aurora Energy respectively. As a newly created business we are on a journey of transformation to deliver the lowest sustainable prices to customers and appropriate returns to our shareholders. Our merged business is already delivering benefits to customers as a result of network synergies and operating efficiencies.

Our vision is to be trusted by our customers to deliver today and create a better tomorrow. We are putting this vision into action. Our regulatory proposal sets out our detailed plans for the distribution network over the two year regulatory period beginning on 1 July 2017, as well as indicative plans for network investment in the three years following. From 2019 we will develop a combined transmission and distribution regulatory proposal setting out five year plans.

The Australian Energy Regulator will review our distribution network regulatory proposal and consult with customers and other stakeholders before deciding how much revenue we will be allowed to recover from our customers to fund our operations. Our goal is for the Australian Energy Regulator to approve our proposal without any changes.

To achieve this goal we have listened to our customers and developed a proposal that balances the interests of our various customers and our community, so that we operate and maintain a safe and compliant network. We have sought to comply fully with regulatory requirements by developing plans that are efficient in terms of their costs and prudent in terms of safety and reliability. In short, our proposal contains no ambit claims.

This Overview paper provides a plain English summary of our regulatory proposal. Our objective in producing the Overview paper is to enable more customers to engage with our proposal and the Australian Energy Regulator's consultation process.

We have made a concerted effort to engage with and listen to our customers so that we address their needs. A stronger customer voice will drive us to deliver better outcomes. Customers have told us that they are satisfied with the reliability of our network, but want us to do more to reduce electricity prices. We are responding to this challenge by committing to the delivery of ongoing cost savings and efficiencies, over and above the savings already factored into our transmission charges.

Our downward pressure on costs will not compromise safety. We have identified a need to increase capital expenditure in some areas in order to address emerging safety risks. Overall though, we are planning to reduce capital expenditure by approximately $39 million or nearly seven per cent over the five years from 1 July 2017, compared to the five years to 1 July 2017. We also propose reductions in operating expenditure and a lower rate of return for our shareholders.

The total impact of these changes is to reduce our annual distribution revenue by approximately $30 million on 1 July 2017, which is a 13 per cent annual reduction in real terms from the Australian Energy Regulator's 2016-17 revenue allowance. We believe this reduction is achievable without any decline in our service performance. We plan to sustain this lower level in 2018—reducing revenue slightly in real terms on 1 July 2018. This is an excellent outcome for our customers and supports the Tasmanian Energy Strategy of delivering lower electricity prices.

Our regulatory proposal has regard to the important changes that are affecting the electricity industry and how they affect our network business.

Technological changes will continue to affect how customers use our network and what they expect from us. Increased use of solar panels and battery technology will mean that many customers are able to generate and store electricity for the first time. Electric vehicles will provide new opportunities and also impose new demands on our network.

Customers expect us to be more innovative by engaging with new technology to find better energy solutions. We should not build traditional network assets (with very long technical lives), if technological advances provide more flexible, lower cost options. We must also ensure that the increasingly two-way flows across are network do not compromise safety or reliability.

With these changes in mind, we have developed a network innovation strategy and provided funding for the Network Transformation Roadmap being conducted by the Energy Networks Association and the CSIRO. This work will guide our responses to the opportunities and challenges associated with new and emerging technology. It means that we are responding positively to change to deliver better outcomes for our customers.

We are also proposing to change how we charge customers for using the distribution network. The purpose of these changes is to provide customers with an opportunity to use the network more efficiently. This is a complex area, but one that has the potential to deliver savings for our customers. Our changes will be introduced over a number of years to help customers with this transition.

Our regulatory proposal strikes an appropriate balance between the immediate pressures to reduce prices and the need to address our reliability, safety and compliance obligations. Our proposal supports our vision for a better tomorrow.

Lance Balcombe
Chief Executive Officer

1. Who we are and what we do

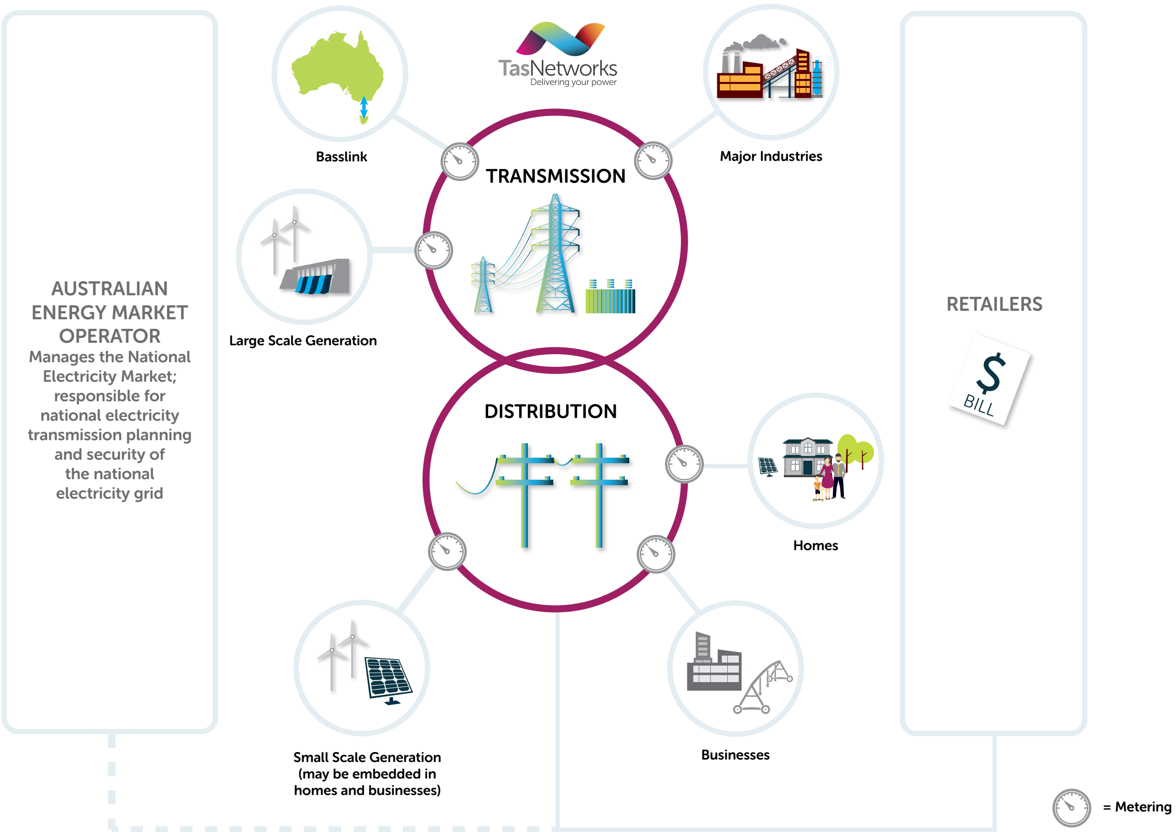
1.1 Our role

Tasmanian Networks Pty Ltd (TasNetworks) is a State Owned Corporation that commenced operations on 1 July 2014 by merging Tasmania's electricity distribution and transmission networks into one network business.

We own, operate and maintain the network that delivers electricity to more than 280,000 households, businesses and organisations on mainland Tasmania. We also own, operate and maintain a telecommunication network to enable safe and efficient operation of the electricity system. Our role in the electricity supply chain and our customer service relationships are shown below.

Figure 1: TasNetworks' customer service relationships

TasNetworks provides a variety of electricity network services for the transmission and distribution of electricity in Tasmania.



1.2 What it takes to deliver your power

TasNetworks is responsible for the design, construction, maintenance and operation of the network that takes power from the point of generation and delivers it to Tasmanian homes and businesses.

Our distribution network is a largely rural overhead network, with the use of underground cables generally restricted to central business districts, newer subdivisions and commercial centres in urban and suburban areas.

The figure below provides an overview of what it takes to deliver power to our customers across our transmission and distribution network.

Figure 2: What it takes to deliver your power

The network is made up of:

Transmission

3,500
circuit kilometres of transmission lines

8,500
transmission line support structures

11,000
hectares of easements

Distribution

15,000
kilometres of high voltage powerlines

5,000
kilometres of low voltage powerlines

2,000
kilometres of high and low voltage underground cables

222,000
poles

We are seeing significant changes in the electricity industry. These changes are being driven by new and increasingly affordable technologies that are giving customers greater choice about how they meet their energy supply needs, which in turn impacts on how they use the network.

In the past, our networks simply delivered electricity to customers. It was a one-way energy services system—much like a one-way road. The widespread uptake of solar panels and emerging battery technology is turning our network into a dynamic, two-way market for energy transportation, as more and more customers are able to generate and store electricity that can be exported back into the distribution network, to be used by other customers, large and small.

We are also seeing changes in the Tasmanian economy that are affecting energy demand. There is growth in the services sector relative to traditional, more energy intensive industries.

These changes remind us that we must innovate if our network is to continue to serve our customers' changing needs. Our expenditure plans explain how we intend to embrace technological change and innovate to deliver lower cost energy solutions. Our customers expect us to innovate and we are responding to this challenge.

1.3 Our plans for the business

Our success is anchored to the prosperity of our customers.

Our strategic goals are to:

- understand our customers by making them central to all we do;
- enable our people to deliver value;
- care for our assets, delivering safe and reliable network services while transforming our business; and
- deliver sustainable shareholder outcomes.

Our strategic goals are based on three pillars: Customers, People and One Business. The diagram below outlines how we will deliver on our strategic goals under these three pillars.

Figure 3: Our 'strategy on a page'

Vision	Trusted by our customers to deliver today and create a better tomorrow.
Purpose	We deliver electricity and telecommunications network services, creating value for our customers, our owners and our community.

	Customers	People	One business	Sustainable shareholder outcomes:
Strategic goals What do we need to focus on to achieve our vision?	**We understand our customers by making them central to all we do.**	**We enable our people to deliver value.**	**We care for our assets, delivering safe and reliable network services while transforming our business.**	• Returns on assets and equity • Dividends • Corporate reputation • Robust balance sheet
Strategic measures How do we know when we have achieved it?	• Customer net promoter score • Lowest sustainable prices	• Culture score • Engagement score	• Zero harm • Network service performance maintained • Sustainable cost reduction	
Initiatives What are the enterprise-wide initiatives we need to focus on now?	• 'Voice of the Customer' program • Framework for predictable and sustainable pricing	• Culture development through leadership • TasNetworks Enterprise Agreement	• Business excellence framework • TasNetworks integrated business solution	

HOW WE WORK

We care for our people and the community	We collaborate to deliver real value to customers	We innovate and we are a fast follower	We challenge the status quo	We are fit for purpose	We are one business

We have adopted a phased approach to transforming the business and achieving our strategic goals, based on the following principles:

1. Build understanding and capability, while delivering safe and reliable network services.
2. Adapt by transforming how we work.
3. Achieve our strategic goals and increase stakeholder value.

Our plan will continue to evolve over time, as we complete activities and respond to our changing customer requirements and operating environment.

1.4 How we compare to other businesses

Networks can vary greatly in their scale and design. Our network supports a relatively small but highly dispersed population, and is characterised by comparatively low levels of customer and energy density, even in the State's major regional population centres. Over 75 per cent of our distribution network serves small towns and rural communities.

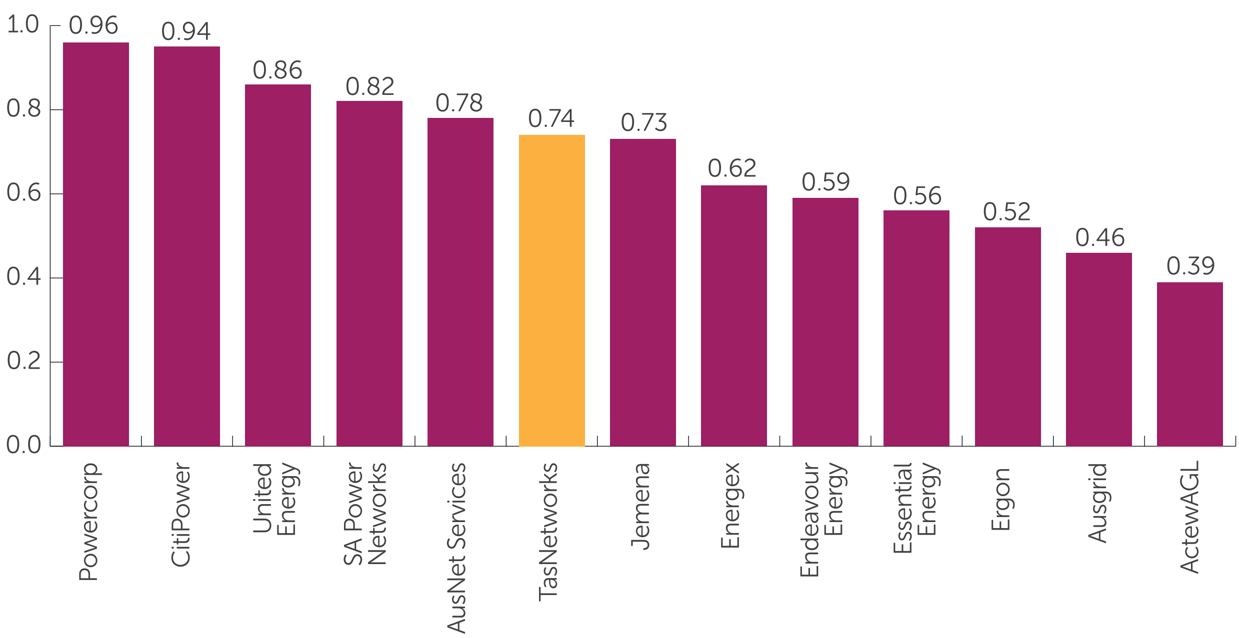
The characteristics of our customer base, and the nature of our network, mean that we have to employ more assets, relative to many of our peers, than a simple comparison of customer numbers would suggest. While these differences are unavoidable, we have been working hard to reduce costs wherever possible.

It is important to understand that comparing network companies is very difficult because their performance is affected by factors such as the location of their customers and the local terrain. For example, TasNetworks services 280,000 customers spread out over an area of 67,800 square kilometres, while Citipower, in Victoria, serves 325,000 homes and businesses across Melbourne's central business district and inner suburbs, packed into a service area of only 157 square kilometres. Further, the boundary between the transmission and distribution system in Tasmania is different to most other states and we have a higher proportion of our distribution network that operates below 33 kV. The Australian Energy Regulator has acknowledged this in its latest annual electricity network benchmarking report, urging caution when interpreting TasNetworks' benchmarking score, given its "comparatively unusual system structure".

The particular Tasmanian conditions in which we operate can make it harder for us to compare well against other networks in Australia on some benchmarks, even though we run an efficient business. However, we continue to work with the AER to ensure benchmarking properly considers our network and customer characteristics. More importantly, we continue to drive improvements and efficiencies over time to drive good outcomes for our customers.

The Australian Energy Regulator uses 'benchmarking' to measure and compare the operating efficiency of the distribution networks in Australia. The most recent results of the Australian Energy Regulator's operating efficiency benchmarks related to the nine years up to and including the 2013-14 financial year are set out below.

Figure 4: Efficiency benchmarking using Australian Energy Regulator data (the best performer has the highest score)

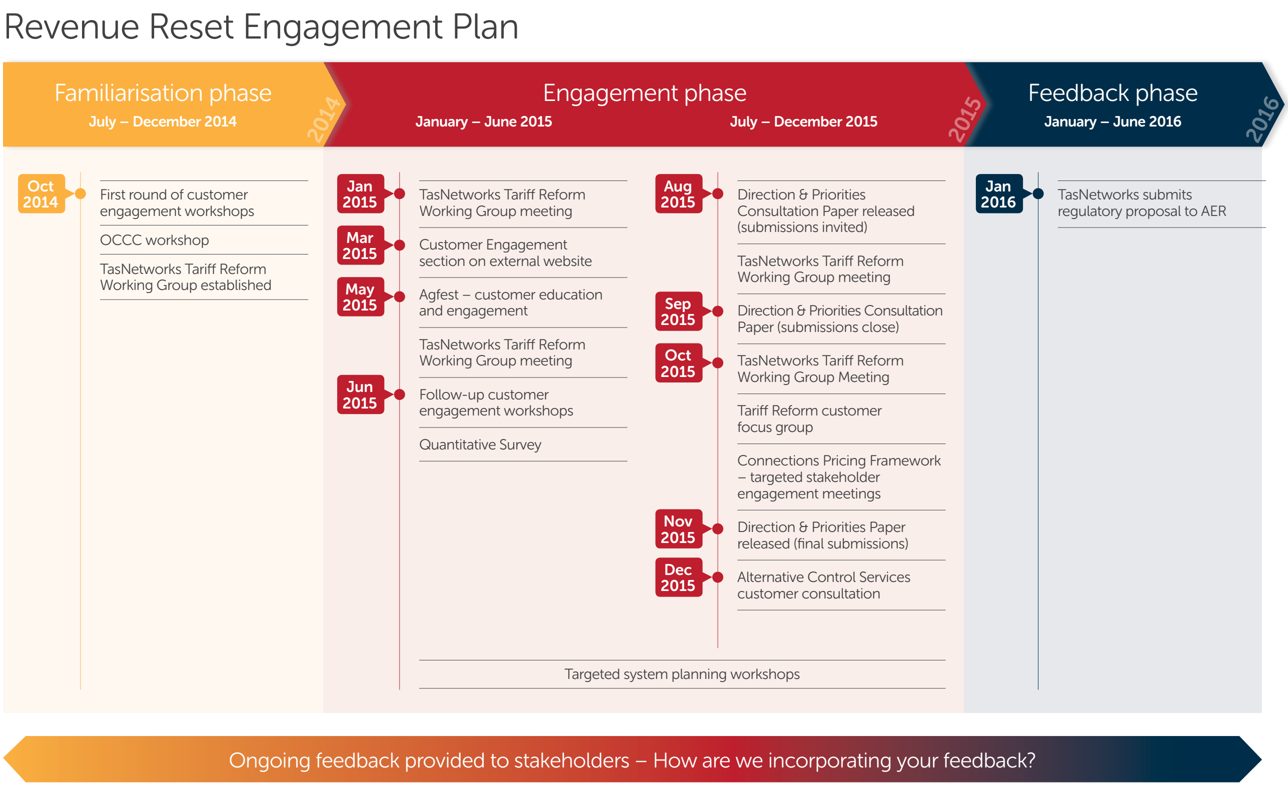


The Australian Energy Regulator's operating efficiency benchmarking places us in the top half of the Australian distribution networks. The latest benchmarking results from the Australian Energy Regulator relate to an assessment period which ends in 2013-14, before TasNetworks took over operation of the distribution network. We expect that the efficiencies gained since the merger of the previous network businesses and our transformation program should see our relative performance improving over time.

2. Customer views and our response

We have engaged extensively with our customers in developing our expenditure and pricing plans. We started by implementing a customer engagement plan, which is summarised below.

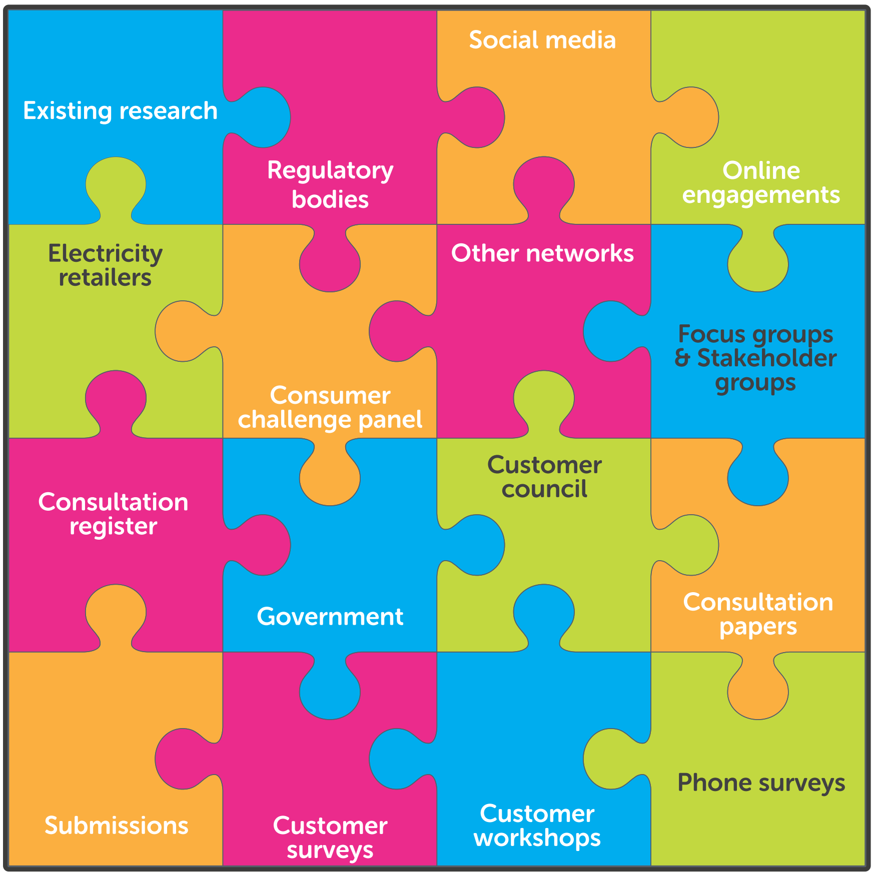
Figure 5: TasNetworks' Revenue Reset Engagement Plan



Key engagement topics/requirements

- Forecast expenditure programs (operating and capital expenditure – including key strategies and projects)
- Proposed Connection Pricing Policy
- Tariff principles, strategy and tariff structure statement

We gathered information and feedback from our customers and other stakeholders in a variety of different ways, as shown below.



The engagement process delivered some important messages for us to take on board. Most customers said that they were happy with the present level of reliability and wanted it to be maintained. Customers did not want us to spend more to improve reliability.

However, customers identified the following opportunities for improvement:

- providing services at lower cost (without compromising service quality);
- providing customers with better information about restoration times when there is an outage;
- addressing meter reading concerns;
- addressing localised quality of supply issues such as voltage fluctuations; and
- using more responsive and modern communication tools (for instance, SMS automatic messaging for outage updates) and improved online communication, especially for outages.

In considering the insights we have collected through our customer consultation, combined with our regulatory obligations and knowledge of the network, our investments for the 2017-19 regulatory period will be focused on five key areas:

1. Improving how we communicate with, and listen to, our customers.
2. Ensuring the safety of our customers, employees, contractors, and the community.
3. Keeping the power on, maintaining service reliability.
4. Innovating in a changing world.
5. Delivering services for the lowest sustainable cost.

3. Snapshot – How our regulatory proposal will affect you

Our regulatory proposal outlines our plans for improving, maintaining and operating our distribution network efficiently in order to meet the long-term interests of our customers.

For the two-year regulatory period from 1 July 2017 to 30 June 2019, our regulatory proposal puts further downward pressure on prices for all our customers. We have proposed challenging cost reductions and performance targets, and will work hard to achieve them:

- we are proposing further reductions to our operating expenditure;
- we are proposing a capital program consistent with present levels;
- we have aligned our weighted average cost of capital or 'WACC' with the Australian Energy Regulator's approach, as updated to reflect market data and any changes required as a result of Tribunal decisions;
- we will maintain our service levels;
- our annual revenue will drop by approximately $30 million from 1 July 2017, which is 12.9 per cent in real terms; and
- we will maintain this lower annual revenue in the following year, with a further small reduction of two per cent, in real terms, from 1 July 2018.

We are working hard to keep our costs and our prices as low as we sustainably can, while delivering safe and reliable services.

4. Expenditure plans and service incentives

4.1 Capital expenditure plans

We expect to spend approximately $31 million, or five per cent, less capital expenditure during the current five year regulatory period, compared to the allowance set by the Australian Energy Regulator. As a result of our lower capital expenditure customers will pay for a lower asset base. This translates into lower network prices for our customers because the capital value of our regulated asset base is an important input to determining the revenue the Australian Energy Regulator permits us to recover from our customers.

This outcome is particularly positive for our customers because in recent years the distribution business incurred significant additional costs associated with bushfire recovery and investment in the IT systems needed to facilitate the introduction of full retail competition in Tasmania. These additional costs were not included in the Australian Energy Regulator's capital expenditure allowances but were eligible for 'pass through' if approved by the regulator.

Aurora Energy, as the distributor, had commenced a pass-through application to the Australian Energy Regulator for the IT system costs associated with full retail competition. However, TasNetworks decided against this approach and, instead, absorbed these increased costs and managed expenditure within the existing allowance. This supported lower network charges for our customers.

Our next regulatory period is only two-years (1 July 2017 to 30 June 2019) as shown in the next table. As set out in our Regulatory Proposal, we consider that a five year forecast of our proposed capital expenditure provides a transparent comparison with our current regulatory period. We plan to build on the savings achieved in the current regulatory period. We are planning a further reduction of approximately $39 million or nearly seven per cent compared to our actual capital expenditure, over the five year period commencing 1 July 2017.

Table 1: Actual and forecast capital expenditure (June 2017 $m)

Category	2012–13	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19
Development	**35.7**	**36.9**	**35.6**	**34.4**	**37.0**	**31.9**	**31.5**
Customer initiated	28.5	26.3	30.9	25.3	28.9	25.4	25.2
Reinforcements	7.2	10.6	4.8	9.1	8.1	6.5	6.2
Renewal/enhancement	**47.3**	**49.9**	**55.2**	**52.7**	**58.2**	**57.7**	**60.9**
Operational Support Systems	**2.7**	**4.0**	**2.9**	**16.8**	**15.0**	**15.5**	**4.7**
SCADA and Network Control Systems	1.1	2.4	2.5	2.6	1.0	3.2	2.0
Asset Management Systems	1.5	1.6	0.4	14.2	14.0	12.3	2.8
Non-Network Other	6.1	7.0	5.8	6.0	3.8	3.7	3.7
IT and Communications	17.2	22.7	7.1	15.8	19.2	14.2	11.7
Total capital expenditure	**109.1**	**120.5**	**106.7**	**125.7**	**133.3**	**123.1**	**112.5**
Customer capital contributions	**(8.3)**	**(10.6)**	**(12.9)**	**(10.3)**	**(10.2)**	**(11.2)**	**(11.0)**
Total net capital expenditure	**100.8**	**109.9**	**93.8**	**115.4**	**123.1**	**112.0**	**101.4**

We will need to increase capital expenditure in some areas to manage emerging safety risks. We are also continuing to invest in our information systems as we innovate to find better ways of communicating with our customers, maintaining service performance and managing risk.

We have forecast additional costs as a result of changes being made by the Australian Energy Market Commission to the regulation of metering and metering-related services. The final rules relating to Tasmania remain uncertain and we will update our forecasts, if necessary, to the extent permitted by the National Electricity Rules.

4.2 Operating expenditure

We have adopted the Australian Energy Regulator's 'base-step-trend' approach when developing our operating expenditure forecasts. This approach develops a forecast by building from actual expenditure (in the base year) and making an allowance for expected changes over the forecast period.

In our forecast we have identified a number of new costs that are likely to arise in the next regulatory period. For example additional operating expenditure will be required to:

- increase the maintenance of access tracks and vegetation corridors to ensure the continuation of prudent vegetation management practices; and
- increase the number of inspections on our overhead assets, like the cross arms on power poles and insulators, to facilitate better planning of maintenance work and minimise unexpected asset failures.

We also expect to incur increased costs as a result of network growth to support new connections, which in turn means that we have more assets to maintain and therefore increased operating costs.

While there are upward cost pressures faced by our business, our customers expect us to deliver efficiency savings, particularly as a result of the merger. For this reason we have committed to finding efficiency savings that absorb these expected cost increases. In fact, we plan to reduce operating expenditure below the actual level incurred in 2014-15 (the base year for our regulatory proposal).

There are two 'Other' expenditure items included in our forecast of efficient operating expenditure that sit outside the 'base-step-trend' approach. These are a self-insurance allowance of $0.9 million and the provision of a benchmarked debt raising cost allowance of $1.0 million for the 2017-18 and 2018-19 years.

Table 2 sets out our actual and forecast operating expenditure.

Table 2: Actual and forecast operating expenditure by category (June 2017 $m)

Category	2012–13	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19
Emergency Field Operations	17.5	19.3	16.9	16.1	15.0	14.3	13.9
Maintenance and Vegetation Management	24.7	25.9	26.0	26.3	27.3	25.7	25.1
Distribution Asset Services	25.3	25.6	15.0	12.7	12.3	12.4	12.3
Business Services	10.8	9.1	10.0	9.5	8.6	7.9	7.6
'Other' Operating Expenditure	N/A	N/A	N/A	N/A	N/A	1.9	1.9
Total operating expenditure	**78.3**	**79.9**	**68.0**	**64.7**	**63.1**	**62.3**	**60.8**

We have provided modest forecasts in our distribution operating costs as a result of changes to regulation relating to metering and metering-related services. As noted above, the rules relating to Tasmania remain uncertain and we will update our forecasts as these changes are finalised.

4.3 Service Performance Incentives

Currently the Australian Energy Regulator provides us with an incentive to improve our network's reliability in the form of a service target performance incentive scheme. This scheme provides us with financial incentives to maintain and improve the performance of our distribution network, measured in terms of our call answering performance and the frequency and duration of the outages experienced by customers.

> Our revenue can increase (or reduce) by as much as five per cent per year, depending on whether our service performance is better or worse than the target set by the regulator. This makes setting stable, predictable prices for our customers—something which our customers have told us is important to them—more difficult than it otherwise might be.

We are proposing that this service performance incentive arrangement is scaled down over the next two years. Our proposal is to reduce the maximum level of the bonus or penalty from the current five per cent of our annual revenue allowance to two and a half per cent. Our customers have told us that they do not want to pay more for better network reliability. So, an incentive scheme that encourages us to improve network performance—and requires customers to pay more as a result—is out-of-step with what our customers are telling us.

The variability in network performance due to weather and other random events could also cause our prices to move up or down each year, as we receive bonuses or pay penalties. While we can manage this volatility to some extent, our customers have also told us that they would prefer more predictable prices.

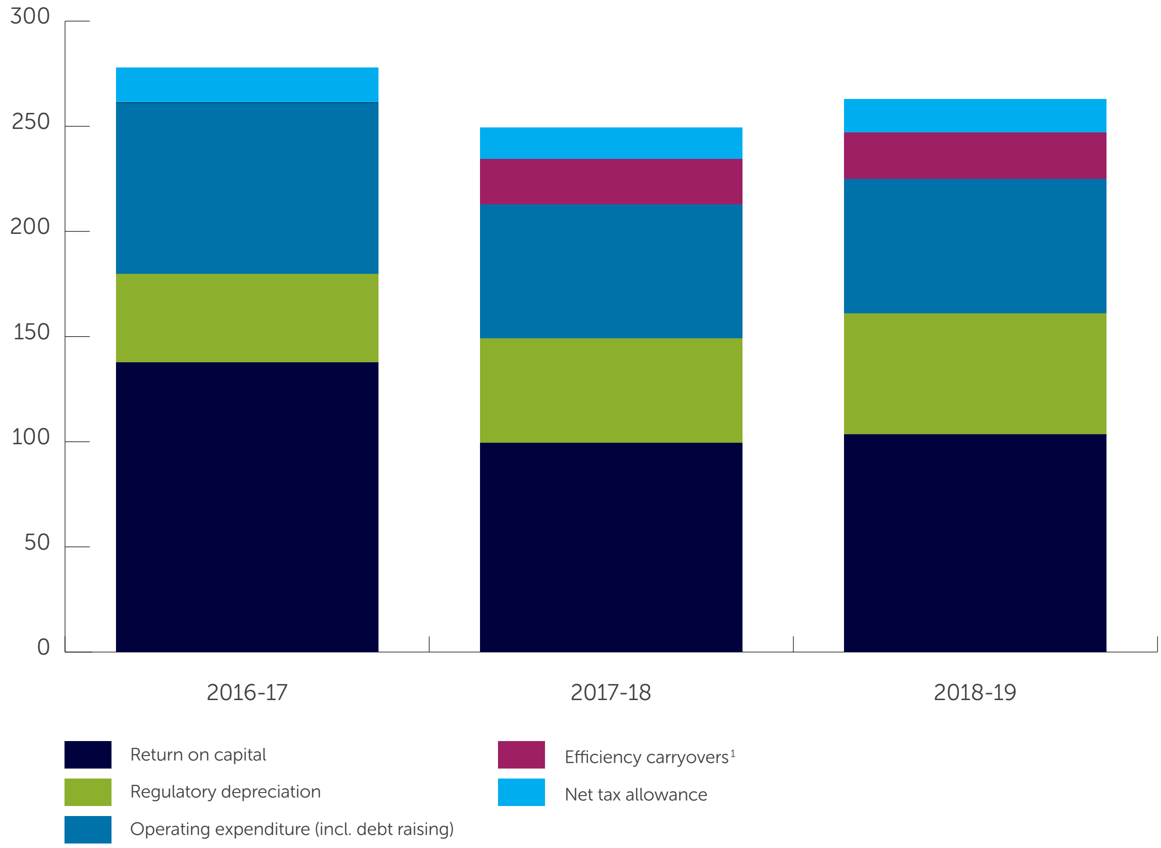
We hope the regulator will accept our proposal to scale down the incentive scheme.

5. Revenue requirements

Our revenue must be sufficient to enable us to deliver the expenditure plans described above and manage our risks. We must also be able to provide a reasonable rate of return to our owners, the State Government, and pay corporate tax (based on a benchmarked organisation). The return on capital is a large component of our total cost because our business is very capital intensive.

The figure below summarises the revenue building block calculation for each year of the forthcoming regulatory period alongside the final year of the current period, which is 2016-17. It shows the significant reduction in our proposed revenue in 2017-18, followed by a modest increase in 2018-19. In real (or constant) dollars our revenue in 2018-19 reduces slightly.

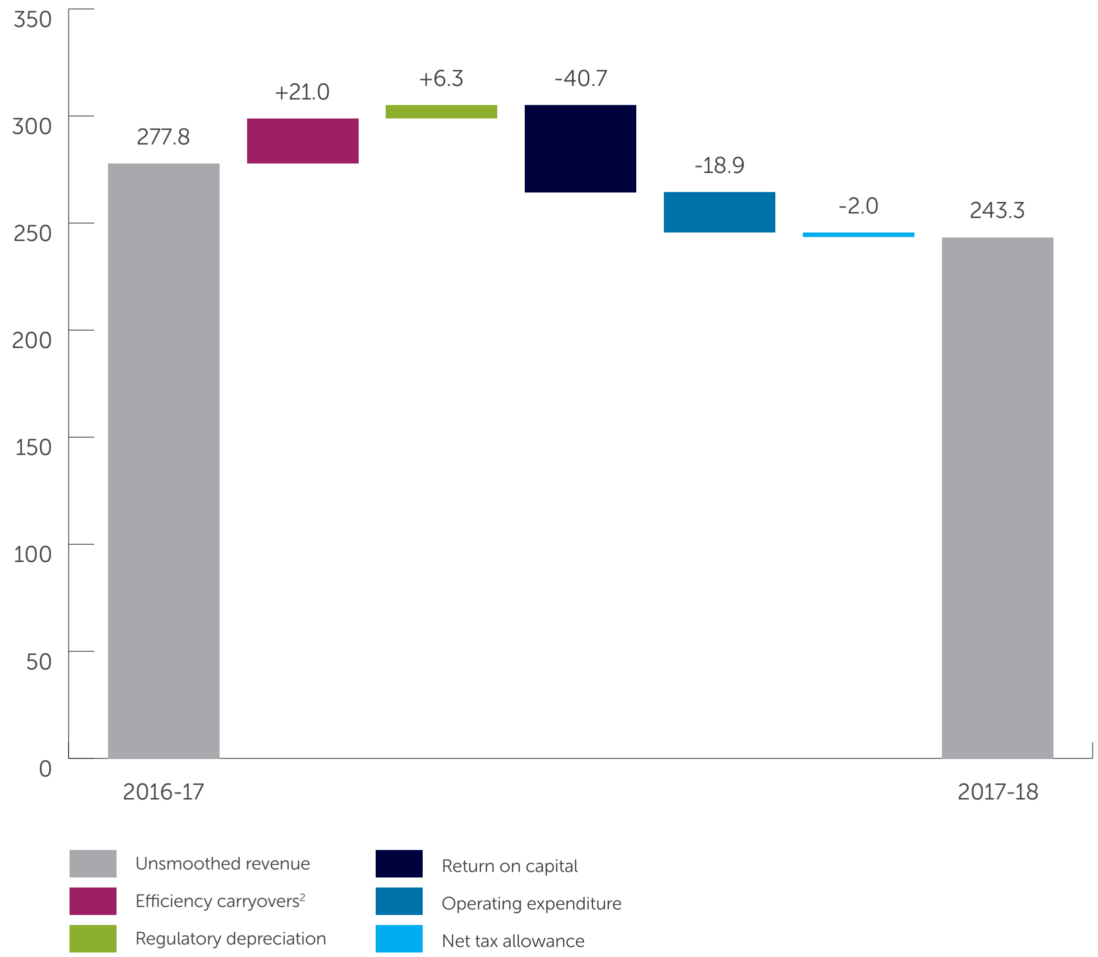
Figure 6: Summary building block unsmoothed revenue requirement ($m nominal)



The key elements in our proposal that result in this significant reduction in our 2017-18 revenue requirement are shown in the waterfall chart below. The figure below is expressed in real terms to exclude the effects of inflation.

[1] This mainly relates to Efficiency Benefit Sharing Scheme payments and also includes allowances provided under the Demand Management and Embedded Generation Connection Incentive Scheme (formally the Demand Management Incentive Scheme, or DMIS).

Figure 7: Changes in unsmoothed revenue from 2016-17 to 2017-18 (June 2017 $m)



More information on each building block is provided in the Regulatory Proposal.

The Australian Energy Regulator sets an allowance for the rate of return and corporate tax. The appropriate allowance is estimated with reference to information from financial markets and through the application of various academic models.

Our proposal is based on the Australian Energy Regulator's approach to setting the rate of return.

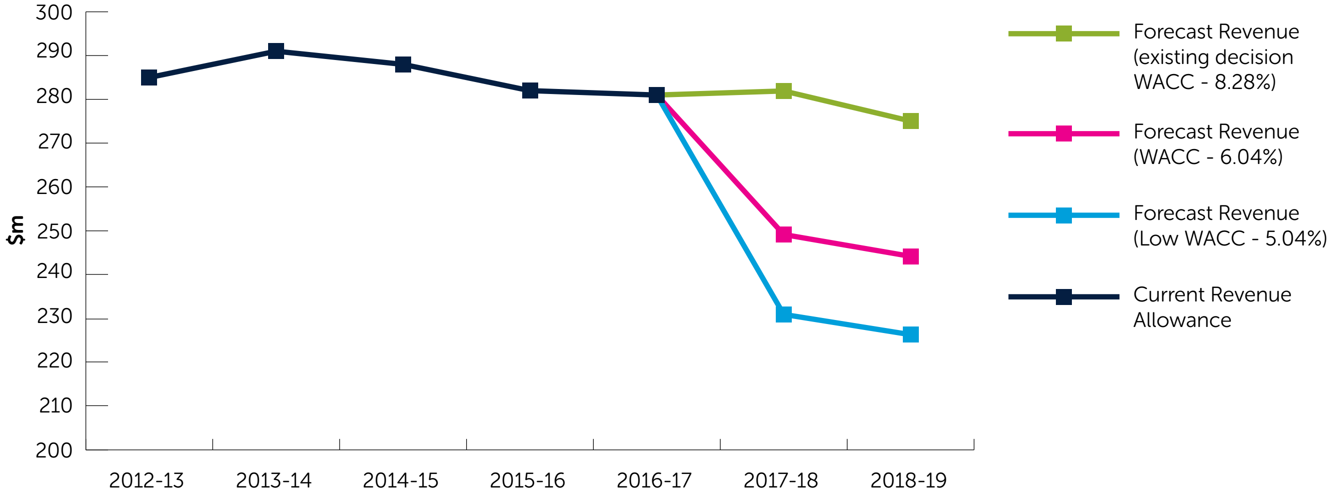
The regulator's approach to estimating the rate of return and corporate tax allowance has recently been challenged by some mainland Australian distribution businesses and the Public Interest Advocacy Centre. The outcomes of these challenges are not yet known and the Australian Competition Tribunal is yet to make any final decisions.

We have proposed to align our weighted average cost of capital or 'WACC' with the Australian Energy Regulator's approach, as updated to reflect market data and any changes as a result of the NSW, ACT and SA appeals.

[2] This mainly relates to Efficiency Benefit Sharing Scheme payments and also includes allowances provided under the Demand Management and Embedded Generation Connection Incentive Scheme (formally the Demand Management Incentive Scheme, or DMIS).

The chart below shows our revenue allowance for the current regulatory period alongside our proposed revenue for the forthcoming regulatory period. It illustrates the significant impact financial markets can have on the WACC and our revenue requirement.

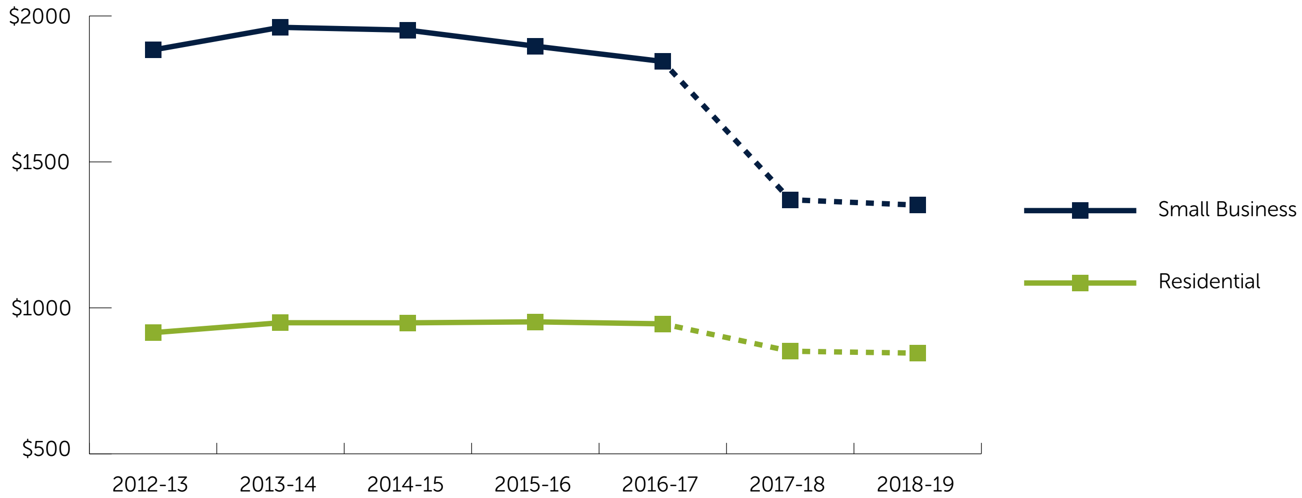
Figure 8: Revenue allowance for distribution standard control services (June 2017 $m)[3]



Transmission and distribution network costs presently make up around 50 per cent of the typical Tasmanian residential and small business customers' electricity bill.

Our forecast distribution revenue allowance (based on a WACC of 6.04 per cent), together with our current forecast transmission revenue allowance, result in the indicative average annual total network charges for residential and small business customers shown below.

Figure 9: Indicative average annual total network charges (June 2017 $)



[3] Distribution Standard Control Services includes the shared network (poles and wires)

6. New developments in network tariffs

We are committed to delivering the lowest sustainable network prices. In line with the provisions and intent of the National Electricity Rules, our overarching tariff strategy is to move towards more cost reflective network tariff structures. In developing our tariff strategy we have also taken into account the National Electricity Rules' requirement to consider customer impacts.

We are changing our tariff strategy to make greater use of demand charges in future network tariffs. We will retain our current consumption based network tariffs during the transition to time of use demand based network tariffs. However, we will be adjusting the consumption based tariffs, so that they better reflect the underlying costs of supplying the customers on those network tariffs.

In the longer term, our aim is to incentivise a customer led shift to time of use demand based network tariffs, with our customers understanding and recognising the value and benefits associated with the new network tariffs.

From 1 July 2017, we will begin a gradual process of adjustment to our existing network tariffs for residential and small business customers. The changes will involve rebalancing most of our existing network tariffs, by increasing the emphasis on service charges and reducing the variable consumption based component.

The prices of some network tariffs will also begin to be realigned, to start unwinding some long-standing cross subsidies between different tariffs and different customer groups.

> With an eye to the future, we will start offering new time of use demand based network tariffs to electricity retailers as a choice for their residential and low voltage business customers.

We will offer demand based network tariffs for residential customers, for business customers connected at low voltage and for business customers connected at low voltage with multi-phase supply.

In time, we expect that all small business and residential customers will move over to time of use demand based network tariffs rather than the current consumption based network tariffs.

More information on our tariff strategy can be found in our Tariff Structure Statement and accompanying Customer Overview paper. The Customer Overview paper also describes how we have engaged with customers and retailers in developing our proposed Tariff Structure Statement and how we have addressed their concerns.

7. Benefit and risks to customers

The regulatory rules require us to explain the benefits and risks to customers arising from our regulatory proposal and tariff proposals.

7.1 Benefits

The following points summarise the principal benefits to customers from our proposal:

- **Stability and affordability** – We are proposing an ongoing reduction in our revenue which will feed through to lower prices to our customers.
- **Safety** – Our capital and operating plans aim to deliver services that are safe and sustainable for the electricity network and the communities we serve.
- **Reliability** – We propose to maintain reliability in accordance with our customers' preferences.
- **Efficiency** – As we transform our business, we will continue to improve our cost performance. The efficiency gains that we expect to achieve over the coming regulatory period are built into our expenditure forecasts.
- **Fairer** – Our new tariffs will gradually improve fairness in our charging, with customers paying for the network services they receive; and will deliver savings to customers that use the network more efficiently.
- **Sustainability** – We are working hard to ensure we only build, maintain and operate the network customers are prepared to use and pay for.

7.2 Risks

We have identified the following risks that customers should consider in reviewing our proposal:

- **Service performance risks** – Our plans have been designed to maintain reliability and safety at a sustainable cost. This means some customers may be dissatisfied with service levels. There is also always a risk that the expenditure proves to be inadequate to maintain reliability across all our communities. Increased expenditure plans would reduce this risk, but they would also lead to higher prices.
- **Price impact from performance** – The regulator may decide that the maximum penalty or bonus under the incentive scheme should remain at five per cent of revenue. This could expose customers to unexpected price volatility.
- **Incorrect price signals** –Until our tariff transition is complete, cross subsidisation between customers and investment based on incorrect price signals will persist.
- **Bushfire risks** – Tasmanians know that we live in a state that is prone to bushfire. We have committed expenditure to manage this risk. We balance the cost of additional investment and safety measures against the benefit of reduced risk. It is important to get the balance right and we recognise the risk of bushfire cannot be eliminated entirely.

8. Next steps – Have your say

The Australian Energy Regulator is now considering our regulatory proposal. Under its review process, the Australian Energy Regulator will publish an issues paper on our regulatory proposal in March 2016. The Australian Energy Regulator's issues paper is intended to help customers and other stakeholders understand our proposal, and to assist interested parties in framing their submissions to the Australian Energy Regulator. The Australian Energy Regulator will also hold a public forum and invite submissions on our proposal.

After considering our proposal and submissions from interested parties, the Australian Energy Regulator will publish a draft decision in September 2016. The Regulator will then invite further submissions, including a revised proposal from us, before making its final decision in April 2017.

You can find out more about the Australian Energy Regulator's review process and how to make a submission at the Australian Energy Regulator's web site at: **http://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/tasnetworks-formerly-aurora-energy-2017-2019**.

We also welcome feedback on our proposal, including this Overview paper.

You can contact us in the following ways:

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Tasmanian Networks Pty Ltd