



Distribution Determination 2017

Direction and Priorities Paper

November 2015



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Tasmanian Networks Pty Ltd
2017 Distribution Determination
Direction and Priorities Paper
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Table of Contents

| | | |
|-----|---|----|
| 1. | Background | 1 |
| 2. | Overview | 1 |
| 3. | Our direction and priorities | 1 |
| 4. | Our approach to seeking feedback..... | 1 |
| 5. | Stakeholder and customer feedback | 3 |
| 5.1 | Submissions received | 3 |
| 6. | Summary of themes and messages | 3 |
| 6.1 | Our response to the key themes and messages..... | 4 |
| 7. | General comments..... | 11 |
| 7.1 | Network tariff reform and advanced metering..... | 11 |
| 7.2 | Feed-in tariffs and tariff cross-subsidies..... | 12 |
| 7.3 | Service Target Performance Incentive Scheme (STPIS) | 13 |
| 8. | How are we using this feedback? | 13 |
| 8.1 | Preparing for our regulatory submission..... | 13 |
| 8.2 | Feedback that helps us next time..... | 13 |
| 9. | Next steps | 14 |

1. Background

TasNetworks provides distribution network services (the poles and wires) to customers in Tasmania and the transmission network (the large towers and lines). This paper is focused on our distribution network services. Sometimes we refer to our network as the 'grid'.

The purpose of this paper is to confirm our direction and priorities for the 2017-19 Regulatory Control Period, provide a summary of the key themes and feedback received during consultation; and clarify a number of matters that were raised.

This paper has only sought to address issues raised through consultation. Our Directions and Priorities Consultation Paper can be found [here](#), which provides our proposed approach in detail.

In January 2016, TasNetworks will submit its distribution proposal to the Australian Energy Regulator (AER). We refer to this submission as our "2017-19 Regulatory Proposal". The 2017-19 Regulatory Proposal sets out our expenditure plans, proposed revenues and prices. The AER will assess our proposal, including through consultation with customers and by engaging expert consultants. In April 2017, the AER will make its final distribution determination for TasNetworks for this period.

2. Overview

This paper sets out our direction and priorities. The paper provides a summary of the key themes emerging from submissions on our Direction and Priorities Consultation Paper, and explains how we have taken customer feedback into account in formulating the direction and priorities we intend to reflect in our 2017-19 Regulatory Proposal.

3. Our direction and priorities

In considering the insights we have collected through customer consultation, combined with our regulatory obligations and knowledge of the network and customer expectations, this consultation and feedback has reinforced that our proposed directions and priorities are appropriate. Our 2017-19 Regulatory Proposal will therefore be focused on five key themes:

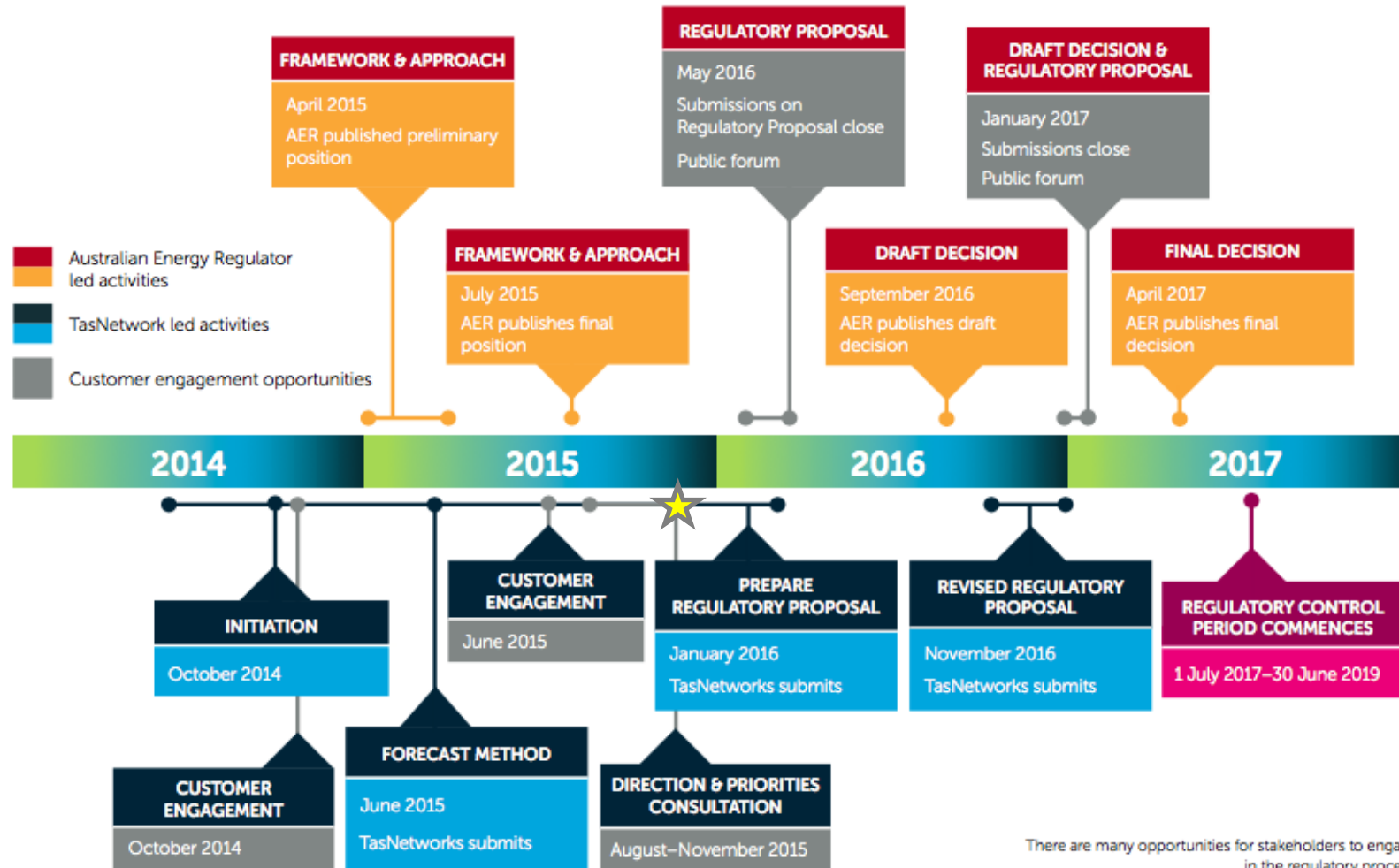
1. improving how we communicate with, and listen to, our customers
2. ensuring the safety of our customers, employees, contractors, and the community
3. keeping the power on, maintaining service reliability
4. innovating in a changing world
5. delivering services for the lowest sustainable cost

4. Our approach to seeking feedback

Our Regulatory Proposal will cover the two-year period commencing 1 July 2017, instead of the usual five years. This timing will align the processes to set our future transmission and distribution revenues from July 2019 onwards.

There are many opportunities for customers to engage directly with either TasNetworks or the AER as part of these processes. Figure 1 summarises the 'road map' for the determination process, including consultation opportunities.

Figure 1 TasNetworks' Distribution Determination 2017 Roadmap



This Paper is an important part of our stakeholder engagement process as we prepare our 2017-19 Regulatory Proposal. It outlines the feedback we have received so far from stakeholders following consultation on our proposed direction and priorities, which occurred during September 2015.

In August 2015 we published our Direction and Priorities Consultation Paper on our website and sent the consultation paper directly to a number of stakeholders, seeking feedback. Our broad approach for seeking feedback can be summarised as:

- feedback was sought via direct mail out to 170 end-use customers who had previously participated in a survey and/or attended one of our customer engagement workshops
- the consultation paper was sent directly to the TasNetworks' Customer Council and discussed at its September 2015 meeting
- the consultation paper was provided to the Office of the Tasmanian Economic Regulator's (OTTER) Customer Consultative Committee at its September 2015 meeting and feedback sought from Committee members
- the consultation paper was provided directly to a broad range of stakeholders including Government, Local Government Authorities, interest and advocacy groups, the AER and other interested parties
- the consultation paper was loaded onto our website and published via Facebook (361 hits) and Twitter (1,068 impressions)
- discussion of our proposed direction and priorities as part of formal engagement with the AER's Consumer Challenge Panel (Sub-Panel 4) in September 2015.

5. Stakeholder and customer feedback

Stakeholder and customer feedback has been gathered via the following channels:

- formal submissions
- informal email responses
- verbal feedback from stakeholders and customers
- notes captured during workshops

5.1 Submissions received

Thirteen formal submissions were received from interested parties, including submissions from:

- Tasmanian Renewable Energy Alliance
- Tasmanian Council of Social Services
- Australian Electric Vehicle Association
- Aurora Energy

A number of other individuals and other organisations made submissions informally.

6. Summary of themes and messages

There were a number of common themes identified in the feedback that we received. These were:

- we are communicating well, and there is still room for improvement
- more information is required before customers or stakeholders can make informed decisions on our future plans and network pricing reform

- stakeholders are concerned with the proposed increases in capital expenditure; and would like to see more savings in operating expenditure, given the proposed increases in capital investment and new IT systems
- customers and stakeholders provide broad support for maintaining existing levels of reliability
- we need to do more to communicate with our stakeholders regarding the way we are innovating and considering new technologies

A number of submissions complimented our genuine effort and our use of plain language for example, the Tasmanian Renewable Energy Alliance notes:

‘The paper provides an excellent overview of a complex subject and we are highly appreciative of the effort that TasNetworks puts into its customer engagement around its planning processes.’¹

A number of submissions also highlighted the challenge based around knowledge for customers to influence TasNetworks’ expenditure and regulatory frameworks:

‘Your basic problem is that the public is generally disinterested in electricity supply unless it is proved to be unreliable or was threatened with increased cost.’²

The Tasmanian Council of Social Services submission noted:

‘Network services, costs and revenue determinations are not the stuff of everyday life for most Tasmanians and are both complex and unfamiliar’.³

6.1 Our response to the key themes and messages

| Key feedback theme | Our response |
|---|--|
| We are communicating well, and there is room for improvement. | We are continuing to work on ways we can better communicate with customers; this is ongoing. |
| More information is required before customers or stakeholders can make informed decisions on our future plans and network pricing reform. | We have recently released a number of consultation papers on our website that provide more information on our proposed network tariff strategy and network impacts on customers. |

¹ Submission by Tasmanian Renewable Energy Alliance

² Submission by Dr Michael Wadsley

³ Submission by the Tasmanian Council of Social Services

| Key feedback theme | Our response |
|--|---|
| Stakeholders are concerned with the proposed increases in capital expenditure; and would like to see more savings in operating expenditure, given the proposed increases in capital investment and new IT systems. | We are working hard to find more savings and efficiencies and these will be identified as part of our Regulatory Proposal. |
| Customers and stakeholders provide broad support for maintaining existing levels of reliability. | We will be finalising our Reliability Strategy and submitting it to the AER as part of Regulatory Proposal. This will reflect a strategy to maintain current overall network service levels. |
| We need to do more to communicate with our stakeholders the way we are innovating and considering new technologies. | <p>The evolution of the way customers use, produce and value electricity and energy services will continue well into the future. In this context, we are contributing to work with the CSIRO and other members of the Energy Networks Association to develop a network transformation road map. More information is available here: (http://www.ena.asn.au/electricity-network-transformation-roadmap)</p> <p>We are undertaking a range of network innovation activities and will expand on these as part of our Regulatory Proposal. Section 6.9 of our 2015 Annual Planning Report also discusses some of the innovative initiatives we are working on.</p> <p>We are actively working with ways to communicate more broadly with customers, including TasNetworks social media channels including facebook, twitter and YouTube.</p> <p>We are reviewing the content of the website to provide more information on new technologies.</p> <p>We support customer and industry innovation information via www.HelloGrid.com.au</p> |

The following table summarises the key messages and our high-level response.

| Direction and Priorities Theme | What you told us | Our response |
|--|---|--|
| <p>Improving how we communicate with, and listen to, our customers</p> | <ul style="list-style-type: none"> • The general layout and approach of the consultation paper could be improved, and in particular a summary of the questions being posed would enhance the readability of the paper. • Focus and consultation in regional areas should be considered, not just the big cities. • TasNetworks needs to balance the time between building trust, educating and informing, AND allowing stakeholders the time and support to allow them to analyse and respond to questions posed as part of our engagement. • Expenditure forecasts should be scrutinised or debated, however the average consumer is neither qualified nor sufficiently wise economically to be able to make any comment of significant value. | <ul style="list-style-type: none"> • In future when we consult, we will provide a summary of the questions on which we are seeking feedback. • We intend to engage in a way that ensures customers from regional areas have more opportunities to be heard in the future. • We are investigating ways we can inform and educate customers and stakeholders on an ongoing basis to assist them in providing meaningful and informed feedback. • Customer feedback received to date also has emphasised that the fact that customers are not equipped to make informed choices about complex technical issues. Recognising this, our approach to date is to seek feedback on service, price and reliability trade-offs at a high-level. • We will continue to inform and engage to build knowledge and comfort. |

| Direction and Priorities Theme | What you told us | Our response |
|--|---|--|
| <p>Ensuring the safety of our customers, employees, contractors, and the community</p> | <ul style="list-style-type: none"> • Safety should be a top priority for TasNetworks. • TasNetworks should continue to inform and educate the public on safety around electricity assets. | <ul style="list-style-type: none"> • Safety is the top priority for TasNetworks, with the majority of expenditure planned within our <i>Renewal and Enhancement</i> expenditure category to address and manage safety issues. • Our proposal will provide more information to explain our planned investments to maintain a safe and reliable network and to minimise community risks associated with our assets. • TasNetworks will continue to invest in informing and educating the public, including: <ul style="list-style-type: none"> ○ Safety in schools program ○ Public safety messages ○ CablePI ○ Home health campaign ○ Agfest ○ Look up, look out campaigns ○ Vegetation management and bushfire risk campaigns |

| Direction and Priorities Theme | What you told us | Our response |
|--|--|--|
| <p>Keeping the power on, maintaining service reliability</p> | <ul style="list-style-type: none"> • A keen point of interest and driver of expenditure is TasNetworks' demand forecasts, with a number of stakeholders identifying that it would be good to have more transparency about how these are developed. • A number of stakeholders queried the level of planned network investment in our Reliability and Quality Maintained expenditure category to maintain existing levels of reliability. • A number of customers identified the challenge of cost effectively providing increased reliability in more remote locations. | <ul style="list-style-type: none"> • We have published our Forecasting Methodology and our 2015 Annual Planning Report on our website. The Annual Planning Report provides more information on our demand forecasts. • We intend to provide more information on our expenditure forecasts and the underpinning assumptions as part of our 2017-19 Regulatory Proposal. • The majority of our planned network investment is focused on replacing unreliable and aged assets that are in poor condition, to ensure they do not present unacceptable safety or bushfires risks or increased rates of power outages. This expenditure is critical in helping us maintain safe and reliable network services. • TasNetworks is also proposing to address reliability on seven critical and underperforming feeders. |

| Direction and Priorities Theme | What you told us | Our response |
|---------------------------------------|---|---|
| <p>Innovating in a changing world</p> | <ul style="list-style-type: none"> • A number of customers and stakeholders commented that our consultation paper did not place enough emphasis on risks to our operating model due to new technologies and ‘disruption’. • A number of submissions suggested that TasNetworks should take a greater role in supporting increased use of plug-in electric vehicles. Some of these submissions also suggested that TasNetworks should play a greater role in supporting new technologies, both in terms of research and development and funding. | <ul style="list-style-type: none"> • Section 6.9 of our 2015 Annual Planning Report discusses some of the innovative initiatives we are working on. • We are actively considering new technologies and are currently developing our Grid Innovation Strategy. • We are also considering new technologies and their interaction with our network as we revise our connections standards and consider the most efficient solutions to address emerging customer issues. • We are in the process of acquiring three plug-in electric vehicles to demonstrate and support increased use of electric vehicles. • We are working with our peers, stakeholders and the CSIRO through the Energy Networks Association’s Network Transformation Roadmap, to consider and manage risks and opportunities arising from new technologies and ‘disruption’. |

| Direction and Priorities Theme | What you told us | Our response |
|--|--|--|
| <p>Delivering services for the lowest sustainable cost</p> | <ul style="list-style-type: none"> • Affordability and electricity prices are a key concern for customers in Tasmania. • A number of stakeholders suggested that TasNetworks needs to provide customer impact analysis for network tariff changes to assist stakeholders to make more informed responses to proposed changes to network pricing. • A number of submissions promoted the use of network pricing structures that rewarded customer's usage in times when there is lower demand on network. • One submission noted that the customer would pay more for a meter that gave detailed information about the power they use (e.g. via a web interface). | <ul style="list-style-type: none"> • We are scrutinising our capital and operating expenditure forecasts to ensure our revenue is as low as sustainably possible. • Our network tariff strategy is to transition to more cost reflective network tariffs that enable customers to: <ul style="list-style-type: none"> ▪ make more informed investment and electricity use decisions; and ▪ recognise and pay for the value the network provides them. • More cost reflective network tariffs reward efficient use of the electricity network. This helps to reduce the need for substantial new investment in the network and helps keep costs down for all our customers in the long term. • We have recently consulted on two papers to inform customers and seek feedback on our network tariff strategy: Demand Based Network Tariffs – offering a new choice and Improving the way we price our network services consultation papers. • Further work is underway to provide more information on our proposed tariff strategy, and likely customer impacts. • The Australian Energy Market Commission is finalising a rule change that expands competition in metering services. TasNetworks is actively participating in the rule change process, aiming to deliver an outcome that achieves long-term benefits for Tasmanian customers. |

7. General comments

This section seeks to address a number of general matters that were raised in feedback we received during consultation.

7.1 Network tariff reform and advanced metering

Substantial reforms to the National Electricity Market (NEM) are underway as part of the Australian Energy Market Commission's Power of Choice review. The reforms aim to give electricity consumers better information and options in the way they use electricity. Reforms include changes to network tariffs and changes to metering service provision for small customers.

TasNetworks is preparing for these reforms. Rules are now in place requiring a transition to more cost-reflective tariffs, and we have started engagement on our tariff strategy. We are also working with the Australian Energy Market Commission as it finalises new metering rules.

A number of submissions on our directions and priorities consultation promoted tariff reform, including the ability to provide incentives and rewards in any new network tariff offering. For example, one submission noted:

*'After reading the TasNetworks consultation paper I am now in favour of removing the HydroHeat tariff. I can see that this encourages peak usage'*⁴

and another considered:

*'... if a pricing scheme included reduced cost for fixed charging systems (say midnight to six am), the impact of electric vehicles to the network may also result in a more uniform use of the network and energy, without the need for additional infrastructure.'*⁵

Conversely, some submissions did not support the removal of the hot water network tariff, or changes to metering:

'Do NOT remove the hot water tariff'

Do NOT make smart meters mandatory...

*...any changes in tariff structure are likely to be regarded with suspicion unless preceded with a credible, well discussed and explained reason. Like education and health, electricity charges are motherhood issues and as such are very sensitive items with the generally uninterested public...'*⁶

⁴ Submission by Mr Christopher Walkden

⁵ Submission by Mr Ray Johnson

⁶ Submission by Mr John Coulson

As part of our network tariff strategy we will be transitioning existing network tariffs to be more cost reflective and fairer for all customers. To manage customer impacts, we will do this over a long period of time and will engage with customers, including retailers, as we make the changes.

We need to start the transition: unless network tariffs reflect the cost to supply the network service, some customers will pay less than their fair share while others will pay more.

Network tariffs that are heavily based on energy consumption encourage customers to reduce energy consumption to save money, even at off-peak times. However, this may not result in any reduction in network costs. Efficient network costs must still be recovered, which means some customers are subsidising others.

We are consulting widely as we develop network tariffs for the future. We encourage customers and stakeholders to continue to provide feedback to assist us in finalising our network tariff strategy.

Another component of the Power of Choice reforms is a rule change that expands competition in metering services. The draft rule proposes the roll out of advanced meters when existing meters require replacement and as new meters are installed. It also provides for market-led roll out of advanced metering services where this is supported by customers.

We are working with the Australian Energy Market Commission, retailers and the State Government, to consider the implications of the proposed metering rule for Tasmanian customers. We support an outcome that achieves long-term benefits for Tasmanian customers. We will provide more information as the rule's application in Tasmania is understood.

7.2 Feed-in tariffs and tariff cross-subsidies

A couple of submissions made comments on feed-in tariff (FiT) arrangements, including that, in their view this does not pose a material cost impact on other customers.

In Tasmania, the FiT is not a network cost, but rather a cost that is predominantly funded by energy retailers. Under a direction from the State Government, TasNetworks also funds a 'grandfathered' rate for eligible customers. This results in lower returns to Government. The FiT therefore reflects Government policy, rather than being a matter for TasNetworks' tariff strategy.

However, TasNetworks' tariff strategy has highlighted that the existing network tariffs include some 'hidden' cross-subsidies. As noted above in Section 7.1, unless network tariffs reflect the cost to supply the network service, some customers will pay less than their fair share while others will pay more.

In Tasmania, network costs are underpinned by the costs to meet peak demand in winter mornings and early evening. Some customers reduce their overall consumption (and therefore their network charges) but do not reduce their peak demand on the network (and therefore efficient network costs that must be funded). This means other customers pay more than their fair share. This is a 'hidden' cross-subsidy in the way network tariffs are presently structured.

As noted above, we have recently consulted on two papers to inform customers and seek feedback on our network tariff strategy: [Demand Based Network Tariffs – offering a new choice](#) and [Improving the way we price our network services](#) consultation papers.

7.3 Service Target Performance Incentive Scheme (STPIS)

A number of customers supported TasNetworks' proposal to seek a reduction of the revenue at risk parameter of the AER's Service Target Performance Incentive Scheme from five per cent to 2.5 per cent. Aurora Energy noted in its submission:

*'Aurora Energy further supports the proposal to reduce the financial incentives TasNetworks faces under the Service Target Performance Incentive Scheme (STPIS) arrangements, noting this reduction may lead to less price volatility for our customers.'*⁷

8. How are we using this feedback?

8.1 Preparing for our regulatory submission

We have been engaging with customers on issues relating to our distribution services revenue and pricing proposals since October 2014. The feedback gathered most recently through our direction and priorities consultation has been collated with other feedback gathered so far.

There have been a range of views expressed, some of which are in conflict. We have considered this feedback and taken it into account as we finalise our plans. Where we have unable to accommodate all customer and stakeholder views we intend to provide feedback and context to explain the basis of our proposals.

8.2 Feedback that helps us next time

We have increased the level, intensity and depth of engagement with our customers as we prepare our plans, and resulting proposals for regulated revenue. We have learnt a lot so far, and there are still opportunities for us to improve the way we engage. The feedback we have received provides insight as to how we can do things better going forward.

We appreciate the time and effort of our customers and interested stakeholders who have engaged in our consultation processes.

⁷ Submission by Aurora Energy

9. Next steps

Feedback on our plans, including this directions and priorities document, supports a strong foundation for the detailed proposals we must submit for the 2017-2019 regulatory period. We will make these submissions in January 2016.

We encourage you to comment on any matter of interest or concern to you as we prepare our plans and proposals for the next regulatory period. We look forward to receiving your input. You may raise any matter that is of interest or concern to you.

You can make a submission by:

- emailing your submission to: DD17@tasnetworks.com.au
- going on line at: <http://www.tasnetworks.com.au/customer-engagement>
- posting your submission to:
Program Leader Revenue Resets
Po Box 606
Moonah TAS 7009

Unless your submission requests otherwise, we will publish all the submissions we receive on our website. We think this will promote better awareness of the issues of importance to different stakeholders. We may also include excerpts from submissions in our regulatory proposal, which will be lodged with the AER in January 2016.

In order for us to have sufficient time to consider your submission, we must receive it by **5pm Friday 13 November 2015**. We will accept later submissions, but may not take them fully into account when finalising our plans.