

# TasNetworks Corporate Plan

## Planning period: 2015–16 to 2019–20

June 2015

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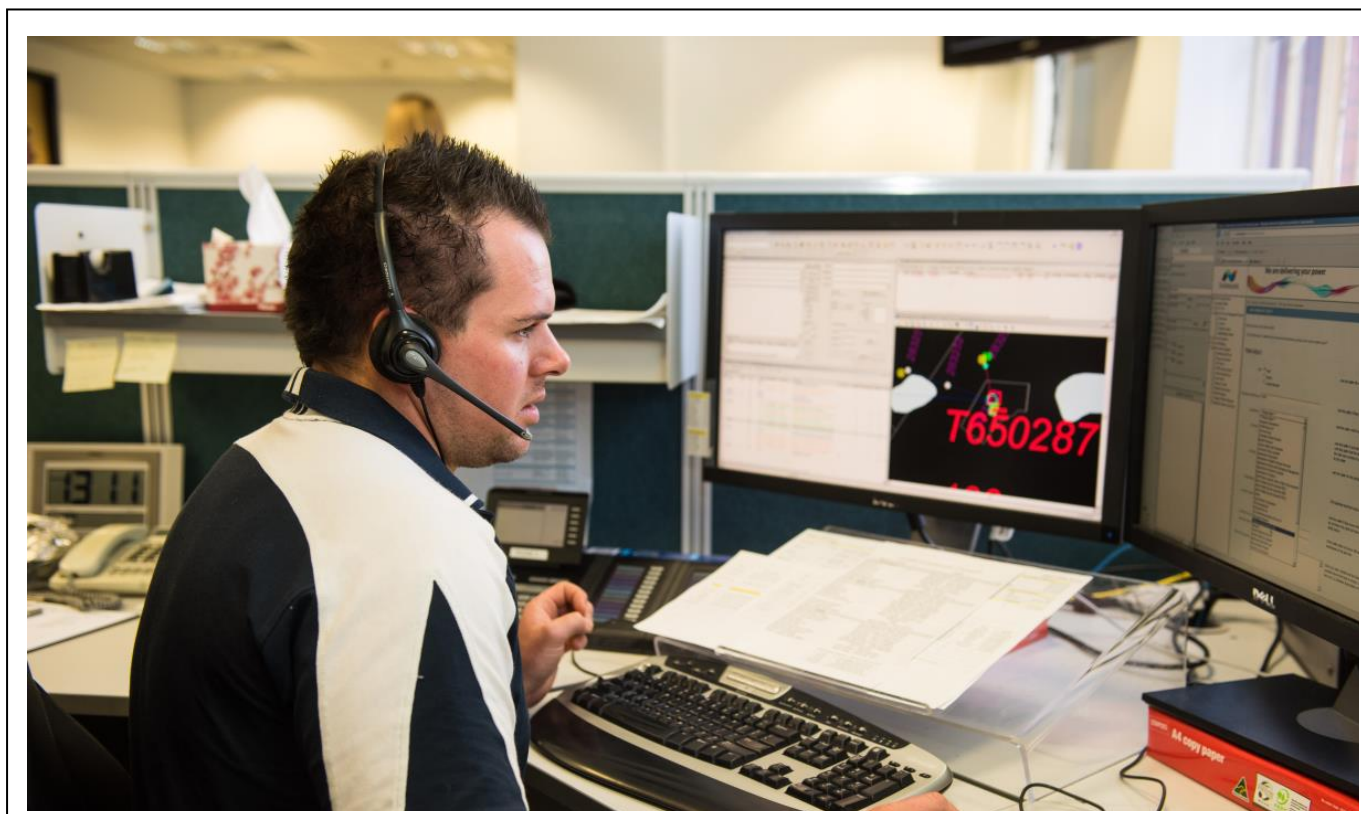
The TasNetworks Corporate Plan sets out the strategic goals and plans of Tasmanian Networks Pty Ltd (**TasNetworks**) for the planning period 2015–16 to 2019–20.

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## Version control

Version	Date	Nature of update
0.1	6 February 2015	First draft
0.2	16 February 2015	Updated to reflect TLT feedback, submitted to Board
0.3	12 March 2015	Updated based on Board feedback, inclusion of risk and financial information
Final draft	18 March 2015	Final draft
1.0	31 March 2015	Approved by Board
2.0	16 June 2015	Financials updated to align with approved budget



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# 1. Executive summary

TasNetworks delivers power to over 280,000 customers in Tasmania. We do this by operating and maintaining a large electricity and telecommunications network worth over \$3 billion. We care for our assets to ensure safety is not compromised and take a whole of life approach to optimise cost and service outcomes for our customers. We run our network harder, rather than building more, where we safely can. We are also on a journey of transformation, principally to deliver lowest sustainable prices to customers and appropriate returns to shareholders. Network costs make up about 60% of the average Tasmanian residential electricity bill and TasNetworks is working hard to ensure we keep prices low, while delivering safe and reliable services.

We are starting to deliver on these goals. Our recent revenue determination for transmission sets a materially lower forward operating and capital program and results in materially lower prices for customers. We are currently preparing our next proposal for distribution services and will ensure it reflects the market conditions. We are engaging with our customers about our forward plans and taking their feedback into account.

In the first year of operation we have delivered operating savings of more than \$34 million and have more to do. Our capital expenditure is reducing compared to historical levels. Our business was created from a merger and we have many duplicate systems that will take time to streamline. The next phases of transformation require us to invest in improved customer insight, our people and our business systems.

This plan outlines our strategies that will help us deliver our goals and our vision to be ‘trusted by our customers to deliver today and create a better tomorrow’. Our strategic goals are based on three pillars: Customers, People and One Business.

Our operating environment continues to be challenging. Forecast electricity demand and consumption in Tasmania show a range of outcomes, including potential reductions. Our four largest industrial customers consume over 50% of the electricity we transmit and they are facing cost of production pressures and intense international competition, although recent improvement in currency exchange rates is assisting. Overall, our residential customers are consuming less electricity and the number of homes with solar panels continues to rise. Demand from our smaller business customers has dropped compared to previous years. Some sectors are growing, in particular demand from irrigation users has been increasing with the advent of several new irrigation schemes. Meanwhile, we have to prudently maintain our network assets to deliver safe and reliable services.

Our revenue is largely set through a national regulatory process. There has been a significant drop in our regulated rate of return, largely related to a global decline in interest rates. The transmission regulated rate of return is materially lower with further reductions forecast in subsequent years as a result of the new regulatory framework. Under this new framework the weighted average cost of capital is adjusted each year to reflect updated interest rates, and this framework will apply to our distribution revenue from 2017. The impact of the forecast cost of capital is a material decline in our future revenue. Other changes to the regulatory frameworks that we operate within will also affect us. Reform of distribution pricing and competition in services such as metering will have impacts on TasNetworks and our customers. We have a range of new regulatory obligations to manage and government directions, such as funding the solar feed in tariff, to perform.

Our shareholders expect us to deliver an appropriate return on their investment. Our forward plan strikes the right balance between lowest sustainable prices to customers and a return on investment in line with the regulatory allowances. To deliver on both these goals we have to continue to implement and achieve efficiencies. We are setting ourselves challenging operating and capital expenditure targets and taking practical steps to deliver lower prices.

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
- Deliver sustainable shareholder outcomes.

Our strategic initiatives are to:

- Implement our 'Voice of the Customer' framework and initiatives to deliver improved customer service, tailored to our customer segments
- Provide predictable and sustainable pricing to our customers
- Develop a high-performance culture to enable change and deliver improved outcomes for our customers and our shareholders
- Deliver a TasNetworks enterprise agreement that supports our strategic goals
- Develop efficient, integrated business systems which enable our people to deliver value
- Develop our business excellence framework incorporating continuous improvement of our asset management systems, business processes and governance frameworks.

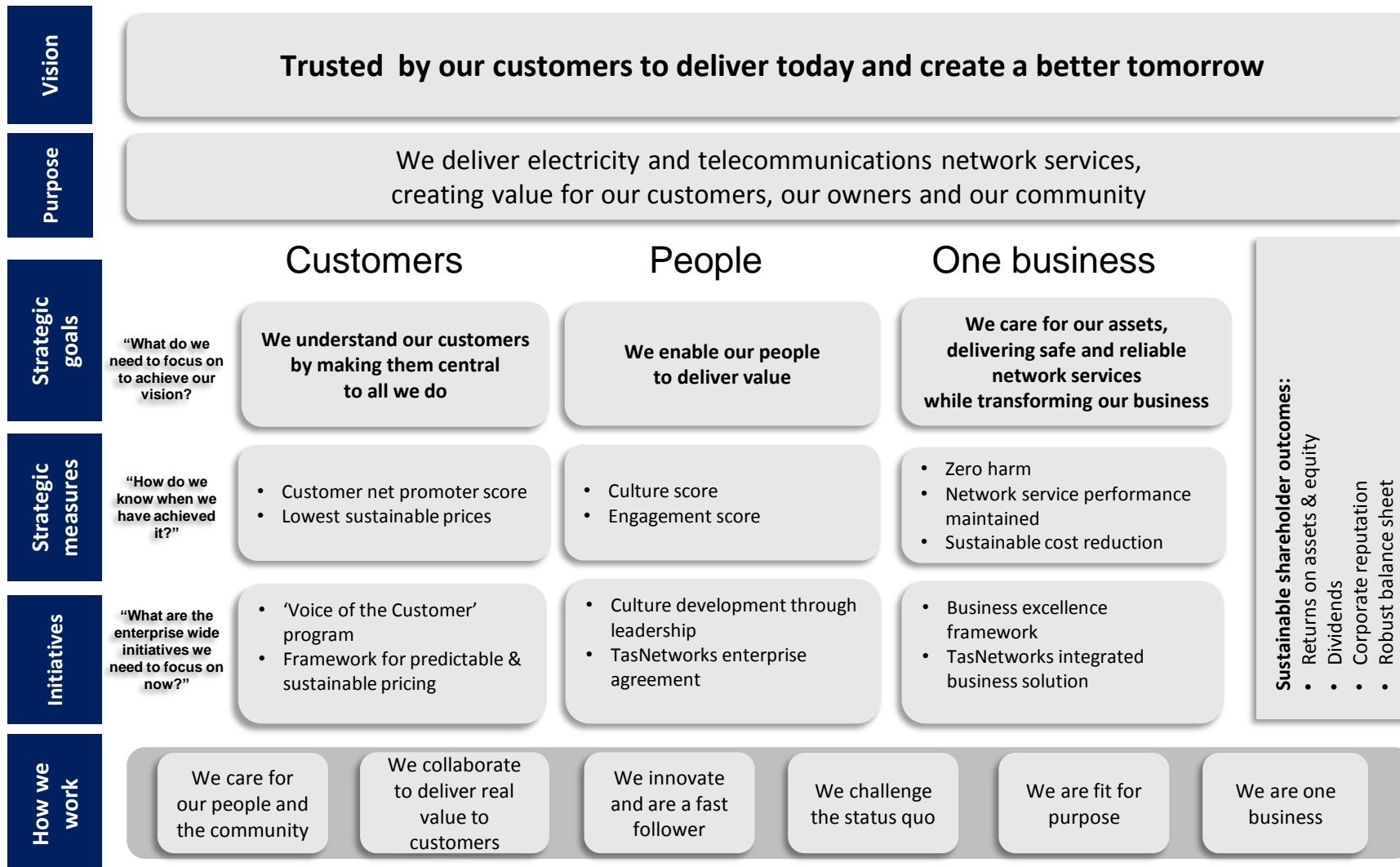
We also have a number of related, important issues to work through with our customers. These include:

- Consulting with our customers about our future distribution tariff strategy including a small smart meter trial
- Working with our customers to improve our customer connection processes
- Engaging with our customers in the preparation of the distribution determination for 2017 to 2019, due to be submitted in January 2016
- Transitioning to one transmission and distribution revenue reset commencing from 2019
- Proactively leading and implementing actions identified in the Tasmanian Energy Strategy.

Our 'strategy on a page' summarises our plan for the business. This plan outlines how we will deliver on our strategic goals.



# TasNetworks strategy on a page



## 2. About TasNetworks

TasNetworks owns and maintains the electricity transmission and distribution network in Tasmania. We deliver a safe, cost-effective and reliable electricity supply to residential, commercial and industrial customers. Our responsibilities include:

- Maintaining and replacing network infrastructure to ensure reliability and safety
- Connecting new customers to the network
- Investing in the network to support capacity growth
- Connecting small and large-scale generation to the network
- Operating the network on a day-to-day basis including all fault restoration
- Maintaining the public lighting system
- Recording and providing meter data to retailers.

TasNetworks is a commercial business. We are owned by the State of Tasmania. Our asset base is valued at over \$3 billion. Our shareholders have directed us to perform some non-commercial activities, primarily funding the solar feed-in-tariff payment to customers and inspecting private poles until a long-term solution is implemented.

We also provide specialist, high reliability telecommunications services to customers in the Tasmanian electricity supply industry including support for key operational purposes such as power system protection, monitoring and control, voice communications and asset management functions. TasNetworks also provides wholesale telecommunications which include supporting the State Government's trunk mobile radio network and the roll-out of the National Broadband Network in Tasmania.

### 3. Our customers

TasNetworks has a diverse customer base, ranging from large industrial and generation customers connected to the transmission network to business and residential customers connected via the distribution network. We also provide a range of customers with telecommunication services.

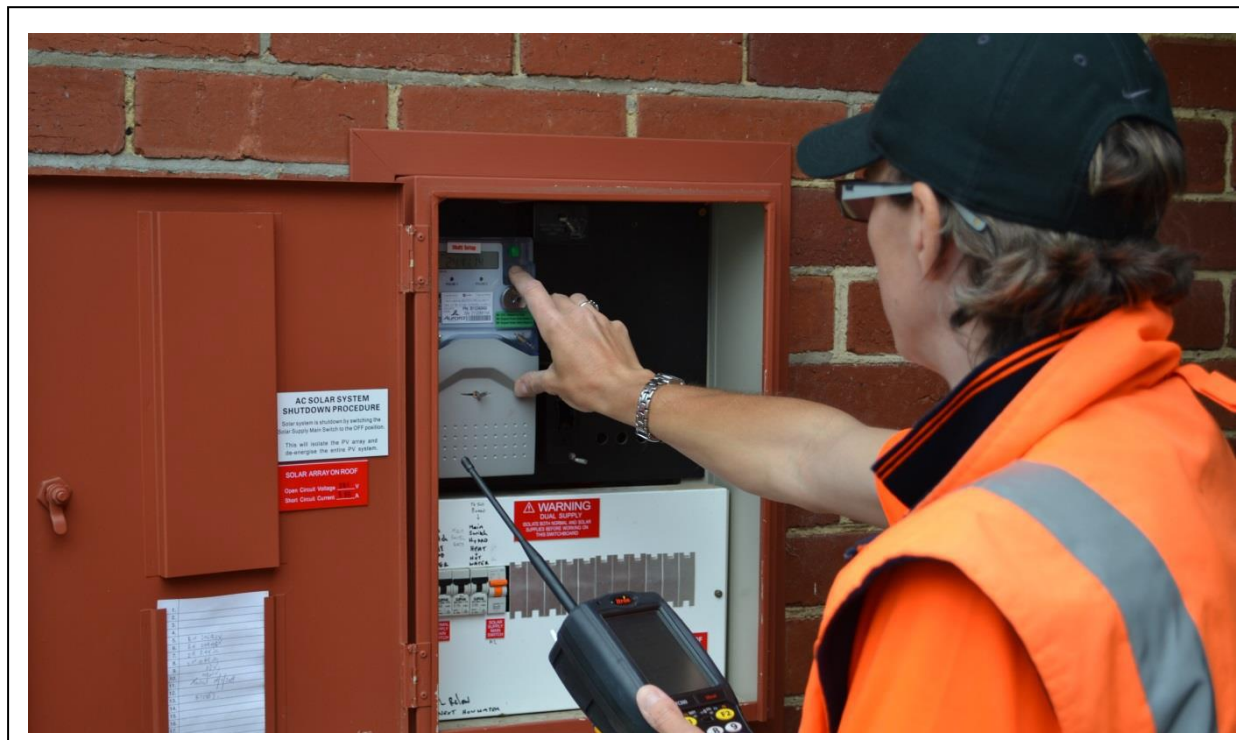
<b>Directly connected transmission customers</b>	<b>Description</b>
Bell Bay Aluminium	aluminium smelter
Copper Mines of Tasmania	underground mine and primary ore processing plant
Forestry Tasmania	connection to a timber processing and veneer plant
Forico	woodchip mill
Grange Resources Tasmania	open cut mine at Savage River and iron ore pelletising plant at Port Latta
Hellyer Mill Operations (owned by Ivy Resources)	underground mine and primary ore processing plant
MM Group Rosebery	underground mine and primary ore processing plant
Norske Skog	pulp and newsprint mill
Nyrstar	zinc smelter
TEMCO	ferromanganese and silicomanganese smelter
Timberlink	timber sawmill and processing plant
<b>Generation connection customers</b>	
Hydro Tasmania	renewable energy generator - total installed capacity of 2,270 MW provided by 29 hydro power stations, of which 2,255 MW is provided by 25 power stations connected to our network
Musselroe Wind Farm	total installed capacity of 168 MW
Tamar Valley Power Station	total installed capacity of 383 MW provided by 178 MW open cycle gas turbine peaking plant and a base load plant of one 205 MW closed cycle gas turbine
Woolnorth Bluff Point Wind Farm	total installed capacity of 65 MW
Woolnorth Studland Bay Wind Farm	total installed capacity of 75 MW
<b>Network connection customer</b>	
Basslink	Market network service provider with converter stations in Victoria and Tasmania and 400 kV undersea direct current cable
<b>Telecommunications – key customers</b>	
Hydro Tasmania	Operational and corporate telecommunications services
Tasmanian Government	Backhaul and corporate telecommunication services



In addition to the directly connected load customers, most of our electricity customers are supplied via the distribution network:

Distribution customer segments	Distribution customer numbers
Residential	235,170
Small business/ irrigation	41,375
Large business	875
Large commercial (high voltage)	106
Unmetered supply	3,224
<b>TOTAL</b>	<b>280,750</b>

Source: TasNetworks Regulatory Information Notice, October 2014



## 4. Market outlook: electricity demand and consumption

In Tasmania, the maximum demand for electricity occurs in winter. The medium forecast winter maximum demand helps us understand where our network may become vulnerable and stimulates investigation of possible solutions, rather than driving network investment. Our Annual Planning Report, released at the end of June, provides more information on the impact on maximum demand growth on future system security and reliability requirements. Our latest forecast maximum demand in the medium growth scenario is lower than the forecast made in 2014.

The factors that contribute to our forecasting model are as follows:

- gross state product and real incomes;
- weather conditions;
- electricity prices;
- average consumption per dwelling; and
- major new industrial, mining and commercial developments.

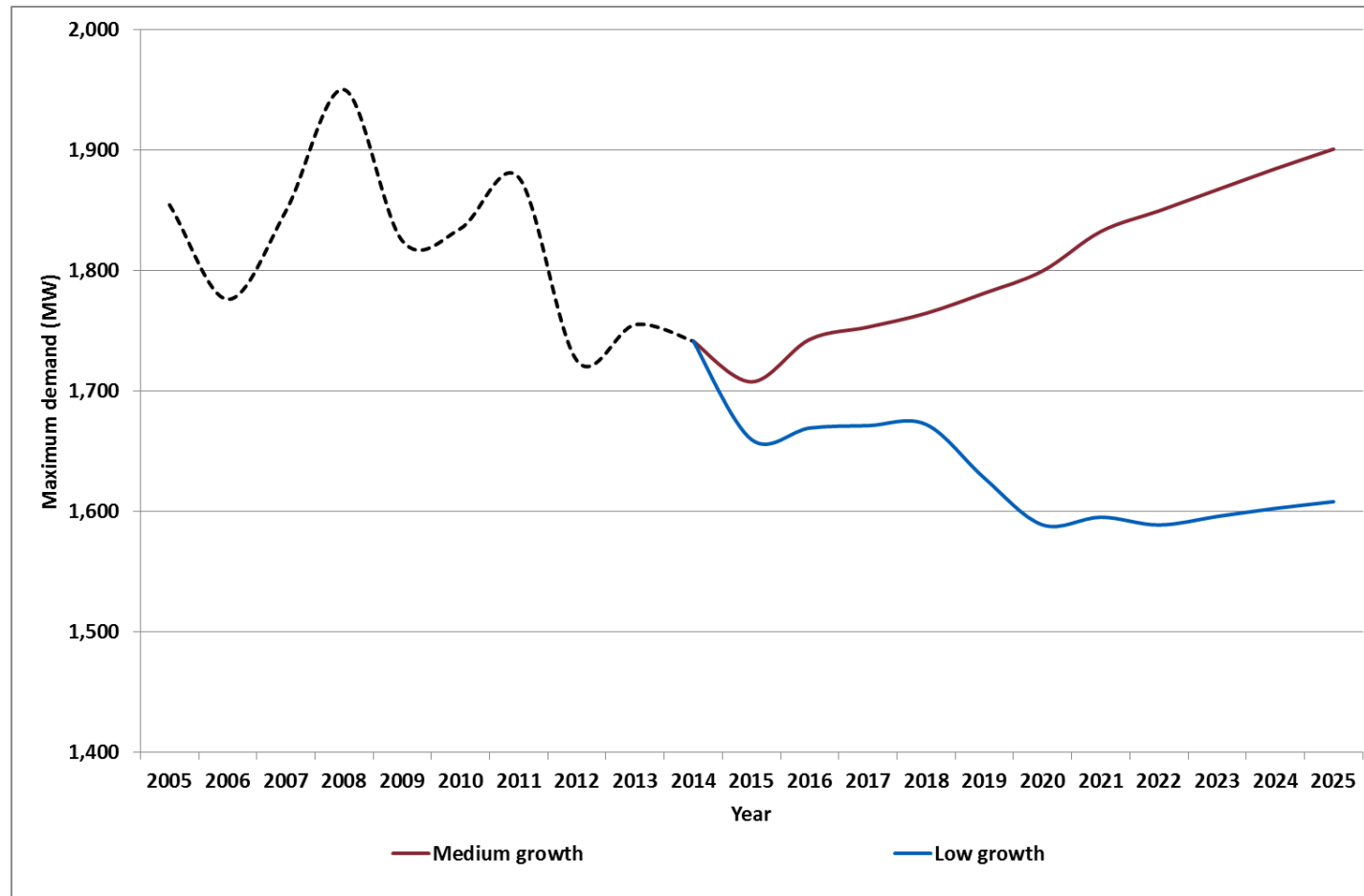
One of the major inputs in the forecasting equation is the gross state product (GSP). Average Tasmanian GSP growth has been 0.7 per cent per annum between 2008-09 and 2013-14. Tasmanian GSP growth fell by 0.2 per cent in 2012-13 and rose by 1.2 per cent in 2013-14.

Tasmanian GSP growth is forecast to average 0.8 per cent per annum over the 2013-14 to 2024-25 period, which is assumed in the medium growth scenario of our load forecasting model. This is below the actual recorded GSP growth rate of 1.4 per cent over the last 10 years, 2003-04 to 2013-14.

The low growth scenario assumes a moderate 0.3 per cent per annum growth and includes the hypothetical closure of a transmission connected customer during the period.

Our forecast suggests that the peaks reached in the mid-2000s may not be experienced again until the end of the 10 year planning period.

Figure I: Tasmanian maximum demand forecast (TasNetworks, February 2015)



In Tasmania, annual electricity sales (consumption) peaked in 2009–10 at almost 11,000 GWh. Since then, consumption has trended down. Looking ahead, our latest forecast shows that annual consumption under the medium growth forecast over the 10-year period to 2024–25 is expected to increase by an annual average of 0.89%. Our network also facilitates the transport of embedded generation (such as solar generation) between our customers and also supports the export and import of energy from Tasmania to the rest of the national electricity market.

## 5. Strategic initiatives

As a recently formed business we are implementing a demanding agenda. To bring focus to the highest priority issues we have developed "must deliver" strategic initiatives that will contribute to achieving our vision of being trusted by our customers to deliver today and create a better tomorrow. Our "must deliver" strategic initiatives are:

- Voice of the customer program
- Framework for predictable and sustainable pricing
- Culture development through leadership
- TasNetworks enterprise agreement
- TasNetworks integrated business solution
- Business excellence framework.

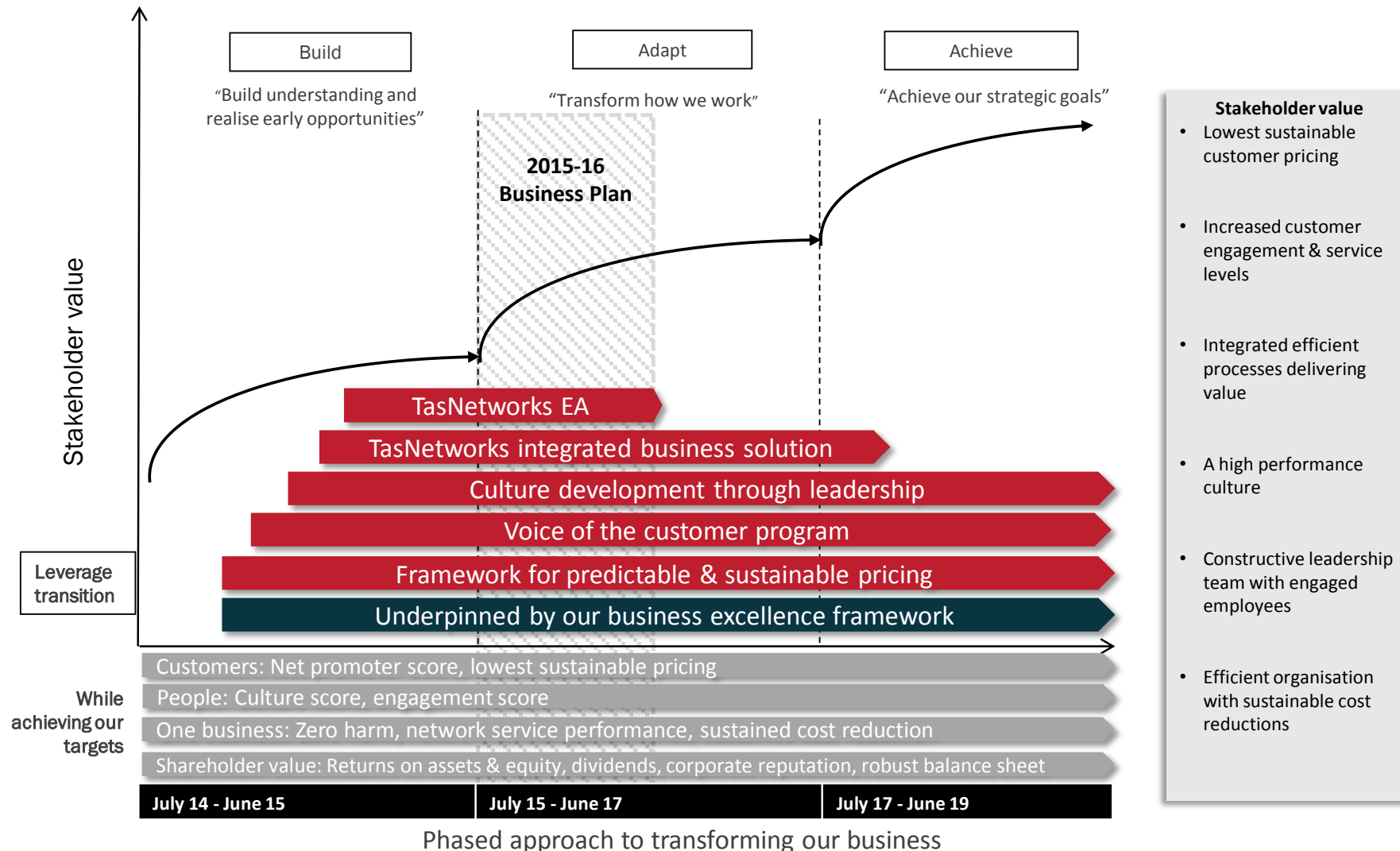
Successfully implementing these initiatives is helping to transform our business to achieve our strategic goals, measured by customer net promoter score, lowest sustainable prices, culture and engagement scores, zero harm, network service performance and sustainable cost reduction.

TasNetworks has adopted a phased approach to transforming the business and achieving its strategic goals, based on the following principles:

1. **Build** understanding and capability, while delivering safe and reliable network services:
  - Continue to build understanding and capability to enable our people to deliver value
  - Realise early opportunities to reduce operating expenses
  - Establish baseline culture and customer net promoter measures upon which to build
2. **Adapt** by transforming how we work:
  - Deliver a high-performance culture and change how we work to deliver improved outcomes for our customers and our shareholders
  - Develop a TasNetworks enterprise agreement that supports our strategic goals
  - Deliver tactical IT solutions which are appropriate for the new business
  - Implement 'Voice of the Customer' framework and initiatives to deliver improved customer service, tailored to our customer segments
  - Provide predictable and sustainable pricing to our customers
3. **Achieve** our strategic goals and increased stakeholder value:
  - Provide efficient integrated business systems which support the business
  - New distribution regulatory period, transitioning to one revenue reset



# Transforming our business



## 5.1. Voice of the customer

Our vision is to be “trusted by our customers to deliver today and create a better tomorrow”. Customers are one of the three key pillars fundamental to the TasNetworks strategy.

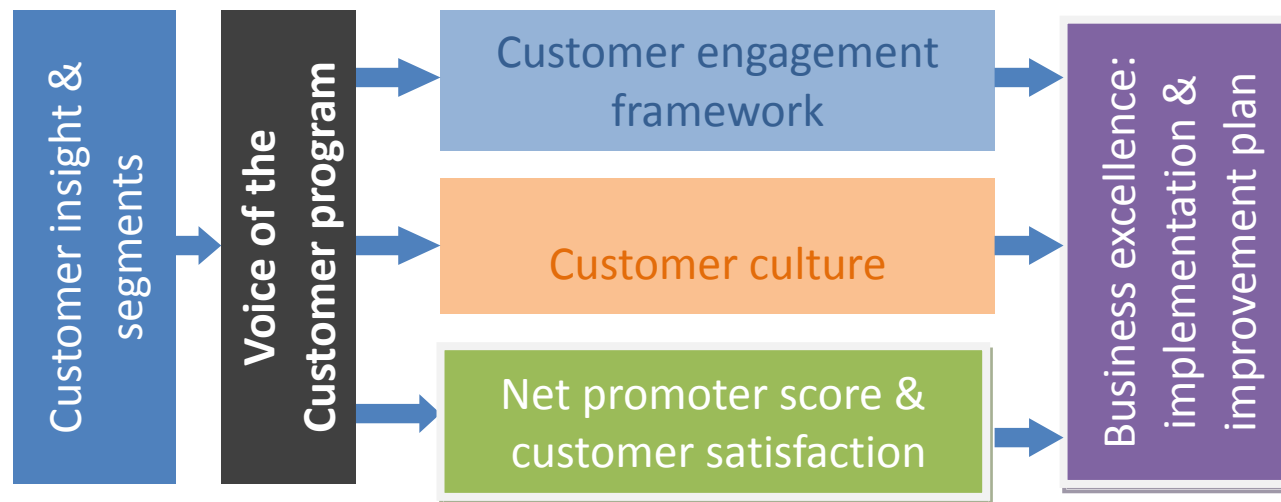
The customer strategic goal is to “understand our customers and make them central to all we do”, with the ultimate aim of improving price, service and reliability outcomes for customers.

The vision drives the focus for how we deliver to our customers by:

- Placing achieving customer trust at its heart
- Recognising that TasNetworks is an enabler of customer outcomes, today and into the future
- Recognising that TasNetworks is part of creating a better future, that we can create customer value and value to Tasmania as a whole
- Allowing TasNetworks to achieve customer trust in many different ways through the provision of a range of services aligned to the needs of diverse customer segments

The Voice of the Customer program and the associated initiatives will enable the successful achievement of the TasNetworks vision and ensure the provision of quality service outcomes for our customers.

The Voice of the Customer program is the cornerstone of our customer service strategy. It ensures that TasNetworks takes the customer perspective and ‘voice’ into consideration in our activities and decisions. It establishes a platform from which customer engagement initiatives, customer culture and satisfaction measurement will evolve and is a key input to service excellence improvement planning.



The Voice of the Customer program includes the development of an engagement framework that will drive the culture of ‘Customer in Front’. This will include improved customer consultation as a fundamental element. The customer engagement framework is a guideline for how we engage with customers, the community and external stakeholders.

As part of the Voice of the Customer program, a customer culture strategy will be developed that will implement initiatives to achieve high levels of employee engagement. The program will define the customer service and behavioural expectations for TasNetworks.

We will measure customer satisfaction using a customer net promoter score, with an inaugural survey in May 2015. We will set future targets at levels higher than the baseline result as we strive to improve customer outcomes.

The final element of the Voice of the Customer program is the Business Excellence - Implementation and Improvement Plan. This element of the strategy is aimed at delivering consistent, repeatable and exceptional customer service and first contact resolution.

## 5.2. Predictable and sustainable pricing

Feedback from our customers tells us that they want lower network prices and clearer price paths, with less volatility in prices from year to year.

To address this feedback, we are developing a framework for predictable and sustainable pricing. There are many factors that drive volatility in pricing for our customers. The greatest impact arises from changes in regulated allowances from reset period to reset period, in particular the regulated rate of return. Other factors such as electricity consumption and demand levels, performance incentive schemes and intra-regional settlement residues can impact prices from year to year.

The focus of this strategy is to determine what can be done, in consultation with our customers, to provide customers with greater certainty of their future network charges, while continuing to ensure that charges remain sustainable.

## 5.3. TasNetworks enterprise agreement

Upon establishment TasNetworks inherited the existing enterprise agreements of the previous businesses. The nominal expiry date of the Transend Enterprise Agreement (**EA**) is 24 June 2015, whilst the Aurora EA will expire on 30 June 2015.

TasNetworks has the objective of developing one TasNetworks enterprise agreement that will support government and business objectives, enable a culture that is dynamic and responsive and provide flexibility to respond to changes in the business environment.

To facilitate this process a strategy has been developed and a project and negotiating team has been established. Our EA strategy is cognisant of the State wages policy.

Achieving a fair and reasonable outcome will support our goal of lowest sustainable prices for customers.

## 5.4. Culture development through leadership

TasNetworks is building a high performance culture and high levels of employee engagement to support achievement of our business objectives and enable us to be sustainable. As leader behaviour is known to drive culture, we are investing in the development of our leaders at all levels to build self-awareness and leadership capability, focusing on communication, teamwork, business improvement and change.

We offer leadership development through the following programs and initiatives:

- TasNetworks' Leadership Team development program
- Empowering Leaders Program for frontline leaders
- Team development workshops with discrete leadership teams
- Quarterly leader forums.



### **Leadership Development**

We are establishing a number of initiatives to support the development of the TasNetworks culture through leadership. The Empowering Leaders Frontline Program is one of these initiatives aimed at supporting leadership development.

The purpose of the program is to provide participants with a greater understanding of the business, their role as a TasNetworks leader and themselves, as well as equipping them with core leadership skills. The program has been developed with input from across the business and subject matter experts are supporting the program through presentations and participation to facilitate sharing. The inaugural intake of this program is 35 of our people from all areas of the business.

### **Training and developing our people**

We invest approximately \$4 million per annum in training and developing our people across the whole business in a range of ways. Our Mornington Training School delivers a range of important development opportunities for our field based people, including safety and first aid training and live line training. All of our people participate in achievement and development planning. The agreed development program is implemented each year.

### **Culture change**

TasNetworks measures the impact of leadership development and associated culture change through a biennial culture survey. The first survey was run in December 2014 using the Organisational Culture Inventory. The outcomes of the survey define TasNetworks' current culture, identify opportunities for improvement, and establish a baseline to measure the impact of improvement activities.

## 5.5. TasNetworks integrated business solution

TasNetworks Integrated Business Solution (**TIBS**) is the name of our transformation project that will deliver a new suite of business systems. It will fully align and integrate TasNetworks processes and systems. The focus is on core business systems:

- Asset planning, operation and lifecycle management
- Works management and service delivery
- Procurement and supply chain management
- Financial performance management
- Human resource management and payroll
- Governance risk and compliance management

TIBS will deliver new ways of working to transform TasNetworks. We will do this through:

- removing duplicate systems
- having one source of truth for our data

- having consistent processes and ways of working
- supporting delivery of effective and efficient services both internally and externally to our customers.

It is anticipated that the benefits of an integrated business solution will be:

- simplified business processes, underpinned by a single, enabling IT platform
- assistance in driving an uplift in capability, highlighted by new skills, processes, tools and systems
- provision of greater analytical rigour and capability that means we can better measure what counts.

## 5.6. Business excellence framework

Business excellence is our integrated approach to improvement. We are developing a business excellence culture and tools as part of the leadership development program. We aim to enable our people to identify and drive improvement. Process improvement is a key productivity lever in achieving our efficiency targets and improving customer service levels. Another key focus of business excellence is continuous improvement in condition and risk-based asset management capability and in our governance frameworks. The initial phase of building understanding and realising early opportunities will be supported by a consistent focus on process improvement. We are establishing a strong foundation of process management, and reviewing and improving TasNetworks' core end-to-end value streams processes.

### **Looking after our assets**

Our electricity network and supporting systems are critical to providing safe and reliable services to our customers.

Our asset management policy and strategies aim to optimise whole of life asset expenditure. We are committed to continuous improvement in our condition- and risk-based asset management systems, processes and capability to ensure our assets are safe and perform appropriately. We are focussed on ensuring whole of lifecycle procedures and systems are efficient and effective. Our forward distribution capital expenditure is focussed on replacing, refurbishing and maintaining assets to maintain the reliability and quality of customer supply. A number of our distribution assets are approaching the end of their useful life, presenting challenges in maintaining supply reliability. We continue to refine our asset management strategies, to prioritise our expenditure to address these challenges. We are implementing innovative ways to extend the life of assets and minimise expenditure while maintaining services and managing risks in an environment where customers are changing the ways in which they use our network.

We run our network harder, rather than building more, where we safely can. We have developed and implemented leading technologies to manage the network in different ways. In doing so we have been able to defer and avoid capital expenditure and manage our network in line with the way our customers are using the network. We are using technologies to help us achieve our goal of lowest sustainable prices for customers. For example, we have commenced trials of new network sensing and communication technologies. The benefits are expected to be higher localised network utilisation and the deferral of new network expenditure. Benefits flow through to customers in terms of long-term sustainable prices.

In some cases where we have single radial lines to more remote areas we are investigating the use of self-contained remote area power schemes as a more cost-effective solution than replacing end of life network infrastructure. We have been using this type of approach for some of our own remote telecommunication sites where a relatively expensive to maintain distribution line can be decommissioned and replaced by an integrated solar/battery/ generator solution. Our learnings in these areas are being used as we develop innovative solutions for other situations where we have expensive to maintain infrastructure that is reaching end of life.

We are also improving our responsiveness to faults and emergencies based on our customers identifying this as a key factor. We carefully manage safety and bushfire risks associated with our assets. We invest extensively in vegetation management and take a whole of network view to prioritise implementation of bushfire mitigation practices.

## 5.7. Supporting activities

The TasNetworks Business Plan and the “must deliver strategic initiatives” are underpinned by a range of activities to support our strategic goals and achieve our strategic measures. These include a consistent focus on activities to achieve Zero Harm and sustained cost reduction.

### 5.7.1. Zero Harm

Operating our business safely is paramount. Our Zero Harm policy sets the guiding principles for TasNetworks’ health, safety, environment and quality management. It communicates responsibility and expectations that set the culture for a strong health, safety and environment culture by raising awareness and focussing on behaviours to continually improve the way we work.

### 5.7.2. Sustained cost reduction

TasNetworks is transforming its operations with a focus on operating a well-run, efficient business that delivers sustainable returns to the Tasmanian community and is resilient to future challenges. Upon commencement, TasNetworks incorporated over \$8 million in annual operational cost reductions and has since targeted further, significant operating cost reductions of \$26 million per annum. Our financial forecasts in this plan show how we intend to drive further capital and operating efficiencies.

Our transmission revenue proposal included significant reductions in operating expenditure, capital expenditure, and the rate of return, compared to the previous regulatory period. This is in part due to prudent network investment in previous years. It also reflects the State-wide demand outlook, where very little augmentation or connection expenditure is required at transmission voltages. Our transmission forecasts also reflect the drive for further efficiency across our operations.

We are adopting a similar sustained cost reduction focus in preparing for our next distribution determination. However, our distribution network faces different challenges to our transmission network. Looking forward, there are some areas of the State where irrigation load and other load growth are driving targeted

distribution reinforcement and augmentation investment. We also forecast a continuing program of customer-initiated work, some of which is directly funded by those customers through capital contributions.

However, our forward distribution capital expenditure is focussed on replacing and refurbishing assets to maintain the reliability and quality of customer supply. A significant proportion of our assets are approaching the end of their useful life, presenting risks to supply reliability and to the safety of our employees and the general public. We continue to refine our asset management strategies, to prioritise our expenditure to manage these risks. Our analysis suggests that some targeted capital expenditure in the distribution network can support lower operating costs in the medium term, including by reducing our reactive and emergency response costs.

We also need to invest in improving our business systems, including investment in operational support and business support systems, such as information technology, SCADA and customer interface investments. This will support customer service and cost outcomes, allowing us to remain contemporary, meet our obligations, reduce duplication, increase productivity and support customer relationships.

To maintain future costs at current levels would require us to find efficiencies to offset input costs rises and the costs of new obligations. We are setting even more challenging targets: a lower, stable capital investment program and significant reductions in forecast operating expenditure. We are setting ourselves these very challenging targets to sustain our customer base in a changing marketplace, and taking practical steps to deliver lower prices.

## 5.8. Tasmanian Energy Strategy

TasNetworks has been involved in the development of the Tasmanian Energy Strategy and supports the key findings.

TasNetworks is working hard to again make energy a competitive advantage for Tasmania.

The Australian energy sector is experiencing significant change and it is important that Tasmania has a clear strategy to navigate us through some of those challenges over the next 20 years. TasNetworks is committed to delivering the lowest sustainable electricity prices for customers, an objective shared by the Government.

As a business, TasNetworks is already making progress to reduce electricity prices. This has been demonstrated recently with the Australian Energy Regulator accepting our proposal for transmission revenue. The proposal included significant reductions in capital expenditure, operating expenditure, and the rate of return.

With network costs making up about 60% of the average Tasmanian electricity bill, TasNetworks has a key role to play in ensuring we keep prices low, while delivering safe and reliable services.

TasNetworks will work with the State Government to implement actions in the Energy Strategy, and the business is well underway in some areas, including reducing the cost of delivered energy.

## 6. Financial forecasts – summary

Our financial projections forecast lower shareholder returns over the period compared to prior year Corporate Plan estimates.

Key issues impacting the financial forecasts are as follows:

- There has been a significant drop in our actual and forecast regulated rate of return, which is attributed to declining interest rates. The lower interest rates have driven a lower expected WACC return on our regulated asset base (**RAB**).
- Lower operational and capital expenditure forecasts for future years.
- To respond to the changing environment and revenue pressures the business is targeting an additional 5% reduction, over savings already achieved in operational expenditure, in both 2017-18 and 2019-20.
- Capital expenditure forecasts are aligned to the latest forward work programs.
- A total of \$395 million in debt transfers will have been assumed by TasNetworks between inception on 1 July 2014 and 2016-17. Borrowings increase from \$1.65 billion to a peak of \$1.92 billion in 2019-20. This additional debt will also result in higher borrowing costs of \$12-14 million per annum. Despite the additional debt TasNetworks' key financial indicators remain robust.
- Increased dividend payout ratio in line with the shareholders' revised dividend guidelines, increasing to 90% of net profits from 2017-18 onwards.
- The increased dividend ratio together with declining future revenue forecasts will impact on our ability to invest in the business and pay down debt levels in the immediate future.
- Current projections indicate that the business will be borrowing to fund operations but at modest amounts. The business will monitor the sustainability of the 90% dividend payout ratio post 2017-18 in the context of retaining the target "A" credit rating.

### Key forecasts

- Profit before tax: \$113.7 million in 2015-16
- Returns to Government: \$179.9 million in 2015-16 (includes \$50 million equity transfers)
- Total assets: \$3.3 billion
- Operating expenditure: \$138.9 million in 2015-16 (\$34 million savings achieved from merger)
- Capital expenditure program: \$176 million in 2015-16
- Borrowings: \$1.8 billion in 2015-16 increasing over period to \$1.92 billion by 2019-20

**Table I: TasNetworks forecasts 2015-16 to 2019-20, including likely end of year result for 2014–15**

Performance Measure	30-Jun-15	30-Jun-16	30-Jun-17	30-Jun-18	30-Jun-19	30-Jun-20
Profit Before Tax (\$m)	149.7	113.7	126.3	93.1	81.6	91.8
Returns to Govt (\$m)	157.6	179.9	123.8	129.1	100.3	94.0
Net Debt (\$m)	1,654	1,805	1,867	1,910	1,926	1,925
Total Equity (\$m)	976	920	949	991	1,048	1,121
Total Assets (\$m)	3,270	3,341	3,434	3,531	3,610	3,692
Operating Expenditure (\$m)	145.4	138.9	140.1	137.1	133.1	130.5
Capital Expenditure (\$m)	149.7	175.4	177.3	181.3	168.9	174.1
<b>Key Financial Ratios</b>						
Return on Assets %	7.1%	6.2%	6.3%	4.9%	4.5%	4.6%
Return on equity %	10.7%	8.4%	9.5%	6.7%	5.6%	5.9%
Gearing %	62.9%	66.2%	66.3%	65.8%	64.8%	63.2%
FFO interest cover	4.04	3.56	3.46	3.48	3.48	3.70
FFO to total debt	15.6%	13.2%	12.0%	10.6%	10.6%	11.3%
<b>Borrowings (\$m)</b>						
Borrowings increase/(decrease)	227.0	151.8	61.2	43.8	15.2	-0.7
Closing Borrowings	1,653.8	1,805.7	1,866.9	1,910.7	1,925.9	1,925.2

The general trend is for declining profit and returns to Government over the planning period. Profit before tax increases in 2016-17 mainly due to less depreciation. Returns to Government are higher in 2015-16 as they include equity returns of \$50 million. Returns to Government are based on an increasing dividend payout ratio over the planning period in line with Treasury's dividend policy.

Profit and Loss (\$m)	30-Jun-15	30-Jun-16	30-Jun-17	30-Jun-18	30-Jun-19	30-Jun-20
<i>LEOY</i>						
Regulated distribution	323.8	314.4	315.9	278.1	259.4	257.9
Prescribed transmission	192.3	180.1	171.0	169.2	168.2	172.3
Other revenue	39.3	32.3	33.1	33.7	34.5	35.3
Customer contributions	9.6	9.7	10.7	11.0	11.3	11.6
Feed in Tariff	(12.3)	(12.3)	(14.0)	(14.4)	(5.9)	-
<b>Gross Margin</b>	<b>552.8</b>	<b>524.3</b>	<b>516.8</b>	<b>477.7</b>	<b>467.5</b>	<b>477.1</b>
Operating expenses	(145.4)	(138.9)	(140.1)	(137.1)	(133.1)	(130.5)
<b>EBITDA</b>	<b>407.4</b>	<b>385.4</b>	<b>376.7</b>	<b>340.5</b>	<b>334.3</b>	<b>346.6</b>
Depreciation & amortisation	(165.9)	(171.7)	(152.1)	(158.1)	(162.8)	(166.8)
<b>EBIT</b>	<b>241.5</b>	<b>213.7</b>	<b>224.6</b>	<b>182.4</b>	<b>171.5</b>	<b>179.8</b>
Borrowing costs	(91.8)	(100.0)	(98.2)	(89.4)	(89.9)	(88.0)
<b>Profit Before Tax</b>	<b>149.7</b>	<b>113.7</b>	<b>126.3</b>	<b>93.1</b>	<b>81.6</b>	<b>91.8</b>
Tax equivalent	(44.9)	(34.1)	(37.9)	(27.9)	(24.5)	(27.5)
<b>Profit After Tax</b>	<b>104.8</b>	<b>79.6</b>	<b>88.4</b>	<b>65.2</b>	<b>57.2</b>	<b>64.2</b>

Balance Sheet (\$m)	30-Jun-15	30-Jun-16	30-Jun-17	30-Jun-18	30-Jun-19	30-Jun-20
<i>LEOY</i>						
Receivables	53.8	66.1	60.1	54.9	52.3	52.5
Other	87.0	60.5	60.5	60.5	60.5	60.5
<b>TOTAL CURRENT ASSETS</b>	<b>140.8</b>	<b>126.6</b>	<b>120.6</b>	<b>115.4</b>	<b>112.8</b>	<b>113.0</b>
Property, Plant & Equipment	3,059.6	3,082.4	3,177.0	3,271.6	3,351.3	3,434.0
Other	69.5	131.7	136.3	143.7	145.7	144.6
<b>TOTAL NON-CURRENT ASSETS</b>	<b>3,129.1</b>	<b>3,214.1</b>	<b>3,313.2</b>	<b>3,415.4</b>	<b>3,497.0</b>	<b>3,578.5</b>
Payables	68.3	42.9	35.1	34.9	31.5	31.5
Other	92.4	92.4	94.7	97.1	99.5	102.0
<b>TOTAL CURRENT LIABILITIES</b>	<b>160.7</b>	<b>135.3</b>	<b>129.9</b>	<b>132.0</b>	<b>131.0</b>	<b>133.5</b>
Borrowings	1,654.1	1,805.9	1,867.1	1,910.9	1,926.2	1,925.5
Provisions	479.4	479.4	487.9	496.6	504.4	511.6
<b>TOTAL NON-CURRENT LIABILITIES</b>	<b>2,133.5</b>	<b>2,285.3</b>	<b>2,355.1</b>	<b>2,407.5</b>	<b>2,430.6</b>	<b>2,437.1</b>
<b>NET ASSETS</b>	<b>975.6</b>	<b>920.1</b>	<b>948.9</b>	<b>991.2</b>	<b>1,048.2</b>	<b>1,120.9</b>
<b>EQUITY</b>	<b>975.6</b>	<b>920.1</b>	<b>948.9</b>	<b>991.2</b>	<b>1,048.2</b>	<b>1,120.9</b>

### Returns to Government

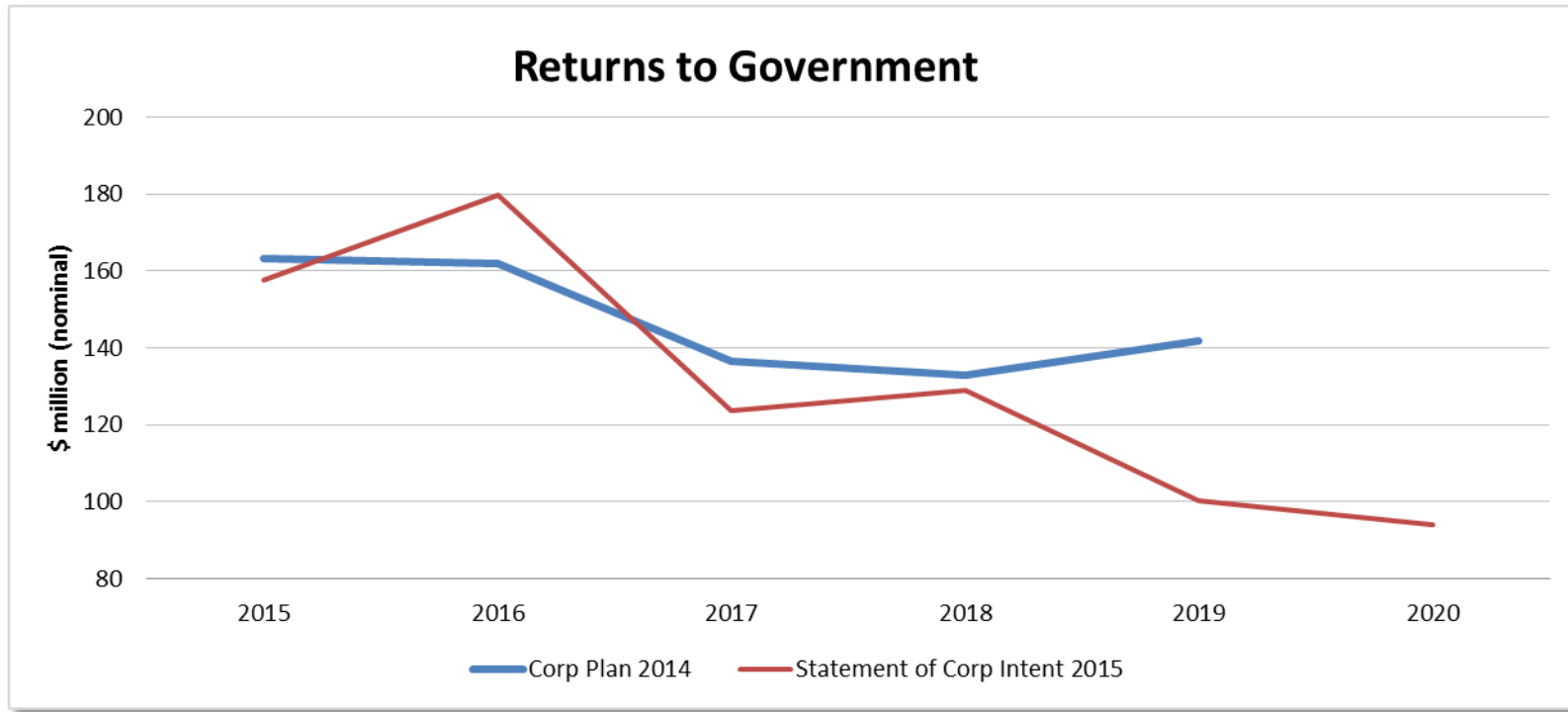
Lower returns to Government in outer years are driven by:

- Lower regulated revenue (lower WACC and expenditure savings which reduce future revenue);
- Impact of debt transfer (higher debt and finance charges); offset partially by lower operational expenditure (\$34 million savings achieved from merger)

Higher dividend payout ratio assumed in line with shareholder dividend guidelines: 60% in 2015-16, increasing to 80% in 2016-17 and 90% in 2017-18 onwards.



Figure 3: Returns to Government – forecast compared to prior year



Returns to Government (\$m)	2015	2016	2017	2018	2019	2020
Corp Plan 2014	163.3	161.9	136.5	132.9	141.9	
Statement of Corp Intent 2015	157.6	179.9	123.8	129.1	100.3	94.0

## 7. Performance goals

Our performance measures and targets represent our present assessment of improved future performance. As we gain more information we will continue to assess our targets. We recognise that it may not always be appropriate to improve performance above target if there is not sufficient benefit to our customers.

### 7.1. Customers

Our goal is to understand our customers and make them central to all we do. We aim to increase customer satisfaction and deliver lowest sustainable prices.

Performance measure	2015-16	2016-17	2017-18	2018-19	2019-20
Customer net promoter score	> 5% improvement over 2014-15 baseline score	Improvement over 2015-16 score	Improvement over 2016-17 score	Improvement over 2017-18 score	Improvement over 2018-19 score
Customer complaints – volume	< 4,000	< 3,900	< 3,800	< 3,700	< 3,600
Connections completed within standard or agreed timeframes	100%	100%	100%	100%	100%
Call answering – combined Fault/Service Centre	In accordance with performance incentive scheme targets set by the AER	In accordance with performance incentive scheme targets set by the AER	In accordance with performance incentive scheme targets set by the AER	In accordance with performance incentive scheme targets set by the AER	In accordance with performance incentive scheme targets set by the AER

## 7.2. People

Our goal is to enable our people to deliver value. We aim to develop our constructive culture and achieve high levels of employee engagement.

<b>Performance measure</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
Culture score	Increase in constructive styles over 2014-15 baseline	Increase in constructive styles over 2015-16 result	Increase in constructive styles over 2016-17 result	Increase in constructive styles over 2017-18 result	Increase in constructive styles over 2018-19 result
Employee engagement score	Improvement over 2014-15 baseline	Improvement over 2015-16 result	Improvement over 2016-17 result	Improvement over 2017-18 result	Improvement over 2018-19 result

## 7.3. One business

Our goal is that we care for our assets, delivering safe and reliable network services while transforming our business and reducing our costs. We aim for zero harm to our people, customers and the public. We aim to sustain present network service performance. Just to keep costs at current levels in nominal terms requires us to find efficiencies. We also need to invest in improving our business.

### 7.3.1. Zero harm

Performance measure	2015-16	2016-17	2017-18	2018-19	2019-20
Number of Life Safe observations	≥ 1,500	≥ 1,550	≥ 1,600	≥ 1,650	≥ 1,700
Percent Life Safe participation	≥ 20%	≥ 21%	≥ 22%	≥ 23%	≥ 24%
Number of significant incidents	≤ 9	≤ 8	≤ 8	≤ 7	≤ 7
Number of reportable incidents	≤ 14	≤ 12	≤ 12	≤ 10	≤ 10
Percent leadership zero harm interactions	100%	100%	100%	100%	100%
Lost time injury frequency rate (12 month rolling)	0	0	0	0	0

## 7.3.2. Network service

Performance measure	2015-16	2016-17	2017-18	2018-19	2019-20
Outcomes under Service Target Performance Incentive Scheme (STPIS)	No net penalties as measured by STPIS	No net penalties as measured by STPIS	No net penalties as measured by STPIS	No net penalties as measured by STPIS	No net penalties as measured by STPIS
Transmission loss of supply event > 1.0 system minutes (measured for calendar years)	≤ 3 events	≤ 3 events	≤ 3 events	≤ 3 events	≤ 3 events
Transmission loss of supply event > 0.1 system minutes (measured for calendar years)	≤ 10 events	≤ 10 events	≤ 10 events	≤ 10 events	≤ 10 events
Distribution system average interruption duration index (SAIDI)*	≤ 231 minutes	≤ 231 minutes	≤ 231 minutes	≤ 231 minutes	≤ 231 minutes
Distribution system average interruption frequency index (SAIFI)*	≤ 1.90 events	≤ 1.90 events	≤ 1.90 events	≤ 1.90 events	≤ 1.90 events

\* These targets are supported by detailed category reporting to the Australian Energy Regulator and exclude major event days.

## 7.3.3. Sustained cost reduction

Performance measure	2015-16	2016-17	2017-18	2018-19	2019-20
Operating expenditure (\$m)*	\$138.9	\$140.1	\$137.1	\$133.1	\$130.5
Capital expenditure (\$m)	\$175.4	\$177.3	\$181.3	\$168.9	\$174.1

\* Operating expenditure was \$176m in 2013-14 for the predecessor businesses

## 7.4. Sustainable shareholder outcomes

Our goal is to deliver sustainable shareholder outcomes. We aim to provide an appropriate return on assets and equity, dividends to shareholders and a robust balance sheet while maintaining our corporate reputation.

<b>Performance measure</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
Operating profit after tax (\$million)	79.6	88.4	65.2	57.2	64.2
Return on assets	6.2%	6.3%	4.9%	4.5%	4.6%
Return on equity	8.4%	9.5%	6.7%	5.6%	5.9%
Returns to Government (\$million)	179.9	123.7	129.1	100.3	94.0
Gearing ratio	66.2%	66.3%	65.8%	64.8%	63.2%

## 8. Risks

As the owner and operator of a large electricity network and telecommunications business TasNetworks faces a number of key risks. These are outlined below, together with our identification of potential consequences and our controls.

**Table 2: Key risks for TasNetworks**

<b>Risk</b>	<b>Risk Description</b>	<b>Potential Consequences</b>	<b>Risk Controls</b>
Death or serious injury of employee or contractor	Death or serious injury of TasNetworks employee or contractor resulting from network operations.	<ul style="list-style-type: none"> <li>• Fatality or permanent impairment.</li> <li>• Sustained reputational damage.</li> <li>• Personal liability for directors and officers.</li> <li>• Increased shareholder and regulatory attention.</li> </ul>	<ul style="list-style-type: none"> <li>• TasNetworks health, safety, environmental and zero harm programs.</li> <li>• Continual training, development and education for field staff.</li> <li>• Mandatory contractor induction requirements.</li> <li>• Power system safety program.</li> <li>• Network control systems (remote network management).</li> </ul>
Death or serious injury of member of the public	Death or serious injury of a member of the public resulting from network operations.	<ul style="list-style-type: none"> <li>• Fatality or permanent impairment.</li> <li>• Sustained reputational damage.</li> <li>• Increased shareholder and regulatory attention.</li> </ul>	<ul style="list-style-type: none"> <li>• Embedded asset design principles – designing public hazards out of infrastructure (where possible).</li> <li>• Asset management and asset inspection programs.</li> <li>• Cable PI provided to all customers.</li> <li>• Community awareness programs (e.g. dial before you dig, look up/look out).</li> <li>• Public consultation on network interruptions (e.g. advanced notice for planned interruptions).</li> </ul>
Alignment of strategy and culture	The organisational culture does not achieve the desired alignment with our strategic objectives.	<ul style="list-style-type: none"> <li>• Reduction in employee engagement and productivity.</li> <li>• Constraints on the ability to deliver the business plan.</li> </ul>	<ul style="list-style-type: none"> <li>• TasNetworks foundation cultural survey following network integration.</li> <li>• Planned longer-term culture improvement program (driven by the culture survey results).</li> </ul>
Depth of capability	The depth of capability required to deliver the strategic objectives is not maintained.	<ul style="list-style-type: none"> <li>• Reduced ability to deliver the TasNetworks strategic objectives.</li> <li>• Longer-term flow-on impact to maintain a safe and reliable network.</li> </ul>	<ul style="list-style-type: none"> <li>• Workforce planning to identify emerging capability gaps and implement attraction, retention and development strategies to respond.</li> <li>• Knowledge transfer between transmission and distribution business expertise following integration.</li> </ul>

Risk	Risk Description	Potential Consequences	Risk Controls
Enterprise Agreement	The Enterprise Agreement negotiations do not deliver outcomes that support the future direction of TasNetworks.	<ul style="list-style-type: none"> <li>• Limiting the effectiveness of the transformation program.</li> <li>• Reduction in quality of network services for customers.</li> <li>• Impact on staff morale and productivity</li> </ul>	<ul style="list-style-type: none"> <li>• Enterprise Agreement strategy – aligned to the strategic direction of TasNetworks.</li> <li>• Enterprise Agreement project team, with experienced personnel forming the negotiation team.</li> <li>• Comprehensive communications strategy for stakeholders.</li> </ul>
2017 distribution determination	2017 distribution determination does not deliver revenue allowances that reflect the proposal and support stakeholder expectations.	<ul style="list-style-type: none"> <li>• Reduced ability to deliver sustainable outcomes to shareholders and maximise value for customers.</li> </ul>	<ul style="list-style-type: none"> <li>• 2017 distribution determination project – strategy, governance, people and processes.</li> <li>• Comprehensive customer consultation to understand the customer value drivers and expectations.</li> <li>• Stakeholder education and management strategy.</li> <li>• Debt management strategy.</li> </ul>
Sustainable and predictable pricing	Distribution tariff strategy does not deliver sustainable and predictable pricing frameworks to customers.	<ul style="list-style-type: none"> <li>• Inability to deliver the lowest sustainable prices to customers.</li> </ul>	<ul style="list-style-type: none"> <li>• Customer consultation as part of the 2017 distribution determination.</li> <li>• Increasing information and education for customers.</li> <li>• Stakeholder education and management strategy.</li> </ul>
Transformation costs	Major transformation projects significantly exceed the agreed budget.	<ul style="list-style-type: none"> <li>• Negative reputational impacts.</li> <li>• Reduced profitability.</li> </ul>	<ul style="list-style-type: none"> <li>• Comprehensive project governance and management for transformation projects.</li> <li>• Organisational engagement and change management programs.</li> </ul>
Widespread disruption to power supply	Widespread disruption to the power supply potentially leading to a system black condition or long-term rotational load shedding.	<ul style="list-style-type: none"> <li>• Fatality or permanent impairment to an employee or member of the public.</li> <li>• Material damage to customer assets.</li> <li>• Loss of confidence in network operations and sustained reputational damage.</li> </ul>	<ul style="list-style-type: none"> <li>• Asset planning, strategy and maintenance.</li> <li>• Network design (e.g. incorporation of storm protection).</li> <li>• Strength of existing network control operations (including network operation and control system and supervisory control and data acquisition infrastructure).</li> <li>• Emergency management, disaster recovery and contingency planning (including operational level scenario planning and testing).</li> <li>• Continual engagement with stakeholders.</li> </ul>



Risk	Risk Description	Potential Consequences	Risk Controls
Bushfire	Major bushfire attributed to TasNetworks assets and/or work practices.	<ul style="list-style-type: none"> <li>• Fatality or permanent impairment to employee or member of the public.</li> <li>• Significant loss of TasNetworks and/or public assets.</li> <li>• Sustained non-recoverable damage to the TasNetworks reputation.</li> </ul>	<ul style="list-style-type: none"> <li>• Continually evolving bushfire mitigation program, including vegetation management.</li> <li>• Interaction and learnings from other NSPs – building analysis and learnings into the TasNetworks bushfire mitigation program.</li> <li>• Participation in whole-of-State bushfire management activities.</li> <li>• Asset planning, design and maintenance programs.</li> </ul>
Loss of major industrial customer	Major industrial customer ceases operations in Tasmania.	<ul style="list-style-type: none"> <li>• Material cost increases for remaining customers.</li> <li>• Stranded network infrastructure.</li> <li>• Negative impact on power system operation.</li> </ul>	<ul style="list-style-type: none"> <li>• Proactive relationship management with major industrials – to understand operating conditions, cost pressures and business strategies.</li> <li>• Implementation of negotiated price paths for major industrials – providing increased flexibility in pricing.</li> <li>• Network planning processes incorporate the risk of major industrial customer loss.</li> </ul>
Customer focus	Change events are implemented and managed without a primary focus on the customer outcomes.	<ul style="list-style-type: none"> <li>• Material reductions in customer satisfaction.</li> <li>• Reduction in revenue and growth opportunities.</li> </ul>	<ul style="list-style-type: none"> <li>• Voice of the customer program – customer segmentation, detailed understanding of the customer value drivers and continual two-way customer engagement.</li> <li>• Communications strategies tailored to various customer segments.</li> <li>• Planned improvements to customer account management and connections management frameworks.</li> <li>• Future workforce planning and process improvement to be aligned with customer outcomes.</li> </ul>

## Appendices

### 9. Operating environment

#### 9.1. Economic environment

Over the past years, the rate of economic growth in Tasmania has lagged that of Australia as a whole. State Treasury has forecast that real Gross State Product will increase by 1.5 per cent in 2014-15, the same as occurred in 2013-14. Growth is forecast to increase marginally faster in 2015-16 to 2 per cent. The extent to which this forecast is achieved will be dependent on a number of factors including the level of the Australian dollar and the extent to which commodity prices recover from their current low levels.

Many of the factors that will influence the health of the Tasmanian economy are similar to those described below for the Australian economy as a whole, meaning that the subdued economic environment of the past few years may continue for 2014-15 and possibly 2015-16.

The Australian economy in 2015 is expected to exhibit continuing softness, exacerbated by lower global economic growth and inflation, weak commodity prices and a less expansive housing market. The price of iron ore, which accounts for 20 per cent of Australia's export income, has already fallen by more than 50 per cent since the beginning of 2015. Weak global demand, a slowdown in China and over supply issues have served to undermine prices for a range of other commodities, including coal and gold, which are also important Australian exports.

With the easing of housing market pressure there are indications that there may be further interest rate cuts in Australia as the Reserve Bank seeks to offset that weakness in the economy and the flow-on effects from overseas. There are expectations that a further 0.25 per cent reduction will be made later in 2015. These factors influence how our weighted average cost of capital is determined, and thereby change the revenue that we are allowed to charge our customers. There has been a significant reduction to the forward outlook for our regulatory WACC and a reduction to our forward revenue projections.

#### 9.2. Industry structure

The Australian energy sector is experiencing significant change. Declining electricity consumption is a continuing trend since 2008. The relatively high Australian dollar and lower commodity prices has put competitive pressures on manufacturing, minerals and smelting industries leading to some high profile closures. Meanwhile a large amount of new generation capacity has been commissioned including new wind farms and a rapid increase in the uptake of solar PV by residential and small business customers. A current over supply of generation capacity is causing significant pressures for generation owners.

The role of the networks is changing with the challenge of delivering reduced amounts of electricity while having to maintain safety and reliability.

To consider the future role of networks the Energy Networks Association (**ENA**) is scoping an Electricity Network Transformation Roadmap project. It is an ENA-led project to be delivered in partnership with the Commonwealth Scientific and Industrial Research Organisation (**CSIRO**). It will build on the CSIRO's previous research undertaken in its recent Future Grid Forum Project. TasNetworks will contribute to the project.

Meanwhile, other changes to the industry structure include the possible privatisation of government owned electricity networks in NSW. If that proceeds the Tasmanian and Queensland electricity networks will be the only government-owned network in the National Electricity Market (**NEM**).

## 9.3. Regulatory environment

### 9.3.1. Tariff reform

A change to the National Electricity Rules (**Rules**) that requires network prices to reflect the efficient cost of providing network services to individual consumers came into effect on 1 December 2014. The intended outcome is to allow consumers to make more informed decisions about their electricity usage and for tariffs to be cost reflective.

TasNetworks has commenced developing its tariff strategy to, among other things, comply with the new rule requirements. TasNetworks is in the process of assessing tariff options against its principles for tariff development and the constraints that have been identified and agreed with key stakeholders.

To support the development of TasNetworks' tariff strategy a number of principles were developed as part of our predictable and sustainable pricing strategy. These principles are that tariffs:

- should be as simple as possible and developed in consultation with stakeholders
- should signal the economic costs of service provision for all customers
- should be based on a well-defined and clearly explained methodology
- should consider customer impacts where proposed tariffs would impose significant adjustment costs on users
- will be compliant with the Rules and meet local pricing obligations.

The key accomplishments to date in relation to the development of the tariff strategy include:

- initial consultation with end-use consumers
- consideration of a trends analysis and emerging issues
- establishment of the TasNetworks Tariff Reform Working Group
- tariff strategy workshops
- initial development of a long-run marginal cost model

- analysis and rating of tariff options.

Implementing tariff reforms to achieve outcomes in the longer term interest of the overall customer base will almost certainly create ‘winners’ and ‘losers’. We will work with Government and affected stakeholders to consider how to manage the impacts, for example through concession reforms.

### 9.3.2. Power of Choice

Substantial reforms to the NEM are underway following recommendations to the State and federal governments by the Australian Energy Markets Commission’s (**AEMC**) *Power of Choice* review. The package of reforms has been designed to support the electricity market in meeting consumer needs over the next 15-20 years. The reforms are being implemented through Rule changes and some are complete while others are in progress. New metering arrangements are a key component of the reforms, and are addressed in Rule changes due to be released in mid-2015. These are discussed below.

### 9.3.3. Benchmarking

In determining the revenues or prices that a network business can charge, the Australian Energy Regulator (**AER**) must forecast the revenue required by the business in order to at least cover its efficient costs, including a commercial return on capital.

Previous versions of the Rules stipulated that the annual revenue requirement for Network Service Providers (**NSPs**) had to be determined using a building block approach. The current version of the Rules, however, refers to a building block determination as being “a component of a distribution determination” and includes provisions that prescribe the use of benchmarking when assessing whether the operating and capital costs proposed by NSPs are efficient and prudent.

Benchmarking has not been extensively used by the AER for setting allowances in any of its determinations thus far, but the draft determinations released for NSPs in NSW and the ACT have been informed by the use of benchmarking. TasNetworks’ 2017 distribution determination by the AER is likely to draw significantly on benchmarking. Inappropriate use of benchmarking by the AER may be detrimental to our future revenue and profitability.

### 9.3.4. NECF: challenges and opportunities

The National Energy Customer Framework (**NECF**) reforms were introduced into Tasmania in July 2012 and were the finalisation of a number of national reform packages aimed at providing better protection for small energy customers. There is ongoing concern about the cost to implement some NECF requirements versus the value for customers.

The NECF principles guide the way that small customers are treated and enshrines a number of the connection processes that must be adopted by TasNetworks and the advice that must be given to customers surrounding their ongoing supply of electricity.

There are a number of compliance obligations that are imposed on TasNetworks as a consequence of the AER’s NECF guidelines. Breaches of these compliance obligations can result in the AER issuing infringement notices and fines. We will continue to work within the framework and seek opportunities to improve it, so

that the extent of the compliance burden is more commensurate with the benefits for customers. For example, NECF introduced a range of new connection obligations, with connection requirements now spread across a range of instruments, including the Rules. There is an opportunity to review and streamline these requirements to provide business and customer benefit.

### 9.3.5. Metering reform

The AEMC is currently developing changes to the Rules to introduce competition in the provision of metering and related services to residential and small business customers. The Rule change will also provide a framework to enable commercial investment in smart meters and advanced metering services by retailers and/or demand side participation service providers.

The proposed Rule change will create a new role of Metering Coordinator which will supersede the current Responsible Person role. As the result of the proposed Rule change, there will be no default provider of metering services and retailers will be responsible for engaging a Metering Coordinator. Most, if not all, of the metering services currently undertaken by TasNetworks will be able to be performed by any party appointed by the Metering Coordinator as long as they are registered and capable of discharging the role in accordance with the appropriate standards.

The proposed Rule change may require changes to TasNetworks' systems and processes in order for the business to be ready for both the arrival of competition in metering and the use of smart meters by residential and small business customers. TasNetworks' future role in relation to metering, and the opportunities smart metering may provide Tasmanian customers, are the subject of a metering strategy review currently under development within the business.

### 9.3.6. Inter-regional charging

The AEMC recently published a new inter-regional transmission charging rule which will apply from 1 July 2015.

Inter-regional transmission charging allows for TasNetworks to levy a load export charge in transmission businesses in neighbouring regions. Transmission load customers would subsequently pay a share of the costs of transmission used to transport electricity into their region from neighbouring regions.

Historical modelling indicates that Tasmania is likely to be a net recipient of inter-regional receipts. As a result, in general, Tasmanian load customers are likely to face lower transmission charges. This reflects that part of TasNetworks' transmission revenue allowance can be recovered from a new source, namely Victorian transmission customers.

## 9.4. Technology and grid vision

We run our network harder, rather than building more, where we safely can. We have a track record of implementing novel solutions including dynamic ratings and system protection schemes to defer or avoid costly network investment. We will continue to implement network solutions that provide lowest sustainable prices for our customers. We engage our customers to ensure that technologies we deploy are fit for purpose and deliver customer value.

Technology also creates challenges: solar PV is a notable example, with significant increases in the number of installations over the past three years. Medium-sized embedded generation in commercial installations is also experiencing significant increases. We must find innovative, least cost ways to manage the network in an environment of expanding number and size of installations.

TasNetworks considers residential battery technology is likely to be the next trend, causing another major shift in the electricity market and network operation.

Electric vehicles, charged from the distribution network are likely to impact the network in the coming years. Electric vehicles are an opportunity to further utilise the network and we are currently sponsoring a feasibility study to encourage uptake by Tasmanian car fleet managers. We are considering how to best achieve successful integration with our network.

TasNetworks is taking advantage of technology advancements to increase the efficiency of the network. Examples that are currently utilised (or committed projects) include:

- Mesh radio communications network
- Distribution automation (self-healing networks)
- Remote area power supplies – to remove long sections of line that are expensive to maintain
- Demand management using embedded generation
- Dynamic line ratings – to increase the capacity of the transmission network
- System protection schemes.

Other network technologies under investigation are:

- Grid side battery energy storage systems
- Low voltage statcoms (dynamic voltage support)
- Remote fault indication and monitoring
- Distribution fault monitoring
- Smart metering.

## 9.5. Community responsibilities

### 9.5.1. Safety

TasNetworks invests in a range of community focused safety initiatives. The Cable PI device can detect broken neutrals, a problem that has challenged the electricity industry worldwide. Broken neutrals are potentially dangerous and can cause fires and electric shocks. We provide the Cable PI device free of charge to all TasNetworks customers and we have distributed over 240,000 since 2009. We run awareness campaigns reminding Tasmanians to ensure the device is plugged in and switched on.

We also run other safety awareness programs: the Safety in Schools program to educate primary aged school children about electrical safety; the *Look Up Look Out* program reminding the community about overhead dangers of electricity lines; and programs reminding all about the dangers of poor vegetation management around electricity lines.

TasNetworks also collects the electrical safety levy on behalf of the State government. This levy funds the electrical safety inspection service administered by Workplace Health and Safety. Recently there has been a significant increase in this government levy, which is passed through to our customers.

### 9.5.2. Non-commercial activities – solar feed in tariff and private pole inspection

National regulatory arrangements allow for recovery of efficient costs to meet State schemes and regulatory obligations. However, this results in higher network charges as costs are passed through to all electricity customers, regardless of whether or not they benefit from the obligation.

A shareholder direction is funded through lower returns to shareholders.

TasNetworks has been directed by our shareholders to fund the solar feed in tariff arrangements. The scheme provides a subsidy to the owners of premises that have solar PV panels, based on the amount of electricity sent to the grid.

TasNetworks has also been directed to inspect the integrity of private power poles, on behalf of the State, while a longer-term solution is implemented.

## 10. Customer engagement

Our customer engagement framework defines the different levels of participation available to us when engaging with our customers. The framework is used to determine the most appropriate level of customer participation that should be used when undertaking community consultation on particular issues. The framework is based on the International Association of Public Participation Spectrum (**IAP2**). Five levels of customer participation are identified and range from inform to empower. TasNetworks identifies the appropriate level of engagement on a case by case basis, as it is not always possible to provide customers with a decision making role, for example on safety issues.

### Increasing Level of Customer Participation

Customer Engagement Goal	<b>Inform:</b> To provide our customers with balanced and objective information to assist in understanding the problem, alternatives, opportunities &/or solutions.	<b>Consult:</b> To obtain customer feedback on analysis, alternatives and/or decisions.	<b>Involve:</b> To work directly with our customers throughout the process to ensure that customer concerns and aspirations are consistently understood and considered.	<b>Collaborate:</b> To partner with our customers in each aspect of the decision, including the development of alternatives and the identification of the preferred solution.	<b>Empower:</b> To place final decision making in the hands of our customers.
Promise to our Customers	We will keep you informed.	We will keep you informed, listen and acknowledge concerns and provide feedback on how customer input influenced the decision.	We will work with you to ensure your concerns and issues are directly reflected in alternatives we develop and provide feedback on how customer input influenced the decision.	We will look to you for direct advice and innovation in formulating solutions and will incorporate your recommendations into decisions where possible to the maximum extent.	We will implement what you decide.
Customer Engagement Tools	Fact sheets Newspaper/TV/radio Letters/Customer cards Social Media Customer charter Brochures	Focus Groups Community Forums Public Meetings Trade Nights Surveys	Workshops Consumer Engagement Forums	Advisory committees Contracts/Legal Agreements	Delegated decisions



In preparing for our Distribution Determination 2017 (**DD17**), TasNetworks undertook a first round of customer engagement in October 2014 with the intent of understanding customers' preferences. A series of workshops also provided the opportunity to educate customers about the role of TasNetworks and test our vision of "trusted by our customers to deliver today and create a better tomorrow".

This initial phase of consultation was critical to demonstrating TasNetworks' engagement prior to developing our key strategies, projects and programs for future expenditure. It is anticipated that TasNetworks' customer engagement for DD17 will be completed by the end of June 2015 with a view that over the medium term, consumer engagement for reset activities will be embedded into business as usual. At this early stage the engagement on our future plans is being aligned with the DD17 timing requirements.

TasNetworks intends to leverage findings from other industry groups and network service providers to increase the effectiveness, and reduce the overall costs, of undertaking these types of activities.



Customer engagement workshop, held in Hobart, October 2014

## 11. Organisation design

The current organisational structure of TasNetworks is based around seven groups, as follows:

### ***Company Secretary and General Counsel***

The Company Secretary and General Counsel has responsibility for Board and corporate governance, legal services and wayleaves.

### ***Strategy and Stakeholder Relations***

This group is responsible for corporate strategy, business performance, strategic risk, economic regulation, pricing strategy and frameworks, market reform activities, external and internal communications, brand strategy, government and shareholder relations, and stakeholder engagement.

### ***Strategic Asset Management***

Strategic Asset Management is responsible for asset strategy and planning, network analysis and planning, operational and power system technology, smart networks and demand side and other new technologies.

### ***Works and Service Delivery***

Works and Service Delivery is responsible for asset stewardship, including design and estimation, works program management and reporting, project and program works delivery, contract management, field operations, works schedule and dispatch, safety and environment policy, strategy and implementation, the TasNetworks Training Centre, and quality accreditation processes.

### ***Customer Engagement and Network Operations***

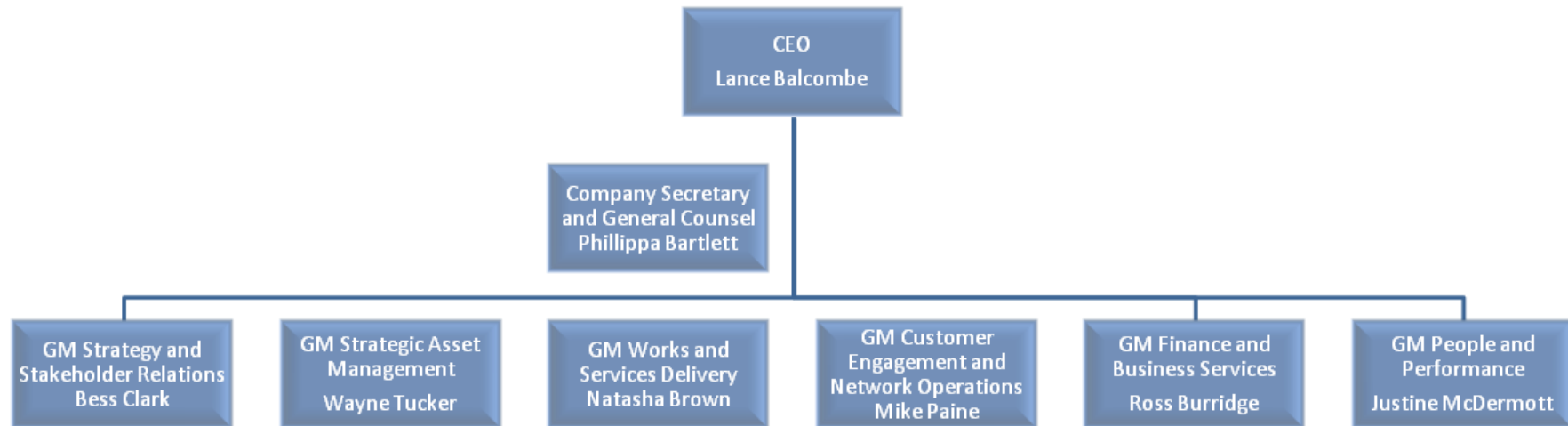
This group is responsible for network operations and the Control Centre, network access management, large customer and market relationships, retailer management, the Customer Contact Centre, connection point management and charging, meter data management and publishing, billing enquiries and dispute resolution, and telecommunications asset, network and customer management.

### ***Finance and Business Services***

Finance and Business Services is responsible for treasury, corporate modelling, financial reporting, risk management and insurance, procurement, fleet, property and facilities, accounts payable and receivable, audit, corporate IT and information management.

### ***People and Performance***

This group is responsible for human resources strategy, change management, human resources policies (excluding health, safety and environment), industrial relations, recruitment, performance management systems, learning and development, advice and support, and payroll and timekeeping.



## 12. Public education and engagement

One of the major tasks that required immediate attention prior to the establishment of TasNetworks as the new energy business in Tasmania was the need to position the business within the community and inform customers as to its role and responsibilities in the supply chain.

To achieve this, a public education campaign was launched in late April 2014 with the objective of introducing the TasNetworks identity, informing customers about the interactions they may have with the business, and about the actions they may need to take in relation to TasNetworks' services.

A follow-up survey undertaken in August 2014 indicated that the public education campaign had been successful, given that TasNetworks had only been operating for about six weeks. Without prompting respondents, 18 per cent named "TasNetworks" as an energy company operating in Tasmania. On combining the unprompted and prompted responses, recorded recall was positive, with approximately 62 per cent of respondents affirming that they had heard of TasNetworks.

Almost 60 per cent of respondents who were aware of TasNetworks correctly identified some aspect of its role.

In reinforcing our efforts to position the new business within the community, TasNetworks will continue its emphasis on a number of safety and community campaigns. These include campaigns on bushfire mitigation campaign (Safe Growing), overhead power lines (Look Up, Look Out) and fallen power lines.

In addition to these campaigns, TasNetworks has also been proactive in distributing information packs to various political offices around Tasmania explaining the role of the business. Social media and external websites are also an integral part of this communication process.

Our voice of the customer program supports and informs our public education and engagement.