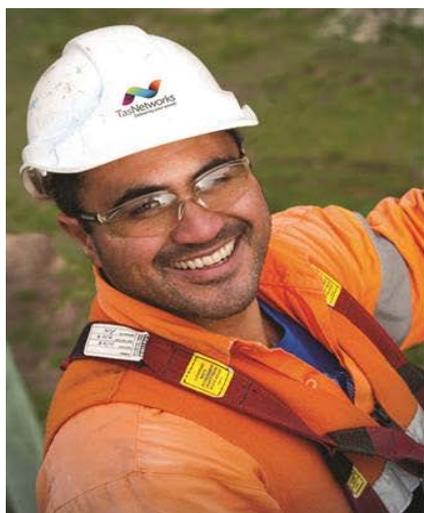


TasNetworks

Ring-Fencing Waiver Application

Trusted by our customers to deliver today and create a better tomorrow.



November 2017



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1. Temporary waiver to provide metering support services

Background

The upcoming Power of Choice framework to introduce competitive metering from 1 December 2017 has major implications for the industry, including TasNetworks. Following commercial considerations, TasNetworks opted not to become a Metering Coordinator (**MC**) for type 4 meters, except as an MC for existing type 6 regulated meters. However, TasNetworks will continue as the Metering Provider for type 1-4 legacy meters until 1 July 2019 under a waiver already approved by the Australian Energy Regulator (**AER**).

Aurora Energy (**Aurora**) provides retail services to almost all small Tasmanian customers. The new MC appointed by Aurora will have responsibility for the vast majority of type 4 meters installed in Tasmania from 1 December 2017.

It has become apparent, through negotiations with Aurora and relevant market participants, that some metering support services may not be sufficiently established in Tasmania by 1 December 2017 to deliver optimal customer service outcomes. Given the need to ensure continuity of timely, reliable service for customers during this transition period, TasNetworks is seeking a waiver to provide temporary metering support services until 31 May 2018.

The waiver would allow TasNetworks to perform a temporary supporting role for metering services, while the necessary capability to provide competitive metering services on an ongoing basis is established.

TasNetworks will provide services to support metering under contract, priced in accordance with the methodology used to build-up our current fee-based services.

a) The obligation in respect of which the DNSP is applying for a waiver

TasNetworks is seeking a waiver in respect to the obligations under the functional separation provisions for metering support services as at 1 January 2018. Specifically, TasNetworks is seeking a waiver for the following provisions:

Chapter 4 – Functional Separation

Under clause 4.2.5 of the guideline, TasNetworks is applying for a waiver of all obligations under - 4.2 including:

4.2.1 Physical separation/co-location

4.2.2 Staff sharing

4.2.3 Branding and cross-promotion

4.2.4 Office and staff registers

b) The reasons why the DNSP is applying for the waiver

With the exception of performing the Metering Provider role for a small number of type 1 – 4 legacy meters, TasNetworks will not provide services in the contestable metering market from 1 December 2017. However, Aurora and relevant market participants are in discussions with TasNetworks regarding the provision of metering support services on a temporary basis.

Granting TasNetworks a waiver to provide metering support services on temporary basis would provide Aurora and relevant market participants, additional time to establish an adequate

workforce in a regional market where they have not previously provided small customer metering services. Furthermore, granting a waiver will ensure Tasmanian customers continue to receive good customer service outcomes and enhance community support during the transition to competitive metering arrangements.

c) Details of the service, or services, in relation to which the DNSP is applying for the waiver

If granted a waiver, TasNetworks will provide metering support services on a temporary basis. The detail of services is yet to be agreed, but may include services to support:

- Fault restoration;
- New connections/installations;
- Disconnections and site alterations; and
- Meter reading (for non-communications enabled type 4A meters).

TasNetworks will provide these as fee-based services on request. Contracts to provide these services will terminate on 31 May 2018.

d) The proposed commencement date and expiry date (if any) of the waiver and the reason for those dates.

1 January 2018 – 31 May 2018

e) Details of the costs associated with the DNSP complying with the obligation if the waiver of the obligation was refused.

TasNetworks is not establishing a ring-fenced energy services business. Therefore, without a waiver, TasNetworks would not be able to provide these metering support services.

Without TasNetworks' support to transition to new arrangements, there is a risk that customers will experience service delay and inconvenience. This includes potential risks for the timeliness of new customer connections and service alterations.

TasNetworks believes that by supporting Aurora Energy and relevant market participants as an interim arrangement, customers will receive better service during the introduction of new metering technology.

f) The regulatory control periods(s) to which the waiver would apply.

The current distribution services regulatory control period.

g) Any additional measures the DNSP proposes to undertake if the waiver were granted.

TasNetworks intends to exit the market for metering services. Contracts for metering support service provision will be established with fixed-time frames until 31 May 2018.

We will continue to apply our AER-approved cost allocation methodology to these services to ensure no cross-subsidisation exists.

h) The reasons why the DNSP considers the waiver should be granted with reference to the matters specified in clause 5.3.2 (a) including the benefits, or likely benefits, of the grant of the waiver to electricity consumers.

One of TasNetworks strategic pillars is that 'we care for our customers and make their experience easier'. Ensuring good customer outcomes continue to be delivered throughout this transitional period is consistent with our strategy and the application of the National Energy Objective (NEO) which states that the rules should promote 'efficient operation and use of, electricity services for the long term interests of consumers'.

The waiver will support long-term customer benefits by giving the retailer and new MC time to efficiently establish the full suite of competitive metering services in a new market, while accessing TasNetworks' resources in the interim.

A temporary waiver to provide metering services is unlikely to distort competition or innovation for metering technology in Tasmania over the longer-term.

2. Temporary waiver to provide operation and maintenance support services to the Bass Strait Islands

Background

Bass Strait is the body of water separating Tasmania from mainland Australia. There are two major inhabited islands in Bass Strait, King Island and Flinders Island, collectively termed the Bass Strait Islands (**BSI**). Approximately 1,600 people reside on King Island, and approximately 700 people reside on Flinders Island.

The electricity system on the BSI is owned and operated by Hydro Tasmania. Currently TasNetworks provides a range of services, including operation and maintenance services, under contract to Hydro Tasmania.

The standalone distribution system on King Island supplies electricity to approximately 1,300 connection points through a network of high voltage and low voltage feeders. The HV distribution network on King Island comprises four overhead feeders of around 400 km in length.

The standalone distribution system on Flinders Island, supplies electricity to approximately 650 connection points through a network of high voltage and low voltage feeders. The HV distribution network on Flinders Island comprises three overhead feeders around 330 km in length.

TasNetworks role on Bass Strait Islands

Prior to the formation of TasNetworks, Aurora Energy provided operating and maintenance support services on the BSI. This legacy contract was transferred to TasNetworks when the new business was established. It is a longstanding arrangement, entered into prior to the establishment of TasNetworks, primarily intended to support scale efficiencies for the BSI and therefore put downward pressure in operating costs on BSI.

TasNetworks currently has a contract with Hydro Tasmania to provide operating and maintenance support services including asset management services, IT systems and asset data systems and customer service roles. TasNetworks purchases equipment and materials to perform the services utilising expertise and purchasing power to provide these goods.

The contract has recently been extended to March 2018 with a view to renegotiating the contract with significantly reduced services. TasNetworks is in the process of making a business decision about whether it is involved in the provision of these services going forward.

Ring-fencing compliance and classification of operation and maintenance support for isolated distribution networks not part of the NEM.

In our initial ring-fencing waiver application TasNetworks proposed to provide BSI services via the new affiliate. The AER in its Draft Decision on DNSPs waiver applications suggested certain support services to the BSI are considered contestable electricity services. TasNetworks does not intend to provide electricity services from its affiliate to be established on 1 July 2018. TasNetworks is therefore applying for a temporary waiver from the functional separation obligations, to allow BSI services to be provided by our network business.

a) The obligation in respect of which the DNSP is applying for a waiver

TasNetworks is seeking a waiver in respect to the obligations under the functional separation provisions for operation and maintenance support services to the BSI. Specifically, TasNetworks is seeking a waiver for the following provisions.

Chapter 4 – Functional Separation

Under clause 4.2.5 of the Guideline, TasNetworks is applying for a waiver of all obligations under - 4.2 including:

4.2.1 Physical separation/co-location

4.2.2 Staff sharing

4.2.3 Branding and cross-promotion

4.2.4 Office and staff registers

Additionally, under clause 4.4.2 of the Guideline we are seeking a waiver from the following obligation:

4.4.1(a) Conduct of Service Providers

b) The reasons why the DNSP is applying for the waiver

TasNetworks is seeking a temporary functional separation waiver to continue providing operation and maintenance support services on the BSI until 30 June 2018. The AER should grant the waiver on the following grounds:

1. TasNetworks' current contract to provide support services to the BSI expires in March 2018 and as such, contract negotiations to provide services beyond this date are currently ongoing. A temporary 6 month waiver would give TasNetworks an opportunity to satisfactorily complete these negotiations and finalise business arrangements to support Hydro Tasmania moving forward.
2. It has become apparent that Hydro Tasmania is considering taking a number of support services currently provided by TasNetworks to the BSI out to competitive tender. Granting a temporary waiver will give Hydro Tasmania sufficient time to enter into new contractual arrangements with contestable energy service providers on favourable terms.
3. There is a need to ensure continuity of service to BSI customers after 1 January 2018. A temporary waiver will ensure customers continue to receive good customer service outcomes until new competitive arrangements for these services are finalised.

c) Details of the service, or services, in relation to which the DNSP is applying for the waiver

Currently there is an Asset Management Agreement which has been entered into between Hydro Tasmania and TasNetworks that covers a number of support services. Below is a list of services currently provided by TasNetworks as of 2017. TasNetworks is not currently active in providing all of these services.

- Asset Management
- Asset Data and IT Management

- Network Design and Procedures
- Workforce Training and Accreditation
- Work Standards Procedures and Audit
- Back-up labour
- Cable PI
- Logistics
- Meter Data Service
- Equipment Testing
- Fleet Management
- Fault Centre
- Regulatory Reporting

d) The proposed commencement date and expiry date (if any) of the waiver and the reason for those dates.

1 January 2018 – 30 June 2018

e) Details of the costs associated with the DNSP complying with the obligation if the waiver of the obligation was refused

In the event a temporary functional separation waiver was refused, TasNetworks would need to cease providing distribution support services to the BSI. The cost of TasNetworks ceasing to provide these support services on 1 January 2018 would impose additional costs on Hydro Tasmania and may impact electricity customers on the BSI.

Given the scope of services currently provided, it is unlikely new contractual arrangements and required capability could be established between Hydro Tasmania and new service providers before this date. Therefore, without TasNetworks' support in transitioning to new commercial arrangements for the provision of these services, there is a risk that customers on the BSI will also experience service delay and inconvenience, especially given the remoteness of these networks. In particular, there are potential risks for the timeliness of fault-centre response and fault restoration.

f) The regulatory control periods(s) to which the waiver would apply.

The current distribution services regulatory control period.

g) Any additional measures the DNSP proposes to undertake if the waiver were granted.

- TasNetworks will continue to apply our cost allocation methodology to ensure that no cross-subsidisation exists.
- TasNetworks supports the development of a competitive market for the provision of distribution operation and maintenance support services to the BSI over the long-term, where the market is sufficiently robust to provide cost-effective customer outcomes. TasNetworks accepts it will have a lesser role in relation to services on BSI in future.

h) The reasons why the DNSP considers the waiver should be granted with reference to the matters specified in clause 5.3.2 (a) including the benefits, or likely benefits, of the grant of the waiver to electricity consumers.

First and foremost, should TasNetworks cease to provide these support services as of 1 January 2018, it is probable customers on the BSI will experience a decline in expected service quality and reliability outcomes in the short-term. This is inconsistent with both TasNetworks' strategic pillar which states 'we care for our customers and make their experience easier' and the National Energy Objective.

Additionally, should Hydro Tasmania be required to rapidly enter in to contractual arrangements to ensure ongoing provision of these services to the BSI, it will limit its ability to negotiate favourable contract terms and conduct proper due diligence. Over the medium term, this may mean customers end up paying more for the provision of these services or lead to declining service quality. Granting TasNetworks a temporary waiver in this case should help create a more competitive market for these support services over the long-term.