

31 July 2017



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Australian Energy Regulator
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Lodged online at Ringfencingguideline2016@aer.gov.au

Dear Mr Pattas

RE: TasNetworks Ring-fencing compliance plan and waiver applications

Tasmanian Networks Pty Ltd (**TasNetworks**) welcomes the opportunity to provide the Australian Energy Regulator (**AER**) with our ring-fencing compliance plan and waiver applications.

We believe our plan strikes the appropriate balance between implementing measures aimed at avoiding harm, whilst ensuring good customer outcomes.

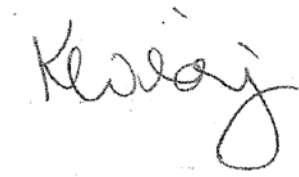
We propose to implement the guideline requirements by 1 January 2018, and in doing so are seeking some short and longer-term waivers to support efficient outcomes for Tasmanian customers.

In summary, our plan includes:

- The establishment of a new legal entity that will offer the small number of non-electricity services currently provided by TasNetworks;
- A series of waivers to ensure compliance for a range of services currently offered by TasNetworks;
- A No Action letter to enable TasNetworks and its new entity to continue to use shared Information Technology systems;
- The continued application of our approved Cost Allocation Methodology (CAM) and the establishment of separate accounts for relevant areas of the business; and
- The development of a confidential information register and information sharing protocol to ensure that information is contained and distributed correctly within TasNetworks.

If you have any questions or require further information in relation to TasNetworks' ring-fencing compliance plan and waiver applications, please contact me on (03) 6271 6696 or at kirstan.wilding@tasnetworks.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Kirstan Wilding', with a stylized flourish at the end.

Kirstan Wilding
Leader Regulation

TasNetworks

Ring-Fencing Compliance Plan and Waiver Applications

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



July 2017

Version Number 2.0



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1. Purpose

The purpose of this document is to inform the Australian Energy Regulator (AER) of our plans to comply with the distribution ring-fencing guideline.

2. The guideline

The AER has developed a new electricity distribution ring-fencing guideline (**the guideline**) that applies across the National Electricity Market (**NEM**). The requirement for this review of ring-fencing arrangements arose from the AEMC Power of Choice review.

The guideline applies to Distribution Network Service providers (**DNSPs**).

The stated purpose of ring-fencing is to separate the competitive and regulated parts of network businesses to protect the long term interests of consumers. The guideline is intended to support the development of competitive markets for energy services and efficient investment in network and customer services.

The guideline outlines a number of obligations intended to achieve this purpose including:

- Legal separation (i.e. providing non-distribution and non-transmission services through a separate entity);
- Accounting separation (separate accounts for affiliated entities);
- Non-discrimination provisions requiring a DNSP not to provide preferential treatment to a related electricity service provider or customers of its related electricity service provider;
- Functional separation (both locational and staff separation of contestable and regulated services provision);
- Branding and cross-promotions provisions requiring a completely separate brand and promotions for a related electricity service provider and its contestable electricity services; and
- Provisions related to customer information control between those providing regulated and contestable electricity services.

TasNetworks must establish and maintain appropriate internal processes to ensure it complies with the obligations stated above. In addition, it must also:

- Prepare an annual ring-fencing compliance report each regulatory year; and
- Notify the AER in writing within five business day of becoming aware of a material breach of its obligations under the guideline.

The guideline allows for waivers to be sought for legal and functional separation (both locational and staff) as well as branding and cross-promotions.

The guideline applies from 1 December 2016 with compliance expected as soon as reasonably practicable and full compliance required by 1 January 2018.

3. The Tasmanian Market

Tasmania's electricity sector:

- serves a small and geographically diverse population base;
- serves four transmission-connected customers that use more than half the energy in the state;
- is connected to the rest of the NEM via an unregulated interconnector;
- is dominated by one generation business with a range of small, dispersed generators around the state; and

- is dominated by two retailers, with only one retailer presently providing services to (most) small business customers and all residential customers.

The Tasmanian electricity sector has undergone a number of structural reforms since 2012 to deliver economic efficiencies and in doing so placed downward pressure on electricity prices, based on the recommendations of the Electricity Supply Industry Expert Panel.

From a network perspective, the most notable structural reform has been the merger of Tasmania's transmission and distribution networks to form TasNetworks in 2014. The purpose of the merger was to 'improve network management and capture ongoing efficiencies and cost savings, estimated to be around \$8 million per annum'. These savings were expected to arise predominantly from the rationalisation of duplicate functions and assets, and the co-location of staff.

As outlined in the section below, the benefits of rationalisation and co-location realised from this merger have been far in excess of those initially estimated.

4. Our Business

TasNetworks is the transmission and distribution network service provider for Tasmania. TasNetworks provides a range of direct control, negotiated and unclassified distribution services in the Tasmanian market. As the transmission network service provider in Tasmania, we provide a number of prescribed, negotiated and unregulated transmission services.

We also provide unregulated telecommunication, data centre and IT services within the Tasmanian market.

We are a Tasmanian State Government owned business. We commenced operation on 1 July 2014 following a merger of the distribution services provided by Aurora Energy, and the transmission services provider Transend Networks. To enable this merger to occur, we gained a waiver from the Transmission Ring-Fencing Guideline requirement that prevents a transmission network service provider from providing distribution services. This waiver was granted on the basis that it was more efficient for transmission and distribution services to be provided by a single entity.

The merger of network businesses has allowed us to realise many savings through integration of a range of common corporate, customer relationship, asset management, asset operations, works and service delivery functions. Team members have been co-located, with site rationalisation of office and works facilities to ensure the most efficient delivery of services to Tasmanian customers.

In the Tasmanian context, rationalisation and co-location of services provided by TasNetworks has supported the National Energy Objective in ensuring we efficiently supply services in the long term interests of the electricity customers we serve.

The incentive regulation framework we operate under for provision of regulated services, together with the AER's use of external economic benchmarking tools in its expenditure assessments, provide strong incentives to ensure we sustainably reduce costs without compromising service levels. Recent AER benchmarking analysis highlights the efficiencies achieved by TasNetworks as a merged network business.

5. Our Plan for Compliance

Our plan for compliance strikes the appropriate balance between implementing measures aimed at avoiding the harms the guideline is intended to avoid whilst still ensuring good customer and cost outcomes.

The priority for TasNetworks in developing our compliance plan has been identifying the current level of compliance with the guideline and establishing the compliance risks that present from the guideline. TasNetworks has taken a hybrid approach to ensuring compliance with the guideline. The compliance strategy includes:

- The establishment of a new legal entity that will offer the small number of non-electricity services currently provided by TasNetworks;
- A series of waivers to ensure compliance for a range of services currently offered by TasNetworks;
- A No Action letter to enable TasNetworks and its new entity to continue to use shared Information Technology systems;
- The continued application of our approved Cost Allocation Methodology (**CAM**) and the establishment of separate accounts for relevant areas of the business; and
- The development of a confidential information register and information sharing protocol to ensure that information is contained and distributed correctly within TasNetworks.

TasNetworks is confident that these core actions of our compliance strategy form the basis of being compliant with the guideline from 1 January 2018. TasNetworks is currently in the process of implementing these main pillars of our compliance strategy.

TasNetworks is also aware that some residual risks remain. These risks include the inadvertent exchange of information between staff performing tasks that relate to the newly established entity. Accordingly, a training package will be developed across the business to impacted staff. The particular focus of the training will be around three key areas:

- Training on the protocols around information management and storage for those staff involved in collection of confidential electricity information; and
- Targeted training of staff that potentially will work across the unregulated and regulated business as to the implications of the guideline.

TasNetworks considers that our compliance strategy and targeted training program addresses the remaining risk of non-compliance.

5.1. Waivers

A key element of TasNetworks' compliance strategy is based upon seeking short and longer-term waivers to support efficient outcomes for Tasmanian customers. In summary, TasNetworks proposes:

1. Seeking temporary waivers to allow a number of services to continue to be provided together with our regulated distribution business, until these services are re-classified by the Australian Energy Regulator from the start of the regulatory period commencing 1 July 2019 (at which point no waiver will be required);
2. Seeking a short term waiver to allow implementation of the legal separation requirements by 1 July 2018 - a delay of 6 months; and

3. Seeking a temporary waiver to continue to use existing staff, location and branding to be the meter provider for legacy type 1-4 meters for 18 months to allow TasNetworks to transition out of this area by June 2019.

TasNetworks envisages a potential role in providing support services to Type 1-4 Metering Coordinators. This will however be dependent on the preferences of any retailer appointed Metering Coordinators in Tasmania, and be subject to agreement being met on commercial terms. As negotiations are still being progressed, TasNetworks is unable to provide a waiver application outlining the exact services proposed to be undertaken. It is TasNetworks' understanding that the current Tasmanian Government is supportive of TasNetworks providing support in this area, particularly if this results in efficiencies and lower costs for customers. TasNetworks will advise the AER at a later date should a waiver need to be submitted following the completion of commercial discussions with potential Metering Coordinators in Tasmania.

Our plans for the waivers detailed above are based upon the following factors:

Temporary waivers

The Australian Energy Regulator has indicated that it is likely that a number of services will be reclassified as part of the upcoming framework and approach consultation processes. We are seeking a temporary waiver for these services to avoid unintended impacts and costs of separation, prior to them being reclassified as direct control services for the 2019-24 regulatory control period.

Legal separation implementation

A six month delay allows a considered transition to a new operating model and legal structure. It allows all necessary structural, contractual and operational changes to be efficiently put in place and resourced efficiently and appropriately in light of considered advice, including legal and tax advice, and requires shareholder approval prior to its establishment.

Type 1-4 metering services

We are seeking a temporary waiver to allow TasNetworks staff and contractors to provide this service, and to work from co-located sites with the regulated distribution business, including the continued use of the TasNetworks brand to allow the use of TasNetworks branded offices, website, trucks, uniforms and other equipment. This will allow additional time for TasNetworks, in conjunction with Aurora Energy, to transition these meters over to a new metering provider under the upcoming Power of Choice Reforms.

5.2. Revisions to our plan for compliance

Should TasNetworks be unsuccessful in seeking the above waivers, then an alternative approach to compliance would need to be found. Given TasNetworks' desire to limit increase in network prices as much as practical, TasNetworks would consider the next best option in terms of minimising costs.

5.3. Operating and maintenance support on Bass Strait Islands

For the purpose of preparing this compliance plan, TasNetworks has made an assumption that our current operating and maintenance support services provided on the Bass Strait Islands do not constitute an 'Other Electricity Service' as defined under the guideline. Should this assumption prove incorrect, then TasNetworks will need to seek a further waiver for functional separation (and potentially legal separation) to allow these services to continue.

5.4. Transmission

The final issue for TasNetworks is the fact that our business is an integrated transmission and distribution business. Accordingly we have made a key assumption not to separate transmission services from our direct control distribution services. TasNetworks has applied the NER definition of Transmission Services (which includes Prescribed, Negotiated and Unregulated transmission services). Accordingly, these services are able to continue to be provided together with regulated distribution services, with existing cost-allocation and asset sharing provisions continuing to apply. No further ring-fencing of Negotiated or Unregulated transmission services is included in this compliance plan.

5.5. Guideline amendments

TasNetworks notes that the AER is currently engaging in a consultation process on draft amendments to the guideline. The draft amendments do not materially impact our compliance plan as they are primarily related to clarification of a number of terms and definitions used in the guideline. We will update the wording of our plan to ensure consistency with any updated definitions once the amendments have been finalised (estimated to be in October 2017).

6. Compliance Action Plan Details

Table 6.1 Obligations

ID	Obligation	Current status	Action Plan
3.1 Legal separation			
1	(b) Subject to this clause 3.1, a DNSP may provide distribution services and transmission services, but must not provide other services.	Non-compliant	Refer to Table 6.2 for the action plan for non-compliant services.
3.2.1 Separate accounts			
2	(a) A DNSP must establish and maintain appropriate internal accounting procedures to ensure that it can demonstrate the extent and nature of transactions between the DNSP and its affiliated entities.	Non-compliant	<ol style="list-style-type: none"> 1. Develop new internal accounting procedures to monitor transactions between TasNetworks and new entity. 2. Establish separate accounting ledger for TasNetworks and new entity when it is established. 3. Develop and implement training strategy to ensure impacted stakeholders have the required skills and knowledge to ensure compliance with the separate accounts obligation.
3.2.2 Cost allocation and attribution			
3	(a) A DNSP must allocate or attribute costs to distribution services in a manner that is consistent with the Cost Allocation Principles and its approved CAM, as if the Cost Allocation Principles and CAM otherwise applied to the allocation and attribution of costs between distribution services and non-distribution services. (b) A DNSP must only allocate or attribute costs to distribution services in accordance with clause 3.2.2(a), and must not allocate or attribute other costs to the distribution services it provides.	Compliant	<ol style="list-style-type: none"> 1. Review and establish any new internal procedures to ensure costs are allocated in accordance with TasNetworks' approved CAM. 2. Develop and implement training strategy to ensure impacted stakeholders have the required skills and knowledge to ensure compliance with the cost allocation and attribution obligation.
4	3.2.2 Cost allocation and attribution - (c) A DNSP must establish, maintain and keep records that demonstrate how it meets the obligations in clauses 3.2.2(a) and 3.2.2(b).		
4.1 Obligation to not discriminate			
5	(b) A DNSP must not discriminate (either directly or indirectly) between a related electricity service provider and a competitor (or potential competitor) of a related electricity service provider in connection with the provision of: <ol style="list-style-type: none"> i. direct control services by the DNSP (whether to itself or to any other legal entity); and / or ii. contestable electricity services by any other legal entity. 	Non-compliant	<ol style="list-style-type: none"> 1. Establish any non-discrimination controls by 1 January 2018. 2. Develop and implement training strategy to ensure impacted stakeholders have the required skills and knowledge to ensure compliance with the obligation to not discriminate.
4.2.1 Physical separation/co-location			
6	(a) Subject to this clause 4.2.1, in providing direct control services, a DNSP must use offices that are separate from any offices from which a related electricity service provider provides contestable electricity services.	Non-compliant	Refer to Table 6.2 for the action plan for non-compliant services.
4.2.2 Staff sharing			
7	(a) Subject to this clause 4.2.2, a DNSP must ensure that its staff involved in the provision or marketing of direct control services are not also involved in the provision or marketing of contestable electricity services by a related electricity service provider.	Non-compliant	Refer to Table 6.2 for the action plan for non-compliant services.
8	(c) The remuneration, incentives and other benefits (financial or otherwise) a DNSP provides to a member of its staff must not give the member of staff an incentive to act in manner that is contrary to the DNSP's obligations under this guideline.	Compliant	<ol style="list-style-type: none"> 1. Review reward and recognition policies to ensure compliance is still achieved after any organisational and service changes.

ID	Obligation	Current status	Action Plan
4.2.3 Branding and cross-promotion			
9	<p>(a) A DNSP:</p> <p>i. must use branding for its direct control services that is independent and separate from the branding used by a related electricity service provider, such that a reasonable person would not infer from the respective branding that the DNSP and the related electricity service provider are related.</p> <p>ii. must not advertise or promote its direct control services and its contestable electricity services that are not direct control services together (including by way of cross-advertisement or cross-promotion).</p> <p>iii. must not advertise or promote services provided by a related electricity service provider.</p>	Non-compliant	Refer to Table 6.2 for the action plan for non-compliant services.
4.2.4 Office and staff registers			
10	<p>A DNSP must establish, maintain and keep a register that identifies:</p> <p>(a) the classes of offices to which it has not applied clause 4.2.1(a) by reason of clauses 4.2.1(b)(i) or 4.2.1(b)(iii); and</p> <p>Ring-fencing guideline 16</p> <p>(b) the nature of the positions (including a description of the roles, functions and duties) of its members of staff to which it has not applied clause 4.2.2(a) by reason of clauses 4.2.2(b)(i), 4.2.2(b)(iii) or 4.2.2(d);</p> <p>and must make the register publicly available on its website.</p>	Non-compliant	<p>1. Develop register identifying offices being used to provide direct control services and contestable electricity services and publish on external website by 1 January 2018, taking into account waivers granted.</p> <p>2. Develop register identifying staff who provide direct control services and contestable electricity services and publish on external website by 1 January 2018, taking into account waivers granted.</p>
4.3 Information access and disclosure			
11	<p>4.3.2 Protection of confidential information</p> <p>Subject to this clause 4.3, a DNSP must:</p> <p>(a) keep confidential information confidential; and</p> <p>(b) only use confidential information for the purpose for which it was acquired or generated.</p>		
12	<p>4.3.3 Disclosure of information</p> <p>A DNSP must not disclose confidential information to any person, including a related electricity service provider, unless:</p> <p>(a) the DNSP has first obtained the explicit informed consent of the relevant customer, or prospective customer, to whom the confidential information relates;</p> <p>(b) the disclosure is required by, or for the purpose of complying with any law,</p> <p>(c) the disclosure is necessary to enable the DNSP to provide its distribution services, its transmission services or its other services (including by acquiring services from other legal entities);</p> <p>or</p> <p>(d) the DNSP complies with clause 4.3.4 in relation to that confidential information</p>	Non-compliant	<p>1. Develop confidential information sharing controls by 1 January 2018 for the regulated business.</p> <p>2. Develop and implement training strategy to ensure impacted stakeholders have the required skills and knowledge to ensure compliance with the information access and disclosure obligation.</p>
13	<p>4.3.4 Sharing of information</p> <p>(a) Subject to clause 4.1(c)(iv) and to this clause 4.3.4, where a DNSP shares confidential information with a related electricity service provider, it must provide access to that confidential information (including the derived information) to other legal entities on an equal basis.</p>		
4.3.4 Sharing of information			
14	<p>(d) Without limiting clause 4.3.4(a), a DNSP must establish an information sharing protocol that sets how and when it will make the information referred to in clause 4.3.4(a) available to legal entities, and must make that protocol publicly available on its website.</p>	Non-compliant	<p>1. Develop information sharing protocol and publish on external website by 1 January 2018.</p> <p>2. Develop and implement training strategy to ensure impacted stakeholders have the required skills and knowledge to ensure compliance with the sharing of information obligation.</p>

ID	Obligation	Current status	Action Plan
4.3.5 Information register			
15	(a) A DNSP must establish, maintain and keep a register of all legal entities (including related electricity service providers) who request access to information identified in clause 4.3.4(a), and must make the register publicly available on its website.	Non-compliant	1. Develop information register and publish on external website by 1 January 2018.
4.4.1 Conduct of service providers			
16	A DNSP: (a) must ensure that any new or varied agreement between the DNSP and a service provider for the provision of services to the DNSP requires the service provider to comply, in providing those services, with: i. clauses 4.1, 4.2.1, 4.2.2 and 4.3.2 of this guideline; and ii. clause 4.2.3 of this guideline in relation to the brands of the DNSP; as if the service provider was the DNSP.	Non-compliant	1. Review standard agreements to include clause for the service provider to comply with clauses of the guideline by 1 January 2018, taking into account waivers granted.
17	(b) must not, directly or indirectly, encourage or incentivise a service provider to engage in conduct which, if the DNSP engaged in the conduct itself, would be contrary to the DNSP's obligations under clause 4 of this guideline.	Non-compliant	1. Develop controls for engaging with services providers by 1 January 2018. 2. Develop and implement training strategy to ensure impacted stakeholders have the required skills and knowledge to ensure compliance with the conduct of service providers obligation.
5.7 Waiver register			
18	(a) A DNSP must establish, maintain and keep a register of all waivers (including any variation of a waiver) granted to the DNSP by the AER under clause 5 of this guideline, and must make the register publicly available on its website. (b) The register established under clause 5.7(a) must include: i. the description of the conduct to which the waiver or interim waiver applies; and ii. the terms and conditions of the waiver or interim waiver; as set out in the AER's written decision, provided by the AER to the DNSP, to grant (or vary) the waiver or interim waiver.	Non-compliant	1. Develop waivers register by 1 January 2018. 2. Publish waivers register on external website by 1 January 2018.
Reporting			
6.2.1 Annual compliance report			
19	6.2.1 Annual compliance report (a) A DNSP must prepare an annual ring-fencing compliance report each regulatory year in accordance with this clause 6.2.1, and submit it to the AER in accordance with clause 6.2.2.	Intending to comply as required	1. Submit annual ring-fencing compliance report within 4 months of the end of the regulatory period.
20	(c) The annual compliance report must be accompanied by an assessment of compliance by a suitably qualified independent authority.	Intending to comply as required	2. Assessment of compliance to accompany annual ring-fencing compliance report.
6.3 Compliance breaches			
21	A DNSP must notify the AER in writing within five business days of becoming aware of a material breach of its obligations under this guideline. The AER may seek enforcement of this guideline by a court in the event of any breach of this guideline by a DNSP, in accordance with the NEL.	Intending to comply as required	1. Report material breaches to the AER in writing within five business days of becoming aware.
3.2.1 Separate accounts			
22	i. provide its internal accounting procedures to the AER; ii. report on transactions between the DNSP and its affiliated entities.	Intending to comply as required	1. Respond to regulatory information instruments within agreed timeframes.

Table 6.2 Obligations per service

Line	Current non-compliant service	Description	Current service classification	Proposed classification 2019-24	Legal Separation	Functional separation - Physical separation/co-location	Functional separation - Staff sharing	Functional separation - Branding and cross promotion
1	Distribution asset rental	Rental of distribution assets to third parties (.e.g. office space rental, pole and duct rental etc).	Not classified	Unclassified distribution service	No action required under guideline	In practice no action required		
2	Network safety services	Examples include: <ul style="list-style-type: none"> Provision of traffic control services by the distributor where required Fitting of tiger tails, high load escort, night watch (private security and flood lighting services). De-energising wires for safe approach (e.g. for tree pruning) 	Not classified	Alternative Control Service	No action required under the guideline	Refer to section 7.2 - TasNetworks is seeking to have these services re-classified as Direct Control for the 2019-2024 regulatory control period onwards. Waivers from these requirements are sought on a temporary basis to 30 June 2019 to allow compliance in the interim		
3	Planned Interruption – Customer Requested	Where the customer requests TasNetworks to move a planned interruption and agrees to fund the additional cost of performing this distribution service outside of normal business hours						
4	Inspection services - private electrical installation	Inspection of and reinspection by a distributor of: <ul style="list-style-type: none"> private electrical wiring work undertaken by an electrical contractor Private inspection of privately owned LV and HV network infrastructure 						
5	Miscellaneous metering services	Various new metering services as a result of the power of choice reforms which may include for example: <ul style="list-style-type: none"> Meter recovery and disposal – type 5 and 6 current transformer metering Distributor arranged outage for the purpose of replacing metering Correction of metering and market billing data Meter disposal 						
6	Legacy pre-payment Meters	The operation and maintenance of legacy pre-payment meters, and associated services as a specific service for retailers.						
7	Registered participant support services	Services and information provided by the distributor and proposed market participant						

Line	Current non-compliant service	Description	Current service classification	Proposed classification 2019-24	Legal Separation	Functional separation - Physical separation/co-location	Functional separation - Staff sharing	Functional separation - Branding and cross promotion
		associated with connection arrangements and agreements made under Chapter 5 of the NER.						
8	Site inspection	Site inspection services in order to determine the nature of the connections service sought by the connection applicant						
9	Provision of electrical training to third parties	The provision of distribution network related training services to third parties						
10	Inspection of private assets under Tasmanian Government direction	Private pole inspections (Tasmanian Government stipulates as common distribution service)	Unclassified	Standard Control				
11	Public lighting	Provision, construction and maintenance of public lighting and emerging public lighting technology	Alternative control/Negotiated	Alternative Control Service				
12	Type 1–4 metering services	Type 1-4 meters and supporting services are competitively available ¹ .	Unclassified	Unclassified	No action required under the guideline	Refer to section 7.4 – TasNetworks is seeking a waiver from these requirements until 30 June 2019		
13	Operation and maintenance support of isolated distribution networks not part of the NEM (Bass Strait Islands)	Operation and maintenance support in relation to third party owned distribution networks not physically connected to the distributor's distribution network	Not classified	Other non-electricity services	Refer to section 7.3 – TasNetworks is seeking a temporary waiver, a delay of 6 months	No action required under the guideline	No action required under the guideline	No action required under the guideline
14	External telecommunications	Provision of wholesale telecommunications services to the Tasmanian market						
15	External data centre services	Provision of data centre services to the Tasmanian market						
16	External IT services	Provision of external IT services (including IT support services and Infrastructure as a service provision)						
17	Metering Support Services	Providing support services for type 1-4 Metering Coordinators	N/A	Unclassified	No action required under the guideline	This is a prospective service, and TasNetworks acknowledges that we would need to seek a waiver to provide this service under the guideline in the future.		

¹ NER, cl. 7.2.3(a)(2) and 7.3.1.A(a)).

7. Waiver Applications

7.1. Waiver Approach

The electricity market in Tasmania is unique and there are differences in the role that TasNetworks plays in this market compared to the role of other DNSPs. Tasmania is a small market with a limited number of players. As a result of the guideline, TasNetworks will restructure aspects of its business to ensure compliance with the guideline. In addition, TasNetworks is seeking a number of waivers for some specific services that are currently provided.

The following waivers can be grouped into two areas:

- Waivers of a temporary or transitional nature where the cost of complying immediately from the introduction of the guideline would outweigh any benefits that would accrue in this timeframe; and
- Waivers that reflect the nature of the electricity sector in Tasmania in that there are no viable alternative providers of the service.

TasNetworks has provided the following waiver applications based upon the requirements and criteria within the current guideline. Below we have outlined the key considerations as required by the guideline for each.

7.2. Temporary Waivers for negotiated and unclassified services

In July 2017, the AER finalised the Framework and Approach for TasNetworks for the upcoming 2019-24 regulatory period. This initial step in the regulatory process has resulted in a significant update of the service classifications that will apply to TasNetworks from 1 July 2019. The current service classification for our 2017-19 regulatory period will apply until the updated service classification comes into effect on 1 July 2019.

Whilst the guideline is closely linked to the service classification process within the Framework and Approach, the National Electricity Rules, as they currently apply, do not allow for updates to service classification within a regulatory period.

Part of the compliance strategy for TasNetworks is to transition a number of currently negotiated, unregulated or unclassified services to alternative control services (as recognised in the updated Framework and Approach) at the beginning of the next regulatory period. In the period between the commencement of the guideline and the beginning of the next regulatory period (1 July 2017) TasNetworks is seeking waivers for the services outlined in Table 7.1. These waivers are purely of a temporary nature and from 1 July 2019 TasNetworks will be in full compliance with the guideline in respect to the services shown in Table 7.1.

Table 7.1 Current negotiated, unregulated or unclassified services

Service	Description	Current classification (July 17 – June 19)	Future Classification (July 19 – June 24)
Network safety services	Examples include: <ul style="list-style-type: none"> Provision of traffic control services by the distributor where required Fitting of tiger tails, high load escort, night watch (private security and flood lighting services). De-energising wires for safe approach (e.g. for tree pruning) 	Not classified	Alternative Control Service
Planned Interruption – Customer Requested	Where the customer requests TasNetworks to move a planned interruption and agrees to fund the additional cost of performing this distribution service outside of normal business hours	Not classified	Alternative Control Service
Inspection services - private electrical installation	Inspection of and reinspection by a distributor of: <ul style="list-style-type: none"> private electrical wiring work undertaken by an electrical contractor private inspection of privately owned LV and HV network infrastructure 	Not classified	Alternative Control Service

Service	Description	Current classification (July 17 – June 19)	Future Classification (July 19 – June 24)
Inspection of private assets under Tasmanian Government direction	Private pole inspections (Tasmanian Government stipulates as common distribution service)	Unclassified	Standard Control
Miscellaneous metering services	Various new metering services as a result of the power of choice reforms which include: <ul style="list-style-type: none"> • Meter recovery and disposal – type 5 and 6 current transformer metering • Distributor arranged outage for the purpose of replacing metering • Correction of metering and market billing data • Meter disposal 	Not classified	Alternative Control Service
Legacy pre-payment Meters	The operation and maintenance of legacy pre-payment meters, and associated services as a specific service for retailers.	Not classified	Alternative Control Service
Registered participant support services	Services and information provided by the distributor and proposed market participant associated with connection arrangements and agreements made under Chapter 5 of the NER	Not classified	Alternative Control Service
Site inspection	Site inspection services in order to determine the nature of the connections service sought by the connection applicant	Not classified	Alternative Control Service
Public lighting	Provision, construction and maintenance of public lighting and emerging public lighting technology	Alternative control/negotiated	Alternative Control Service
Provision of electrical training to third parties	The provision of distribution network related training services to third parties	Not classified	Alternative Control Service

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 the list of currently unregulated services in Table 7.1. 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

The waiver is a temporary waiver to ensure compliance from the inception of the guideline. The waiver recognises that TasNetworks has made appropriate steps to offer previously unclassified services as direct control services. However given that service classification cannot change during a regulatory control period, the waiver avoids a technical non-compliance with the guideline.

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

- Network safety services
- Planned Interruption – Customer requested
- Inspection services – Private electrical installation
- Inspection of private assets under Tasmanian Government direction
- Miscellaneous metering services
- Legacy pre-payment meters
- Registered participant support services
- Site inspections
- Public lighting
- Provision of electrical training to third parties

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

It is proposed that the waiver for these services will commence on 1 January 2018 until the end of the next regulatory control period on 30 June 2019.

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

TasNetworks estimates that most of the additional costs of complying with the guideline for these services would be as a result of temporarily changing business processes and creating staff duplication. It is likely that these costs would be large given the variety of services that are currently unclassified.

In addition, we would also need to establish a new brand, branding material, website and relocate to new premises.

Given the temporary nature of the waiver request and the period of non-compliance it would be an inefficient and costly process to make these changes, and then reverse them in a year and a half as the new service classification comes into effect.

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

2017-19 (1 January 2018 – 30 June 2019)

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

Through the regulatory process, for these services, TasNetworks will ensure that prices and service descriptions are developed to be aligned with future alternative control prices and service descriptions. The intention of TasNetworks is that customers continue to have access to these services until their classification is changed at the beginning of the next regulatory period.

We will also continue to apply our CAM 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.

Given that none of the above services are considered competitive (including by the AER in the R19 service classification), and that each of the services will become direct control services from 1 July 2019, there will be no benefits of increased competition for customers to offset the higher costs of implementing functional separation for the short period until 1 July 2019 and then dismantling this separation after 1 July 2019.

The potential for cross subsidisation and discrimination from granting this waiver is negligible as it is unlikely that another entity would look to (or would be able to) compete with TasNetworks in the provision of the services. Our CAM will continue to ensure that cross subsidies will not eventuate through the limited period that the waiver will apply.

7.3. Temporary Legal Separation Waiver

TasNetworks commenced operation in 2014 following the merger of Aurora Energy's distribution function with Transend's transmission function. This restructure ensured that the then new TasNetworks business structure was best placed to take advantage of efficiencies and synergies between the network businesses. TasNetworks has been able to significantly reduce operating costs as a result of this restructure.

The restructure of the predecessor TasNetworks business was implemented prior to the introduction of ring fencing for DNSPs. Consequently the service catalogue of TasNetworks includes a number of services that generate external non-regulated revenue. For those services that would be considered 'Other Distribution Services' under the guideline, TasNetworks is implementing a number of steps to ensure compliance with the requirements of the guideline. For those services that fall outside of our core distribution and transmission services, TasNetworks is proposing to establish a new legal entity to provide those services. This will ensure that TasNetworks is compliant with the guideline in relation to legal separation.

The new legal entity will be a commercial entity that will provide a number of services into what are contestable, or potentially contestable, markets.

TasNetworks has identified the following existing services that will be delivered from the new entity.

- External Telecommunications
- External Data Centres
- External IT Services
- Operation and maintenance support for isolated distribution networks not part of the NEM (Bass Strait Islands)

These services fall within 'Other Services' for the purpose of the guideline.

The necessary work required to establish a new business is extensive, and given a realistic timeframe in establishing this business, a temporary waiver is sought to allow for this work to be completed.

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

TasNetworks is seeking a temporary waiver for the legal separation provisions of the guideline under clause 3.1 Legal Separation. This would allow TasNetworks as a DNSP to provide Distribution and Transmission Services in conjunction with what is considered 'Other Services' under the guideline.

Specifically, under clause 3.1 (e) of the guideline, TasNetworks is seeking a waiver for:

3.1 Legal Separation

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

TasNetworks is making the appropriate steps to ensure compliance with the guideline. Given TasNetworks' structure prior to the introduction of the guideline, TasNetworks is required to take a number of steps to ensure that the DNSP no longer provides what are considered to be 'Other Services' under the guideline.

The establishment of a new business carries a number of requirements, particularly as TasNetworks is a state-owned company. Our shareholder will need to be comfortable that the new business meets expectations around its role in the Tasmanian market. In addition, any new subsidiary company requires shareholder approval prior to its establishment.

Significant work is also required to establish appropriate governance arrangements, business processes and legal and taxation arrangements for a new entity.

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

- External Telecommunications
- External Data Centres
- External IT Services
- Operation and maintenance of isolated distribution networks not part of the NEM (Bass Strait Islands)

These four 'Other Services' are currently provided by TasNetworks.

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

The waiver will apply from 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

TasNetworks believes that the costs would fall into three categories:

- The additional cost that would be incurred from expediting the establishment of the new business;
- The additional risks that would present themselves from not having undertaken the appropriate steps to ensure the new legal entity is established in an orderly manner (including a thorough due diligence process);
- The risk that current major business initiatives underway will need to be reassessed or re-scoped, duplicating costs; and
- Increased legal and tax expenditure due to expediting the establishment of the new business.

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

2017-2019 (part only)

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

We will continue to apply our CAM 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.

The benefit of granting the waiver will be that TasNetworks will be able to ensure that the necessary due diligence processes, legal and taxation advice and statutory requirements are in place prior to the establishment of the new entity. This considered approach mitigates potential risks, and will allow TasNetworks to ensure that the new business is established in a way that does not impose additional costs on customers due to not taking the appropriate time to ensure risks are well-managed.

For the six months that the waiver is in place, TasNetworks will continue to ensure that the CAM is adhered to and that separate accounting records are maintained (as is currently the case). This will eliminate any risk of cross-subsidisation occurring.

In addition, the services which are intended to be delivered from the new entity are not 'contestable electricity' services, thus the potential for any discrimination prohibited by the guideline in relation to the provision of these services is not present.

7.4. Type 1-4 legacy meters – Meter Provider Role Waiver

Current situation until 30 November 2017

Currently TasNetworks is the Meter Provider (**MP**) for approximately 3,000 type 1-4 meters connected to our distribution network. The Retailer for these sites is currently the responsible person for these sites. TasNetworks is the MP and currently owns the meters on these sites. For the existing type 6 meters on our network TasNetworks is currently the responsible person as well as the MP. TasNetworks, through contractual arrangements, is the responsible person for a number of type 1-4 transmission meters.

The provision of type 1-4 distribution meters is currently a contestable market. Given our ability to leverage existing systems and expertise, TasNetworks has previously been active in this space.

Situation post December 2017

TasNetworks has made the decision not to become a Metering Coordinator (**MC**) for type 1-4 meters under the Power of Choice reforms which come into effect on 1 December 2017. As required under the National Electricity Rules, TasNetworks as the DNSP will continue to be a MC (and MP/Meter Data Provider (**MDP**)) for existing type 6 meters on our network.

TasNetworks has made a commercial decision not to remain in the type 1-4 distribution meter market. It has become clear through discussions with Aurora Energy that they would like TasNetworks to remain as the MP for the existing type 1-4 meters connected to the distribution network. TasNetworks still intends to remove itself from this market however is seeking a waiver to transition out of this role over a longer period. This is purely to allow Aurora to fully implement its strategy for these meters over the next 2 years.

It is TasNetworks' intention that a number of restrictions will be contractually applied between relevant parties. This is to provide certainty to all participants that TasNetworks is only performing a temporary role for legacy meters. TasNetworks will restrict the services it provides from December 1 2017 to our type 1-4 distribution meters. For example, the following scenarios would trigger an end to TasNetworks' transitional MP role for individual sites:

- Communications fault
- Meter fault
- Retail contract ends or is renewed with customer
- Meter test required
- MC engages a different/new MDP.

TasNetworks considers that by only being the MP, and not providing the above associated services, this is likely to support better competition or innovation for metering technology in Tasmania.

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 all type 1-4 distribution meters that TasNetworks is the MP for as at 1 December 2017. 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 waiver to continue to be the MP for approximately 3,000 type 1-4 legacy distribution meters. This will provide additional time for TasNetworks, in conjunction with Aurora Energy, to transition these meters over to a new MP under the Power of Choice reforms.

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

TasNetworks is seeking to continue to be the MP for the existing type 1-4 distribution meters currently provided to customers connected to the distribution network.

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

1 January 2018 – 1 July 2019

These dates will allow TasNetworks to make alternative arrangements for these existing meters without adding unnecessary pressure on Aurora Energy to replace these meters in a narrow timeframe.

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

The costs of complying with the guideline in respect of providing type 1-4 distribution meters would essentially fall onto Retailers and their customers. Should the Retailer or customer go to market for replacement of these meters before 1 January 2018, the ability to source a deal on favourable terms would diminish.

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

2017-2019 (part thereof)

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

- TasNetworks will cooperate with Aurora Energy to exit the type 1-4 meter space prior to the end of the waiver period. TasNetworks will also commit to not being the MP for any new Type 1-4 distribution meters from 1 December 2017.
- TasNetworks will seek to provide training to all staff (set out further below) that would be providing these services, prior to the implementation of the guideline.

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.

Should TasNetworks have to comply with the ring fencing guideline and functionally separate existing type 1-4 meters, it is likely that we would choose to exit the market as of December 2017. TasNetworks has done a considerable amount of work around the costs and benefits of our future role in the metering market. Based on this work, TasNetworks will not actively pursue opportunities (either as a DNSP or through an affiliated entity) in the type 1-4 meter space, and we intend to transition out of the type 1-4 meters.

As TasNetworks transitions out, for those customers who have a type 1-4 meter provided by TasNetworks, it is likely they would need to find an alternative MP. Given time constraints and the focus of the major retailer in Tasmania, if TasNetworks exited the market as of December 2017 this is likely to cause significant inconvenience and an increase in costs for customers who use the 3000 type 1-4 distribution meters. These customers would benefit from a gradual transition over to a new MC by July 2019.

TasNetworks will use internal training to ensure that those staff members who work across regulated and unregulated metering do not engage in behaviour that may be discriminatory. We will use the CAM to ensure that cross subsidisation does not occur. This concern is also mitigated by our commitment to not become the MP for any new Type 1-4 distribution meters from 1 December 2017.

8. No Action Letter

8.1. No Action Letter

The final component of TasNetworks' compliance strategy is to seek a no action letter in relation to the provisions of 4.3.2 and 4.3.3 of the guideline.

These clauses require TasNetworks to:

- Keep confidential information confidential;
- Only use the confidential information for the purpose for which it was acquired; and
- Not disclose confidential information to anyone, subject to the requirements of the section.

TasNetworks' reading of these clauses is that this requires information to also be kept confidential from a related entity not providing 'Contestable Electricity Services'.

TasNetworks is committed to complying with the intention of these provisions. TasNetworks believes there is a risk of a technical breach of these clauses due to the utilisation of shared IT systems between TasNetworks and its new legal entity (being established to comply with the guideline).

The no action letter is sought on the basis of the potential breach being technical in nature and of minimal consequence given the nature of the services conducted by the new legal entity.

As previously indicated in this plan, the new legal entity will not contain Contestable Electricity Services. Rather, the entity will be focused on TasNetworks' External Telecommunications, Data Centre, IT services and Bass Strait Islands O&M support currently undertaken within the DNSP. TasNetworks accepts that should the new legal entity begin to provide Contestable Electricity Services then the no action letter would cease to apply and the business would need to take the appropriate steps to ensure that confidential information is retained purely within the DNSP.

8.2. Background to request

Following the merger of Aurora Energy and Transend, TasNetworks has invested significant funds to roll out SAP across the current business to create a single way of working for the business. TasNetworks also utilises a shared internal intranet across all functions. Given recent expenditure to establish these systems, TasNetworks does not believe duplicating aspects of this expenditure to avoid this technical guideline breach is prudent. This is particularly so given the consequence (in relation to the harms the guideline is trying to address) of information being shared across the two entities is low.

TasNetworks is committed to having in place the appropriate controls to ensure that confidential information is handled in a correct manner when dealing with external parties (as is currently the case). The no action letter will only be applicable for information flows between the DNSP and the newly established entity (an entity not providing Contestable Electricity Services).

8.3. Content of the no action letter

TasNetworks would appreciate the opportunity to discuss with the AER the specifics of the requested no action letter, including reviewing a draft of the letter prior to its finalisation to ensure the wording reflects the nature of the request.