



**Revenue Reset 2019**

# **Direction and Priorities Paper**

*Summary of Submissions and Key Themes*

**November 2017**





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Amendments and Version History

<b>Version No.</b>	<b>Date of Revision</b>	<b>Authorised by</b>	<b>Details of amendment</b>
0.1	24 August 2017	Josh Bradshaw	Outline Plan
0.2	11 October 2017	Josh Bradshaw	Final draft for Revenue Reset TasNetworks Leadership Team Endorsement

Amendments to each version of this document will be tracked through TasNetworks' document management system.



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## 1. Background

TasNetworks provides both distribution network services (via the poles and wires) and transmission network services (via the large towers and lines) to customers in Tasmania. The business was created through the merging of Transend Networks and Aurora Distribution in mid 2014, a process that has delivered a more optimised and efficient business and allowed us to focus on managing 'one' Tasmanian network.

The electricity system in Australia is experiencing change on an unprecedented scale, driven by changes in Australia's generation mix and by our customers, who are embracing new technologies, taking control of their energy use and supporting action on climate change.

To prepare for and manage these changes, we are developing plans to provide our regulated network services to 2024. In January 2018 we will lodge our first integrated transmission and distribution proposal to the Australian Energy Regulator. That proposal will outline the revenue and pricing for our regulated services from 1 July 2019 to 30 June 2024.

In preparing our plans for the 2019-24 period, we have given careful thought to our overall direction and priorities, including consultation on our proposed directions and priorities. The diversity of views in the feedback we receive reflects the diversity of our customer base. As we finalise our proposals for revenue and pricing we must strike the right balance for our customers across a range of competing views; this is not an easy task.

This document updates our direction and priorities, based on customer feedback received during consultation. This paper:

- sets out the direction and priorities that will help to inform our final Regulatory Proposal in January 2018.
- provides a summary of the key themes emerging from submissions on our Direction and Priorities Consultation Paper published in August 2017
- highlights how we are taking customer feedback into account as we move towards final lodgement of our 2019-24 Regulatory Proposal.

## 2. Our direction and priorities

The insights we have collected through customer consultation, combined with our regulatory obligations and knowledge of the network and customer expectations has reinforced that our proposed directions and priorities are largely appropriate. Based on the feedback received we have now also included a further direction and priority statement relating to pricing reform. Our 2019-24 Regulatory Proposal will therefore be focused on six key themes:

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

### 2.1 Feedback supporting our direction and priorities

The themes in our customers' and stakeholders' responses on the proposed directions and priorities are summarised in the table below.



Direction and priorities	Feedback summary
Improving how we communicate with, and listen to, our customers	Based on consistent feedback across our daily operations and reset engagement, we are continuing to look into ways in which we can better communicate with customers. This includes better communication in real time to customers across different regions and with different demographics, particularly during outages, and our approach to customer engagement on strategic issues.
Ensuring the safety of our customers, employees, contractors, and the community	Customers continue to call out safety as critical priority and focal area for TasNetworks. Many customers consider safety to be a 'hygiene' factor: it's taken for granted that we will operate safely. Aurora Energy, TasCOSS, along with major business customers, reinforced this as a key priority.
Keeping the power on, maintaining service reliability, network resilience and system security	<p>Our customers continue to reinforce the importance a reliable supply and there is a growing recognition following the South Australian 'system black' that network resilience and system security are also critical.</p> <p>Most customers are not willing to pay any more for improved reliability, and would prefer we prioritised reducing costs ahead of improving reliability. However some customers highly value reliability and would be prepared to pay more at a reasonable and stable price.</p>
Innovating in a changing world	Customers are keen to see TasNetworks continue to demonstrate and drive innovation to deliver better customer outcomes. However, there are different views on the pace of change: some customers believe we are moving too quickly and some customers believe we are not moving fast enough.
Delivering services for the lowest sustainable cost	Customers continue to reinforce the expectation that we continue to operate our business as efficiently as possible, to drive good outcomes for customers today and into the future. This is consistent with the feedback we regularly receive, including in many of the submissions we received as part of this consultation.



Direction and priorities	Feedback summary
Bringing the community on the journey of pricing reform	<p>Feedback from customers and stakeholders, including our owners and retailers, has reinforced the importance of helping the community to transition to more cost-reflective pricing for distribution-connected customers.</p> <p>We have been engaging with stakeholders and customers on our distribution pricing strategy since 2016. Feedback received throughout the consultation program has helped shape our plans.</p> <p>Our emPOWERing You trial and the CONSORT Bruny Island trial are helping us learn more about pricing models, technology and customer behaviour. The trials will help us to develop customer information and tools to support the transition to cost reflective network pricing.</p>

### 3. Our approach to seeking feedback

TasNetworks regards good customer engagement as a pillar of our business – the drive to engage with and listen to our customers is not exclusive to the regulatory proposal process. Over an extended period, TasNetworks has worked with customer groups and specific organisations to seek feedback on our future plans and strategies.

As we prepare for our regulatory proposal for the five-year period commencing 1 July 2019 until 30 June 2024, TasNetworks has undertaken comprehensive stakeholder engagement. This stakeholder engagement has essentially been a continuation of the engagement undertaken as part of the 2014 Transmission Determination and the 2017 Distribution Determination processes.

In preparing our revenue and pricing plans, TasNetworks supports an early engagement model. We were one of the first network businesses nationally to provide customers with detailed capital, operating expenditure and overall revenue forecasts well ahead of lodging the final proposal. This approach has been repeated for our present engagement; has been well received by customers; and has contributed to open and honest discussions with stakeholders throughout this consultation period.

Figure 1 below summarises our customer engagement timeline for our 2019-24 Regulatory Proposal.



## 2019 Revenue Reset Engagement timeline



In August 2017, we published our Direction and Priorities Consultation Paper on our website and advertised via Facebook and Twitter. We also sent the consultation paper directly to a number of stakeholders and sought feedback via the following channels:

- the consultation paper was sent directly to the TasNetworks' Customer Council and Pricing Reform Working Group
- the consultation paper was provided directly to a broad range of stakeholders including State Government, Local Government Authorities, interest and advocacy groups, the AER and other interested parties
- the consultation paper was discussed at the Office of the Tasmanian Economic Regulator's (OTTER) Customer Consultative Committee at its September 2017 meeting and feedback sought from Committee members
- discussion of our proposed direction and priorities as part of formal engagement with the AER's Consumer Challenge Panel (CCP13) in October 2017.

Following this targeted circulation of the Directions and Priorities Consultation Paper, submissions were collated via the following sources:

- written submissions directly responding to the questions
- email responses and feedback on the direction TasNetworks is heading
- targeted 1:1 conversations with stakeholders and customers
- verbal feedback through our usual business activities
- extensive notes captured during workshops.

### 3.1 Submissions received

Written submissions were received from a number of interested parties, including submissions from:

- Tasmanian Renewable Energy Alliance



- Tasmanian Council of Social Services
- Tasmanian Small Business Council
- Tasmanian Farmers and Graziers Association
- Council of the Aging
- Aurora Energy
- ERM Energy
- Tasmanian Irrigation (received on 11 October 2017).

A number of other individuals and organisations made verbal or email submissions through either the targeted 1:1 conversations or standard business activities. These views have also been captured and included as part of summarising the key themes of this paper. Some of these include views expressed by:

- Transmission directly connect customers
- Climate Solutions Tasmania Task Force
- Energy ROI
- Goanna Energy.

#### **4. Summary of themes and messages**

As part of our engagement, we received wide-ranging feedback in a number of areas. A number of topics were raised by multiple stakeholders with some key themes listed below:

- more detailed information is required before customers or stakeholders can make informed decisions on our future plans and associated revenue and price outcomes – including more detailed information explaining customer benefits
- general support for maintaining existing levels of reliability
- concern with the proposed increases in capital expenditure, particularly areas with higher than trend expenditure, namely on new IT and communication systems and on transmission development expenditure
- further information and detailed modelling is required in relation to the contingent projects and the potential impact on revenue and pricing forecasts
- concern about our tariff strategy and price implications for particular groups of customers.

A number of submissions complimented our genuine effort with regard to customer engagement, including time often spent in 1:1 discussions. For example, the Tasmanian Council of Social Service notes in their submission:

*“TasCOSS supports the ongoing efforts of TasNetworks to communicate with customers and advocates. We participate in the TasNetworks Customer Council and Pricing Reform Working Group, and we appreciate the additional opportunities for direct briefings that have been provided. A good deal of information has been provided by TasNetworks in these contexts, and we appreciate TasNetworks’ readiness to discuss and clarify this information”.*

The diverse demographic of TasNetworks customer base was also highlighted by a number of submissions and during workshops, including the platforms we use to communicate across age groups. The Council of the Aging (COTA) made numerous references to the need for TasNetworks to improve communication with older Tasmanians, making the point:

*“While communicating online and through social media is a useful way to connect with consumers quickly, it is vital that TasNetworks also continues to improve how they communicate with consumers who are offline”.*



## **4.1 Our response to the key themes and messages**

### **4.1.1 Generally, more information is required before customers can make informed decisions on our future plans and associated revenue and price outcomes, and customer benefits**

The need for further and more detailed information was a regular theme from submissions received and it is our intention to provide this as we finalise our forecasts and prepare our Regulatory Proposal.

We have heard loud and clear that our customers value lower prices. We must make a clear case for any cost increases that will increase customer prices.

### **4.1.2 Customers and stakeholders provide broad support for maintaining existing levels of reliability**

Our approach to reliability in the forthcoming regulatory period is consistent with our current approach, which is to maintain current overall network service levels. We will focus our reliability efforts in the poorest performing regions across Tasmania, supported by customer feedback not to leave some communities ‘behind’.

Some customers queried the existing levels of reliability our customers receive. Further information on TasNetworks’ overall performance and reliability is published by the Office of the Tasmanian Economic Regulator (OTTER), with a link to the most recent report provided below:

<http://www.economicregulator.tas.gov.au/Documents/2015-16-Energy-in-Tasmania-Report---final-web-pdf.PDF>

While we are not proposing increased expenditure to improve average reliability, maintaining existing reliability will lead to higher levels of expenditure in the next regulatory period, particularly in our distribution network. This includes higher replacement expenditure – for example, including due to the age and condition profile of our distribution pole fleet.

The price and reliability trade-off is only one driver of pricing outcomes for our customers. Our expenditure is increasing in some areas to ensure we meet other obligations. For example, we forecast increased expenditure to be compliant with customer voltage requirements in a network with more distributed generation and to meet new national obligations to ring-fence our distribution network service activities.

### **4.1.3 Concern about increases in capital expenditure, particularly increases in IT and communication systems and transmission development expenditure**

More information and detail will be provided as part of our Regulatory Proposal to explain our proposed capital investment drivers and benefits.

For the two areas singled out for mention, due to higher than trend levels of forecast expenditure, we provide the following updated information:

- **Technology spend on IT and communication systems:** Our 2025 TasNetworks Transformation Roadmap highlights that we are moving into a more complex operating environment, where technology will play a key role in supporting good customer outcomes at lowest cost. We also have a number of existing systems that are forecast to reach end of life during the next regulatory period, with plans to replace with modern solutions.



As a result of strong customer feedback about the desire for lower costs rather than improved service, we have reviewed our forecast expenditure in this category and propose deferral of some spend compared our initial forecasts.

- **Transmission development expenditure:** A number of customers highlighted the forecast increase in transmission development expenditure compared to levels in the recent past. Our development expenditure has been extremely low in the last ten years, as the levels of energy growth and demand on our system recovered from a post-global financial crisis downturn, with little new capacity or network management investment required to support a reliable and secure transmission system.

The proposed transmission development expenditure in 2019-2024 relates principally to a proposed dynamic reactive power device at our George Town Substation, intended to support more stable and efficient operation of our transmission network with changing generation and interconnector flows, and to allow dispatch of lower cost generation. We have commenced scoping of a regulatory investment test for this project, which will be subject to full public consultation.

#### **4.1.4 Further information and detailed modelling is required in relation to the contingent projects and the potential impact on forecasts**

TasNetworks, and the national electricity market generally, is experiencing significant change with unprecedented levels of generation connection activity at the moment as Australia transitions away from baseload coal-fired generation to cleaner energy sources. For us this reflects high volumes of new connection applications and enquiries at both transmission and distribution voltages.

TasNetworks continues to work with its customers, developers of large-scale renewables and the State Government to better understand the impacts of future generation investments in Tasmania. We are also working with the Australian Energy Market Operator to consider transmission investments as part of a national system plan.

We will keep customers informed of developments as more information becomes available. We will also work with policy and regulatory bodies to seek 'fair sharing' of the costs of transmission investments that provide benefits to customers in parts of the national market beyond Tasmania.

#### **4.1.5 Distribution pricing**

This section seeks to address a number matters that were raised in feedback we received during consultation on distribution pricing. Our consultation on pricing has been undertaken with our pricing reform working group, with materials available on our website. The following provides our high level strategy for the 2019-2024 period.

Our overarching pricing strategy remains to move towards more cost reflective pricing and network tariff structures that enable customers to:

- recognise and pay for the value the network provides to them
- make more informed decisions regarding their electricity usage and sourcing, including investments in embedded generation, storage, control technology and electric vehicles.



### **New pricing structures ('tariffs')**

We are introducing some new pricing structures to reflect the different ways customers are starting to use our network. This includes new tariffs that help us identify where customers have their own energy resources that can be used to support lower overall network costs.

During the 2019-24 period, we expect to see a growing class of customers that can be termed 'early adopters' who invest in electricity storage, generation, or management technology – collectively referred to as distributed energy resources (DER) – as well as electric vehicles, which are a form of mobile electricity storage.

In anticipation of the increasing uptake of DER and electric vehicles, we will introduce two new demand based time of use tariffs as a choice for customers who invest in new technology, enabling them to better manage their use of electricity and help us reduce network costs. We are planning to introduce a DER tariff for residential customers and another for small businesses.

We also expected an increase in embedded (or private) networks connected to our distribution system, and note changing national arrangements to manage customers in embedded networks. Given the expected increase in this area, and different characteristics of embedded networks, we plan to introduce a new embedded network tariff.

### **2019-24 pricing strategy summary**

In this 2019-24 period, our continued move towards more cost reflective pricing means we will:

- continue progressively eliminating longstanding cross-subsidies
- introduce new demand based time of use tariffs as a choice for customers who invest in distributed energy resources (**DER**) like solar generation, batteries and electric vehicles
- provide an 'introductory' discount for the demand based time of use tariffs introduced during the 2017-19 TSS period, as well as the new demand based time of use tariffs for users of DER, to encourage customers to choose them
- introduce new tariffs for embedded networks
- collect advanced meter and trial data to better manage customer impacts in future phases of reform.

Our aim is to promote a customer led shift to demand based time of use tariffs, while transitioning tariffs to reflect total efficient costs. This will remove cross-subsidies between existing tariffs, between classes of customers and within classes of customers.

For customers to receive new network tariffs they will need to form part of retail customer offerings. We will work with retailers to progress this.

Over the next five years we aim to improve the quality of information available to support future tariff refinement and customer understanding of how to benefit from new types of tariffs. This information will reflect learnings from the EmPOWERing You and CONSORT Bruny Island trials.

More information is available on our website at: <https://www.tasnetworks.com.au/customer-engagement/tariff-reform/>



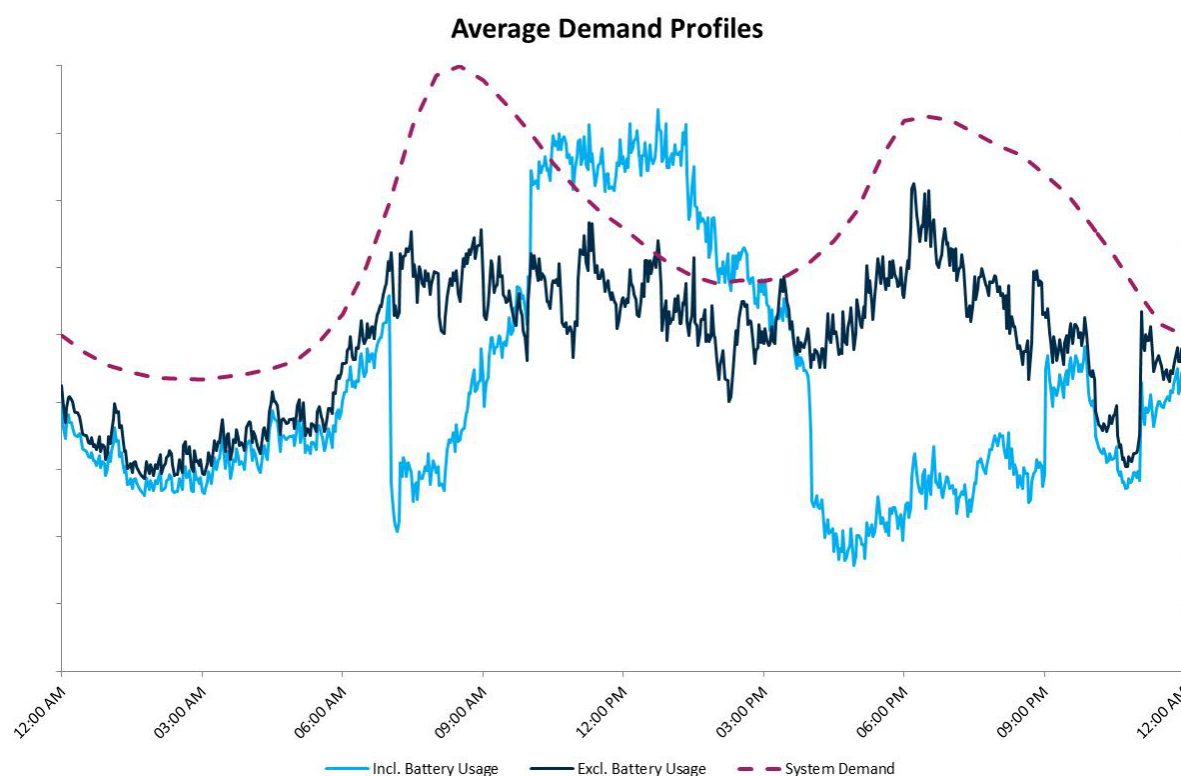
### Distributed Energy Resource pricing case study:

We are undertaking a trial of solar panels and batteries in 40 homes on Bruny Island, as part of the CONSORT group. This trial is already providing insights on the potential for customers to manage their electricity usage and control their electricity costs using DER – while also using these resources to benefit for our electricity network and other customers.

The figure below illustrates that the demand on our network from customers with batteries ('incl battery usage') and those without ('excl battery usage') are quite different.

The figure shows that some customers are using electricity stored in batteries to reduce the amount of power they draw from the network during periods in the day when the load on the network (system demand) is highest. Many of the customers with batteries are responding to price signals to reduce their demand on the network at times of system peak. The battery may be charged from energy generated by customer solar panels and/or charged from the network at off-peak times.

**Figure 1: Distributed energy resources in practice**





## 4.2 Other matters raised

Two other matters were raised through submissions that we are taking the opportunity to respond to as part of this paper.

### 4.2.1 Private Electricity Assets

Across Tasmania's electricity network, there are approximately 65,000 private poles and many other associated private network assets, such as conductors and transformers.

The issue of private electricity assets and their ownership was raised by the Tasmanian Farmers and Graziers Association (TFGA). In particular the TFGA raised that if these are not in fact private assets, then owning and managing this large asset base could have a cost impact on TasNetworks' future capital and operating expenditure forecasts. The legal status of private electricity assets has also received some media attention over recent months.

In response to customer and stakeholder feedback questioning the legal status of these assets, TasNetworks and the Tasmanian Government have recently reviewed the issue of ownership in detail. The advice received is consistent with the position of TasNetworks and its predecessor businesses, confirming that, in all but a few exceptional cases, the ownership of private electricity assets rests with the landowner.

Private electricity assets usually start at and include the first low voltage pole on private property. It is the landowner's responsibility to maintain and repair the first pole and all the poles, line fittings and attachments beyond this point.

It is TasNetworks' intention to conduct a comprehensive stakeholder engagement piece to communicate this position to relevant landowners and we will engage directly with the TFGA on this matter.

Where there is a dispute over ownership, TasNetworks will work with the relevant landowner and the Department of Justice to determine an outcome.

### 4.2.2 Service Target Performance Incentive Scheme (STPIS)

Some customers including Aurora Energy and TasCOSS provided broad support for our proposed changes to the operation of the Transmission STPIS scheme, however almost all noted that more information would assist customers make a more informed decision. We will continue to engage and explain our proposed changes to customers as our proposal progresses.

Based on this feedback, we have provided further information in regards to the Proposed Transmission STPIS and published it via our consultation channels: [Amendments to apply to our 2019-2024 Regulatory Proposal](#)

We will continue to work with the AER and our transmission customers on our proposal.



## 5. Next steps

Feedback on our plans, including this directions and priorities document, supports a strong foundation for the detailed proposals we must submit in January 2018 for the 2019-2024 regulatory period.

We will be discussing our overall direction and priorities with our Customer Council and Pricing Reform Working Group over the coming months. We will also further engage with customers and stakeholders on a 1:1 basis where requested.

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

You can contact us by:

- emailing us at: [revenue.reset@tasnetworks.com.au](mailto:revenue.reset@tasnetworks.com.au)
- going on line at: <https://www.tasnetworks.com.au/our-network/network-revenue-pricing/revenue-proposals/revenue-reset-2019-2024/>
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