

24 September 2021

Warwick Anderson
General Manager – Network Pricing
Australian Energy Regulator
GPO Box 520
Melbourne Vic 3001

Dear Warwick

RE AER standardised model for ancillary network services

Thank you for providing TasNetworks with the preliminary ancillary network services (**ANS**) model developed by the Australian Energy Regulator (**AER**) and the issues paper that accompanied it. TasNetworks is supportive of the AER's plans to use a standardised model to derive prices for fee-based ancillary network services and the labour rates applied to quoted services, and welcomes the opportunity to comment on the model and its implementation.

TasNetworks has evaluated the preliminary ancillary network services model in terms of its functionality and tested the prices it develops. While that limited review suggested that, on the whole, the model is working as intended, it was noted that the calculation of the tax recovery figure is linked to the tax recovery input, when it possibly should be based on parameters entered in the 'Input|Indirect Cost Rates' sheet.

Aspects of the model, such as its use of rounding and its level of precision also require review to ensure consistency with control mechanism guidelines, noting the difference between price caps and the prices that are actually charged for specific ANS and the implications this has for the calculation of both.

In terms of the model's functionality, in this initial iteration there appears to be no explicit capacity to develop prices for what might be termed 'premium' services. As part of TasNetworks' determination for the current (2019-24) regulatory control period, higher direct labour rates were able to be applied to the development of prices for a number of services, such as non-scheduled visits and the provision of same day services.

This functionality could be accommodated within the standardised model through the use of premium labour categories (and rates), the addition of a margin to the pricing of premium

services, or by recognising premium categories of service in addition to the distinction which the model already draws between business hours and after hours service delivery. Regardless of how such functionality might be incorporated into the standardised model, TasNetworks considers that explicitly providing for the derivation of prices for premium services would make the model more fit-for-purpose and benefit all stakeholders by aiding transparency.

We also note that the preliminary ANS model applies a 50 per cent loading to base labour rates for the pricing of after-hours services. TasNetworks is of the view that the final version of the model should not lock-in the loadings applying to things like after-hours services, so that individual network businesses can apply the different loadings to the delivery of services that reflect their circumstances and the actual costs of service delivery. More broadly, we would advocate that the standardised ANS pricing model being developed should not preclude the flexibility for distribution network businesses to propose, as part of the regulatory determination process, the parameters that will inform their fee-based services pricing.

Once again, thank you for the opportunity to review the preliminary version of the ANS model. To discuss the views expressed in this letter, please contact Scott Lancaster, Senior Regulatory Analyst, at [REDACTED] or on [REDACTED]. We look forward to the stakeholder workshop in October where the AER will discuss the key issues raised in stakeholder submissions.

Yours sincerely

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Chantal Hopwood

Leader Regulation