Combined Proposal 2024-2029

Attachment 18
Alternative control services

Outline: This attachment to TasNetworks' Combined Proposal outlines our plans for the delivery of Alternative Control Services during the 2024-2029 regulatory control period, including how we have developed our proposed prices for fee-based services and changes to the way we price quoted services.

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Note

This attachment forms part of TasNetworks' Combined Proposal for the 2024-2029 regulatory control period and should be read in conjunction with the other parts of the proposal. TasNetworks' Combined Proposal is made up of the documents and attachments listed below, as well as the supporting documents that are listed in Attachment 23.

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18 Alternative control services

18.1 Introduction

In addition to standard control services (i.e., the distribution network services relied upon by all customers), TasNetworks also provides services to individual customers, such as new connections or connection alterations, where the costs – and the associated benefits – can be attributed directly to the customer that requests the service. Whereas the cost of providing the shared distribution network is recovered from the wider customer base through network charges, the cost of these customer-specific services is recovered only from the customer that receives the service. This ensures that the wider customer base does not share in the cost of services that benefit just the one customer.

These services are known as *alternative control services* (**ACS**). For ACS, the Australian Energy Regulator (**AER**) either caps the prices that can be charged or sets the input costs that can be used by TasNetworks to quote for jobs. This alternative control mechanism of capping prices for services to specific customers contrasts with the standard control mechanism of capping revenue for services that benefit all customers supplied through the shared network.

This attachment to TasNetworks' Combined Proposal sets out our plans and pricing methodologies for the provision of ACS in the 2024-2029 regulatory control period. For the purposes of our Combined Proposal, TasNetworks' ACS have been divided into four sub-categories, each of which are covered in separate sections in this attachment:

- metering services
- network ancillary service
- connection services
- public lighting.

Different services within an ACS sub-category may be delivered as fee-based services or provided as quoted services. New basic connections, for example, can be delivered as a fee-based service because the time and materials involved with delivering each connection are relatively consistent between customers. However, more complex new connections, which might require the preparation of a bespoke design and involve additional materials and on-site labour to construct, are delivered as quoted services.

18.2 AER's framework and approach

On 29 July 2022, the AER published the final Framework and Approach Paper[1] applying to TasNetworks for the 2024-2029 regulatory control period. Among other things, the Framework and Approach Paper sets out the services offered by TasNetworks that the AER will regulate in the next regulatory period and how those services will be regulated. TasNetworks accepts the AER's proposed classification of legacy metering services, various other metering-related services, connection services, network ancillary services and public lighting services as ACS and the application of a price cap form of control to those services.

Details of our proposed distribution service classification are set out in Attachment 15 to this Combined Proposal for the 2024-2029 regulatory control period.

1 AER, Final Framework and Approach for TasNetworks for the 2024-2029 regulatory control period, July 2022

18.3 Fee based services pricing

Fee-based services are homogeneous services provided on request (often from electricity retailers) for the benefit of a single customer, rather than a service supplied to customers collectively. The 2024-2029 Ancillary Services Guide[2] contains the full descriptions of all proposed fee-based services. Examples include the energisation/de-energisation of connections to the distribution network, special meter reading services, supply abolition, the provision of network-related property services and enacting network tariff change requests.

The AER has introduced standardised models for pricing many of the alternative control services that are delivered as fee-based services, including network ancillary services, metering and public lighting. TasNetworks has used these models to build the prices for fee-based network ancillary services, metering and basic connection services being proposed for the 2024-2029 regulatory control period.

Based on the labour rates, vehicle costs, overheads and the cost of materials that are expected to apply to the delivery of network ancillary services in the 2024-2029 regulatory control period, TasNetworks is proposing, on average, a slight increase in fee-based service prices when compared with the prices that will apply in the last year of the current regulatory control period (2023-24).

TasNetworks has recognised that while labour costs are higher in relation to work undertaken after-hours, the majority of TasNetworks' overheads are recovered from work delivered during standard business hours. While it is appropriate that some overheads are applied to the cost of fee-based services, TasNetworks has proposed a modification to the standardised model's formulas that will see a material reduction in the overheads allocated to the delivery of after-hours services. The proposed change in the calculation of the cost of fee-based services essentially halves the rate of overhead recovery applied to after-hours work.[3]

In the 2024-2029 regulatory control period TasNetworks will apply the price cap control formulae set out in the final Framework and Approach for TasNetworks' distribution network to legacy metering services, fee-based services, network ancillary services and public lighting. The formulae are the same as those used in the 2019-2024 regulatory control period and are as follows:

1. $\bar{p}_t^i \geq p_t^i$ where $i = 1, \ldots, n$ and $t = 1, 2, 3, 4, 5$

2. $\bar{p}_t^i = \bar{p}_{t-1}^i \times (1 + \Delta CPI_t) \times (1 - X_t^i) + A_t^i$ where $i = 1, \ldots, n$ and $t = 1, 2, 3, 4, 5$

Where:

Variable	Description
t	The regulatory year with t = 1 being the 2024–25 financial year.
$\bar{p}_t^i$	The cap on the price of service 'i' for year t.
p_t^i	The price of service 'i' in year t, with the initial value to be decided in the AER's distribution determination for TasNetworks.
$\bar{p}_{t-1}^i$	The cap on the price of service 'i' in year t–1.
$\Delta \mathrm{CPI}_t$	The annual percentage change in the Australian Bureau of Statistics' Consumer Price Index All Groups, Weighted Average of Eight Capital Cities[4] from December in year t–2 to December in year t–1. For example, for the 2024–25 year, t–2 is December 2022 and t–1 is December 2023.
X_t^i	The X factor for service 'i' in year t. The X factors are to be decided in the AER's distribution determination for TasNetworks.
A_t^i	The sum of any adjustments for service 'i' in year t. To be decided in the AER's distribution determination for TasNetworks.

2 Ancillary Services – Fee Based Services (2024-2029 Service Offering) document submitted in support of TasNetworks' regulatory proposal for the 2024-2029 regulatory control period

3 See the 'Calc|Fee Based' tab of the Standardised ANS model (cells AX10 to AY509 inclusive) submitted in support of TasNetworks' regulatory proposal for the 2024-2029 regulatory control period

4 If the ABS does not or ceases to publish the index, then CPI will be taken to mean an index which the AER considers is the best available alternative index

18.4 Introduction of traffic control service

The safety of TasNetworks' employees, contractors and members of the community is non-negotiable. For reasons of accessibility, much of TasNetworks' distribution network infrastructure is located on public land adjacent to roadways (known as road reserves). So, when working around public roadways TasNetworks is frequently required to utilise the services of appropriately credentialed external traffic control contractors.

The provision of traffic control services adds to the cost of building, maintaining and repairing the distribution network, and when TasNetworks is working on the shared network, for the benefit of the wider customer base, that cost is recovered through the network charges applied to all retail customers with a connection to the network. However, in the case of work on the network which is being undertaken as a fee-based service for the benefit of an individual or identifiable group of customers, the cost of that service – including traffic control – should be recovered from the customer(s) who requested the service.

TasNetworks is proposing to introduce a new traffic control fee based service in the 2024-2029 regulatory control period. This new service will ensure the costs of traffic control associated with the delivery of other, predominately connection related, fee based services are only recovered when traffic control is actually required and only recovered from the customer(s) that request the service.

18.5 Quoted services pricing

Quoted services are services provided by TasNetworks where the nature and scope of the job is specific to an individual customer's needs and can vary between customers. It is therefore not possible to set generic fixed fees in advance for these services. In the case of network ancillary services and connection services that are non-standard in nature and so are provided on a quoted basis, the prices charged to customers are based on an AER-approved methodology. This approach allows TasNetworks to recover the directly incurred costs for labour, contractors and materials involved in providing the service. The prices charged for providing quoted services are designed to recover the costs directly incurred in providing the service plus an AER-approved allowance for overheads and a margin.

TasNetworks is not proposing to change its methodology for pricing quoted services during the 2024-2029 regulatory control period. We do acknowledge, however, the addition of a tax component to the quoted services formula, as approved by the AER in our 2024-2029 Framework and Approach Paper. This component is to allow for the recovery of any income tax liability incurred by TasNetworks in relation to the provision of quoted services.

TasNetworks is required to provide itemised quotes to customers prior to them consenting to the provision of a quoted service. Having regard to the Framework and Approach Paper, it is proposed that TasNetworks will apply the following formula when pricing quoted services:

Price = Labour + Contractor Service + Materials + Margin + Tax

Where:

Variable	Description
Price	The price charged to the customer for providing the quoted service.
Labour	The labour costs directly incurred by TasNetworks in the provision of the service, which include labour on-costs and overheads. TasNetworks' proposed labour rates are set out in the Tariff Structure Statement (Attachment 21) that accompanies the Combined Proposal for the 2024-2029 regulatory control period. Labour rates will be escalated annually during the 2024-2029 regulatory control period by $(1 + \Delta CPIt) \times (1 - X_t^i)$ (see descriptions in rows below).
Contractor Services	The costs associated with the use of external labour including overheads and any direct costs incurred. Contracted services charges apply the rates charged to TasNetworks under existing contractual arrangements with service providers. Direct costs incurred are passed onto the customer.
Materials	The cost of materials directly incurred by TasNetworks in the provision of the service, including materials storage and logistic on-costs and overheads, as well as vehicle costs.

Margin	A regulated margin set by the AER and added to quoted services pricing to ensure that the prices paid by customers are reasonable and efficient, but not anti-competitive. Margin is an amount equal to 5.93 per cent of the total costs of labour, contractor services and materials, which is consistent with the Weighted Average Cost of Capital (**WACC**) forecast to apply to TasNetworks over the 2024–2029 regulatory control period.
Tax	Tax is an amount, if any, equal to the tax costs in present value terms arising from the provision of the service to a customer, netting off the net present value of the reverse cash flow resulting from any income tax deduction (including depreciation) of the capital contribution.
$\Delta CPIt$	The annual percentage change in the Australian Bureau of Statistics' Consumer Price Index All Groups, Weighted Average of Eight Capital Cities[5] from December in year t–2 to December in year t–1. For example, for the 2024–25 year, t–2 is December 2022 and t–1 is December 2023.
X_t^i	The X factor for service 'i' in year t. The X factors are to be decided in the AER's distribution determination for TasNetworks and will be based on the approach TasNetworks undertakes to develop its initial prices.

18.6 Rationalisation of quoted service labour rates

Although TasNetworks is not proposing to change the methodology for pricing quoted services, we have reviewed our quoted services labour rates to reduce complexity for our customers and TasNetworks' teams delivering quoted services. In the current regulatory control period TasNetworks uses 16 labour categories, including some which involve similar skill-sets but different charge-out rates, to calculate the cost to the customer of a quoted service. Several additional labour categories that include an allowance for the cost of a vehicle also are used. The similarities between some of the labour categories can make it difficult for customers to understand which tasks are completed by the different team members and may have contributed to inconsistencies in the build-up of prices charged to customers.

For the 2024-2029 regulatory control period, TasNetworks proposes to reduce the number of labour categories used to price the delivery of quoted services to eight. This approach removes skill-set duplication yet still allows labour rate diversity. TasNetworks has also proposed that vehicle costs will be recovered in the materials costs of a quoted service rather than in some labour rates.

The proposed labour categories are shown in Table 1.

Table 1. Quoted service labour categories

Proposed	Skillsets	Skill Set Description
Labourer	Field Construction Officer and Locations Officer	Field Workers not able to perform electrical work
Administration	Customer Service, Project Support Officer	Office-based staff not otherwise covered
Field Worker	Linesman, LV Cable Jointer, Electrical Technician, Dual-Trade Elec/Lineworker, Live Linesman	Field Workers able to perform electrical work
Designer	Designer	Worker who provides distribution network design services
Construction Coordinator	Site Manager, Scheduling, Field Coordinator, Team Leader, Project Manager Distribution	Worker who provides leadership services
Distribution Operator	Switching Operations, Distribution Operations	Field worker who operates the distribution network
Project Administration	Customer Experience, Land Access & Approvals [More specialised office-based staff]	Specialised office-based staff
Engineer	Engineer and Protection & Control Technical Officer	Worker who provides specialised engineering services

5 If the ABS does not or ceases to publish the index, then CPI will be taken to mean an index which the AER considers is the best available alternative index

TasNetworks has tested the proposal to reduce the number of labour categories for quoted services with a range of stakeholders, including State and local governments and TasNetworks' Policy and Regulatory Working Group (**PRWG**).

A clear majority of the local governments with which TasNetworks engaged supported a reduction in labour categories. PRWG members rated the proposal highly for its potential to deliver outcomes that will satisfy the PRWG's three pricing principles of fairness, simplicity and consistency.

18.7 Asset relocation services – removal of accumulated depreciation rebate

Providing a connection service sometimes requires the relocation of existing distribution assets, such as poles. The provision of an asset relocation service is a quoted service distinct from the connection service and attracts an additional charge to the connection applicant.

Asset relocation services also are requested commonly by parties other than connection applicants, such as road authorities or local councils, to facilitate the widening or re-routing of roads. Less often, TasNetworks receives requests from collectives of customers, and/or other third parties, to remove overhead distribution network infrastructure and replace it with underground reticulation to improve visual amenity.

TasNetworks' Distribution Connection Policy previously has provided guidance on the treatment of costs when a party requires the relocation of distribution network assets. Under the Policy, when calculating the customer contribution to a requested asset relocation, TasNetworks separates the work into:

- the works that are dedicated to particular customer(s) and provided as a quoted ACS
- works that are required on the shared network and undertaken as a standard control service.

Under the current policy, the customer contribution towards the cost of new distribution network assets is reduced by the value of the accumulated depreciation of the assets which are removed. This means that parties requesting the relocation or removal of old assets are charged less than parties requesting the relocation or removal of new assets. However, the age of assets has no bearing on the cost of their relocation, removal or replacement. As this component of the work is provided as a standard control service, the reduction in the contribution towards the cost of the work by the party which has requested the removal and replacement of the network assets is funded by the general distribution customer base.

TasNetworks considers that this reduction in the prices charged for asset relocations creates an equity issue by shifting costs from those customers who cause the expenditure to other customers who do not cause (or benefit from) it. This is inconsistent with the shift of network pricing in the National Electricity Market (**NEM**) to greater cost reflectivity.

TasNetworks therefore proposes removing the accumulated depreciation rebate on the basis that the reductions in the cost of asset relocations currently provided to the parties that request the service are being funded by the broader customer base. The proposed change will ensure that more efficient pricing signals are provided to the parties that request asset relocations in the future.

The proposal to discontinue the discounting of asset relocation charges based on the age of any assets being removed was tested with a number of stakeholders, including representatives of customers and third parties that commission asset relocations. Members of TasNetworks' PRWG were fundamentally supportive of the proposal, recognising the improvement in customer equity the change would provide and the more cost-reflective, efficient price signals that the removal of the discount would send to parties that request asset relocations in the future. The representatives of local governments with whom TasNetworks consulted in relation to the proposed change to asset relocation pricing were similarly supportive of the change, even though discontinuation of the present discount would result in the cost to local governments of asset relocations involving older assets increasing in the future.

Some stakeholders noted that the change will increase the cost of asset relocations for the customers/third parties that request them, but that the change would result in those requesting asset relocations paying the full cost of removing and replacing assets. It was acknowledged that the overall cost to TasNetworks of removing assets and relocating network infrastructure will be unaffected and that TasNetworks does not stand to receive more income from the relocation of network assets because of the change.

18.8 Metering services

Metering plays an essential role in the electricity supply chain. Meters are used to measure and record electrical flows at every connection point within the distribution network, providing the data which informs billing by both networks and electricity retailers. Meters also capture the data on which payments to customers are made for services they provide to the network or other customers, such as feed-in tariffs.

In the past, only distribution networks – such as TasNetworks – provided metering services for electricity. Under national reforms that came into effect on 1 December 2017, electricity retailers assumed the responsibility for installing, reading and maintaining the advanced meters that are now a requirement for all new and replacement meters in the NEM.

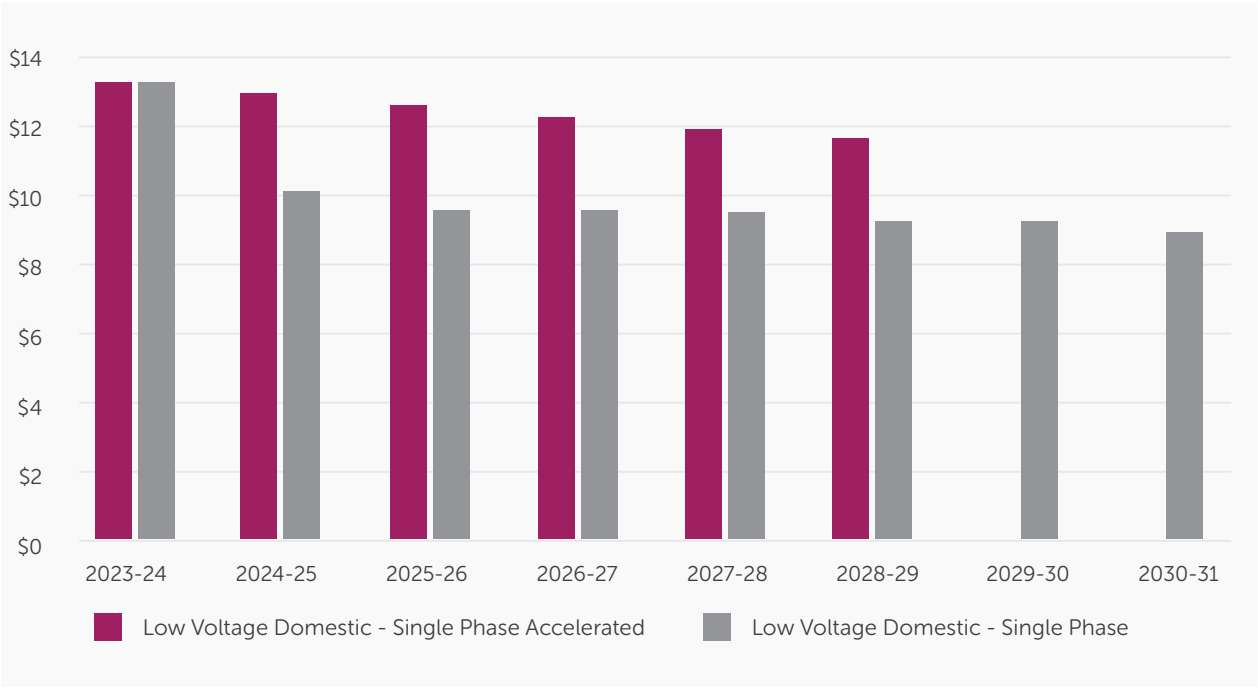
TasNetworks still provides metering services to customers with accumulation meters installed before December 2017. The customers with these meters are typically residential and small business customers.

During the current regulatory control period, the accumulation meters previously been used in Tasmania, and the property of TasNetworks, have been replaced progressively with remotely read advanced metering technology by the State's largest electricity retailer. At the time of writing, TasNetworks still had approximately 270,700 meters in service around the State that require manual reading.

TasNetworks originally expected the rollout of the new meters to span several regulatory control periods. It now is expected to be largely completed by the end of 2027. TasNetworks' accumulation meters are highly likely to be retired completely before the end of the next regulatory period on 30 June 2029.

The likelihood that TasNetworks' legacy meters will be fully retired in the coming regulatory period was recognised by the Australian Energy Market Commission (**AEMC**) in a draft report published as part of its review of the regulatory framework for metering services in the NEM.[6] In that report, the AEMC proposed an accelerated programme of meter replacement under a legacy meter retirement plan in each jurisdiction of the NEM, with the aim of achieving a 100 per cent uptake of advanced meters by 2030. However, while this recommendation would, if adopted, apply to Tasmania, the AEMC acknowledged that Tasmania already has a programme in place to accelerate advanced meter deployment at a rate that would achieve the AEMC's objective.

Figure 1. Metering capital cost recovery ($ per annum)



Note: All costs $2023-24

6 Australian Energy Market Commission, Review of the regulatory framework for metering services, Draft report,, November 2022

To better align the recovery of its past investment in metering with the significantly reduced service life of its meters, TasNetworks intends to recover the remaining asset value of its superseded fleet of meters by the end of the 2024-2029 regulatory control period. Accelerating the recovery of the residual cost of the meters that are being phased out will have a minimal impact on customer prices as shown in Figure 1. It compares:

- the annual prices that TasNetworks would charge under the accelerated cost recovery plan for a low voltage single phase meter installed at a residential property with
- the prices that would apply if the cost of TasNetworks' legacy meters were to continue to be recovered in line with the current schedule.

TasNetworks' metering charges are made up of a capital component, which recoups the cost of the meter, and an operational charge, which recovers the cost of reading the meter and managing the metering data. As with our network charges, rather than bill customers directly, TasNetworks recovers its metering costs from electricity retailers, which factor in those metering charges when setting their retail tariffs.

Currently, all residential and small business customers, other than new installations that have connected to the network since 1 December 2017, contribute towards the capital cost of TasNetworks' legacy meter fleet, reflecting the unavoidable historical investment made by TasNetworks on behalf of all customers. However, the operational metering charges are only applied to premises where the legacy meters are still in service.

It should also be noted that these arrangements describe the charges TasNetworks levies on electricity retailers for the provision of metering services to their customers, rather than the metering costs which are factored into the retail electricity tariffs that determine individual residential and small business customers' power bills. Under the most recent determination of standing offer electricity prices made by the Tasmanian Economic Regulator,[7] residential and small business customers in Tasmania are charged the same retail tariffs by their electricity retailer, regardless of the type of meter installed at their premises. This means that the recovery of the costs associated with both advanced meters and legacy accumulation meters is averaged across the wider residential and small business customer bases, with customers on the same tariff making the same contribution to metering costs overall.

The Tasmanian Economic Regulator expects total metering costs in Tasmania to increase in coming years, due to the rollout of advanced meters. However, the standardisation of standing offer electricity prices means that customers who continue to have an accrual meter provided to them by TasNetworks, including vulnerable customers, will not be disadvantaged by any diseconomies of scale encountered by TasNetworks' in supporting its legacy metering fleet as it is retired from service in the coming regulatory control period.

The accelerated recovery time series in Figure 1 shows the impact that matching the recovery of the cost of TasNetworks' metering fleet with their shortened service life will have in the 2024-2029 regulatory control period. The capital metering charges applying to the type of single phase meter used for small business or residential customers will decrease from $13.55 per year from in 2023-24, the final year in the current regulatory control period, to just over $13 per year in 2028-29.[8] On a per meter basis, the accelerated recovery of the cost of TasNetworks' superseded fleet of meters will translate into a metering capital charge which is just under $3 per annum higher in 2028-29 than it might have been if the recovery of the residual value of the metering fleet was extended into the following regulatory control period, but still less per year than in 2023-24.

Under TasNetworks' proposal, customers will not pay more in present value terms for the redundant meters than they would if they continued paying capital charges at current rates, which are based on the expected service life of the meters. Further, by bringing forward the recovery of TasNetworks' investment in meters, there will be no capital charges applied to any accumulation meters that might remain in service beyond 30 June 2029.

The proposal to accelerate the recovery of the capital cost of TasNetworks' metering fleet has been tested with TasNetworks' PRWG. PRWG members were supportive of the idea of aligning the recovery of the metering fleet's capital cost with its reduced service life, noting that this could be accomplished while still ensuring savings for customers compared to the current level of metering charges in the 2019-2024 regulatory control period.[9]

Our operating expenditure forecasts for the 2024-2029 regulatory control period and, therefore, our proposed annual revenue requirements, factor in the reduction in costs associated with the faster than anticipated winding down of the metering services provided by TasNetworks.

7 Office of the Tasmanian Economic Regulator, 2022 Electricity Standing Offer Pricing Investigation – Final Report, April 2022

8 $2023-24

9 TasNetworks, Policy and Regulatory Working Group Meeting record, April 2022

There is not, however, a linear relationship between the reduction in the volume of legacy meters and TasNetworks' operational metering costs. This is because of declining economies of scale as the volume of legacy meters decreases to low levels, and the fact that some operational costs are unavoidable (e.g., meter reading). Analysis has shown, for example, that for every 10 per cent reduction in legacy meter numbers there is only a 5 per cent reduction in meter reading rounds.

To manage the cost to customers from the reduction of legacy meters, TasNetworks is proposing two operational expenditure step changes:

1. the funding of a targeted replacement program from 2026-2029, which will help electricity retailers to replace legacy meters where installation issues exist, such as a lack of an isolation point
2. the funding of meter reads as a fee-based network ancillary service rather than a base-step-trend forecast based on historical expenditure, removing the inefficiency of increasingly sparse meter reading rounds and allowing for the targeted reading of residual legacy meters.

Table 2. Metering operating expenditure step changes

($ million, 2023-24)	2024-25	2025-26	2026-27	2027-28	2028-29
Targeted meter replacements	0	0	0.50	0.50	0.50
Individual meter reads	0	1.75	1.24	0.50	0.20

18.8.1 Targeted meter replacement

TasNetworks owns the meter panels on which legacy meters are mounted. To support the shift to advanced meters, TasNetworks will make good any legacy metering installations that might have attributes that would prevent the installation of an advanced meter (such as an old meter panel containing asbestos). This will ensure that the transition to advanced meters for affected customers, who are unlikely to be aware of any issues that might hamper the installation of an advanced meter, will not be held-up by issues associated with a non-compliant legacy metering installation.

18.8.1 Individual meter reads

The installation of advanced meters over the 2024-2029 regulatory control period will mean increasing geographical distances between premises with legacy meters that require manual meter reads. The growing distances will rapidly reduce the efficiency of meter reading rounds. TasNetworks therefore intends to price the reading of legacy meters in line with the fee applied to site visits without an appointment (which is a fee-based service).

This will ensure the accurate recovery of the efficient costs of reading meters, without customers facing an increase in meter reading charges brought about by external diseconomies of scale that are beyond TasNetworks' control. When the number of legacy meters in service dips below the minimum level required to continue meter reading rounds undertaken by dedicated meter readers, meter reads will be performed by field workers when they carry out other duties in the same locale as meters requiring manual reads.

TasNetworks currently manages approximately 270,000 legacy meters, which are forecast to be replaced with advanced meters by the end of the 2024-2029 regulatory control period. As well as metering replacements initiated by electricity retailers or at the request of customers, TasNetworks' legacy meters will be replaced:

1. following meter failure
2. because of a 'family' of meters failing (in light of ongoing compliance testing by TasNetworks)
3. in response to connection alterations requiring a metering upgrade, such as the installation of photo-voltaic solar panels at a customer's premises.

Table 3 sets out TasNetworks' forecasts of the reduction in the number of legacy meters which is anticipated over the 2024-2029 regulatory control period. Forecast metering numbers are presented as at the end of each regulatory year. It should be noted that the population of legacy meters in service will have declined between the submission of this Combined Proposal and the start of the next regulatory control period on 1 July 2024.

Table 3. Forecast legacy meter volumes

	2024-25	2025-26	2026-27	2027-28	2028-29
Metering volumes	83,993	25,184	8,056	3,222	1,289

Note: Most residential and some small business customers have, in the past, been assigned to two retail tariffs and, therefore, two network tariffs. This means that they are likely to have two accumulation (Type 6) meters on their premises. On this basis, the number of small business and residential customers still with legacy meters at their premises will be considerably lower than the forecast volume of legacy meters shown in Table 3.

We have used the AER's Roll Forward Model (**RFM**) to roll forward the metering Regulatory Asset Base (**RAB**) in the current regulatory control period to derive the value of the opening metering RAB for type 6 metering services as at 1 July 2024 (i.e., the closing metering RAB as at 30 June 2024). No new capital expenditure is forecast for legacy metering services during the remainder of the current regulatory control period or the 2024-2029 regulatory control period.

Table 4 presents the metering RAB roll-forward for the 2024-2029 regulatory control period.

Table 4. Roll forward of metering regulated asset base in the 2024-2029 regulatory control period

	2024-25	2025-26	2026-27	2027-28	2028-29
Opening metering RAB	28.01	22.63	17.57	12.15	6.35
Forecast capital expenditure	0.14	–	–	–	–
Depreciation (accelerated)	(6.46)	(5.81)	(6.01)	(6.21)	(6.42)
Inflation on opening RAB	0.94	0.76	0.59	0.41	0.21
Closing metering RAB	22.63	17.57	12.15	6.35	0.15

Note: All figures $million, nominal

TasNetworks' proposed revenue for the provision of regulated (legacy) metering services in the 2024-2029 regulatory control period is $37.73 million ($2023-24).

TasNetworks has utilised a 'building block' approach to develop its metering revenue forecast for the 2024-2029 regulatory control period. The proposed legacy meter service charges have been developed using the post-tax revenue model (**PTRM**) and RFM developed by the AER.

Our approach accounts for the reduction in operating expenditure associated with the decline in the number of meters remaining in service. This has necessitated discontinuing the base-step-trend approach usually used to forecast DNSPs' operating expenditure. The savings stemming from the lack of new investment in meters being added to TasNetworks' metering RAB since December 2017 and the accelerated recovery of the capital cost of TasNetworks' legacy metering fleet have also been taken into account.

Table 5 sets out TasNetworks' proposed building-block revenue for metering services in the 2024-2029 regulatory control period.

Table 5. Proposed metering services building block revenue, 2024-2029

	2024-25	2025-26	2026-27	2027-28	2028-29	Total
Return on capital	1.60	1.31	1.03	0.72	0.38	**5.04**
Return of capital (depreciation)	5.52	5.06	5.42	5.80	6.21	**28.01**
Operating expenditure	1.77	1.88	2.07	1.16	0.83	**7.70**
Revenue adjustments	–	–	–	–	–	**–**
Net tax allowance	0.38	0.78	0.81	0.84	0.87	**3.68**
Annual revenue (unsmoothed)	**9.27**	**9.02**	**9.32**	**8.52**	**8.29**	**44.42**

Note: All figures $million, nominal

A detailed explanation of our pricing approach for metering services and proposed prices for the 2024-2029 regulatory control period is provided in the *Tariff Structure Statement* (Attachment 21) and *Tariff Structure Explanatory Statement* (Attachment 22) that accompany this Combined Proposal.

18.8.3 Type 7 metering services

Type 7 metering services refer to unmetered connections with a predictable energy consumption pattern, such as public lighting or traffic lights. Electricity consumption is estimated for these connections. The metering charges associated with Type 7 metering services relate to the process of estimating electricity usage. With no scope for competition to develop in the provision of Type 7 metering services, these services continue to be classified by the AER as ACS and are provided by TasNetworks as a fee-based service.

18.8.4 Auxiliary metering services

TasNetworks provides a range of metering-related services to customers on request, such as meter testing and additional meter reads. These services are classified by the AER as ACS and grouped under the Network Ancillary Services sub-category, discussed in Section 6 below. (These services are additional to the reading of Type 6 legacy accumulation meters and the management of the metering data collected for these meters.)

18.8.5 Type 6 meter recovery and disposal

TasNetworks may from time to time be required to remove and/or dispose of legacy meters from a customer's premises. These services are classified by the AER as an ACS and grouped under the network ancillary services sub-category and are discussed further in 18.9 below. These services are distinct from the replacement of a legacy accumulation meter with an advanced meter, which is the responsibility of the customer's electricity retailer.

18.9 Network ancillary services

The term "network ancillary services" refers to services provided by TasNetworks that are associated with or incidental to the provision of the shared distribution network services on which all customers rely. The nature of the services is such that only TasNetworks can perform them (particularly when they involve work on, or in relation to, parts of the distribution network) yet not all customers require or request network ancillary services.

Network ancillary services captures a wide-range of activities, which are delivered as both fee-based and quoted services, including:

- auxiliary metering services (other than the metering services discussed in section 18.8)
- connection services (including new and modified connections to the distribution network, network extensions and augmentations)
- construction/augmentation of private assets as a provider of last resort
- network safety services (such as the fitting of aerial markers on power lines)
- processing network tariff change requests.

A detailed listing of the fee-based and quoted network ancillary services that TasNetworks proposes to offer during the 2024-2029 regulatory control period, including indicative prices, can be found in the *Tariff Structure Statement* (Attachment 21). More information about these services can also be found in the 2024-2029 Ancillary Services Guide, submitted in support of this Combined Proposal.

TasNetworks' proposed fee-based and quoted service charges have been developed in accordance with the price cap formulas set out in the AER's Framework and Approach Paper and detailed above in sections 18.3 and 18.5, respectively. Whether they are delivered as fee-based services or quoted services, TasNetworks recovers the full cost of providing network ancillary services from the customer or third-party that requests, initiates or triggers the service. This ensures that the customers or third parties that benefit from the service are not subsidised by the wider customer base.

18.9.1 Construction of private assets by TasNetworks (Provider of Last Resort)

Some customers, particularly in rural and regional Tasmania, have trouble procuring the services of specialist contractors to undertake the construction of private electrical infrastructure, such as private poles. To address this lack of market depth, in the 2024-2029 regulatory control period TasNetworks will undertake private asset construction and augmentation under Provider of Last Resort provisions. This new service has been approved by the AER as part of the Framework and Approach Paper applying to TasNetworks in the 2024-2029 regulatory control period. It will be provided as a quoted service.

The work undertaken by TasNetworks will be limited to the design, construction and/or augmentation of overhead and underground network extensions beyond a customer's point of supply that are necessitated by a new or augmented connection to TasNetworks' distribution network. This work may include the inspection, maintenance, testing and relocation, if necessary, of existing customer assets, and TasNetworks will undertake the design and construction of both low and high voltage assets.

The nature of the services able to be provided by TasNetworks will be aligned with the design and construction services TasNetworks provides as the State's distribution network service provider. This means that TasNetworks will not undertake the design or installation of switchboards, meters and consumer mains, or private assets beyond customers' metering points.

TasNetworks is mindful of the potential commercial sensitivities surrounding TasNetworks undertaking work on private assets. Accordingly, a *Provider of Last Resort* process will be put in place. The process will include a number of controls to ensure that when undertaking the construction or augmentation of private assets TasNetworks only ever acts in a provider of last resort capacity. Those controls will include requirements that, before a customer can submit a *contestable job request* for TasNetworks to undertake the construction of private assets:

- The customer must have previously contacted at least two third party service providers (i.e., appropriately credentialed electrical contractors) to request a quotation/proposal and been unsuccessful in obtaining a compliant quotation
- Customers who contact TasNetworks about constructing private power lines will be provided with a list of suitably credentialed contractors, based on the contractors registered for the provider of last resort web portal
- The customer must provide evidence/attest to their efforts to procure the services of an electrical contractor
- The customer will be required to submit to TasNetworks a description of the job (in a form and to a standard that would enable TasNetworks to design and construct the private assets in question), including its location, timing requirements, and the contractors they have sought quotes from.

TasNetworks will advertise proposed jobs on a secure page on its website. Contractors who have registered to have access to that website then will have two weeks to express their interest in undertaking the work and provide the customer with a quotation for the provision of the required services. All bidders will have access to the same information about a customer's job request for the same amount of time.

At the conclusion of the two week expression of interest period for each job, TasNetworks will liaise with the customer to ascertain the success or otherwise of the process in obtaining a compliant, competitive quote from a suitably credentialed contractor. Only if no compliant quotation is received for a job advertised on TasNetworks' website will TasNetworks agree to undertake the work.

Once the provider of last resort process has established that a compliant, competitive quotation has not been able to be obtained by the customer, that customer may submit a contestable job request to TasNetworks. In response to that request:

- TasNetworks will provide the customer with a quotation for the delivery of the requested services, using the same materials costs and professional charges applied to the design and construction of negotiated connections, including labour rates approved by the AER
- the customer will be required to accept TasNetworks' quotation for TasNetworks to proceed with the job.

TasNetworks' full costs in undertaking the construction or augmentation of private assets under the provider of last resort arrangements are to be recovered from the customer requesting the work.

TasNetworks has tested the concept for the provider of last resort service extensively with local representatives of several organisations representing the electrical contracting industry, and at forums involving electrical contractors, industry bodies and industry stakeholders, which were convened by TasNetworks as part of its ongoing interaction with the electrical contracting industry. The proposal to undertake the construction of private assets in limited circumstances also has been canvassed with TasNetworks' Customer Council and PRWG, as well as TasNetworks' shareholders (through the Tasmanian Department of State Growth and the Department of Treasury and Finance).

In general terms, it was recognised by many stakeholders, including some from within the electrical contracting industry, that there is a need for a provider of last resort scheme within Tasmania in relation to the construction and augmentation of private electrical assets. There was a generally accepted position that in some regions there is a demonstrated lack of depth in the contracting market and that this is affecting customers adversely. There also was acknowledgement that the proposed controls would help to ensure TasNetworks only undertakes private work in a last resort capacity.

Based on feedback received, TasNetworks strengthened the proposed controls around the provision of private asset construction and augmentation by TasNetworks in the capacity of a provider of last resort, with a view to improving consumer protection and confidence regarding the cost of any construction work.

18.9.2 Reserve feeder construction and maintenance

TasNetworks provides reserve feeders for a number of customers that require dedicated reserve network capacity, with the costs recovered under the terms of the customers' connection agreements. While the provision of reserve feeders is a monopoly service, it is used by a small number of identifiable customers on a discretionary basis and the costs can be directly attributed to those customers. On this basis, reserve feeder construction and maintenance services lend themselves to classification as an ACS.

The activity of reserve feeder construction and maintenance has been added to the Enhanced connection service grouping within the Framework and Approach service classification listing that will apply to TasNetworks in the 2024-2029 regulatory control period. The service has been classified as a direct control service and further as an ACS. The construction of reserve feeders will be treated as a quoted service, while their maintenance will be provided as a fee-based service (with charges set with reference to reserved feeder capacity).

TasNetworks' pricing method has been updated to set out the applicable charging parameters. TasNetworks' Tariff Structure Statement for the 2024-2029 regulatory control period sets out the charging parameters, fees, costs and/or labour rates applying to reserve feeder construction and maintenance.

18.10 Connection services

Customer connection services are customer-initiated services, or works, associated with the:

- establishment of a new connection between TasNetworks' distribution system and a retail customer's premises
- modification of an existing connection to TasNetworks' distribution network
- extension or augmentation of TasNetworks' distribution network in support of a new or modified connection.

TasNetworks is licensed to provide connection services in accordance with the provisions of various electricity laws. TasNetworks is the only party able to provide connection services in Tasmania because connection services frequently involve work on, or in relation to, parts of TasNetworks' distribution network.

Customers requesting a new connection to the shared distribution network, or the alteration of an existing connection, are required to contribute toward the cost of that new or altered connection. This is in addition to the ongoing network charges that the connection and the customer's use of electricity will attract once the connection is energised. Because TasNetworks is the only party able to provide connection services in Tasmania, the prices TasNetworks charges for connection services are regulated by the AER.

TasNetworks also is the sole provider of network augmentation and network extension services in Tasmania with one significant exception. Under the Connection Choice program, since January 2016 property developers can engage accredited service providers other than TasNetworks to design and construct network extensions (including public lighting) for new subdivisions/property developments involving underground electrical reticulation.

Network augmentation and extensions are priced by TasNetworks on a quoted basis, noting that under the connection charging principles in the should read National Electricity Rules[10] (**NER**) and TasNetworks' *Distribution Connection Pricing Policy (Attachment 20)*, customers requiring basic connections, or who have an anytime maximum demand of 70 kVA[11] or less, are not required to make a capital contribution towards the cost of any network augmentation needed to facilitate their connection.

In the 2019-2024 regulatory control period, TasNetworks offers only two types of connection service to customers wanting to connect to the distribution network: 'basic' and 'negotiated' connections. The AER treats both services as ACS.

10 Clause 5A.E.1 Connection charge principles, National Electricity Rules

11 25 kVA where a connection applicant's installation is supplied from the Single Wire Earth Return (SWER) network

Basic connections are standardised connections that are provided on a routine basis to retail customers who are typical of a significant class of retailer customer, such as residential customers, and which are generally provided at a fixed fee. In the 2019-2024 regulatory control period, TasNetworks has been offering 16 types of basic connection services, which distinguish between connection characteristics such as the number of phases, under-ground versus overhead connection and the requirement for crossover poles. Basic connections also are limited to customers whose loads do not exceed 100 amps per phase in circumstances where network changes or alterations are not required. Basic connections have been priced as a fee-based service, where the price (or fee) for each type of basic connection services is approved by the AER.

The term negotiated connection has been used in Tasmania to describe connections that are required when none of the basic connection types are suitable and, or, extension or augmentation of the network is required to provide a customer with a connection. Negotiated connection services are services that do not meet the definition of a basic connection service, such as those provided to commercial or industrial premises or a new property development. The prices paid by customers for negotiated connections have been determined on a quoted basis, based on the quantities of materials and labour involved.

In other jurisdictions within the NEM, however, the term 'negotiated connection' describes a connection for which the customer and distribution network service provider negotiate the terms of connection. Further highlighting the differences between the types of connections offered in Tasmania and those available elsewhere within the NEM, the service classification lists in recent Framework and Approaches for DNSPs in other jurisdictions have often referred to as many as four distinct categories of connection service types and distinguished between connection services that involve network extensions and augmentation.

To better align TasNetworks' connection services with the terminology used in Chapter 5A of the NER and in other NEM jurisdictions, the Framework and Approach that will apply to TasNetworks in the 2024-2029 regulatory control period sees TasNetworks offering four distinct categories of connection to the distribution network, as shown in Table 6.

Table 6. Connection types, 2024 – 2029 regulatory control period

Connection type	Description
Basic connection	Means a connection between the distribution system and a retail customer's premises (excluding a non-registered embedded generator's premises) in the following circumstances: (a) either: a. the retail customer is typical of a significant class of retail customers who have sought, or are likely to seek, the service; or b. the retail customer is, or proposes to become, a micro embedded generator; and (b) the provision of the service involves minimal or no augmentation, or extension, of the distribution network; and (c) a model standing offer has been approved by the AER for providing that service as a basic connection service.
Standard connection	Means a connection between a distribution system and a retail customer's premises (excluding a non-registered embedded generator's premises) in the following circumstances: (a) either: 1) the retail customer is typical of a significant class of retail customers who have sought, or are likely to seek, the service; or 2) the retail customer is, or proposes to become, a micro embedded generator; and (b) the provision of the service involves extension of the distribution network but not augmentation; and (c) a model standing offer has been approved by the AER for providing that service as a basic connection service.
Complex connection	Means a connection between a distribution system and a retail customer's premises in the following circumstances: (a) requires either an extension or augmentation and either: 1) the retail customer seeking the service requires the supply of electricity at high voltage or, if connected at low voltage, has maximum demand in excess of 70 kVA (or 25 kVA where a connection applicant's installation is supplied from the Single Wire Earth Return network); or 2) the retail customer is, or proposes to become, an embedded generator; or 3) the retail customer operates, or proposes to operate, energy storage with the capacity to function as an embedded generator or community battery.
Negotiated connection	Means a connection service (other than a basic connection service) for which TasNetworks provides a connection offer for a negotiated connection contract.

Basic connections are the low-voltage connections used by most residential and small business customers. These connections suit customers with demand not exceeding 100 amps per phase and for which standardised hardware is used for the connection. Basic connections also suit customers with micro-embedded generation (such as photo-voltaic solar panels) with output ratings of less than 10 kW (per phase). Basic connections do not involve network upgrades or extensions.

New connections that are more complicated, or differ markedly from a basic connection, are priced on a quoted basis. This reflects the often bespoke nature of the connection and its design and, or, the fact that an extension of the network or network upgrades also may be required to supply the customer's connection. These are the types of connection services that were previously referred to in Tasmania as 'negotiated' connection services, but which will be known as 'standard' and 'complex' connections in the 2024-2029 regulatory control period. Standard connections are generally basic connections plus a network extension service. Complex connections typically involve network augmentation and, potentially but not always, network extension.

Where customers are required to pay the direct costs associated with a network extension service the cost of network augmentation is based on the customer's expected maximum demand. TasNetworks is not proposing any change to the methodology used to develop augmentation rates or the augmentation threshold below which connection proponents are not required to pay augmentation costs.

TasNetworks has reviewed its current Distribution Connection Pricing Policy and is proposing minimal change for the 2024-2029 regulatory control period. The policy refers already to basic, standard and complex connection types, even though, to date, these terms have not been prevalent within either the electrical contracting industry or the wider community. TasNetworks proposes to continue applying the connection charge principles outlined in Chapter 5A of the NER, with the only substantive change in policy being to the treatment of costs associated with asset relocations (discussed in Section 18.7).

18.11 Public lighting

The public lighting services provided by TasNetworks include the provision, construction and maintenance of public lighting assets (public lighting service), as well as the maintenance of public lighting assets owned by customers (contract lighting services).

TasNetworks operates and maintains public lighting infrastructure in Tasmania on behalf of councils and other government road authorities. Around 75 per cent of public lighting is supported on distribution network poles and TasNetworks owns most of the luminaires. The remaining public lighting is mounted on dedicated poles, which in most cases are privately owned by local governments, State Government agencies and business enterprises, as well as contract clients.

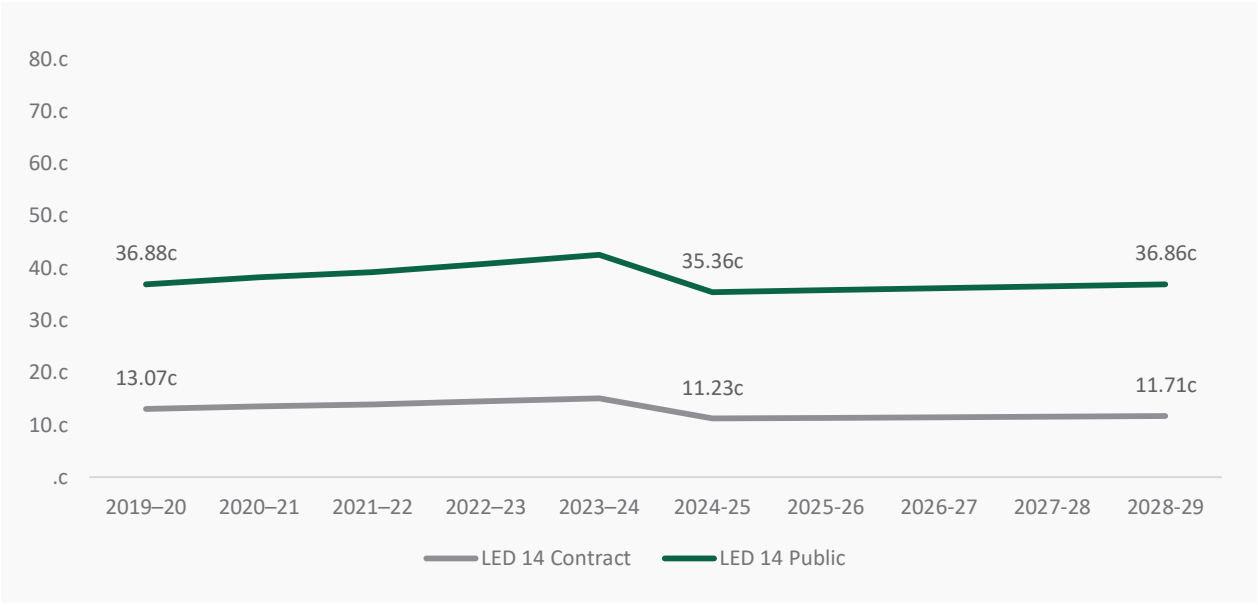
Public lighting tariffs do not include charges for the utilisation of TasNetworks' electricity network and contributions towards the costs of the electricity network are recovered from public lighting customers through separate network tariffs.

TasNetworks is proposing to continue the transition to light-emitting diode (**LED**) technology in the 2024-2029 regulatory control period by:

- using LED fittings for all new public and private contract light installations
- in response to legislative requirements, ending the like for like replacement of mercury and sodium vapour globes by installing LED fittings instead.

The transition to LED fittings will enable TasNetworks to realise savings in the maintenance of public lights. LED fittings do not require a replacement 'globe' over their twenty-year life, allowing TasNetworks to maintain light fittings on a ten instead of four yearly cycle.
The associated reduction in operational expenditure has resulted in proposed public light rates approximately 15 per cent lower for the 2024-2029 regulatory control period, as shown in Figure 2.

Figure 2. TasNetworks' public lighting charges, 2024-2029 (cents per day)



Note: All costs $2023-24

This proposal was explored in some depth with stakeholders, most notably representatives of the State's 29 local governments that jointly represent the largest component of the customer base for TasNetworks' public lighting services. Although questions were raised about technical attributes of LED lighting (such as the availability of LED replacements for large wattage lights, the expected service lives of LED light fittings and the colour temperature and brightness of new LEDs) over 90 per cent of local government attending stakeholders polled agreed with TasNetworks' proposed strategy to replace all legacy streetlights with LED fittings.

TasNetworks has applied a building block approach to determine the efficient costs of providing public lighting services under the price cap control mechanism the AER has set out in the Framework and Approach Paper. The price cap control formulae applied to TasNetworks' public lighting services is the same as the formulae applying to legacy metering and ancillary fee-based services, presented in Section 18.3.

A detailed listing of the public lighting services that TasNetworks proposes to offer during the 2024-2029 regulatory control period, including indicative prices, can be found in the Tariff Structure Statement (Attachment 21) that accompanies this Combined Proposal.


TasNetworks
Powering a
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