

22 October 2014



Tasmanian Networks Pty Ltd
ABN 24 167 357 299
PO Box 606
Moonah TAS 7009

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Tasmanian Networks Pty Ltd (**TasNetworks**) seeks a participant derogation under section 91(5) of the *National Electricity Law (NEL)* from Rule 6.3.2(b) of the **National Electricity Rules (the Rules)**. This Rule requires each Regulatory Control Period for TasNetworks, in its capacity as a Distribution Network Service Provider, to be not less than five Regulatory Years.

TasNetworks seeks a participant derogation from this Rule to align its transmission and distribution determination processes in 2019 via an initial two year distribution Regulatory Control Period commencing 1 July 2017.

TasNetworks is not seeking to merge the transmission and distribution determinations and will submit proposals under both chapter 6 and 6A of the Rules in 2019.

TasNetworks is seeking this participant derogation to this effect until 1 July 2019.

TasNetworks also seeks the Australian Energy Market Commission (**AEMC**) to:

- treat this request for a participant derogation as a request for a non-controversial Rule Change; and
- therefore, expedite the making of the participant derogation, as provided by section 96 of the NEL.

TasNetworks requests the AEMC treat this rule change with some urgency. This is to allow the finalisation of the Rule Change process prior to the Australian Energy Regulator (**AER**) making and publishing its distribution *framework and approach paper (F&A)* for TasNetworks. The distribution F&A must be published by July 2015 in accordance with clause 6.8.1(e) of the Rules.

The attachment to this letter sets out the details of this request.

Please contact John Sayers on 0427 865 718 or via email at john.sayers@tasnetworks.com.au if you would like to discuss any aspect of this request.



Lance Balcombe

Chief Executive Officer

Encl. Participant Derogation

TasNetworks' Submission for a Participant Derogation

1. Proponent and Authority

- a. The applicant is Tasmanian Networks Pty Ltd, trading as TasNetworks, ABN 24 167 357 299 (**TasNetworks**).
- b. TasNetworks' address is 1-7 Maria Street, Lenah Valley, Tasmania, 7008.
- c. The signatory to the attached letter is authorised by TasNetworks to make this request.
- d. In this submission, TasNetworks requests the AEMC to make a Rule Change in the form of a participant derogation from Rule 6.3.2(b) of the Rules. This Rule requires each Regulatory Control Period for TasNetworks, in its capacity as a Distribution Network Service Provider, to be not less than five regulatory years.
- e. TasNetworks seeks a participant derogation from this Rule to align the transmission and distribution reset processes in 2019 via an initial two year distribution Regulatory Control Period, commencing 1 July 2017. Accordingly, all subsequent distribution Regulatory Control Periods would align to the future transmission Regulatory Control Periods.

2. Derogation Period

The period of the participant derogation is proposed to commence on the day the proposed Rule is made until 1 July 2019.

3. Background

- a. TasNetworks is a Registered Participant in the categories of Distribution Network Service Provider and Transmission Network Service Provider.
- b. The AER will provide TasNetworks' 2017 Distribution Determination in accordance with the requirements of Chapter 6 of the Rules.
- c. The Rules requires that the length of the TasNetworks' Regulatory Control Period for its distribution business must be not less than five years (Rule 6.3.2(b) of the Rules).
- d. Effective 1 July 2014, the distribution business from Aurora Energy Pty Ltd, merged with Transend Pty Ltd, which owned and operated Tasmania's electricity transmission system, to create TasNetworks.

4. Issues to be addressed

- a. TasNetworks is a combined fully integrated transmission and distribution Network Service Provider with a requirement to financially ring-fence its transmission and distribution operations for regulatory purposes. The separate transmission and distribution determination processes in Chapters 6A and 6 of the Rules, in combination with the current determination cycles, would require resets for each network to be conducted separately every two or three years.
- b. The frequency of these reviews for TasNetworks would impose unnecessary regulatory costs on the AER and the company, and also reduce the scope for efficiency improvements. In particular, TasNetworks would be in 'review mode' continuously in relation to either the transmission or distribution network. Sequential reviews of each network would also tend to undermine the planning and operational benefits of the merger.
- c. In order to maximise the benefits to customers of operating as one business, TasNetworks seeks to align the timing of the determination processes for the networks to allow the transmission and distribution determinations to apply to the same Regulatory Control Period.

5. Description of the proposed rule

- a. The next relevant Regulatory Control Periods are as follows:
 - i. for the transmission distribution business, 1 July 2015 to 30 June 2019; and
 - ii. for the distribution business, 1 July 2017 to 30 June 2022.
- b. TasNetworks seeks to derogate from Rule 6.3.2(b) to align the transmission and distribution reset processes in 2019 via a two year distribution Regulatory Control Period commencing in 2017.
- c. This derogation would have the effect of aligning future distribution and transmission determination cycles.

6. Explanation of how the derogation will address the issue of separate regulatory periods for transmission and distribution networks

- a. If the AEMC makes the participant derogation requested by TasNetworks, the creation of one regulatory determination process will allow TasNetworks to:
 - i. undertake a single process to produce the separate proposals required under chapter 6 and 6A of the Rules;

- ii. focus on a period of forward planning for the entire network business which is supported by an aligned customer engagement program enabling TasNetworks to discuss the entire network service suite provision and cost trade-offs;
- iii. align its operating model (which has no clear delineation between transmission and distribution) and strategic goal of 'one business' within the determination process;
- iv. reduce customer confusion in relation to network revenues and pricing arrangements;
- v. reduce regulatory costs and duplication for TasNetworks, consumers and the AER; and
- vi. more readily facilitate any changes that may be sought to the transmission and distribution network boundaries.

7. Consultation with stakeholders

- a. TasNetworks has consulted with its stakeholders including peak industry and consumer advocacy groups to gauge their opinion on the proposed Rule Change. TasNetworks' stakeholders were supportive of the proposal and did not raise any potential issues with the proposed Rule change.
- b. Consultation with retailers.
 - i. TasNetworks has consulted with the three authorised retailers operating in the Tasmanian jurisdiction; Aurora Energy, ERM Power and Progressive Green.
 - ii. Progressive Green stated that they had no issues with our approach.
 - iii. Aurora Energy stated that they had no issues with our approach.
 - iv. ERM Power made no submissions or comments.
- c. Consultation with customers
 - i. TasNetworks has consulted with both its transmission and distribution customers to gauge any concerns that customers may have with a shortened distribution Regulatory Control Period and an aligned transmission and distribution regulatory process.
 - ii. TasNetworks held a number of workshops during October 2014 with end-use consumers and discussed alignment of the transmission and distribution Regulatory Control Periods. Customers supported the proposed Rule Change.
 - iii. All of TasNetworks' Major industrial (**MI**) customers were provided a briefing note and the opportunity to comment on TasNetworks' approach, no submissions or comments were received.

- d. Consultation with the AER.
- i. TasNetworks has discussed this proposal informally with the AER. The AER supported alignment and was comfortable with the timetable and noted that there would be no objection to a Rule Change. TasNetworks has also flagged this Rule Change proposal in its submission to the AER, which requests a review of the AER's F&A for the forthcoming distribution Regulatory Control Period.
 - ii. TasNetworks is aware that a shortening of the Regulatory Control Period may impact the operations of the following AER incentive schemes:
 - Service Target Performance Incentive Scheme;
 - Efficiency Benefits Sharing Scheme; and
 - Capital Expenditure Sharing Scheme.

TasNetworks considers that these matters are not significant and will not impact the fundamentals of the schemes; and are best examined as a component of the AER's F&A.

8. Derogation is non controversial

- a. TasNetworks submits that the participant derogation is non-controversial because it will provide significant benefits by addressing the issues noted in paragraph 4, without imposing any detrimental impact or costs. .
- b. Further, there are no other Registered Participants who could potentially be affected by the making of this participant derogation.

9. Form of the proposed participant derogation

A draft form of the proposed participant derogation is attached to this submission.

10. Achievement of the National Electricity Objective

- a. The National Electricity Objective (NEO) is set out in section 7 of the NEL as follows:
"The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:
 - (a) price, quality, safety, reliability, and security of supply of electricity; and*
 - (b) the reliability, safety and security of the national electricity system."*
- b. TasNetworks submits that if the AEMC makes this participant derogation, it will assist TasNetworks to:
 - i. align its strategic planning for both the transmission business and distribution business with its operating model to create efficiencies in relation to costs and network performance; and

- ii. improve the operation and use of TasNetworks' electricity services by streamlining TasNetworks' pricing arrangements and improving customers' understanding of the pricing arrangements, thereby facilitating customer responsiveness to price signals.
- c. Further, efficiencies gained from the participant derogation (see paragraph 6 above) will reduce electricity costs for consumers.
- d. Accordingly, TasNetworks submits that this proposed participant derogation contributes to the achievement of the NEO as it will promote the efficient operation and use of electricity services for the long term interests of consumers of electricity, with respect to:
 - i. price and reliability of the supply of electricity; and
 - ii. the reliability of TasNetworks' electricity networks.

11. Expected benefits and costs of the proposed derogation

a. Benefits

- i. The principal benefits from the proposed participant derogation are set out in paragraph 6 of this submission.

b. Costs

- i. TasNetworks submits that any costs incurred if the participant derogation is made are administrative costs to be borne principally by TasNetworks.
- ii. TasNetworks has already consulted stakeholders on the proposed Rule change, and therefore the costs associated with that consultation should be regarded as 'sunk'.
- iii. TasNetworks confirms that there are no cost impacts on other Registered Participants.

12. Conclusion

a. TasNetworks submits that:

- i. this request for a participant derogation is non-controversial and can be processed by the AEMC in an expedited manner under section 96 of the NEL;
- ii. the participant derogation, if made, will contribute to the achievement of the NEO, for the reasons set out in paragraph 10 of this submission; and
- iii. the benefits of the participant derogation, if made, would far outweigh the very minimal costs of implementing it.

- b. Accordingly, TasNetworks requests that the AEMC makes the participant derogation, as described in the Draft Rule attached to this submission; which would apply for the period from the making of the Rule Change to 1 July 2019.
- c. TasNetworks requests the AEMC treat this rule change with some urgency. This is to allow the finalisation of the Rule Change process prior to the AER making and publishing its distribution F&A. The distribution F&A must be published by July 2015 in accordance with clause 6.8.1(e) of the Rules.

TasNetworks Pty Ltd

Draft Participant Derogation

DRAFT RULE

Amendment of National Electricity Rules

1. Title of Rule

This Rule is the National Electricity Amendment (TasNetworks Pty Ltd) Participant Derogation (Modification of Rule 6.3.2(b) Rule 2014 No. [insert]).

2. Commencement

This Rule commences operation on *[insert date which must be after the date the notice making the Rule is published in the South Australian Government Gazette]*.

3. Amendment of the National Electricity Rules

The National Electricity Rules are amended as set out in Schedule 1.

Schedule 1 Amendment of National Electricity Rules

Chapter 8A Participant Derogations

[Insert the following new Part at the end of Chapter 8A]

Part [x] Derogation granted to TasNetworks Pty Ltd

8A.1 Derogation from Rule 6.3.2(b)

8A.1.1 Definitions

In this participant derogation, Rule 8A.1:

Commencement Date means the date on which this Rule 8A.1 commences operation.

Expiry Date means 1 July 2019.

TasNetworks means Tasmanian Networks Pty Ltd.

8A.1.2 Application

This participant derogation applies to TasNetworks from the Commencement Date until the Expiry Date.

8A.1.3 Derogation from Rule 6.3.2(b)

When the AER calculates the *Regulatory Control Period* for TasNetworks in its capacity as a Distribution Network Service Provider for the purposes of Rule 6.3.2(b), substitute paragraph (b) with the following:

“(b) A Regulatory Control Period must be not less than 5 regulatory years, except for the Regulatory Control Period commencing on 1 July 2017 which will be for 2 regulatory years.”