Welcome to a Briefing on our Future Investment Plans

Tuesday, 19 May 2015

PLEASE HOLD FOR THE WEBINAR TO START
Welcome

• Control panel
• Audio set up:
  • Telephone
  • Computer speakers
• Questions
• Presentation structure:
  • PowerPoint presentation
  • Webcam
  • Interactive polls
  • Questions

The presentation slides can be found online at: www.ergon.com.au/futurenetworktariffs
Agenda

Graeme Finlayson
Ergon Energy’s
General Manager AER

An introduction:
Revenue Determination & Timeline

A recap on our 2015-2020 plans
• customer commitments and direction
• our revenue requirement and expenditure plans

Q&A 5 minutes

AER’s Preliminary Determination

Likely focus areas for our revised proposal

Q&A 15 minutes
Every five years Ergon Energy makes a regulatory proposal to the AER.

The AER then make preliminary determination of a revenue allowance.

Ergon to submit a revised proposal.

Final opportunity for stakeholders to provide feedback.

The AER make their final revenue determination 2015-20.
Our service commitments and key drivers

**PEACE OF MIND**

1. Our goal is for our safety performance to stand with the best in our industry... to be Always Safe.
2. We'll maintain recent overall improvements in power supply reliability... and continue to improve the experience of customers who are suffering outages well outside our standards.
3. We'll be there after the storm, prepared and with the resources to respond to whatever Mother Nature delivers.
4. We'll meet our guaranteed services commitments. If we don't, we'll pay you.

**CHOICE AND CONTROL**

5. We're looking to the future - and evolving the network to best support customer choice in economic electricity supply solutions.
6. We'll make it easier for you to contact us, whether by phone, Facebook, or Twitter, and provide you with the information you need, when and how you need it.
7. We'll play our part in powering the economy by making it easier to connect to the network.

**FOR THE BEST POSSIBLE PRICE**

8. We're targeting to reduce what we charge for the use of our network in 2015-16, and keep increases overall in network charges under inflation for the next five years.
Ergon Energy’s strategy...

Our network is increasingly operating as an open access platform for distributed energy resources – with the local sugar industry (through the generation of electricity using bagasse), solar energy exports from homes and businesses across regional Queensland, and other renewable energy sources now contributing over 10% of the electricity for our main grid.

- To keep average network price increases below inflation
- To improve network productivity through tariff reform and other measures.
- To develop an open access platform that enables an equitable and effective market for energy, demand, storage, information, control and services.
- To deliver efficient services.
Willingness to pay – what our customers are saying

Recommended Investment Priorities for Ergon Energy

Customers believe Ergon Energy should...

1. Maintain Local Depots
2. Expansion in Network Resilience
3. Maintain Current Network Reliability
4. Transition Towards a Smart Network
5. Minimise Community Impact of New Infrastructure
6. Rolling Out of Smart Meters
7. Improve Outage Notifications
8. Invest in Communication Channels

Most Willing to Pay

Least Willing to Pay
What makes up our revenue?

**FINANCING COSTS**
- 47% Return on capital (existing assets)
- 11% Return of capital (depreciation/existing assets)
- 7% Financing new capital investment

**FUTURE INVESTMENT PLANS**
- 25% Operating expenditure
- 10% Other costs

**OTHER**
- 10% Other costs
Our journey to the best possible price…

**Capital Program Down from 2010-15 Allowance**

- **2010-11**: $844.2
- **2011-12**: $871.5
- **2012-13**: $840.6
- **2013-14**: $739.2
- **2014-15**: $821.9
- **2015-16**: $769.6
- **2016-17**: $733.6
- **2017-18**: $691.3
- **2018-19**: $677.4
- **2019-20**: $663.4

**Our Operating Costs Were Reduced Mid-Period**

- **2010-11**: $416.6
- **2011-12**: $441.8
- **2012-13**: $364.7
- **2013-14**: $360.2
- **2014-15**: $349.4
- **2015-16**: $349.6
- **2016-17**: $356.1
- **2017-18**: $363.6
- **2018-19**: $372.9
- **2019-20**: $374.0
Our Regulatory Proposal – where we planned to invest

For every $100 of the $3.6 billion in capital investment...

- $17 Non-network assets
- $18 New connections
- $22 Growth in demand
- $5 Reliability & other
- $38 Asset renewal

Total: $3.6 billion (47%)

For every $100 of the $1.85 billion in operating expenditure...

- $17 Other operating costs
- $10 Network operations
- $73 Network maintenance

Total: $1.85 billion (25%)

Additional: $1.33 billion (11%)
Questions
AER has made a preliminary 27% reduction to our revenue
Including a 26% preliminary reduction to our expenditure

Comparison between regulatory proposals and draft determination

- 2010 Final Determination: $7.8 billion (2010-15)
- 2010 Actual and Estimates: $6.1 billion
- 2015 Regulatory Proposal: $5.4 billion
- 2015 Draft Determination: $4.0 billion (2015-20)

Reduction percentages:
- 2010-15: 22%
- 2015: 11%
- 2020: 26%
How the AER reduced our capital investment proposal

The 36% of the preliminary reduction in the capital investment allowance is made up of reductions to direct costs, overheads and escalators (labour and materials).
Ergon’s capex unit costs / estimations considered at benchmark

Source: EMCa report to the AER
Where will the major implications be?

For every $100 of the $3.6 billion in capital investment...

- Non-network assets: $17
- Reliability & other: $5
- New connections: $18
- Growth in demand: $22

For every $100 of the $1.85 billion in operating expenditure...

- Asset renewal: $38
- Other operating costs: $17
- Network operations: $10
- Network maintenance: $73
Meeting growth in demand

Comparison of Ergon’s and AEMO Draft System Demand Forecast as per AER suggestion
AER reduced operating costs a further 10.5%
Our Revised Regulatory Proposal – Likely focus areas

- Maintain multi-model approach on WACC and gamma, updated for market changes
- Updated the proposed Weighted Average Cost of Capital
- Question changes to depreciation schedules/average asset lives
- Question removal of the Efficiency Benefit Sharing Scheme
- Maintain position that the AER has the legal ability to provide a transition path
- Maintain concerns over heavy reliance on benchmarking models
- Question the AER’s proposed reduction of materials and labour escalations
- Challenge rejection of the Garbutt Stage 2 Development
Our Revised Regulatory Proposal – Likely focus areas

• We will update our forecasts for any expenditure changes as a result of:
  • known program changes
  • load/demand forecast changes
  • reassessment of security criteria
  • further embedding the ROAMES technology across our business
  • emerging safety or other risk related issues.

• We will address key issues around Alternative Control Services including:
  • rejection of metering exit fee by AER, the implementation of the new upfront metering charges and the proposed $10 million reduction in the allowance for metering operational costs.
Questions
Visit


and


We welcome feedback to

futureinvestment@ergon.com.au