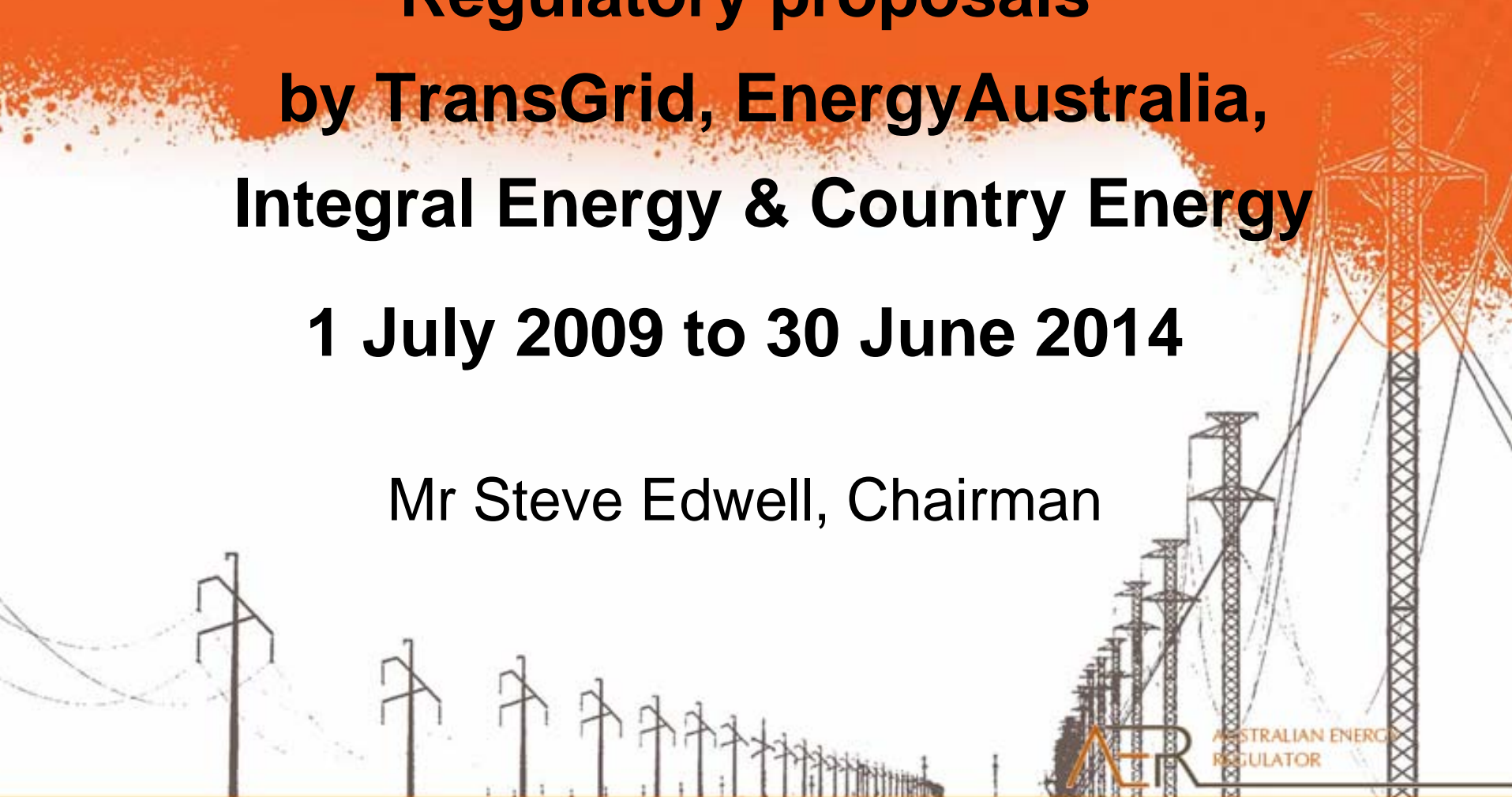


Public Forum

**Regulatory proposals
by TransGrid, EnergyAustralia,
Integral Energy & Country Energy
1 July 2009 to 30 June 2014**

Mr Steve Edwell, Chairman



Agenda

Registrations (8:30 – 9:00 am)

- 9:00 - Introduction and the AER's process (Steve Edwell)
- 9:30 – TransGrid presentation (Kevin Murray / Peter McIntyre)
- 10:30 – Questions (interested parties)

Morning tea break (10:45 – 11:15)

- 11:15 – EnergyAustralia presentation (George Maltabarow / Geoff Lilliss)
- 12:15 – Questions (interested parties)

Lunch break (12:30 – 1:30)

- 1:30 - Integral Energy Presentation (Rod Howard)
- 2:30 – Questions (interested parties)

Afternoon tea break (2:45 – 3:15)

- 3:15 – Country Energy presentation (Craig Murray / Ken Stonestreet / Bill Frewen)
- 4:15 – Questions (interested parties)
- 4:30 - Concluding comments (Steve Edwell)

Forum closes (5:00 pm)

Introduction

- Forum held to assist AER in making transmission determination under Chapter 6A of the National Electricity Rules (NER) and distribution determination for DNSPs under chapter 11 of NER (Ch11 contains transitional Chapter 6 provisions).
- The ACCC set TransGrid's revenue cap for a 5 year period to 30 June 2009.
- IPART made a determination in respect of each of the NSW distributors for a 5 year period to 30 June 2009.

Introduction

- AER preliminary examination found all regulatory proposals satisfied the AER's submission guidelines, regulatory information notices and the NER.
- The regulatory proposals are available on the AER website - written submissions are invited by 8 August 2008.

Timeline

- Submissions close on the regulatory proposals (8 August 2008)
- Release AER draft determination and consultants' reports (November 2008)
- Public forum on AER draft determinations (8 December 2008)
- Submissions close on draft determinations (February 2009)
- Release AER final determinations (April 2009)

Preparatory consultation

- The AER values input from stakeholders, including users
- The AER invited comment on a range of guidelines, models and incentive schemes. For distribution, the following consultation took place:
 - issues papers and public forum in November 2007
 - preliminary positions papers in December 2007
 - receipt of submissions and verbal consultation prior to finalisation of guidelines, models and schemes in the first quarter of 2008.
- The AER also consulted extensively with the DNSPs to finalise their respective regulatory information notices.

Distribution regulation in NSW

- The process of establishing a consistent national regulatory framework through the NER took longer than expected
 - reset process in ACT & NSW will proceed under transitional rules
 - transitional rules preserve some elements of the ICRC and IPART's determinations

Transitional rules for ACT/NSW

- Key features:
 - current classifications of services will continue
 - current forms of regulation will continue
 - current arrangements for capital contributions, ring fencing and cost allocation will continue
 - WACC parameters prescribed in the rules (no AER decision)
 - incentive schemes are discretionary (rather than mandatory)

Transitional rules for ACT/NSW

- Incentive schemes:
 - there will be no service standards incentive scheme for the 2009-2014 period. Performance will be monitored through annual reporting, with the intent of introducing a scheme in 2014
 - an efficiency benefit sharing scheme will apply to the coming period with financial impact from 2014
 - IPART's demand management arrangements will be continued and expanded to include a demand management innovation allowance

Transitional rules for ACT/NSW

- As a result of the transitional rules, the AER's focus will be to set efficient and reasonable expenditure allowances (capital and operating).
- Future reviews will include elements which are 'locked-in' under the transitional rules.

Preliminary observations

- All four businesses have proposed substantial expenditures on both capex and opex.
 - The percentage increase (forecast capex / capex in the current regulatory control period) is particularly significant.
- Three key drivers of proposed capex:
 - reliability (revised planning standards and licence conditions)
 - augmentation / growth (air-conditioning)
 - asset renewal/replacement (ageing network assets)
- Importance of each driver varies between businesses.
 - for example, growth is a particularly significant driver for TransGrid and Integral Energy, while EnergyAustralia has proposed a very large asset renewal program

Preliminary observations

- AER review of opex forecasts will encompass:
 - methodologies used to develop opex forecasts
 - common cost categories and drivers across businesses:
 - benchmark debt and equity raising costs
 - self insurance (key asset risks considered and quantification)
 - input costs growth for labour and/or materials
- AER will also review alternative control services (including public lighting services) and associated expenditures and prices required to meet specified levels of service

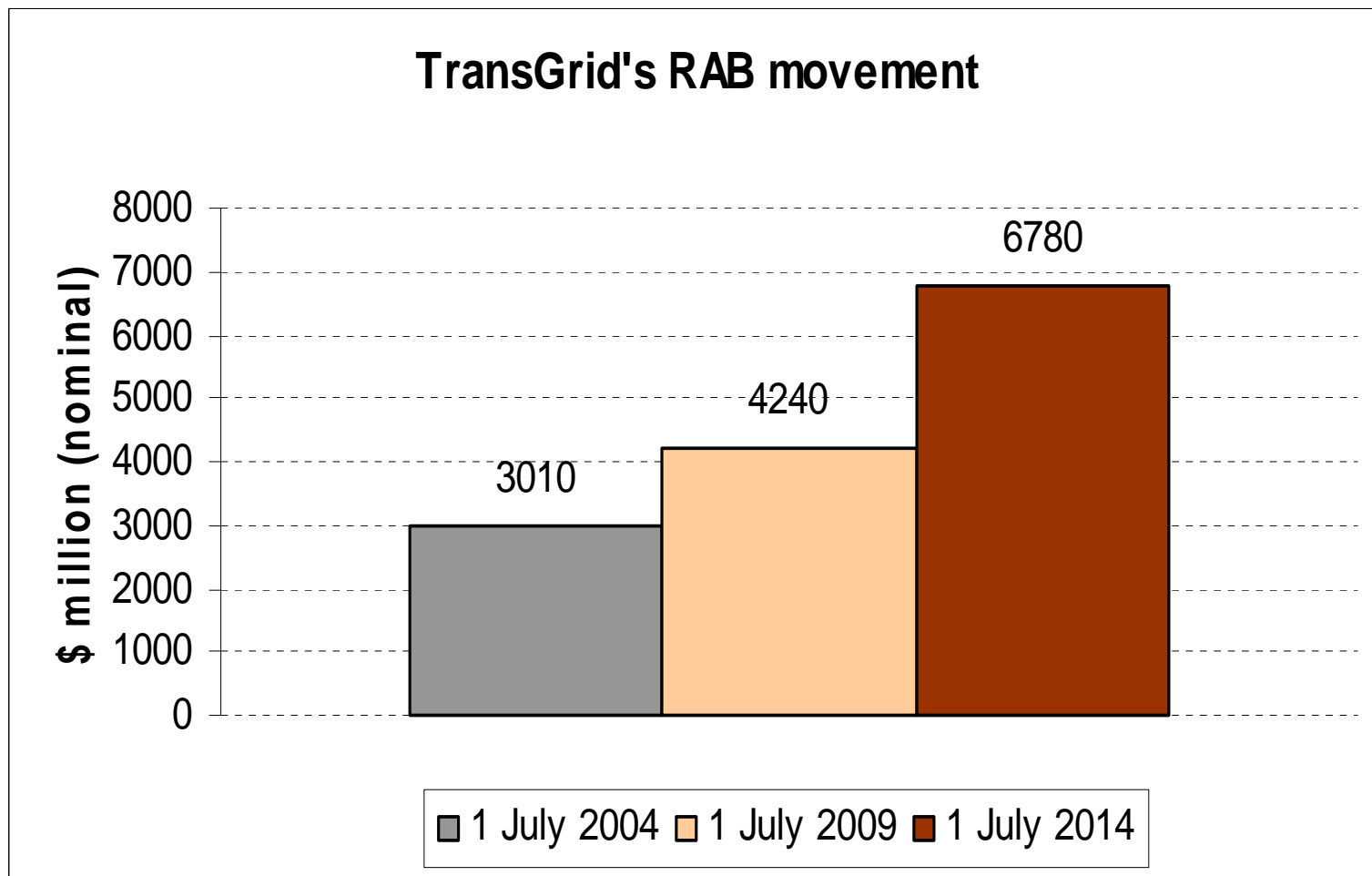
Preliminary observations – TransGrid

- All TransGrid figures are in real terms (\$2007-08) unless stated otherwise.
- Forecast capex: \$2.63b in the next regulatory control period (\$1.39b spent in the current regulatory control period)
 - dominated by large augmentation program (3 projects constitute 40% of total capex)
 - AER review will focus on the three key drivers and include large augmentation projects
- TransGrid also proposed \$2.16b across 18 contingent projects
 - AER review to focus on definition of triggers and ensuring there is no overlap with ex ante revenue cap

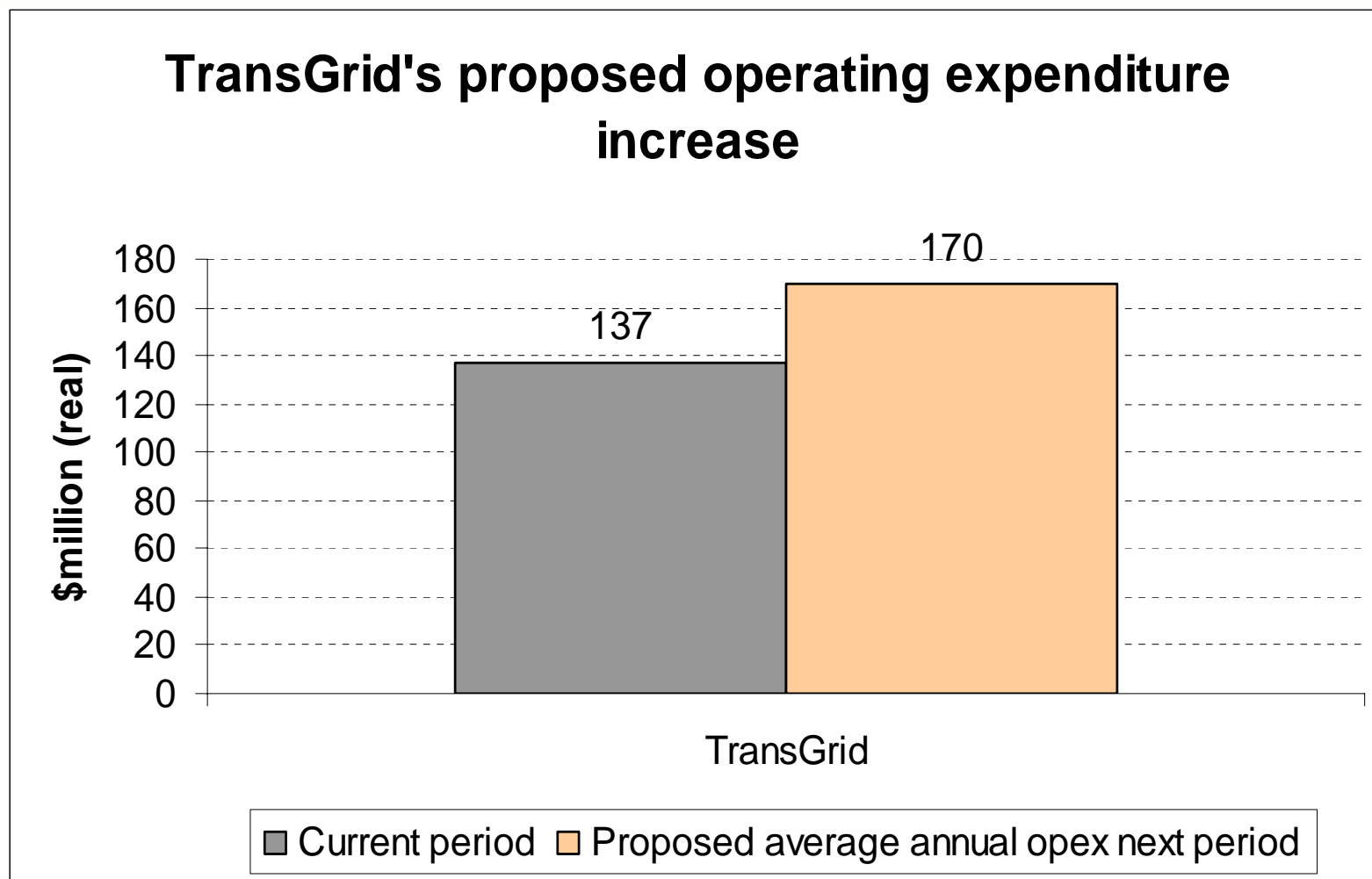
Preliminary observations – TransGrid

- Forecast Opex: \$850m (\$635m spent in the current regulatory control period)
- AER will review:
 - Base year costs and adjustments
 - appropriateness of increases for specific categories:
 - maintenance forecasts
 - major operating projects
 - network support

Preliminary observations – TransGrid



Preliminary observations – TransGrid



Forum procedures

- After presentations, forum is open to questions from interested parties
- Purpose is not to engage in debate on the issues but to provide opportunity to raise any issues with the regulatory proposal or the assessment process
- A record of this meeting will be made
- Please register if you haven't done so already

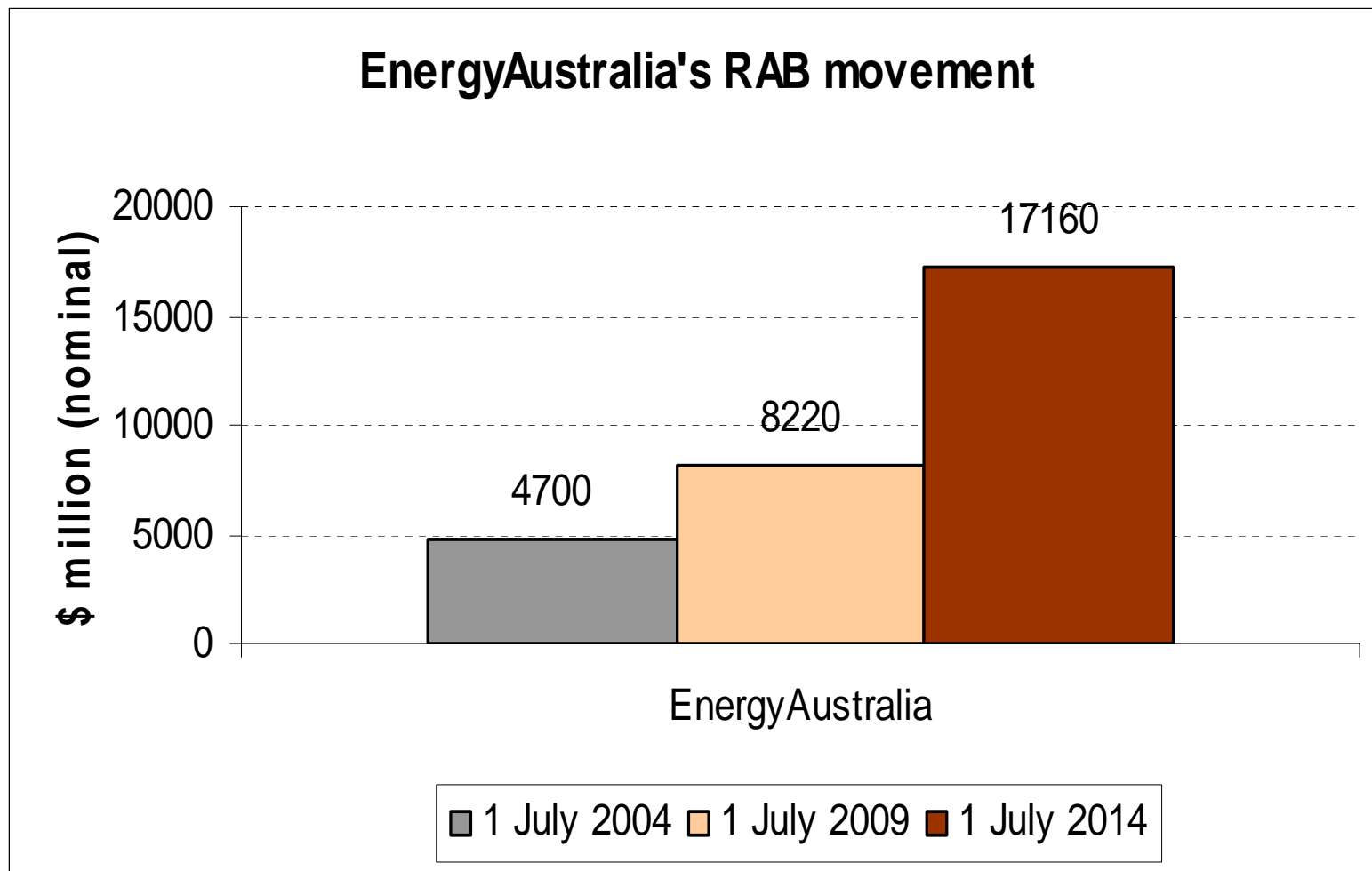
Preliminary observations – EnergyAustralia

- All EnergyAustralia figures are in real terms (\$2008-09) unless stated otherwise).
- Forecast capex: \$8.66b (\$3.72b spent during the current regulatory control period (nominal terms))
- AER review will focus on:
 - impact of new licence conditions
 - replacement of critical assets
 - impact of peak demand growth

Preliminary observations – EnergyAustralia

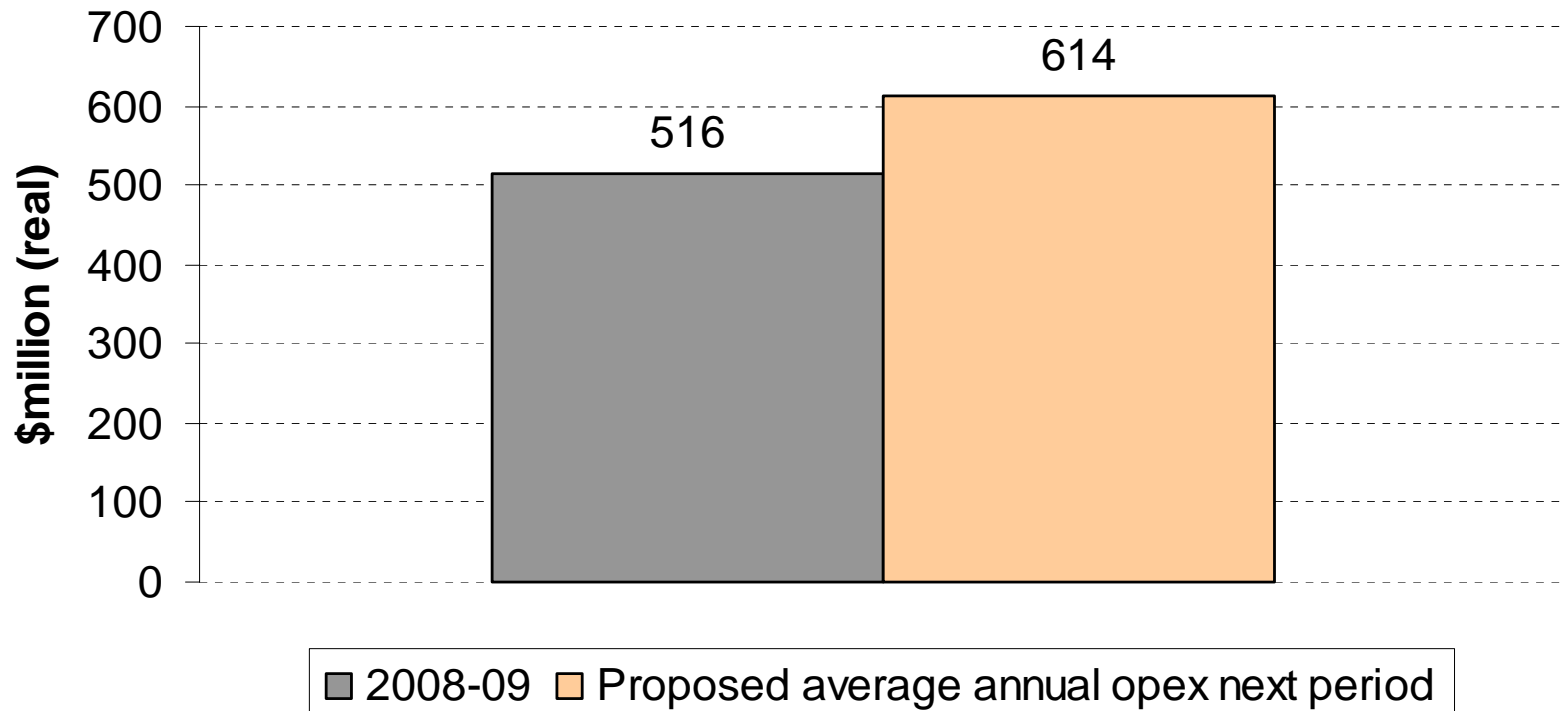
- Forecast Opex: \$3.07b (\$2.14b opex spent during the current regulatory control period)
- AER will review:
 - base year starting point and adjustments
 - appropriateness of step changes for specific categories:
 - maintenance costs including inspection, corrective and breakdown costs
 - network support costs including system IT, system property management and staff training/development costs
 - business support costs including non-system IT and property managements costs

Preliminary observations – EnergyAustralia



Preliminary observations – EnergyAustralia

EnergyAustralia's proposed operating expenditure increase



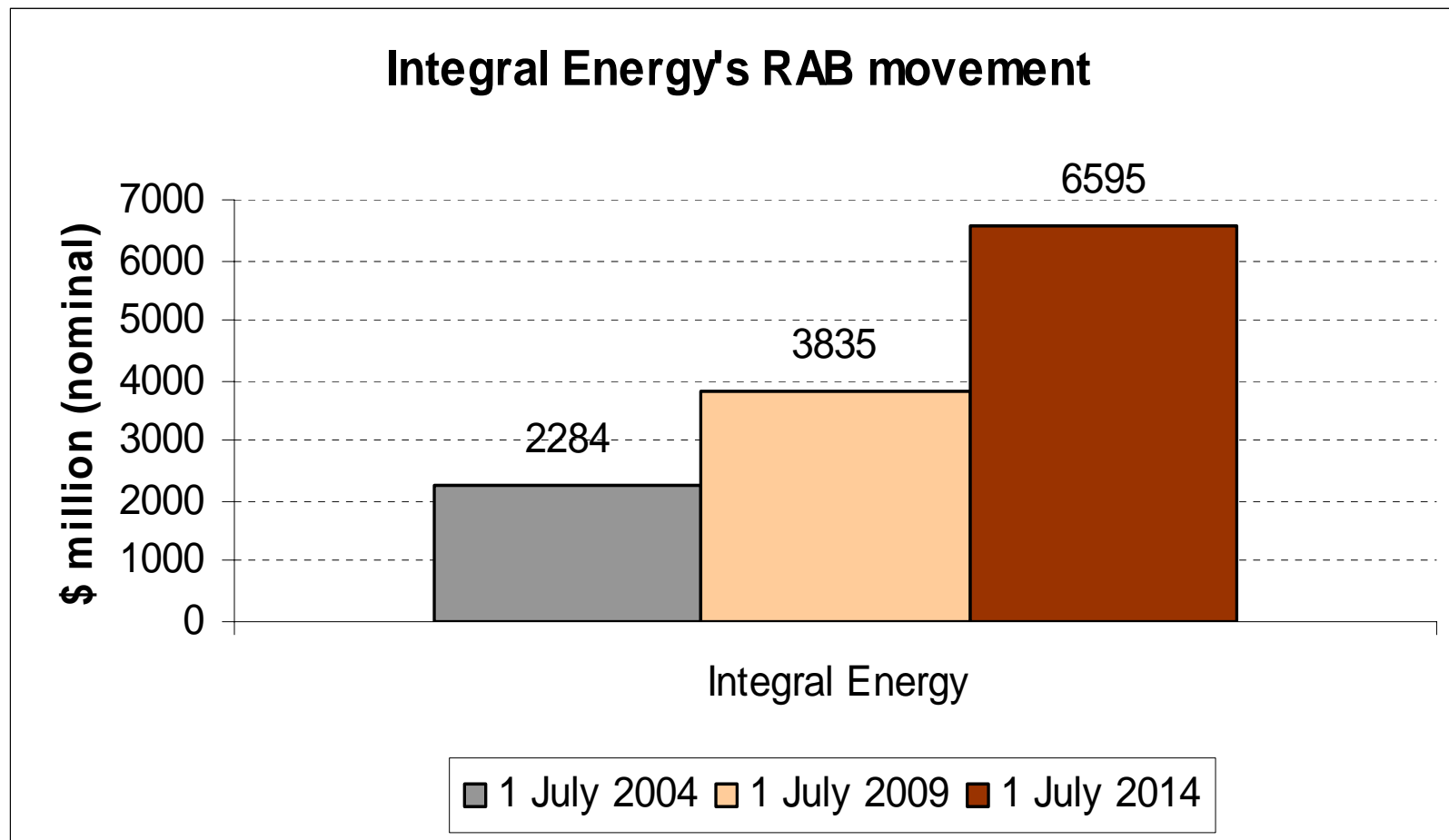
Preliminary observations – Integral Energy

- All Integral Energy figures are in real terms (\$2008-09) unless stated otherwise).
- Forecast capex: \$2.95b (\$1.87b spent during the current regulatory control period (in nominal terms))
- AER review will focus on:
 - Major Projects - area studies
 - Zone substation requirements
 - Asset renewal/replacement plans
 - Non-system capex

Preliminary observations – Integral Energy

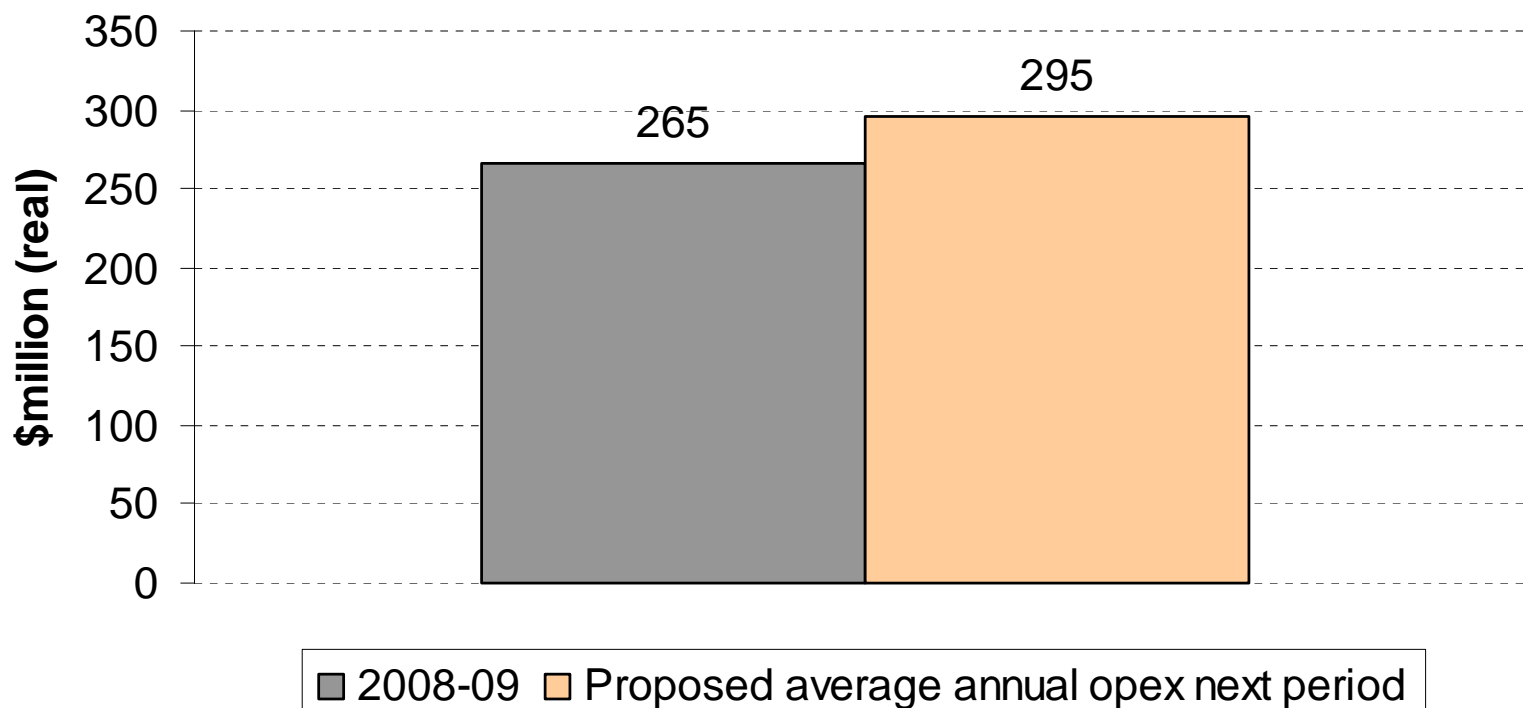
- Forecast Opex: \$1.48b (\$1.13b opex spent during the current regulatory control period)
- AER will review:
 - base year costs and adjustments for step changes
 - impact of replacement assets on future opex
 - appropriateness of increases for specific categories:
 - vegetation management
 - maintenance and repair
 - other network maintenance costs

Preliminary observations – Integral Energy



Preliminary observations – Integral Energy

Integral Energy's proposed operating expenditure increase



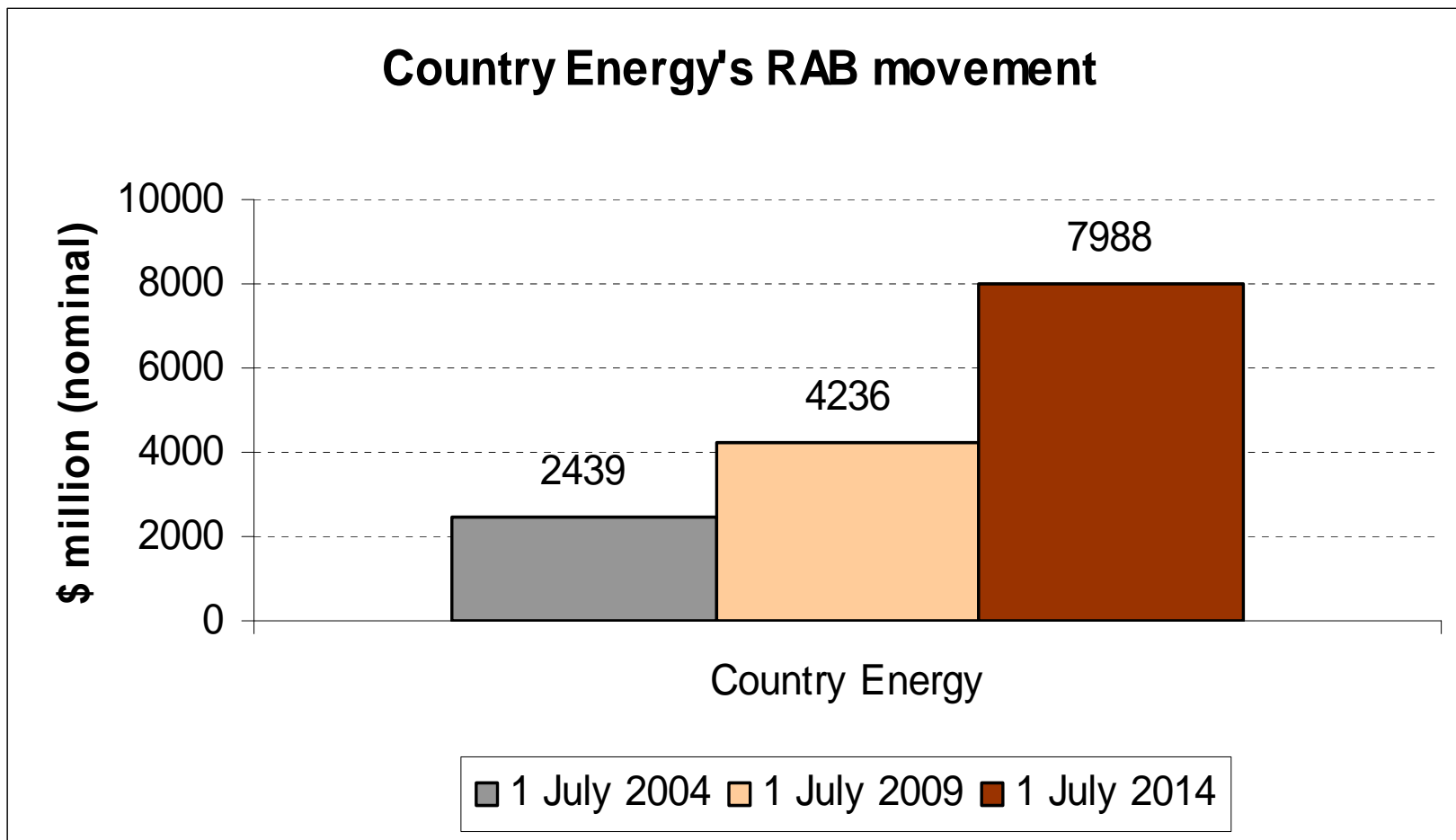
Preliminary observations – Country Energy

- All Country Energy figures are in real terms (\$2008-09) unless stated otherwise).
- Forecast capex: \$4.04b (\$2.10b spent during the current regulatory control period (in nominal terms))
- AER review will focus on:
 - Impact of reliability licence conditions
 - Peak demand growth driving augmentation
 - Non-system capex

Preliminary observations – Country Energy

- Forecast Opex: \$2.15b (\$1.49b opex spent during the current regulatory control period)
- AER will review:
 - base year starting point
 - appropriateness of increases for specific categories:
 - inspection costs
 - maintenance and repair
 - vegetation management
 - other network maintenance costs such as system control

Preliminary observations – Country Energy



Preliminary observations – Country Energy

Country Energy's proposed operating expenditure increase

