

Public Forum

Regulatory proposals

Energex & Ergon Energy

1 July 2010 to 30 June 2015

Mr Steve Edwell, Chairman

Agenda

- **9.00 – 9.30** **Forum opening and the AER's process**
Steve Edwell, Chairman
- **9.30 – 10.30** **Energex presentation**
Terry Effeney (CEO) and Chris Arnold (General Manager network performance)
- **10.30 – 11.00** **Questions from interested parties**
- **11.00 – 11.30** **Morning tea**
- **11.30 – 12.30** **Ergon Energy presentation**
Ian McLeod (Chief Executive) and Tony Pfeiffer (General Manager Regulatory Affairs)
- **12.30 – 1.00** **Questions from interested parties**
- **1.00 – 1.30** **Concluding comments**
Steve Edwell
- **1.30** **Forum closes**

Introduction

- Forum held to assist AER in making distribution determination for DNSPs under chapter 6 of NER.
- QCA made a determination in respect of each of the QLD distributors for a 5 year period to 30 June 2010.

Introduction

- AER preliminary examination found the regulatory proposals satisfied the NER and the AER's regulatory information notices.
- The regulatory proposals are available on the AER website.
- Submissions are invited by 28 August 2008.

Submissions

- The AER considers all information provided in submissions when making its determinations.
- Submissions that provide clear analysis and arguments in support of contentions are preferred.
- Submissions should focus on the matters that the AER must review and decide upon.

Consultants

- PB Strategic Consulting: opex forecasts, capex forecasts, service targets.
- MMA: demand forecasts.
- Access Economics: labour cost growth forecasts.

Timeline

- Submissions close on the regulatory proposals (28 August 2009)
- Release AER draft determination and consultants' reports (November 2009)
- Public forum on AER draft determinations (9 December 2009)
- Revised proposals (if any) submitted (January 2010)
- Submissions close on draft determinations and revised proposals (February 2010)
- Release AER final determinations (April 2010)

Preparatory consultation

- The AER published its framework and approach papers on:
 - the classification of services and control mechanisms in August 2008
 - relevant schemes in November 2008.
- The AER also consulted extensively with the DNSPs to finalise their respective regulatory information notices

Preliminary observations

- Both businesses have proposed substantial increases in capex compared to the current regulatory period
- Key drivers of proposed capex:
 - Asset replacement
 - Business initiated augmentation

Preliminary observations

- Both businesses have proposed increased opex compared to the current regulatory period
- Key drivers of proposed opex:
 - Implementation of improved maintenance programs
 - Increased corrective maintenance expenditure
 - Targeting improved reliability of the networks

Preliminary observations

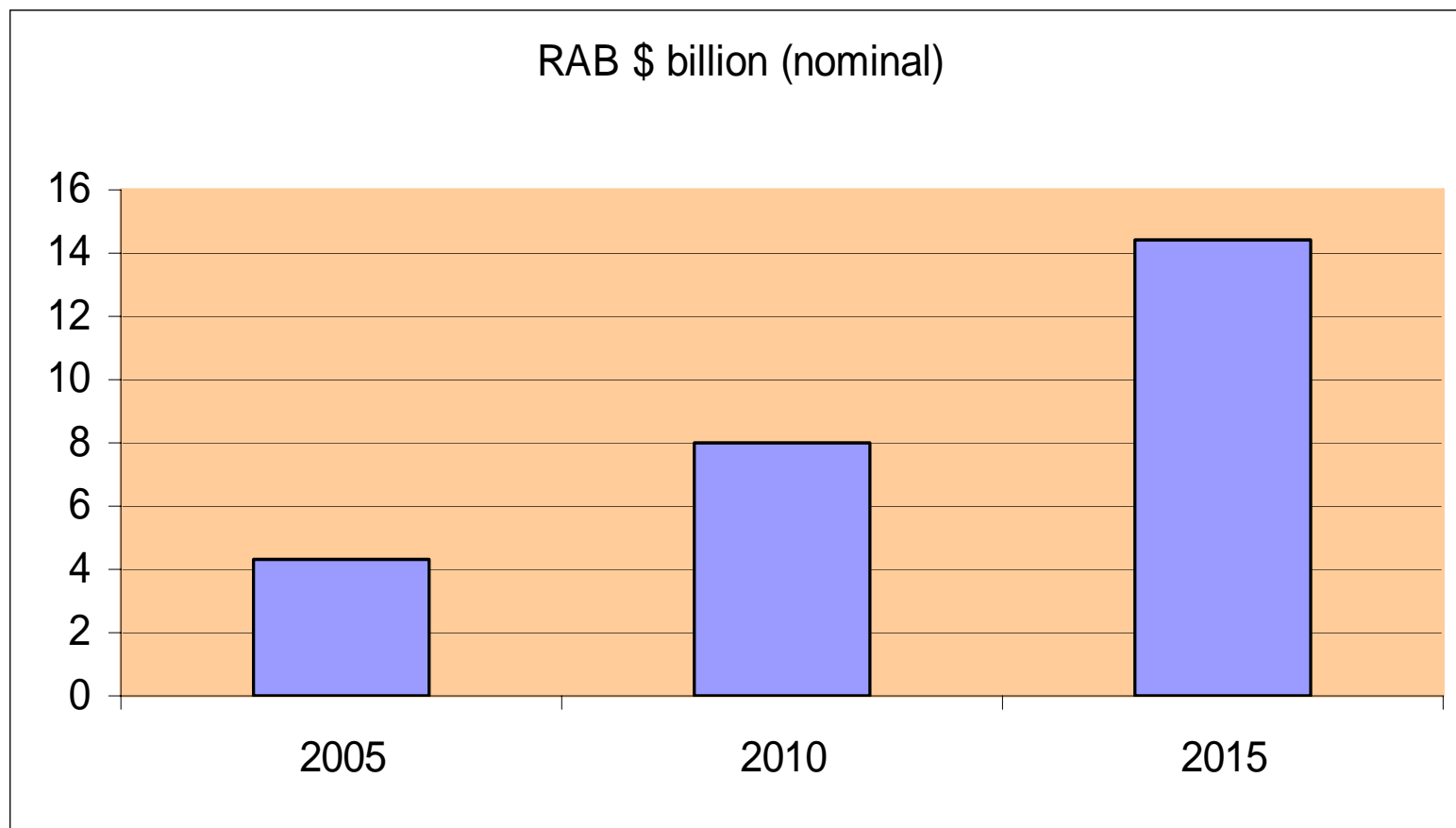
- AER will assess all elements of the proposals including classification of services, control mechanisms, demand forecasts and revenue requirements.
- AER review of forecast expenditures will encompass:
 - methodologies used to develop forecasts
 - common cost categories and drivers across businesses:
 - benchmark debt and equity raising costs
 - self insurance
 - input costs growth for labour and/or materials.
- AER will also review alternative control services.

Preliminary observations – Energex capex

- All Energex figures are in real terms (\$2009-10) unless stated otherwise.
- Forecast capex: \$6.5 bn in the next regulatory period (\$4.3 bn spent in the current period):
 - dominated by the corporate initiated augmentation program to work towards 'n-1' security standard
 - also encompasses a large asset replacement program geared towards replacing high risk assets before they fail

Preliminary observations – Energex

Regulated asset base



Preliminary observations – Energex opex

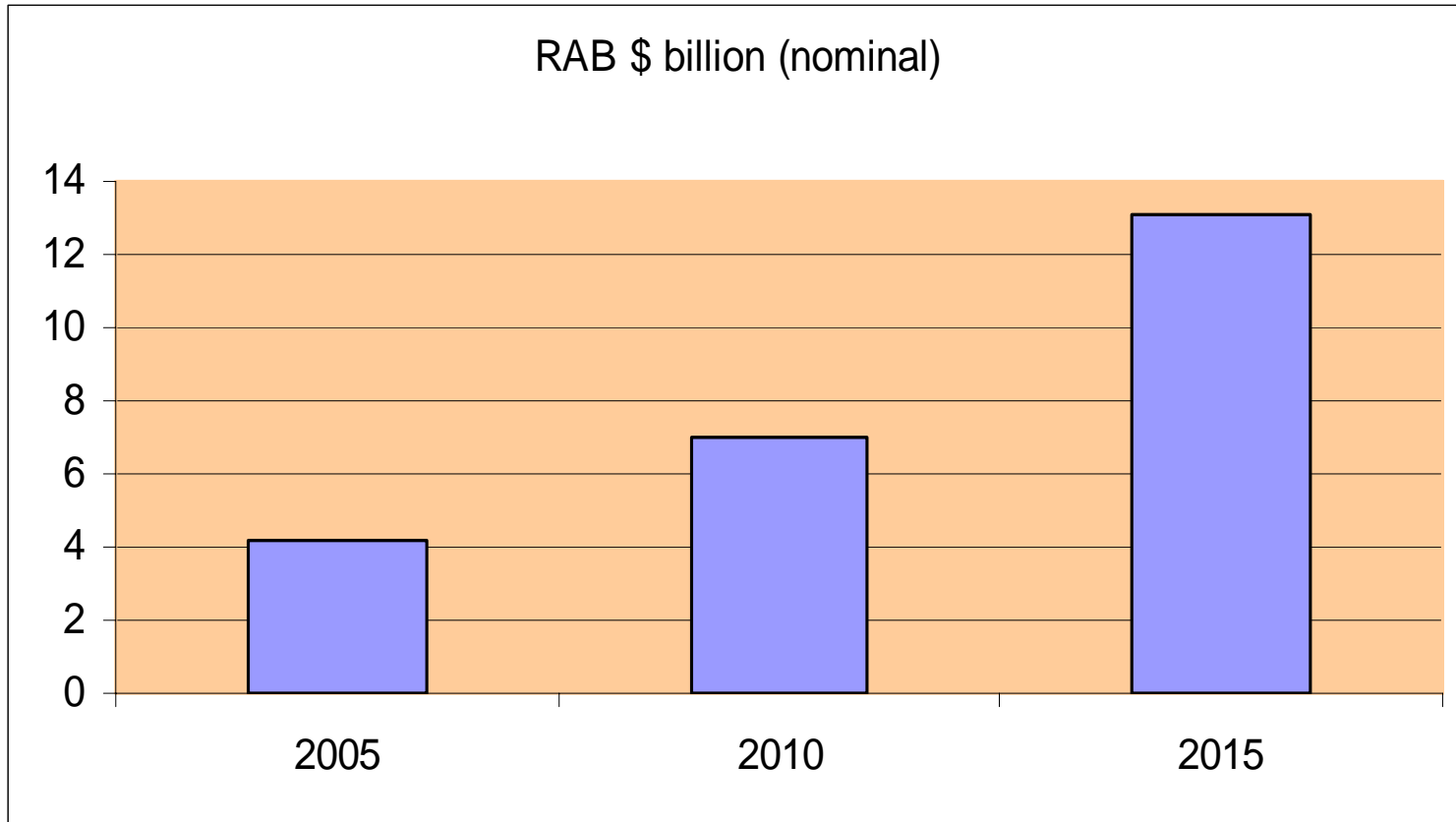
- Forecast Opex: \$1.8 bn (\$1.4 bn estimated spent in the current regulatory period).
- AER will review:
 - Base year costs and adjustments
 - appropriateness of increases for specific categories:
 - maintenance and repair
 - inspection
 - vegetation management.
 - Provision of services by SPARQ.

Preliminary observations – Ergon Energy capex

- All Ergon Energy figures are in real terms (\$2009-10) unless stated otherwise.
- Forecast capex: \$6.0 bn (\$4.0 bn spent during the current regulatory period)
- AER review will focus on:
 - Business initiated augmentation
 - Asset replacement expenditure

Preliminary observations – Ergon Energy

Regulated asset base



Preliminary observations – Ergon Energy opex

- Forecast opex: \$1.9 bn (\$1.5 bn estimated opex spent during the current period)
- AER will review:
 - Base year costs and adjustments
 - Appropriateness of increases in specific categories
 - Changes to accounting policies
 - Provision of services by SPARQ.

Forum procedures

- Purpose is to allow the businesses to present their regulatory proposals.
- After presentations, interested parties are invited to raise any issues with the regulatory proposal or the AER's assessment process.
- A record of this meeting will be made.