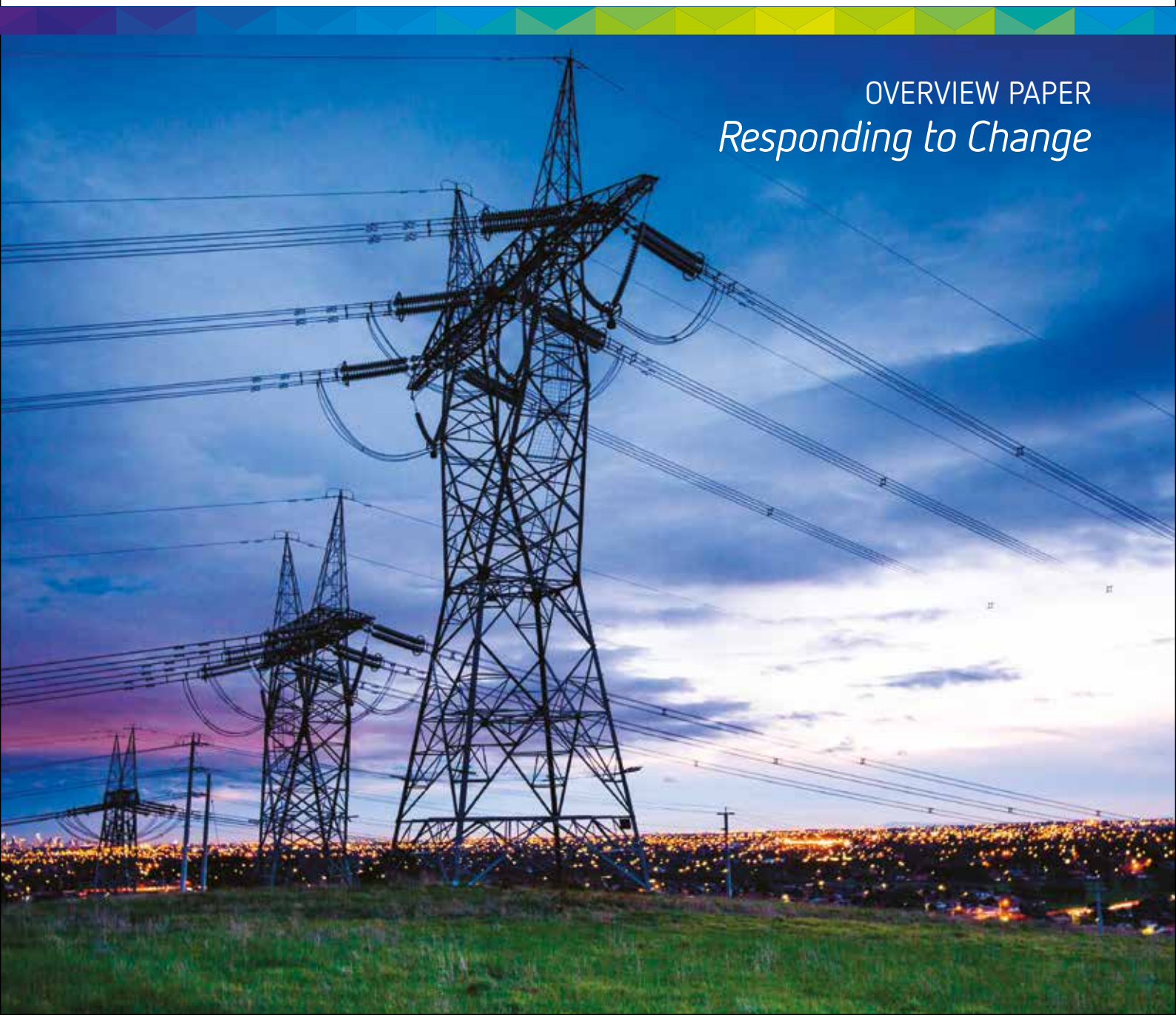
AusNet services

Transmission Revenue Review (TRR) 2017–2022



OVERVIEW PAPER

Responding to Change

Contents

Managing Director's note

I am pleased to share with you an overview of our transmission network plans for the period 2017 to 2022, titled *'Responding to Change*.'

This document summarises our Transmission Revenue Reset (TRR) proposal, which has been submitted to the Australian Energy Regulator (AER) for approval. In effect, it outlines our investment programs and required revenue for the next five-year regulatory period.

Energy markets are undergoing significant changes. Consumption is falling, while demand growth is expected to slow. Alternative energy technology is increasing choices to consumers. The value consumers place on reliability has decreased, as demonstrated by Australian Energy Market Operator's (AEMO) Value of Customer Reliability (VCR) survey.

Our plans represent a measured response to these changes, while keeping transmission prices low and stable, for the benefit of all Victorians. AusNet Services aims to ensure our benchmarked costs remain the lowest of all transmission businesses in the National Electricity Market (NEM).

In brief, our proposal includes a significant reduction in capital works and the deferral of some major projects. We have stabilised operating expenditure and accelerated depreciation for new assets. We have also proposed a rate of return that provides a fair return for investors and fair prices for customers.

You can access the full proposal on our website (www.ausnetservices.com.au) or the AER's website (www.aer.gov.au).

For AusNet Services to succeed in the future, the services we offer must meet stakeholder needs. Building closer relationships and better understanding is vital to this process. This document seeks to explain our proposal, with the aim of building stakeholder understanding about our transmission business.

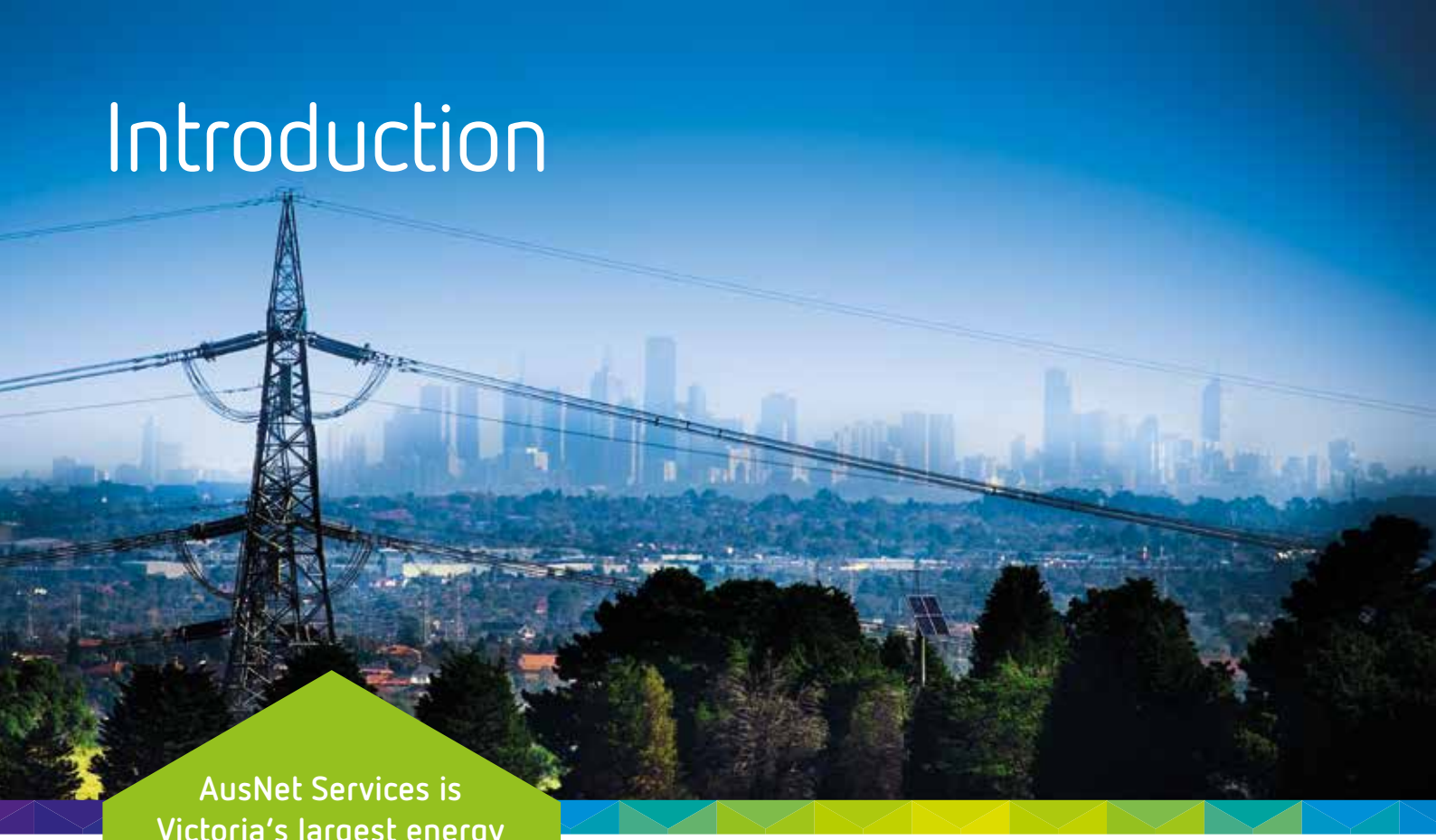
The stakeholder program we ran as part of the 2017 TRR process is another step forward for AusNet Services. So I thank those stakeholders who, by participating in our engagement program, have contributed to the development of our plans.

Looking ahead, our stakeholder engagement will continue to develop – we are open to feedback on our proposal, which we will take into account at a later stage in the review process.

AusNet Services aims to ensure that our costs per customer, benchmarked by the Australian Energy Regulator (AER), remain the lowest of all transmission businesses in the National Electricity Market (NEM).

Mr Nino Ficca
Managing Director
AusNet Services

Introduction



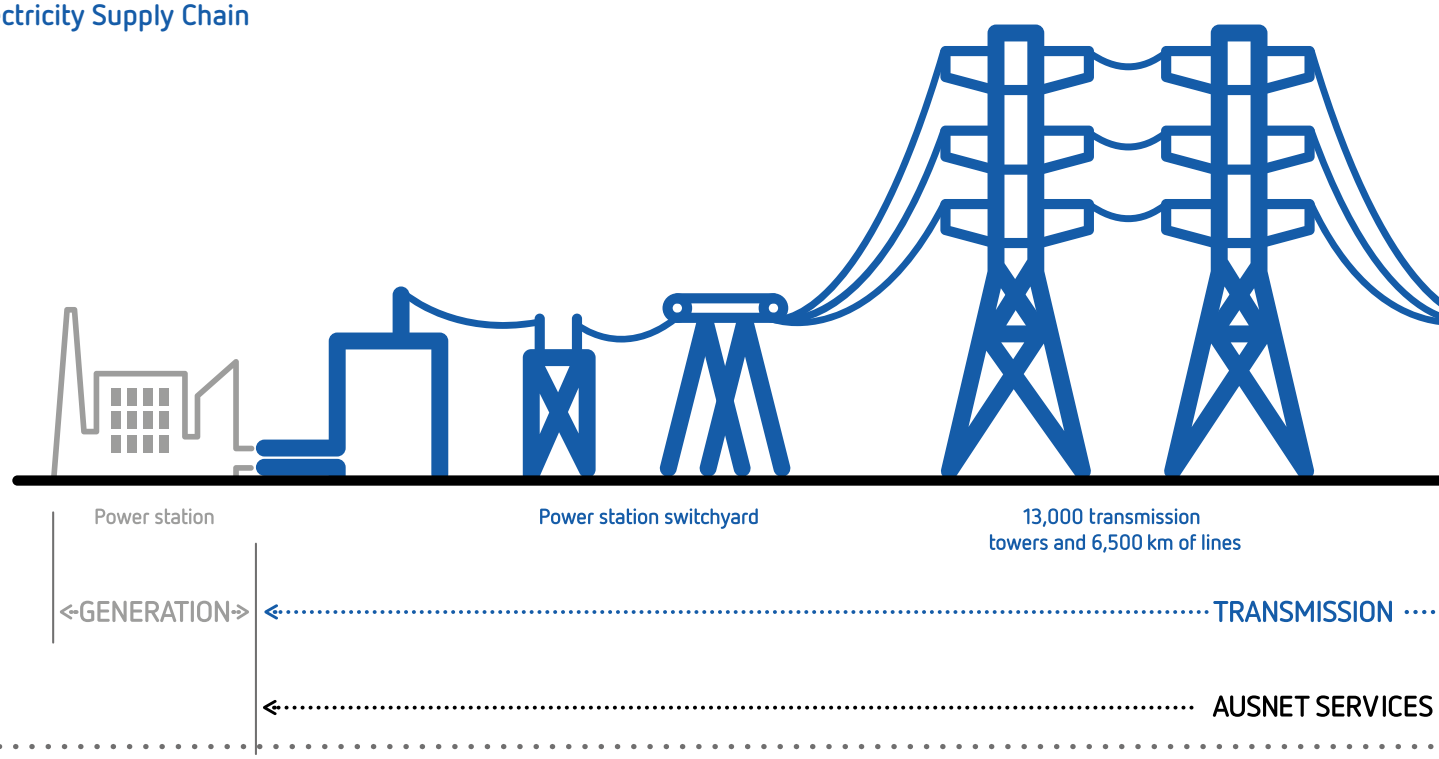
AusNet Services is Victoria's largest energy delivery service business. We own and operate $11 billion worth of electricity transmission and distribution and gas distribution assets.

Our company was previously known as SP AusNet, but it began as part of the State Electricity Commission of Victoria (SEC) in 1921.

This document is focused on the part of our business that owns and operates the electricity transmission network in Victoria.

The diagram below shows how the electricity transmission network forms part of the energy supply chain. Energy moves from generation sources through our high voltage transmission network, into the lower voltage distribution network, then via a meter into homes and businesses.

Electricity Supply Chain



The transmission network is described as a 'natural monopoly' because it is not commercially viable or practical to have competing networks. For this reason, the Australian Energy Regulator (AER) decides how much revenue AusNet Services should earn from providing transmission services. This determines the price of using the transmission network that is charged to Victorian electricity consumers as part of their electricity bills.

The cost of using the transmission network to transport electricity is included in each consumer's electricity bill, but it is a relatively small percentage, as shown below.

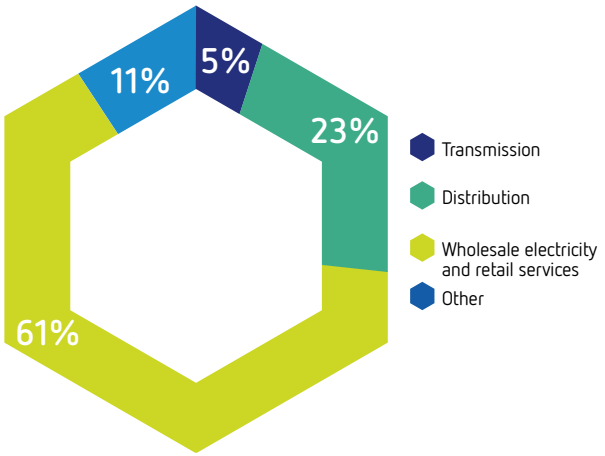
Setting our revenue

The process for setting our revenue is typically undertaken every five years.

The process for determining revenue begins with AusNet Services submitting a proposal to the AER. This includes details of our expenditure plans, which are designed to maintain the reliability and safety of the network in an efficient manner. The AER reviews this proposal and other interested parties are also invited to comment.

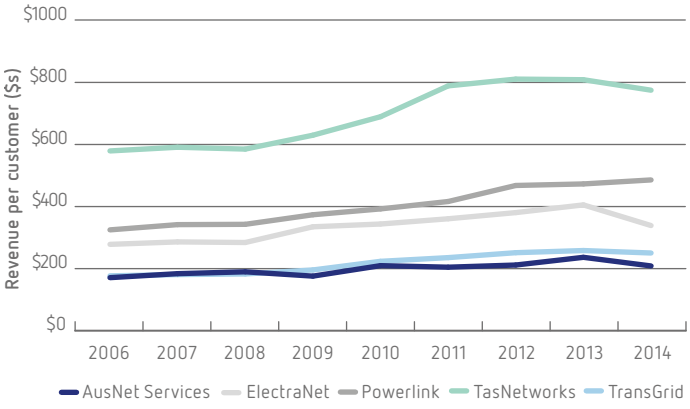
This overview document forms part of our revenue proposal. Its purpose is to summarise our proposal in a way that stakeholders will find helpful and informative. It explains how we have engaged with stakeholders in developing our proposal. We also invite further comment and input.

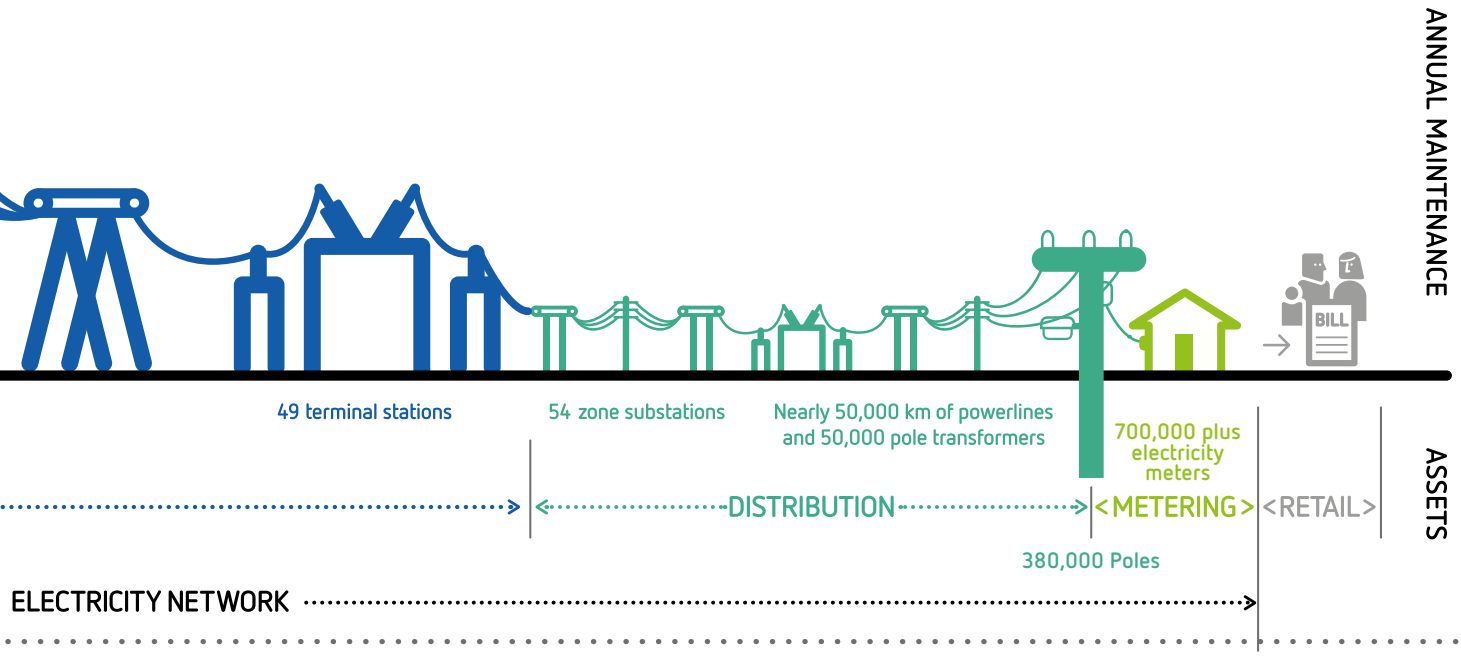
Transmission costs only account for 5 per cent of a customer's average electricity bill



Note – refers to Victorian residential bills (Source: Oakley Greenwood)

AusNet Services has the lowest revenue per customer compared to other transmission companies in Australia





Our transmission network and responsibilities

The transmission network plays a vital role in providing a reliable electricity supply to all Victorians.

AusNet Services' electricity transmission network includes more than 6,500 kilometres of transmission lines. The Victorian network is centrally located among Australia's five eastern states, and it provides important connections between South Australia, New South Wales and Tasmania. These connections allow the states to support one another, by importing or exporting electricity at different times to minimise the total cost to electricity consumers.

The transmission network consists of a 500 kV backbone, running from the Latrobe Valley, through Melbourne and across south-west Victoria to Heywood. The backbone serves the major load centres and is reinforced by:

- A 220 kV ring around Melbourne supplying 220 kV / 66 kV / 22 kV terminal stations;
- Inner and outer rings of 220 kV / 66 kV / 22 kV terminal stations in country Victoria supplying the regional centres; and
- Interconnections with New South Wales, South Australia and Tasmania.

The transmission system location, configuration and voltages are shown on the opposite page.

Metropolitan Melbourne is served by 500 kV and 220 kV networks which receive power from major generators in the Latrobe Valley, the hydro-electric power stations in north east Victoria, the gas-fired Newport power station, renewable generation sources, such as wind farms, and the interstate links.

Only the largest industrial customers are connected directly to the transmission system. Smaller commercial and residential consumers are connected to the lower voltage distribution network. However, while the vast majority of consumers are connected to the distribution network, they still depend on the transmission system for a reliable and safe electricity supply.

To provide a safe and reliable transmission network:

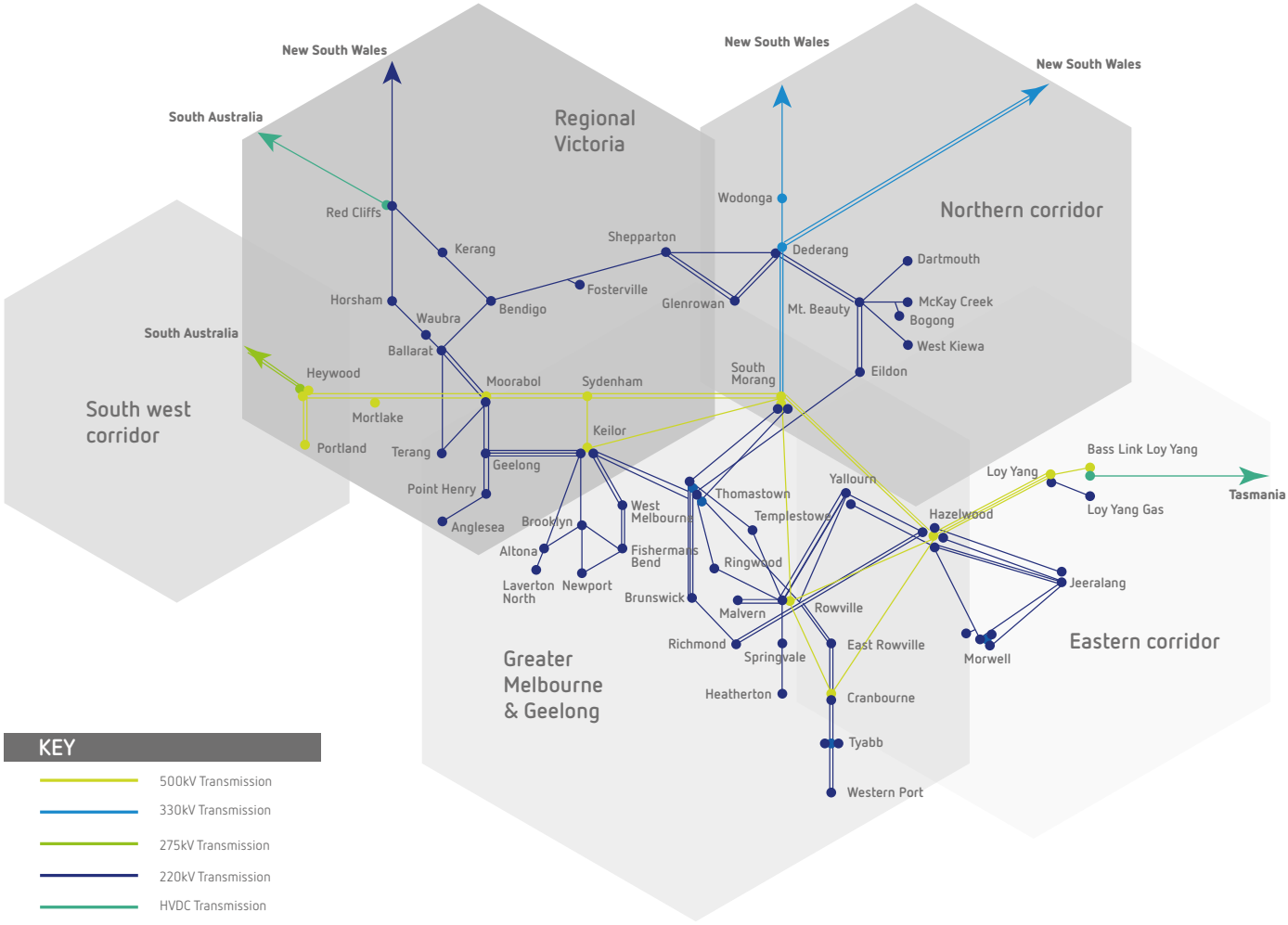
- Existing assets must be maintained and renewed in a timely manner; and
- Sufficient network capacity must be available to meet peak demand for electricity, particularly on hot summer days.

Two bodies are responsible for Victoria's shared transmission network: AusNet Services maintains and renews existing assets; and the Australian Energy Market Operator (AEMO) makes decisions to add network capacity.

The role of AEMO, unique to Victoria, is designed to eliminate the risk of unnecessary network expansion, which is sometimes called 'gold plating.' In keeping with our responsibilities, the scope of our revenue proposal is limited to maintaining and renewing existing assets.

As well as ensuring that we comply with obligations to provide safe and reliable transmission services, we must make sure that our costs are efficient. This means making the right decisions at the right time.

Victoria's Electricity Transmission System Network



If assets are replaced prematurely, our costs will be higher than necessary. On the other hand, if we delay asset replacement or maintenance too long, it increases the risk of potentially dangerous asset failures, prolonged and widespread outages, and interruptions to consumers' electricity supply.

To ensure that we spend every dollar wisely, our investment and maintenance decisions are underpinned by robust asset management processes and governance arrangements. We analyse the condition and performance of our assets to ensure that they are replaced before they fail, and we drive assets harder and for longer, as long as it is safe to do so.

Drivers shaping our plans

Our transmission revenue proposal outlines our plans from 2017 until 2022. The four most important factors that have influenced these plans are:

1. Changing electricity usage patterns
2. Lower demand forecasts
3. Lower value of customer reliability
4. Stakeholder feedback

Driver 1

Changing electricity usage patterns

Efficient investment decisions require us to anticipate the future, especially as transmission assets can operate for 50 years or longer. Technological advances are transforming the energy industry, changing the generation mix and creating opportunities for consumer participation in producing and storing electricity.

As the cost of small-scale generation and energy storage is expected to fall, some consumers may choose to disconnect from the distribution network. With fewer users, each remaining consumer would then be required to meet a larger share of network costs and the resulting price increases could drive more consumers off the network.

These technological changes – including developments in battery technology – raise questions about investing in transmission assets that have very long physical lives. Investors need confidence that they will receive a reasonable return, while consumers expect network companies to be flexible and responsive to technological change.

For this reason, we want to change the way that we recover our capital outlay. In our proposal, we plan to recover the costs of new investments sooner. We discuss this approach on page 18 of this paper.

Driver 2

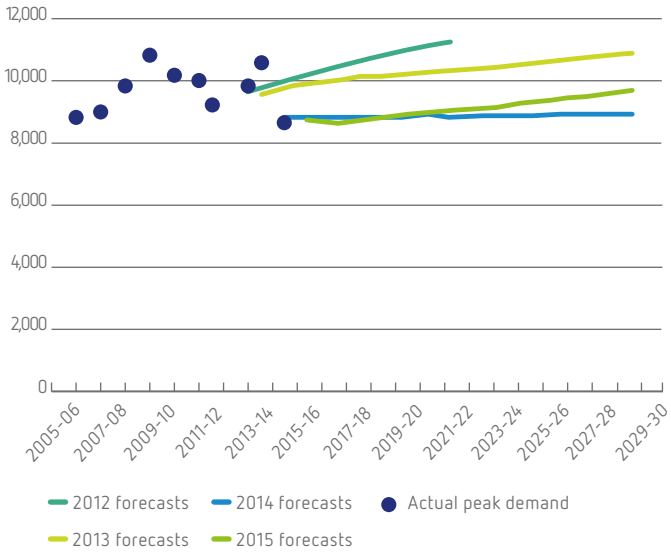
Lower demand forecasts

In recent times, peak demand has stabilised, after rising steadily over the past 40 years. This is due to conditions that include slower economic growth and a changing mix of industries in Victoria, improved energy efficiency, the impact of higher electricity prices, and the uptake of renewables, such as solar.

Although we are not responsible for planning our network augmentations, peak demand forecasts are important for our asset replacement decisions. Such decisions consider the costs and benefits of replacing an ageing asset with a more reliable new asset. The case for replacement is stronger if an asset is heavily utilised because asset failure would affect supply to a larger number of consumers. Lower peak demand means that assets tend to be less heavily utilised – meaning the case for replacement is weaker and old assets remain in place for longer.

Our previous revenue proposal used peak demand forecasts developed by AEMO which were published in 2011. Since then, both the magnitude and rate of growth of AEMO's peak demand forecasts have progressively declined, although in the 2015 forecasts, the rate of growth increased slightly.

AEMO's revised peak demand forecasts for Victoria



Source: AEMO

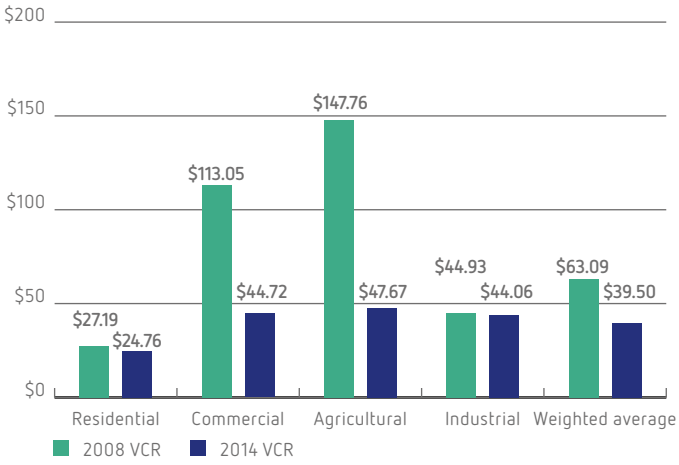
The lower peak demand forecasts must be factored into our expenditure plans. As explained on page 10, we have responded to the lower peak demand by deferring major projects in the current period.

Driver 3

Lower value of customer reliability

In addition to AEMO's demand forecasts, a key consideration in our plans is the Value of Customer Reliability (VCR). The VCR is a measure of the value different types of customers place on having a reliable electricity supply. In 2014, AEMO developed updated estimates of the VCR by surveying almost 3,000 residential and business customers of various sizes and industries across eastern and south-eastern Australia. The figure below shows how the latest VCR estimates compare to those developed in 2008.

AEMO's VCR estimates by sector ($ per kWh)



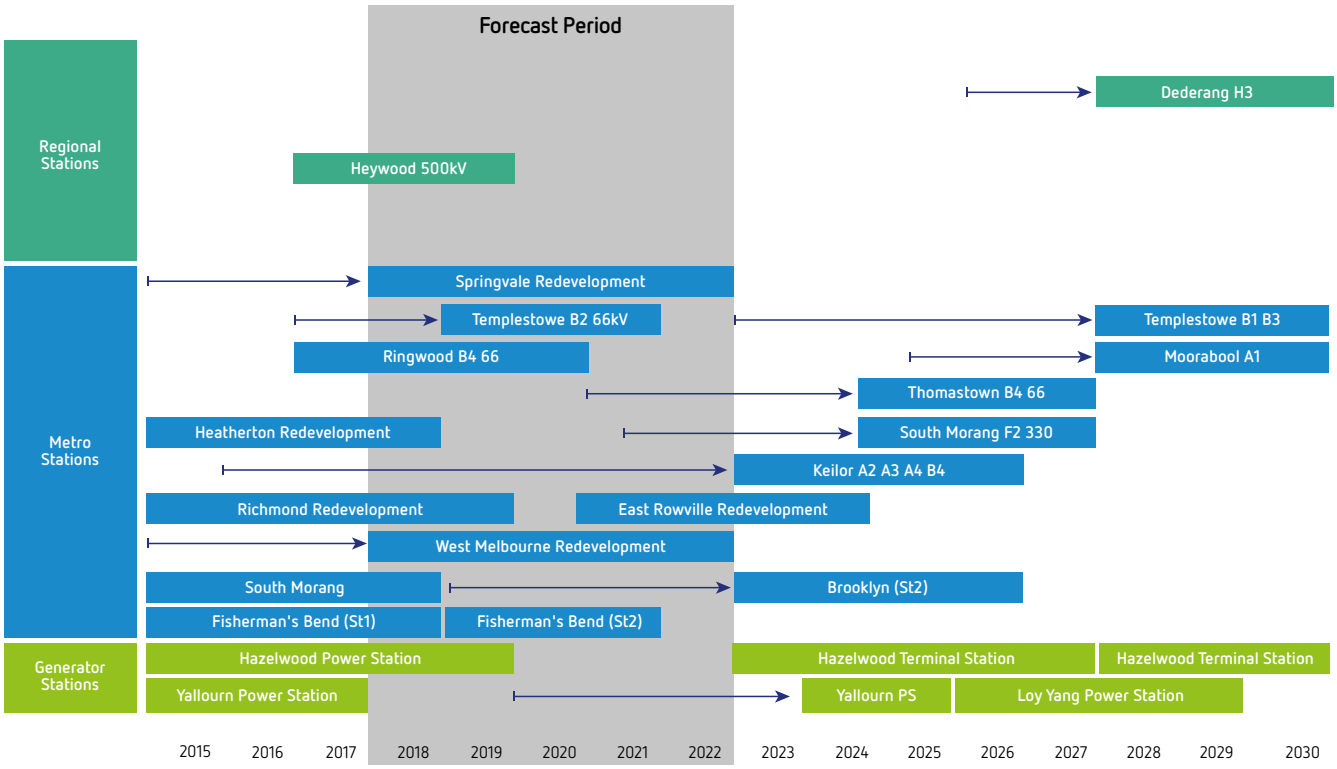
Source: AEMO

The above figure shows that AEMO's VCR estimates for each sector fell between 2008 and 2014. The overall effect is a reduction from $63.09 per kWh to $39.50 per kWh – a fall of 37 per cent.

This reduction is important because the VCR is used to calculate the reliability benefits (in dollars) from a proposed project. We proceed with a project where the expected benefits exceed the project costs. A reduction in the VCR means that the benefits associated with reliability are lower. This may change the results of a project evaluation from 'go' to 'no go'.

In the forecast period, as a result of the reduction in the VCR and the progressive downward revisions to AEMO's demand forecasts, AusNet Services has deferred a number of replacement projects, with an estimated investment cost of $145m, as shown in the chart on the following page.

Major project deferrals will save consumers $145m over the 2017–22 period



Key: A1, B4 etc – Transformer replacements **St1, St2** – Staged replacement projects **PS** – Power station **500kV, 66kV** – Switchgear replacement (voltage specified)

The deferral of these major projects leads directly to lower costs for consumers but a higher chance of interruption. We have made the right investment decisions at the right times given the unprecedented reduction in AEMO's estimated VCR and its revised demand forecasts.

Driver 4

Stakeholder feedback

We recognise that a sustainable and successful business must engage with its stakeholders. While the transmission network does not have many directly connected customers, all electricity consumers are affected by the performance of the transmission system.

Since 2013, we have significantly increased our efforts to engage with stakeholders. Our engagement program for this transmission review generated feedback on key aspects of our proposal. Where appropriate, we have modified our plans to reflect this feedback. Where we have chosen to depart from stakeholder views, we explain why.

The stakeholder engagement undertaken to inform the revenue proposal and the stakeholder views we heard, are described on pages 22 and 23.

"Our proposal is a measured response to change. It ensures that transmission prices will remain low, which will benefit all Victorians."

Mr Nino Ficca, Managing Director

Our proposed revenues

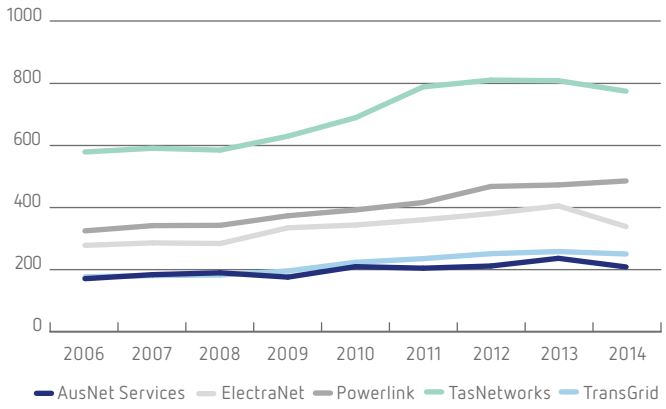
Electricity transmission is highly capital intensive, requiring large, specialised assets. The maintenance and renewal of this infrastructure requires on-going and long-term investment. The costs of financing our assets (referred to as 'return on investment' or 'rate of return') make up the single largest element of our revenue. In addition to return on investment, our revenue is made up from the following components:

- Depreciation – the return of investors' capital over time. This equals the value of assets that are written down each year.
- Operating expenditure – the cost of operating our business and maintaining our assets.
- New capital expenditure – the cost of buying and replacing network assets.
- Other components – such as corporate tax and performance incentive payments or penalties.

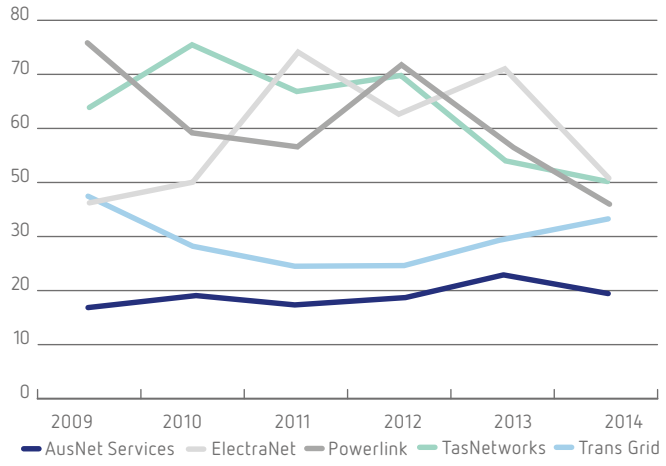
This section summarises our proposed revenue for the forthcoming five-year period, which runs from 1 April 2017 to 31 March 2022.

It is useful to start by comparing our current revenues with other transmission companies in Australia. The graphs on this page show that we have the lowest transmission revenue per unit of energy delivered and the lowest total expenditure for our size as measured by peak demand.

Revenue per customer



Total expenditure $ per MW peak demand



Source: Benchmarking data, 2014 Electricity Transmission Benchmarking Report

We have the lowest cost per customer of all transmission networks in the national electricity market.

Unlike some other jurisdictions, Victoria has not seen a large increase in revenues per customer over the previous 15 years. The analysis presented on the previous page shows that we are the lowest cost transmission company in the National Electricity Market. We aim to keep it that way.

Over the next five years, we will keep our revenues and prices as low as possible for Victorian consumers. We are not proposing higher profits for our shareholders. In fact, we have assumed that the more stable financial climate following the Global Financial Crisis will continue. We are also proposing reductions in capital expenditure. However, our focus on cost efficiency will not compromise our commitment to safety.

Our total revenue requirement is $2,945m for the 2017–22 regulatory period – or an average of $589m per year. This compares with an average annual revenue of $547m in the current period, as shown below.

This higher revenue translates to annual transmission price increases to Victorian consumers of 1.8 per cent above the rate of inflation. Our forecasts indicate that we will continue to provide transmission services at lower prices than other states.

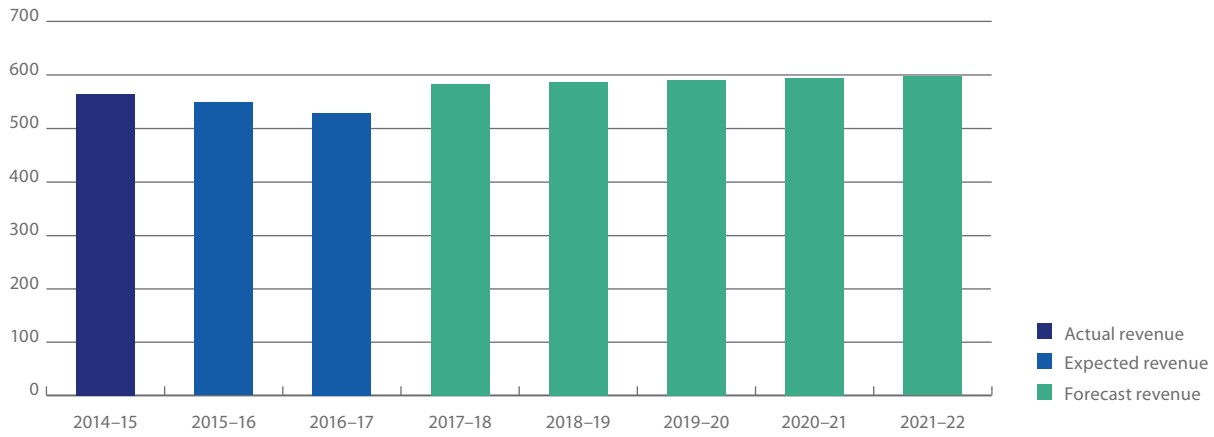
This is a good outcome for consumers, but we recognise that any price increase above inflation is unwelcome. So why are prices going up?

There are four main reasons:

- In the current period, we have constructed new assets at the request of the independent planner (AEMO), so we are now operating and maintaining a larger network;
- Our operating costs are forecast to increase, partly due to higher labour and insurance costs;
- The closure of some large industrial customers means network costs are spread amongst fewer customers and fewer megawatt hours, raising the unit price; and
- Our proposal to accelerate depreciation will increase prices in the short-term, but reduce prices in the future.

We discuss our expenditure plans and our required rate of return in more detail on the following pages.

Total revenue requirement ($m, real 2016–17)



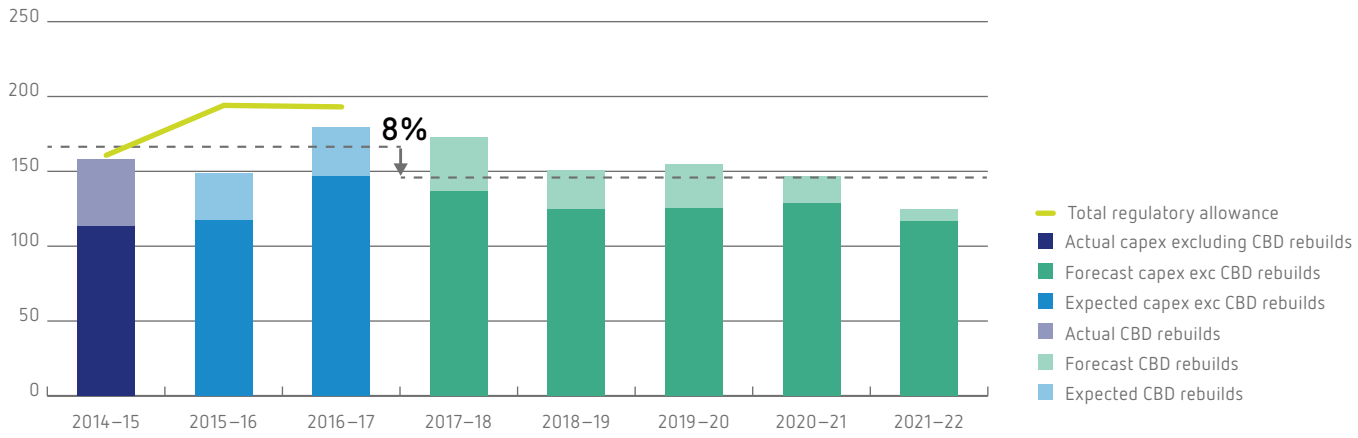
Our proposed capital expenditure

Our capital expenditure forecast is driven by targeted asset replacement based on asset condition. We develop rigorous asset management plans to ensure that the overall cost to consumers is as low as possible. In particular, we choose whether to replace or maintain assets in much the same way that you might decide either to maintain or replace a car. Given future uncertainty relating to energy consumption patterns and network use, we have avoided future long-term investment where possible, however, the existing network must be maintained in a safe and reliable operating state.

The figure below shows that our annual capital expenditure is expected to fall by an average of 8 per cent compared to current levels.

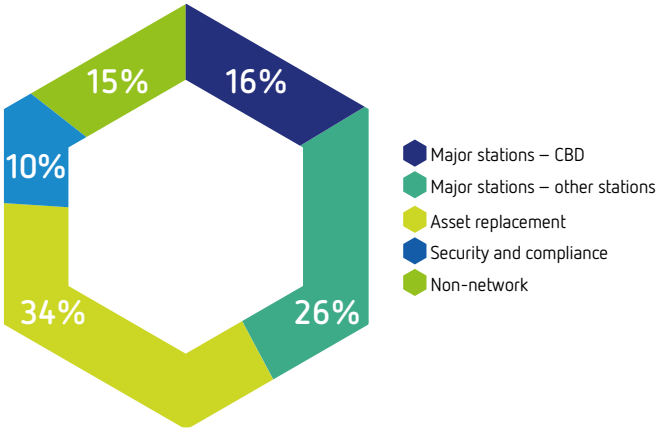
Reducing investment at this time is prudent as longer term energy use trends remain unclear. It also highlights the Melbourne CBD station rebuild program, which covers rebuilding terminal stations at Richmond and West Melbourne. This will improve the resilience and reliability of the transmission system to Melbourne's CBD and will be largely complete by 2022.

Actual and forecast capex ($m, real 2016–17) – below the regulatory allowance



Components of the capital program for 2017–22

The projects included in the capital program can be split into the following components:



Note – total exceeds 100% due to rounding

$145m deferred in capital works – approximately 20% of the total capex forecast for 2017–22

1.8% Real price increase per year

Benefits of our capital program

We expect our capital program to deliver a range of benefits, including an 8 per cent reduction in capital expenditure, which is a very good outcome for consumers. It reflects our commitment to minimising costs and maintaining safety and network performance in accordance with our compliance obligations and consumers' needs.

Projects	Outcomes of the total capex forecast for 2017–22
West Melbourne Terminal Station rebuild	The assets at West Melbourne Terminal Station were mostly built in the 1960s and are reaching end-of-life. This project includes replacement of some of these assets. The project will be undertaken using less expensive equipment than originally foreseen, due to easing space constraints at the site. The West Melbourne Terminal Station rebuild will reduce the supply risk to Melbourne's CBD and is a design that will result in lower costs to consumers.
Other major station projects	Major station rebuilds are focused on metropolitan terminal stations and key links to the South Australia and NSW transmission networks. This program will efficiently replace assets in poor condition at terminal stations. A number of other major station projects have been deferred as these projects are no longer economically justified to proceed in the 2017–22 regulatory period, given lower demand forecasts and the reduction in the VCR. These project deferrals will save consumers money.
Asset replacement projects	Targeted asset replacements will improve the reliability, safety and the environment at various sites. These replacements only go ahead where the value to consumers exceeds the costs that they will incur. Over the 2017–22 period, we will replace various electricity assets (including circuit breakers, lines and communications equipment) and strengthen transmission towers that are in the poorest condition, to ensure they can continue to provide a reliable level of service.
Safety, security and compliance-driven programs	These programs will reduce the safety risk to our employees and the general public and ensure that our transmission network can continue to operate securely.
Non-network program	These programs ensure our IT systems adequately support our network operations and maintain our buildings and vehicles.

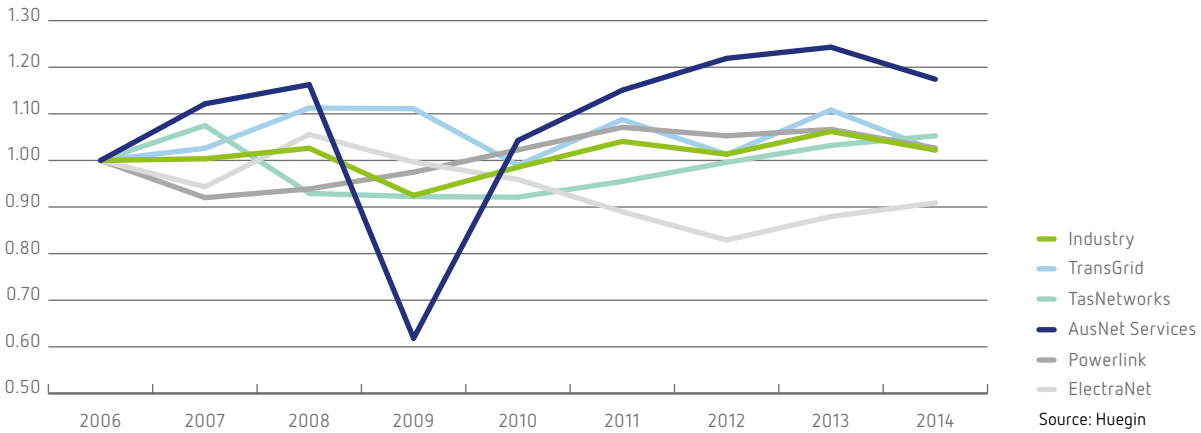
Our proposed operating expenditure

A key component of our operating expenditure is the cost of maintaining assets and operating the transmission system. Prudent and efficient maintenance and operation is crucial to maintaining network safety and reliability.

As parts of the transmission network age, the risk of asset failure increases due to deteriorating condition. Maintenance and repair costs to monitor the condition of these ageing assets and to keep them in service are increasing. To manage this risk, we propose a small increase in expenditure to use aerial technology to inspect the condition of conductors. This technology will improve our ability to predict and reduce asset failures, which can be costly and potentially dangerous. Apart from this change, and the modest impact of higher labour costs, our current level of maintenance expenditure is expected to remain relatively stable.

In recent years, AusNet Services has improved our productivity compared to other transmission companies in Australia. Although we experienced a one-off dip in performance in 2009, our overall productivity has improved at a faster rate than other transmission networks, as the diagram below shows. This means that compared to other states, Victorian consumers get better value for every dollar of operating expenditure we spend.

Operating expenditure productivity, 2006–2014



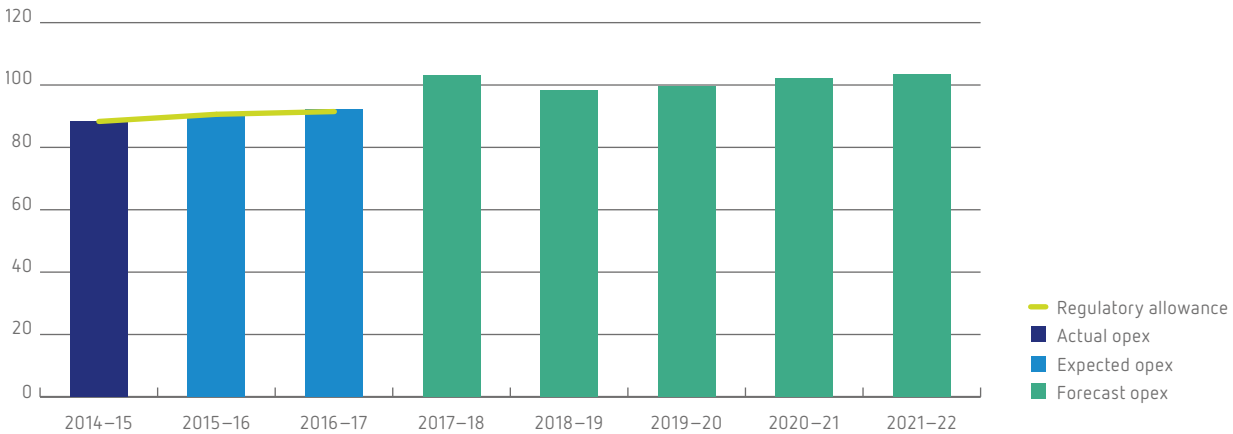
Source: Huegin

We can maintain current levels of reliability and safety with only modest increases in maintenance costs. We are also forecasting further productivity improvements over the next five years. We are aiming to maintain our productivity advantage over other transmission companies – and continue to provide value for Victorian electricity consumers.

Our operating controllable expenditure must also cover costs that are not directly related to the transmission network. In particular, we must pay the premiums set by insurance companies or otherwise cover potential losses of unforeseen events, such as storms. We must also pay land tax, or 'easement' tax, which is a levy applied by the Victorian Government that is recovered through regulated revenues but does not represent the underlying costs of operating the network.

Our total controllable operating expenditure is expected to increase as shown in the figure below. The figure also shows that we expect to perform in line with the AER's allowance in the current period, reflecting our efforts to keep costs as low as possible.

Actual and forecast controllable opex ($m, real 2016–17)



Accelerated depreciation

Accelerated depreciation for all new assets is a fair way to balance the usage and associated costs for current and future users.

Historically, we have recovered the costs of investment in equal amounts over the physical life of the asset, which can exceed 50 years. This approach is called 'straight line' depreciation.

Due to the uncertainty created by current technological and market changes, we propose to accelerate the depreciation of new assets. This will ensure that future electricity consumers, who are likely to be using these assets less heavily than current consumers, pay a fairer (lower) share of the costs of these assets. This means that the price for current consumers will increase slightly as they will use these assets more than future consumers are expected to.

The forthcoming regulatory period presents an opportunity to improve the future economic efficiency of transmission price signals while interest rates are relatively low and alternative technologies are still maturing. This will help avoid inefficient exit from the grid in future periods.

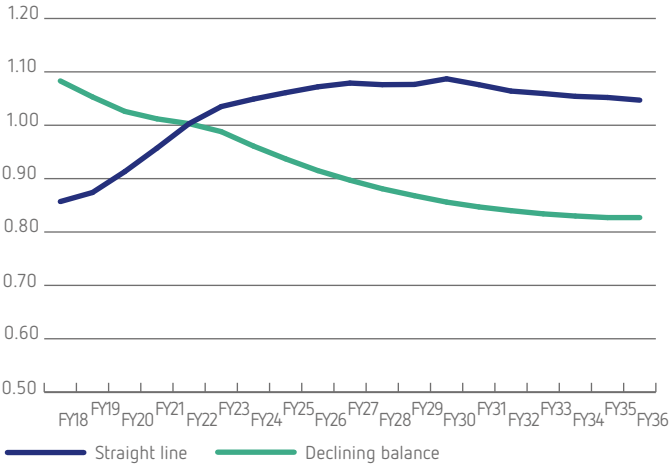
We have discussed the risks and benefits our alternative depreciation approaches with our stakeholders in our forums. We also published a consultation paper which set out the issues in more detail.

Stakeholders were concerned about the application of accelerated depreciation to all assets due to its impact on price and they also expressed a view that AusNet Services should bear some costs of stranded historical investments. AusNet Services is currently protected from the risk of asset stranding – this lowers prices through a reduction in the rate of return. More detailed stakeholder feedback is presented in the Revenue Proposal.

We have responded to stakeholder concerns by limiting accelerated depreciation to new assets. While we acknowledge that this still does not align with stakeholders' preferences, we consider there to be sound economic efficiency and equity benefits that support our proposal.

The overall effect of our accelerated depreciation proposal is a slight increase in prices now, but lower prices in the future.

Indicative long-term price trends under different depreciation approaches (cents per kWh)



Other matters

Rate of return

The majority of our proposed revenue relates to financing past investments. This reflects the allowed rate of return to fund the interest we need to pay on debt, and dividends to pay to our shareholders.

Setting the right rate of return on capital is very important:

- If the rate of return is too high, network charges will be higher than necessary; and
- If the rate of return is below a fair market return, network businesses will be unable to attract the necessary investment required to provide an electricity service that is in the long-term interests of consumers.

Over the next five years, AusNet Services is proposing a fair return on our assets from both a consumer and investor perspective. The lower interest rates that have prevailed in the wake of the Global Financial Crisis are already reflected in our current prices, and we assume that the prevailing financial climate will continue.

Incentive mechanisms

The AER applies a number of incentive schemes that provide financial rewards and penalties to us depending on our cost and service performance. We strongly support these incentive mechanisms because they have the potential to deliver benefits to consumers in the form of improved reliability and safety and also reward our shareholders for efficiency improvements.

For example, we were the first transmission company to participate in an incentive scheme to improve network capability. Our participation in this scheme has already delivered net benefits to consumers due to greater network efficiency worth over $33m; this is forecast to rise to $80m by the end of the regulatory period.

We also welcome the introduction of the capital expenditure incentive scheme, which will apply for the first time in the forthcoming regulatory period. This scheme will encourage us to find more opportunities to deliver capital expenditure savings, and pass these on to consumers.

Cost pass through arrangements

Cost pass through arrangements adjust our revenue (up or down) if a particular event occurs and materially affects our costs. This provides an efficient method for managing risks that are beyond our control, especially where insurance is either unavailable or too expensive.

In addition to the standard cost pass through events that are specified in the National Electricity Rules, we are proposing additional events to cover uncontrollable costs which may result from: acts of terrorism; incurring costs from an event which is insured but where the costs of the event exceed the insurance cap; a natural disaster; where the insolvency of one of AusNet Services' insurers; and a requirement to remove a particular transmission line.

Key risks and benefits

Our proposal builds on solid historic performance. Our plans are focused on continuing to deliver a safe and reliable network at the lowest cost.

Key Benefits

Keeping prices sustainable

Our proposal includes a number of measures to minimise the upward pressure on prices. We are anticipating future productivity gains in our forecast operating expenditure, despite having already delivered more savings to consumers than other transmission companies. The chart opposite shows how Victorian transmission prices have grown since the network was privatised in the late 1990s. Following an initial reduction, prices have increased at the rate of inflation. Over the forecast period prices will continue to be flat under AusNet Services proposal.

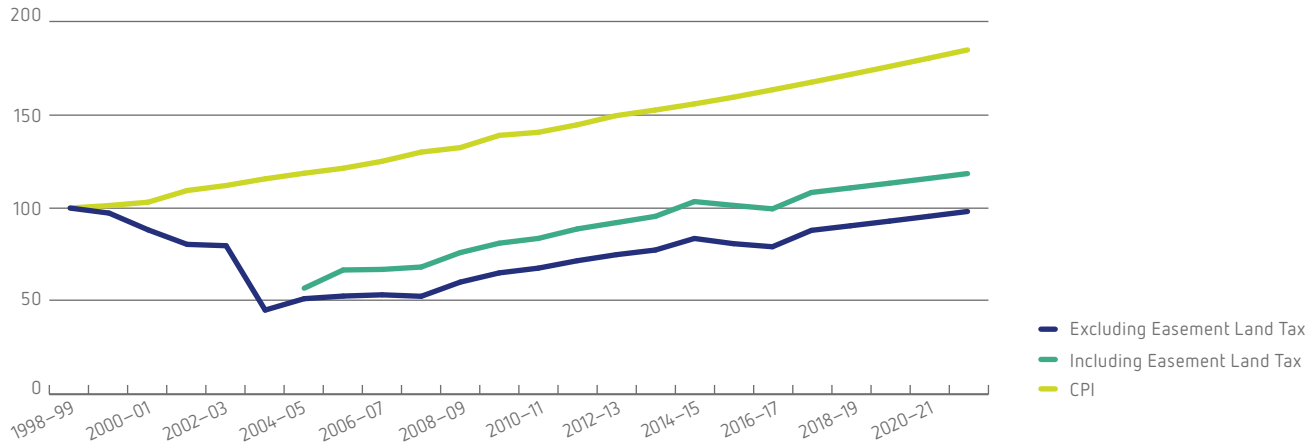
Delivering further capex savings

Our proposal explains that we have responded to AEMO's revised demand forecasts and lower VCR estimate by deferring a number of major projects. We propose to continue these savings by cutting annual capital expenditure by a further 8 per cent – a prudent response to the uncertainties we face. Our approach ensures that the cost of our asset base is kept as low as possible, which feeds through to cost savings for consumers.

Managing network risks

AusNet Services adopts an asset management approach that is rigorous, analytical and externally certified – our asset management processes are considered to be international best practice. This ensures that investment decisions take into account the consequences of asset failure in terms of risk to the community and the probability of that failure occurring. The nature of electricity networks is that zero risk is not achievable. Our plans provide the best balance between cost efficiency and risk management.

Price growth since privatisation (index)



Key Risks

Failing to meet community expectations regarding reliability

As existing assets age and wear, there is a greater risk of them failing and causing interruptions to supply. Due to a recent reduction in the VCR, we have deferred a number of major projects – which means that our network is operating with a greater risk of interruption than has previously been the case. This outcome is supported by AEMO's VCR estimate, but there is a risk that the community does not accept any reduction in network performance as, in transmission, this will likely manifest as a widespread and prolonged event rather than a small number of isolated events.

Failing to retain and attract investors

Under-investment in the network may occur if a reasonable return is not provided to investors. This is not in the long-term interests of consumers because under-investment will lead to deterioration in safety and the reliability of network services.

AusNet Services is proposing a fair return on our assets that balances the interests of both consumers and investors. The proposed rate of return reflects the level necessary to attract and retain the long-term investment required to ensure that our business remains viable, sustainable, and capable of maintaining the safety and reliability of the network.

Stakeholder engagement

As part of the Transmission Revenue Reset (TRR) process, AusNet Services ran a stakeholder engagement program. The objectives of this program were to:

> Align the revenue proposal with stakeholder preferences where possible; and

> Ensure stakeholders understand how their preferences are reflected in the revenue proposal (including through the VCR). Where this is not possible, explain to stakeholders why this is the case.

The timeline below shows the main stages of the 2017 TRR Stakeholder Engagement program.

> *Review and planning stage*: review of existing information, planning the engagement program, identifying key stakeholders and establishing the TRR stakeholder webpage.

  AusNet Services also sought input from stakeholders on the design of the TRR stakeholder engagement program through a planning survey. Responses confirmed that different stakeholders were interested in different types of engagement, with preferred models ranging from forums and online activities to one-on-one meetings.

> *Transmission-specific events*: these comprised three sequential forums designed to provide information on how AusNet Services makes our investment decisions and obtain stakeholder feedback on different aspects of the revenue proposal while it was still being developed. To inform discussion, AusNet Services set up a webpage and published plain language fact sheets on specific topics and an interactive timeline of the revenue review process. We also published a consultation paper on depreciation options and invited written submissions.

  Individual meetings were offered to all forum participants, but uptake was low.

> *Proposal submission*: submission of the revenue proposal to the AER and publication of a plain language summary of the proposal (this document).

> *Continuing activity stage*: will include communications to the stakeholder network, continued development of the webpage, ongoing community consultation on major projects and continued incorporation of customer preferences in investment decisions through the application of AEMO's VCR.

TRR stakeholder engagement program

Stakeholder views and how these are addressed in the proposal

We will not pretend that the views we heard from stakeholders participating in our forums were statistically representative of the views of Victorian energy consumers. These insights supplement the use of AEMO's VCR estimate (based on a large-scale survey) in directly informing our plans with consumer views.

We have taken the views we heard during our stakeholder engagement activities on board in the ways described below.

Topic	Stakeholder Views	How this has been addressed
Capital Expenditure	In relation to our capital expenditure plans, stakeholders expressed the view that we should: > use existing assets for as long as it is safe to do so; and > find ways of combining operating and capital expenditure that minimise overall costs. Stakeholders did not raise any specific concerns regarding the capital projects that are proposed for the forthcoming regulatory period.	Our approach to transmission investment is consistent with the views expressed by stakeholders. Our asset management plans seek to minimise the total cost to consumers, including the costs of any outages. Therefore, we only invest in asset renewal where there is an overall benefit in doing so.
Operating Expenditure	In relation to our operating expenditure plans, stakeholders: > questioned whether our proposed step changes would result in off-setting savings; and > wanted to better understand the AER's benchmarking approach for operating expenditure.	Our revenue proposal factors in off-setting savings that will result from proposed step changes. Specifically, we have identified that adopting new technology to provide more accurate information on our conductors will reduce existing inspection costs and possibly reduce future capital expenditure. The AER's benchmarking results for operating expenditure are explained on pages 16 and 17.
Depreciation	Stakeholders were opposed to our proposal to accelerate depreciation. They were concerned with the price impact of this proposal, and questioned whether they should bear the risk of 'asset stranding'. It was suggested that the regulated rate of return compensates for asset stranding risk and that accelerating the depreciation allowance is at odds with the notion that assets will be worked harder and made to last longer.	Despite stakeholder opposition to accelerated depreciation, we consider that there are compelling reasons why the regulatory depreciation allowance should be accelerated to balance the interests of current and future electricity consumers. However, in response to this feedback, we have modified our proposal to only adopt accelerated depreciation for new assets.
Reliability	We explained the impact on reliability of deferring major projects as a result of reductions in forecast demand and the VCR. Stakeholders generally supported how we factor the reliability impact of project deferrals into our replacement planning.	The emphasis placed on the VCR in our approach to capex forecasting ensures that consumer preferences related to the price/reliability trade-off are strongly reflected in the proposal.

How to provide feedback on our plans

AusNet Services welcomes feedback from all our stakeholders on our transmission revenue proposal. You can provide this feedback as follows:

By email to:
TRR2017@ausnetservices.com.au

Online at:
www.ausnetservices.com.au/Electricity/Determining+Revenues/Transmission+Network

Stakeholders can also provide comments on our proposals to the AER (www.aer.gov.au)

Our Privacy Policy is consistent with the Privacy Act 1988 (Cth) and the Australian Privacy Principles. You can find our Privacy Policy on www.ausnetservices.com.au

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