

AER's Draft Decision



2017 – 2022 Transmission Revenue Reset

Alistair Parker, Executive General Manager – Regulated Energy Services

9 August 2016



Matters of Agreement

Rate of Return

Adopt AER's Guideline for cost of equity

Capital Expenditure

Adopt the application of updated demand forecasts

Depreciation

Adopt straight line, rather than declining balance, depreciation

Operating Expenditure

Adopt base-step-trend approach to forecasting insurance premiums



Capex

Rate of
Return

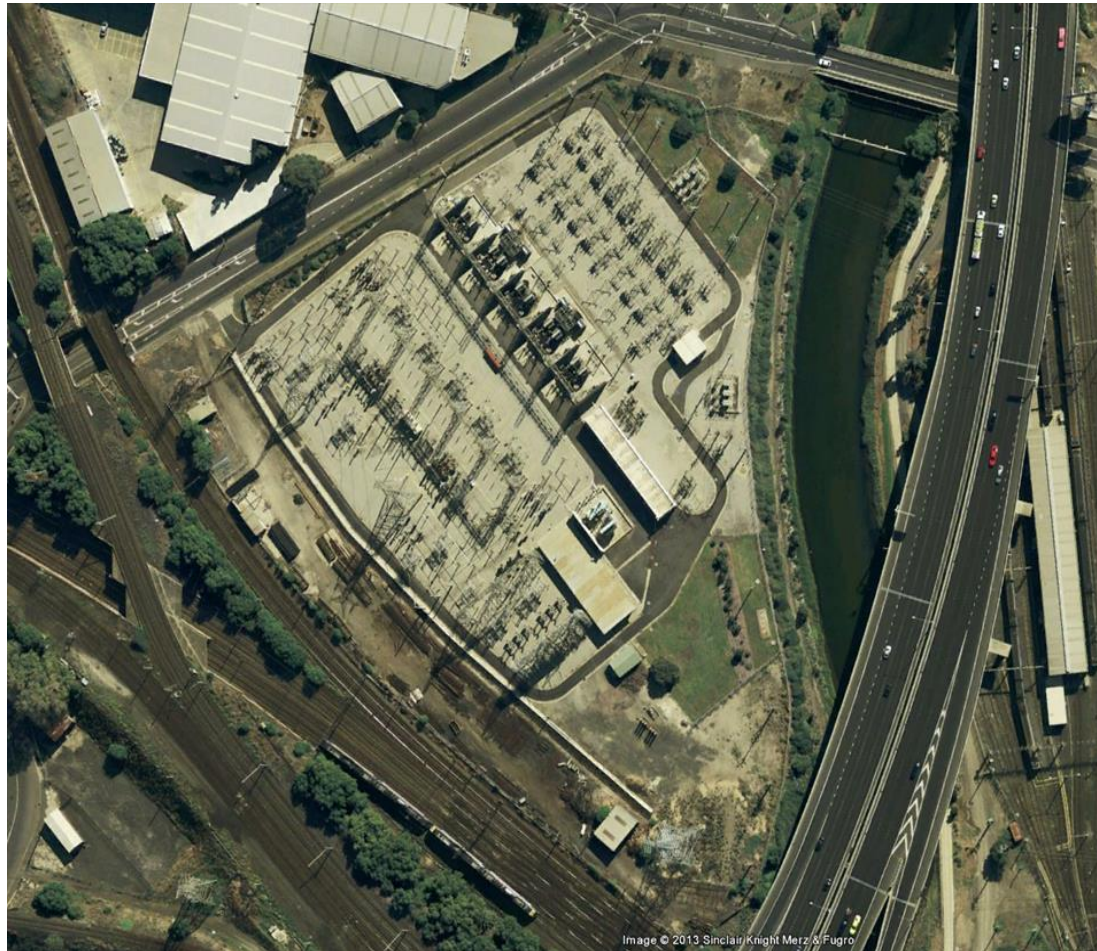
Opex

AER's Approach to Safety Introduces Unacceptable Risk

Impact of Prevailing Market Conditions

Asset Decommissioning is not (yet) BAU opex

The AER's Approach to Safety Introduces Unacceptable Risk to the Public and Workers



- Assumes 1 in 100 chance that a person will be in the 'hazard zone' of an explosive failure.
- Explosive failures more likely at the end of an asset's life. This is when workers are expected to be on site, undertaking major replacement projects.
- These need teams of workers to be on site over long periods of time, often several years.
- To comply with safety legislation, the site needs to be safe.

West Melbourne is a Committed Project

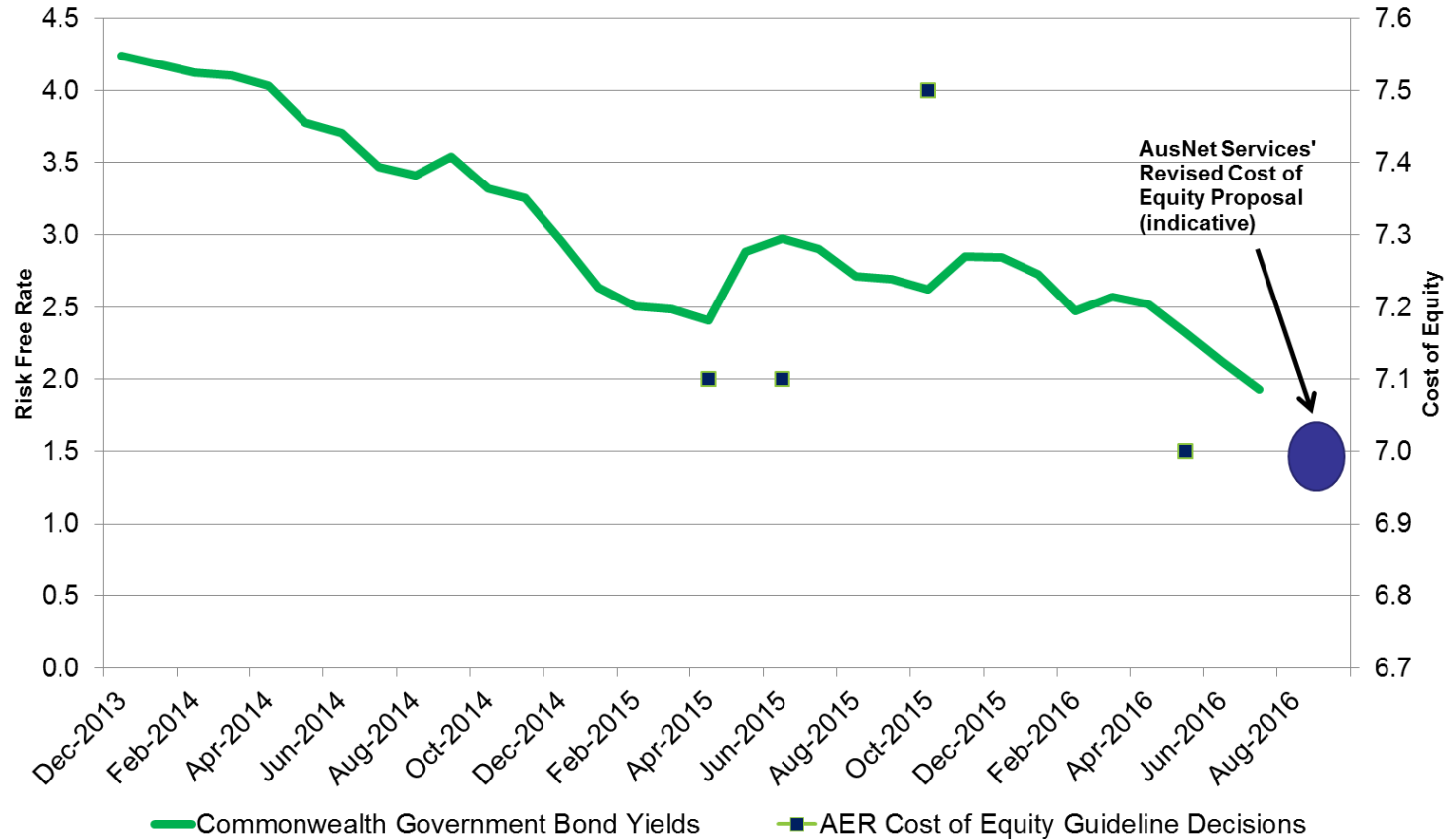
“..we agree with SP AusNet the WMTS needs to be rebuilt, given its age and condition” *AER’s Final Decision, January 2014*

“Three of the four 220kV transformers are some of the highest risk transformers in the network. ... Most of the circuit breakers, instrument transformers and other equipment in the station is **unreliable and/or poses a significant risk to safety of personnel and adjacent equipment.**” *EMCa, AER’s advisors, August 2013*

“...we have reduced AusNet Services’ forecast capex for the six major station projects discussed above by 32.3 per cent. This adjustment addresses the **overestimation of safety risk** apparent in AusNet Services’ economic justification of these projects.” *AER’s Draft Decision, July 2016*

We are continuing to deliver the efficient solution, despite regulatory uncertainty

Risk Free Rate at Historical Lows



The Guideline approach contains the flexibility to deal with these conditions

Asset Decommissioning is not (yet) BAU Opex



- AER agreed proposed decommissioning expenditure is prudent
- Rejected proposed opex allowance as decommissioning is BAU
- Need to set strong precedent for appropriate funding of decommissioning assets

Next Steps



Invitation

Help shape Victoria's electricity transmission network

Victorian Transmission Public Forum: Tuesday 16 August 2016

Please join AusNet Services on Tuesday, 16 August to have your say on the future of Victoria's transmission network. The forum features presentations from both the Australian Energy Market Operator (AEMO) and AusNet Services.

PROGRAM

9.00 - 10.30am: AEMO presentations

2016 Victorian Annual Planning Report (VAPR)

An overview of key findings from the 2016 VAPR, followed by a group discussion.

North West Victoria Regulatory Investment Test for Transmission (RIT-T)

A discussion of the RIT-T for North West Victoria, focussing on next steps and stakeholder feedback.

2016 Electricity Statement of Opportunities (ESOO)

An overview of key findings from the 2016 ESOO, followed by a group discussion.

10.30 - 11.00am: Break

Refreshments

11.00 - 1.00pm: AusNet Services presentation

2017-22 Transmission Revenue Reset

Key aspects of the AER's draft decision and our intended response. This session includes an open discussion. Your feedback will be incorporated into our response to the AER.

1.00pm: Close

EVENT DETAILS

Date: Tuesday, 16 August 2016

Time: 9.00am to 1.00pm

Venue:

CPA Building
Level 20, 28 Freshwater Place
Southbank, Vic

Contact:

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RSVP by: 10 August 2016

For more information on the TRR, click on the link below.



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