

# Responding to change



2017 – 2022 Transmission Revenue Proposal

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*Thursday 17 December 2015*





**Prices**

**Changes**

**Response**

**i. Price stability for consumers**

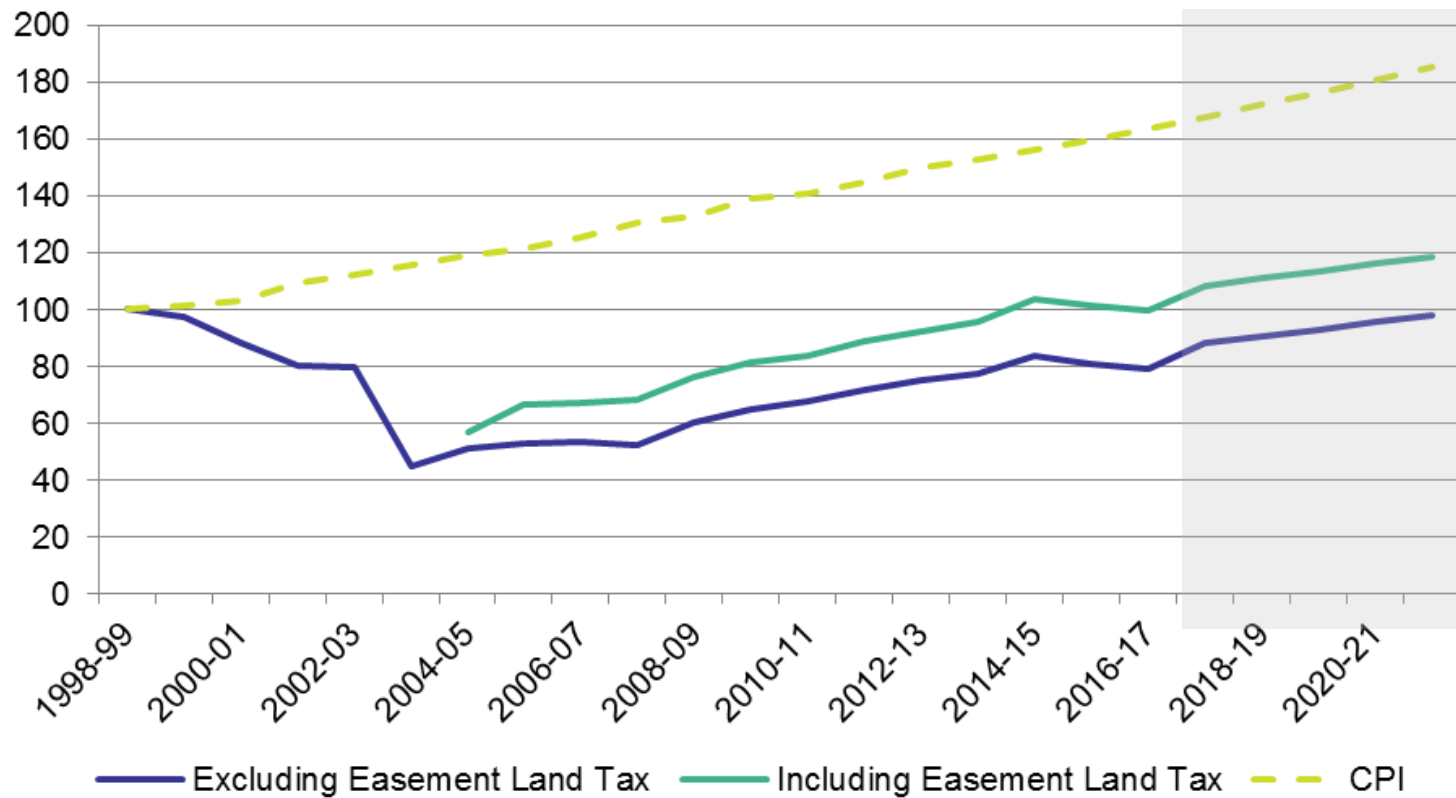
**ii. Changes that have influenced our proposal**

**iii. A balanced response to change**

# We will maintain low, stable prices



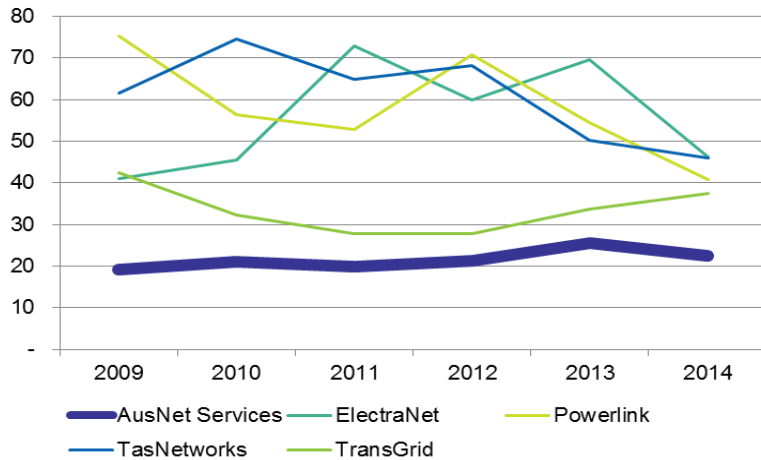
### Price growth since privatisation (Index)



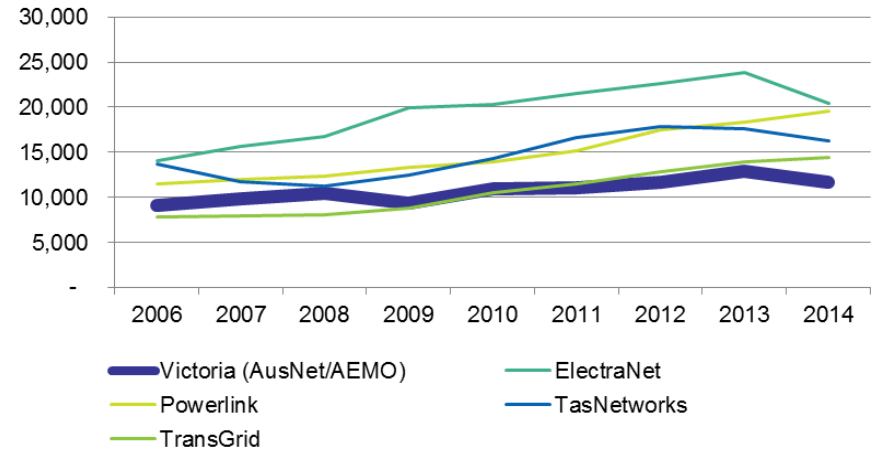
## Our costs and revenues have been among Australia's lowest



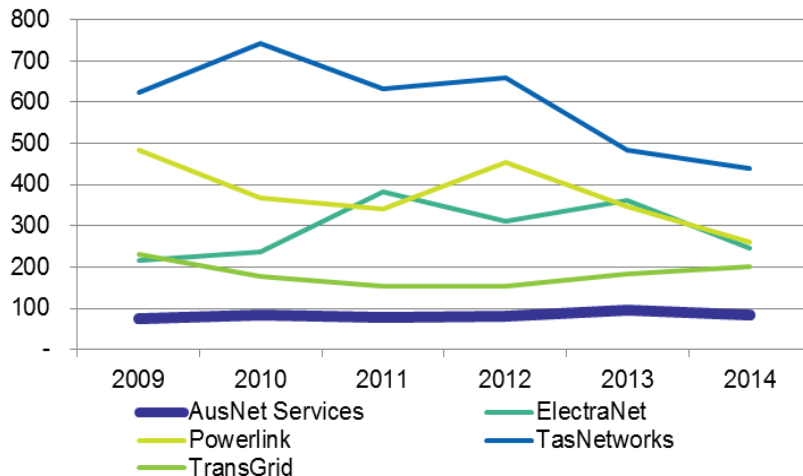
Totex per MW peak demand (\$, real 2015)



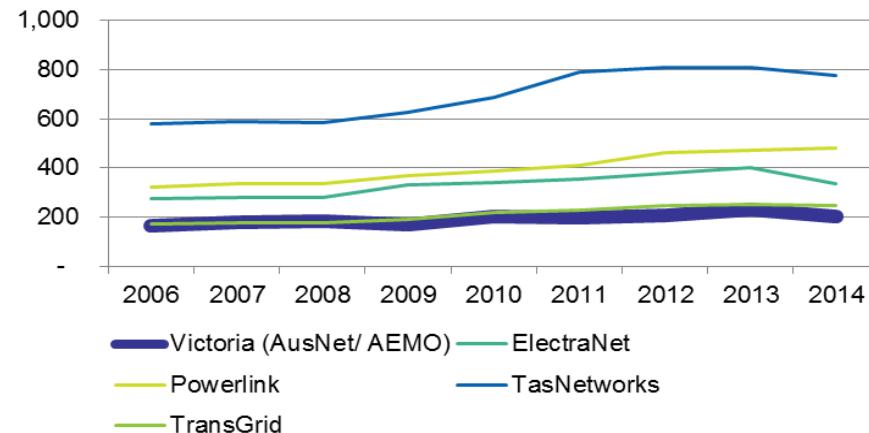
Revenue per GWh delivered (\$, real 2015)



Totex per customer (\$, real 2015)



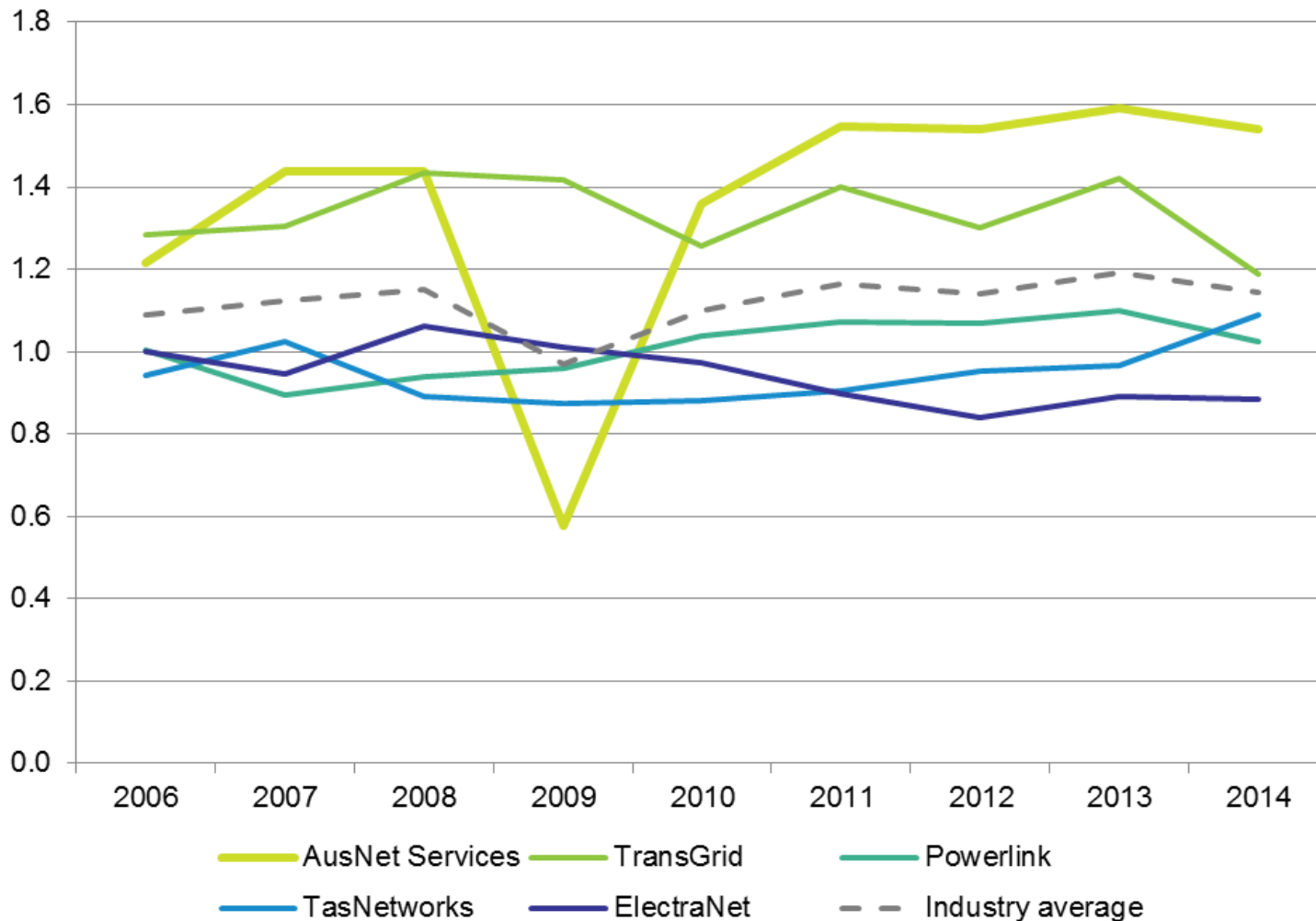
Revenue per customer (\$s, real 2015)



# AusNet Services has an increasing productivity trend and ranks above other TNSPs



**AER's Opex Partial Factor Productivity benchmarking model**





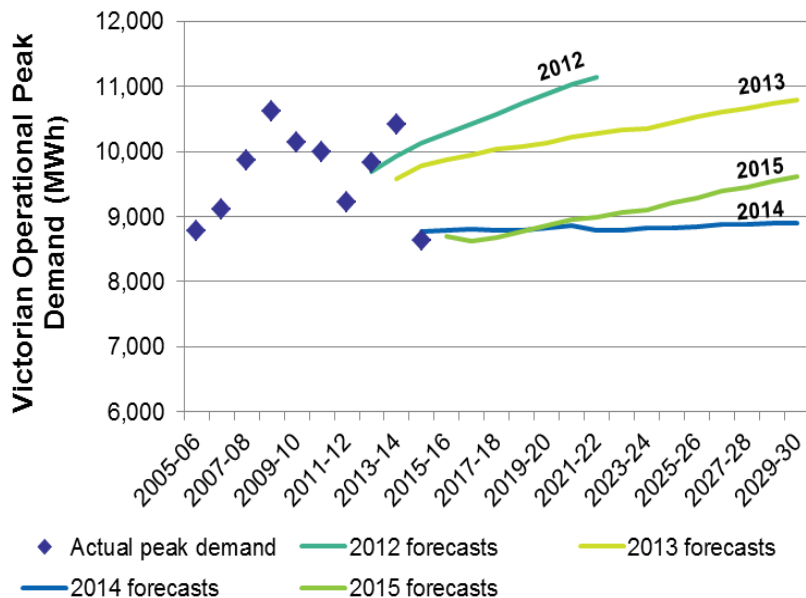
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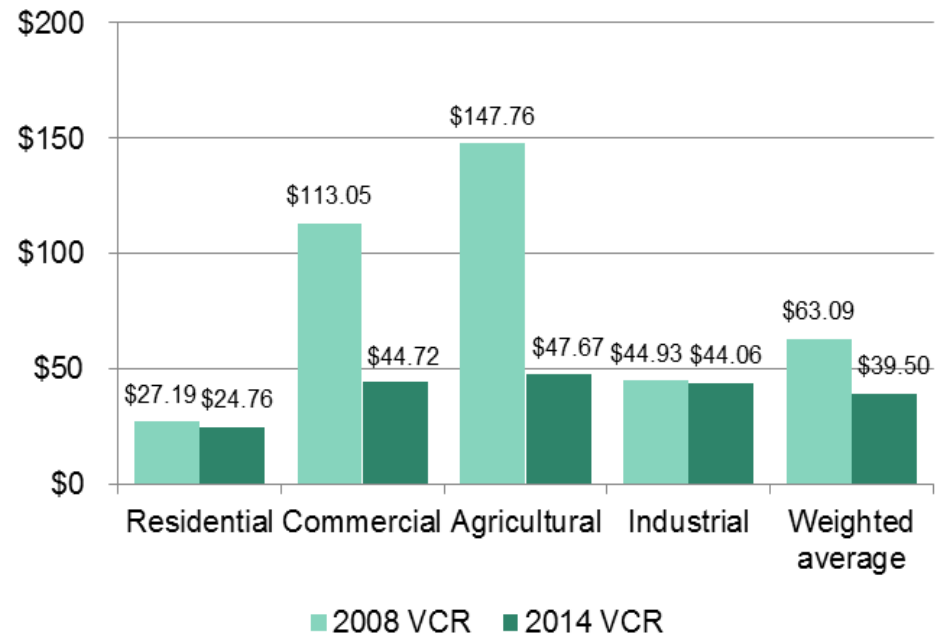
**iii. A balanced response to changes**

## Demand forecasts and the VCR have declined

### AEMO's Peak Demand forecasts: 2012-15

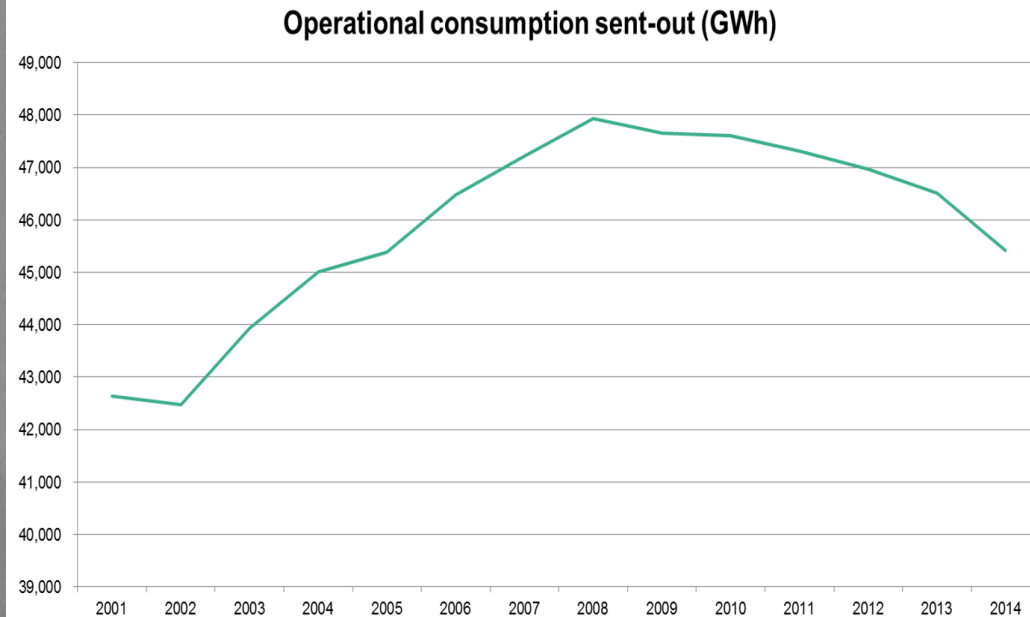


### AEMO's Value of Customer Reliability



Inputs into the economic assessment of asset replacement projects

## Consumption is declining and emerging technology is offering alternatives



There is a 'window of opportunity' to begin to address asset utilisation risk



# We have undertaken an engagement program and listened to our stakeholders



**Low, flat prices should continue**

**Defer asset replacement for as long as is safe**

**Adopt lowest-cost solutions through capex-opex trade-offs**

**Efficient level of reliability indicated by VCR**

**However....**

**Strongly oppose accelerated depreciation**



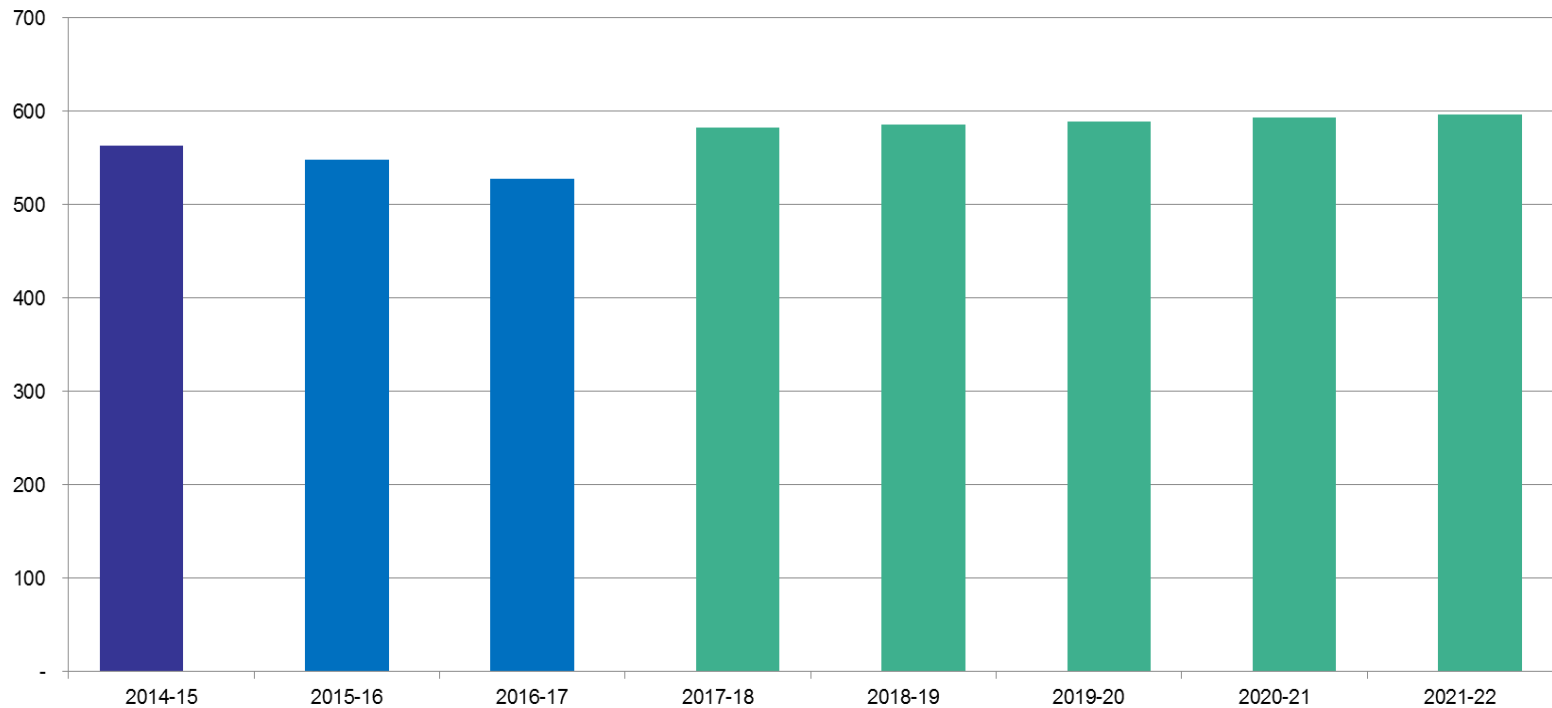
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## Revenue forecast to increase by 8%

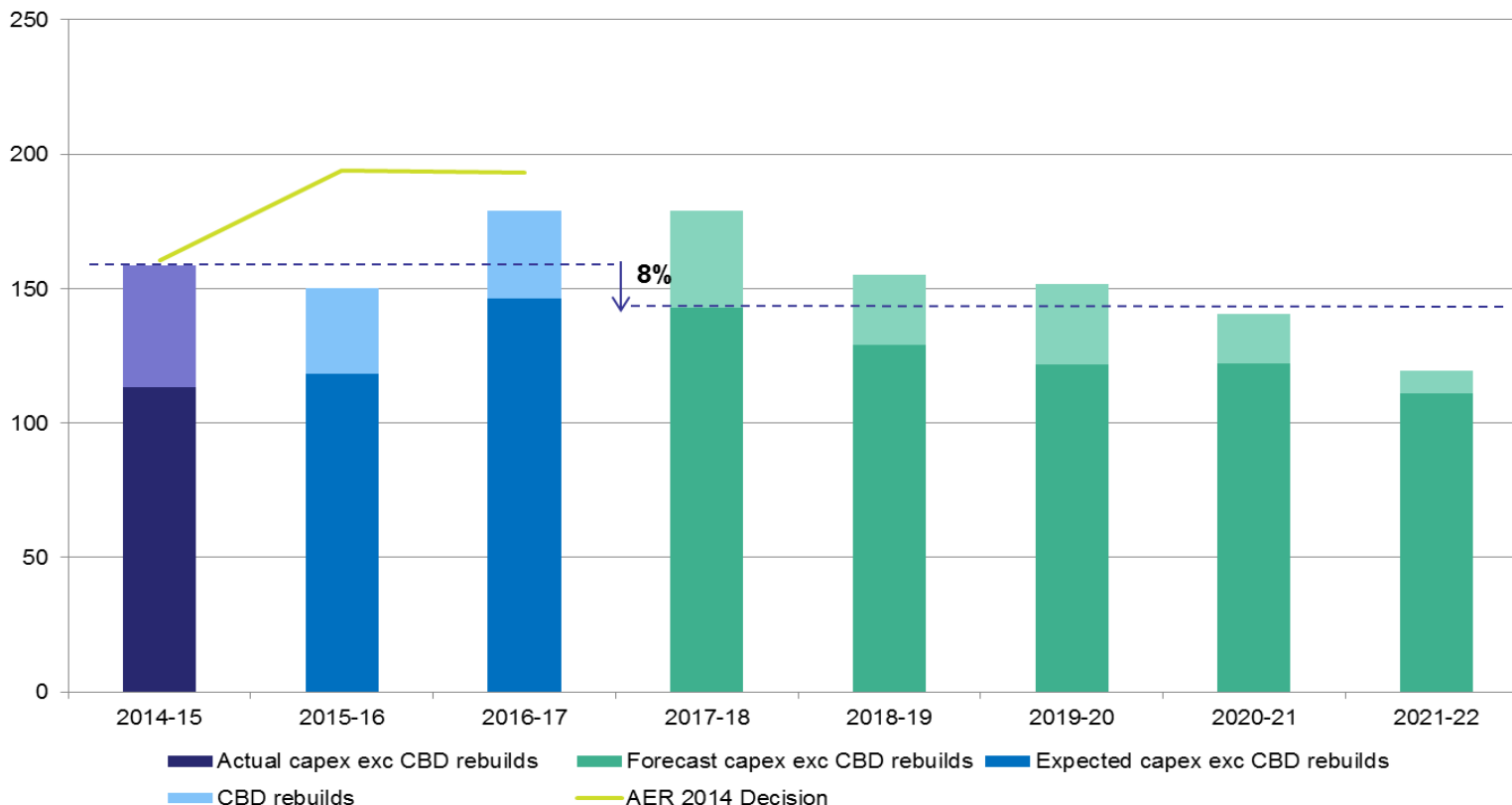
Revenue: historical and proposed (\$m, real 2016-17)



Driven by network growth, responding to emerging changes

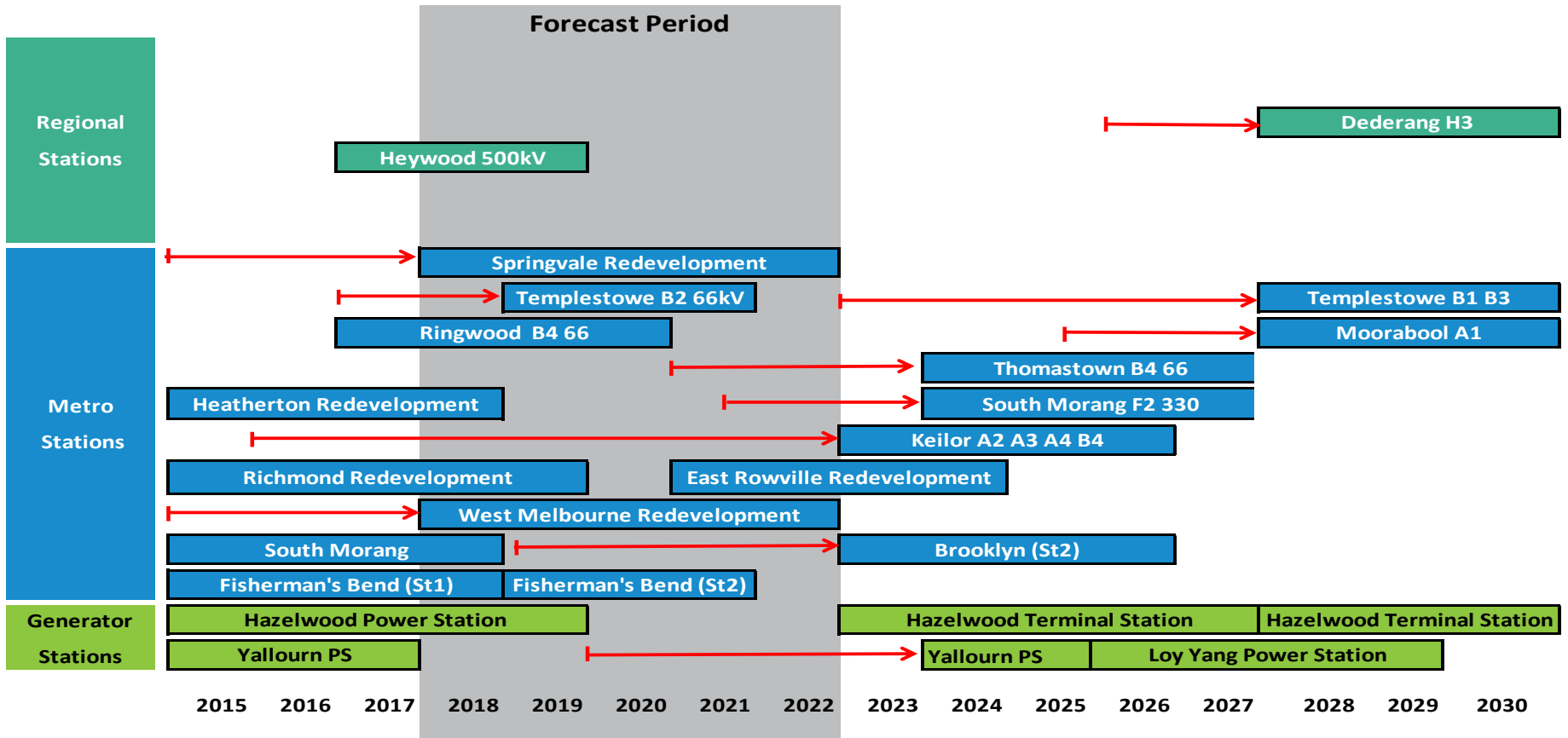
# Total forecast capex will decrease by 8%

## Actual and Forecast Capex (\$m, real 2016-17)



Driven by deferred asset replacement projects and completing CBD rebuilds

# We have deferred major capital projects



Reducing forecast capital expenditure by \$145m in the 2017-22 period

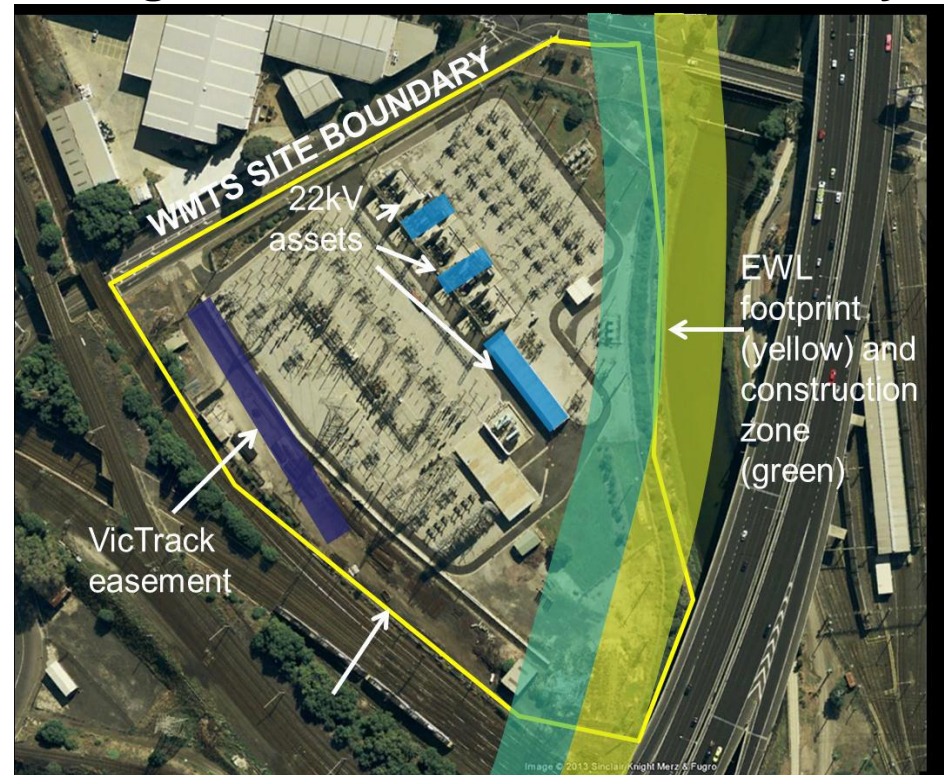
## A lower-cost solution is proposed for West Melbourne Terminal Station

Lower VCR and forecast demand have enabled AusNet to defer the rebuild

The deferral, combined with easing space constraints, enable less compact, cheaper Air Insulated Switchgear to be used

New project cost = \$116m compared to previous = \$196m

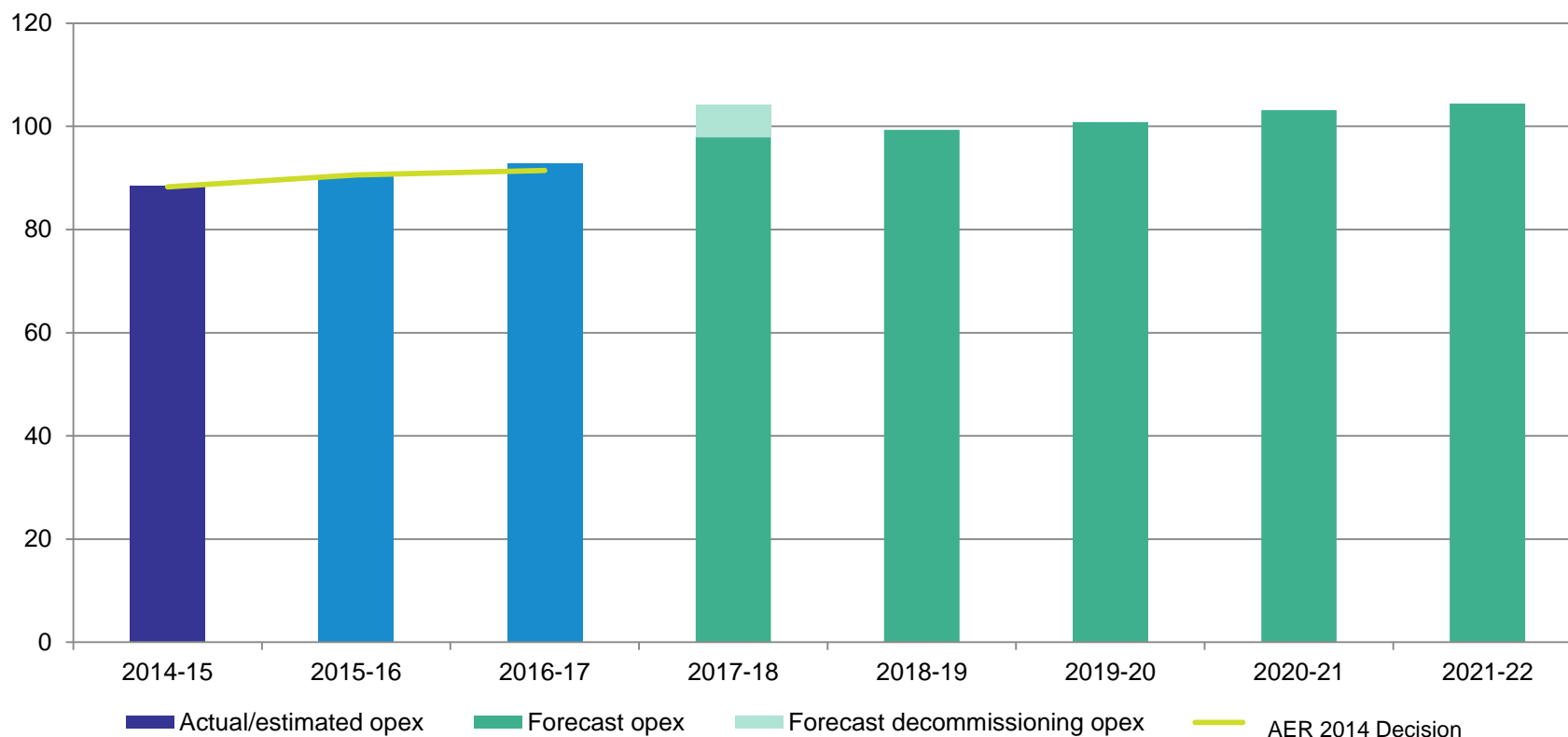
### Changes to WMTS site land availability



Price benefit to consumers is estimated to exceed \$1,500 per GWh

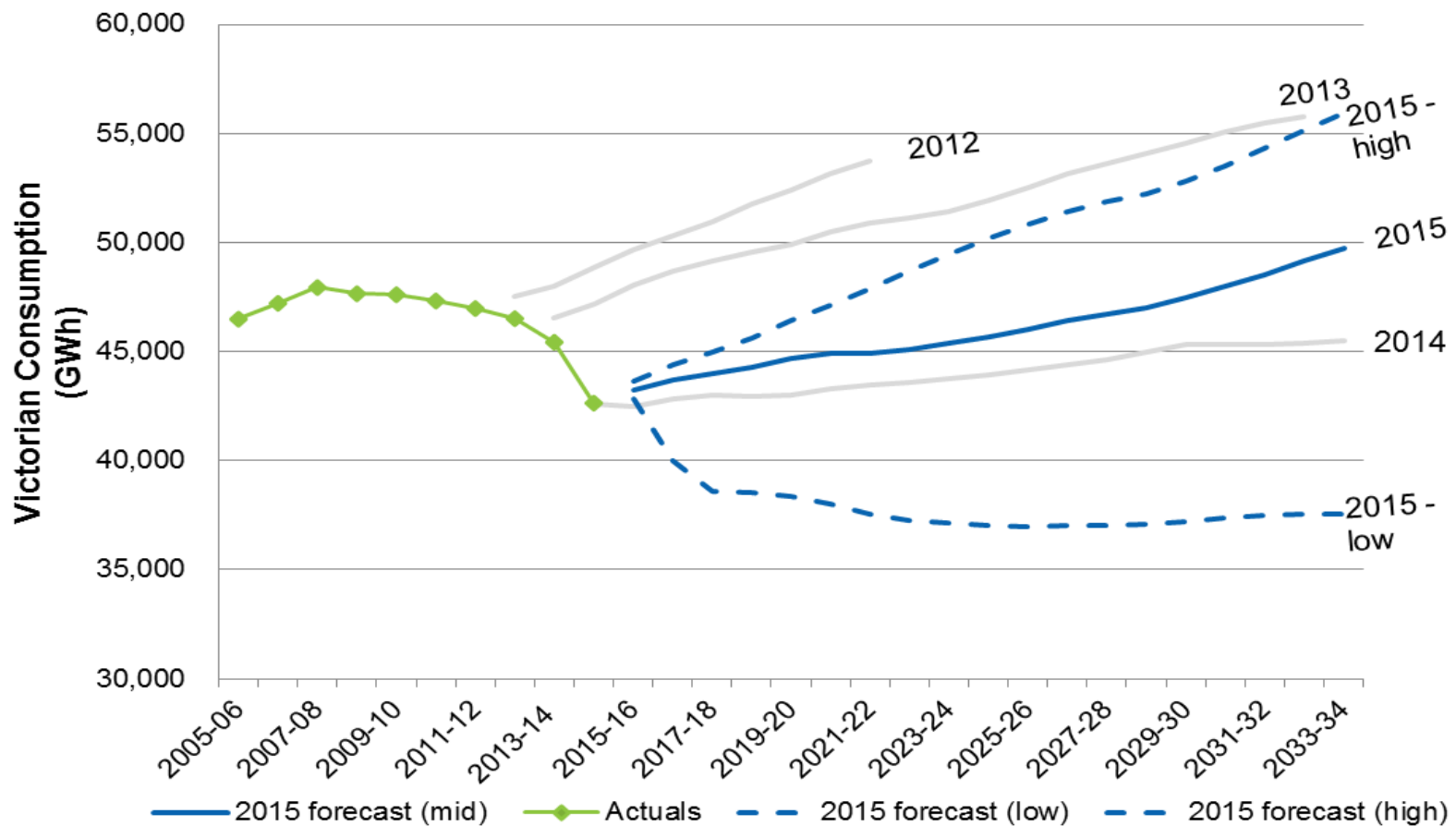
## Modest increase in opex forecast

Actual and forecast controllables opex (\$m, real 2016-17)



Reflecting network growth, input price rises and asset decommissioning

## Context of depreciation approach



There is significant uncertainty about future network utilisation



## Context of depreciation approach

	Long-run impact on price per unit
<b>Current approach (SL)</b>	$\frac{\text{Revenue ( flat )}}{\downarrow \text{Consumption}} = \uparrow \text{ price per unit}$
<b>Proposed approach (AD)</b>	$\frac{\downarrow \text{Revenue}}{\downarrow \text{Consumption}} = \text{Constant price per unit}$

High cost burden on future consumers; inefficient underutilisation of grid

## Context of depreciation approach

AEMO Forecast Scenario	\$ / MWh now	\$ / MWh in 2035
Low	\$12	\$18
Mid-low	\$12	\$16
Medium	\$12	\$14

**‘ ...to promote efficient investment in, and efficient operation and use of, electricity services for the *long-term interests of consumers of electricity...*’**  
*Excerpt from NEO*

**High cost burden on future consumers; against long-term consumer interests**

## Identifying our approach to depreciation: options for dealing with utilisation uncertainty

Option	Reflected in proposal?	How?
<b>Minimise new network investment</b>	✓	<ul style="list-style-type: none"> <li>- Efficient deferrals and project staging</li> <li>- Capex focused on metro and interconnector assets</li> <li>- Capex-opex trade-offs</li> </ul>
<b>Alternative depreciation paths</b>	✓	Accelerated depreciation of new investment

**Accelerated depreciation is an efficient and appropriate response**

## Identifying our approach to depreciation: options

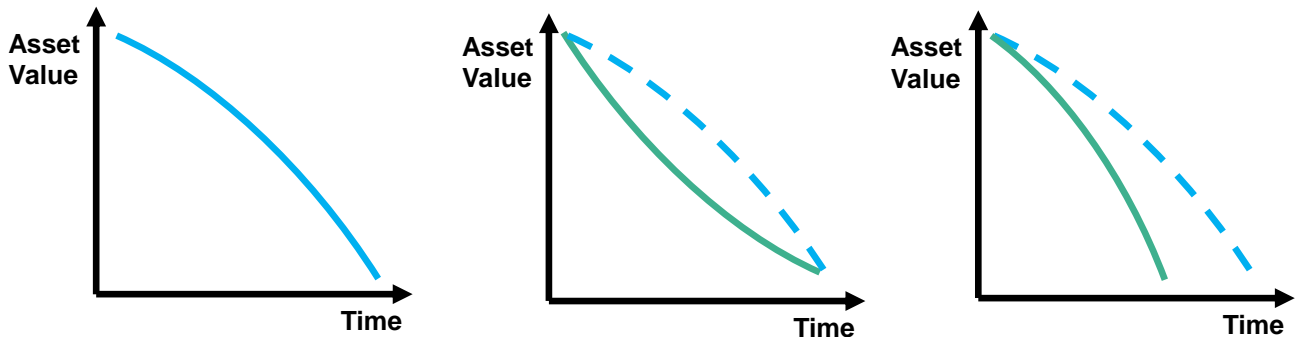


**We consulted with stakeholders**

- Published a consultation paper
- Held discussions at TRR engagement forums
- Discussed with EUAA



**We considered these profiles**



**We considered these asset groups**

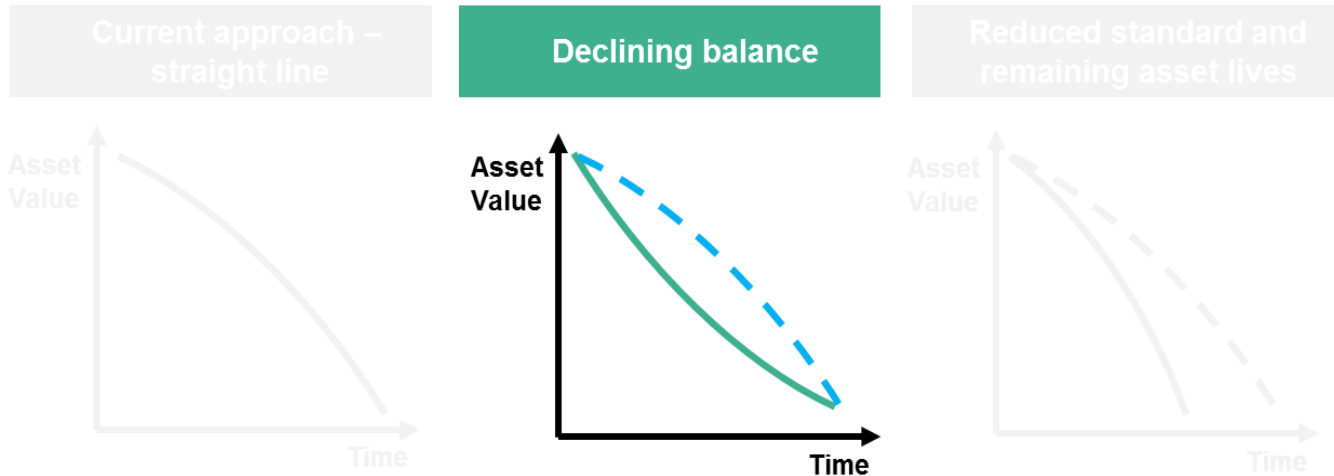
- Assets in specific locations**
- Whole transmission network**
- New transmission assets**

# Propose to accelerate depreciation of new transmission assets



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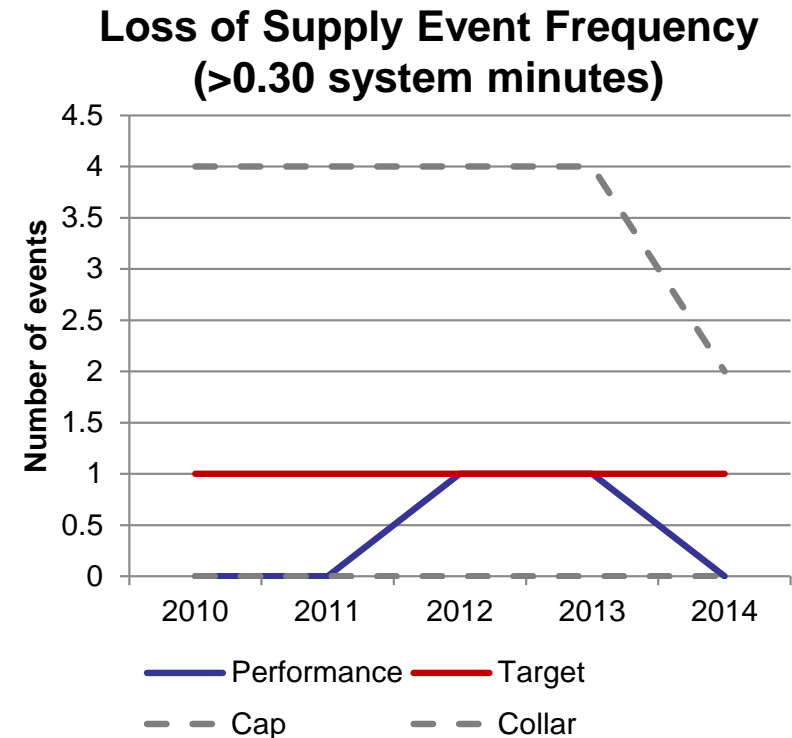
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- Assets in specific locations
- Whole transmission network
- New transmission assets**

## Service standards proposal

- Availability Incentive Scheme to close from 1 April 2016. Allows under-recovery of revenue cap funding (\$2.4m) in 2016-17.
- Implements new STPIS (version 5)
- Adjust proposed 'loss of supply event' targets due to lower VCR.
- Proposed NCIPAP expenditure = \$0.1m; addressed low-hanging fruit in 2014-17. Flexibility to add projects within period welcomed.



## Summary



**Our  
proposal  
will enable  
AusNet  
Services  
to:**

**Continue to provide low-cost transmission services**

**Efficiently respond to change**

**Deliver value for future and present consumers**

**Provide a fair return for investors**

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