

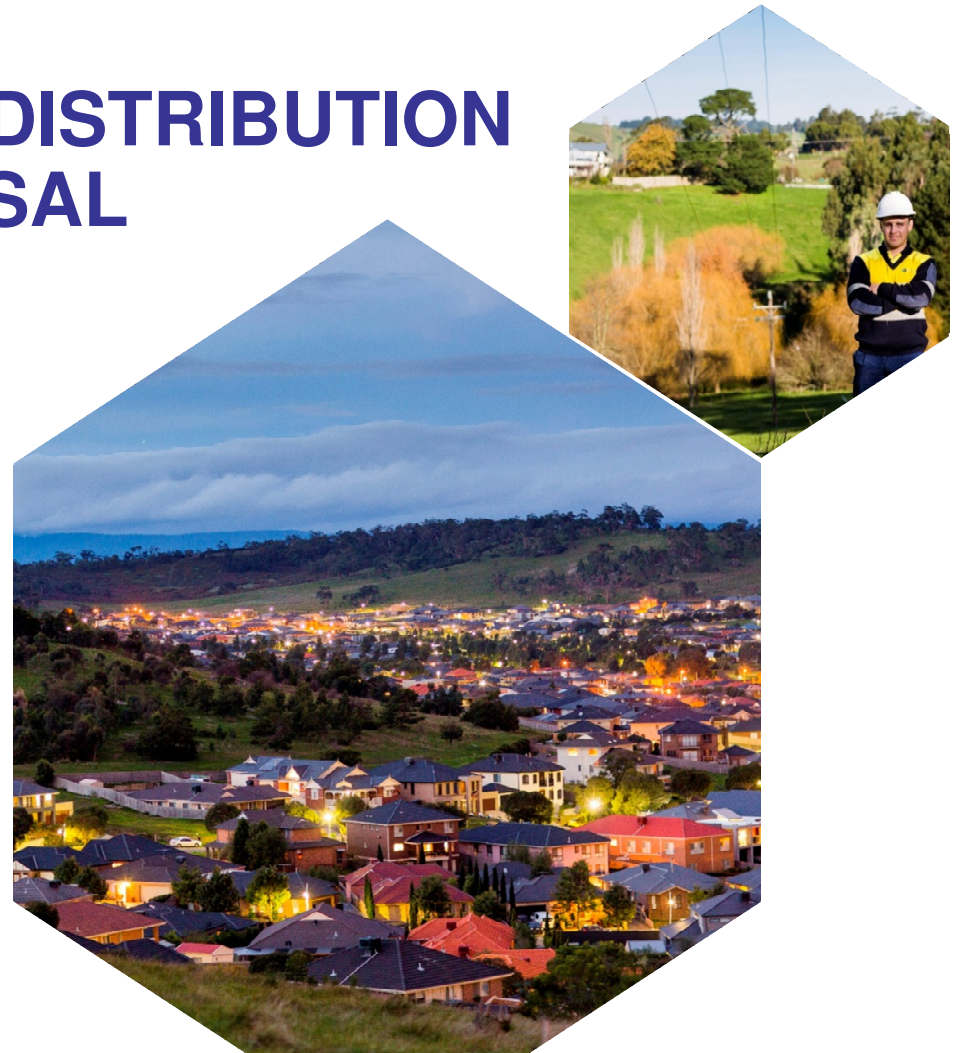
AER Board Presentation



2016-20 ELECTRICITY DISTRIBUTION REGULATORY PROPOSAL Revised Proposal

Nino Ficca, Managing Director

Thursday, 10 March 2016



Safety Topic – Overhang Removals (56Ms)



AusNet Services' network has a unique level of bushfire risk

Overview of Presentation



1. Changes from the initial Revenue Proposal

2. Outstanding material matters

- a) Self insurance
- b) AMI allocation
- c) New policy-driven expenditure
- d) Reliance on the Bloomberg curve
- e) Forecast inflation

Changes from the Initial Proposal

▶ **Accepted from the Preliminary Decision:**

- › Lower replacement capex
- › Lower accelerated depreciation

▶ **Proposed new expenditure for:**

- › Customer growth
- › Policy changes:
 - Power of Choice
 - REFCLs and Declared Areas
 - Adoption of Chapter 5A for customer connections

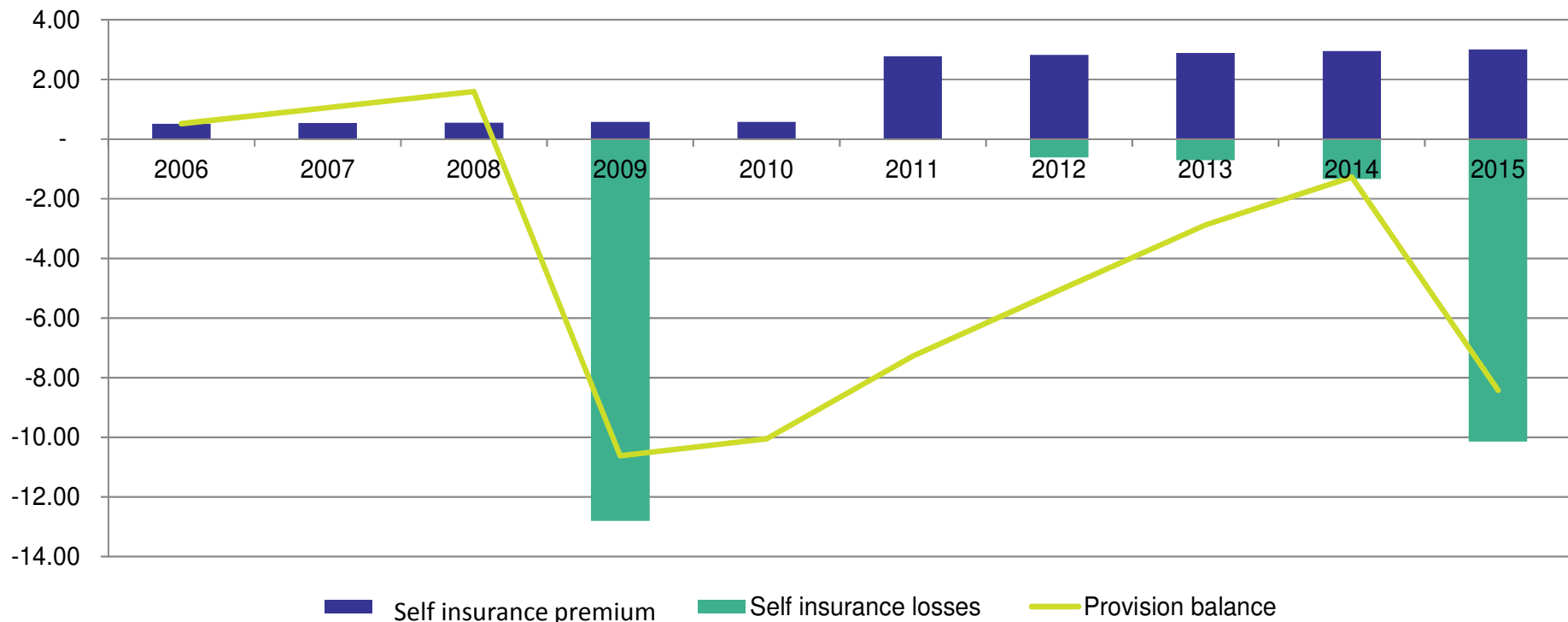
▶ **Changed methodology for:**

- › Debt transition
- › Depreciation

Self Insurance allowance should be based on actuarial premiums, not incurred losses



Self-insurance premiums and losses (\$m, nominal)



The basis of self insurance costs is the 'premium' to self insure, not the actual losses

New expenditure programs

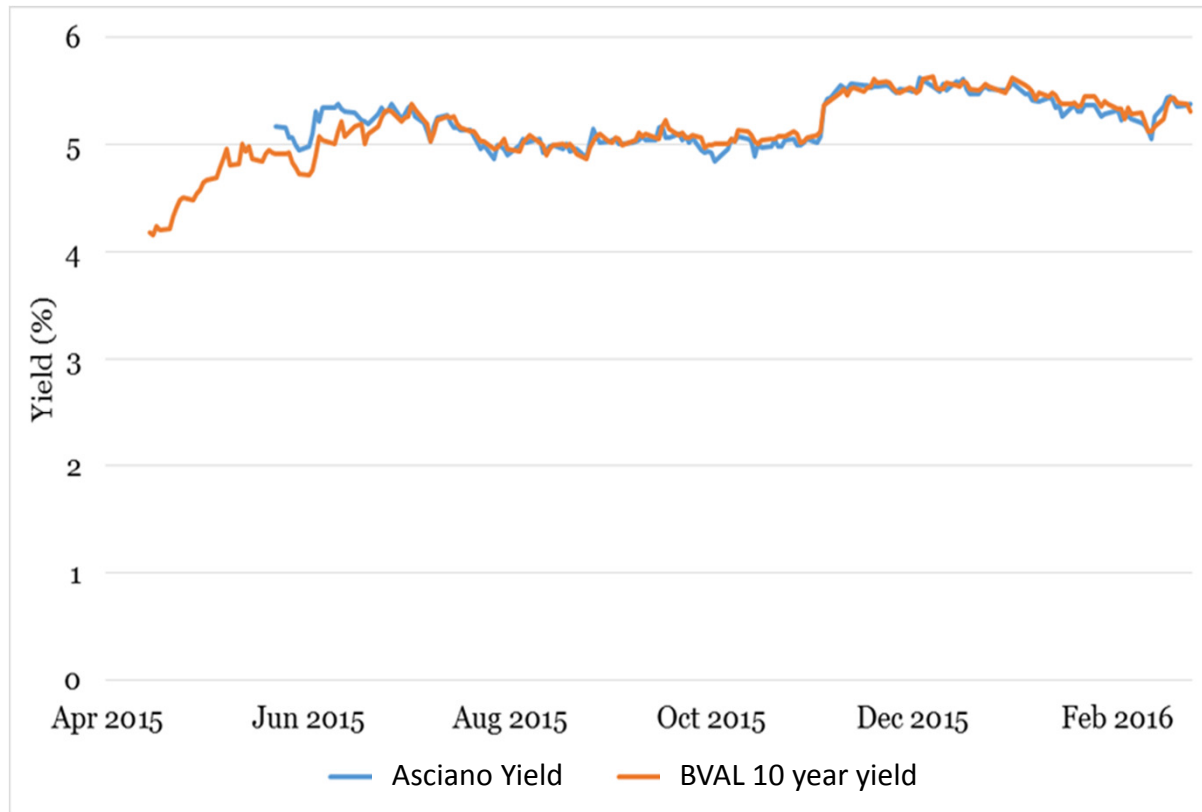
▶ Power of Choice

- › **Capex (~\$50m) and opex (~\$5m) forecast ex ante**
- › Some Power of Choice reforms will not pass the regulatory change event materiality threshold
- › Proposed a nominated cost pass through event in Revenue Proposal - customers paying for the outturn costs
- › Preliminary Decision rejected this approach and exposes AusNet Services to significant cost-recovery risk
- › Revised Proposal includes the prudent and efficient expenditure it expects to incur due to Power of Choice

Solution: Ex ante capex and opex accepted by the AER, or, a nominated 'Power of Choice' pass through event applies

We are seeking a fair opportunity to recover efficient POC costs

Bloomberg is not fit for purpose

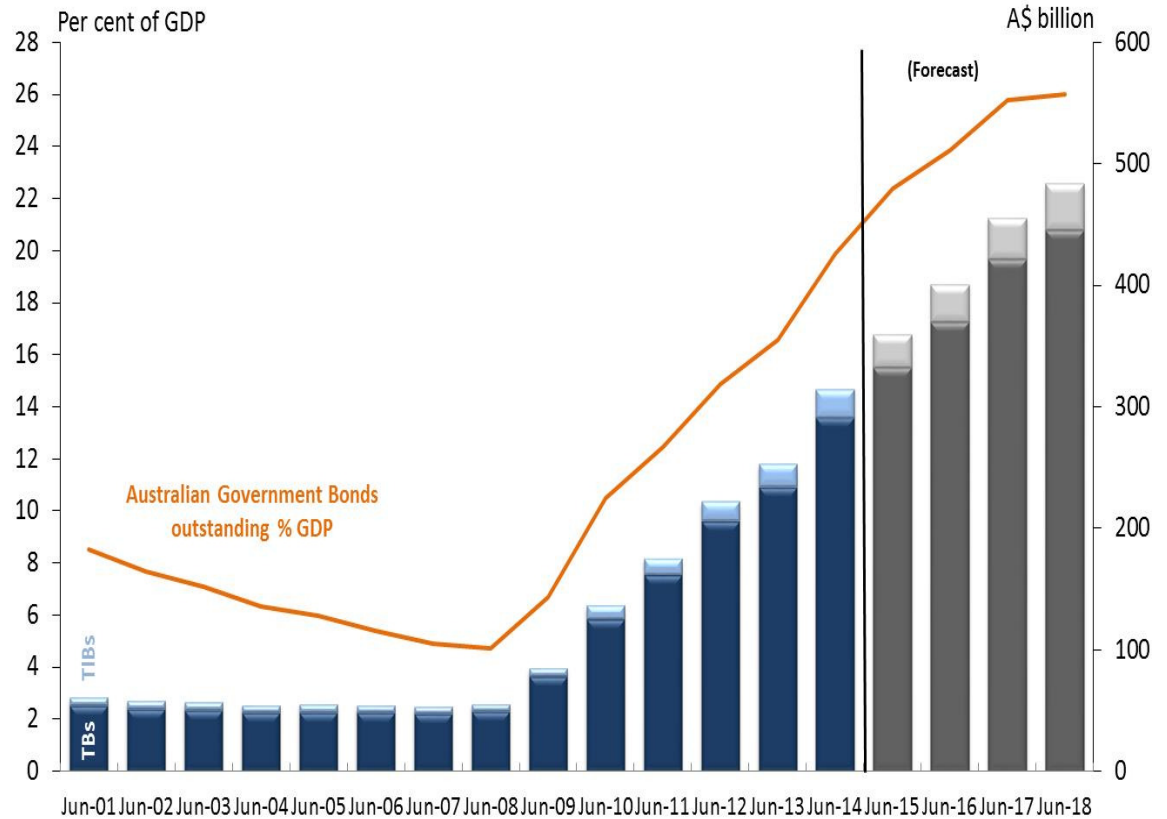
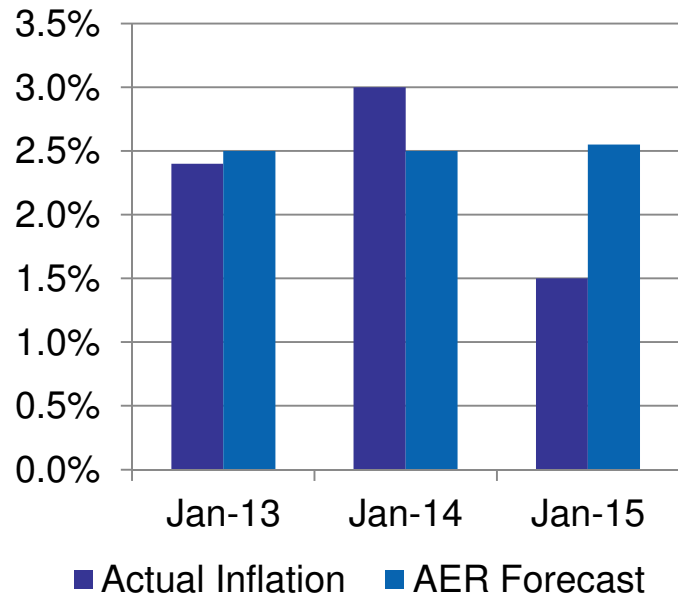


‘there is a real dearth of observations beyond 5-7 years in the BBB corporate curve’

Jan 2016 correspondence from Bloomberg to AusNet Services, submitted to the AER.

Does not reflect the market conditions a BEE would face

Forecast Inflation



A market-based estimate is the most appropriate

Summary



- ▶ Revised Revenue Proposal seeks to clarify areas of misunderstanding
- ▶ Incorporates appropriate cost forecasts or regulatory mechanisms to comply with policy reforms
- ▶ Happy to answer any further clarifying questions the AER staff may have before the final determination.

Our Revised Revenue Proposal provides a fair allocation of costs and risk between AusNet Services and our customers