



# Keeping your electricity supply affordable, safe and reliable

An overview of our plans 2014-19



# A note to our customers

## Our key objectives:

### Safety

By continuously improving safety performance for employees, contractors and the public.

### Affordability

By striving to contain average price increases for our share of customers' electricity bills at or below CPI.

### Reliability

By ensuring the ongoing reliability, security and sustainability of the network.

This booklet is an easy-to-read summary of Ausgrid's five-year plans for our electricity network, the funding we need to deliver those plans and how it will affect our customers' electricity bills.

It costs hundreds of millions of dollars a year to maintain and operate Ausgrid's network and this work is funded through your electricity bill.

Every five years, we make a regulatory proposal to the Australian Energy Regulator (AER), which includes our proposed capital and operating plans and the funding needed to deliver those plans. The AER reviews our proposal, considers feedback, and decides how much revenue we can recover from customers to fund our operations.

This regulatory proposal reflects our vision and objectives to keep our network safe, reliable and affordable for our customers. This proposal is different from previous submissions. It is based on a more concerted effort to engage with and listen to our customers so that we can better match our plans with your long term interests.

We know from our discussions with customers that the price increases of the past could not continue. We also understand that our customers are generally happy with levels of network reliability and do not want to pay for extra improvements. We also confirmed that safety should continue to be our priority.

I am pleased to report that this proposal reflects those wishes. It sets out plans to keep network electricity prices below CPI, or the rate of inflation, for the next five years. It includes our plans to improve the safety of our employees, contractors and the public and maintain a reliable and sustainable network.

These improvements to our plans and operations are driven by the NSW Government's reforms to the network electricity businesses that were announced in March 2012. These reforms were designed to ease the pressure on household budgets by keeping future electricity prices as low as possible.

We will continue to engage with you over the coming year on this proposal and hope to submit a revised proposal in January 2015 after considering more feedback from you.

Vince Graham  
Chief Executive Officer

These five values are the basis for everything we do.



### Safety excellence

We take responsibility for safety excellence.



### Respect for people

We believe in respect for people.



### Customer and community focus

We honour our commitment to customers and communities.



### Continuous improvement

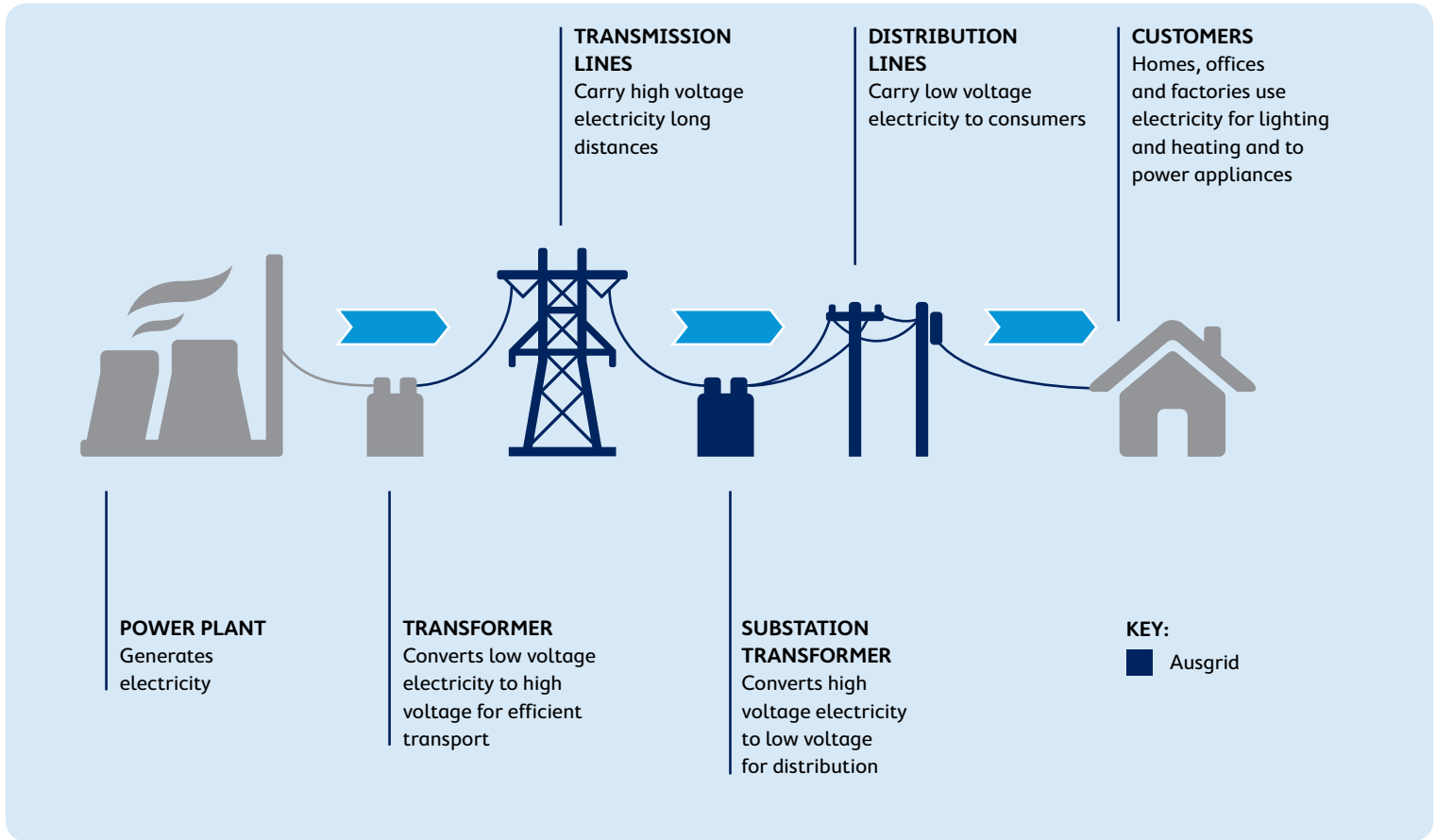
We are committed to continuous improvement.



### Act with integrity

We always act with integrity.

# Your electricity network



## About Ausgrid

Ausgrid is a key part of the chain that transports electricity from generators to a customer's premises. We're often called "the poles and wires".

Once power is generated, it is transported as high-voltage electricity over long distances by TransGrid. We also manage a small number of transmission assets.

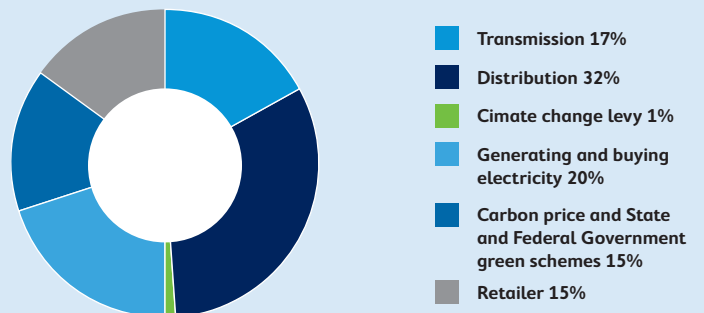
Our network then transforms it at subtransmission and zone substations into lower voltage electricity. That electricity is again transformed at local distribution substations so it can be supplied to customers' premises.

We manage more than 200 zone substations, 30,000 distribution substations, 48,000 kilometres of powerlines and 500,000 power poles as part of our network.

These assets, along with our depots and other properties, are known as our regulated asset base and are worth about \$14 billion today.

## Your bill

Operating, building and maintaining your electricity network costs millions of dollars every year. Ausgrid has a distribution and small transmission network, which is about 40 per cent of the average household's bill. When combined with TransGrid's charges, electricity network charges make up about 50 per cent of your bill. On average, customers' electricity bills are made up of the components shown here.



# Our customers



Ausgrid engages with customers, consumers, the community and stakeholders via face-to-face briefings or forums, meetings, letters and presentations. More recently, this interaction has occurred via well developed social media channels, such as Facebook and Twitter. This has allowed greater interaction with consumers in an open and engaging format with real time, two-way dialogue.

New consumer engagement guidelines introduced by the AER ask network businesses like Ausgrid to look more closely at how we engage with customers and consumers more broadly.

In response, we developed a strategy to help guide better consumer engagement, including how we consult on our 2014–19 Regulatory Proposal. This includes how we incorporate the views of our customers and stakeholders into our decision making process.

This gives consumers more chance to understand and influence our operations and decision making process so that we become more customer focused and our prices represent best value for money.

## Who our customers are

Our engagement activity is targeted at the community we serve, our customers, electricity consumers and key stakeholders.

There are more than 1.6 million customers connected to Ausgrid's electricity network. The network spans more the 22,000 square kilometres across much of Sydney, the Central Coast and the Hunter Valley in NSW.

Households and small and medium businesses make up about 99 per cent of these customers. They are mainly concentrated in densely populated urban areas with some also located in rural or semi rural areas in the Hunter Valley and Central Coast.

There are much smaller numbers of customers from the government, commercial and industrial sectors who consume large amounts of electricity and perform an important role in the wider economy and community. They have specific requirements for the safe connection and supply of electricity. An impact on their operations can have a direct and serious impact on the wider community.

As a part of our engagement approach, Ausgrid has segmented these groups to allow for more meaningful and targeted engagement. This is done via customer type, geography and areas of interest. Different forms of engagement activity are undertaken to allow these different groups greater opportunity to understand and participate in our decision-making process.

# How we engage with you



## Understand needs

Research and analysis to determine customers' expectations, perceptions, views and priorities.

This includes qualitative and quantitative research with representation from across key customer segments. Analysis includes review of existing customer communications, feedback and complaints.



## Inform and build knowledge

Information provided on Ausgrid's operation and plans for the next five years, including long-term pricing strategy options.

This occurs via social media channels, stakeholder presentations and forums, and written communications.



## Consult and involve

Feedback provided via two-way communications with customers and stakeholders where information and advice is gathered and views are exchanged, including advice on regulatory and decision-making process.

We listen to customers' feedback and ideas and take these into consideration as part of our decision-making process.



## Review and report

Review engagement activities and report back to customers and stakeholders.

Clearly demonstrate results of engagement and how they have influenced operations, policies and procedures. Ausgrid is making analysis and reports accessible via website and other channels.

## Engagement activity

We have focused our engagement activity around the following key channels:

- Face to face meetings
- Stakeholder forums and briefings
- Letters
- Research and surveys
- Social media and traditional media analysis
- Community consultation, complaint and Energy & Water Ombudsman NSW (EWON) data analysis
- Targeted Facebook campaign

Wherever possible, we have provided the details and results of engagement activity on our website so that stakeholders and members of the community can access this feedback and what we have done as a result. That information can be found at [www.ausgrid.com.au/yoursay](http://www.ausgrid.com.au/yoursay).

We will also publish an annual consumer engagement report detailing our engagement activities and how they have influenced our policies, procedures and operations.



# Your views

“Electricity... should be affordable for all no matter who or where they pay their bills”

Customer from Your Power, Your Say Facebook page

Here is a summary of what you have told us so far and how we responded.

| What you said  | How you told us  | What we did   |
|--|--|---|
| <b>Pricing</b><br>Customers were not supportive of steep or sudden increases in their electricity bills.   | Facebook campaign, consumer research, EWON and customer correspondence, traditional and social media analysis. | Kept average price increases to CPI for households and businesses from 2014-19.   |
| <b>Tariffs</b><br>More flexibility on Time of Use (TOU).<br>No large increase in charges.  | Facebook, consumer research, stakeholder forums.   | Gave customers more choice on TOU. Kept average network price increases below CPI.  |
| <b>Reliability and performance of the network</b><br>The performance of the network had improved.<br>Customers understood most outages were outside of our control and we worked hard to get the power back on.<br>Support for maintaining levels of reliability without extra bill increases. | Facebook, consumer research, social and traditional media analysis, customer correspondence.                   | Network Management Reliability Plan endorsed with actions to maintain reliability at lowest costs. Capital spending will reduce by 41 per cent compared to the last period. |
| <b>Construction and design standards</b><br>Price should be the major factor taken into account by Ausgrid when making decisions around new construction/ design standards.  | Consumer research, customer correspondence, Facebook, media and social media analysis.                         | Implementing new licence conditions.  |
| <b>Safety</b><br>Customers expect safety is our priority.  | Consumer research.   | Prioritised safety in all we do.  |
| <b>Communication</b><br>Existing communication is sufficient. Use new technology or channels to offer more flexible on demand options.   | Consumer research, Facebook, social media analysis, stakeholder forums.  | New customer reporting tools for street light faults, graffiti, tree trimming and pole inspections.   |
| <b>Street lighting</b><br>Community is generally happy with service standards. Councils support compulsory service standards and simplified pricing structure.   | Forums, Facebook and social media analysis.  | Street lighting charges for councils kept to CPI for four years. One-off increase in street lighting charges of about 13 per cent in 2015-16.                               |
| <b>Demand management, energy efficiency and technology</b><br>Customers want continued information and education on energy use. They did not want to pay extra for technology, such as smart meters.   | Forums, Facebook, social media and media analysis.   | Default meter for residential customers changed to accumulation meter with opt-in available for interval meters.  |

## Consumer challenge panel

As part of its attempts to improve consumer engagement and electricity network regulation, the AER established a Consumer Challenge Panel. This group has met with senior leaders at Ausgrid to review and question different components of our five-year plans. As a result, we have responded in a number of ways to improve outcomes for our customers.

Our regulatory proposal includes more information on:

- Why we replace our assets;
- How customers have benefited from the past five-year period; and
- The development of a public lighting promise with service levels and potential penalties.

# Our five year plans: electricity prices

## Electricity charges

Ausgrid's plans for the next five years are set firmly around our objectives to make the network safe, reliable, sustainable and affordable for our customers. To achieve these objectives, we are proposing distribution electricity price increases that are less than CPI. Over the five year period, we are proposing a large reduction of capital spending and an increase of two per cent above the forecast rate of inflation for operational expenditure.

Our network investment and reliability management plans are built on the assumption of maintaining or slightly improving existing levels of reliability.

## Future electricity charges – no increases above CPI

Network electricity charges make up about half of the electricity bill that you receive. Over the past five years it was the fastest rising component of your electricity bill.

Over the next five years, Ausgrid is proposing to increase the network part of your electricity bill, its share of electricity charges, by an average 2.37 per cent each year. This will mean that network electricity prices would increase at 0.13 per cent below the rate of inflation (CPI).

If the AER accepts our total five year proposal, we estimate it would add about \$94 to the electricity costs of a typical home by July 2019, \$13 below CPI.

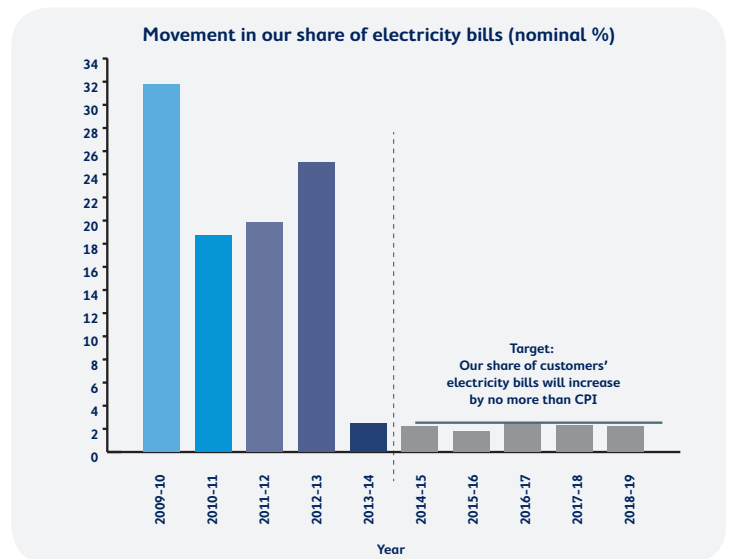
The NSW Government began a network reform program on 1 July 2012. Its aim was to introduce efficiencies across the three network businesses in NSW, including Ausgrid, so that future network electricity prices could be kept to CPI or below for this five year period. This reform program has helped to deliver this turnaround in network electricity prices for the benefit of our customers and the community we serve.

## Future challenges

One of the challenges facing Ausgrid and the electricity industry generally is how to keep prices stable for customers in the longer term, because the historic price structures don't reflect our costs.

We are thinking about how we should charge for electricity in the future, and we have started to discuss this complex issue with consumer groups.

The challenge is this: most of the costs to run an electricity network are fixed. However, we only recover a small proportion of those costs through the fixed daily charge.



Network charges to customers' however, are mostly variable, based on how much electricity is used, on an inclining scale. This means the more you use, the higher your bill will be.

In the future, we expect that customers who can afford technology such as solar and battery storage can avoid variable electricity charges. We expect these customers would generally be home owners with disposable income.

With our current pricing structure, those who can't afford technology will end up paying more to cover the fixed costs of supplying electricity. These people are likely to be renters or on low and fixed incomes, which is a real equity issue.

We are starting to discuss other options with key groups and customers. These could include looking at lower variable charges to better reflect fixed network costs or a declining block structure, to keep bills more stable and predictable over time.

As we continue to discuss this important challenge, our goal is to keep our share of customers' electricity bill to CPI or less for the next five years.

## Past and proposed average household price increases

|                   | 2009–10                | 2010–11 | 2011–12 | 2012–13 | 2013–14 | 2014–15                    | 2015–16 | 2016–17 | 2017–18 | 2018–19 |
|-------------------|------------------------|---------|---------|---------|---------|----------------------------|---------|---------|---------|---------|
| Dollar change     | \$108                  | \$83    | \$105   | \$158   | \$20    | \$18                       | \$15    | \$21    | \$20    | \$20    |
| Percentage change | 31.8%                  | 18.7%   | 19.8%   | 25.0%   | 2.5%    | 2.2%                       | 1.8%    | 2.5%    | 2.3%    | 2.2%    |
|                   | Past increases 2009–14 |         |         |         |         | Proposed increases 2014–19 |         |         |         |         |

# Investing in your network

## How we plan to serve you

Ausgrid's capital and operational expenditure is funded through borrowings. We repay these borrowings with interest and we also pay a return to our shareholder, the NSW Government.

Our capital program will reduce from \$8.4 billion approved by the AER for 2009 to 2014, to a proposed \$4.9 billion for the next five years – a reduction of 41%, which is 47% below the forecast rate of inflation.

We are proposing to invest \$4.9 billion on the replacement and upgrade of network assets that are at risk of failing, which could result in loss of supply, safety issues, or environmental problems. This includes large substations, the cables that connect them and the powerlines, power poles and distribution centres that allow us to safely power up your home or business.

Although overall electricity consumption is marginally falling, there are still parts of our distribution area where the electricity network needs to be upgraded to provide more capacity. This includes areas of residential growth along rail corridors or areas driven by commercial growth, like business parks including data centres.

Areas of focus for our network investment include our backbone transmission system and many of our oldest areas in Sydney like the CBD, the Canterbury-Bankstown region, the Inner West and the Eastern Suburbs.

This program also includes investment in equipment that supports the operation of our network. This includes electricity meters, property to build new depots, IT systems and large trucks and equipment.

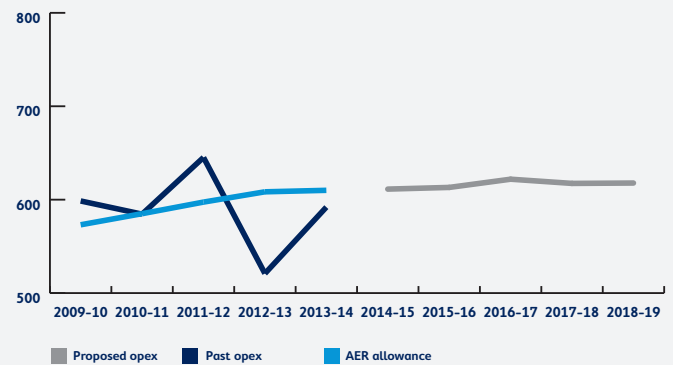
Our operating costs will increase from \$2.8 billion approved by the AER from 2009-14 to a proposed \$3.3 billion for the next five years – an increase of 18%, which is 4% above the forecast CPI.

This increase is driven by the cost of:

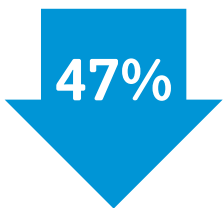
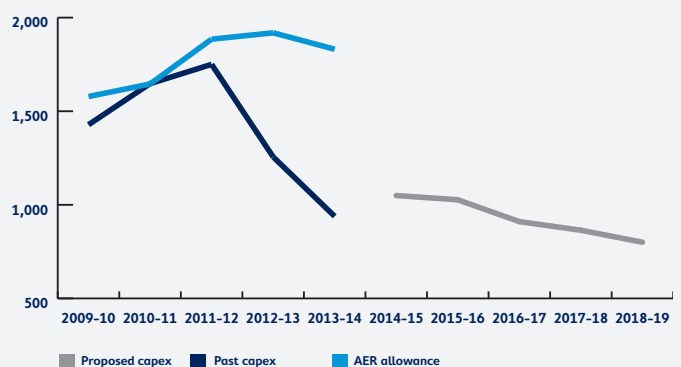
- removing vegetation around power lines, particularly in bushfire prone areas;
- the need to respond to network damage caused by incidents or storms;
- network breakdowns or routine repairs;
- demand management activities; and
- one-off costs for initiatives aimed at driving longer-term efficiencies.



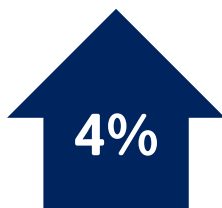
Past and proposed opex (\$ million, 2013-14)



Past and proposed capex (\$ million, 2013-14)



Real reduction in capital program



Real increase over five years in operating costs



# Funding a safe and reliable network

## What we need to serve you

In order to provide a safe and efficient electricity service to you, we collect revenue through the network electricity charges you pay.

The amount you pay in network electricity charges directly impacts how much revenue Ausgrid collects to fund the safe and efficient operation of the electricity network.

From 2009–2014, the AER allowed Ausgrid to collect \$9.6 billion in revenue to help fund a large expansion and renewal of the electricity network. This was needed to replace old equipment and meet increasing peak demand for power and to meet new standards introduced by the government in 2005 and revised in 2007.

It was also required to help pay increased borrowing costs brought about by the Global Financial Crisis in 2009.

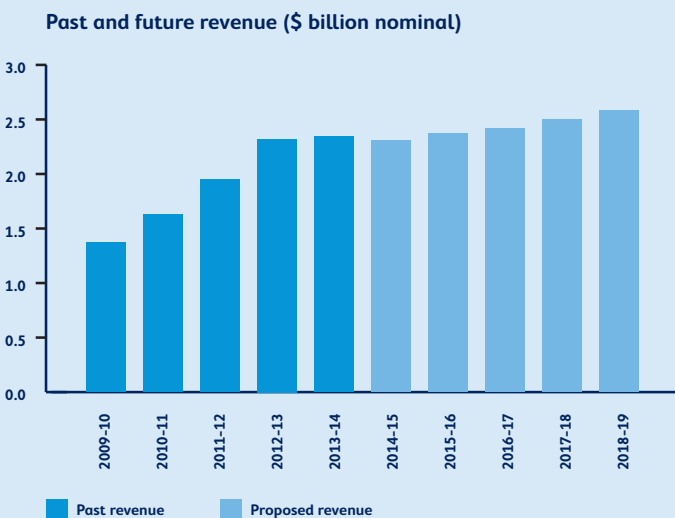
These pressures on our operations have decreased and changes to reliability standards, combined with the NSW Government's network reform program and decreased demand, has meant we do not require increasing amounts of revenue. Our revenue forecasts are based on a return on capital of 8.83 per cent.

Our total revenue request for the next five years is \$12.2 billion compared to \$9.6 billion over the previous five year regulatory period.

The AER looks at all aspects of our proposals and is expected to make a draft determination in November 2014 and a final determination in April 2015.



This graph shows the revenue approved from 2009–10 to 2013–14, the past regulatory period. It also shows the forecast revenue for the next regulatory period, which is relatively stable.



# Other customer services

Ausgrid also provides a number of other services to you that are outlined in our proposal.

## Metering

### Existing meters

Your electricity meter records how much electricity you use in your home or business. Each quarter we read your meter and send the data to electricity retailers who use the information for your electricity bill.

Metering charges have always been included in your network charges, with the costs spread evenly across all customers. This means the costs of providing meters and metering services has been hidden.

The AER is changing the way we charge customers for their meters and the services we provide to maintain, read and manage data from them.

It has decided to separate metering and network charges to promote competition, allow more customer choice and remove subsidies between services.

This means you will not be charged more for metering, but separate charges may apply.

For customers with existing meters there will be an annual charge that will be broken down and paid every quarter via your electricity bill.

These charges are different for normal accumulation meters and interval meters because of the higher operational costs associated with managing the increased amount of data needed to be collected from interval meters.

### New meters

When a customer needs a new meter because they are renovating their home, or installing a solar PV system or air conditioner, the cost of that meter will be added to the installation cost customers currently pay upfront to their electrician or Accredited Service Provider.

This is already the case for non-standard meters (eg for solar installations) so that other customers do not subsidise services requested by an individual customer.

They will also pay an exit fee to cover the stranded costs of their old meter. The exit fee will be \$195 and also paid via your Accredited Service Provider.

| Meter type         | Annual fee |
|--------------------|------------|
| Accumulation meter | \$35       |
| Interval meter     | \$57       |

## Streetlights

Ausgrid manages 250,000 streetlights on behalf of local councils with the costs recovered from councils. The number of public lights in Ausgrid's area is forecast to remain stable.

As part of our community and customer engagement we held a number of street lighting forums for local councils. As a result of those forums, Ausgrid has proposed to develop a public lighting promise. This document would bind us to agreed service levels and would include penalty payments to local councils if we do not meet them.



## Other customer services

The AER has also unbundled a range of other services, called ancillary network services, which will now be charged on a user-pays basis. These are non-routine services provided to customers on request.

Examples include:

- special meter readings
- reviewing designs for customers that need to connect to our network

For more information on these services and proposed charges, please visit our website at [ausgrid.com.au](http://ausgrid.com.au).



# Benefits and risks

Our proposal presents the following benefits and potential risks to our customers.

## Benefit



**Stability** – We propose to keep average price increases to our share of customers' electricity bills at or below CPI for five years.



**Reliability** – We propose to maintain reliability or slightly improve it in some areas.



**Safety** – Our capital and operating plans aim to deliver programs that are safe and sustainable for the electricity network and the communities it serves.



**Clarity of costs** – We are giving customers greater transparency about how much they pay for metering.

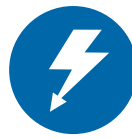


**New growth areas** – Electricity infrastructure for new growth centres will foster local economic development.



**Removing cross-subsidies** – Customers who don't use specific services (such as special meter test readings) will no longer subsidise those who do.

## Potential risks



**Volatility** – The AER has determined that Ausgrid's revenue collected from customers will be capped. If electricity consumption falls further than we forecast, unit prices may increase but total revenue cannot increase.



**Reduced reliability** – If our approved capital program is not delivered on time, electricity supply may be less reliable in some areas.



**Future prices** – Without changes to tariff structures, customers who cannot afford to invest in solar technology will be burdened with increased network costs.



**New rules** – Customers who request a special service may now pay considerably more as the AER said they cannot continue to be subsidised by our general customer base.

# Have your say

You can provide feedback on our plans in a number of ways:

- Contact us directly on the details at the bottom of this page
- Join the conversation on Facebook at [facebook.com/Ausgrid](https://facebook.com/Ausgrid)
- Submit your feedback directly to the AER at [aer.gov.au](http://aer.gov.au)

## What we do:

Feedback provided to Ausgrid will also be assessed and taken into account in our response to the AER's draft submission in January 2015.

We will look at any feedback to determine whether it can help us improve our day-to-day operations, our policies or procedures.

Any feedback you provide to the Australian Energy Regulator will be considered as part of its assessment of Ausgrid's proposal.



## Contact us

Ausgrid  
GPO Box 4009  
Sydney NSW 2001

General enquiries 13 13 65  
Supply interruptions 13 13 88 (24 hours)  
Interpreter service 13 14 50

[ausgrid.com.au/yoursay](http://ausgrid.com.au/yoursay)  
[yoursay@ausgrid.com.au](mailto:yoursay@ausgrid.com.au)

Follow us   