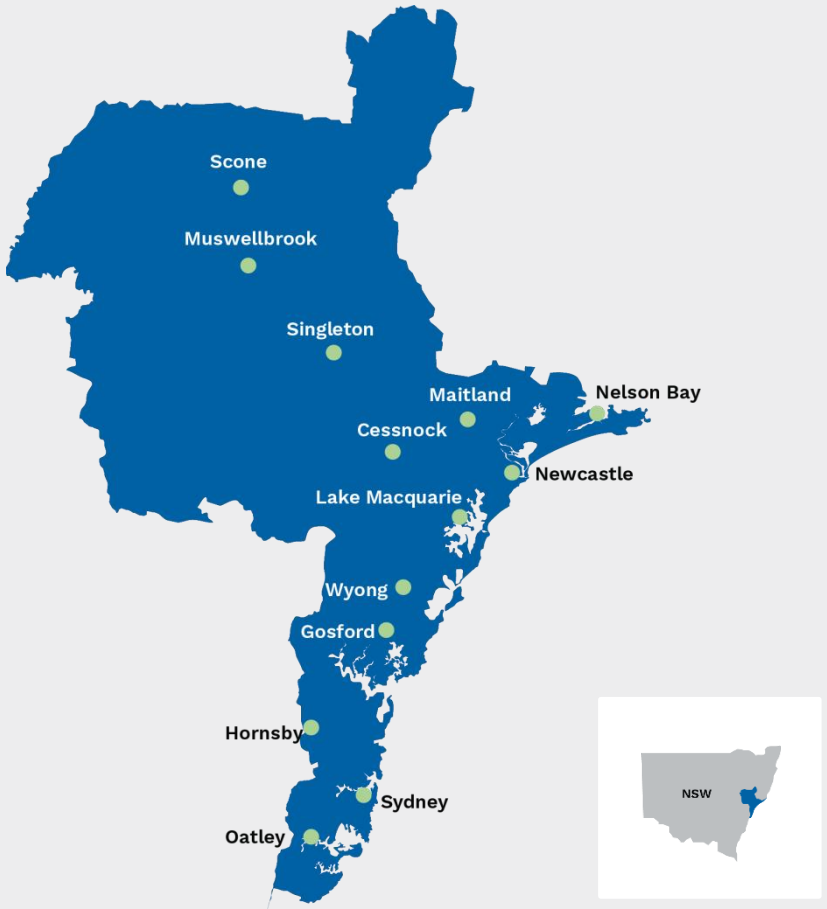
Ausgrid's 2019–24 Regulatory Proposal

AER PUBLIC FORUM PRESENTATION | 3 JULY 2018

Ausgrid

Ausgrid’s network and assets



Customers
1.7 million

Area
22,275 km²

Number of power poles
500,000

Length of powerlines and underground cables
50,000 kms

Large electricity substations
230

Small distribution substations
30,000

Employees
3,600

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Ausgrid powering our economy and community

15% of Australia's population

16% of Australia's jobs

1.5m Homes

20% of Australia's GDP

105 Hospitals

37% of Australia's ICT industry

37% of Australia's financial services industry

15% of Australia's construction industry

12 Sporting stadiums

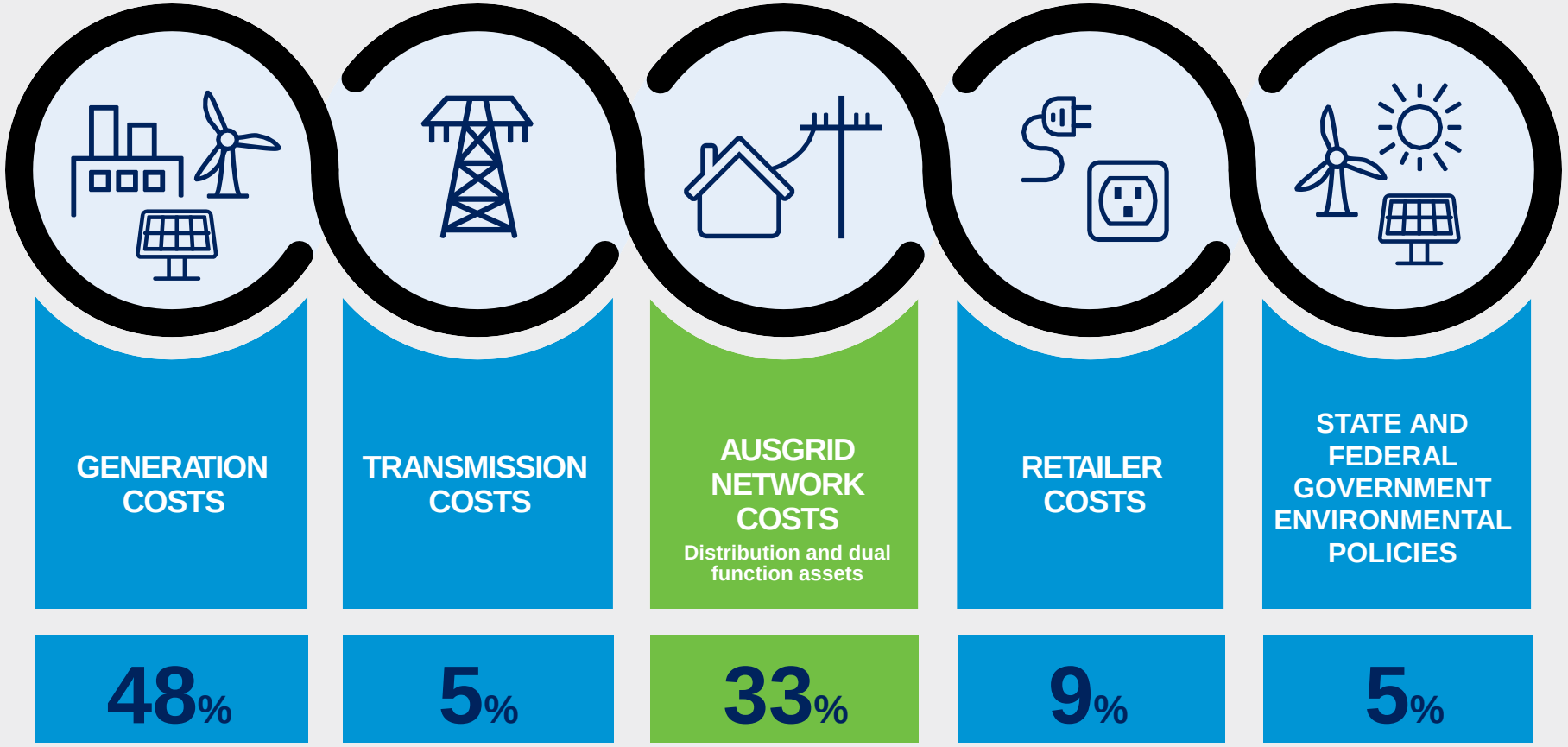
40 Main concert hall theatres

5 Universities

1,238 Schools

Our owners

Ausgrid’s contribution to residential bills



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Our Regulatory Proposal key highlights

AFFORDABLE

Lower prices

5.7% reduction in our component of network costs in residential bills from 1 July 2019

Fairer

Updated price structures

More efficient

Operating cost savings (pa)

$100m

Benefit per customer

$76pa

RELIABLE

Replacing ageing assets

$335m pa

investment in renewing the grid

Investing in technology

$43m pa

Including cyber security

SUSTAINABLE

Flexible network

$58m

to deliver the '**future grid**' sooner by trialling technologies that enable sustainable customer choices

Smart

$41m

additional investment in an **Advanced Distribution Management System** following an initial investment of $35m in the current period

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Network prices decreasing

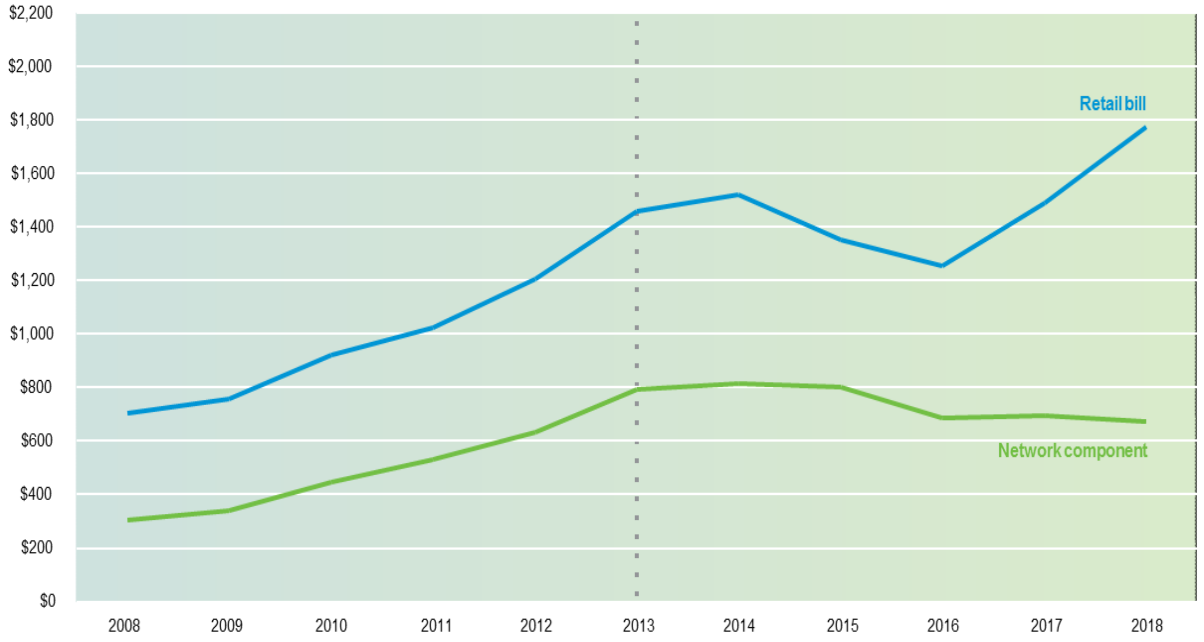
AFFORD-ABLE | RELI-ABLE | SUSTAIN-ABLE

Retail bill vs Network bill

Retail bill
- Generation costs
- Retailer costs
- Other Federal and State Government Environmental Policy Costs

Network bill
- Distribution
- Transmission costs
- NSW Government Climate Change Fund

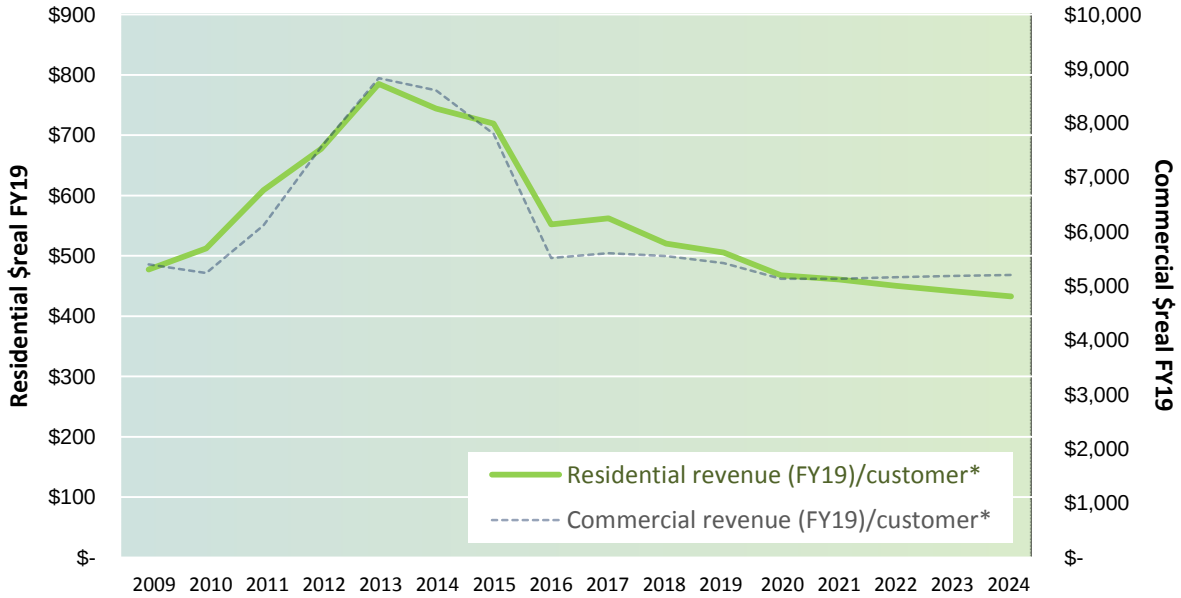
5.7%
reduction in Ausgrid's component of network bills from 1 July 2019



Ausgrid's average revenues across our customers*

40%
reduction from peak
On 1 July 2019 in average residential revenue per customer* based on our proposal

42%
reduction from peak
On 1 July 2019 in average revenue per commercial customer* based on our proposal



*Figures reflect average revenue across all customers within each segment

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Changes following stakeholder consultation

Ausgrid should further improve affordability…

Reduced network depreciation by
↓ $100m
as a result of applying a different depreciation method

Reduced metering depreciation by
↓ $37m
by withdrawing our proposal to accelerate depreciation.

Established pricing working group

Reduced connection related capex by
↓ $25m
by deferring the proposed changes in our policy.

Enabled our customers to make savings
through the introduction of a time of use (TOU) price with a 'placeholder' demand based charge

"Ausgrid should focus on non- network solutions…"

We have identified additional capex deferral of
$60m through $15 m in additional demand management

"Ausgrid should be more innovative in our approach…"

We have committed
$35m to deliver the 'future grid' sooner via smart grid trials.

Impact of changes
↓ 2.5%
price reduction

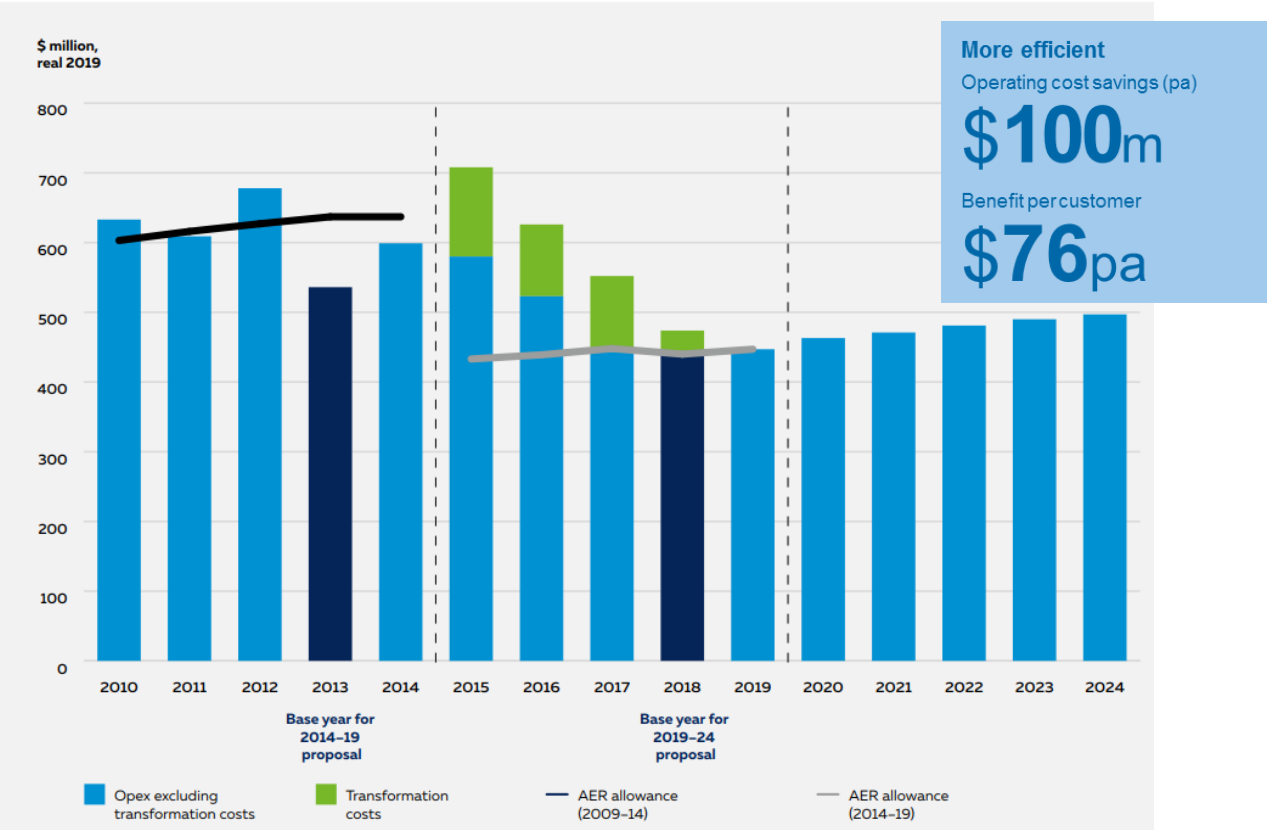
Opex transformation, delivering for customer

AFFORD-ABLE | RELI-ABLE | SUSTAIN-ABLE

We have transformed our operating cost base:

Figure 45.

Actual and forecast opex for 2009/10 to 2023/24 ($ million, real FY19)



Approach to Opex 2019-24

- We have applied the AER's model, except for the forecast negative productivity
- Negative productivity of 1.8%pa would have added $133m to our forecast opex
- We propose to absorb the following costs:
  - $30m higher land tax
  - $10m for improved customer operations
  - $8m additional IT (Cyber, Data maintenance)
  - Additional Vegetation Management Costs
- Unit rate constraints due to the Sydney CBD environment (eg. congestion, night work, chamber sub-station accessibility)

Downward trends in capex and RAB per customer driven by governance and efficiency improvement

AFFORD-ABLE | RELI-ABLE | SUSTAIN-ABLE

57% reduction capex

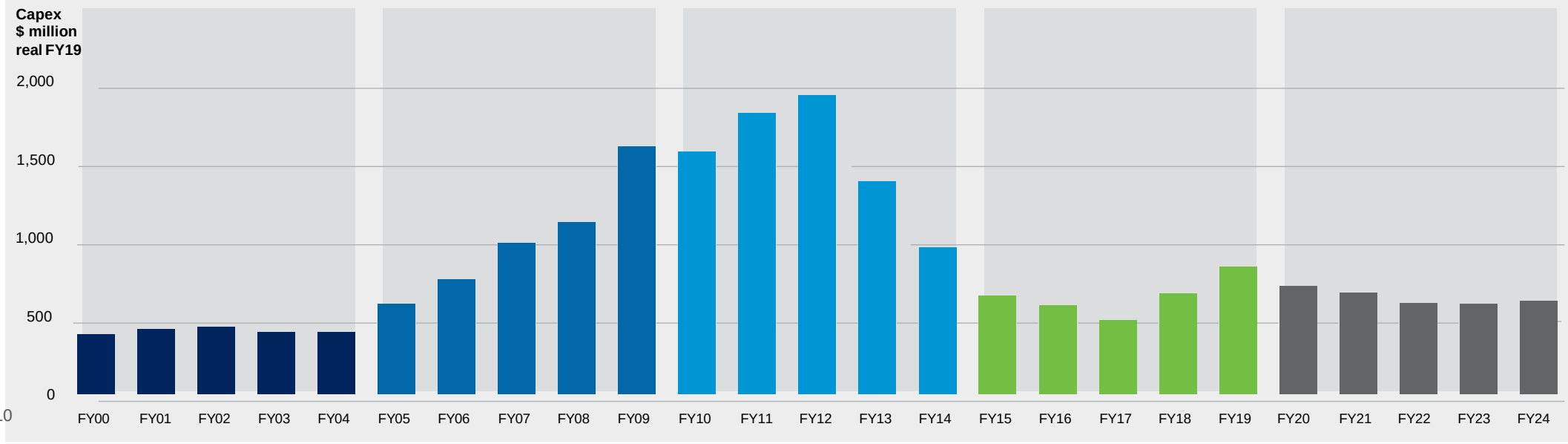
Focus on affordability

Board and Executive Governance and oversight

Efficiency improvement

10% labour efficiency

Unsustainably low capex	Capex to meet network growth	Growth, reliability and replacement capex	Low growth capex whilst business transformed	Low growth sustainable replacement capex
• Emerging network health issues • Asset failures and major power outages	• Meet increasing growth • Network health issues escalate	• Meeting growth • Increased asset replacement phase • Network health improves	• Prices decline • Transformation • Network health stabilises	• Prices stabilise • Sustainable replacement and new technology



RAB per customer reduction FY14 to FY24

8%

Ausgrid's reliability record

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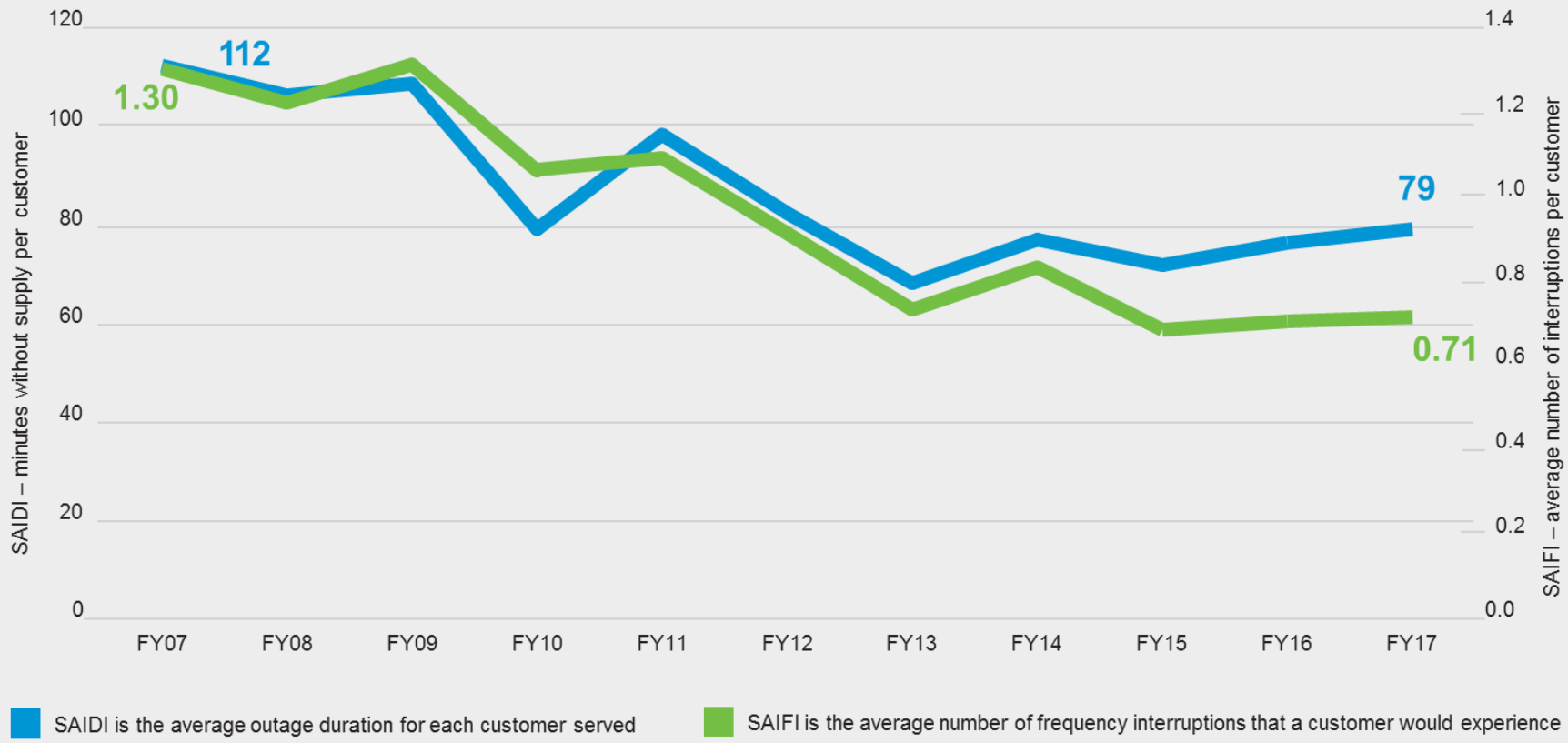
Trends in reliability (SAIDI and SAIFI) from FY07 to FY17



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Investment in reliability, growth and security

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Replacement investment

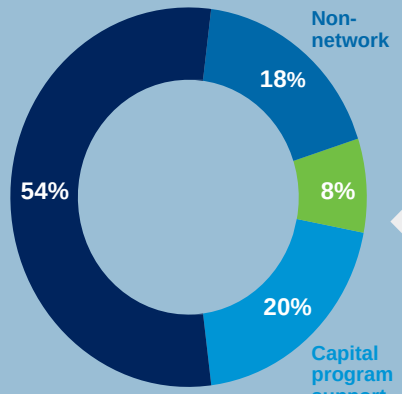
$1,673m

Including:

- Fluid and gas cables
- Switchboards
- Overhead poles
- Low voltage cables
- Control and protection systems
- Overhead conductors
- Service lines
- Transformers
- Monitoring and control systems
- Substation assets
- Reactive program

Total investment

$3.08b



Growth investment

$241m

Macquarie Park investment

$28.1m

increasing capacity for new data centre and telecommunication customers and potential expansion of education facilities

Rozelle substation investment

$17.5m

increasing capacity for anticipated growth in areas including transport projects such as WestConnex

Non-network ICT and OTI

$216m

Our proposed capex program for 2019-24 will focus on cyber security, application maintenance and digital transformation. We are reducing capex by 7% compared to 2014-19.

$20m **cyber security investment to reduce the risk of our systems being impacted by cyber-attacks**

$58m **investment to deliver the 'future grid' through an innovation portfolio**

Capital program support

40% Reduction

We have reduced our capital program support costs by 40% compared to the 2009-14 period, and forecast that we will achieve reductions of a further 9% over the 2019-24.

Non-network Property

$55m reduction in land asset class RAB has flowed through to customers by way of a reduction in our revenue requirement for the 2019-24 period.

Non-network Fleet & Plant

We have reduced the number of vehicles in our fleet from 3,783 in FY12 to 1,871 in FY17 (a reduction of 50%).

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Challenging ourselves to be more sustainable

AFFORD-ABLE | RELI-ABLE | SUSTAIN-ABLE

How is Ausgrid responding?

$58m investment to deliver the 'future grid' through an innovation portfolio

$41m investment in an Advanced Distribution Management System replacing the existing DMS

Continue to transform our traditionally passive one way network into interconnected flexible platform that supports a lower carbon economy at the lowest cost

Sample of our innovative projects

Network Insights
Increased monitoring and control capability on distribution substations

Grid Fringe Optimisation + Microgrids
Optimise energy infrastructure at edge of the grid

Advanced Voltage Regulation
Manage supply quality under two-way power flows

EV Charging Platform and Capacity Planning
Proactively position the network to manage the rise of Electric Vehicles

Network Digitisation (Planning & Data Technology Usage)
Creating a digital "twin" of the network

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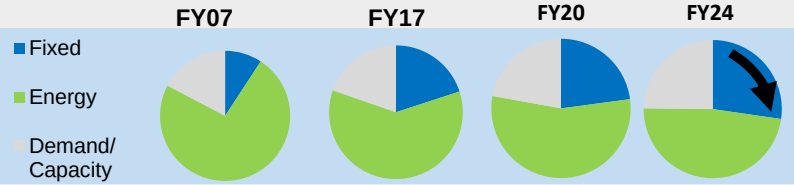
Cost reflective pricing – an imperative for our industry

Maximise tariff reform, minimise customer bill impacts	• Setting the foundations for cost reflective pricing now • Accelerating tariff research (evidence-based tariff design) • Managing the impact on customers through the transition, neutral bill impacts on customers
More stable tariffs	• Greater proportion of the bill will be stable and remaining variable charges will be targeted to signalling the cost of usage during the peak
Safeguard and transition tariffs	• Safeguard tariff for vulnerable customers with low use • Working with retailers to identify vulnerable customers • Transitional tariffs for customers with unacceptable bill impacts
Leveraging the market led roll out of smart meters	• Retailer led smart maters roll-out provides opportunities • Increase the % of our customers on cost reflective Time of Use tariffs
Collaboration with our customers	• Established Pricing Working Group - collaborating to achieve best outcome for customers • Contributing to national pricing reform discussions with the ECA



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QUESTIONS