CitiPower
Regulatory Proposal
Overview 2016–2020

CITIPOWER

“Our customers have provided feedback...

Our vision and values

Our vision is connecting for a bright future.
To realise this vision we are focused on:

- Continually improving how we engage with our customers and key stakeholders on what matters to them, to ensure we meet the energy needs of Victorians today and well into the future
- Providing customers with outstanding value for money by maximising the efficiency of our operations, with a focus on safety and reliability
- Maintaining appropriate levels of investment in our network to support growth in Victoria, including associated business, industrial and infrastructure developments
- Understanding changing consumer preferences, emerging technologies and alternative sources of energy, to ensure effective and cost-efficient reinforcement of our network.

Our six values underpin everything we do, every day. They give even greater focus to understanding and supporting our customers, doing what is right and helping our people and our business strive for excellence in everything we do.

1. **Live safely**
2. **Make it easy for your customer**
3. **Succeed together**
4. **Be community minded**
5. **Be the best you can be**
6. **Drive and embrace change**

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And we've been listening„

Dear stakeholder,

Melbourne is home to some of Australia's most iconic cultural and sporting facilities and with the city's population expected to surpass Sydney by the middle of this century, at CitiPower we understand the importance of delivering a cost-effective, reliable and safe electricity supply.

We recognise our role in the economic and social development of the city and the responsibility we have in delivering this vital service to our customers.

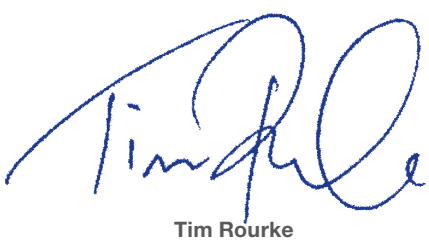
Our commitment to our customers is demonstrated in our strong track record in respect to safety, reliability, cost efficiency and customer satisfaction. This is evidenced by recent benchmarking data prepared by the Australian Energy Regulator (AER) that shows in addition to being one of the most reliable, we are the most cost-efficient distributor in the National Electricity Market.

We are confident that our 2016–2020 Regulatory Proposal outlines investment priorities that strike the right balance between safety, reliability, growth and affordability. Importantly, these investments ensure we can responsibly and efficiently respond to the challenges in our sector and facilitate customers' changing energy choices.

During the past two years we have stepped up engagement with our customers to ensure we understand your current and future needs. Your views, as well as our regulatory obligations, have informed the development of our Regulatory Proposal for the next five years.

I want to take this opportunity to thank the thousands of customers and stakeholders who participated in our engagement program. Our commitment is to keep talking to you about issues that affect your electricity supply and energy choices, recognising that the way many customers are using electricity is changing.

Finally, I encourage you to participate in the AER's separate and independent consultation on our Regulatory Proposal – your continued feedback ensures we deliver the safe, reliable and affordable electricity supply you expect in a way that meets your needs today and into the future. Thank you again for your support in this process.



Tim Rourke
Chief Executive Officer

Highlights from our Regulatory Proposal

1. Continuing our commitment to deliver value for money services

We are seeking to invest in priorities that strike the right balance between safety, reliability, growth and affordability so that we meet the expectations of our customers today and into the future.

As a result of our efficient approach to investment, our customers will see a $28 reduction in the average residential customer's annual electricity bill in 2016, adjusted for inflation. Network charges will remain stable for the remainder of the five-year period.

The investment we will make during the upcoming regulatory control period is based on the following priorities:

- Protecting our customers and our network by maintaining our infrastructure and replacing ageing assets
- Ensuring a resilient network for inner Melbourne and maintaining cost-effective reliability
- Investment in network growth to support urban renewal and redevelopment
- Building a network for the future; using technology to better manage our network deferring capital expenditure and delivering better price outcomes for customers in the long term
- Making it easier for our customers by automating and simplifying our basic connections process and implementing a new customer portal enabling customers to make more informed choices about their electricity usage.

During the 2016–2020 regulatory control period residential customers will see a reduction in metering costs as a result of the successful introduction of remotely read smart meters to over 99 per cent of our customer base.

Customers will also benefit from better capital investment financing costs during the five-year period.

Our approach to disciplined and considered investment decisions has been recognised in the first AER annual benchmarking report. The report released in November 2014 highlighted our strong productivity performance. See page seven for more detail.

2. Ensuring a resilient network for inner Melbourne

Across the CitiPower network much of Melbourne's 22kV network, developed in the 1940s, is still in use today. These older assets are now reaching an age where future deterioration could pose a reliability risk. We intend to invest $180 million in upgrading our network and plan to decommission several smaller zone substations and connect customers to our more modern 66kV sub-transmission network. Targeted upgrades to the 66kV network will be made to accommodate customers transferred to the new network.

With Melbourne's population expected to surpass Sydney by the middle of this century, it is important that residents and businesses have access to a cost-effective, reliable and safe electricity supply. We will also assess and improve the integrity of underground cable pits which are used to access conduits and cables to ensure they do not pose a risk to employees or community safety. During the upcoming regulatory control period we will also invest $332 million to support growth arising from urban renewal and redevelopment projects across the central business district and inner suburbs.

3. Adapting the network to meet the challenges of the future

We will continue to invest in technologies and solutions that help us build a smarter network that can accommodate the two-way flow of electricity and information, particularly as energy flows and quality of supply issues become more complex.

In the 2016–2020 regulatory control period we are planning investments that can maintain voltage quality to meet an expected increase in embedded generation connections. We will use smarter analytics from our smart meter data so our network is prepared for new services such as charging stations for electric vehicles.

We are committed to working with progressive local councils to support their sustainable energy initiatives.

In the 2016–2020 regulatory control period, we will invest in better network control, better data analytics and innovative ways to manage and optimise our network to reduce costs and improve value to our customers.

4. Making it easy for customers to get the information they need

Access to usage data from smart meters was a common theme in customer and stakeholder feedback throughout our engagement activities. To address this feedback, we will implement systems to better engage with our customers, understand their individual preferences and enhance access to their data through a customer portal.

Coupled with investment in a customer relationship management system, we will be able to better respond to customer requests and work with them to help them understand their choices about energy usage. These changes will enable innovative product offerings and incentives for customers to help us manage our network on high demand days – for example, rebates for customers who reduce their electricity use during peak periods.

Our Regional Business Managers proactively engage large customers to ensure early involvement in supporting their changing and proposed energy needs.

Our business

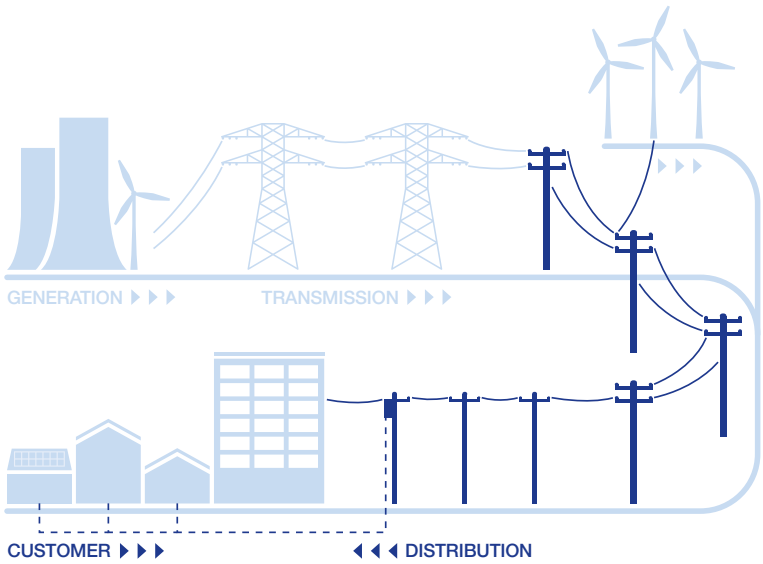
CitiPower is the most efficient and one of the most reliable electricity networks in Australia. As one of Victoria's five privately owned electricity distributors, we own and manage assets that deliver electricity to more than 320,000 homes and businesses across Melbourne's central business district and inner suburbs, including the city's world-class cultural and sporting facilities such as the Melbourne Cricket Ground, the National Tennis Centre, Federation Square and the Victorian Arts Centre.

We make a substantial contribution to the state's economic development, powering existing businesses and growth across the communities in which we operate. The area spanning our operating footprint generates approximately 30 per cent of Victoria's gross state product.

We responsibly manage our network, and our investment decisions are underpinned by efficient maintenance of our existing assets and investment in emerging technologies that ensure our communities can meet tomorrow's challenges.

We are responsible for:

- Maintaining network safety and reliability to meet the electricity needs of our customers
- Planning and designing network extensions and upgrades to meet customers' current and future electricity needs
- Operating the network on a day-to-day basis
- Connecting new customers to the network
- Maintaining the public lighting system
- Processing the data from electricity meters
- Providing meter data to retailers.



Transporting electricity to your place

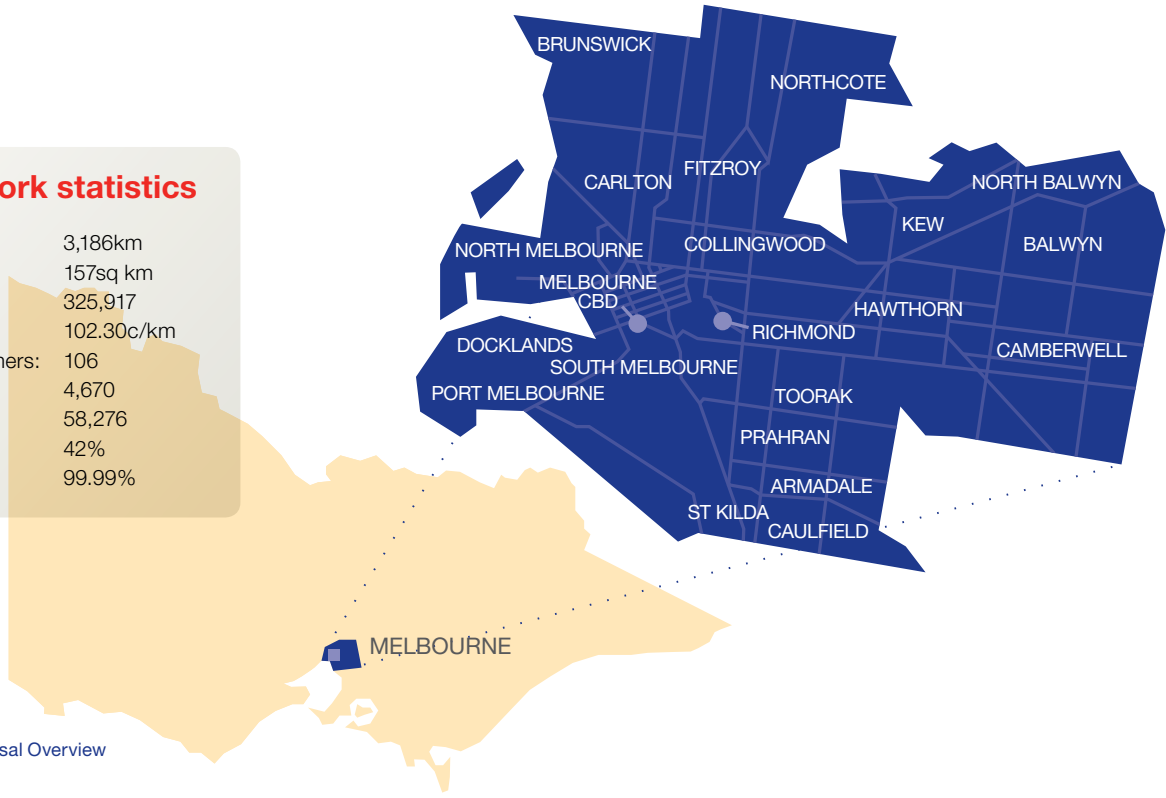
Electricity is transported at high voltage as it is the most efficient way to move energy from the generator to where it is needed.

Zone substations and smaller transformers convert this energy from 66,000 volts and 22,000 volts to lower voltages for homes and businesses.

CitiPower Network statistics

Network route line length:	3,186km
Network area:	157sq km
Customer numbers:	325,917
Customer density:	102.30c/km
Zone substation transformers:	106
Distribution transformers:	4,670
Poles:	58,276
Underground lines:	42%
Network reliability:	99.99%

(As at 31 December 2014)



A changing energy future

The way that Victorian households and businesses use energy is changing with customers making choices that enable them to reduce their energy costs, lower their carbon footprint and take advantage of new energy-efficient products.

Key changes include:

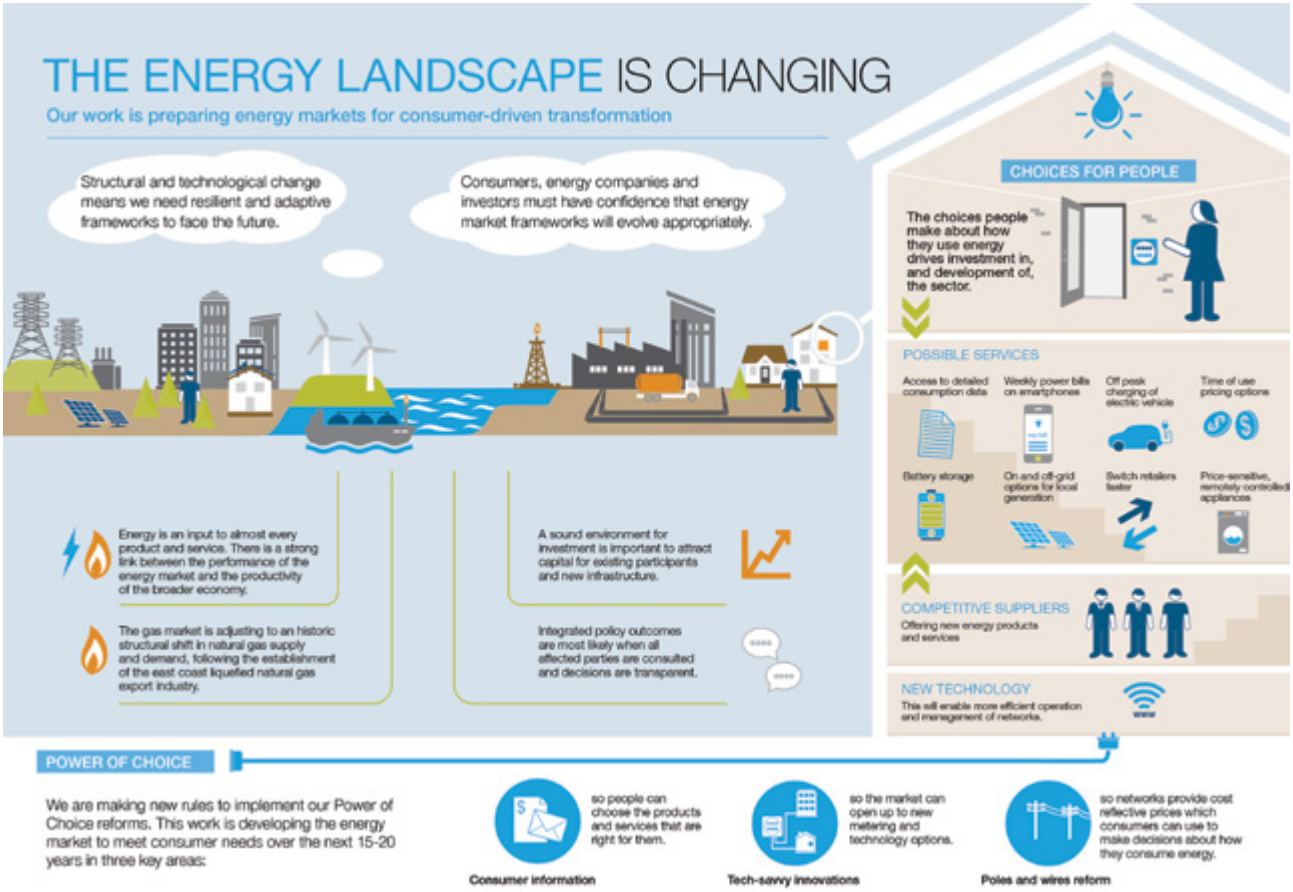
- Customers reducing their electricity usage to manage the cost of their bills
- Improvements in building standards which reduce consumption of electricity through better insulation and energy-efficient design
- Energy-efficient appliances and high-efficiency lighting which are reducing commercial and domestic electricity use
- The adoption of solar energy which increases the amount of electricity generation in our network
- Increased adoption by business of embedded generation solutions to help meet their own electricity needs.

These customer choices require us to design and build our electricity network to meet changing energy usage patterns. CitiPower is committed to building networks for the future, using direct feedback from our customers to guide us in where we need to invest in our network. To ensure our customers and the public remain safe when faults occur, we are changing the way we configure our network. Managing our network has become increasingly complex as more customers on our network generate electricity, creating a two-way energy flow.

We are introducing Automatic Fault Detection and Restoration on our high voltage network, as part of our 'self healing network' vision.

Our goal is to continue to make investments that enable customers to make choices about how and when they use or generate electricity.

Australian Energy Market Commission (AEMC) Infographic 2014 – The energy landscape is changing



Source: AEMC 2014

A strong track record of balanced, efficient outcomes

We are proud of our strong performance and reputation for safety, reliability and efficient operations that provide our customers with outstanding value for money.

Never compromising safety

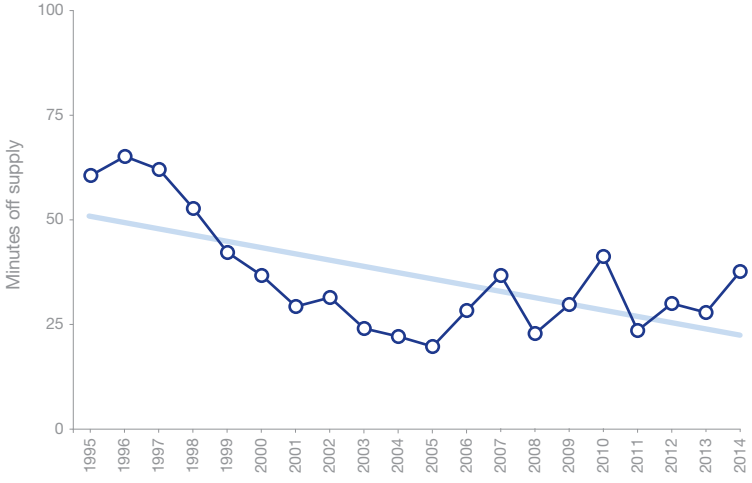
Safety is our number one priority. Electricity distribution is inherently hazardous due to the nature, size and location of our assets. We are committed to achieving the highest standards of safety for our customers, employees, contractors and the community. We have well-established network development, replacement and maintenance programs in place to minimise risks arising from our assets. We minimise these risks further through vegetation management and investment in new technologies. We work collaboratively with the Victorian Government and Energy Safe Victoria (ESV) to reduce safety risks.

Reliability

Consistent with customer expectations, we have maintained our commitment to reliability performance during the current regulatory control period which is particularly important given the contribution of Melbourne's central business district and surrounding suburbs to economic development. This is the result of a robust and disciplined approach to asset management.

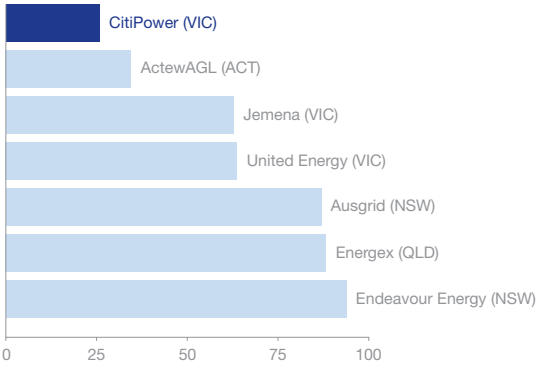
The graph below shows the minutes per year that our customers are without supply presented as a per customer average, referred to as the System Average Interruption Duration Index (SAIDI). The results show unplanned outages. Our strong reliability performance is the result of robust asset management programs we employ across our network. Our reliability performance is the best in Australia, exceeding the performance of other urban distributors, despite more than half of our network still comprising overhead powerlines.

Whole of network unplanned SAIDI 1995–2014 (after exclusions)



Source: CitiPower analysis

Urban distributors whole of network unplanned SAIDI average 2006–2013 (after exclusions)

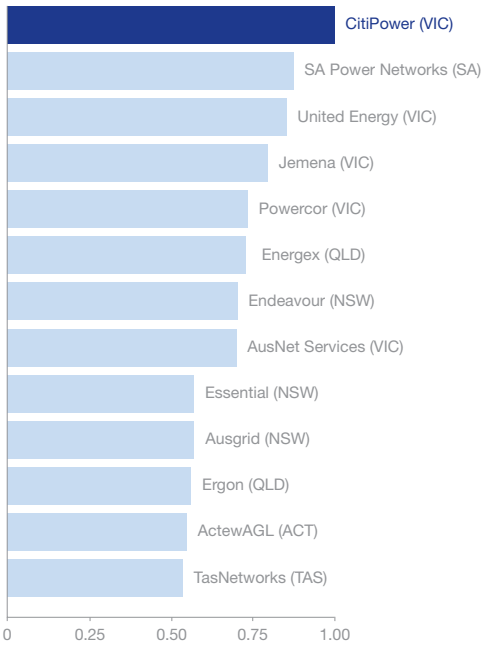


Source: AER economic benchmarking RIN data

Efficient network management

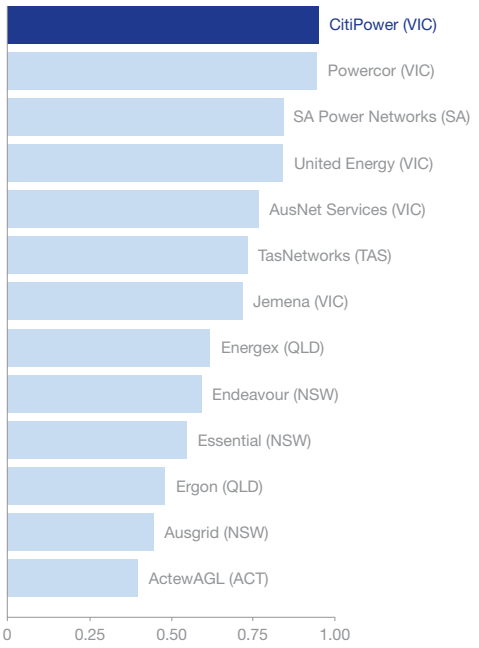
Our safety and reliability performance has been achieved without compromising our record of being the most cost-efficient distributor of electricity in the National Electricity Market. The AER released its first annual benchmarking analysis in November 2014 showing that CitiPower ranks first on total expenditure productivity and operating expenditure productivity.

Total expenditure productivity index (2006–2013)



Source: Derived from AER, Electricity Distribution Network Service Providers Annual Benchmarking Report, November 2014

Operating expenditure productivity index (2006–2013)



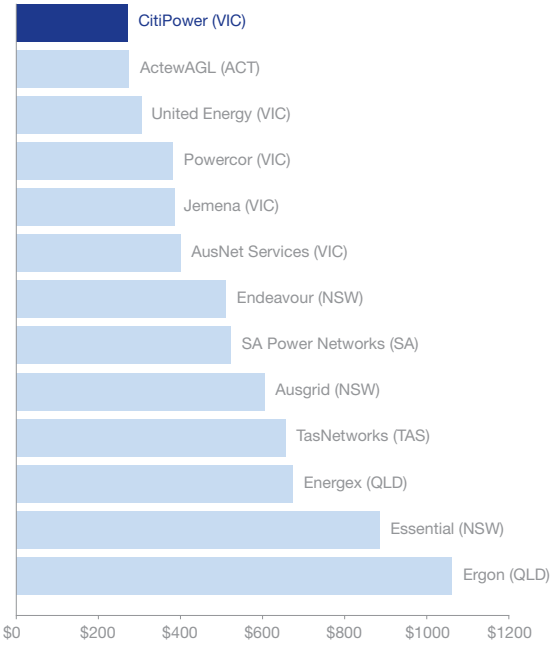
Source: Economic Insights, Economic Benchmarking Assessment of Operating Expenditure for NSW and ACT electricity DNSPs, November 2014

Affordable pricing outcomes

Our customers pay the lowest distribution network costs in Australia. Research conducted by energy sector experts Oakley Greenwood concluded that Victorian electricity distribution network charges make up less than 25 per cent of the average household electricity bill, compared with around half a customer's bill in some other states. CitiPower's distribution network charges comprised less than 21 per cent of the average household electricity bill in 2014.

Our customers enjoy the lowest distribution use of system (DUoS) tariffs in Australia. Based on our published DUoS tariffs for a customer with an annual consumption of 4,300 kWh and excluding GST, our average residential customer on a single rate tariff pays $271 per annum compared to significantly higher DUoS charges in other states.

How we compare – Distribution charges across Australia (2015 dollars)



Source: CitiPower analysis

Our customer and stakeholder engagement

Customer and stakeholder engagement is core to the strategic priorities of our business. We regularly seek feedback from customers on our performance, and consult on policy and business issues through our Customer Consultative Committee.

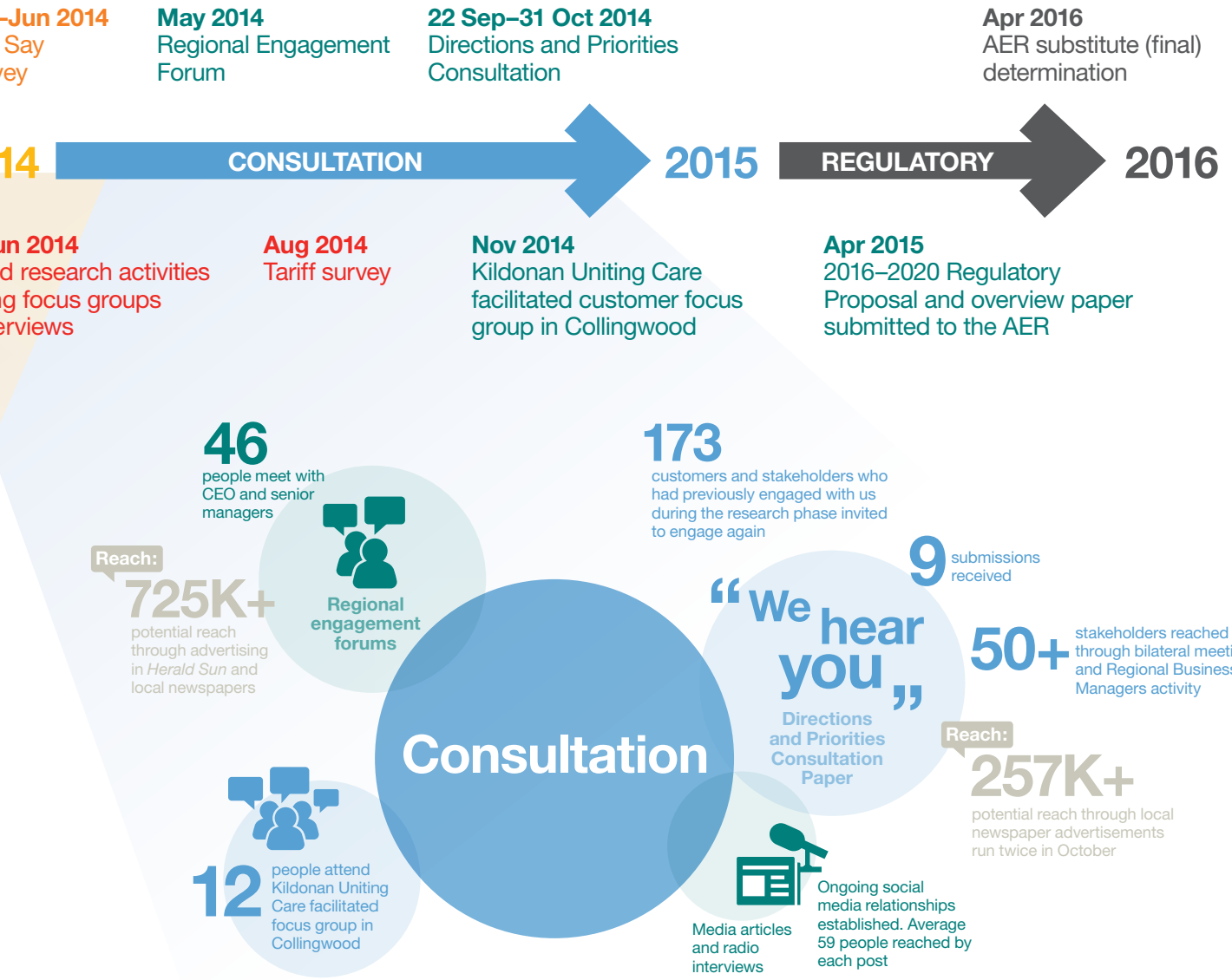
To ensure we had a robust foundation for our detailed plans and submission for the 2016–2020 regulatory control period, we undertook a comprehensive stakeholder engagement program, which started more than two years ago to better understand what was important to our customers and ensure their views were incorporated into our planning.

Through our engagement program we have reached out to our customers and stakeholders through advertising, media interviews and business-as-usual activities. As a result thousands of our customers and stakeholders participated in activities that included independent market research and consultation activities, including a well-attended engagement forum held at the Melbourne Convention and Exhibition Centre.

The activities covered all key stakeholder groups and customer segments across the communities in which we operate. Opportunities to participate were widely promoted; we made use of independent market research experts, involved senior management and subject matter experts, and aimed to reach different customer segments in a variety of ways.

Other ongoing activities throughout the program included:

- Key stakeholder briefings
- Proactive engagement via Talking Electricity
- Ongoing business-as-usual engagement activities
- Asset tours
- Ongoing analysis of customer and stakeholder engagement submissions and outcomes.



What our customers told us

Through our engagement program, customers and stakeholders told us what they want from CitiPower during the upcoming five-year period. This feedback has informed our plans and as a result we are confident that our Regulatory Proposal delivers on the expectations of our customers. Customer expectations have been summarised into six key insights:

- Reliable supply for a reasonable price
- Efficient and targeted investment across our networks
- Pay close attention to safety and maintenance and invest more in activities that reduce risk of fire danger
- Forward and proactive planning to ensure the integrity, capacity and capability of the network
- Meet future needs through a smarter grid that enables choice and flexibility, taking pressure off the existing network and facilitating the connection of renewable energy sources
- Provide customers with greater access to readily understandable information about their electricity usage.

How we are responding

The integration of customer expectations and concerns into our planning is an important part of developing our Regulatory Proposal. The following feature illustrates how the engagement outcomes have been factored into our Regulatory Proposal and long-term business plans.

You want a safe, reliable electricity supply at a reasonable price. Most people (82% of survey participants) are satisfied with the reliability of their electricity supply and 54% of them do not want to pay any more to improve it.

Larger business customers expect a reliable supply of electricity, to allow business to operate with uninterrupted, continuous supply.

We will take a cost-efficient approach to all our investment in the network, ensuring we deliver safe and affordable energy for all our customers in the longer term.

Rather than the costly replacement of some of the oldest substations in Victoria, we will make better use of newer infrastructure close by. We will assess the condition of underground pit and pillar assets, replacing those that are deteriorating and could present a potential risk to public safety.

Take all reasonable measures to protect the safety of customers and their communities, and reduce the bushfire risk. Survey participants were happy to accept a small price increase that contributed to reduced risk of fire danger and undergrounding or relocating of assets in areas of natural beauty.

Safety is our number one priority. We will take all reasonable steps to ensure community safety including ongoing maintenance of our electricity assets.

Some customers would like to see powerlines put underground to improve visual amenity or to reduce the potential for car accidents.

However survey participants were, overall, not willing to pay a small increase for this undergrounding.

Targeted investment to support growing areas of Melbourne – businesses want us to either maintain, or slightly improve, current reliability levels and focus on investing in the development of additional substations, particularly to service the inner city and inner west Melbourne.

We are investing to support high-density residential and commercial development in the central business district and inner suburbs.

Developers of new subdivisions are generally required to underground electricity cables. Undergrounding existing powerlines is expensive and would impact on customers' bills.

Some undergrounding can take place if customers directly benefitting from the work are prepared to pay or work with their local council to secure funding. We will continue to work with local authorities and customers who commission projects to put lines underground.

Many people are happy with our current vegetation management practices but some would like to see more frequent pruning or other risk management strategies introduced.

There is a strong dislike of 'V' or 'U' shaped heavy cutting of trees, with general preference for more regular light trimming in residential areas.

However over half of survey participants (52%) were not willing to pay a small increase in return for trimming vegetation more frequently and less severely.

We are committed to vegetation management practices that balance safety with affordability.

A clear preference for the development of a wider campaign targeted to improve safety awareness in the community (as opposed to specific messages targeted at specific groups).

We will work with Energy Safe Victoria to promote community safety.

Install more energy-efficient street lighting.

We will work with the City of Melbourne and other municipalities to keep the lights on and introduce new types of energy-efficient units that contribute to safe, liveable cities and communities.

Enable the connection of more renewable energy and embedded generation in the CBD.

Our customers want us to be a leader, not a follower, when it comes to investment in the network, particularly renewable energy sources such as solar and wind.

We are further investing in technology to better control fault levels which will enable us to connect more embedded generation, in particular at North Richmond and Albert Park.

Residential customers are generally happy with connection processes but business customers expect CitiPower to be transparent, work to exact timelines, be flexible, supportive, reliable and dependable.

We will automate our standard connections processes to make it easier, faster and cheaper for customers.

We will continuously explore ways to improve timeliness and quality of service to connect large customers. We will effectively communicate the time needed to develop the right solutions for complex connections.

A smart grid is a necessary initiative worthy of investment.

It was generally felt that future needs would be best met with a smart grid to enable choices and flexibility, and would take pressure off the existing network and traditional sources of power.

We will invest in the development of a smarter network by using advanced technologies that create efficiencies and improve reliability and safety.

We will investigate demand-side solutions to meet localised energy requirements during peak periods, and the application of new technologies such as batteries and cold storage.

Greater access to smart meter data, via an online portal, would give you greater ability to manage electricity use and power bills.

You wanted easy-to-access, easy-to-understand information set out in hourly, daily, weekly and monthly breakdowns.

Some customers would like CitiPower to advocate on their behalf and provide information on usage and the most appropriate retail offerings.

We are planning to invest in a customer relationship management system and online customer portal so customers can access their electricity usage data and manage their electricity bills.

We are unable to provide advice on the most appropriate retail offering but we can provide the information to inform your decision.

Engage with us more effectively – you welcomed the opportunity to participate but want more information about issues.

We will consult on our future tariff structures as well as issues affecting customers' electricity supply and energy choices, reflecting that the way customers use electricity is changing.

A fast response is expected to issues that our customers raise.

Our call centre and website provide channels for our customers to contact us. In addition, we currently provide outage information through our website and apps, and SMS notifications straight to customers' phones.

We will look at ways to improve our communications on an ongoing basis.

You want flexibility and don't want to be disadvantaged by any changes to tariff structures.

Different types of tariffs are confusing.

We are extending our engagement program by consulting on our future tariff structures.

We are considering a number of options, including rebates for lower energy use and tariffs for peak demand periods.

Stay engaged

The views and concerns of our customers and stakeholders have been vital to informing our future plans outlined in our Regulatory Proposal.

Thank you to all our customers and stakeholders who have engaged with us during the past two years through our various engagement activities including online surveys, interviews, focus groups, our regional engagement forum or submissions to our Directions and Priorities Consultation Paper.

We've taken your views into consideration and have submitted our plans to the Australian Energy Regulator (AER) who will consider our Regulatory Proposal and will conduct a separate independent consultation on its contents. You can take part in this consultation and let the AER know whether you think we have the balance right between safety, reliability, growth and affordability. Our Talking Electricity website provides links to the AER website and will publish details of any public forums the AER is hosting.

Key areas of focus

The key programs of work included in our Regulatory Proposal, and the service areas they relate to are:

- **Protecting our customers and our network**
- **Ensuring a resilient network for inner Melbourne** (maintaining cost-effective reliability)
- **Powering Growth** (growing with Victoria)
- **Building the network for the future**
- **Making it easy for our customers**

Protecting our customers and our network

In the 2016–2020 regulatory control period our top priority will continue to be the safety of our customers, employees, contractors and the community.

A key consideration is the community safety risks posed by the inherently hazardous nature of our industry and the environment in which our assets are located. The overall health and condition of our assets is an important contributor and we have well-developed preventative maintenance and replacement policies to minimise the risks arising from our assets. We will seek to minimise these risks further through vegetation management and investment in new technologies.

Since 2010 we have been delivering a program of works, in conjunction with Energy Safe Victoria (ESV), to maintain the required clearances between our powerlines and vegetation across our network. We will continue to work closely with local councils on our planning and programs and will continue to consult with them, and the community, on the requirements we must meet. We will also continue to work with local communities to balance our safety requirements with local visual amenity.

In the 2016–2020 regulatory control period we will install armour rods and vibration dampers into our network to reduce the safety risk from wind vibration.

We will also assess the condition, and improve the safety, of underground cable pits. Pits are used to access the conduits and cables without the need to excavate roads and footpaths in the central business district. Over time, the supporting steel structures may corrode and concrete degrade, which, if not identified and addressed, may result in pit lids or covers collapsing under the weight of vehicle or pedestrian traffic and creating a potential safety hazard.

Ensuring a resilient network for inner Melbourne

CitiPower is the most reliable urban electricity distributor in the National Energy Market, demonstrating our commitment to best practice asset management strategies to ensure the safe and reliable operation of our network.

We are committed to taking a targeted and cost-effective approach to the replacement and refurbishment of ageing assets. We monitor assets to assess their condition, only replacing them when it is needed to maintain reliability and security of supply. This internationally recognised risk management approach involves monitoring the 'health indices' of our strategic major plant items, such as transformers and high voltage circuit breakers, ensuring that the risk profile of this equipment is maintained during the upcoming regulatory control period and beyond.

Our monitoring program has found that we will need to replace a number of assets to ensure network reliability and safety is maintained. Asset failures can result in declining reliability, voltage-related issues, restrictions on network usage and compromise employee, customer and community safety, particularly during heatwaves and storm activity.

In particular, much of Melbourne's 22kV network, developed in the 1940s, is still in use today and continues to supply some of the city's inner suburbs. Action is needed to maintain network reliability. During the upcoming regulatory control period, we plan to decommission some of our oldest zone substations and connect customers to our modern 66kV sub-transmission network. This works program will start by targeting ageing zone substations in Prahran, the central business district and North Melbourne.

In addition, we will continue targeted upgrades to the 66kV network as part of the Central Business District Security of Supply project initiated by CitiPower in 2004, in conjunction with the Victorian Government. During the upcoming regulatory control period, we will spend more than $9 million to complete the remaining works identified as part of this project. Works will include the development of several 66kV switching hubs that will interconnect to the redeveloped Brunswick Terminal Station. In addition to relieving highly loaded nearby zone substations, a new Waratah Place Zone Substation will replace the 22kV Russell Place Zone Substation, which will be decommissioned due to ageing assets.

Powering growth

With Melbourne's population forecast to surpass Sydney's by the middle of this century, we need to deliver targeted investment where it is needed most to ensure we can support growth, including urban renewal projects, across inner Melbourne.

During the upcoming regulatory control period, we are supporting growth arising from urban renewal and redevelopment projects including:

E Gate precinct
Located at gate 'E' in the rail yard area near North Melbourne rail station, Major Projects Victoria is planning a development to provide housing for up to 10,000 residents and 50,000 square metres of commercial and associated retail space.

Fishermans Bend precinct
Places Victoria has released its draft vision for the redevelopment of this area to provide homes for more than 80,000 residents and a new workplace for up to 40,000 people. This urban renewal will involve a variety of residential developments ranging from warehouse lofts, to townhouses and high rise towers, while continuing to encourage the operation of businesses.

Federation Square East
Major Projects Victoria has sought expressions of interest to redevelop 3.3 hectares of land, including land above the rail lines, as an urban renewal project.

Montague precinct
The City of Port Phillip is redeveloping the precinct to accommodate 25,000 residents, 13,000 dwellings and 14,000 workers.

Arden Macaulay area
The City of Melbourne has identified the 147 hectare precinct in parts of Kensington and North Melbourne as an urban renewal area that will accommodate significantly more residents and employment growth over the next 30 years.

We are also working with a number of private companies to support developments throughout the city, including the following.

Webb Dock
The project will reconfigure and redevelop Webb Dock, returning it to its original role as an international container facility capable of handling the equivalent of at least one million containers each year. It is expected to create 700 full-time jobs and provide a broader, competitive container stevedoring market.

CUB site redevelopment
We are involved in the connection of multiple towers for commercial development located at the former CUB site in Carlton.

Redevelopment of the Batman's Hill precinct
Lend Lease will redevelop the 2.5 hectare site opposite Southern Cross Station in its 'Melbourne Quarter', which will include in excess of 100,000 square metres of commercial space, approximately 600 residential apartments and 4,000 square metres of retail space.

In response to feedback from larger customers, we are also reviewing the processes for more complex connections to improve the timeliness and quality of service we deliver. We are also working towards greater automation of simple connections, to make it easier for all customers to connect to our electricity distribution network.

Striking the right balance between investment and reliability

Feedback during our engagement research and consultation activities identified that many residential customers did not want to pay for reliability improvements; they did indicate an expectation that we should efficiently maintain the levels of reliability and safety. However, large commercial customers and development associations want to see reliability maintained or even increased.

Building the network for the future

Our role in enabling new technologies is expected to grow in the coming years as customers adopt a wider range of 'distributed energy resources', including battery storage and electric vehicles.

The emergence of the two-way network requires us to address new challenges, particularly as energy flows and quality of supply issues become more complex. As a result, we need to design more sophisticated network control and protection systems to ensure a safe and reliable delivery of power. For example, a number of city businesses have installed embedded generation such as gas fired generators which feed electricity into the network. This extra energy injected into the network can magnify the impact of network faults that occur. That is why we will be installing new equipment at the North Richmond and Albert Park zone substations, minimising the risk of a network fault causing extensive damage to equipment and a threat to public safety.

Managing our network smarter

With our smart meter rollout now complete, the technology and smart meter data available to us has allowed us to implement smarter ways of managing our network. This evolution of technology will continue over the upcoming five-year period, and we are planning to invest in better network control, better data analytics and innovative ways to manage our network to reduce costs and improve value to our customers.

We plan to use the information that comes from smart meters to help us operate the network more efficiently and plan better for the future. For example on hot days we use this technology to help us manage electricity loads on the network, avoiding potential faults. We also use smart meter signals to tell us when someone is off supply and that allows us to respond more quickly.

Enhancements proposed for the upcoming regulatory control period include improved capacity control during times of high electricity demand, such as periods of hot weather. Being able to develop this technology will also allow us to better balance load on the existing low voltage network and defer some expenditure on network growth into the future.

As we integrate systems and provide better services to our customers, we need to ensure the security of the data being transmitted through our systems and network. Further, our information technology and operating systems may be the target of individuals or organisations seeking to cause disruption to the electricity network. Therefore we are planning to introduce greater levels of information technology security.

Making it easy for our customers

Access to usage data from smart meters was a common theme in customer and stakeholder feedback throughout our stakeholder engagement activities. One of the ways we plan to address this feedback is to implement systems to better engage with our customers, understand their individual preferences and enhance their access to their data through a customer portal.

Coupled with investment in a customer relationship management system, we will be better able to respond to customer requests, work with them and their electricity retailers and other service providers to reduce power bills further, as well as give easier access to new tariffs that incentivise customers to help us manage our network on high demand days.

These initiatives will build on tools implemented in the current regulatory control period, such as our new website and outage applications for Apple and Android mobile phones, which deliver the information and services customers want in the way they prefer to engage with us.

Our revenue requirement

Our regulated revenue is the amount of money we need to safely and efficiently manage and operate our network during the 2016–2020 regulatory control period and continue to deliver an affordable and valued service to our customers.

As a regulated business, the amount of revenue that we can recover from our customers is assessed and determined by the Australian Energy Regulator (AER) every five years in accordance with the National Electricity Rules (Rules).

We recover our allowed revenue through network tariffs. Network tariffs are not subject to the current determination and rather will be set through the AER annual pricing proposal process later in 2015.

National Electricity Objective

The Rules require the AER, in making a determination, to apply the National Electricity Objective (NEO) which requires the AER to: promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to (a) price, quality, safety, reliability and security of supply of electricity; and (b) the reliability, safety and security of the national electricity system.

In forecasting our revenue requirement, we carefully considered the investments needed across the network in terms of balancing safety, reliability and growth. We also incorporated valuable feedback from our customers and stakeholders to ensure that our investment plans reflect the needs and expectations of the communities in which we operate.

In the 2016–2020 regulatory control period we are seeking approval for $1,719 million in distribution and metering revenue compared to $1,497 million for the current regulatory control period.

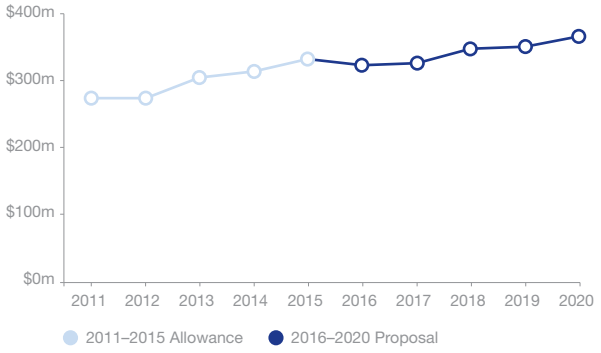
The increase in our revenue requirement, from the current regulatory control period, is a consequence of:

- growth in our regulated asset base during the current period as a result of the capital investments we have made in our electricity distribution network. These investments supported electricity demand growth in the central business district and surrounding inner Melbourne suburbs and maintained the ongoing safety and reliability of our network
- the $861 million dollar investment in capital expenditure we will make during the upcoming regulatory control period is based on the following priorities:
  - replacement of ageing assets to ensure the security of supply for inner Melbourne
  - investment in network growth to support urban renewal and redevelopment across inner Melbourne
  - investment in technology that allows us to better manage our assets and utilise network capacity so as to defer investment and improve the affordability of network services
  - investment in initiatives that make it easier for our customers to connect to our network and access the information that they need to make better choices about their electricity usage
- increases in our operating expenditure as a result of the growth of our network driven by increasing customer numbers and network demand
- a change in the accounting treatment of a portion of our corporate overheads which more accurately reflects when those costs are incurred rather than being incorporated into our regulatory asset base and depreciated over time. This change in accounting treatment has a one-off impact on our revenue in the 2016–2020 regulatory control period, but will deliver more affordable outcomes for our customers in the long term.

These increases in our revenue requirement are partially offset by:

- reduction in metering costs as a result of the successful completion of our smart meter program
- lower financing costs as a result of lower interest rates.

CitiPower revenue requirement (2015 dollars)



Source: CitiPower analysis

Benefits and risks

We have listened to our customers, taken a long-term view in a changing world, and developed prudent and efficient solutions that deliver key benefits and address key risks. We are confident that our Regulatory Proposal strikes the right balance in meeting the long-term safety, reliability and affordability requirements of our customers.

Benefits

Based on the proposed investments outlined in our Regulatory Proposal, by 2020 we will have delivered the following benefits to our customers and stakeholders:

- **Maintenance of the safety of our network assets**
- **Retirement and replacement of a portion of our 22kV sub-transmission network with more efficient 66kV infrastructure**
- **Stable underlying network reliability consistent with published AEMO Value of Customer Reliability (VCR) values**
- **Securing Melbourne's network supply through the completion of the CBD security of supply works**
- **Timely and efficient network connections**
- **A more adaptable network that meets supply quality standards and can accommodate new customer energy technologies**
- **Implementation of innovative technologies through automation of our network to make full use of smart meter technology to enable faster responses to faults and better monitoring of the condition of our assets**
- **More accurate, timely and secure operational information for managing the network**
- **More valuable and timely customer communications**
- **More accurate information for AER benchmarking**

Risks

We are confident that our Regulatory Proposal addresses the following risks for our customers and stakeholders:

- **Level of service or reliability not meeting customer expectations**
  Our Regulatory Proposal is focused on delivering a safe, reliable electricity supply at an affordable price, reflecting the expectations of customers who took part in the AEMO VCR study.
- **Under or overinvestment in our network leading to reduced reliability or higher prices**
  Our Regulatory Proposal strikes the correct balance between both the short and long term needs of customers. We will continue to prudently and efficiently manage the network over the upcoming regulatory control period.
- **Less than optimal maintenance of the network, impacting the reliability and longevity of assets**
  We will continue to maintain our network in accordance with good electricity industry practice and applicable regulatory instruments.
- **Not adequately addressing increases in capacity in some areas**
  We have taken a targeted approach to investment in areas where we can see clear drivers for growth or where local capacity has reached its limit. Our assessment is based on granular forecasts and local knowledge of our network and our customers.
- **Customers suffering poor supply issues or not being able to connect solar panels or embedded generation**
  We propose to improve the monitoring of the low voltage network to enable increased penetration of customer energy technologies whilst maintaining power quality.
- **Customers not getting accessible and timely information about their electricity use**
  Our proposed investments in business systems are designed to progressively deliver more targeted usage information to our customers.
- **Underinvestment may occur if the business does not obtain a reasonable rate of return**
  We have proposed a return on equity commensurate with industry risks and the changing energy market.
- **Unexpected compliance or regulatory requirements may increase our costs**
  Wherever practical, we have tried to anticipate regulatory changes and allow for them in our Regulatory Proposal. However, in certain circumstances, it may be necessary for us to seek the pass-through of certain costs if they are not included in the approved revenue allowance.
- **The introduction of metering contestability in Victoria from 1 January 2017 may see the erosion of some of the benefits achieved to date**
  We have successfully implemented our smart meter program and are rolling out a number of benefits for customers. We will continue to work hard to inform decision makers of the specifications needed to retain these benefits.

Let's keep talking

We encourage you to take part in upcoming discussions on how we will balance infrastructure investment with meeting the challenge of delivering electricity on days of high electricity demand. Part of the solution is how we structure our tariffs and we will be seeking your views during 2015.

To keep up-to-date with this consultation, and key CitiPower initiatives of interest to customers and stakeholders, visit www.talkingelectricity.com.au and consider subscribing to our electronic newsletter.

For more information about the approach taken by the Australian Energy Regulator (AER) to assessing our Regulatory Proposal and its decision making processes, visit www.aer.gov.au.