

Our Regulatory Proposals Public Forum

9 April 2019



Part of the Energy Queensland Group

Energy Queensland

A community and customer centric business

Vision

We energise Queensland communities.

Purpose

To safely deliver secure, affordable and sustainable energy solutions with our communities and customers.

Our values



Safe

We are committed to keeping our people, community and customers safe



Knowledgeable

We openly share our knowledge



Innovative

We strive to make our business better



Leading

We lead and follow each other to success



Listening

We respect and hear each other



Engaged

We work as a team to be the best we can be



Diverse

We are diverse which makes us stronger



The Energy Charter

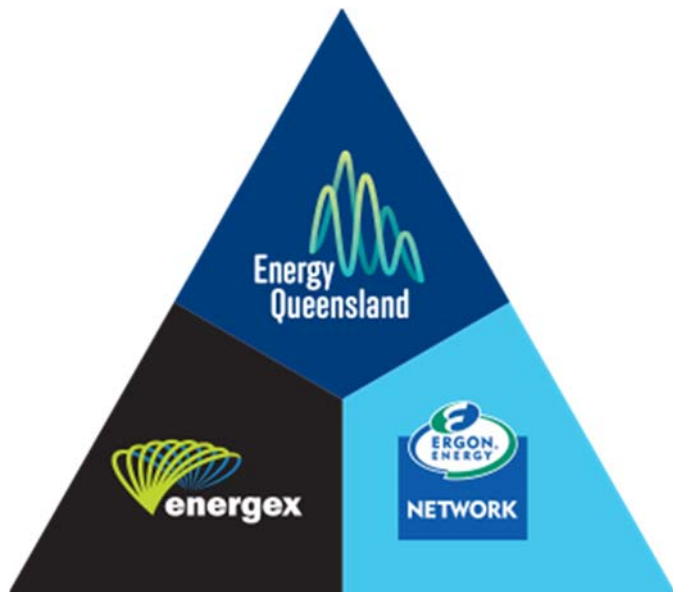
Energy Queensland is a foundational member of The Energy Charter

Our engagement program has underpinned our Regulatory Proposals

- Extensive consultation and engagement with our stakeholders has identified that, consistent with our purpose, our communities and customers want us to **safely deliver affordable, secure and sustainable energy solutions**.
- By listening to our customers and adapting our approach we have cemented our path forward, and will continue to **engage our communities and customers**, as the AER continues toward making its revenue determinations for Queensland distribution services.



We have adopted one approach to deliver for Queensland's communities and customers



- Our broadly consistent Regulatory Proposals, provide **strong outcomes for our customers** in line with their stated needs.
- With the AER's support, Energy Queensland will look to demonstrate its position as an **industry leader** in a rapidly evolving market while delivering benefits to our **customers** in 2020-25, and beyond.

We believe that our Regulatory Proposals, when viewed in total, deliver strong outcomes for customers

- In the current regulatory period, Energex and Ergon Energy have **worked hard to achieve proactive management savings of \$729 million** in real terms while maintaining service levels and emergency response capability
- We committed to **reducing network charges by at least 10%** in Our Draft Plans and have delivered even further benefits for customers in our Regulatory Proposals
- We have **proposed > \$1 billion in savings for customers** for the 2020-25 period through a range of leadership commitments including:
 - Committing to reduce Energy Queensland's overhead costs by 10%
 - Building in savings from a 3% productivity improvement for 2020-25
 - Not claiming efficiency incentive scheme revenues in 2020-25
 - Passing on all benefits of WACC reductions to customers
- We are continuing to work with customers to **deliver meaningful tariff reform** consistent with delivering what our customers expect today and also enabling a sustainable future



SAFETY FIRST

Our number one priority is safety – our commitment is to the people and communities who we work with and support every day. We aspire to be an industry leader in health, safety, environment and cultural heritage.



AFFORDABILITY

We continue to look for ways to make electricity more affordable across our networks, and to advocate for the reforms needed for a bright energy future for all Queenslanders.



SECURITY

We're here 24/7 to keep the lights on – providing peace of mind with a safe, reliable electricity supply, and the knowledge that we'll be there 'after the storm'.



SUSTAINABILITY

Enabling your use of new and emerging technologies and providing easier access to the network - we give you as much control as you choose for your energy solutions with information and more sustainable choices.



Our Regulatory Proposals have been developed to ensure we meet community and customer expectations



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Our networks must evolve to meet existing and future customer choices

Peak Demand Growth

0.29% average annual peak demand growth for Energex and 0.38% for Ergon Energy



Net Connections

117,000 Energex
60,000 Ergon Energy

Reliability

Maintain recent improvements in power reliability, improve outcomes where network outages are outside our service standards



Photovoltaic (PV)

- Initially growth spurred by generous feed-in tariffs
- Sustained growth through lower cost and rising electricity prices
- Average system size growing



Batteries

- Sparked by retirement of feed-in tariffs
- Sustained through product bundling with solar PV



Electric Vehicles

- Reducing costs and improved capabilities



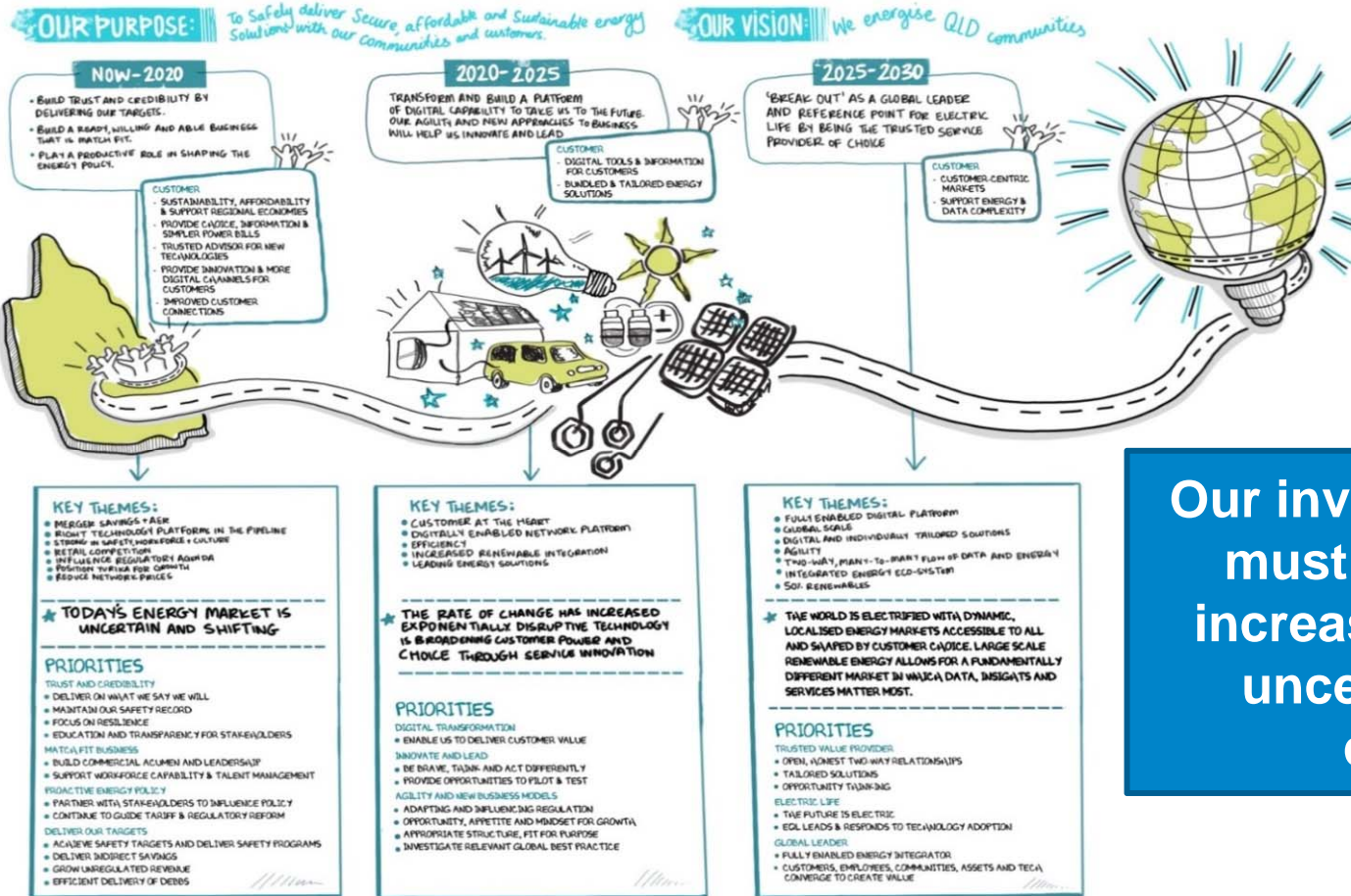
Local Energy Management Systems

- Consumers adopt new technologies adding value by improving PV & battery system performance and optimising charging discharging times

Aggregators

- Seek to monetise value from additional network services through growing Active DER capabilities

Our proposals for 2020-25 have been developed with a view to 2030



Our investment plans must account for increasing levels of uncertainty and change

Our revenue at a glance



- Energex's revenue requirement for 2020-25 is **\$6,541 million** nominal (*\$150M down from Our Draft Plans*), **11% lower** than for 2015-20 in real terms.
- Annual revenue/customer is forecast to be **\$176 lower** (19%) in real \$2019-20 by the end of 2020-25 compared to the end of the current period.



- Ergon Energy's revenue requirement for 2020-25 is **\$6,516 million** nominal (*\$364M down from Our Draft Plans*), **8% lower** than for 2015-20 in real terms.
- Annual revenue/customer is forecast to be **\$278 lower** (16%) in real \$2019-20 by the end of 2020-25 compared to the end of the current period*.

*The Queensland Government supports regional Queenslanders via Community Service Obligations to ensure they pay similar prices for their electricity as customers in South East Queensland.

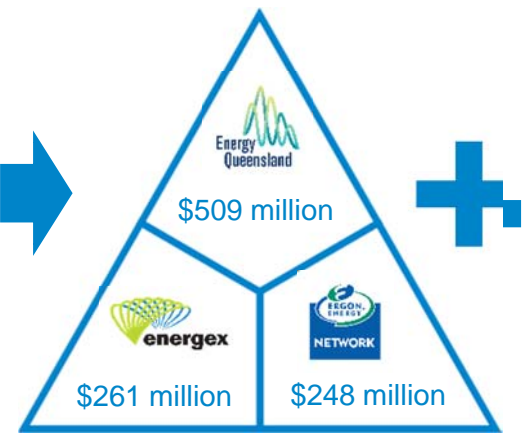


Our leadership commitments ensure that every dollar delivers value to customers

Remove the opex portion of our merger savings from our opex base year - both those achieved so far and those forecast for the remainder of this regulatory control period – so our opex for 2020-25 is lower than it otherwise would have been

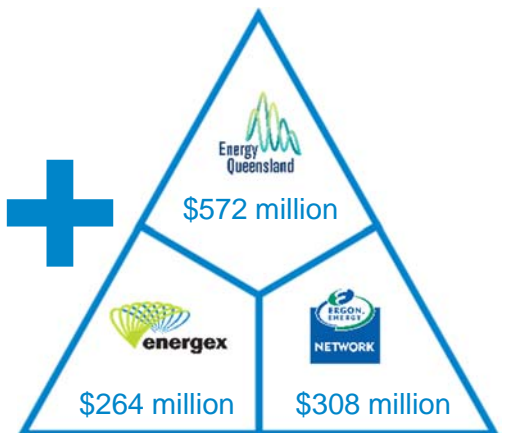
Reduce Energy Queensland's overhead costs by 10% over 2020-25

Achieve a 3% improvement in program delivery over 2020-25



Savings in real terms over 2020-25

Rate of Return Guideline accepted and 100% of savings passed through to customers



Efficiency incentive scheme revenue not claimed in 2020-25

1. No compromise to safety
2. Sustainable investment to avoid future bill shock
3. Invest in technology to enable a low carbon future
4. Prudently invest in ICT and other non-network assets

We continued to refine our expenditure proposals based on customer feedback



Energex's forecast total capex for the next period is 18% below what we expect to spend in the current period and 48% lower than the previous period on a like for like basis

Energex's forecast opex for the next period is 5% below what we expect to spend in the current period and 12% lower than the previous period on a like for like basis

Changes since Our Draft Plans:

- \$43 million reduction in ICT capex
- \$11 million reduction in connections expenditure
- \$3 million reduction in property capex
- Adjustment to relative proportions of our repex and augex forecasts.
- \$4.8 million opex increase for 2020-25 since Our Draft Plans is driven by changes in escalation and growth factors



Ergon Energy's forecast total capex for the next period is 2% lower than what we expect to spend in the current period and 27% lower than the previous period on a like for like basis.

Ergon Energy's forecast opex for the next period is 9% below what we expect to spend in the current period and 16% lower than the previous period on a like for like basis.

Changes since Our Draft Plans:

- \$211 million increase in safety driven repex
- \$17 million reduction in ICT capex
- \$9 million reduction in augex
- \$2 million increase in property capex
- \$45 million increase for 2020-25 since Our Draft Plans is driven by changes in escalation and growth factors as well as application of the CAM given changes in capex/opex mix

Areas of interest - Capex

Information and Communications Technology (ICT)

- Our networks currently rely on aged ICT systems which have been run beyond the end of their lives. This means the **systems are no longer supported and results in increased cyber risk.**
- The quantum of our proposed ICT spend was a topic of intense interest during our customer engagement.
- As a direct result of customer feedback upon the publication of Our Draft Plans, we revised our forecast and submitted a reduced 2020-25 ICT spend in our Regulatory Proposals.

We have proactively committed to significant savings targets for overheads and field productivity which will benefit customers. This will be achieved through a digital transformation of our business.

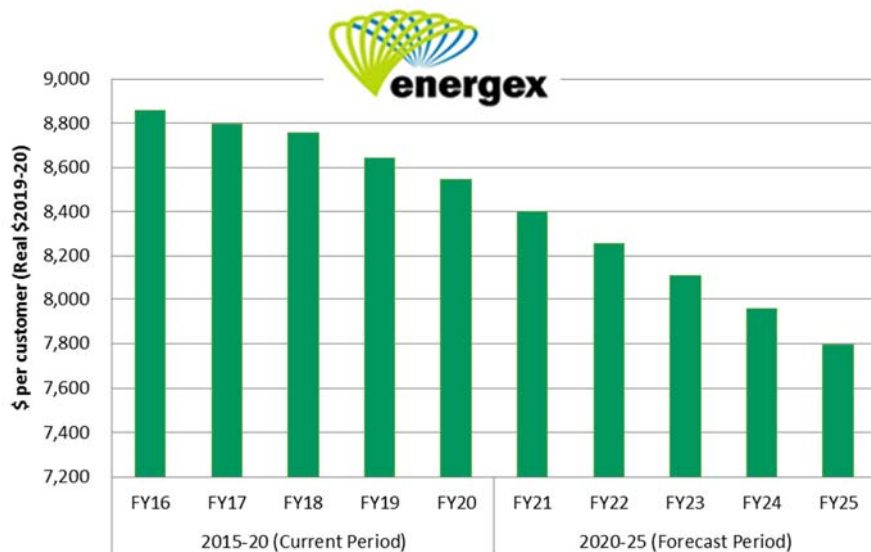
Replacement capital expenditure (repex)

- Throughout 2010-15, Ergon Energy took a reactive approach to replacement of its aging network assets and this increased the risk profile across the entire network.
- We are now taking a **more proactive approach** to replacing aging assets.
- Even with this proactive approach, risk across the network has continued to increase due to the age profile of our assets. This is a major driver of our repex forecast for 2020-25.

The benefits to customers of our revised repex approach include:

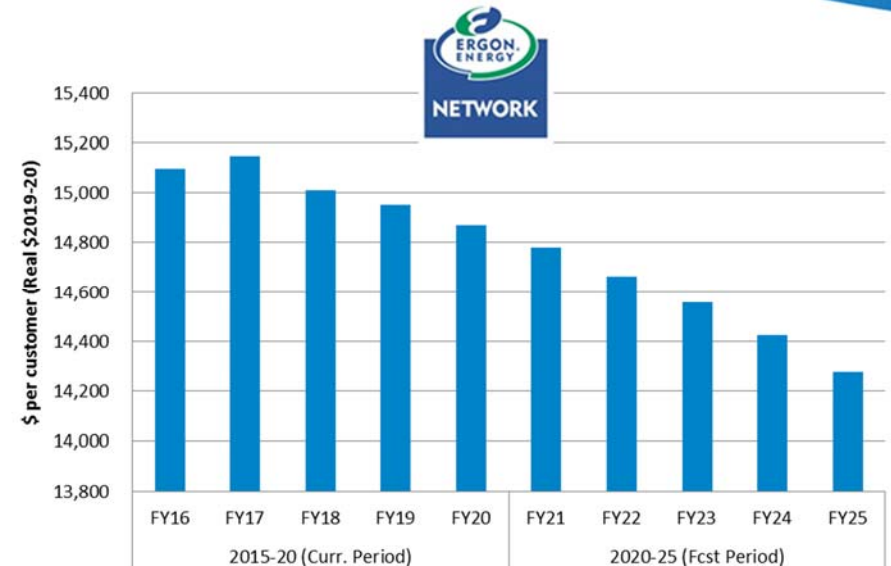
1. Improved safety outcomes
2. Maintain reliability
3. Lower cost
4. Avoid the boom-bust cycle now and in future periods

Areas of interest – Regulatory Asset Base



Energex's forecast closing RAB is **\$14,314 million** nominal as at 30 June 2025. It will be 0.5% lower than 30 June 2020 in real terms.

RAB/customer is forecast to be **\$748 lower** (9%) in real \$2019-20 by the end of 2020-25 compared to the end of the current period.



Ergon Energy's forecast closing RAB is **\$13,554 million** nominal as at 30 June 2025. It will be 4% higher than 30 June 2020 in real terms.

RAB/customer is forecast to be **\$595 lower** (4%) in real \$2019-20 by the end of 2020-25 compared to the end of the current period.



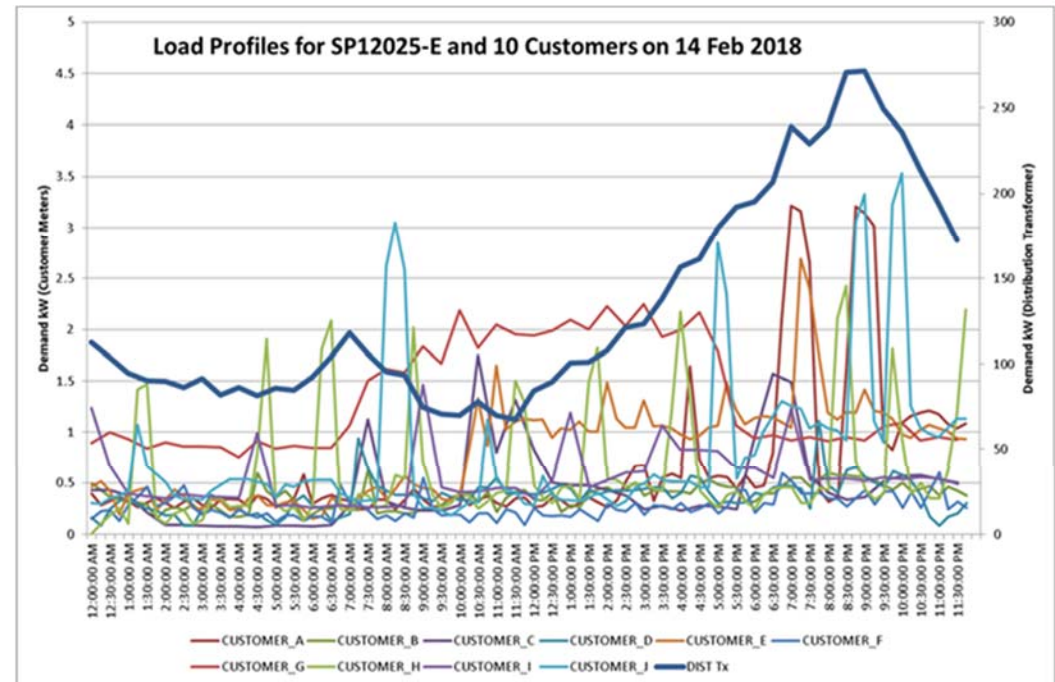
**We are continuing to work with customers
to deliver new tariffs**



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We must rethink our approach to tariff reforms

- Investment drivers are changing – its increasingly about distribution networks
- We have demonstrated the **benefits of demand management incentives to manage critical peaks**
- Increasingly the distribution network about **energy security** not energy delivery



It's not just about demand – it's about the network capacity required to meet customers' energy needs

Tariff Reform is required to effectively manage and enable efficient bi-directional power flows

- As penetration of distributed energy resources (DER) increases capacity tariffs will evolve to account for bi-directional powerflows
- For an individual customer – it is about the network capacity required to enable customers' import/export requirements. Individual import and export capacities are essential in **enabling customer participation in a decentralised energy market**



Evening peak demand with an average of ~3kW – initially the evening loads should be the driver of capacity charges

Negative daytime peak demand at maximum solar output (~4kW) - as DER penetration continues to increase, daytime export must also factor into capacity charges

Tariff Reform – Transitioning to Capacity Tariffs



It's not just about demand – it's about the network capacity required to meet customers' energy needs

- Network assets have an average lifetime of ~ 40 years
- Capacity based network tariffs signal this long term investment to consumers
- Capacity is a stable, predictable and consistent signal, closely **aligned with investment drivers**
- Capacity tariffs will enable the transition to a decentralised and high DER future with multidirectional power flows
- In the transition to capacity based tariffs, peak demand may be used as a proxy
- Capacity tariffs more **appropriately reflect the permanent network infrastructure requirements** of a customer connection than legacy volume-based tariffs

TSS Engagement

Gather July 2017 – Dec 2017

Review of current insights and identify how customers can best inform our TSS plans.

Listen Jan 2018 – Aug 2018

Build capacity to engage, explore views in depth and seek feedback on TSS direction.

Evaluate

Share Sept 2018 – Dec 2018

Engage on draft TSS incorporating feedback, explain and seek to refine.

Review

Explain Jan 2019 – Mar 2019

Publish TSS and explain further how feedback has been incorporated.

Monitor

Revise Apr 2019 – Dec 2019

Draft TSS determination, re-engage, revise and resubmit for final TSS determination.

Milestones

31 January 2019
Energex and Ergon Energy submitted their proposals

28 March 2019
AER issues paper published

Milestones

9 April 2019
Public forum on Energex and Ergon Energy proposals

16 May 2019
Submissions on AER's issues paper and Energex and Ergon Energy's proposals due

September 2019
AER Draft decision to be published

October 2019
Public forum on draft decision

December 2019
Energex and Ergon Energy submit revised proposals

January 2020
Submissions on draft decision and revised proposals due

April 2020
AER final decision to be published

Stakeholder consultation March-May 2019

- Customer engagement sessions held in early March 2019 (small, large and agricultural customer groups), with numerous individual consultations since 18 March
- EQL has advised the AER that revised tariffs are being developed through engagement with customers and retailers
- The revised tariffs and rates will be provided in early May 2019 to inform stakeholders' responses to the AER Issues Paper
- We will continue to engage with stakeholders throughout April and May 2019

We look forward to continuing the conversation

Revenue

- We will respond to your public submissions to the AER and continue build on the successful engagement so far

Tariffs

- We are committed to working collaboratively with the AER and customers on the preferred tariff pathway for 2020-25 and beyond





Questions?



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