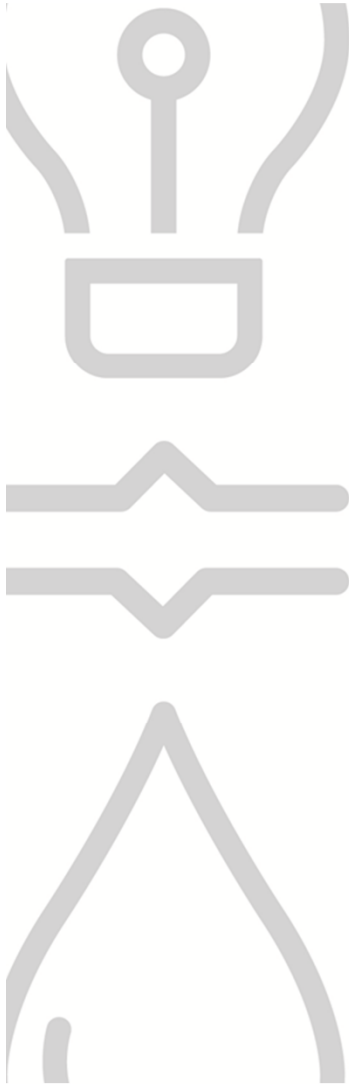


Power and Water Corporation

Updating our positions for AER feedback

Revised Regulatory Proposal – Due 29th November 2018



Key Messages | What we welcome

Power and Water welcomes the AER's approval of key elements of our proposal and their tailored approach to assessing our proposal, including:

Fit for purpose approach

- The AER Board and staff were collaborative throughout our first NT NER determination
- They recognised our efforts to engage our customers, and provide them the information they requested
- The draft determination's consideration of our circumstances, and application of assessment methods that are fit for our geography, size and maturity

Approving things our customers said they wanted

- Allowing our proposed investment in improving reliability for poor performing rural and urban areas
- Allowing our proposed investment to continue to roll out smart meters on a new and replacement basis, helping make energy technology and pricing innovations available to our customers
- Supporting our proposal for more cost reflective (fairer) tariff structures.



Key Messages | Our remaining concerns

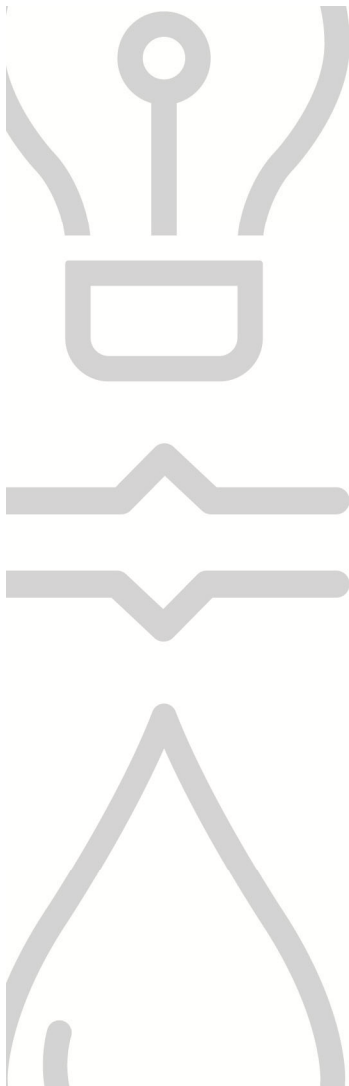
- Debt** | We will lower our WACC by adopting AER's new WACC approach for all items except cost of debt transition. We do not require a transition to a cost of debt trailing average
- Ministerial Direction mandated the effective start of trailing average funding arrangement and customer prices in this current period, so our reasons and situation are different to other networks
 - The draft decision not only ignores our actual history in this way, but it fails to recognise the NT NER rules requirement to have regard to that direction

- OPEX** | We will update its RRP forecast for actual audited 2017/18 opex base year data, including adjusting this down to account for the impacts of Cyclone Marcus and a low capex year.

We believe the AER's additional opex cuts are unsustainable and risk the reliability and safety outcomes expected by our customers, employees and wider community:

- Our IRP proposed a 10% efficiency reduction
- The AER's DD reduced opex by 19%
- Our RRP will see us submit approx. 15% reduction from audited 2017/18 opex

- CAPEX** | We will lower our revised capex forecast
- The Draft Determination cut our forecast by 20%
 - Our revised forecast will be approximately 10-15% lower than our IRP



Responding to AER’s Rate of Return decision



We need to be able to earn a fair rate of return of capital to continue investing in the network in a manner that best promotes customers’ long-term interests

Our IRP adopted the 2013 rate of return guideline to estimate our rate of return of 6.62%, except for the cost of debt transition.

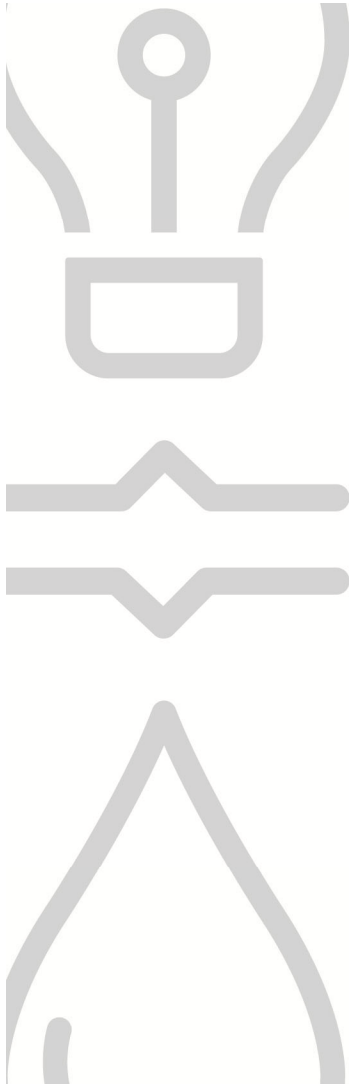
The draft decision applied the AER’s draft 2018 rate of return guideline and did not consider our specific NT circumstances as regards our cost of debt transition.

We will **lower our WACC** by adopting the AER’s 2018 draft guideline for all matters except the cost of debt transition relevant to the NT. The next slide explains our reasons for our proposed departure to instead adopt the trailing average without transition.

Used the AER’s preferred methods and parameter values

Component	IRP value	DD value	RRP
Return on debt	6.37%	4.50%	5.91%
Return on equity	7.00%	6.30%	6.19%
Leverage	60%	60%	60%
Rate of return	6.62%	5.22%	6.02%
Gamma	0.4	0.5	0.5
Forecast inflation	2.42%	2.45%	2.45%

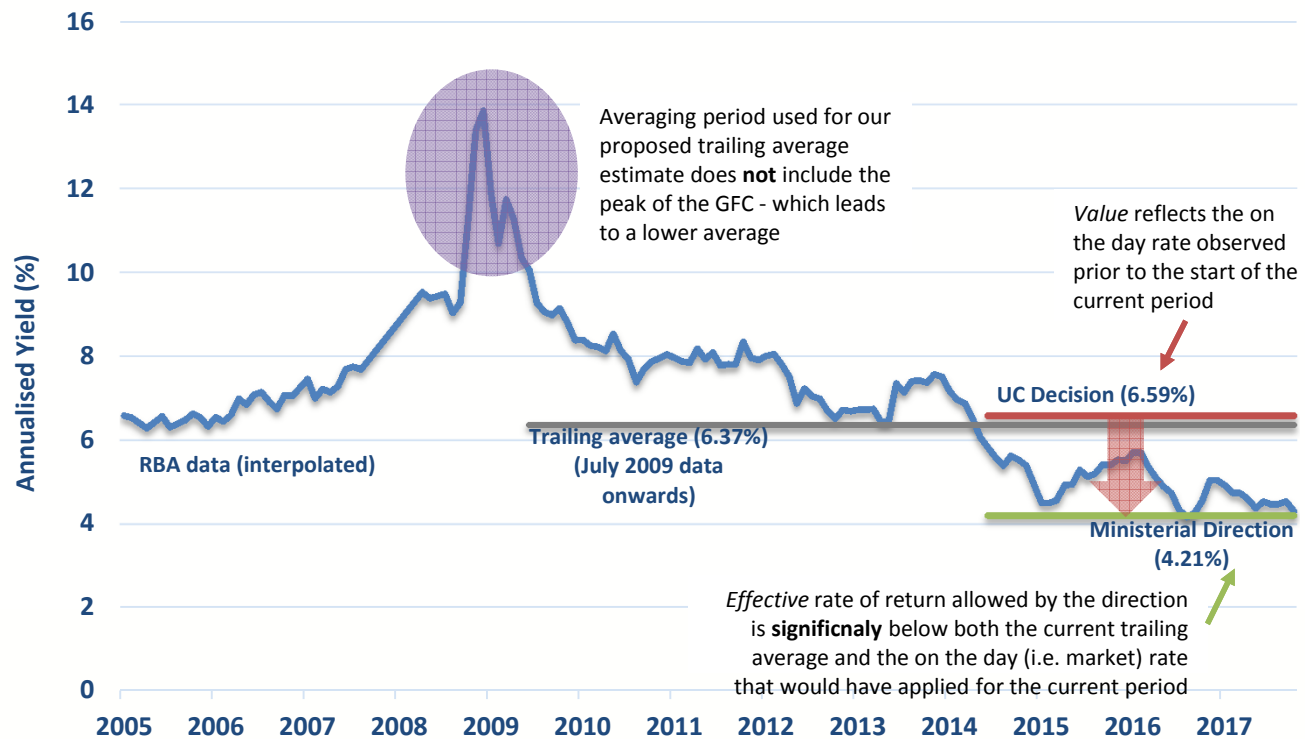
Estimated using placeholder averaging periods

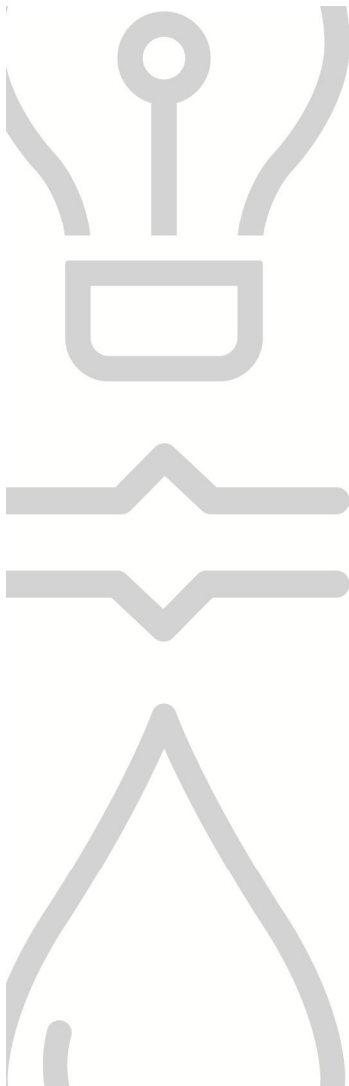


Return on debt transition (cont.)

Comparison of observed 10 year BBB+ rate debt yields to UC decision and Ministerial Direction for the current period

PowerWater





Responding to AER's OPEX decision

AER draft decision	PWC RRP
Vegetation management	
↓ \$1m pa (20%) reduction to align with good industry practice	Revise IRP down
Maintenance	
↓ \$4.7m pa (26%) reduction in inspection & maintenance frequencies and refined risk management practices	Revise IRP down
Emergency response	
✓ = Category approved	Accept using 2017/18
Non-network (inc IT, property, fleet)	
✓ = Category approved	Accept using 2017/18
Overheads	
↓ \$4.8m pa (16%) network overheads reduction based on historical expenditure	Revise IRP down
✓ = Corporate overheads category approved	Revise IRP up using 2017/18

Base year update

We will update our RRP forecast for actual audited 2017/18 opex data

We will **adjust this down** to account for the impacts of:

1. Cyclone Marcus on emergency response
2. An unusually low capex year on network overheads
3. Sustainable category efficiencies

Responding to AER's network CAPEX decision



AER Draft Decision	Power & Water RRP
Augex	
↓ \$29m(78%) Defer Wishart substation using non-network solution	Accept AER decision
↓ \$5m (20%) Reduced capex for fault level replacement program	Accept AER decision
Repex	
↓ \$5m (29%) Brownfield solution for Berrimah Zone substation	Maintain IRP
↓ \$6m (48%) Reduce volumes for Alice Springs poles	Revise IRP down
↓ \$6m (29%) Reduce volumes Darwin Suburbs cable program	Revise IRP down
Connections	
✓ = Category approved	Revise IRP down

RRP key messages

PWC will lower our revised capex forecast and update for new demand forecast

The Draft Determination cut our forecast by 20%

Our revised forecast will be approximately **10-15% lower** than our IRP

Responding to AER's CAPEX decision



AER Draft Decision

Information Technology

↓ \$11m (30%) Program that can be delivered efficiently

Property and fleet

↓ \$7m (13%) Correct error on leasing cost for property and fleet

↓ \$7m (100%) 19 Mile Depot deemed not required

Capitalised overhead and escalation

↓ \$8m (13%) Error in base year and lower AER total capex

↓ \$6m (45%) Reduced labour costs

Power & Water RRP

Revise IRP down

Accept

Revise down

Accept

Revise IRP down

RRP key messages

PWC will lower our revised capex forecast and update for new demand forecast

The Draft Determination cut our forecast by 20%

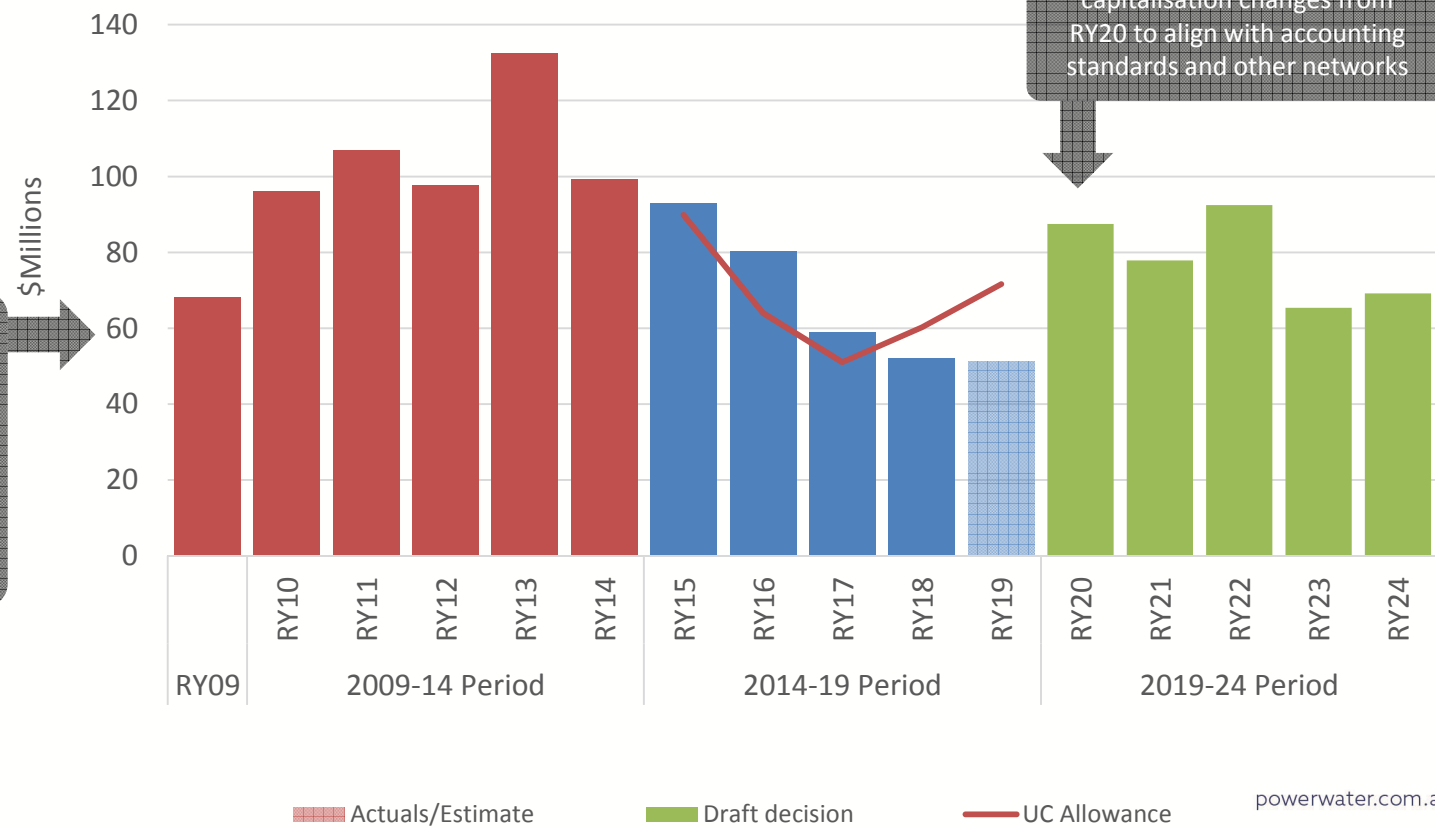
Our revised forecast will be approximately **10-15% lower** than our IRP

SCS Gross Capex (Real \$2019)

PowerWater

Note – excludes metering – removed from UC allowance, consistent with historical actual metering capex

Note – includes approved capitalisation changes from RY20 to align with accounting standards and other networks





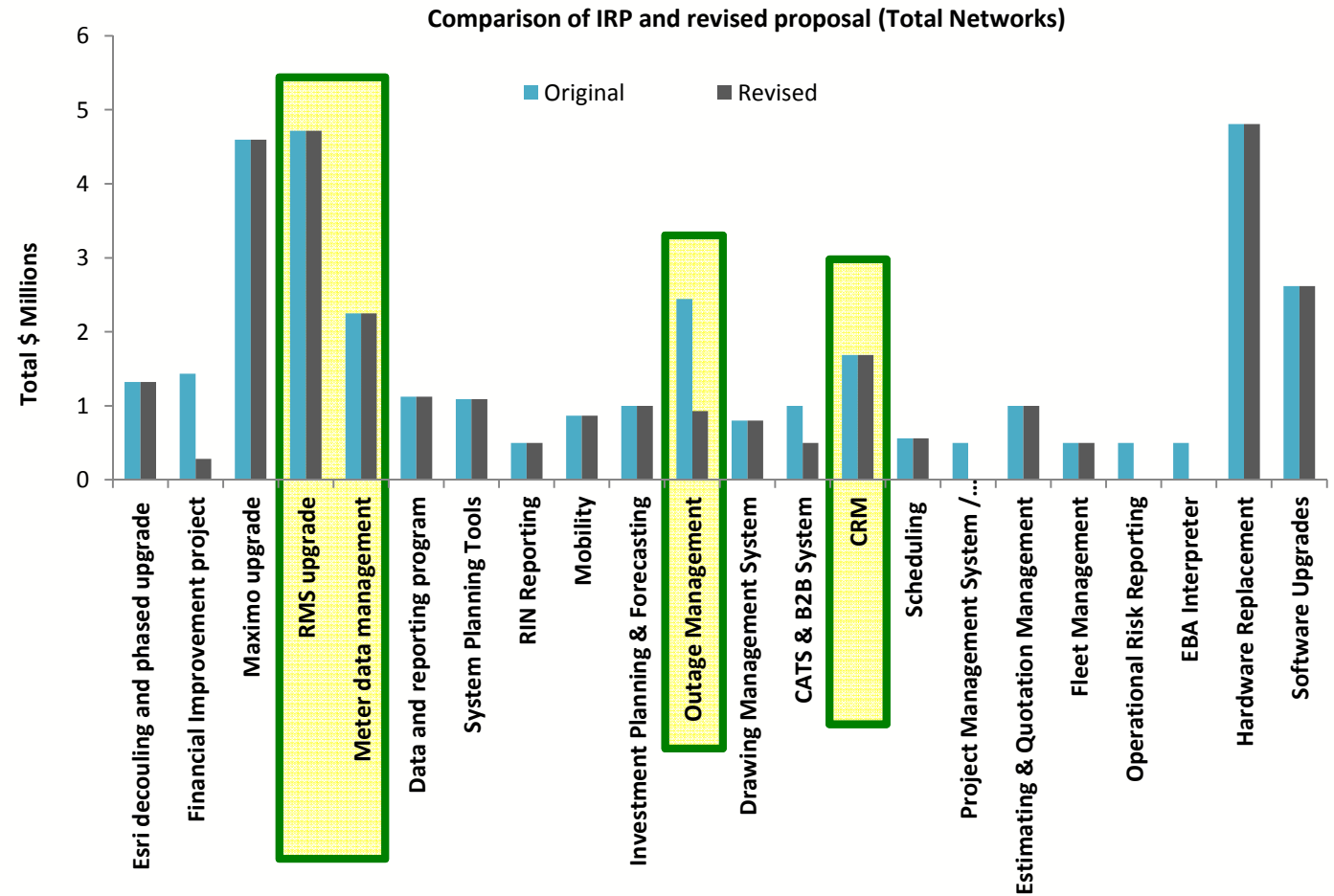
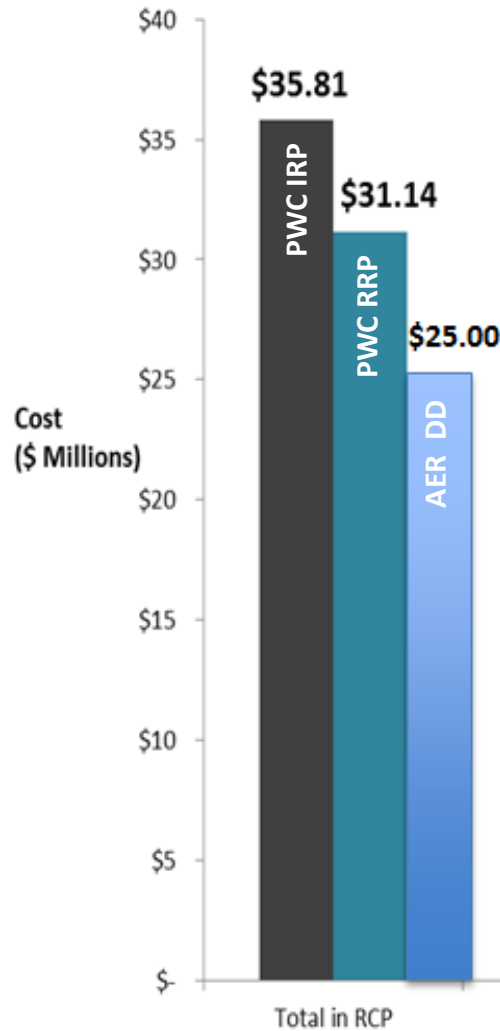
Revised Regulatory Proposal – Corroded Poles

Power and Water’s original proposal included a program to replace all immediate action poles (i.e. severe & very severe) poles across Alice Springs. This wasn’t fully accepted in the AER’s Draft Decision.

- Power and Water asked for all immediate action poles (i.e. severe & very severe) to be replaced;
- AER’s Draft Determination stated only the “very severe” poles to be replaced;
- We disagree as it cuts into a number of different area’s, including:
 - Public Safety
 - System Reliability



Revised Regulatory Proposal – ICT CAPEX



How to stay involved



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Our Power and Water Corporation app

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