

Transmission Revenue Proposal

Public Forum 9 July 2014

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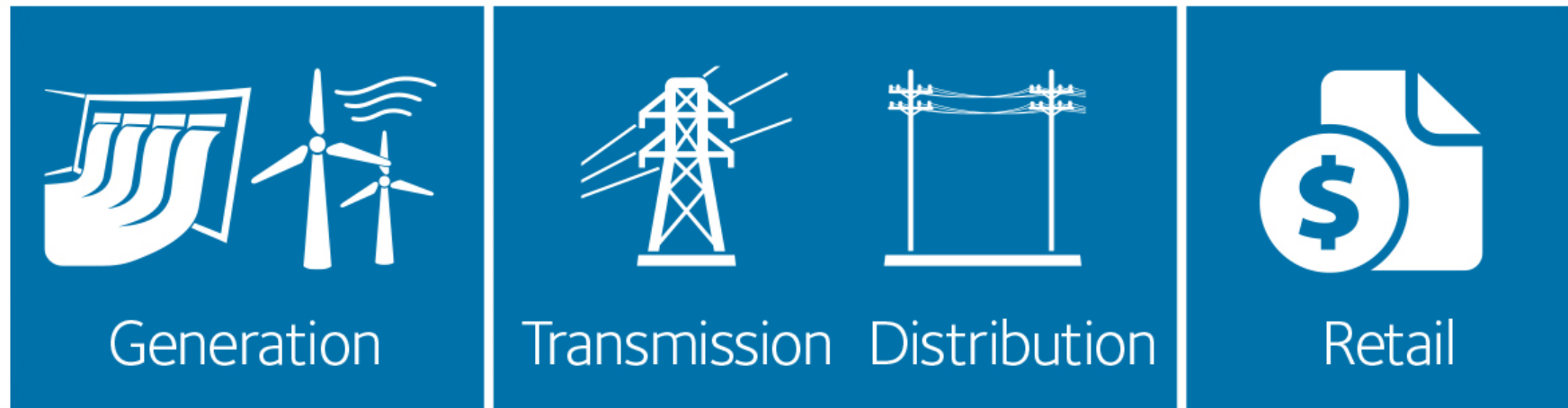
Bess Clark, GM Strategy & Stakeholder Relations



Agenda

- Introducing TasNetworks
- Tasmanian context
- Transmission revenue proposal
- Summary

On 1 July 2014 responsibilities changed



TasNetworks

- Merger of
 - Aurora's distribution and telecommunications networks
 - Transend's transmission and telecommunications networks
- Merger will deliver savings for customers
- Transmission revenue proposal includes immediate savings
- We will continue to seek further savings

Vision

Trusted by our customers to deliver today and create a better tomorrow

Purpose

We deliver electricity and telecommunications network services, creating value for our customers, our owners and our community

Strategic Objectives

Customers

To deliver our vision....

We understand our customers by making them central to all we do

People

We enable our people to deliver value

One business

We care for our assets, delivering safe and reliable network services while transforming our business

Strategic Measures

- Customer net promoter score

- Culture score
- Engagement score

- Zero Harm
- Network service performance maintained
- Sustainable cost reduction

Initiatives

- Voice of the Customer program
- Framework for predictable & sustainable pricing

- TasNetworks Culture program
- TasNetworks Leadership program

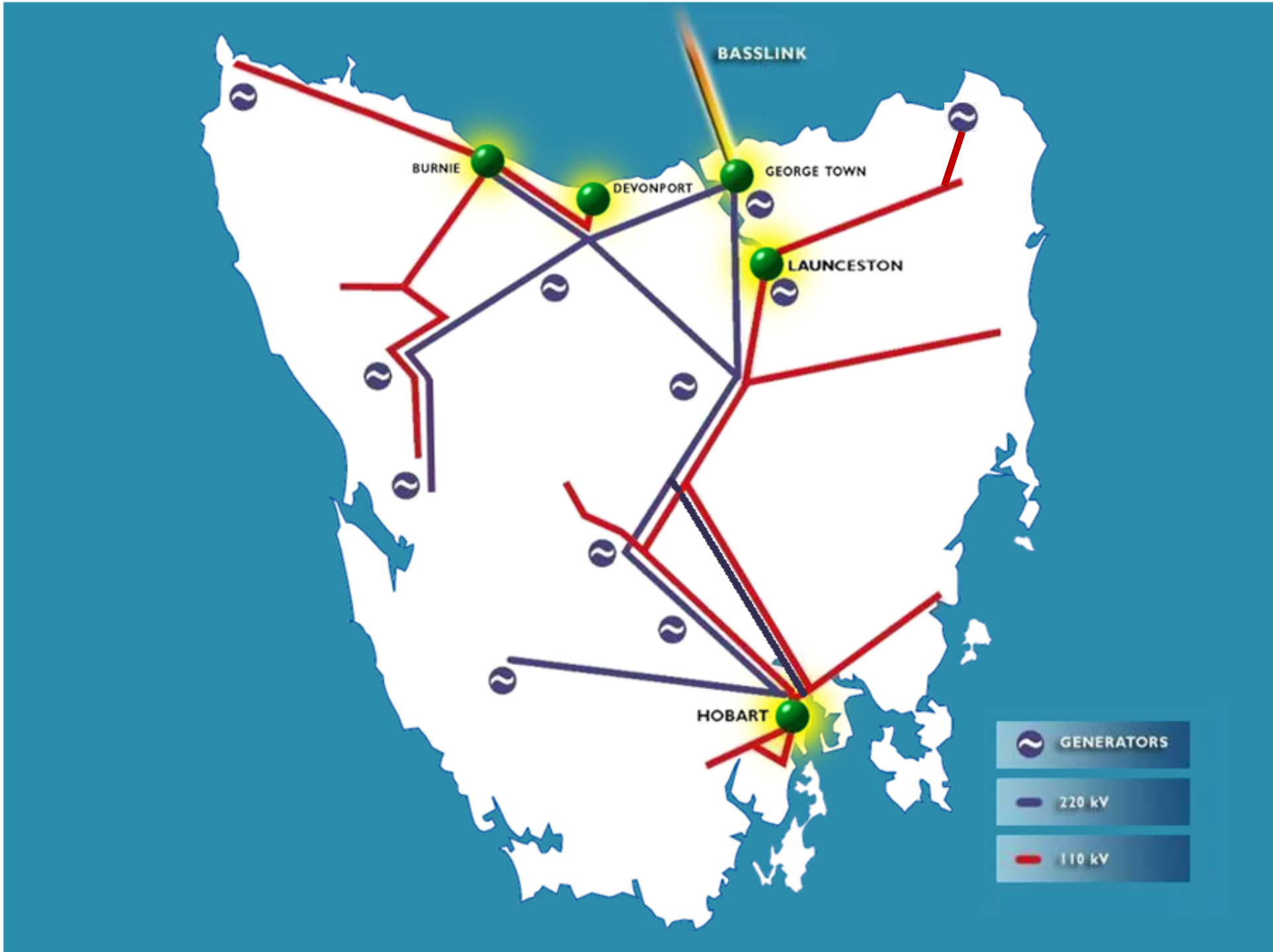
- ‘One TasNetworks’ program:
- governance frameworks
 - business systems
 - condition- & risk-based asset management capability

Sustainable shareholder outcomes:

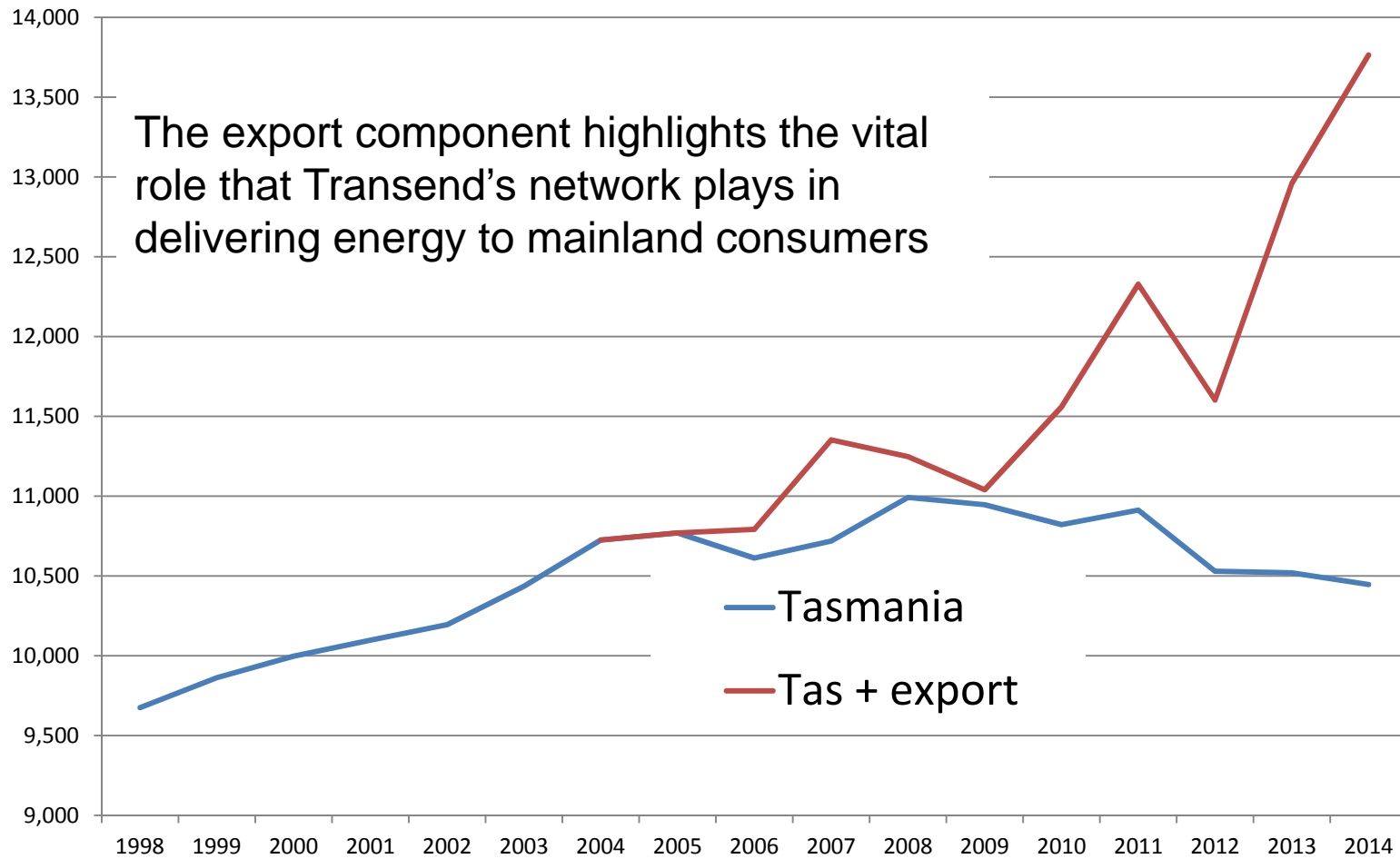
- Returns on assets & equity
- Dividends
- Corporate reputation & sustainability indices

Transmission in Tasmania

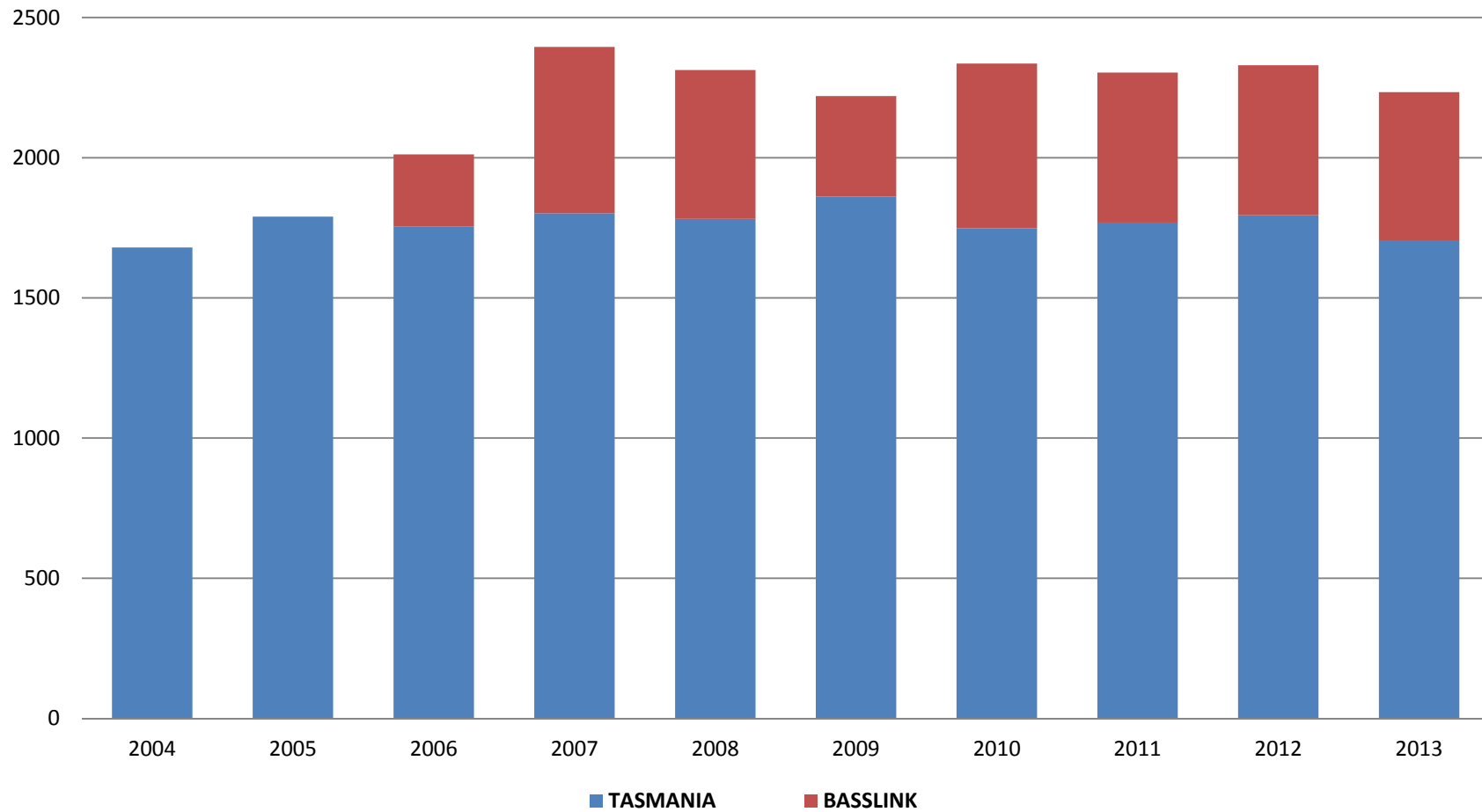




Energy transmitted (GWh)

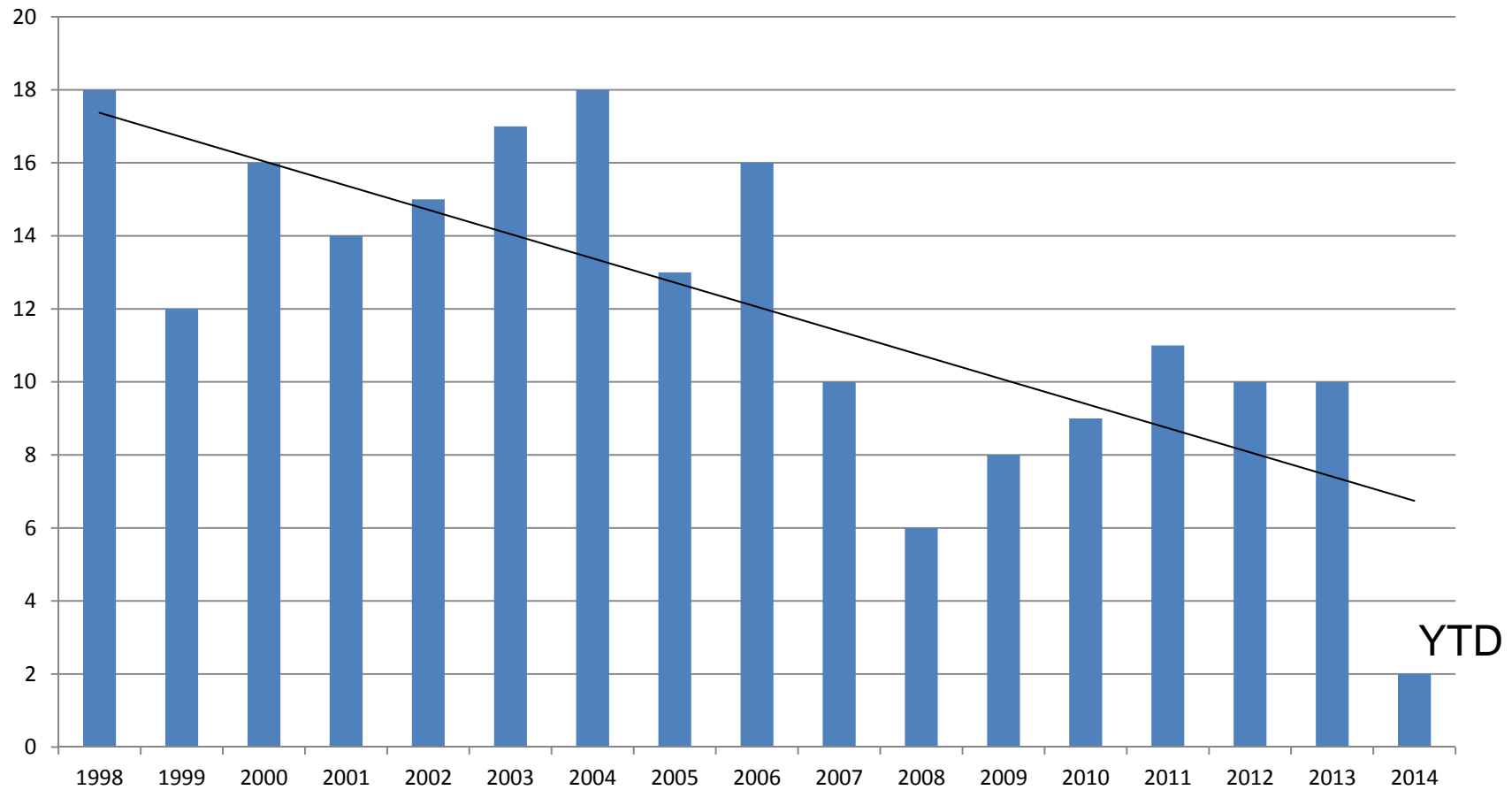


Maximum demand (MW)



Loss of supply events

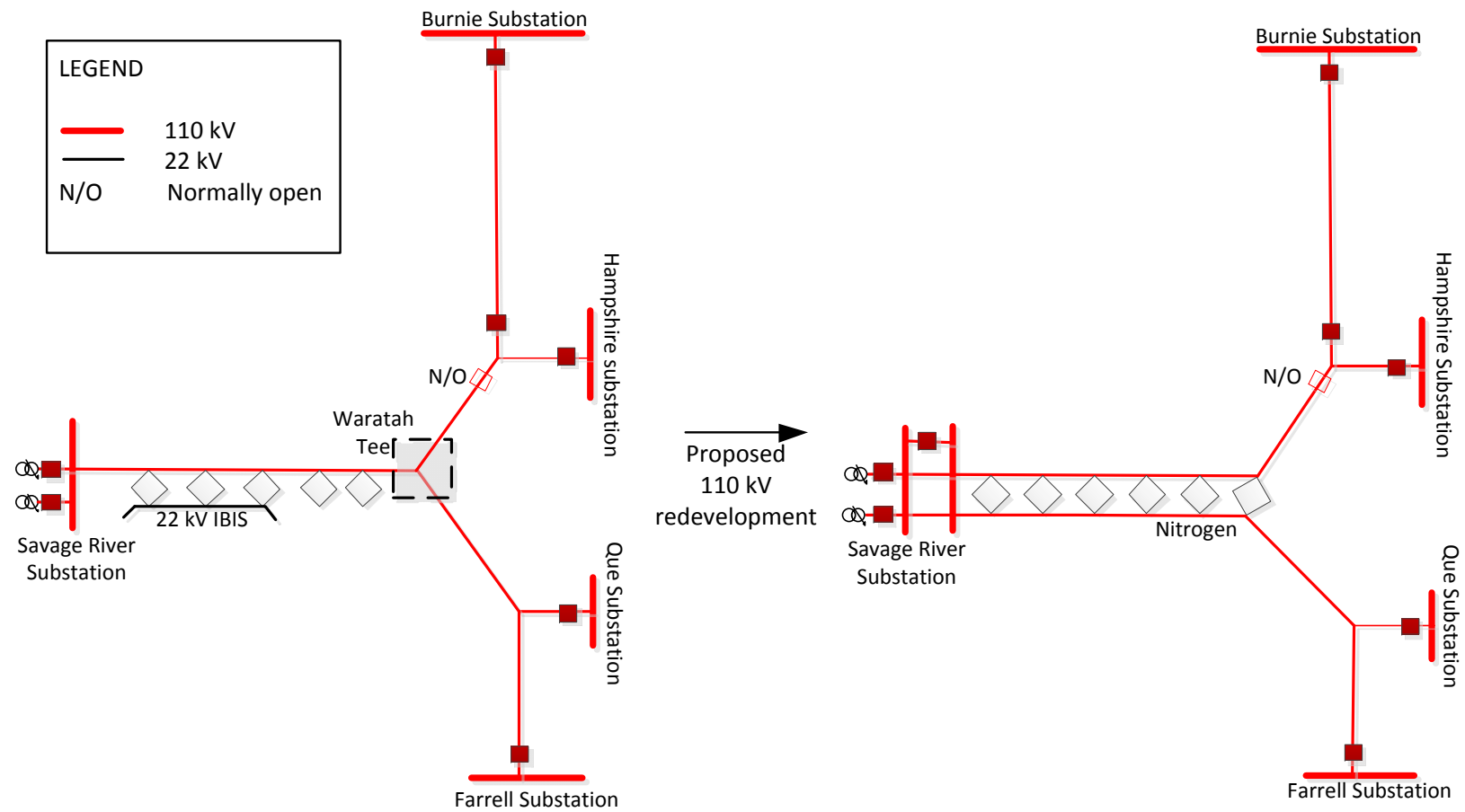
Transmission > 0.1 system minutes



Customer focus

- Add value to our service
 - Maintain reliability
 - Improve customer relationships
 - Work together to develop solutions
 - Customer charter
- Consumer engagement activities
 - Survey
 - Focus groups
 - Many consumers want to know more and be involved
- A continuing focus of TasNetworks

Example of customer consultation



Revenue proposal objectives

- **Reduce the cost** of transmission in Tasmania while at least **maintaining service** levels
- Costs:
 - based on future efficiencies, including from merger
 - achieve real cost reductions
- Service targets:
 - at least maintain level of service, extract higher performance from current assets
 - agree appropriate levels of security and reliability with customers for dedicated assets

Customer feedback themes

- lower transmission prices to support customer sustainability
- at least maintain the present level of service but at lower cost
- reflect the impact of lower demand in future plans
- maximise the way we use assets rather than building more
- set tougher efficiency targets
- reduce our rate of return
- reduce the regulated asset value

Full revenue proposal (31 May submission)

Supporting lower prices for consumers

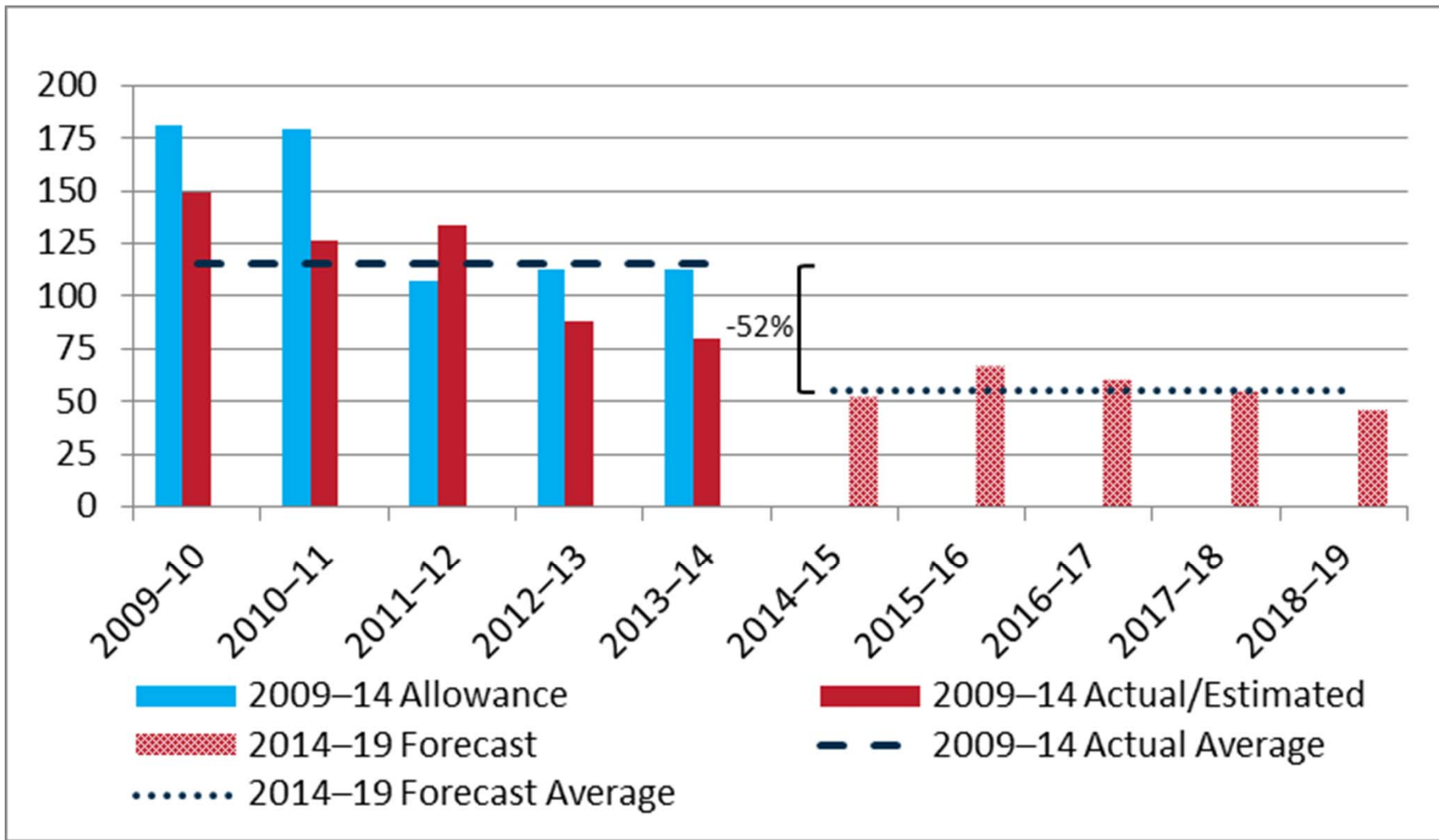
- Since the transitional revenue proposal and decision we have considered customer feedback
 - including adopting the AER's view on cost of capital
 - further opex and capex reductions
 - further reduced our economic depreciation
 - permanently forgone \$37 million under-recovered allowable revenue
- Our revenue proposal is lower than AER March decision outcome
 - we have used our lower revenue figure to set prices for 2014-15 rather than use the transitional decision revenue



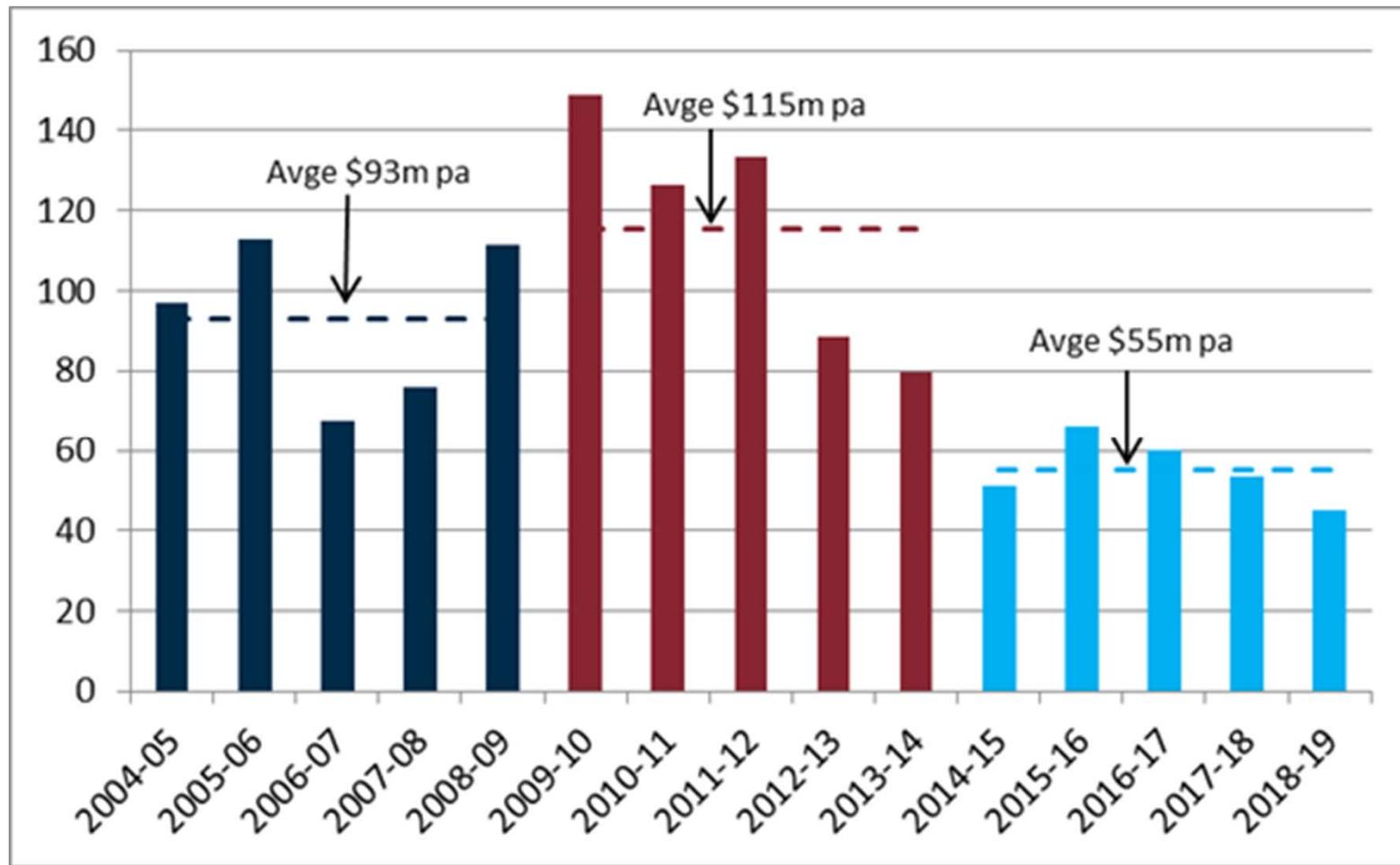
Capex methodology

- ▶ **Projects**
 - ▶ Needs
 - ▶ Potential solutions
 - ▶ Customer consultation
 - ▶ Preferred solution
- ▶ **Governance**
 - ▶ Robust internal approval process
 - ▶ External engagement and consultation
 - ▶ Project monitoring and control
- ▶ **Program**
 - ▶ Optimise projects, costs, timing, impacts

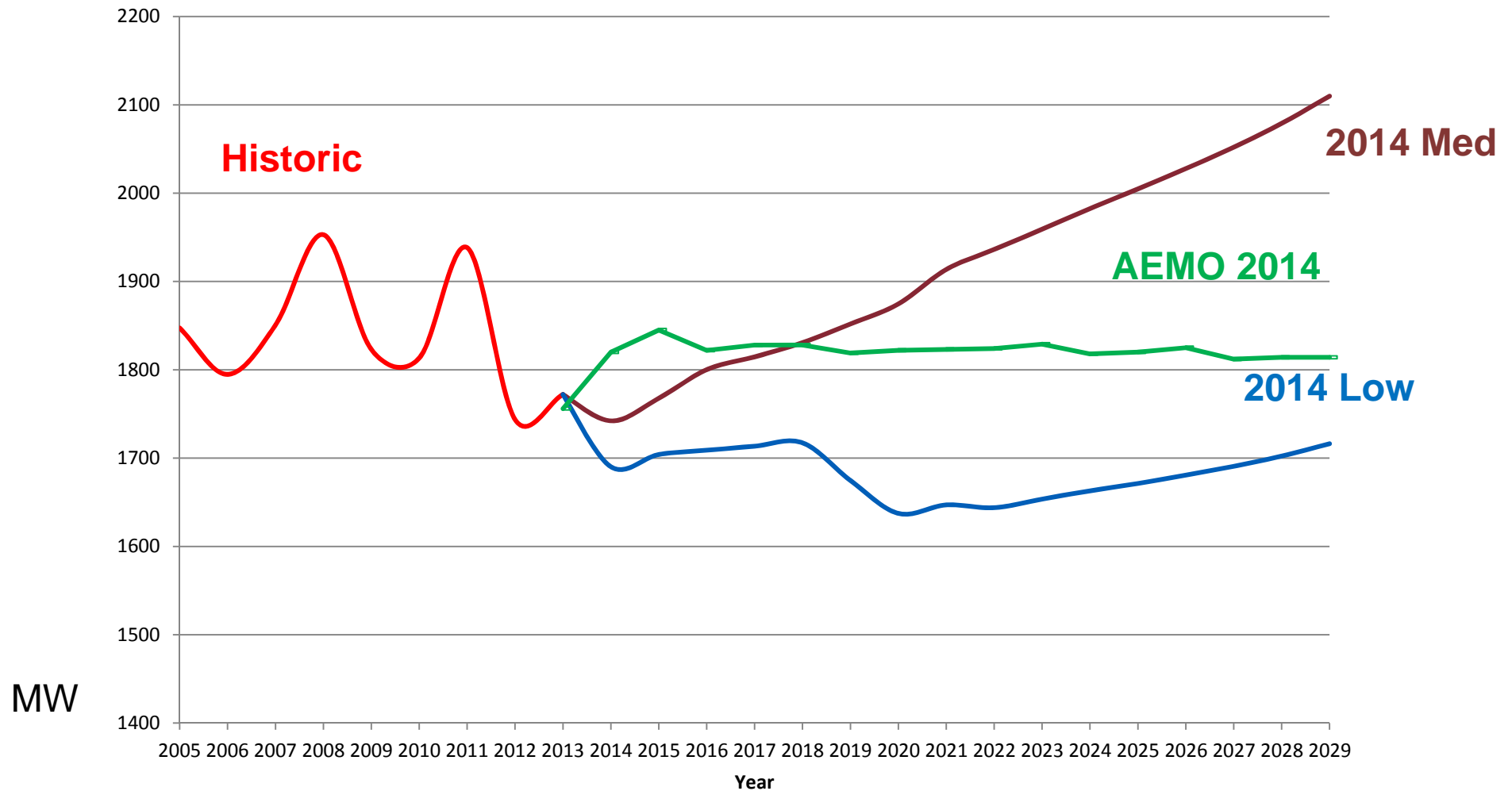
Capital investment is halving (\$m 2013-14)



Capex incurred over the longer term (\$m 2013-14)

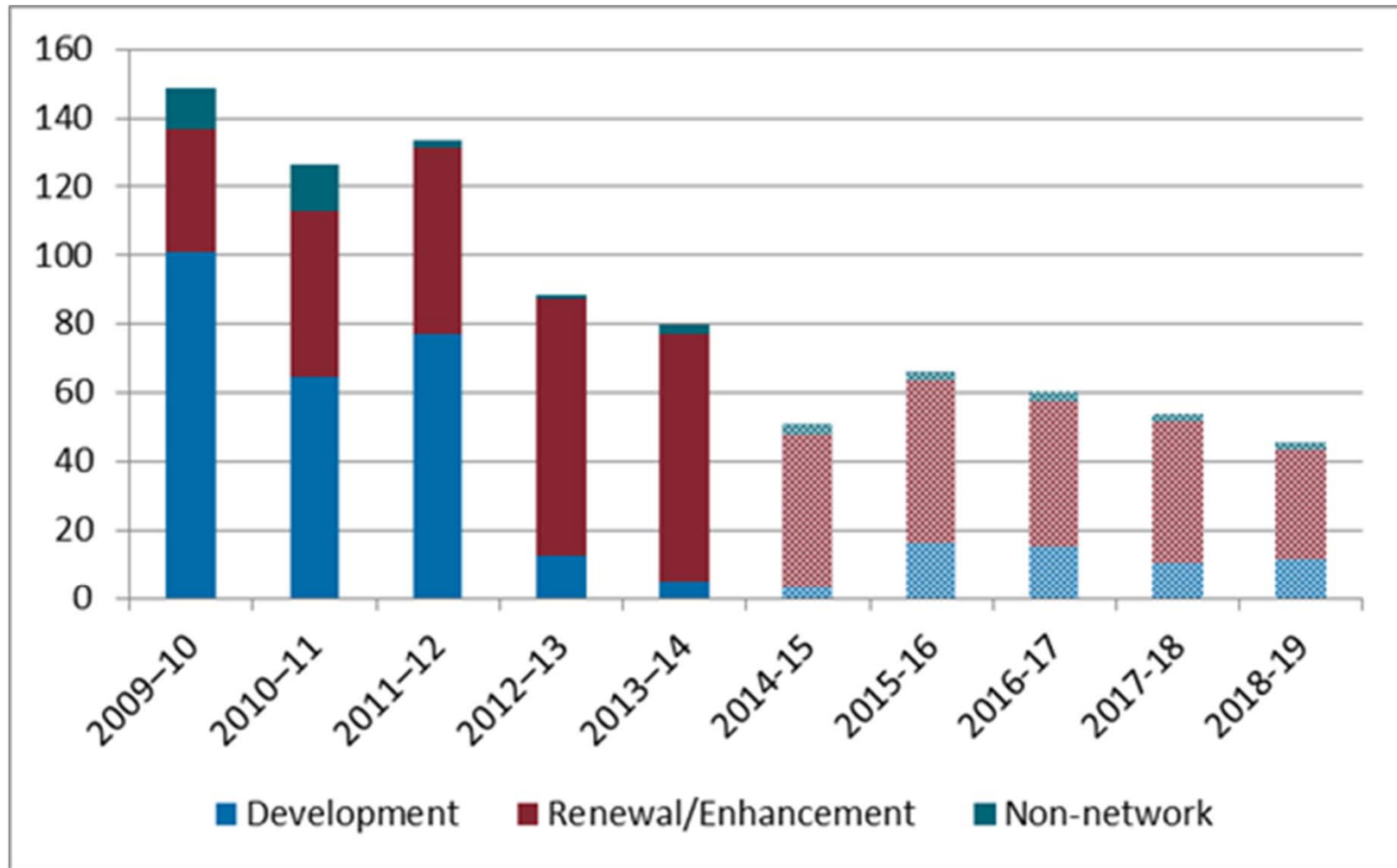


Winter maximum demand forecast



Capex profile by type

\$m June 2014



Development projects > \$5 million

\$41 m of \$56 m total

Project Description	Estimated cost (\$m)	Completion	Category
Waddamana - Palmerston 220 kV Security Augmentation	21	2018–19	Augmentation
Newton - Queenstown Security Augmentation	14	2016–17	Augmentation
Rosebery Substation transformer capacity augmentation	6	2016–17	Connection

Renewals: Transmission line insulator replacements



Capex summary

- We spent \$115 million (17%) less than the allowance in the previous period (\$2013-14)
- We are forecasting significant reductions for 2014-19 (expenditure is halving)
- The ongoing program reflects a continuing need to manage risks, renew assets and deliver a reliable electricity supply



Opex

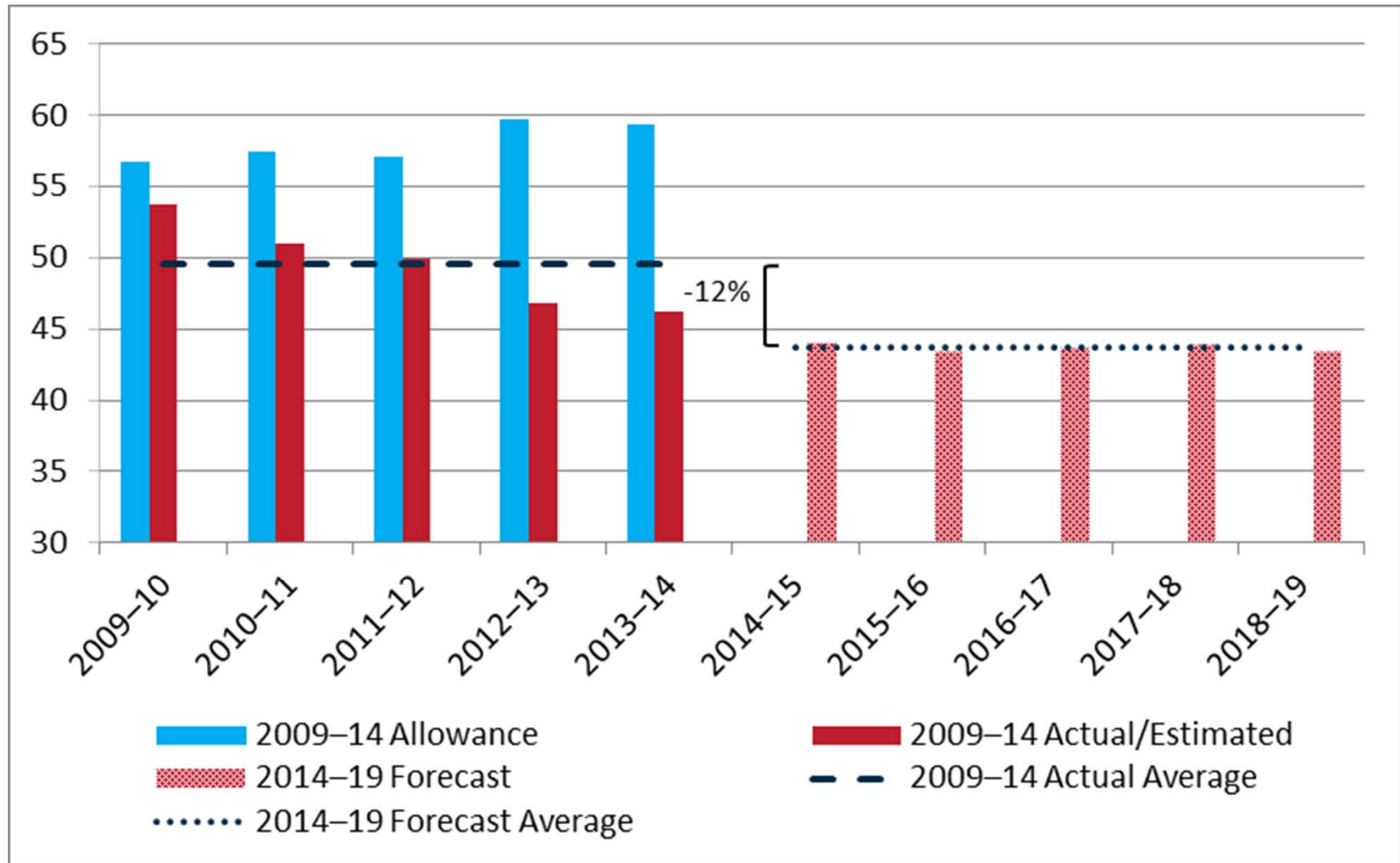


Operating expenditure methodology



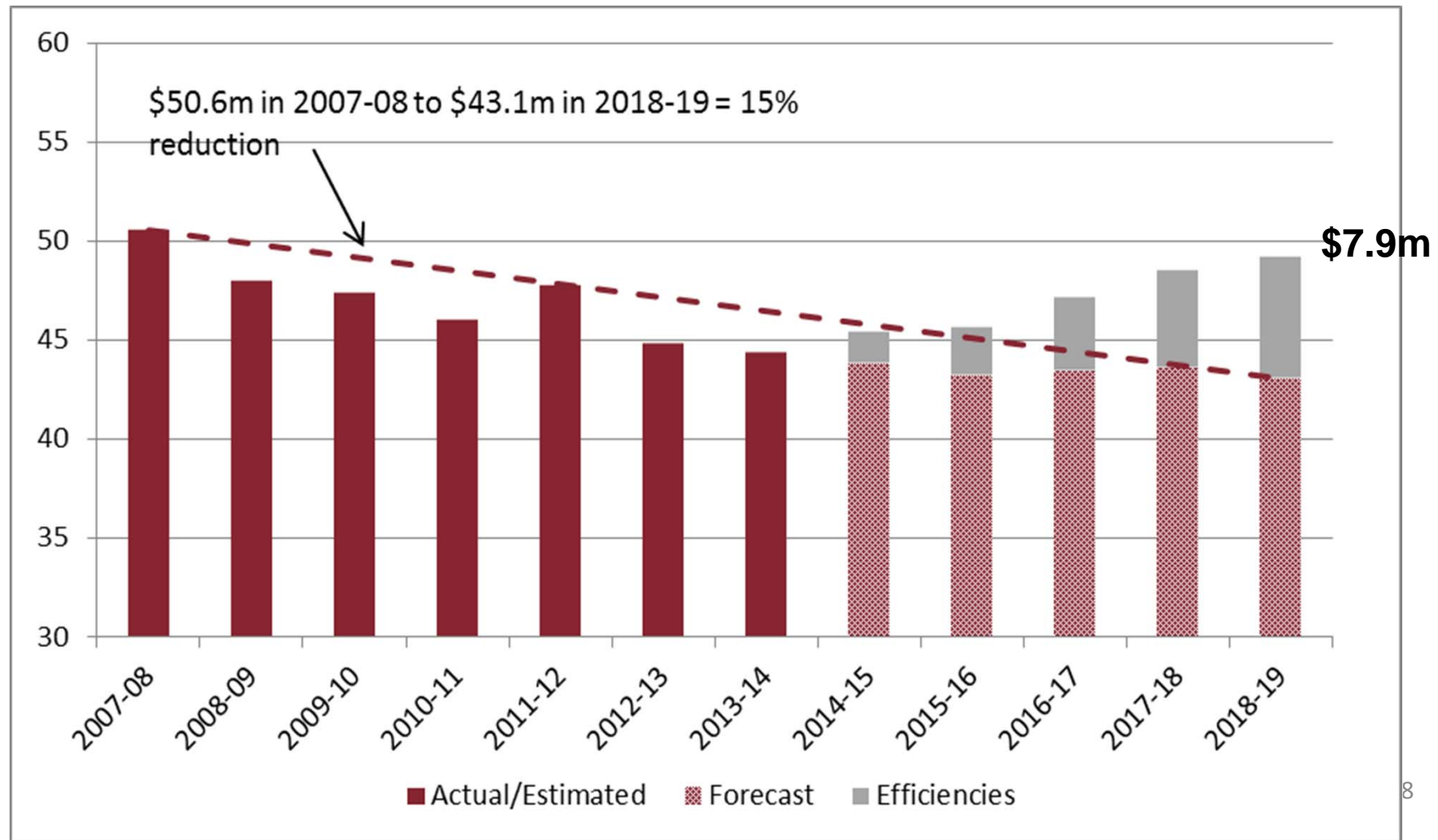
24/7 control room	Annual cost (\$2014)
Base: 2012-13	\$5.2
Step: New responsibilities from market operator	\$0.4
Trend: Labour & growth escalation	Minimal
Productivity target - efficiencies	>\$0.6
Total = real decrease	\$5.0

Working hard to achieve opex reductions (\$m 2013-14)



Controllable opex reductions

(\$June 2014)



Opex summary

- We spent nearly \$40 million (14%) less than our allowance in the previous period (\$2013-14)
- Forecasting operating expenditure to reduce further in real terms
- Setting challenging operating expenditure targets and we will work hard to achieve them
- Not compromising safety and reliability

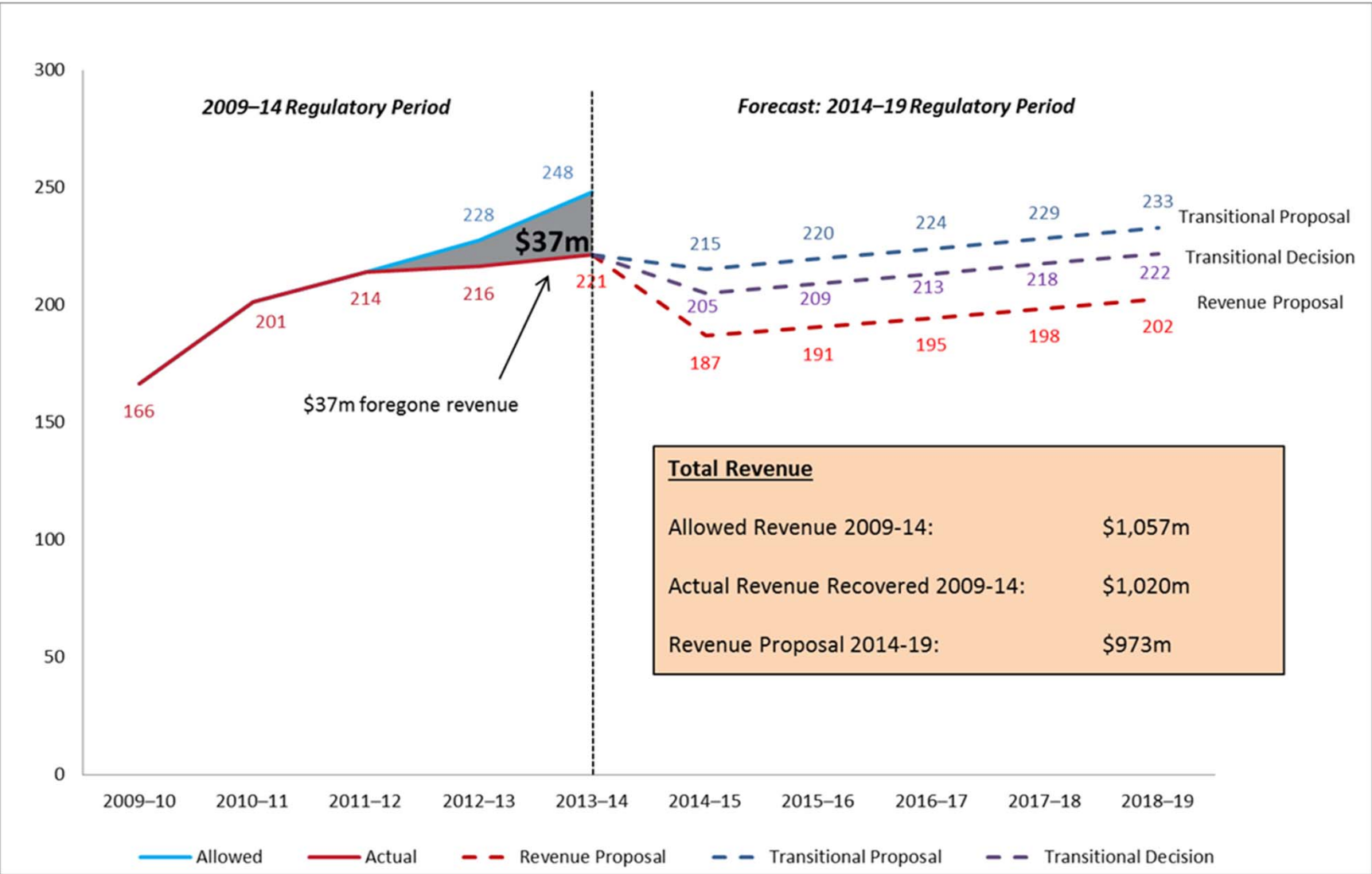
Revenue & pricing



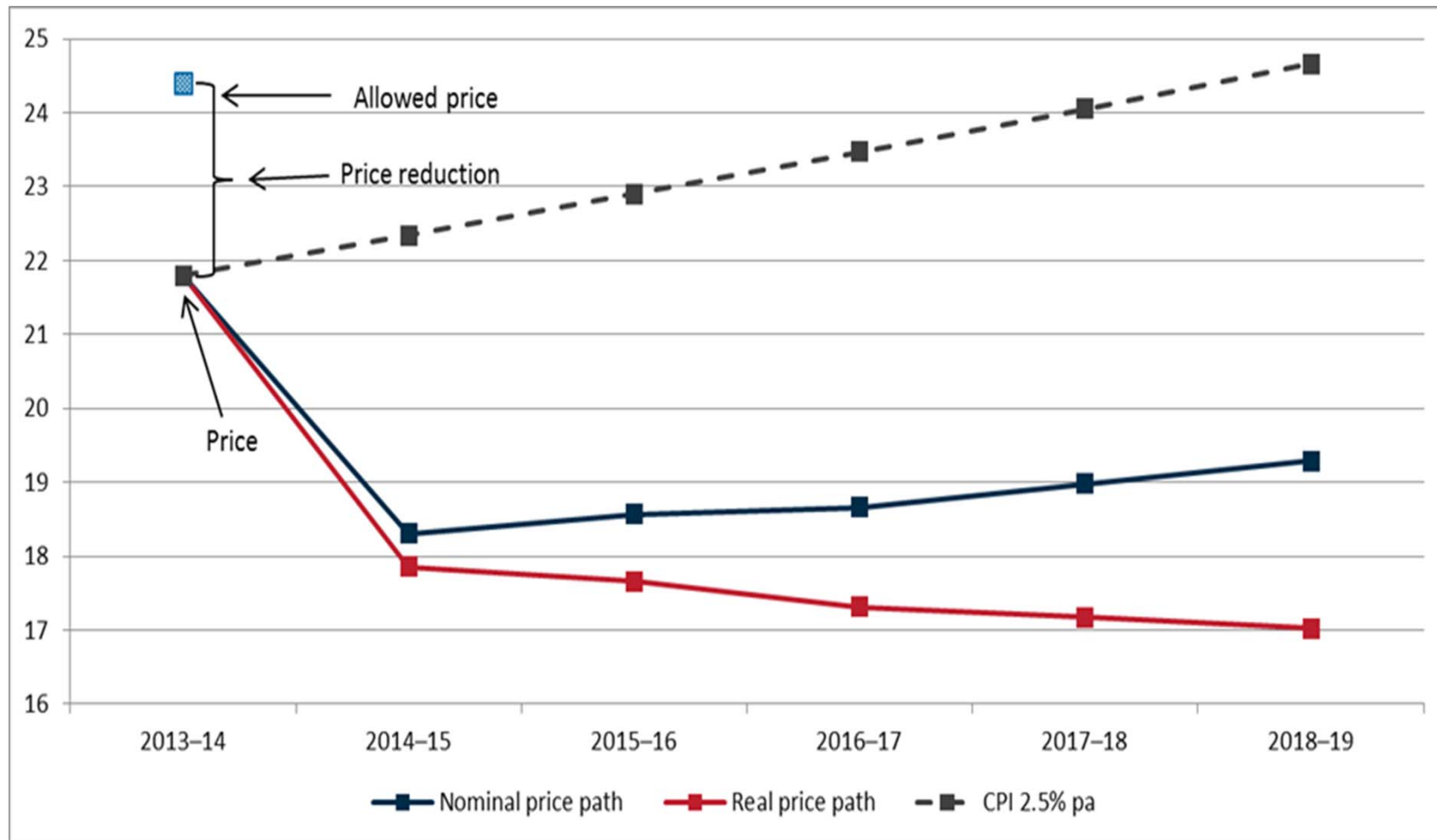
Rate of return (weighted average cost of capital)

- WACC - based on a benchmark business (as per the Rules)
- Will be updated based on interest rates during the agreed observation period
- Transitioning to a rolling 10 year average cost of debt (as per AER guidelines)
- We've accepted the AER's cost of equity parameters
- We've accepted the AER's gamma for calculating the tax allowance
- Expert evidence suggests higher parameters

Total revenue (\$m nominal)



Reducing the cost of transmission: Average impact of Revenue Proposal (\$/MWh)



Price impact (weighed average \$ nominal)

		Impact on annual charge					
		2013-14	2014-15	2015-16	2016-17	2017-18	2018-19
Residential	Total	\$2,256	-\$54	+\$4	+\$1	+\$5	+\$5
	Transmission	\$338					
Small business	Total	\$3,782	-\$91	+\$7	+\$2	+\$8	+\$8
	Transmission	\$567					
% change in transmission component			-16.0%	+1.4%	+0.5%	+1.7%	+1.6%

Incentive schemes

- Incentives to **reduce costs** and **maintain or improve service**
- Service target performance incentive scheme (STPIS)
 - Service
 - Market impact
 - Network capability
- Expenditure
 - Opex: Efficiency benefit sharing scheme (EBSS)
 - Capex: Capex expenditure sharing scheme (CESS)

Summary

- We are confident that the revenue proposal strikes the right balance for Tasmania's future
 - we have listened to customers
 - we will maintain reliability and reduce our costs and revenue
- Transmission customer charges are falling
- Customer engagement will continue
 - TasNetworks' 5 year corporate plan
 - annual planning report forums
 - ongoing account management, engagement and briefings
- Supporting our vision: trusted by our customers to deliver today and create a better tomorrow

More information

- Revenue proposal materials & annual planning reports
 - www.tasnetworks.com.au
- 2014 Revenue Reset Project Manager
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TasNetworks
Delivering your power