2016 to 2020 Regulatory Proposal

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Proposal overview

- We are offering a $70 price reduction while maintaining reliability (68 minutes)

- We are offering our customers more services for less

- We are committed to improving customer service

- We are positioning for the future led by customer preferences and supported by technology change

- Our Repex and Augex capex is targeted at addressing aging assets and maintaining reliability for our customers.

What our stakeholders are telling us

What our Customers have told us	Included in Proposal
Generally happy with the current level of reliability – but don't reduce further	Yes – maintain 68 minutes
Do not want to pay more for electricity	$70 price reduction
Want better communication about planned and unplanned interruptions	ECE / IT investment
Want better information to allow them to control their consumption and bills	ECE / IT investment
Want non-network investment options and incentives to reduce maximum demand	Proposed increase in DMIA allowance

Nature of DNSPs is changing

Driven by changing customer preferences - supported by technology change:

- Distributed generation & renewables
    - Changing power flows in the network
- More information to customers
    - Consumption and outage data

We are addressing these changes though:

- Power of Choice

- Increased investment in IT and OT

- Effortless customer experience

- Leveraging AMI for information and smart grids

The focus of the Victorian electricity grid is rapidly moving from the Latrobe Valley to the customers front door.

Effortless Customer Experience

- Customer expect us to "*be easy to do business with*". We have not met these expectations in the past – we are behind our peers.

- Customer expectations are higher than ever:

  - Customer complaints to EWOV increased 200% between 2009/10 and 2013/14

  - Our complaint handling time is also poor

  - Customers expect better and quicker information on outages

- There are many dimensions to customer service improvement:

  - Technology – We use outdated manual methods to communicate with customers – investment in technology is needed

  - Service – We are employing more customer service staff

  - Compliance – Complaints handling and compensation for power surge damage

Offering more for less

- Notwithstanding the $70 price reduction, we are offering our customers more:

$M Real 2015	Opex	Capex	Total
Customer response / initiated			
– Effortless customer experience	6.0	4.0	10.0
– Additional stakeholder engagement	1.3	0.0	1.3
– Addition responsibilities for council trees	3.0	0.0	3.0
Regulatory			
– Power of Choice – enabling meter contestability, etc	12.5	37.2	49.7
– Regulatory reporting requirements	1.6	24.3	25.9
– Further change to line clearance Regulations	9.7	0.0	9.7
Incentives			
– Demand management incentive scheme	6.0	0.0	6.0
Total cost	**40.1**	**65.5**	**105.6**

- Cost impact to customers of the above is $18 per customer per year

- Our 2016 to 2020 "base-step-trend" Opex forecast includes $53m in step changes (around 6% of our total Opex of $825m)
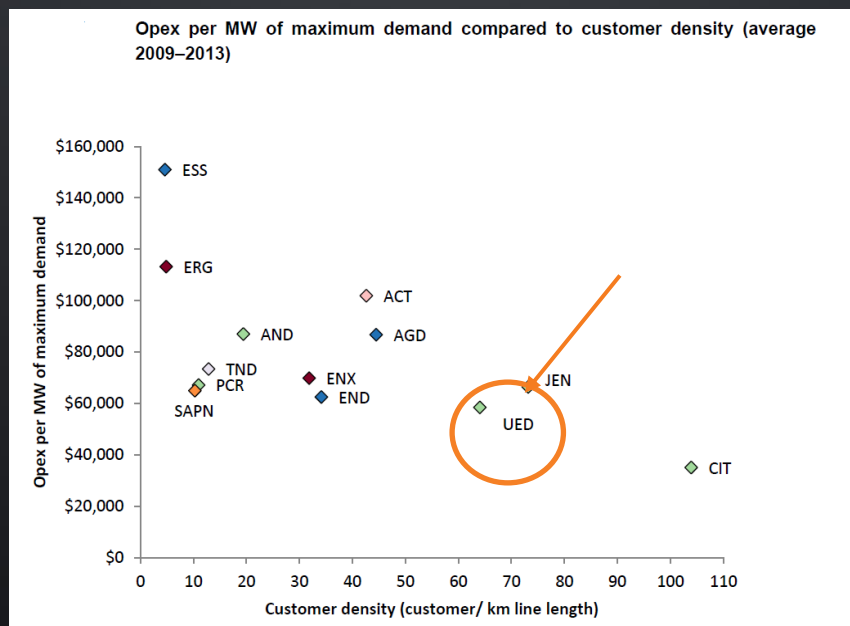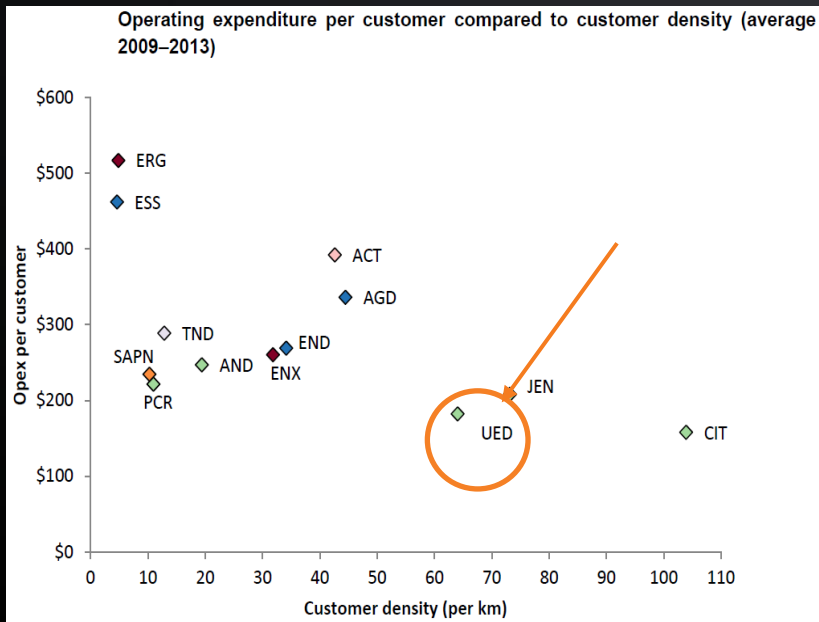
We are efficient

- The AER's benchmarking shows that we are one of the best performers

- MTFP analysis takes into account both capex and opex.

MTFP Performance (average 2006-2013)
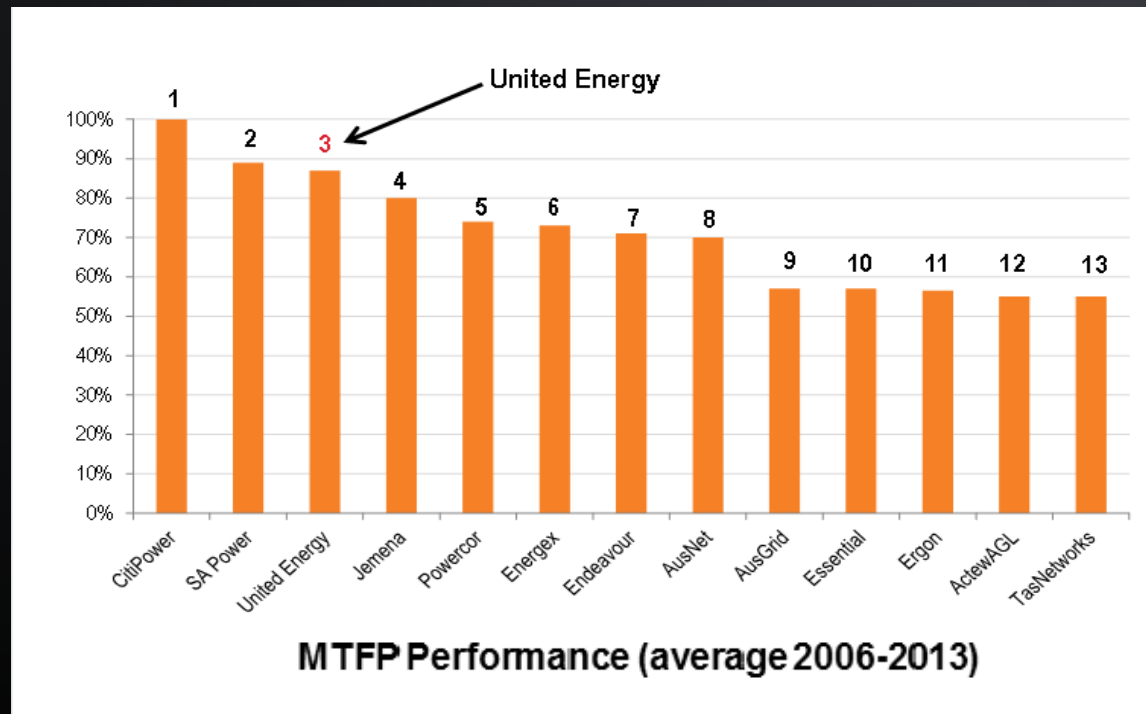
We are efficient

We have the second lowest opex per customer (compared to density & line length)

We have the second lowest opex per MW of maximum demand

Operating expenditure per customer compared to customer density (average 2009–2013)

Opex per MW of maximum demand compared to customer density (average 2009–2013)
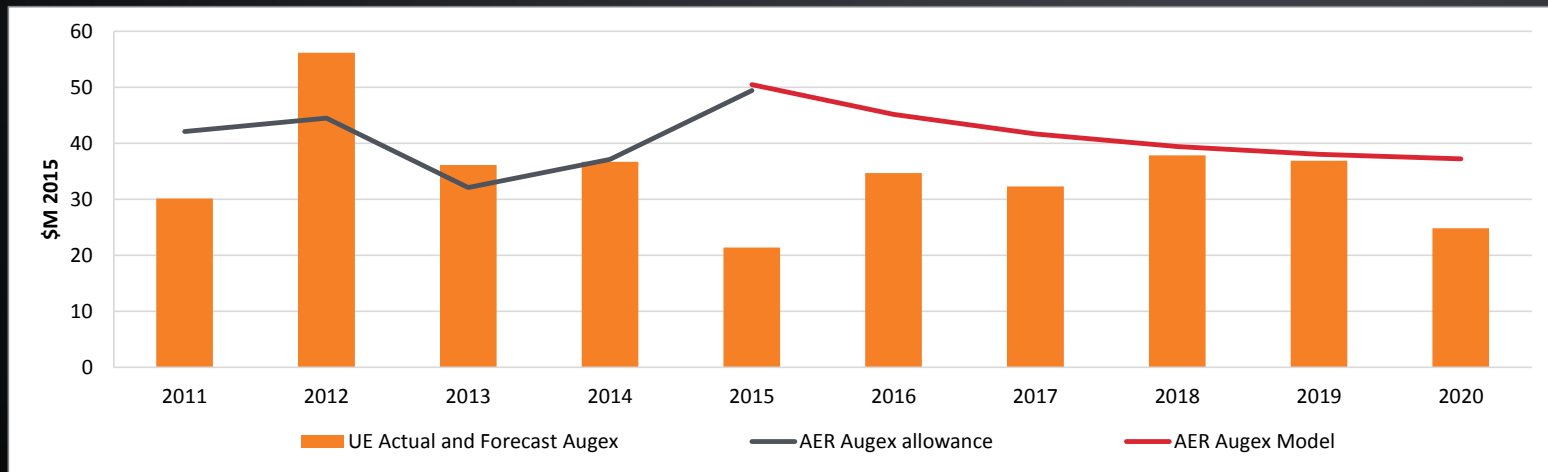
Forecast Capex

- We are seeking total capex of $1.195bn

- This is a 15% increase from current period expenditure

$ M Real 2015	Actual 2011 - 2015	2016 to 2020	% change
Network	876.7	1,000.7	14%
Non-network (IT / Other)	164.7	194.6	18%
Total Gross	1,041.4	1,195.3	15%

- After "normalizing" for Power of Choice and other regulatory obligations the increase is 7%

Augmentation (Augex)

- We are seeking 8% less Augex than current period actual Augex


- Our Augex forecast:
  - Is below the AER's Augex Model results
  - Is required to maintain reliability
  - Is calculated using a summer value of customer reliability (VCR) which is higher than the VCR used by other DNSPs

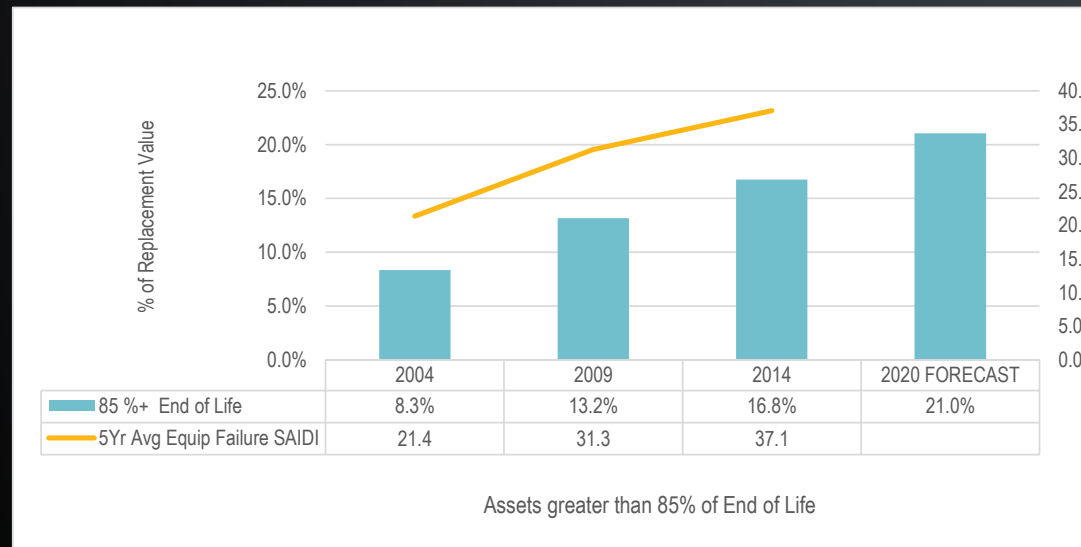# Replacement Capex (Repex)

- We are addressing the replacement bow wave

- Our Repex profile is responding to:

  - The need to replace aging assets

  - Deteriorating reliability associated with our aging assets

  (Note that this has forced us to spend above the regulatory allowance this period)

- Our Repex forecast is 3% below the AER's Repex Model forecast
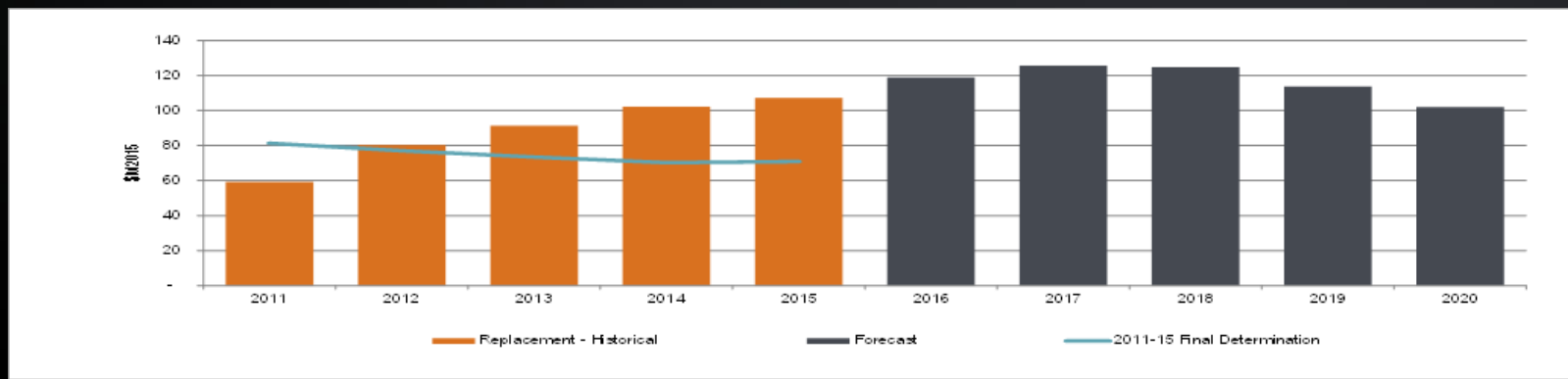
Repex and reliability

- Aging assets impact reliability

- By 2020, 21% of our assets will be beyond 85% of their lives

	2004	2009	2014	2020 FORECAST
85 %+ End of Life	8.3%	13.2%	16.8%	21.0%
5Yr Avg Equip Failure SAIDI	21.4	31.3	37.1	

Assets greater than 85% of End of Life

- We have proposed a holistic approach to address reliability – Repex, Augex and ICT capex combined

- Reducing or delaying spending on replacement will further impact reliability

ICT capex

IT Capex
Next Period (2016 - 2020)
with CROIC termination
and **with** Power of Choice
and RIN Reporting

IT Capex
Current Period
(2011 - 2015)

IT Capex
Next Period
(2016 - 2020) **had
CROIC remained** and
without Power of
Choice and RIN
Reporting

IT Capex
Next Period (2016 -
2020) with CROIC
termination and
without Power of
Choice and RIN
Reporting

Total $157.7M

Total $110.26M

Total $110.26M

Total $180.04M

SCS
$131.2M

SCS
$94.83M

SCS
$102.14M

SCS
Power of Choice
and RIN Reporting
$61.54M

ACS – $8.24M

SCS
$102.14M

AMI CROIC
$26.5M

AMI CROIC
$15.43M

$94.83M

$7.31M
to SCS

$8.12M
to ACS

ACS - $8.12M

ACS - $8.12M

Total SCS forecast for
2016 to 2020 is
$163.68M. This is
comprised of $102.14M
+ $61.54M (the SCS
component of Power of
Choice and RIN
Reporting)

- Our 2016 to 2020 ICT capex forecast is $180m

- Without regulatory changes (Power of Choice and RIN Reporting), our forecast ICT capex is lower than our current period actual ICT expenditure

Cost of capital

- AER's recent decisions on cost of capital have been below DNSPs proposals.

- NSW and ACT DNSPs have lodged Appeal notices.

- We intend intervening in NSW Appeals process.

- Tribunal to determine the outcome.

- Hearings wont be finalised prior to AER Draft Decision in October.

Closing

- We will continue to engage with customers as part of business as usual

- We welcome submissions on our Proposal – due 13 July

- We are interested in your views on key aspects of our Proposal being:

    o Addressing customer expectations for improved service

    o Providing more services for less

    o Maintaining reliability (68 mins)

    o Positioning for the future based on customer led change

    o Good asset management – addressing aging assets and peak demand

Thank you and questions