

# 2023-27 Transmission Revenue Reset

## AER Public Forum

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# Context for our Revenue Proposal



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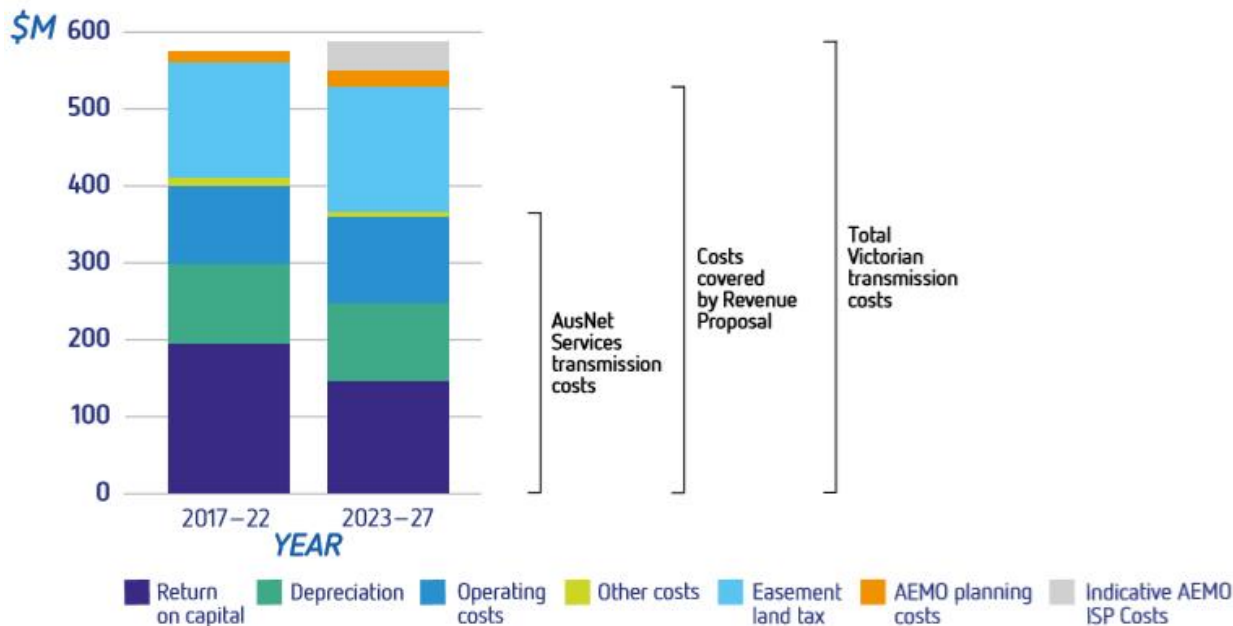
# Victorian transmission arrangements are unique compared to other NEM jurisdictions



## As the jurisdictional TNSP in Victoria, AEMO calculates final Victorian Transmission Use of System charges

These charges include AusNet Services' transmission costs, easement land tax, costs from AEMO's Victorian planning responsibilities and any future costs associated with AEMO's 2020 Integrated System Plan (ISP)

Total average annual Victorian transmission revenue by component (\$M, real 2021–22)



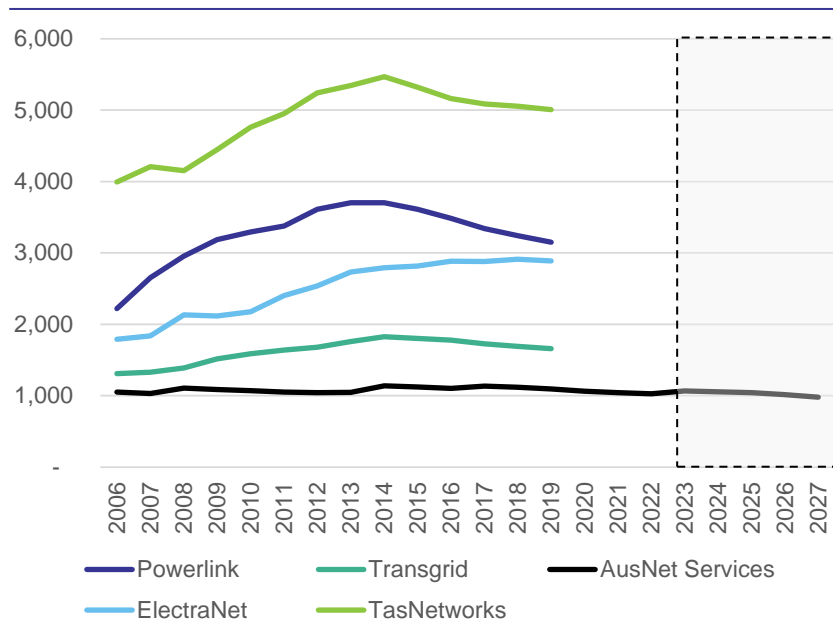
The focus of our Revenue Proposal is to ensure that the costs within our control are managed efficiently and prudently in the long-term interests of our customers

# We have maintained lower costs per customer than other Australian transmission network over the last 20 years

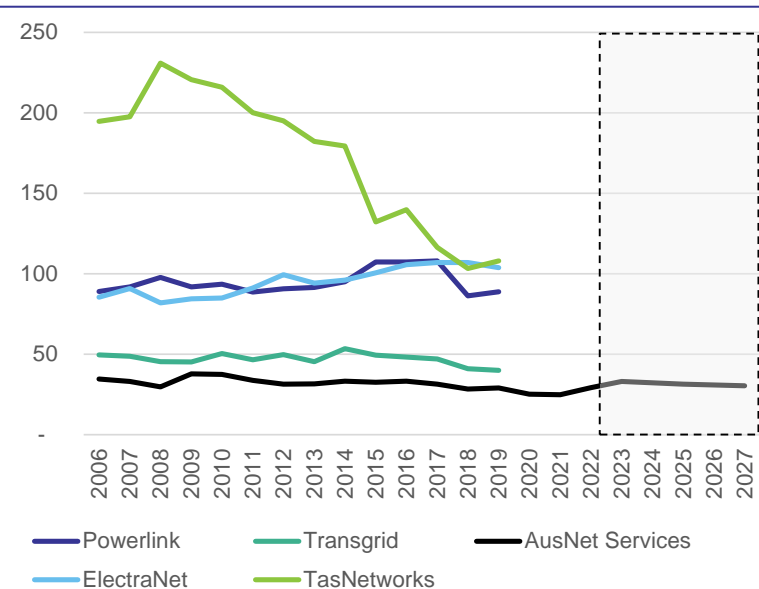


This has been achieved through sound asset management and ongoing operating efficiency improvements and will continue in the next regulatory period

RAB per end-use customer (\$ real 2019)



Opex per end-use customer (\$ real 2019)



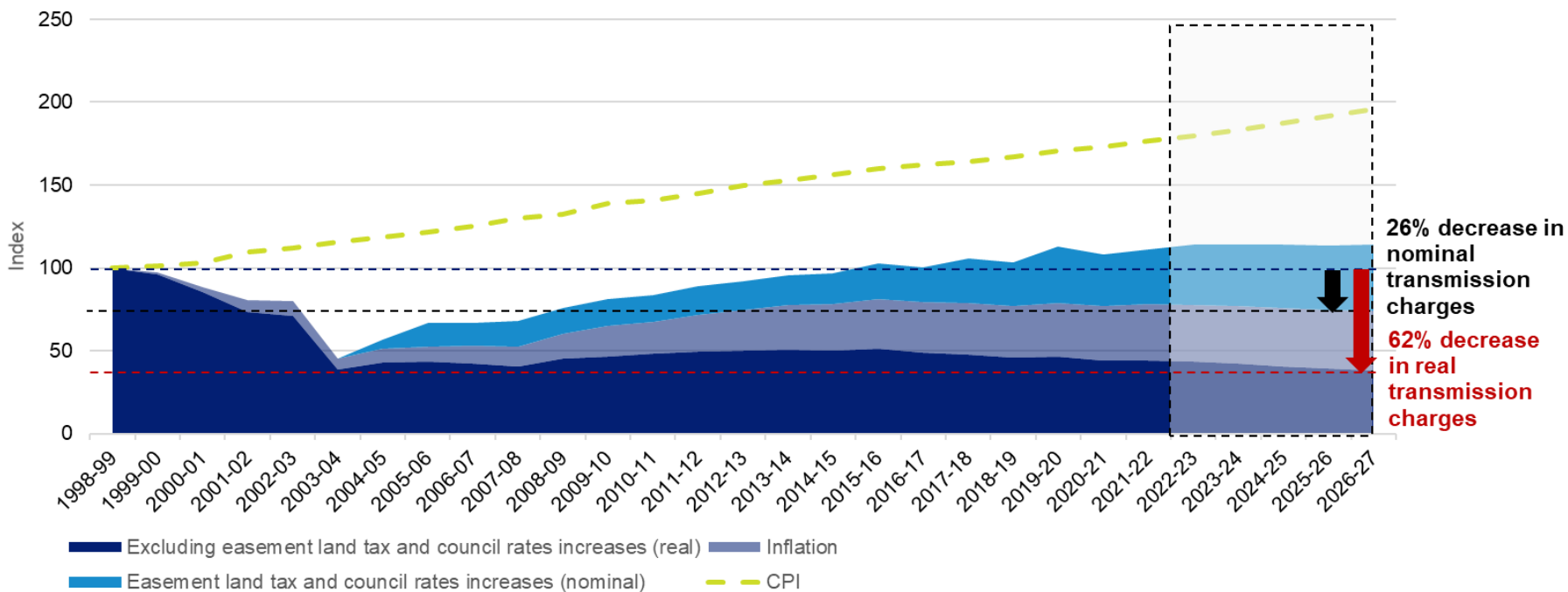
Source: AER, Electricity network performance report 2020, September 2020; AER, Electricity transmission benchmarking report 2020, November 2020; AusNet Services analysis.

By constantly improving our cost performance without compromising our network reliability, we outperform other Australian transmission companies

# We have delivered substantial real price reductions over the long-term

Excluding uncontrollable costs<sup>1</sup>, our proposed charges are forecast to remain 62% lower than at privatisation, in real terms

Price growth since privatisation, actual and forecast (index of \$/MWh)



1. Uncontrollable costs comprise easement land tax and a large increase in council rates expected from 2021-22

**Our forecast revenue requirement  
and transmission charges**



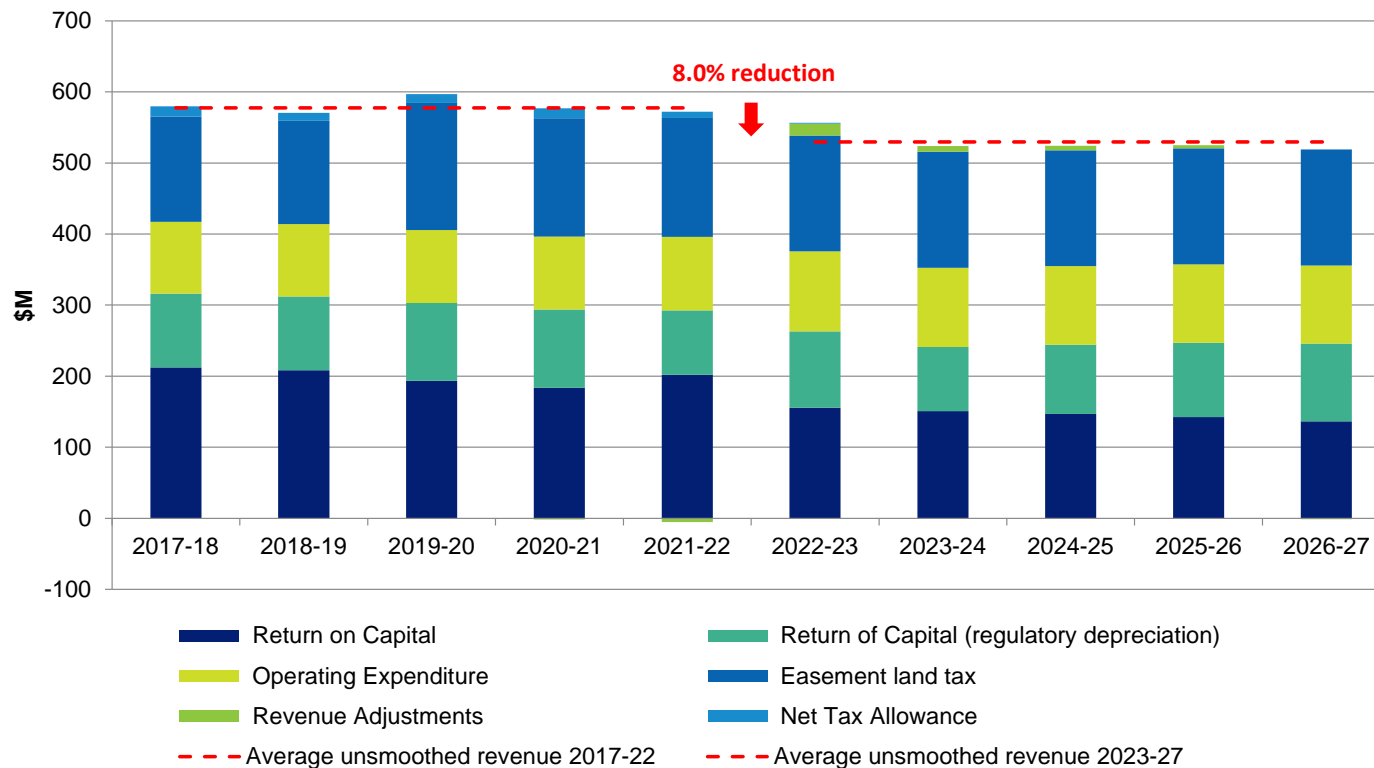
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# Our proposed total revenue requirement is 8% lower than the current period



After accounting for our expenditure forecasts, lower interest rates and AER decisions that lower the cost of capital, our average revenue requirement will be 8% lower than the current period

**Total revenue requirement (\$M real 2021-22)**



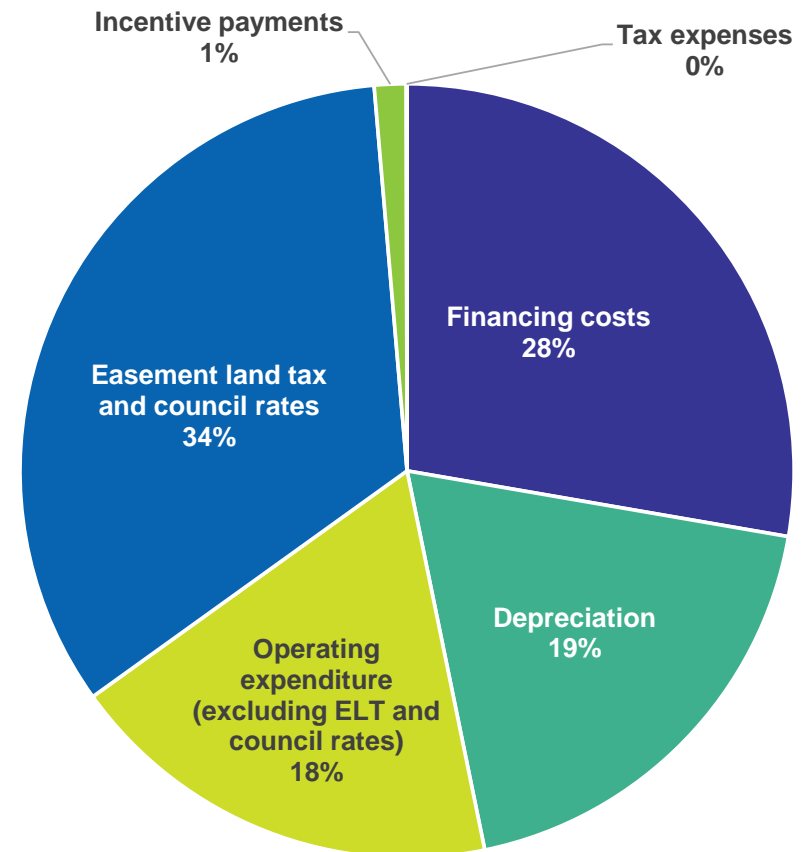
Note: The figure shows approved and forecast revenue building blocks. Approved building blocks have been adjusted to reflect actual easement land tax and annual cost of debt updates

# Government taxes and council rates now account for over one third of our revenue



- ▶ As a result of recent and anticipated increases, Government taxes and council rates now account for **over one third of our proposed revenue**. In contrast, these costs accounted for:
  - **10%** of revenue in **2005**; and
  - **20%** of revenue in **2015**.
- ▶ **Despite these tax imposts**, proposed revenue is **8% (\$241 million) less** than the current period.
- ▶ This reflects **reductions in all building blocks** (except for opex due to uncontrollable costs) due to:
  - Substantial cost savings made by our business;
  - Changes in regulatory parameters and; and
  - Movements in market interest rates.

Proposed revenue building blocks (% , real 2021-22)



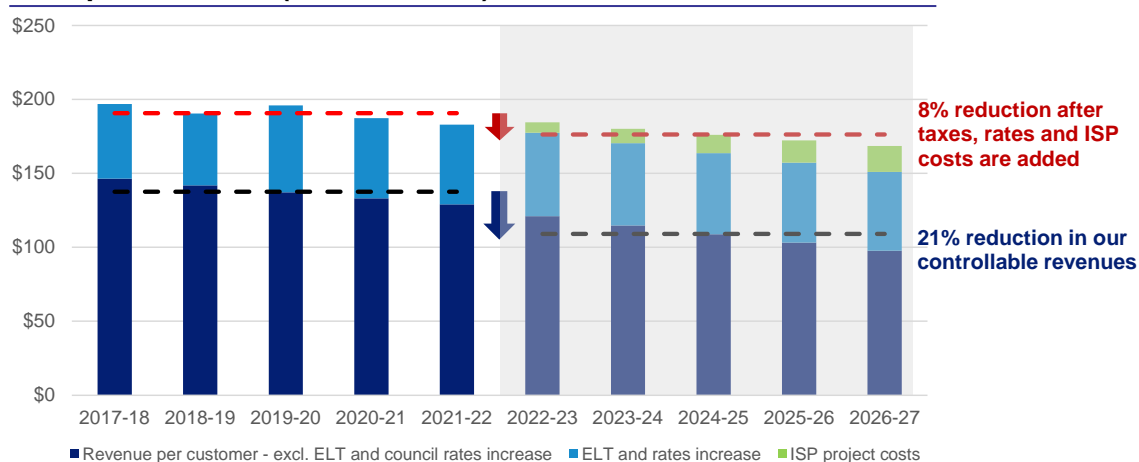


# Our proposal will help offset the costs of major transmission upgrades planned for Victoria



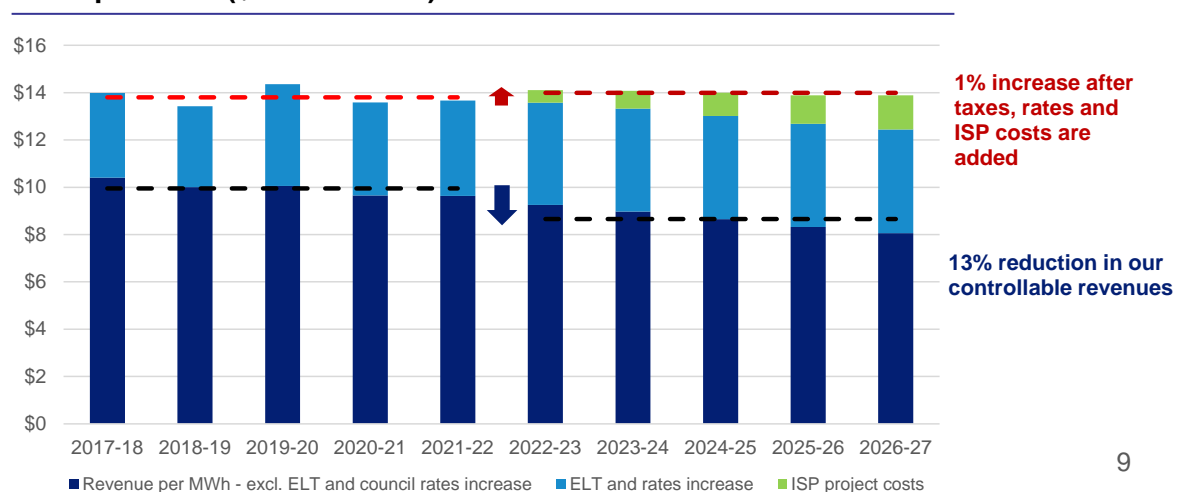
- ▶ Excluding easement land tax and council rates, average cost per end-use customer is forecast to **decrease by 21%**
- ▶ Adding our estimate of ISP project costs, average cost per customer is forecast to **fall by 8%**, from \$191 to \$176 per annum.

**Cost per customer (\$ real 2021-22)**



- ▶ On a per MWh basis, controllable costs are forecast to **fall by 13%** in the next regulatory period.
- ▶ Including our estimate of easement land tax, council rates increases and ISP costs, revenue per MWh is forecast to **remain stable**.

**Cost per MWh (\$ real 2021-22)**



# Drivers and benefits of our expenditure forecasts



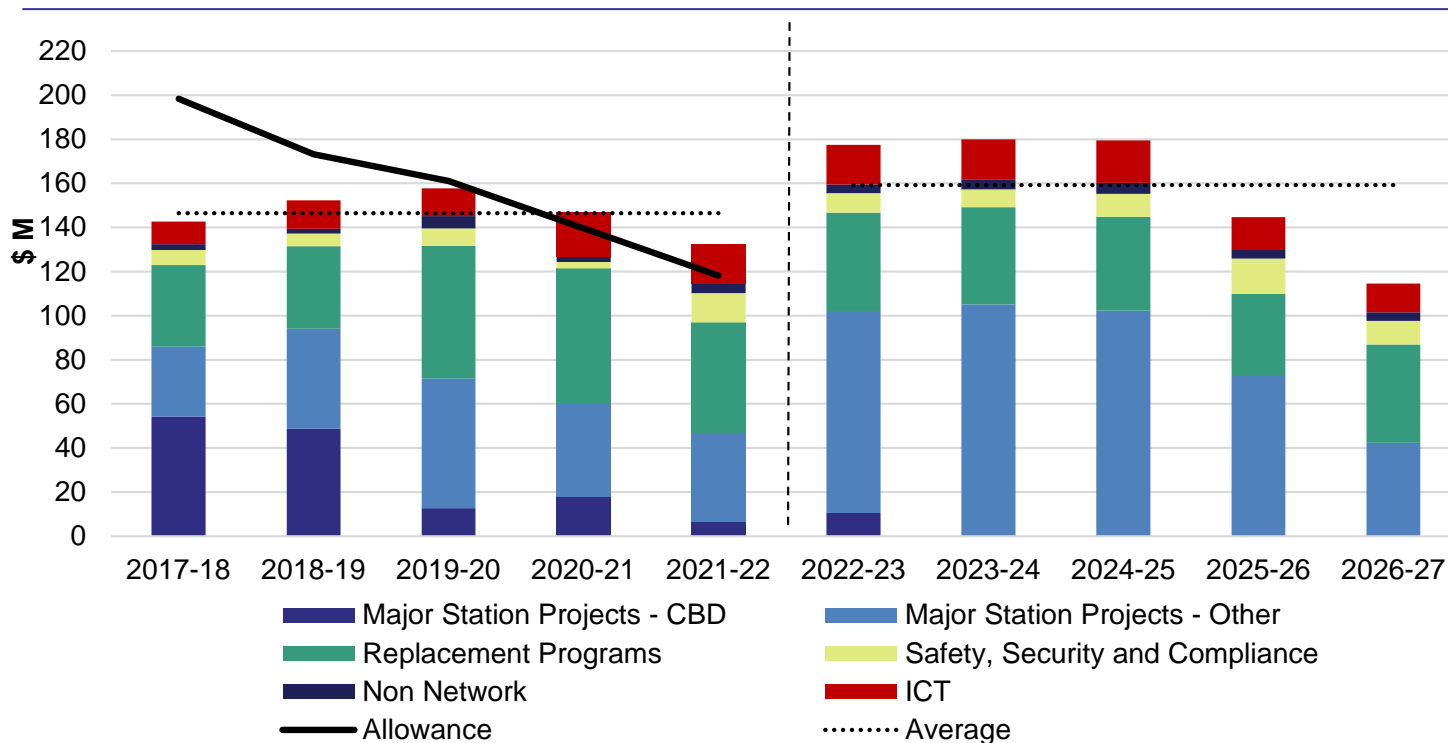
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# Increased investment is needed to maintain network reliability and security



Our total capex forecast is \$796M (real 2021-22), which is in line with the allowance approved for the current period

Actual/expected and forecast capex (\$M, real 2021-22)



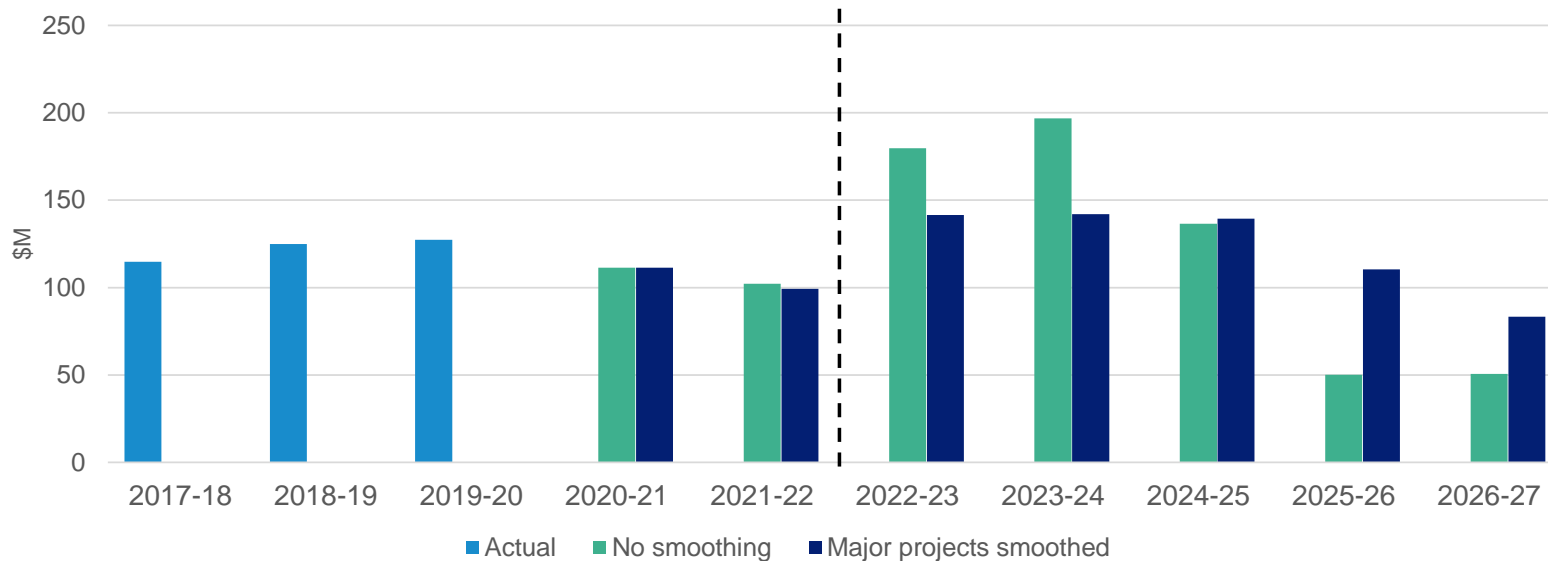
Our forecast major station projects, which account for over 50% of the capex forecast, have been developed using an economic, risk-based approach, and are consistent with the latest VCR

# We smoothed our network capex forecast to manage deliverability risk



With input from our customers, we identified several projects that could be deferred to improve deliverability, without creating unacceptable risk to reliable and safe supply

Smoothed vs unsmoothed network capex forecasts (\$M real 2020, direct costs only)

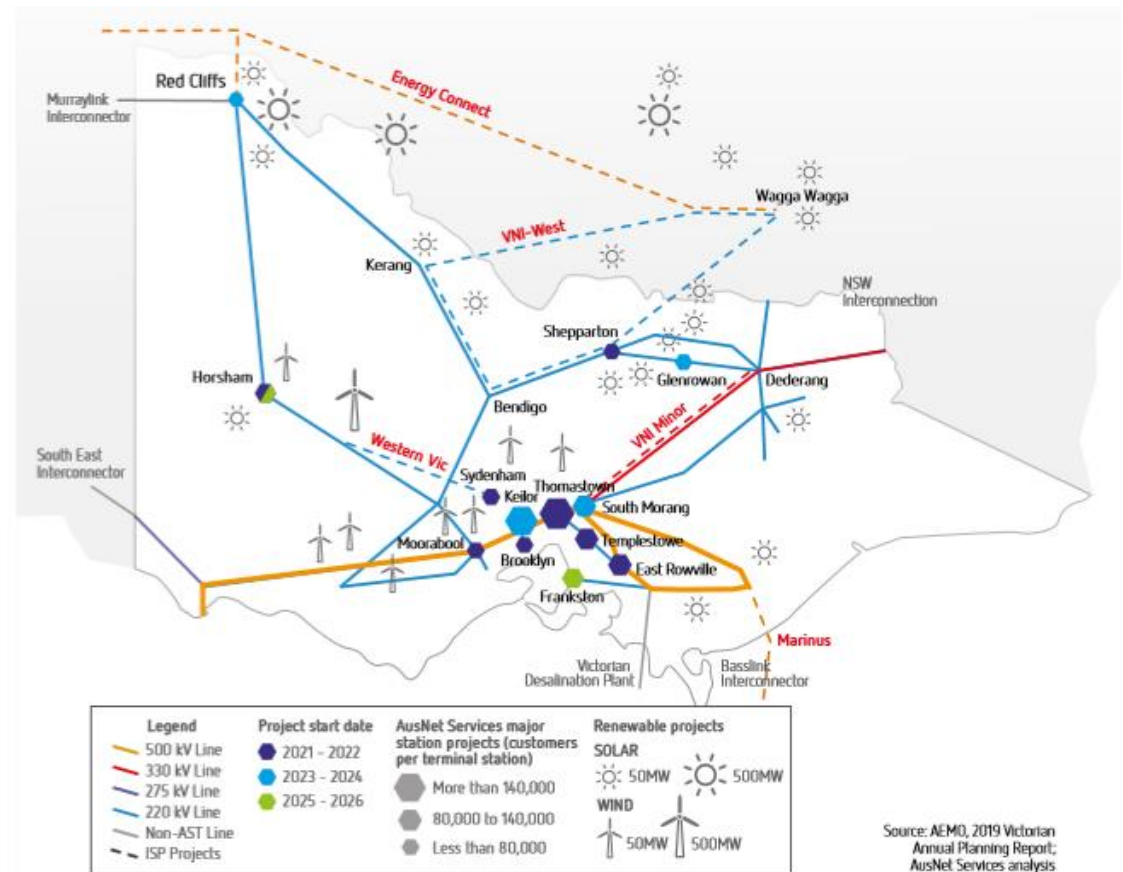


# Key backbone terminal stations asset replacements required to deliver ISP benefits



Location of AusNet Services' proposed major station replacement projects and ISP upgrade projects

- ▶ Major projects at the critical switching stations of **Keilor, Sydenham and South Morang** account for **20% of the total capex forecast**
- ▶ Consideration of ISP project interactions has led to the **deferral of over \$30M of expenditure** at South Morang Terminal Station.



The full benefits expected from increasing interconnector capacity to allow renewable energy to flow between jurisdictions will not be realised without reliable existing transmission networks

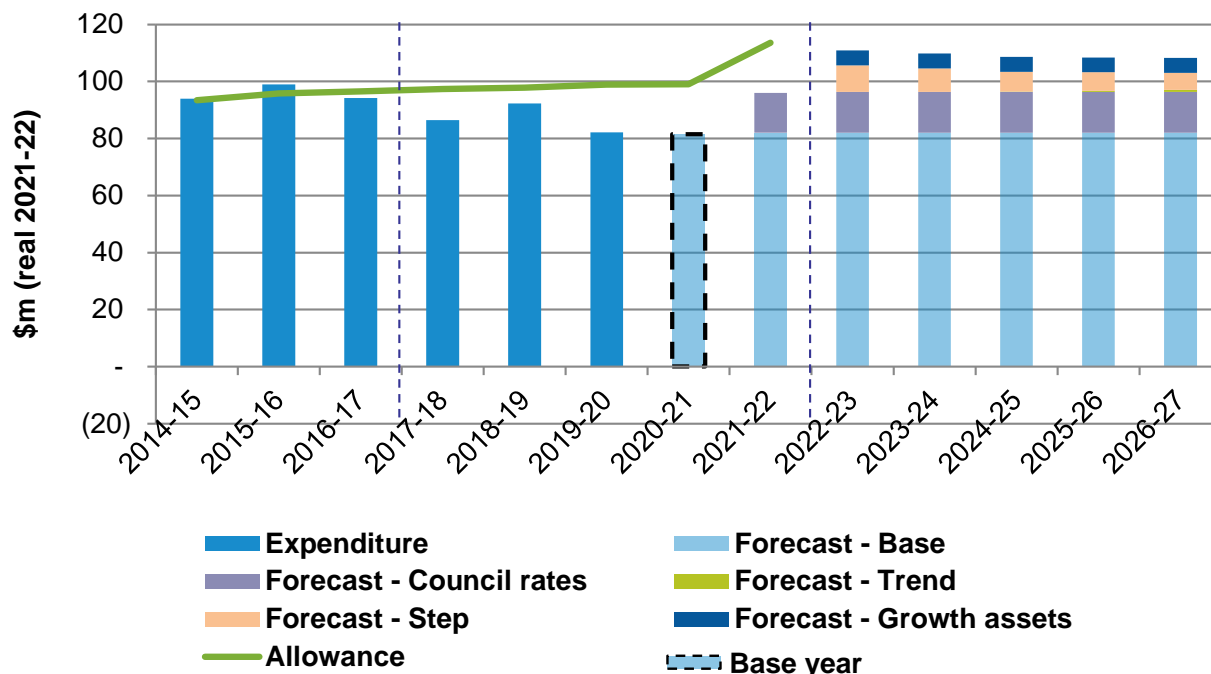
# Lower opex allowance due to significant efficiencies



Excluding uncontrollable costs, proposed opex of \$546M is 5% (\$27M) lower than the current period allowance

- ▶ Customers will receive the benefits of the **substantial efficiency savings** we have made
- ▶ **New cyber security obligations (\$28M) and council rates increases (\$70M)** are driving an increase on current spending levels.

Actual/expected and forecast opex (\$M, real 2021-22)



Note: Excludes easement land tax and debt raising costs; 2021-22 allowance has been adjusted to reflect expected cost pass through of council rates

Our forecasting approach largely follows the AER's established base-step-trend methodology. Independent AER benchmarking confirms the efficiency of our base year costs relative to our peers

**Customer engagement**



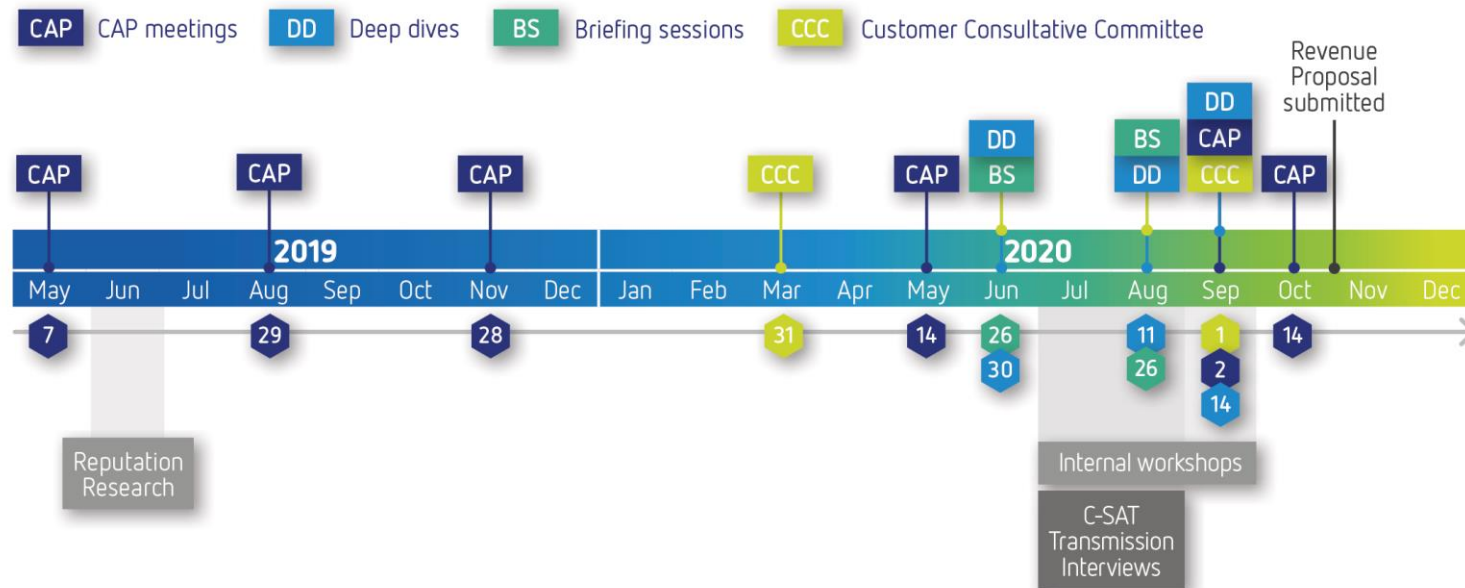
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# Our customer engagement approach

Since May 2019 we have been working with our customers and stakeholders to understand their preferences and reflect these in our Revenue Proposal

We will continue engaging with our customers and stakeholders following the lodgement of our Revenue Proposal to address new information, including COVID-19 effects.

## Customer engagement timeline





# Some more detail on the issues we intend to engage further with our customers on



As part of consulting on our Revenue Proposal, we have been transparent with our customers and stakeholders around how our plans may be impacted by COVID-19 and other new information

<b>COVID-19 effects</b>	<ul style="list-style-type: none"><li>• Updated AEMO demand forecasts, which may impact the timing of our proposed major station projects.</li><li>• Changes to other inputs that are sensitive to economic conditions (e.g. forecast wage growth, interest rates).</li></ul>
<b>AER Reviews</b>	<ul style="list-style-type: none"><li>• Inflation Review impacts.</li><li>• Transmission Ring Fencing Review.</li></ul>
<b>Other information</b>	<ul style="list-style-type: none"><li>• Information clarifying the timing and extent of council rates increases.</li><li>• Cyber security legislative and regulatory changes.</li></ul>