Briefing on our plans and prices

Joe Pizzinga
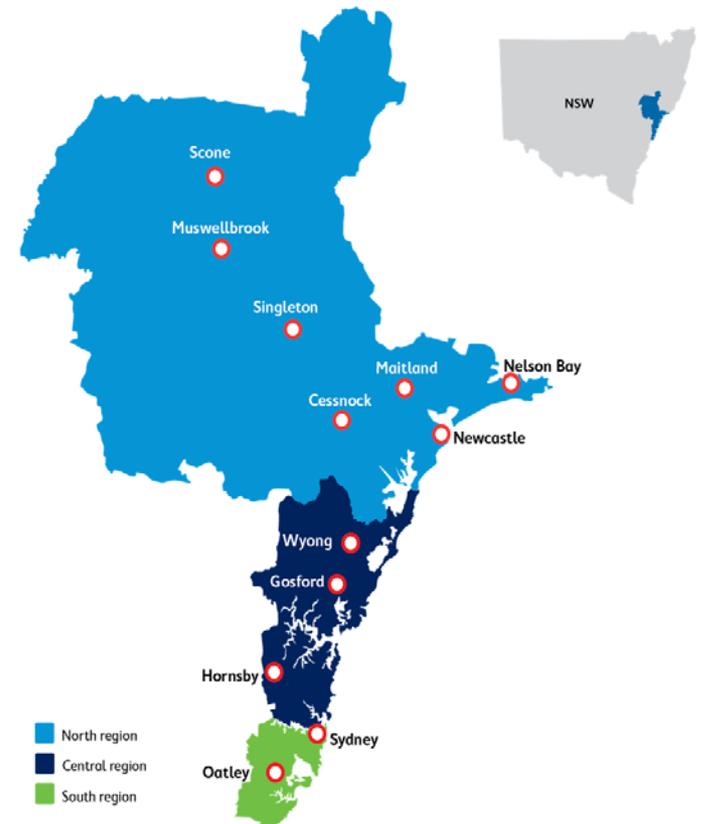**General Manager – Finance & Compliance**
10 July 2014

Outline

- Introduction to Ausgrid and our objectives

- Our improving customer engagement

- Our 5 year plans (revenue, capex and opex)

- Typical bill impacts of our proposal over 5 years

- Savings & efficiencies to date

- Public lighting and metering services

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Largest & oldest electricity network in Australia

- Our network covers 22,275 square kilometers:
  - 30,000 substations
  - 48,000km of power lines and
  - 500,000 power poles

- 1.6 million customers - households and businesses

- 2.2 million meters

- 250,000 street lights

- Building our network today would cost an estimated $38 billion

NSW

Scone

Muswellbrook

Singleton

Maitland

Nelson Bay

Cessnock

Newcastle

Wyong

Gosford

Hornsby

Sydney

Oatley

North region
Central region
South region

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Ausgrid's objectives

- **Safety** standards will be maintained or improved

- We will aim to maintain current average levels of **reliability** performance while making expenditure decisions based on a life-cycle view (20-50 yrs)

- Committed to keeping **price** rises below inflation through careful maintenance and investment planning

Number of Minutes per Outage per Customer (per annum)

Ausgrid charges

excludes inflation
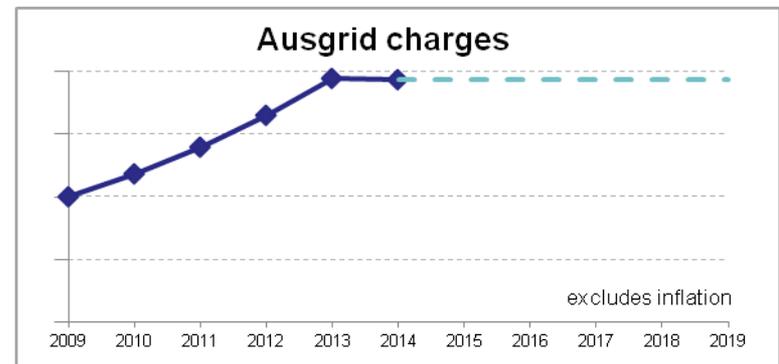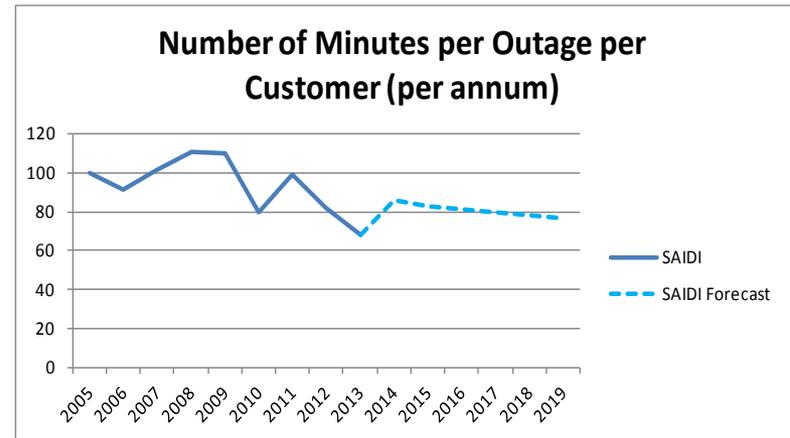
Consumer engagement strategy

- A framework to understand and address consumer engagement
- It follows best practice guidelines from AER based on IAPP
  - Provide information to customers, community and stakeholders
  - Consider feedback when making decisions
  - Report back on changes that have or have not been made.

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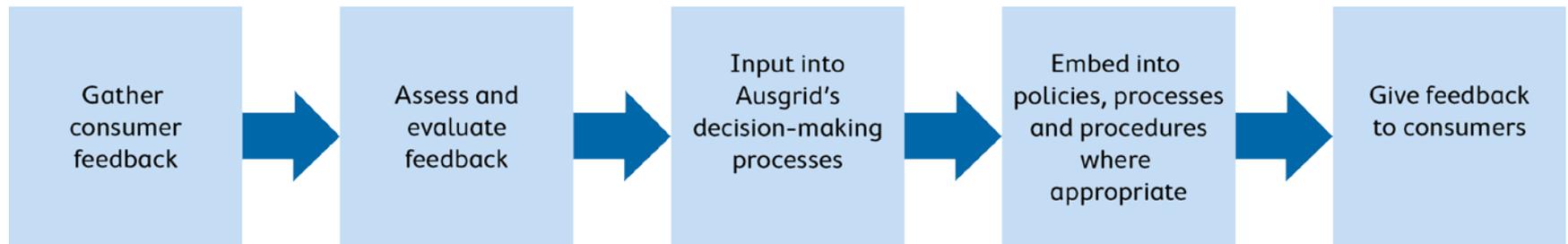
What we have learnt so far

Feedback received

**Reliability -** Satisfied with reliability of power supply and network performance

Prices - Strong views – continuing steep increases are not supported. Preference for stable prices.

Incorporating this feedback

Reliability - Maintain current levels of reliability reflected in network plans – 47% reduction in capital expenditure.

Prices - Price increases below CPI for network part of electricity bills for next five years.
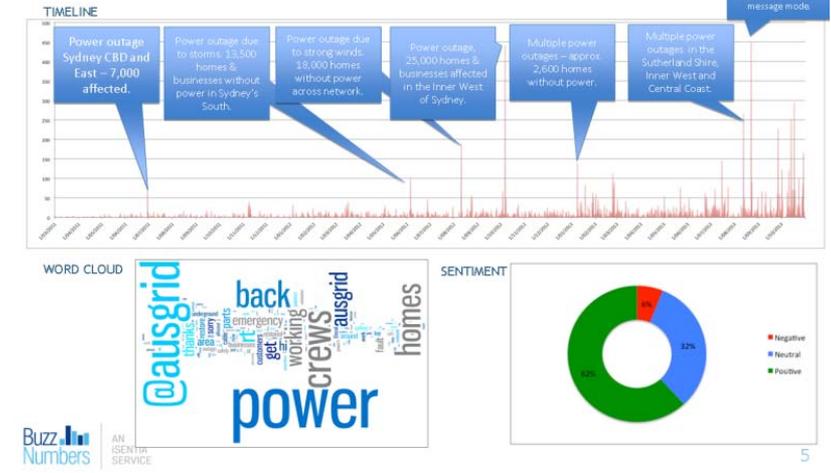
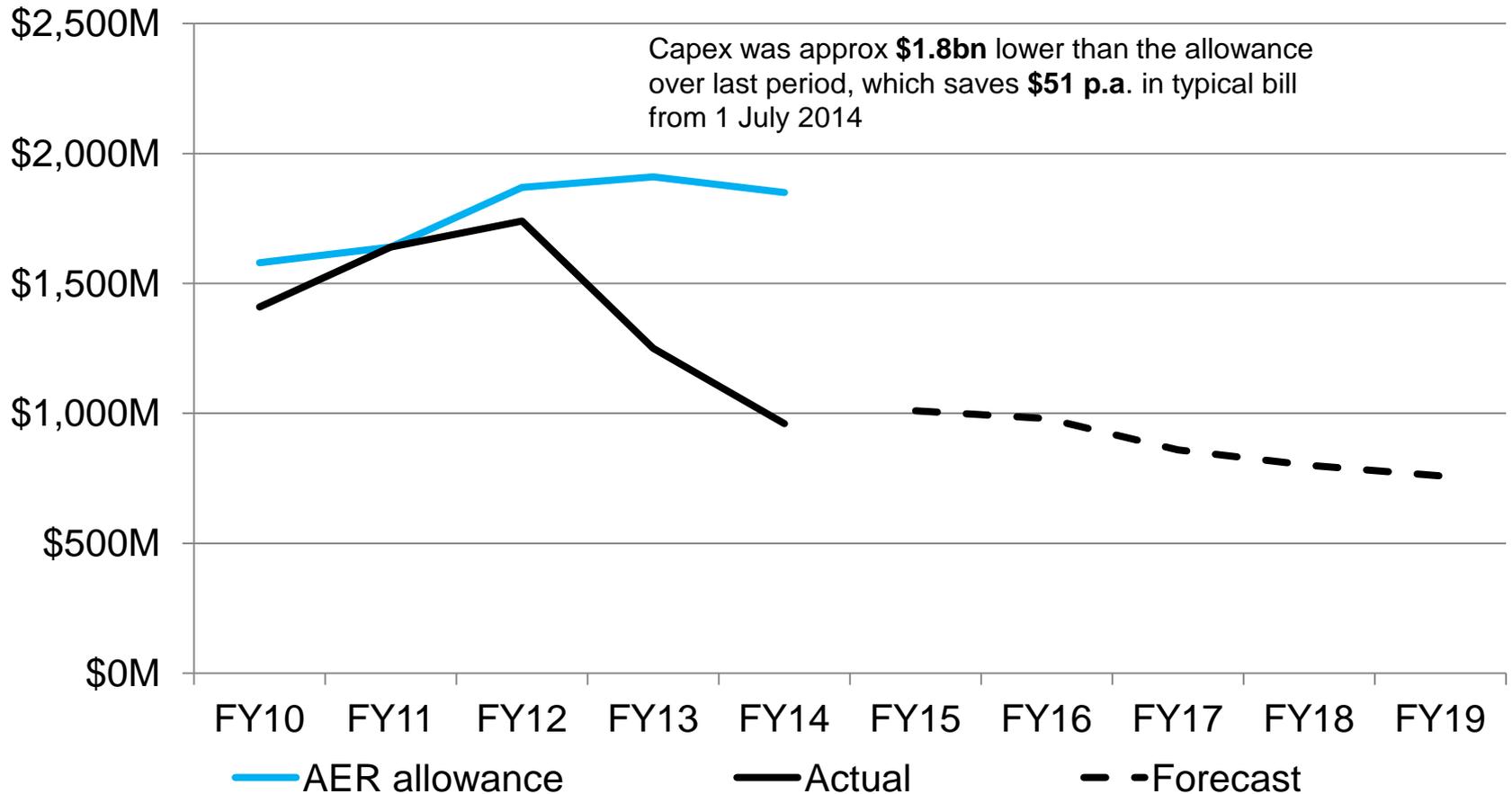# Our commitments for the next five years

Revenue	$11.8 billion
Capital expenditure	$4.9 billion, 47% real decrease
Operating expenditure	$3.3 billion, 4% real increase

Real price reductions: Average network price increase remain below CPI

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Capital expenditure ($m 13/14)

Capex was approx **$1.8bn** lower than the allowance over last period, which saves **$51 p.a**. in typical bill from 1 July 2014
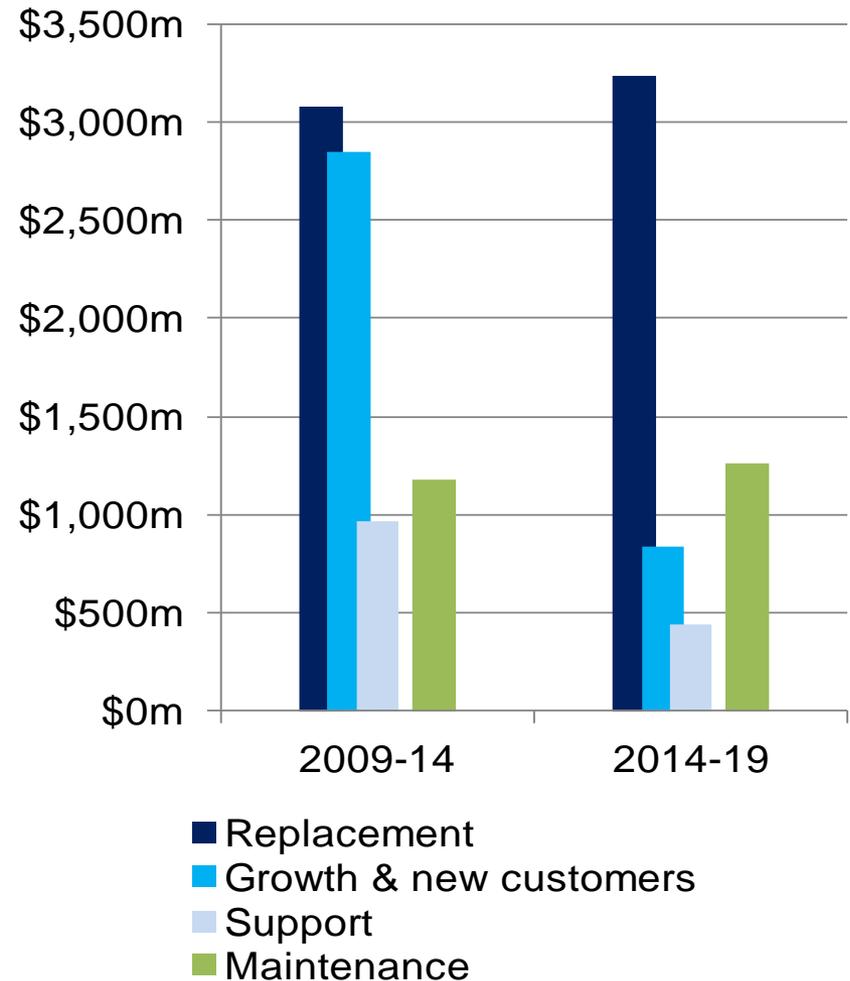
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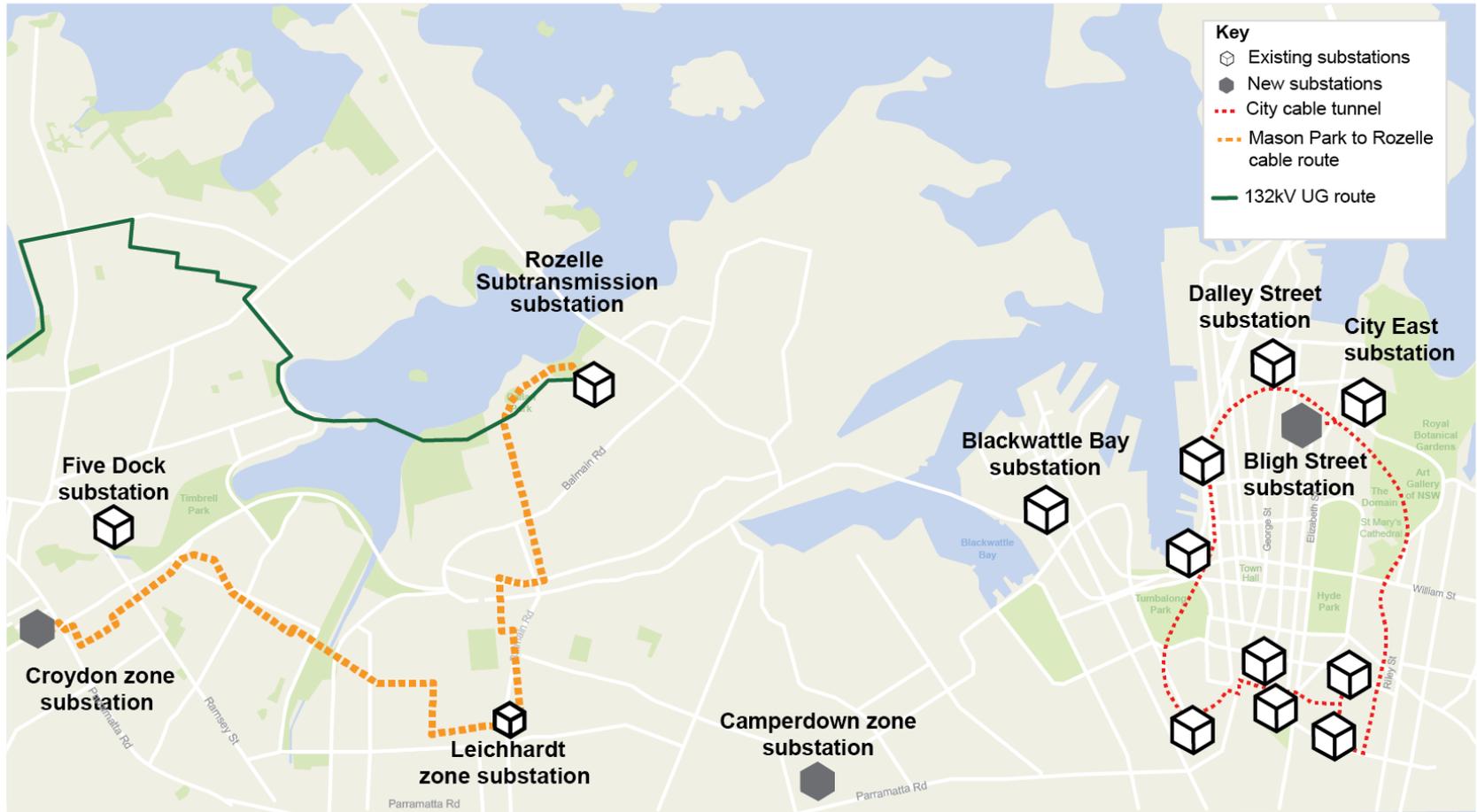
Drivers for our forecast expenditure

Capex

- Safety, reliability and affordability

- Replacing old equipment at risk of failure

- Customer connections – growth
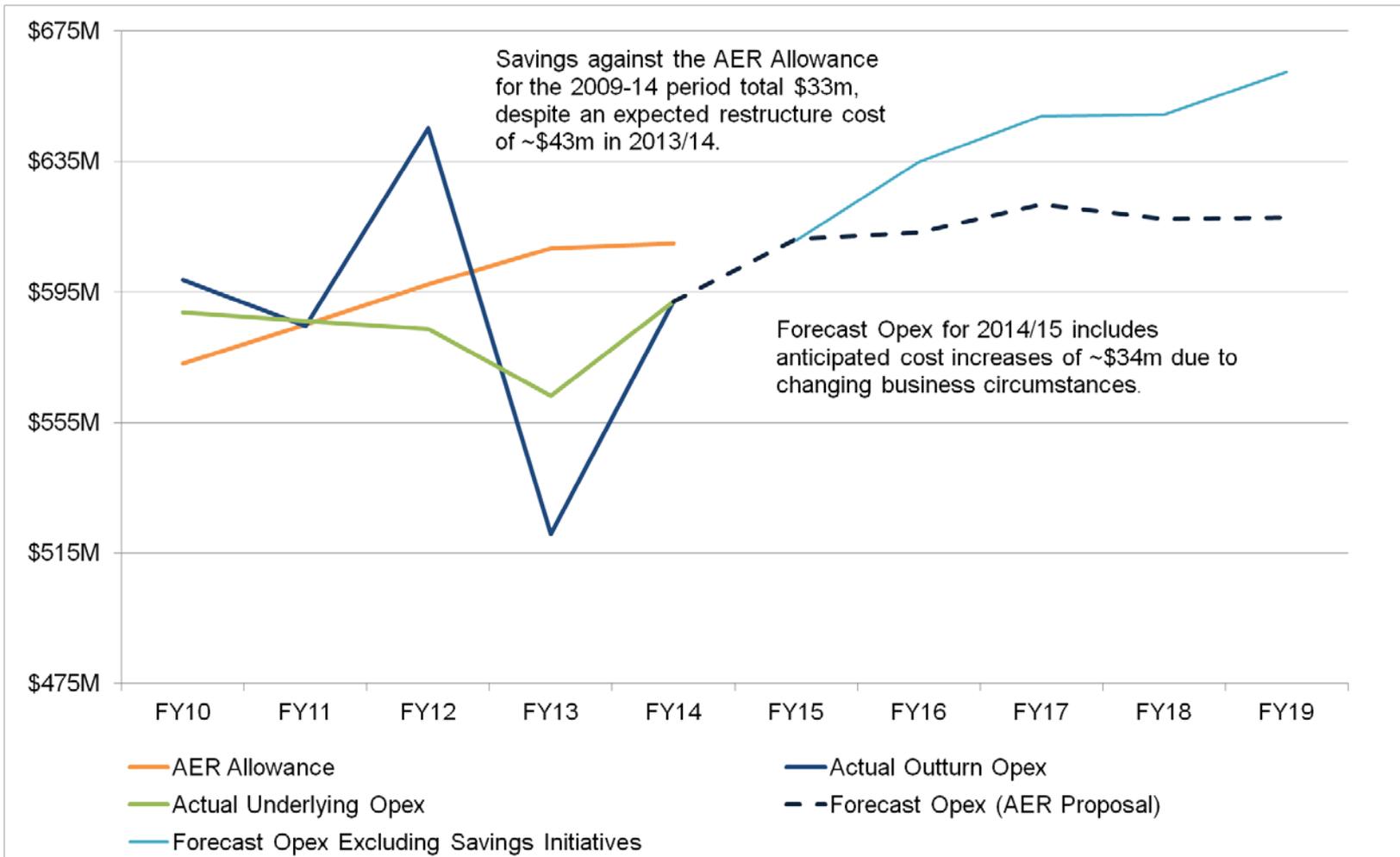
- Supporting investments (IT, property, fleet, etc)

Opex

- Maintenance to keep the network running

Legend:
- ■ Replacement
- ■ Growth & new customers
- ■ Support
- ■ Maintenance

(Bar chart, x-axis: 2009-14, 2014-19; y-axis: $0m to $3,500m)

Our plans for the Sydney CBD and Inner West

Operating expenditure ($m, 13/14)

Operating cost drivers

- Real cost of labour reflects EBA and industry forecasts as advised by independent consultants.

- Increased demand management activities.

- More inspections of private mains to ensure public safety.

- Increased cost of vegetation management under contract.

- Cessation of TSA services to EnergyAustralia.

- Sale of head office requires leaseback for short transition period.

- Upfront costs to restructure Ausgrid to deliver future savings.

We have made changes to reduce our costs

- Better capital governance
- Reduced non-essential spending
  - Travel, entertainment, sponsorship costs all significantly cut.
- Fleet – reduction & extension of life
- Overtime – cut by $70 million
- Reduced the size of non-frontline workforce

Real decreases in network bills

First and proposed average household price increases	2009–10	2010–11	2011–12	2012–13	2013–14	2014–15	2015–16	2016–17	2017–18	2018–19
Dollar change	$108	$83	$105	$158	$20	$18	$15	$21	$20	$20
Percentage change	31.8%	18.7%	19.8%	25.0%	2.5%	2.2%	1.8%	2.5%	2.3%	2.2%

Past increases 2009–14 — Proposed increases 2014–19

- Prices increased by an average 19.5% pa over the past five years

- Small business should expect average price increases of 2.1% pa.

- Largest customers have bills set on cost reflective basis but average price increase across all customers are expected to remain less than CPI.

- We estimate prices in the next five years will increase by on average 2.37% pa – below CPI

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Metering services

- Newly classified by AER not a new service. Offset by reduction in network charges.

- Accumulation metering price is our default service.

- Time of use metering price – allows customers to opt in.

- Incremental charge for secondary metering services such as metering for a solar panel.

- Residual value charges to replace our meter before the end of its life.

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Public lighting

- The general public is satisfied with our lighting services.

- New online outage reporting to help reduce outage times.

- We know Councils have a range of concerns, including the complexity of pricing.

- Small increase in opex charges to reflect higher actual repair costs experienced over the past 5 years.

- Regulatory Proposal is a starting point and we will work with the AER to help implement simpler pricing.

- Deliver public lighting promise to address service levels.

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Be part of our ongoing conversation

- Yoursay@ausgrid.com.au
- Twitter
- Facebook
- Website
- Community engagement report