

2014/15 – 2016/17

ELECTRICITY TRANSMISSION REVENUE PROPOSAL

Public Forum | Wednesday, 24 April 2013

Alistair Parker
General Manager
Asset Management



BACKGROUND

- ▶ About SP AusNet
- ▶ Review of current regulatory period

The logo for SP AusNet, featuring a stylized white 'S' and 'A' intertwined, with the text 'SP AusNet' and 'A member of Singapore Power Group' below it.

About SP AusNet Overview



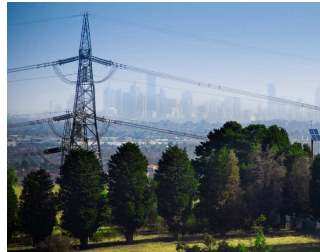
A diversified energy infrastructure business

Electricity, gas, water and supporting services

Own and operates \$7.0 billion worth of assets across Victoria

51% owned by Singapore Power

Listed on the ASX and SGX



About SP AusNet Networks



Key Network Statistics*

Electricity Transmission

- 6,573km of transmission lines across Victoria
- Covers an area of approximately 227,600sqm serving a population of over 5.5m people

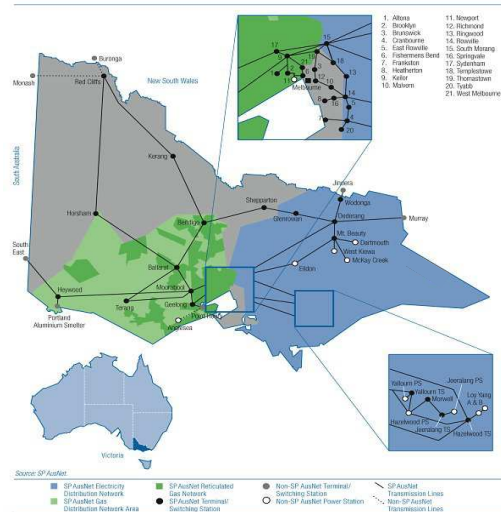
Electricity Distribution

- 49,408km of electricity distribution network in north and east Victoria
- 652,413 electricity distribution consumers

Gas Distribution

- 10,000km of gas distribution network in western Victoria
- 613,760 gas distribution consumers

* All figures are approximate as at 30 Sep 2012



About SP AusNet Electricity Transmission



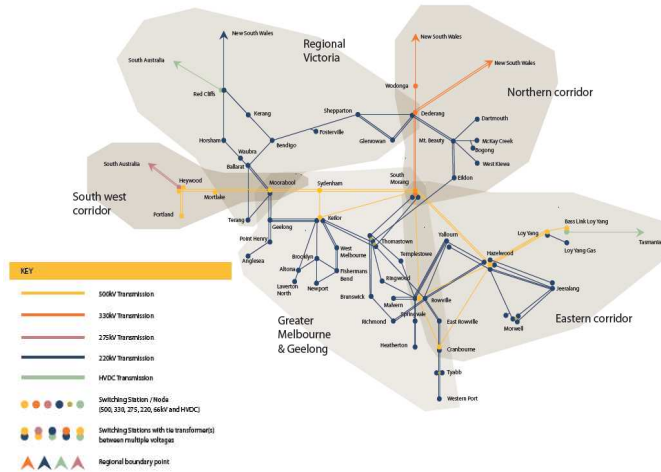
Serves in excess of 2.2 million households and businesses

Transferred over 50 million MWh of energy in 2011/12 and serviced a peak demand of 9,190MW

Connects generators, distributors, high voltage customers and the transmission systems of neighbouring states – New South Wales, South Australia and Tasmania

Regulated assets worth over \$2.5 billion

Victorian Electricity Transmission Network



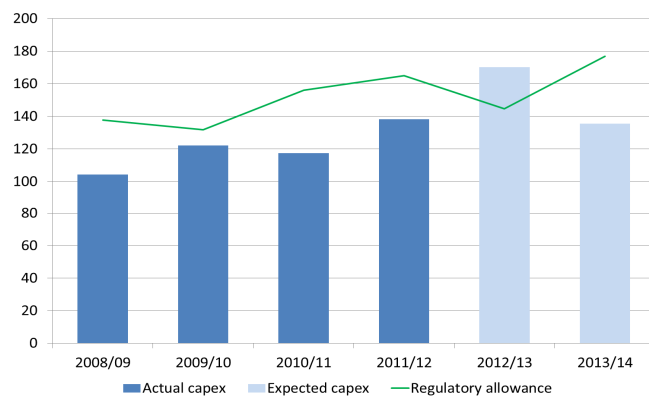
Review of current regulatory period Capex 2008/09 to 2013/14



Overall capex in the current period is expected to total \$789m (real 2013/14)

Largely due to identifying efficiencies through staging timing of large complex projects, prioritising projects based on asset failure risks and deferring lower-risk project components

Actual/expected capex vs. benchmark (\$m, real 2013/14)



Source: SP AusNet analysis

Overall capex is expected to be 13% below regulatory allowance

Review of current regulatory period Controllable opex 2008/09 to 2013/14

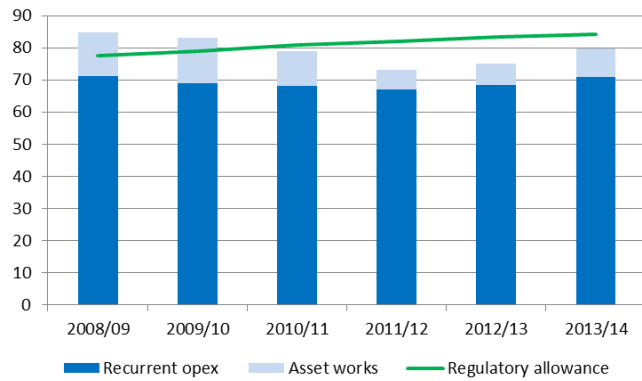


Average annual controllable opex is expected to be \$79m (real 2013/14)

Reflects higher than forecast recurrent opex, largely due to increased condition monitoring, insurance premiums and reporting requirements

Increase has been offset by lower than forecast non-recurrent opex reflecting cost efficiencies in project delivery and changing priorities

Actual/expected controllable opex vs. benchmark (\$m, real 2013/14)



Source: SP AusNet analysis

Total controllable opex is expected to be 3% below regulatory allowance

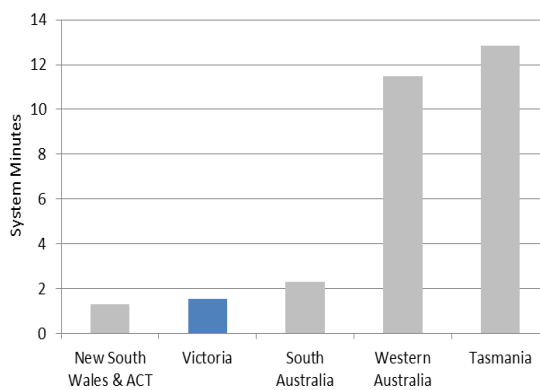
Review of current regulatory period Historical service performance



System minutes unsupplied is a key measure of service level of the transmission network as perceived by network customers

Victoria has the second-lowest average system minutes unsupplied in comparison to other NEM states from 2000 to 2011

Average system minutes unsupplied (mins) 2000/01 – 2010/11



Source: Survey data from ESAA, which does not include data for Queensland since 2005-06. To SP AusNet's knowledge, data for Queensland is not otherwise publically available.

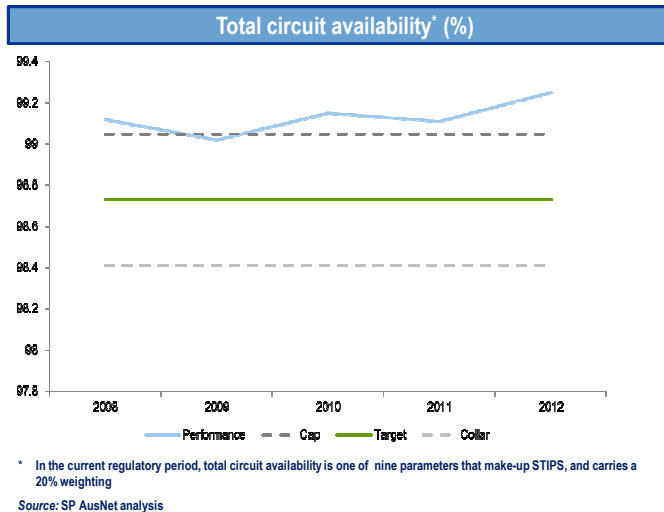
Consistently delivered a high level of service performance and improvements to network reliability

Review of current regulatory period Service performance 2008/09 to 2013/14



In the current regulatory period, SP AusNet has generally performed strongly against AER's Service Target Performance Incentive Scheme (STPIS) parameters to improve network reliability

For example, SP AusNet's performance against the total circuit availability parameter demonstrates significant outperformance against the target for all years in the current period



Strong performance is due to a combination of factors including outage planning to avoid peak periods

CONSUMER IMPACTS & ENGAGEMENT

- ▶ Price impact of this Proposal
- ▶ Consumer engagement in developing this Proposal
- ▶ Future plans



SP AusNet expects this Proposal to continue to deliver sound value to customers

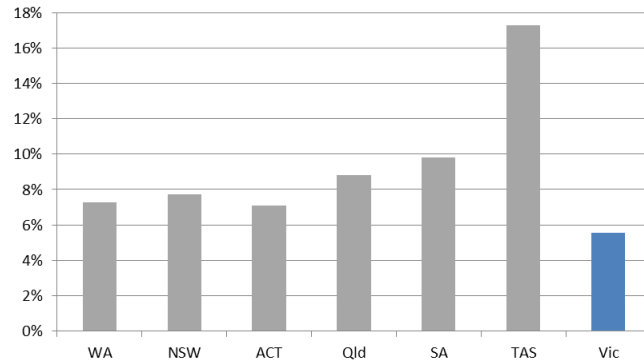


AEMC data for 2010/11 shows Victoria has lowest transmission component on average residential bill of less than 6%

AEMC data indicates this would be 4% in 2012/13

Revenue Proposal is forecasting a typical residential user's \$1,300 bill will fall (in real terms) from 4% (\$52) to 3.5% (\$46) in 2014/15 and remain at that level over the forecast period

2010/11 Transmission Component of Average Residential Bill



Source: AEMC, Final Report Possible Future Retail Electricity Price Movements: 1 July 2011 to 30 June 2014, November 2011
 Note - Values are in nominal dollars, exclude GST and are based on the average annual consumption in each jurisdiction across the distribution areas. See AEMC Report for methodology used to derive values

Proposal is expected to maintain Victorian transmission costs as the lowest transmission component of a typical end user's bill in the NEM

In developing this Proposal, SP AusNet has taken steps to improve consumer engagement



SP AusNet recognises the importance of better understanding the needs, preferences and priorities of end use consumers

Provides efficient forecasts to minimise the impact of electricity prices on the cost of living

Work undertaken to date...

- **Seeking to develop methods to enable meaningful engagement with consumers**
- **Met with the Energy Users Association of Australia (EUAA) and Consumer Utilities Advocacy Centre (CUAC) to discuss and inform the Revenue Proposal**
- **As a result, the Revenue Proposal includes:**
 - bill impact information for larger industrial customers
 - summary of community consultation conducted for CBD rebuilds

SP AusNet is committed to improving liaison with consumer groups throughout this revenue reset

SP AusNet intends to improve its consumer engagement processes



New Rules require greater consumer engagement and formalise the need to take views of consumers into account

Work planned for remainder of this regulatory process...

- Analyse and show impacts of the CBD rebuilds on transmission prices in the various distribution areas
- Meet with stakeholders to understand views on the Revenue Proposal and where possible, respond to these before the AER's Draft Decision
- Address views and concerns raised in formal submissions in the Revised Revenue proposal where possible
- Discussions with stakeholders to understand how engagement could be improved

Engage consumers early in the process and address issues prior to close out of a revenue determination

12

OUR PROPOSAL

- ▶ Summary
- ▶ Forecasting methodology
- ▶ Capex
- ▶ Opex
- ▶ Rate of return
- ▶ Real price cuts



Summary of our Proposal



Maintains service levels

Forecasts an increase in capex driven by two major terminal station rebuilds

Forecasts lower rate of return

Delivers upfront real price cuts in excess of 10% to transmission component of customers bills

3 year regulatory period under previous version of the National Electricity Rules

Summary of key forecasts

CAPEX* (\$m, real 2013/14)	575	▶ 46% increase from historical average driven by terminal station rebuilds
OPEX (\$m, real 2013/14)	658	▶ 46% of forecast opex is the Victorian Easement Land Tax
WACC (Nominal vanilla)	7.19%	▶ Around 2% lower than return applied in current period, largely driven by a lower risk free rate
WACC (Post tax real)	4.09%	
Average annual revenue (\$m, nominal)	533	
Forecast P ₀ change (Real)	-11.8%	

* In Victoria SP AusNet is not the network planner, therefore, network expansions or upgrades (augmentation capex) are not included in forecast capex

Maintains high reliability and low cost

SP AusNet's forecasting approach reflects objective, risk based economic evaluations



SP AusNet has developed a proposal which balances the reliable and safe supply of electricity, the risks associated with asset failure and cost impacts to customers

We recognise the importance of providing long term benefits to customers and end users, particularly given current concerns about rising electricity costs

Key features of our forecasting methodology

- SP AusNet's Asset Management Strategy (AMS) underpins this Proposal, delivering optimal balance between risk, cost and performance
- Robustness of data, processes and systems applied in developing forecasts independently validated by SP AusNet's certification against the Publicly Available Specification (PAS) 55
- An internationally recognised standard, which demonstrates SP AusNet is an industry leader in asset management, with robust and transparent asset management policies, processes, procedures, practices and a sustainable performance framework

Our forecasting methodology ensures efficient timing of network investment

Proposal forecasts capex requirements of \$575m (real 2013/14)

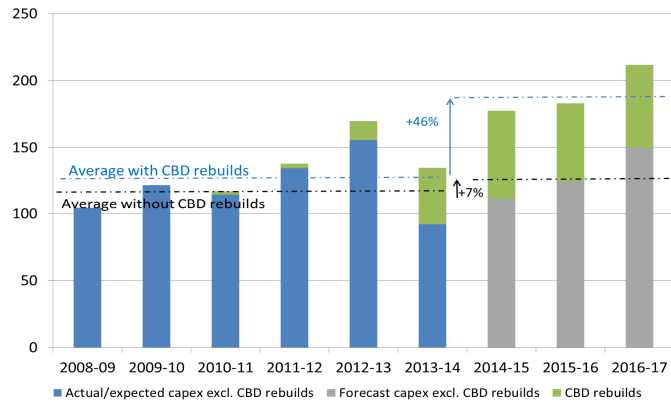


One third of total capex forecast relates to two major terminal station rebuilds, redevelopment of Richmond and West Melbourne Terminal Stations (CBD Rebuilds)

Drives a 46% increase on the average annual expenditure in the current period

Capex rises by just 7% on average when those special projects are excluded

Actual/expected and forecast capex (\$m, real 2013/14)



Source: SP AusNet analysis

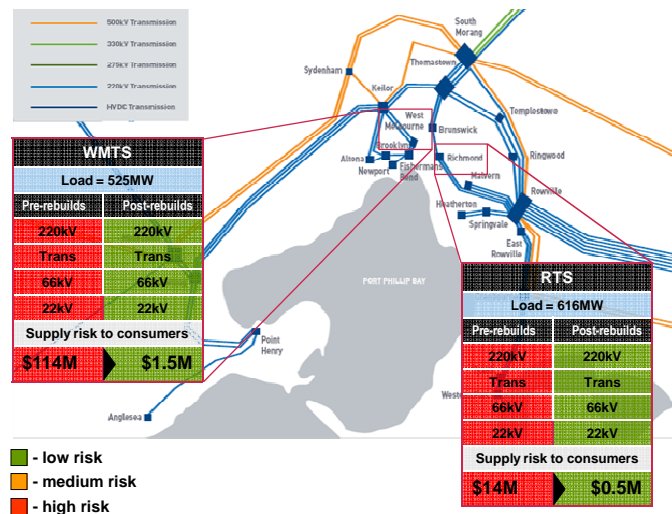
Increase driven by CBD Rebuilds with costs largely borne by distribution customers serviced by rebuilds

CBD Rebuilds are critical projects that must be delivered over the next regulatory period



Asset condition at Richmond Terminal Station (RTS) and West Melbourne Terminal Station (WMTS), which supply most of Melbourne's CBD and inner suburban areas, pose significant supply security risks

Supply risk at RTS and WMTS pre and post CBD Rebuilds



These projects involve difficult and complex rebuilding work at confined inner city sites



Not like-for-like asset replacements - adoption of GIS is necessary due to the space restrictions at the terminal stations

Aerial view of West Melbourne Terminal Station



Aerial view of Richmond Terminal Station



Design allows for future capacity expansion to meet future demand

Capex forecast has been developed through rigorous economic evaluations of risk

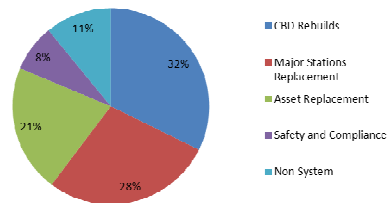


Majority of capex (60%) relates to substantial rebuilding and refurbishment of terminal stations

Increasing replacement requirements, foreshadowed in previous Revenue Proposals, are consistent with age profile of the asset base

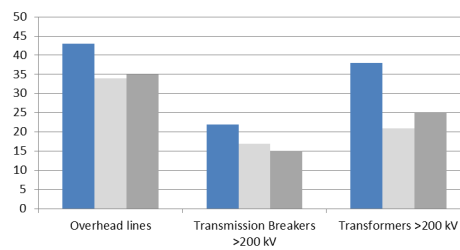
Internal governance discipline and project prioritisation resulted in decisions to delay some projects to accommodate CBD rebuilds and minimise cost impacts to customers

Breakdown of capex forecast into driver categories



Source: SP AusNet analysis

Average age (yrs) of major network assets compared to other TNSPs



Source: ITOMS 2009 Survey, SP AusNet ■ SP AusNet ■ Europe ■ Australia

Proposal forecasts opex requirements of \$658m (real 2013/14)



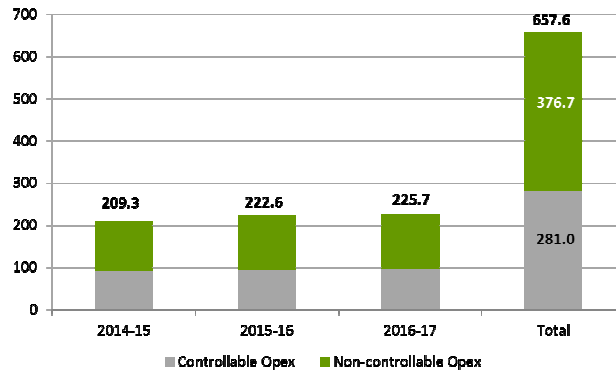
46% of total opex forecast services easement land tax (non-controllable cost)

This does not reflect an underlying cost of running the company

Average annual controllable opex in the forthcoming regulatory period will be approx. 19% higher than the current period (real terms)

Increase reflects enhanced condition assessment of overhead lines and corrosion risk mitigation

Forecast opex (2014/15 to 2016/17) (\$m, real 2013/14)



Source: SP AusNet analysis

Increase largely driven by step changes to better understand condition of deteriorating assets

Proposal forecasts a significantly lower rate of return than currently applies



- ▶ Forecast nominal vanilla WACC of 7.19%
- ▶ Forecast post-tax real WACC of 4.09%
- ▶ Around 2% lower than currently applies

Summary

- Parameters and methodologies are set under the previous/old Rules
- Values will be updated to reflect prevailing capital market conditions at the time of the AER's Final Decision
- Forecast of lower rate of return is largely driven by a lower risk free rate, consistent with changed market conditions
- Rate of return at this level is not sustainable. In the longer term, consumers' interests are protected by ensuring adequacy and consistency in the rate of return available to investors in Australian energy infrastructure

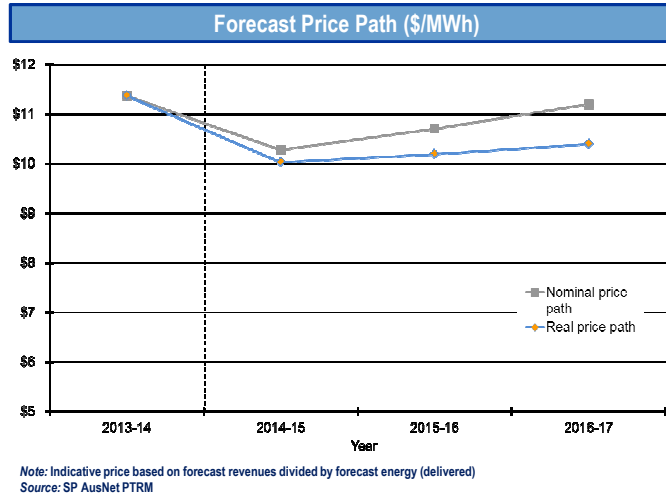
Drives a modest price decrease over the 2014-17 regulatory control period

Proposal forecasts real price reductions



Proposal forecasts prices falling by 11.8% at the start of the forthcoming regulatory period, and increasing by 1.6% and 2.0% in the following years

These prices are based on forecast revenues that maintain current network performance and reliability



Proposal minimises the contribution of network charges to electricity prices and cost of living

In summary...



A key consideration in the development of this Revenue Proposal has been to minimise the contribution of network charges to electricity prices

Proposal provides Victorian customers with efficient and low cost transmission services

1 Real price cuts

- Proposal provides value to customers by maintaining high levels of reliability and delivering real price cuts

2 Enhanced consumer engagement

- As part of developing this Proposal and in plans for forthcoming regulatory period

3 Robust forecasting methodology

- Proposal will deliver highest priority investments based on rigorous economic valuations of risk

4 Significance of CBD rebuilds

- Critical projects addressing significant supply risks must be delivered in the forthcoming regulatory period

5 Sound historical service performance

- SP AusNet has consistently provided high levels of service performance and responded well to incentive schemes through improving reliability to customers