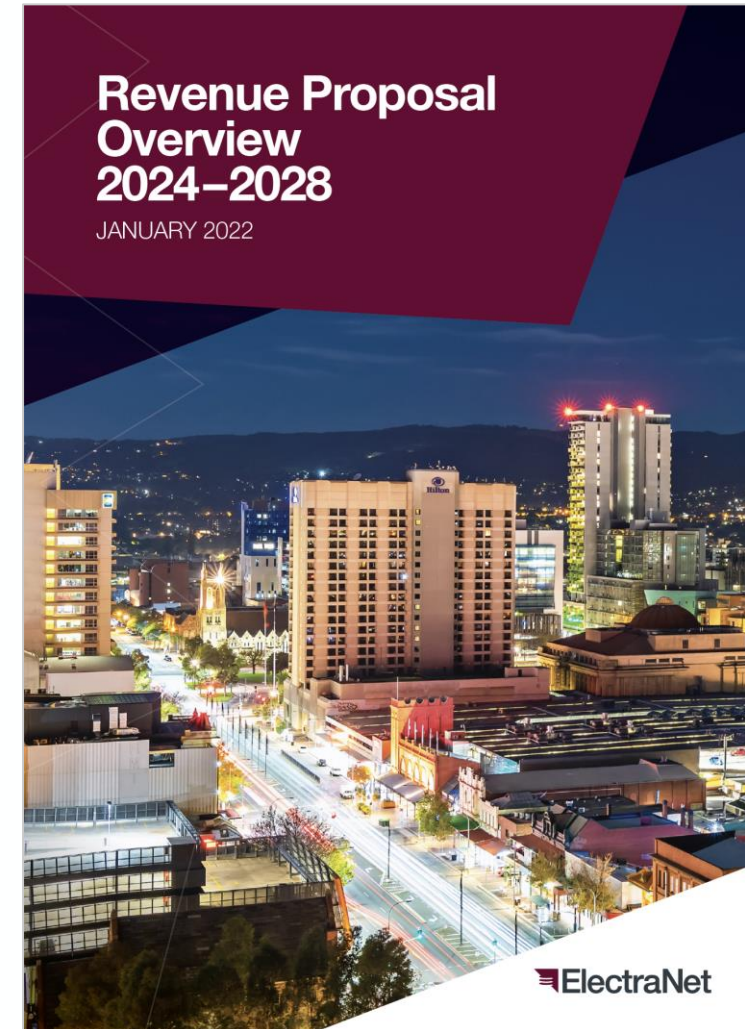


Consumer Advisory Panel Meeting #22 13 December 2021

Purpose

1. Inform the CAP of near final Revenue Proposal including:
 - Expenditure forecasts
 - Engagement outcomes
 - Revenue and Price outlook
 - Contingent projects
2. Fast Frequency Response Services update
3. Hear from Working Group members on engagement outcomes
4. Discuss engagement plans for 2022



Revenue Proposal Update

Revenue Proposal Narrative

- SA at the forefront of the global energy transformation
 - Renewables are displacing traditional sources
 - Pushing the power system beyond its limits
- Increased role for transmission
 - Interconnection, system services, control schemes being delivered now
- These investments come at a cost but drive down overall prices
- We are well positioned to meet the evolving needs of our customers into the future
 - Ongoing focus on managing ageing network
 - Targeted investments in technology & security
 - Maintaining and operating an increasingly complex network amid external cost pressures

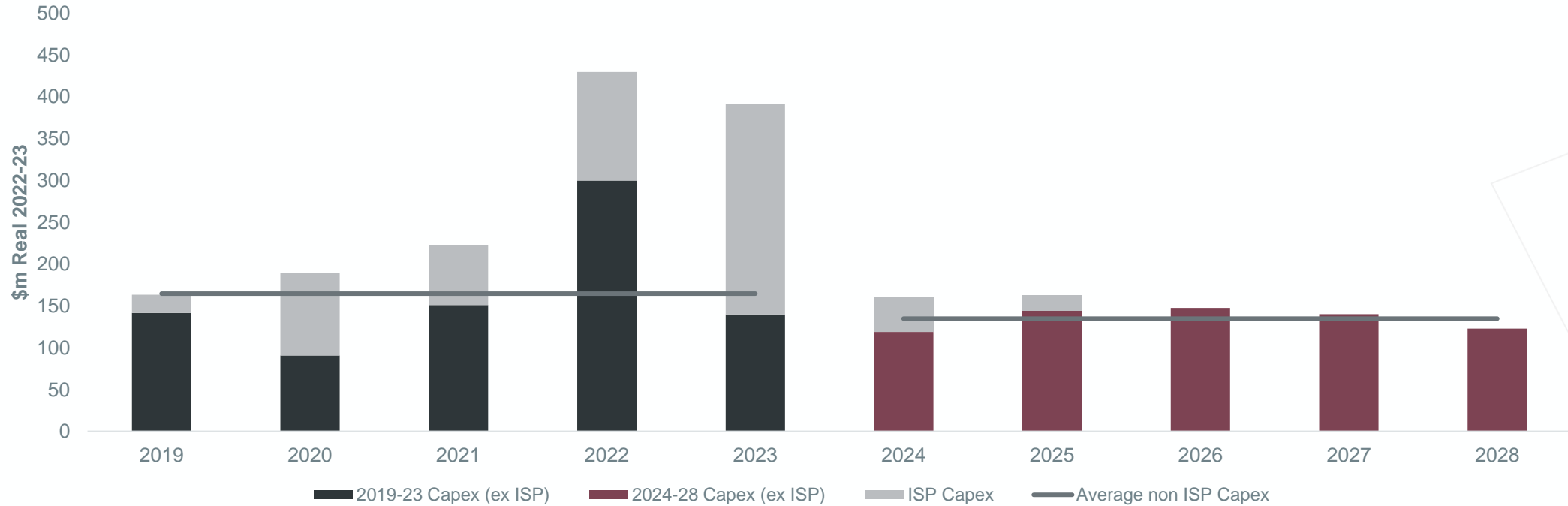


Movements from PRP

- Capex forecast – reduced forecast based on outcomes of customer engagement, internal review and project timing movements
- Opex forecast – small fall in underlying forecast based on reduced network length and labour escalation, part offset by step change growth
- Revenue – reduced forecast based on PEC deferral, capex reduction, updated WACC and other updates
- Customer price impacts reduced relative to PRP
- Contingent Projects – 3 projects, including Power Quality Management transferred from ex ante, with indicative total value up to \$360m
- WACC - placeholder estimate (end Q3 2021)
- Accounting changes (IFRS) require IT cloud services to be shifted from capex to opex

FY2024-28	PRP 14-Jul-21	Movement	Dec-21 (ex IFRS)	Accounting treatment	Nov-21 (ex IFRS)
Capex (\$m FY23)	832	-98	734	-46	736
Opex (\$m FY23)	583	-6	577	46	570
WACC (%) (post tax nominal)	4.47	0	4.29		4.29
Revenue (smoothed) (\$m FY23)	1,799	-81	1,718		1,732
Price impact (%) ('Po' in FY24)	4.6%	-3.2%	1.3%		2.6%

Capex Forecast – December



- Underlying capex forecast is down 18% from the current period, excluding ISP projects

Forecast	FY19-FY23 (\$FY23)	FY24-FY28 (\$FY23)	Variance (%)
PRP	1,415	832	-40%
December Update	1,399	734	-47%

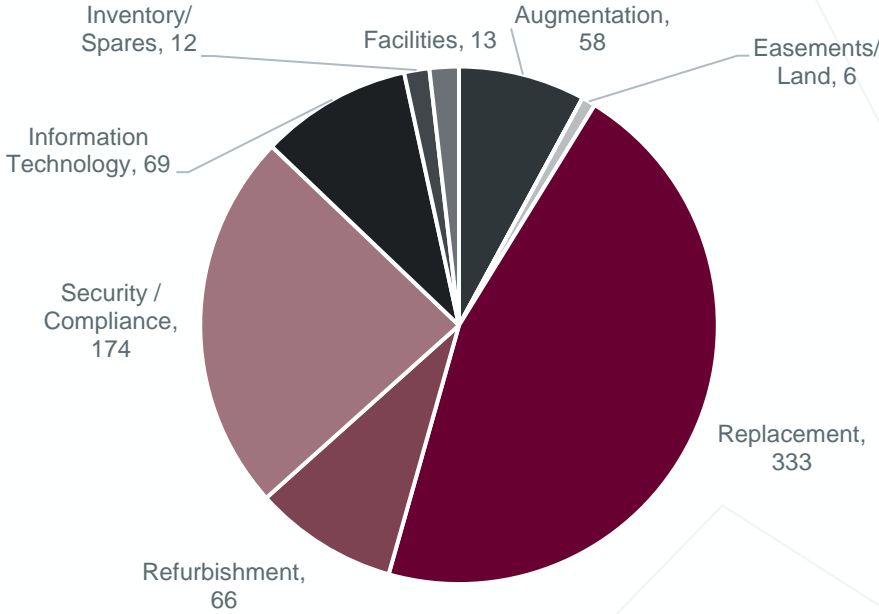
Capex Forecast – December

- The capital program comprises 115 projects in total, largely driven by replacement and refurbishment (54%) and security/compliance (24%) requirements
- Forecast expenditure is down from the current period across all categories (except a small increase in inventory/spares)

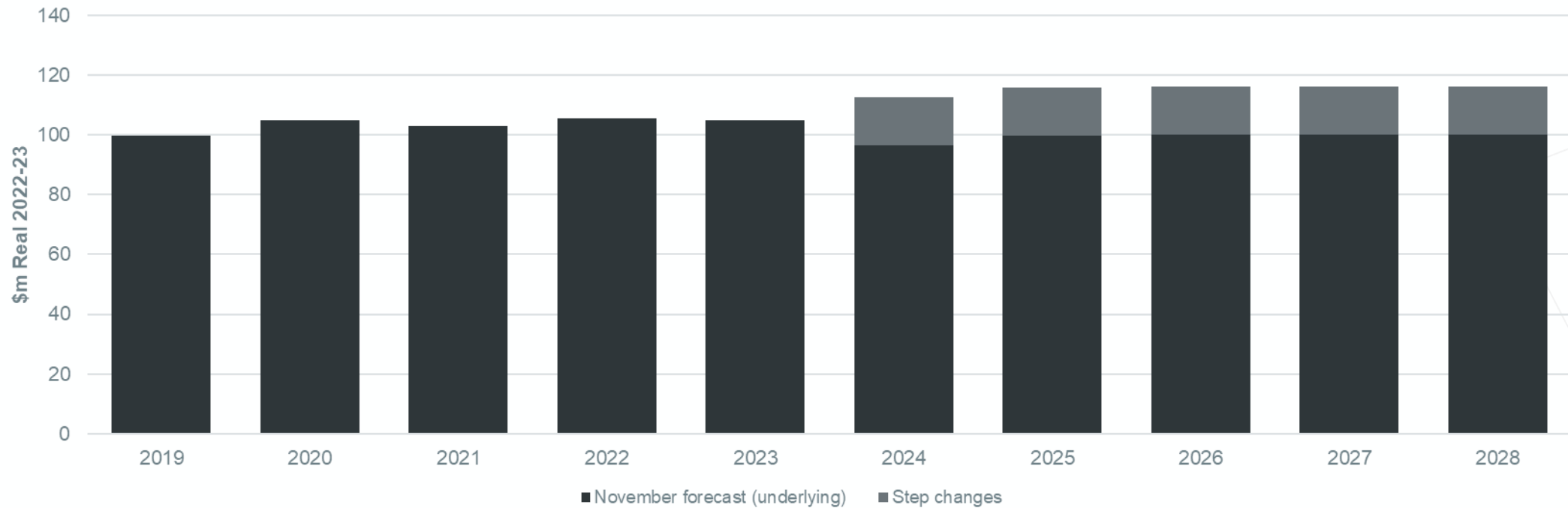
Capital expenditure forecast comparison (\$m FY23)

Category	FY19-FY23 forecast	FY24-FY28 (PRP)	FY24-FY28 (December)
Augmentation	390	0	58
Connection	3	0	0
Easements/ Land	6	5	6
Replacement	537	398	335
Refurbishment	91	96	66
Security / Compliance	269	233	174
Information Technology	79	77	69
Inventory/ Spares	9	11	12
Facilities	13	11	13
Total	1,399	832	734

Capital expenditure forecast breakdown FY24-FY28 (\$m FY'23)



Opex Forecast – December



- Underlying opex forecast is down 4% from the current period, excluding step changes

Forecast (\$FY23)	FY19	FY20	FY21	FY22	FY23	Subtotal	FY24	FY25	FY26	FY27	FY28	Subtotal
PRP	99.3	104.5	102.5	105.3	105.0	516.5	95.4	98.2	97.9	97.6	97.3	582.9
December forecast (underlying)	99.8	104.9	102.9	105.5	105.0	518.1	96.5	99.7	99.9	99.9	99.9	577
Step changes	-	-	-	-	-	-	16.2	16.2	16.2	16.2	16.2	

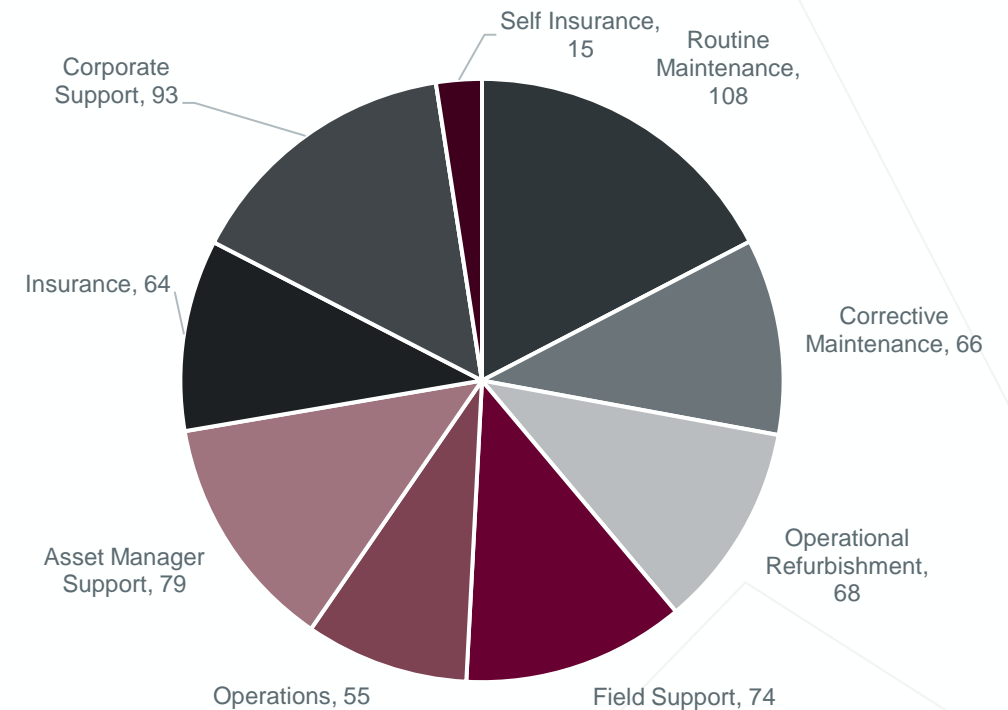
Opex Forecast – December

- Opex growth is proportional across most areas, with step changes impacting specific categories
- Over 75% of total operating costs are directly associated with maintaining and operating the network

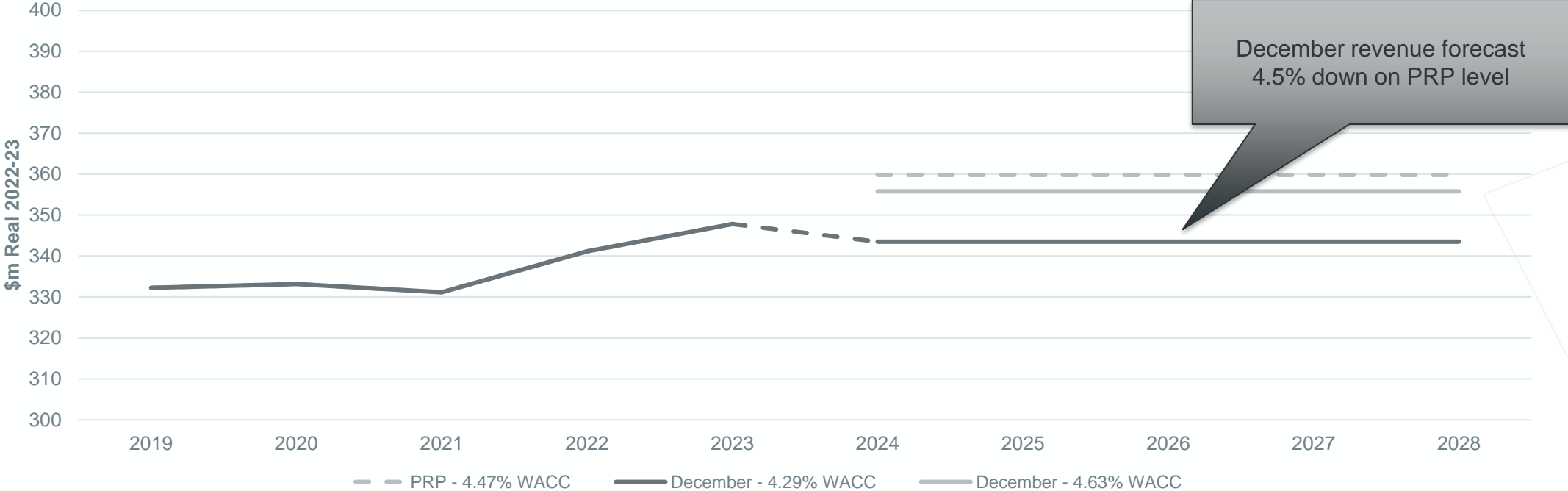
Operating expenditure category comparison (\$m FY23)

Category	FY19-FY23 forecast	FY24-FY28 (December)
Routine Maintenance	99	108
Corrective Maintenance	59	66
Operational Refurbishment	64	68
Field Support	67	72
Operations	56	55
Asset Manager Support	53	58
Insurance	24	64
Corporate Support	36	72
Network Support	52	0
Self Insurance	8	15
TOTAL	518	577

Operating expenditure category breakdown FY24-FY28 (\$m FY'23)



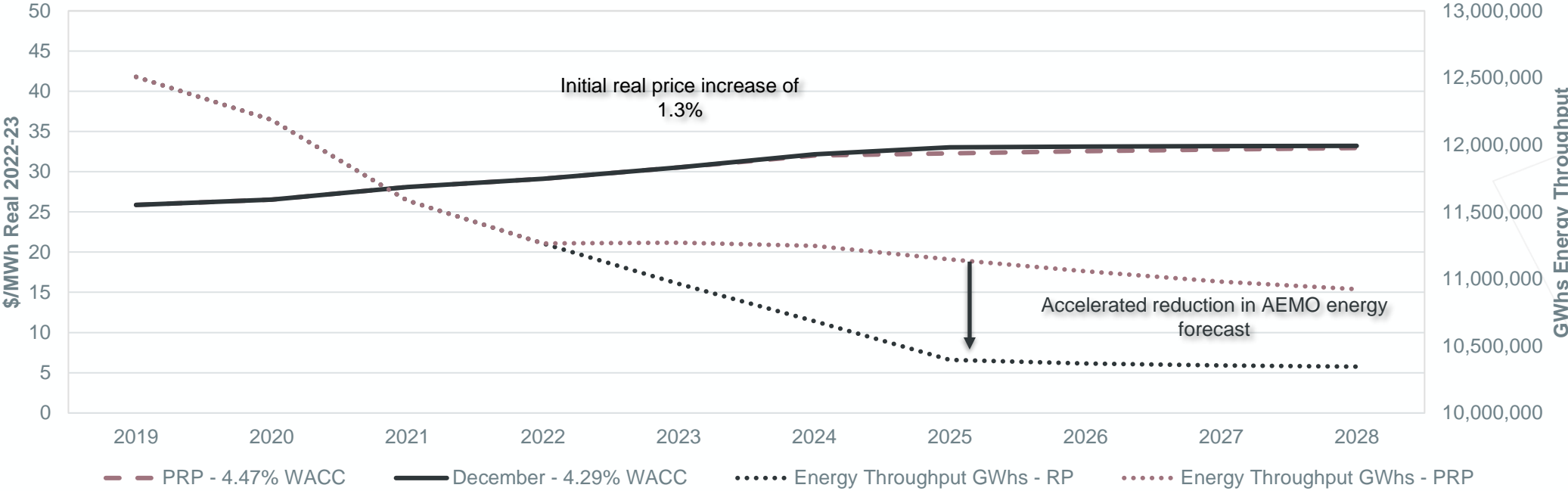
Updated Revenue Outlook



- High interest rate scenario (based on market sources) would increase revenue ~6%

Revenue (\$/MWh FY23)	WACC	Rate	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	FY24-FY28 total
PRP	4.47%	1.73%						359.8	359.8	359.8	359.8	359.8	1,799
December (forecast)	4.29%	1.37%	332.2	333.2	331.2	341.1	347.8	343.5	343.5	343.5	343.5	343.5	1,718
November (high scenario)	4.89%	2.50%						365.5	365.5	365.5	365.5	365.5	1,827

Updated Pricing Outlook



- Ongoing declines in forecast energy consumption offset the stable revenue outlook resulting in upward price impact

Price Path (\$/MWh FY23)	WACC	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
PRP	4.47%						32.0	32.3	32.5	32.8	32.9
December (forecast)	4.29%	26.6	27.3	28.6	30.3	31.7	32.0	32.3	32.5	32.8	32.9
November (high scenario)	4.89%						34.2	35.2	35.2	35.3	35.3

Revenue Proposal headlines

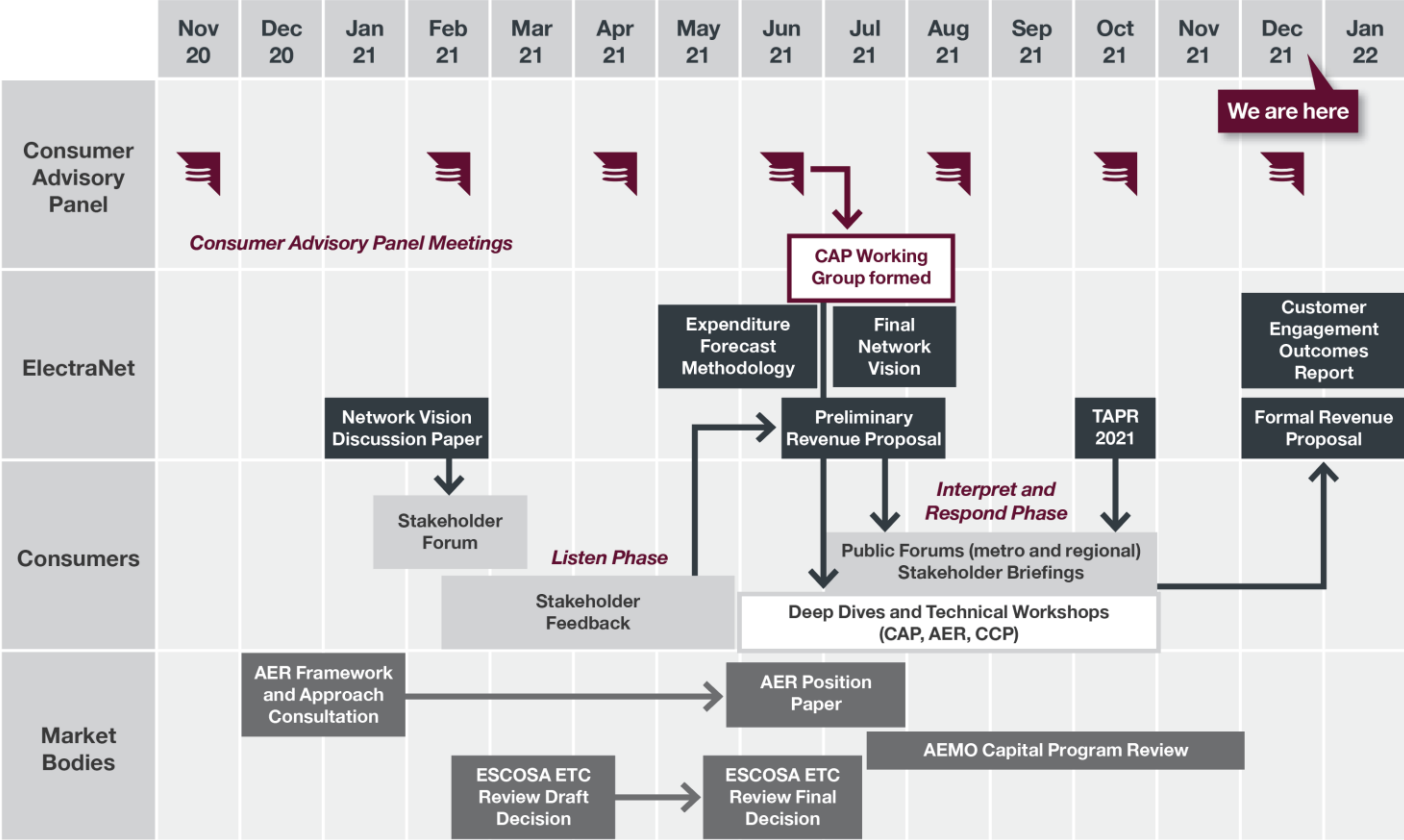
Item	Comparison to current period (Dec-21)	Comment
Transmission revenue	↓1.2%	Minor real reduction in annual revenue in 2024 to \$344m and no real growth for the next four years
Transmission component of electricity bills	↑\$6 pa * (\$nom)	Increase in transmission component of household electricity bills in 2024, largely driven by RAB growth and ongoing falls in energy use
Transmission prices	↑ 1.3%	Increase in real transmission prices in 2024 to 3.2 c/kWh
Rate of Return	↓ 21%	Decrease in regulated rate of return from 5.43% to 4.29% based on current (placeholder) market data and parameters
Capital Expenditure	↓ 47% ↓ 18%	Drop in overall capex in 2024 - 2028 to \$734m Drop in underlying capex (excluding ISP projects) to \$676m
Operating Expenditure	↑ 11%	Increase in operating expenditure in 2024 to 2028 to \$577m
Regulated Asset Base	↑ 0.3%	Real increase in RAB from 2023 to 2024, declining from 2025

* Reflects investment in the current regulatory period to facilitate energy transition and lower electricity prices

Engagement Overview

Early Engagement Timeline

Stakeholder Engagement Program



CAP - Consumer Advisory Panel
 CCP - Consumer Challenge Panel
 ESCOSA - Essential Services Commission of South Australia
 ETC - Electricity Transmission Code
 TAPR - Transmission Annual Planning Report

CAP WG Meetings Held

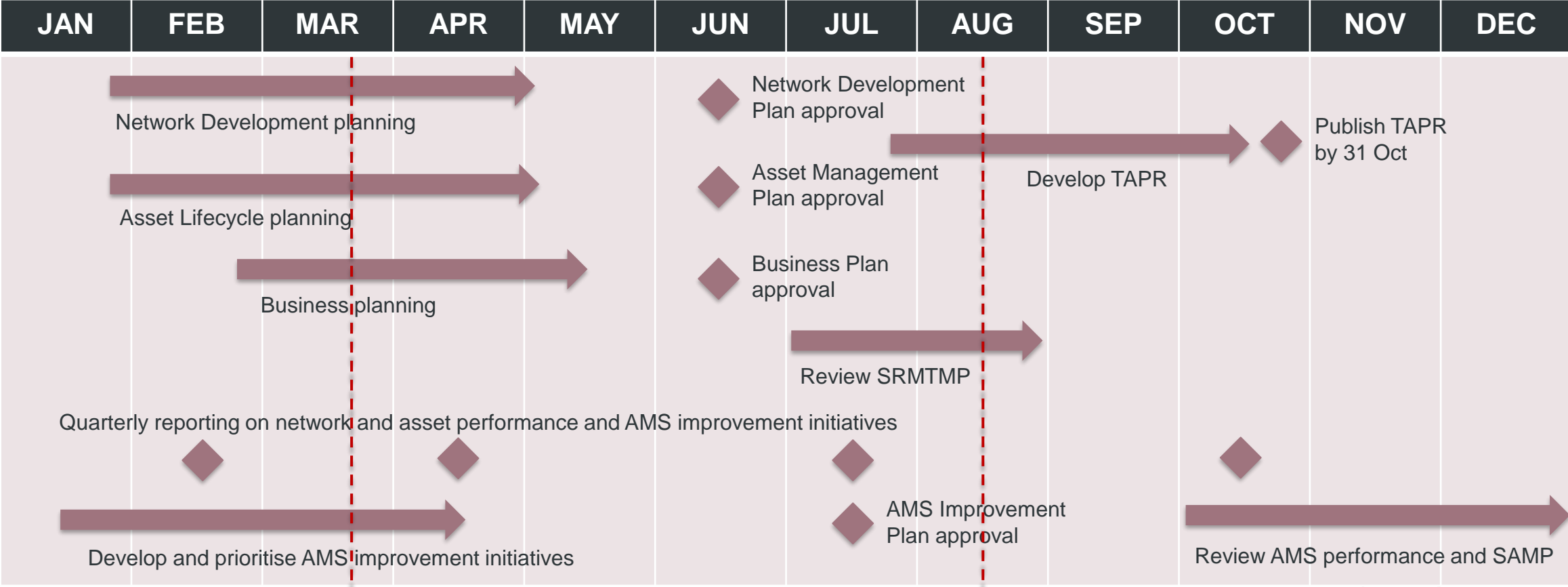
DATE	ENGAGEMENT TOPIC	SUMMARY OF CONTENT COVERED
2 Jul 2021	<i>CAP Meeting</i>	<ul style="list-style-type: none"> • Commitment to genuine engagement • Formation of Working Group to engage on the PRP • Overview of the PRP
16 Jul 2021	Introduction and PRP Overview	<ul style="list-style-type: none"> • Working Group purpose and Success Criteria • Overview of the PRP and capex forecasting and methodology approach • Identified key topics for future meetings
30 Jul 2021	Replacement capital expenditure	<ul style="list-style-type: none"> • Reviewed the governance framework for capital program • Reviewed five case studies in the capex replacement program
30 Aug 2021	Future networks capital expenditure	<ul style="list-style-type: none"> • AEMO and SAPN presentations • Project case studies – future network projects
10 Sep 2021	Technology	<ul style="list-style-type: none"> • Reviewed Technology Strategy and Program • Technology case studies • Health check on engagement to date
14 Sep 2021	<i>CAP Meeting</i>	<ul style="list-style-type: none"> • Revenue Reset update • CAP Working Group Member briefing to CAP
30 Sep 2021	Operating Expenditure	<ul style="list-style-type: none"> • Operating expenditure forecasts • Insurance step change • Cyber security step change
15 Oct 2021	Full-day workshop	<ul style="list-style-type: none"> • Updated expenditure forecasts • Proposed Contingent Projects • Benchmarking performance • Key areas of the Revenue Proposal being settled
12 Nov 2021	Final Workshop	<ul style="list-style-type: none"> • Updated expenditure and revenue forecasts • Impact of the CAP WG on the Revenue Proposal • ElectraNet engagement reflections
2 Dec 2021	Engagement reflections	<ul style="list-style-type: none"> • Shared engagement reflections • Future engagement beyond the Revenue Proposal
13 Dec 2021	<i>CAP Meeting</i>	<ul style="list-style-type: none"> • Outcomes of the CAP WG engagement process • Final expenditure and revenue forecasts

ElectraNet Reflections

- Reinstate an independent facilitator to run meetings and work with CAP to facilitate full, open discussion
- Meeting presentations and supporting information to be provided to participants well in advance
- Greater involvement of the CAP/ Working Group earlier during development of the Preliminary Revenue Proposal
- Ongoing engagement of the CAP in ElectraNet's annual planning process – propose to introduce twice-yearly sessions (March/ September) to provide insight and opportunity for influence on network and asset plans, including the Transmission Annual Planning Report
- Offer training for Working Group members with limited experience in understanding network businesses and regulatory proposals to get the most from their unique experiences and expertise
- Face-to-face meetings as much as possible for greater collaboration opportunities
- Measurable success criteria that are less subjective and open to interpretation

Refer to ElectraNet Customer Engagement Journey Reflections note dated 10 November 2021

ElectraNet Reflections – Annual Planning Calendar



Customer engagement on changing network and asset plan requirements

Customer engagement on TAPR draft network and asset plans

AMS – Asset Management System

SAMP – Strategic Asset Management Plan

TAPR – Transmission Annual Planning Report

SRMTMP – Safety, Reliability, Maintenance and Technical Management Plan

Fast Frequency Response Update

CAP Working Group briefing on engagement outcomes

Next Steps

Engagement Timeline

December 2021

- Final CAP Working Group meeting held 2 December – engagement reflections session
- Introductory ElectraNet meeting with AER CCP – 7 December
- CAP meeting 13 December – CAP Working Group feedback and Revenue Proposal update
- ElectraNet to provide draft Revenue Proposal Overview and Customer Engagement Outcomes Report to CAP – by 21 December

January 2022

- CAP Working Group to meet to discuss CAP engagement report to ElectraNet

February 2022

- CAP meeting to be held to review CAP engagement report to ElectraNet
- CAP engagement report to ElectraNet – end February
- Ongoing engagement post lodgement of Revenue Proposal – February-December 2022

Thank You

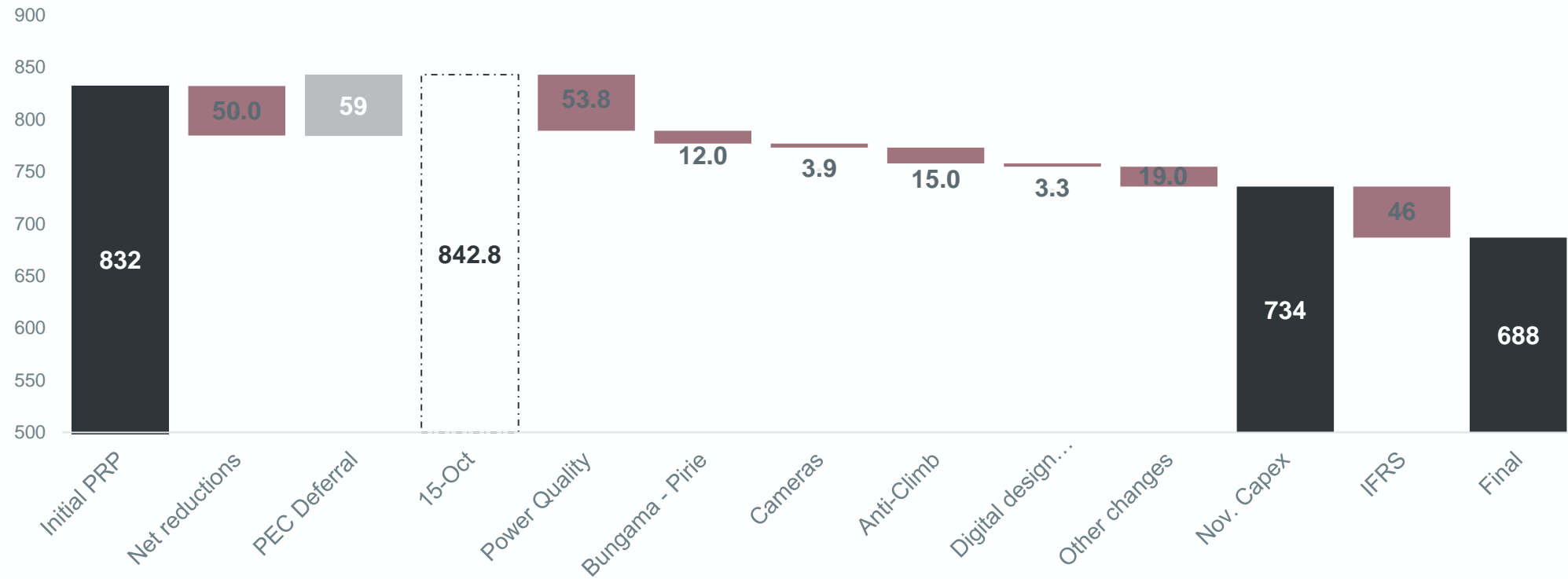


Reference Slides

Working Group guidance: Capex

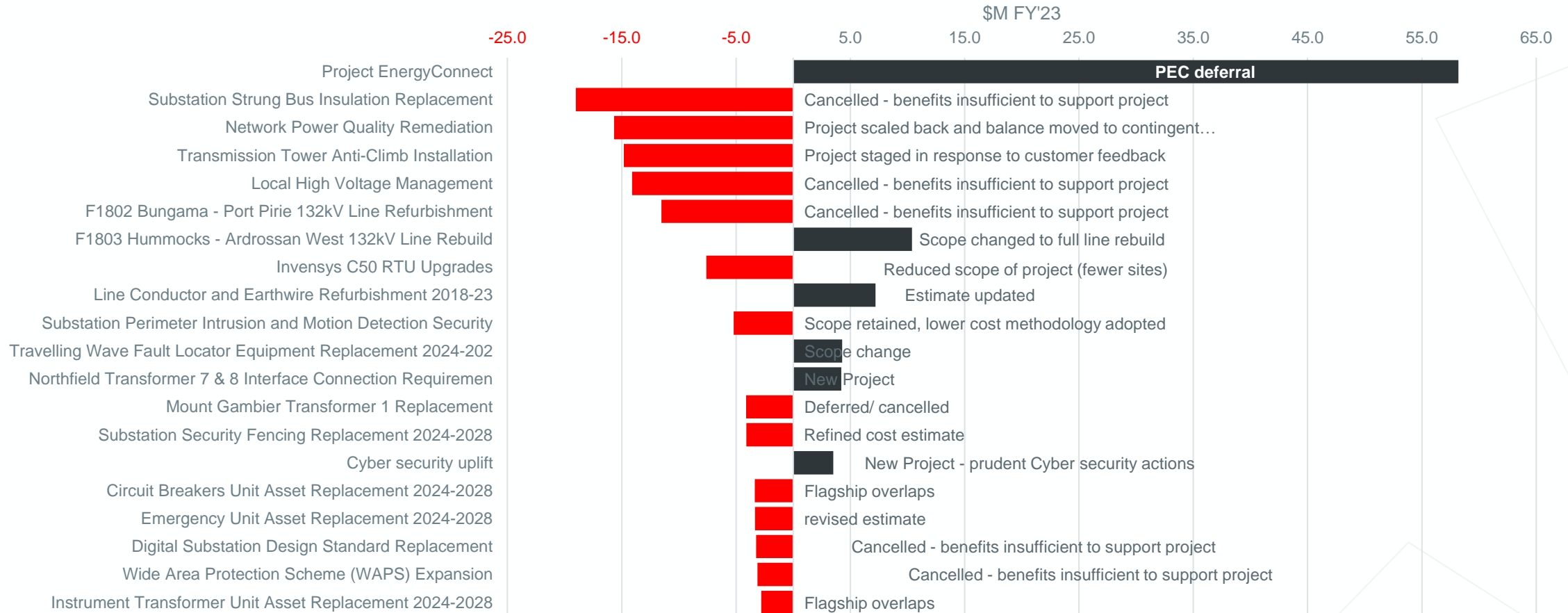
- Is the need for the project well defined?
- Is this a 'nice to have' project or a 'must have' project?
- Are we keeping costs as low as possible?
- Are there lower cost solutions?
- Could the project be deferred or partially deferred?
- Tower anti-climb – is the scope correct?
- Northern REZ strategic land – supported
- Substation security
 - Appropriate mix of projects?
 - Extent of cameras?
- Power Quality management
 - Well defined need?
 - Is ElectraNet best placed to respond?

Capex Forecast – November update



- The capex forecast is now \$98m (12%) below the indicative PRP forecast on like terms (\$144m below when the impact accounting treatment of cloud computing is considered)

Key Movements Since PRP



Excludes an additional ~ \$71m in timing movements and other changes.

Working Group guidance: Opex

- Are we keeping costs as low as possible?
- ElectraNet benchmarks poorly in opex terms based on AER benchmarking
- ElectraNet opex benchmarking has been declining
- Consider increased productivity factor
- Base step trend method is not the right way to forecast opex – bottom up approach should also be considered
- Explore opportunities for best possible risk sharing between ElectraNet, customers and others
 - E.g. utilising cost pass-through mechanism

Opex Movements

- Underlying opex forecast is slightly lower than in PRP driven largely by reduced network growth in rate of change parameter
- Real labour escalation has decreased
 - placeholder – anticipate averaging with AER estimate (currently unavailable)
- These are largely offset by an increase in insurance and cyber step changes
 - further insurance premium growth, especially cyber insurance
 - additional cost of increased cyber compliance (SP3/ MIL3)
- Using AER base step trend method to develop opex forecast is standard practice
- Benchmarking - as per material sent separately, ElectraNet:
 - has tight constraints on opex
 - considers its opex forecast is efficient recognising that efficient costs in South Australia are relatively higher than elsewhere
 - considers relying on partial benchmarking results to be misleading
 - Capex offsets Opex
 - Customers are only impacted by total expenditure and ElectraNet compares well on total factor productivity
- We believe our updated opex is realistically required to efficiently manage risk and deliver the services customers expect

Updated Opex Step Changes

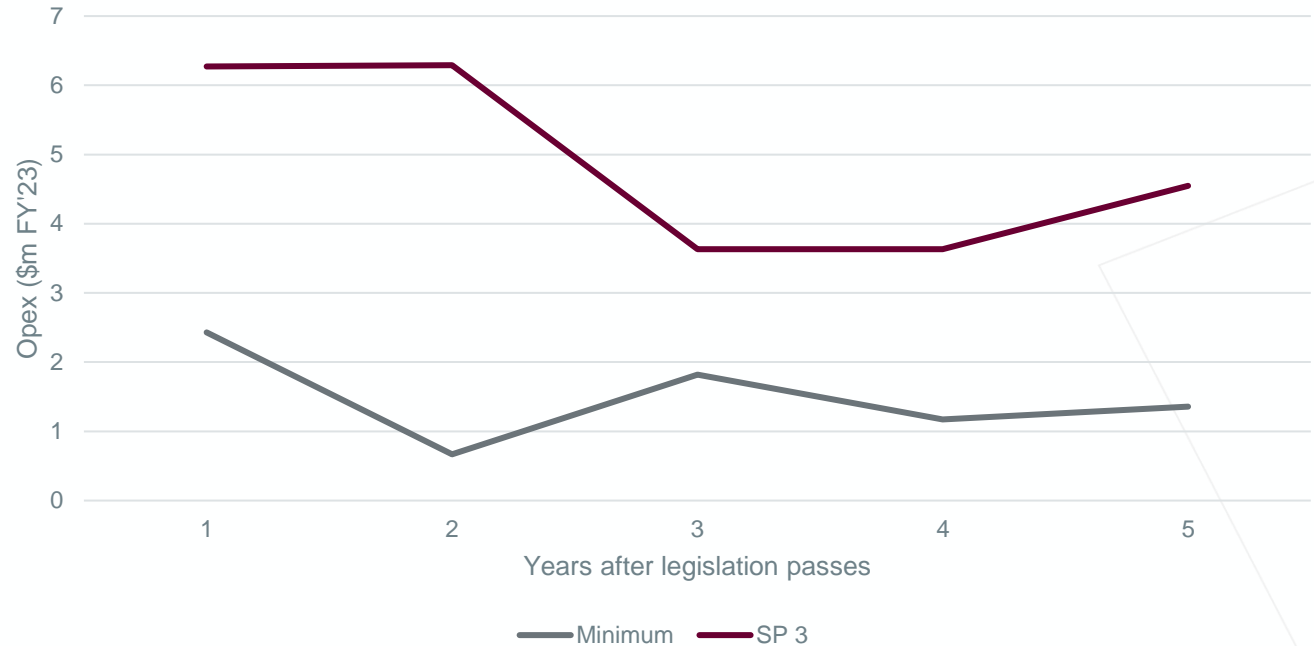
- Insurance step change driven up by:
 - increasing premium forecasts, especially cyber
 - increased deductibles (self-insured)
- Position on extent of cyber security uplift has been updated based on latest information (following slide)

Item	PRP forecast (\$m FY23) pa	Nov forecast (\$m FY23) pa	Comment
Insurance	6 - 8	8.5*	Increased premium forecasts – esp. cyber
Cyber security	2.5 - 3.5	5.1	Discussed below
Cloud computing (excl. IFRS)	1 - 2	1.8	No change
Rule changes	0.5 - 1.5	0.8	No change
Total	10 - 15	16.2	

**Forecast being finalised*

Cyber Step Change

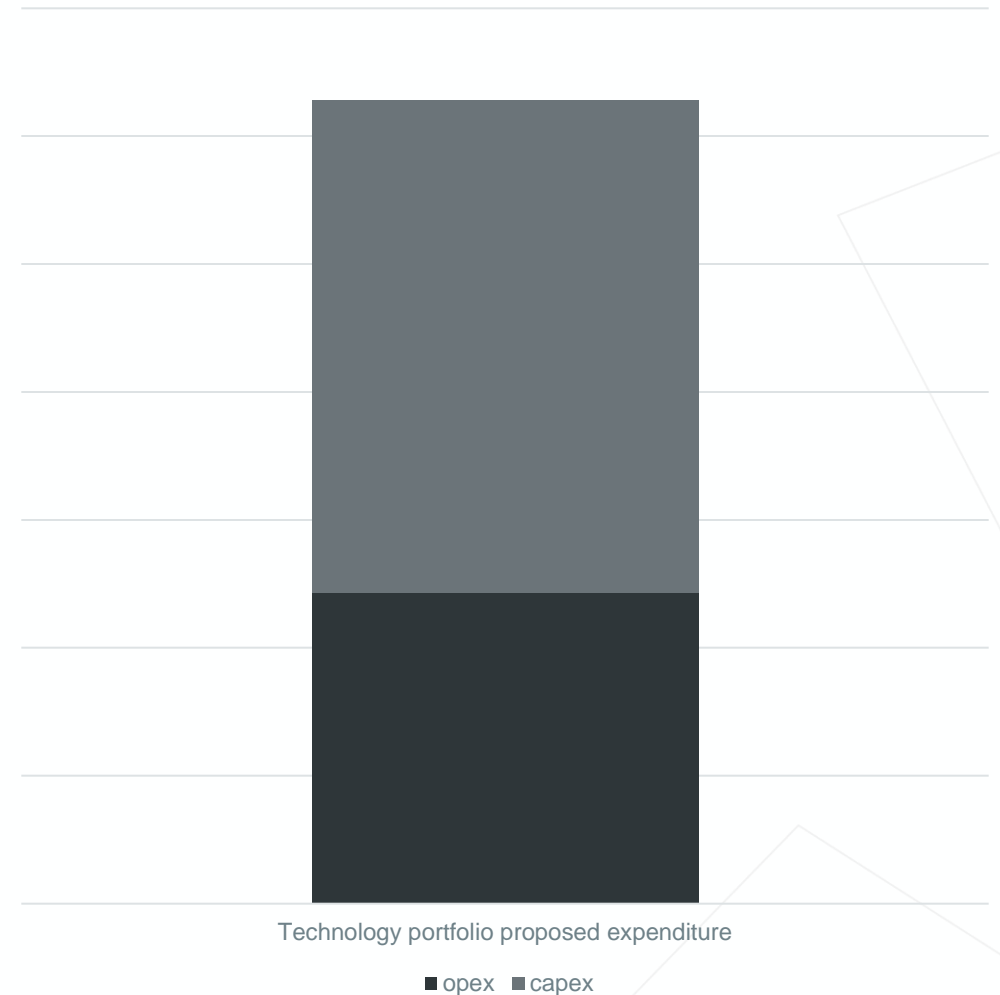
- Legislative timing:
 - Federal Government now intends to pass Bill #2 in Jan 2023
- Target security level is evolving:
 - Originally SP1 in 12 months, SP2 24 months
 - SP3 'not off the table'
 - AusNet Services (Sep 2021) has proposed MIL3 (~SP3) in its Revised Revenue Proposal



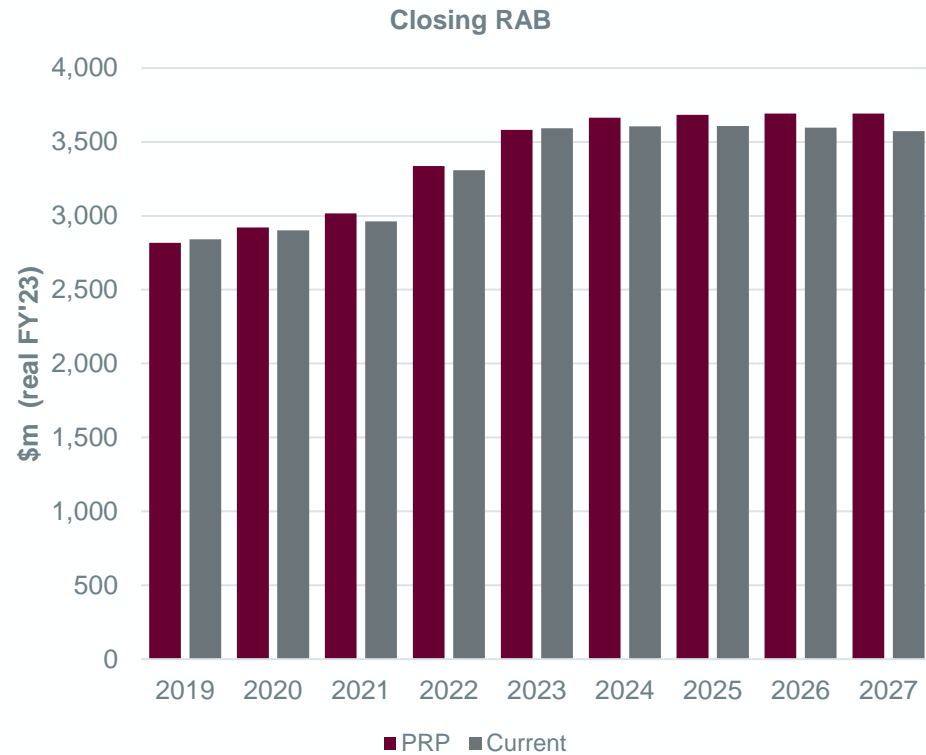
Years after legislation passes	1	2	3	4	5	Total (\$FY21)
SP1	6.3	0.1	0.1	0.1	0.1	6.7
Minimum (Option 1)	2.4	0.7	1.8	1.2	1.4	7.4
SP 2	6.3	6.3	3.6	3.6	3.6	23.5
SP 3 (Option 2)	6.3	6.3	3.6	3.6	4.5	24.4

IFRS Impact

- Accounting standards clarified following FY21 year end
 - IT Cloud computing – customer subscribes to, but does not have possession of, underlying software
 - Software as a Service or Infrastructure as a Service now considered opex
 - If not an intangible asset or a lease then treat as a service contract and expense
- Review of proposed Technology portfolio
 - approx. \$46m to be reclassified as opex
 - compares with approx. \$117.5m TransGrid PRP



Revenue building blocks



- RAB falling in real terms from 2025 due to PEC deferral and reduced capex
- Revenue growth reflects RAB growth in current period offset by reduced WACC

Revenue Component (\$m June '23)	2019-23 Dec Forecast	2024-28 Dec Forecast	Variance \$m	Variance %
Return on Capital	802	753	-49	-6%
Return of Capital (regulatory depreciation)	307	336	29	10%
Operating Expenditure	500	639	139	28%
Revenue Adjustments	-4	-11	-7	174%
Net Tax Allowance	41	0	-41	-100%
Annual Building Block Revenue Requirement (unsmoothed)	1,646	1,718	72	4%

1. Exceeds \$622m forecast opex above because it includes debt raising cost ~\$9m and is expressed in \$Jun FY23 (extra half year inflation) as required by the AER PTRM adding ~\$8m
2. Net Tax Allowance is zero under current AER methodology including diminishing balance approach for tax depreciation and expensing of capex refurbishment

Contingent Projects – proposed

Projects to be formally proposed as Contingent Projects in the Revenue Proposal

Project	Description	Triggers	Indicative cost
Eyre Peninsula Upgrade	The project allows for the upgrade of the northern section of the Eyre Peninsula line from 132 kV to 275 kV to serve higher loads, which is accommodated in the design and/or augmentation of power transfer capacity between Davenport and Cultana.	<ol style="list-style-type: none"> Customer commitment for additional load to connect to the transmission network causing the Cultana 275/132 kV transformers to exceed their thermal limit of 200 MW and/or causing a need for augmentation of power transfer capacity between Davenport and Cultana. Successful completion of a RIT-T including an assessment of credible options showing the upgrade of the 132 kV Eyre Peninsula Link to 275 kV and/or augmentation of power transfer capacity between Davenport and Cultana is the preferred option <ol style="list-style-type: none"> demonstrating positive net market benefits; and/or addressing a reliability corrective action ElectraNet board commitment to proceed with the project subject to the AER amending the revenue determination pursuant to the Rules. 	50-150
Interconnector Upgrade	This project allows for an increase in inter-regional transfer capacity through such measures as control schemes and/ or frequency response capability.	<ol style="list-style-type: none"> Successful completion of a RIT-T with an identified need to increase inter-regional transfer capability between South Australia and adjoining regions <ol style="list-style-type: none"> demonstrating positive net market benefits; and/or addressing a reliability corrective action ElectraNet board commitment to proceed with the project subject to the AER amending the revenue determination pursuant to the Rules. 	100-150
Power Quality Management	This project allows for the installation of the relevant equipment to maintain power quality standards across the transmission network in relation to voltage harmonic requirements	<ol style="list-style-type: none"> Successful completion of a RIT-T including an assessment of credible options showing a transmission investment is justified to address voltage quality requirements on the South Australian transmission network. ElectraNet board commitment to proceed with the project subject to the AER amending the revenue determination pursuant to the Rules. 	30-60

Contingent Projects – automatic

Further Contingent Projects may be deemed automatically under the Rules if required, including the following to be identified separately in the Revenue Proposal for transparency

Project	Description	Comment
South East SA REZ Expansion (ISP Project)	The project would increase transfer capacity between Taillem Bend and Adelaide to allow for greater imports and exports of renewable energy	Projects identified as Actionable Projects by AEMO in a future ISP automatically become a Contingent Project under the Rules. AEMO's draft 2022 ISP identifies this as a Future ISP project, meaning it delivers net market benefits to consumers but is not needed until later in the planning horizon, with forecast timing by the mid-2030s under the majority of scenarios.
Main Grid System Strength Support	This project allows for the delivery of additional system strength on the transmission network.	A Contingent Project is deemed to apply to a declared system strength requirement in the coming regulatory period as a transitional provision under recent Rule changes. The need for additional system strength services across the NEM is certain in the near term as generators like Liddell retire. The need for additional services to be declared by AEMO in South Australia is probable as more synchronous generators are removed from the power system. AEMO will make the first such annual assessment under the new Rules in December 2022, which will require compliance from 2 December 2025.

- The Robertstown to Mid-North project previously identified is no longer a Future ISP project in the draft 2022 ISP, and is now classified as a conceptual project, with indicative timing in the 2040s under most scenarios
- Other conceptual projects with similar timing include:
 - Leigh Creek double circuit lines
 - New Riverland substation between Bunday-Buronga

Cost Pass-Through Events

- Several cost pass-through events apply automatically under the Rules:
 - Change in Regulation
 - Change in Service standards
 - Tax change
 - Insurance cost
 - Network support
- Additional pass-through events may be nominated in a Revenue Proposal
- ElectraNet proposes to retain the events approved in the current period and nominate several additional events to cater for new externally imposed costs
- Final pass-through events currently being refined

Approved Events	Scope
Insurance cap	Major out-of-pocket costs incurred in relation to an insurance claim
Insurer credit risk	Material insurance costs arising if an insurer becomes insolvent
Natural disaster	Costs related to a major fire, flood or earthquake
Terrorism	Costs related to a terrorist attack, outside insured events

New Events	Scope
Cyber security	Costs related to cyber attacks in the event insurance becomes commercially unavailable
System strength services	Costs associated with services procured in response to a declared system strength gap
REZ design reports	Costs to prepare detailed REZ design report(s) if required by AEMO in a future ISP

NCIPAP projects

Project	Description	Indicative cost (\$m)
Robertstown to Tungkillo Line Upgrading	Increase clearances and remove/replace lower rated plant as necessary to increase the design capability of the transmission lines	2.5
Davenport to Cultana Line Upgrading	Remove and replace plant rated lower than the design capability of the transmission lines to release further transfer capacity on the Davenport-Cultana line	1.5
Transmission line ratings improvements	Improve ratings based on ambient conditions which are correlated with high renewable generation	6.0
Enhancing Reactive Power and Voltage Control Capability of Riverland	Install an additional 15 MVAR capacitor bank at Monash substation and an automated capacitor switching control system to manage voltage and reactive power support to improve Murraylink export capability	5.0