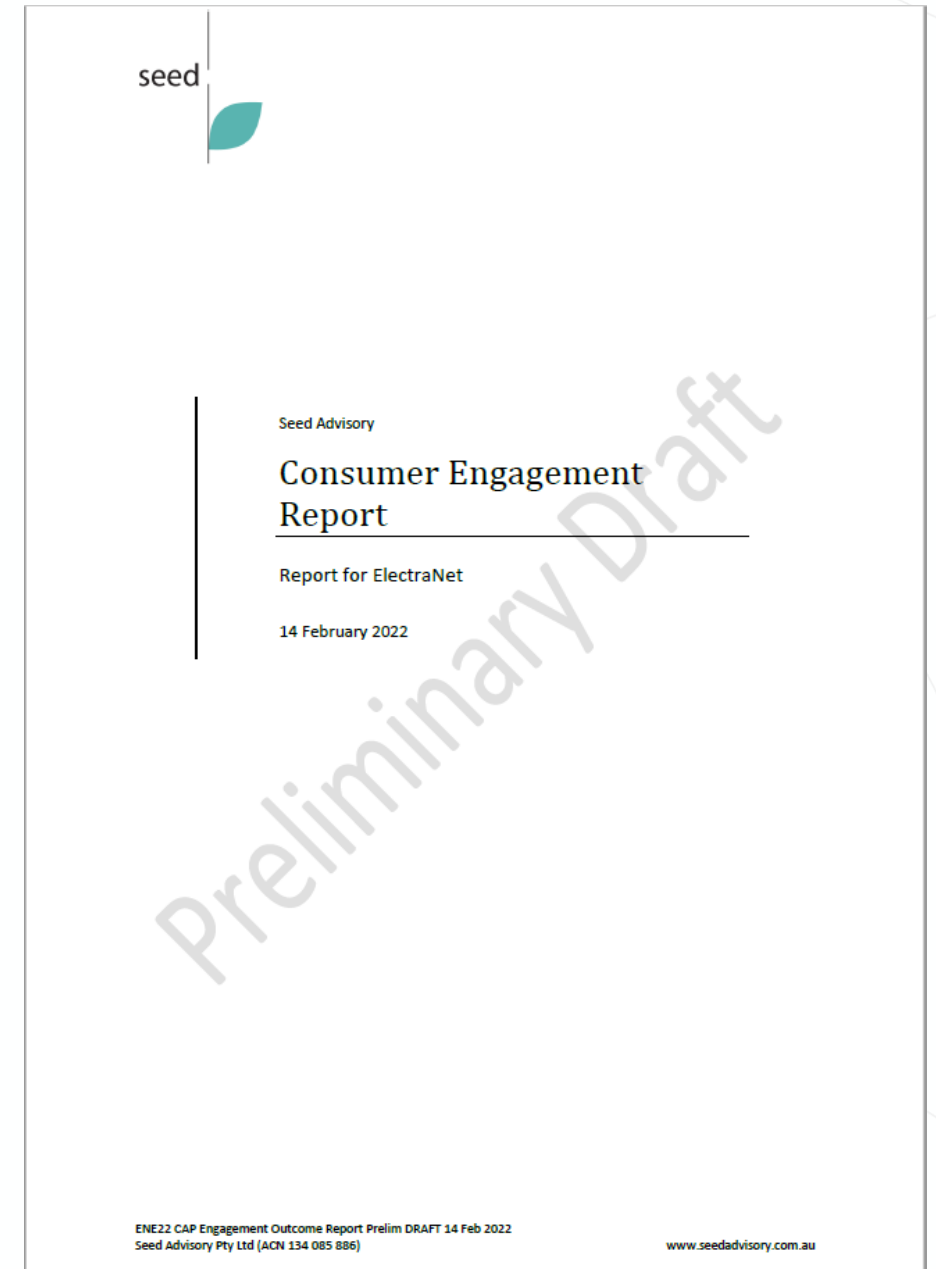# Consumer Advisory Panel

Meeting #23

18 February 2022

ElectraNet

Purpose

1. Welcome

2. Overview of Revenue Proposal

3. Consideration of CAP Engagement Report

4. Fast Frequency Response Services update

5. Proposed engagement in ElectraNet's Annual Planning process

6. CAP update and indicative 2022 meeting schedule

seed

Seed Advisory

Consumer Engagement Report

Report for ElectraNet

14 February 2022

Preliminary Draft

ENE22 CAP Engagement Outcome Report Prelim DRAFT 14 Feb 2022
Seed Advisory Pty Ltd (ACN 134 085 886)   www.seedadvisory.com.au

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Revenue Proposal Update

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Revenue Proposal Narrative

- SA at the forefront of the global energy transformation
  - □ Renewables are displacing traditional sources
  - □ Pushing the power system to its limits
- Increased role for transmission to enable energy transformation
  - □ E.g. interconnectors, system services, control schemes being delivered now, enabling more renewable energy
  - □ More lower cost renewable energy is driving down overall electricity prices, more than offsetting the cost of additional transmission investment in current period
- We are well positioned to meet the evolving future needs of our customers
  - □ Ongoing focus on managing ageing network
  - □ Targeted investments in technology & security
  - □ Maintaining and operating an increasingly complex network amid external cost pressures

Movements from Preliminary Revenue Proposal

- 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, reduced capex, latest 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 various cloud services to be shifted from capex to opex

- <u>Final values are expressed in real ($2022-23) end year (Jun) terms</u>

FY2024-28	PRP 14-Jul-21	Movement	Revenue Proposal	*Final movement from December*	Accounting treatment
Capex ($m FY23)	842 (832)	-100	742 (734)	*No change*	-46
Opex ($m FY23)	590 (583)	-18	572 (564)	*-13*	46
WACC (%) (post tax nominal)	4.47	-0.18	4.29	*No change*	
Revenue (smoothed) ($m FY23)	1,799	-90	1,709	*-9*	
Price impact (%) ('Po' in FY24)	4.6%	-3.8%	0.8%	*-0.4%*	

Figures in brackets show original forecasts in (Dec) terms for comparison

Capex Forecast – Revenue Proposal
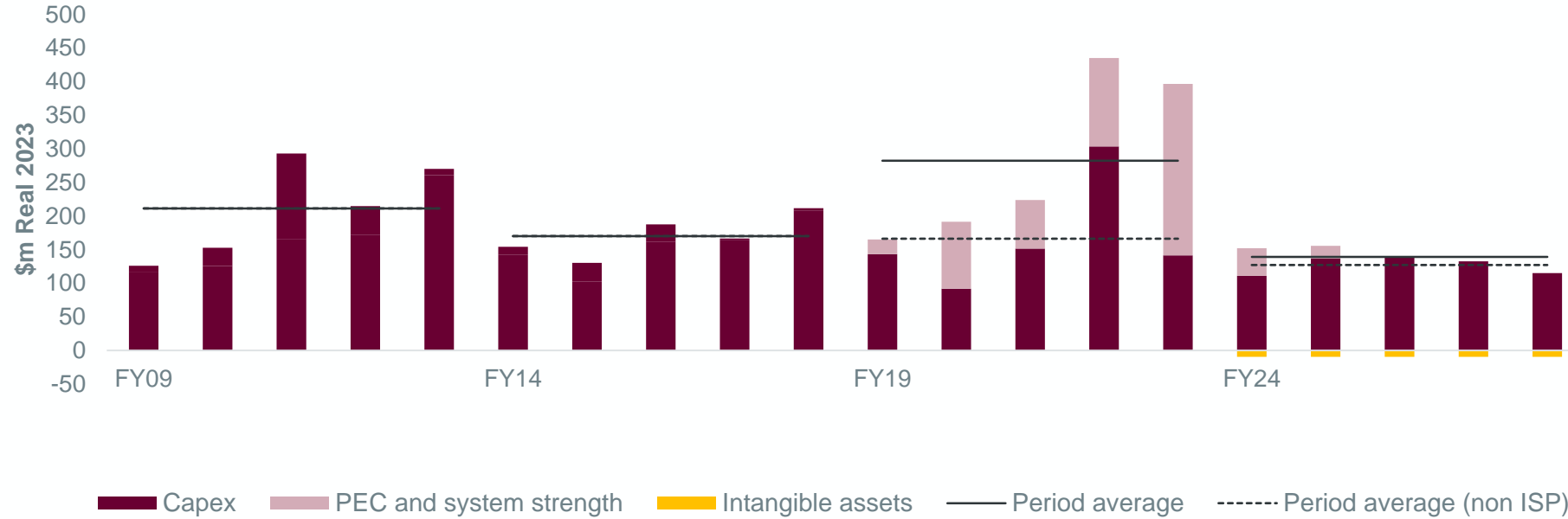
- Underlying capex forecast is down 18% from the current period, excluding ISP projects

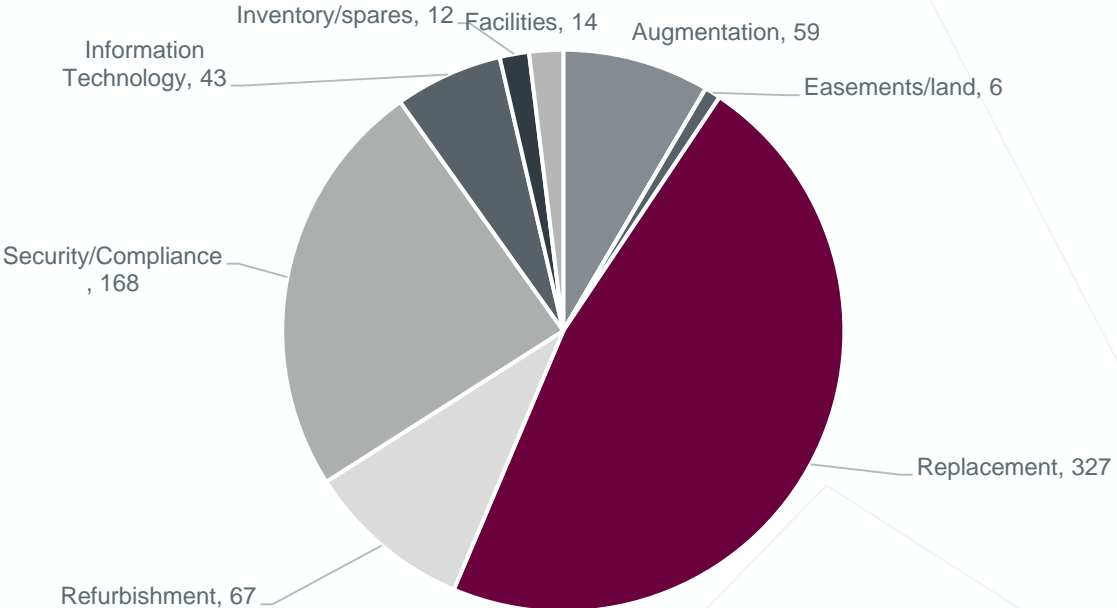| Forecast	FY19-FY23 ($FY23)	FY24-FY28 ($FY23)	After accounting adjustment	Variance (%)
PRP	1,427 (1,410)	842 (832)		-40%
Revenue Proposal	1,421	742	696	-47%

All values exclude NCIPAP

Capex Forecast – Revenue proposal

- 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)
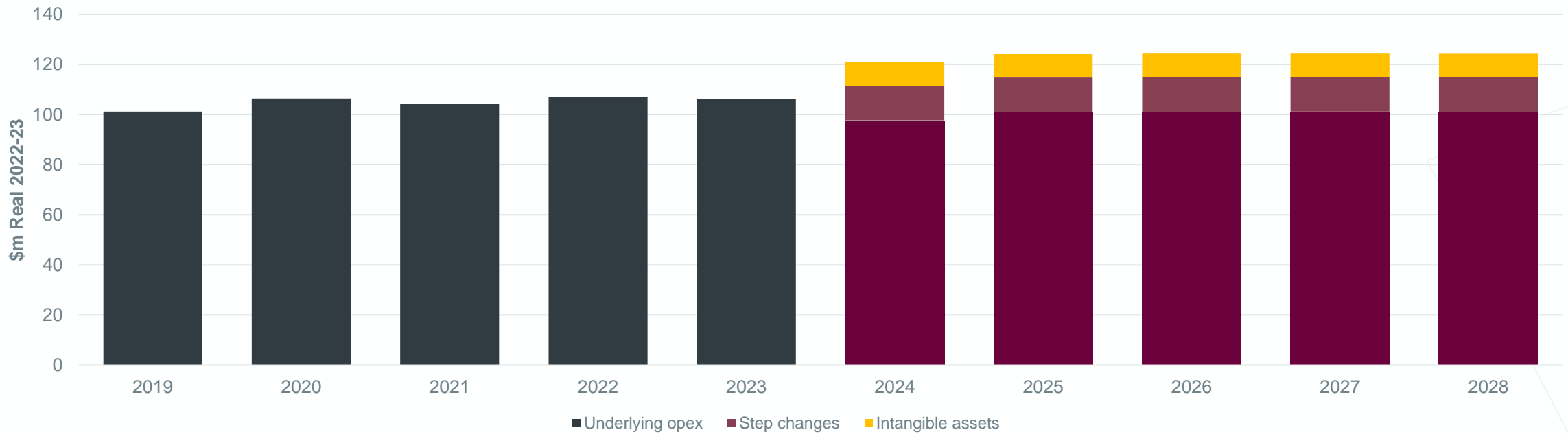
Capital expenditure forecast comparison ($m FY23)

Category	FY19-FY23 forecast	Revenue Proposal	After accounting adjustment
Augmentation	407	59	59
Connection	3	0	0
Easements/ Land	6	6	6
Replacement	538	339	327
Refurbishment	92	67	67
Security / Compliance	268	176	168
Information Technology	79	70	44
Inventory/ Spares	13	12	12
Facilities	12	14	14
Total	1,421	742	696

Capital expenditure forecast breakdown FY24-FY28 ($m FY23 – after accounting adjustment)

Pie chart segments: Inventory/spares, 12; Facilities, 14; Augmentation, 59; Information Technology, 43; Easements/land, 6; Security/Compliance, 168; Replacement, 327; Refurbishment, 67

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Opex Forecast – Revenue proposal

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

Forecast	FY19-FY23 ($FY23)	FY24-FY28 ($FY23)	After accounting adjustment	Variance (%)
PRP	525 (518)	590 (583)		13%
Revenue Proposal	525 (518)	572 (564)	**618**	9%

* Excluding debt raising costs of ~$9m, which brings the FY24-FY28 total to $627m

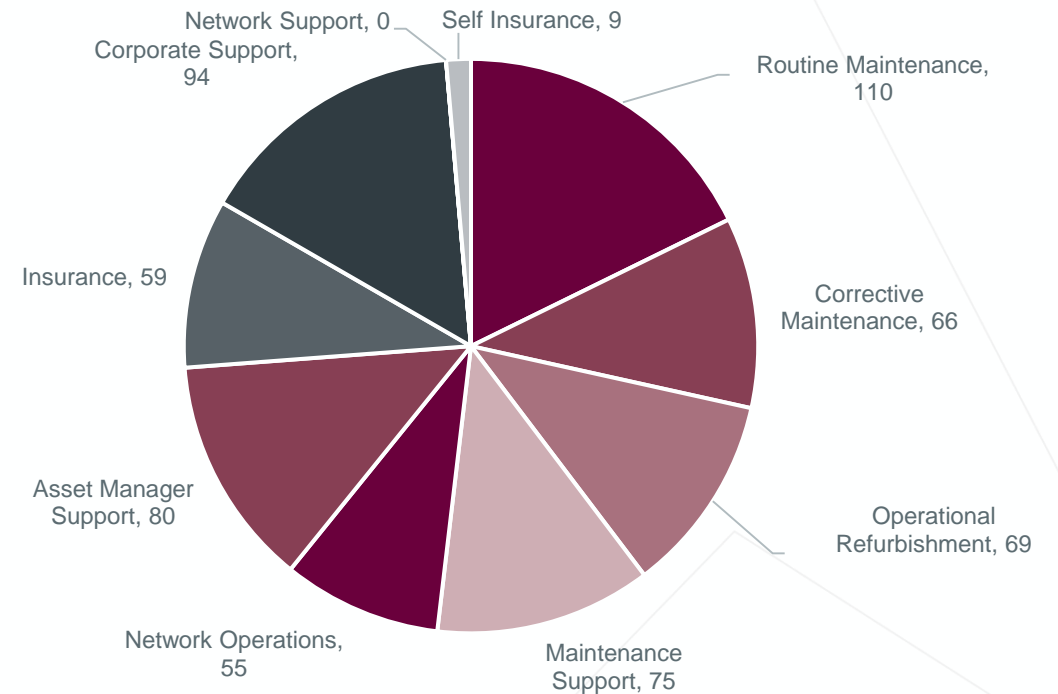CONFIDENTIAL Distribution: Consumer Advisory Panel

Opex Forecast – December

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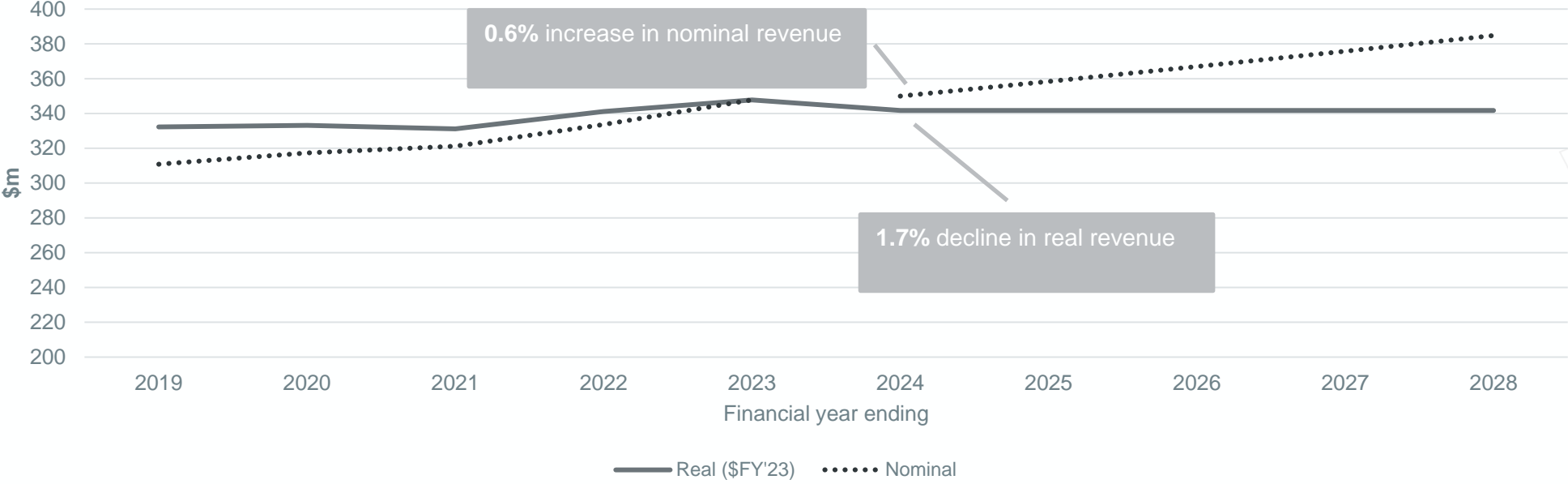- Over 75% of total operating costs are directly associated with maintaining and operating the network

Operating expenditure category comparison ($m FY23)

Category	FY19-FY23 forecast	Revenue Proposal	After accounting adjustment
Routine Maintenance	100	109	110
Corrective Maintenance	60	66	66
Operational Refurbishment	65	69	69
Field Support	68	72	75
Operations	56	55	55
Asset Manager Support	54	59	80
Insurance	24	59	59
Corporate Support	36	72	94
Network Support	53	0	0
Self Insurance	8	9	9
TOTAL	**525**	**571**	**618**

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

Network Support, 0
Corporate Support, 94
Self Insurance, 9
Routine Maintenance, 110
Insurance, 59
Corrective Maintenance, 66
Asset Manager Support, 80
Operational Refurbishment, 69
Network Operations, 55
Maintenance Support, 75

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Updated Revenue Outlook

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

Revenue ($/MWh FY23)	WACC	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	FY24-FY28 total
PRP	4.47%						359.8	359.8	359.8	359.8	359.8	**1,799**
Revenue Proposal	4.29%	332.2	333.2	331.2	341.1	347.8	341.8	341.8	341.8	341.8	341.8	**1,709**

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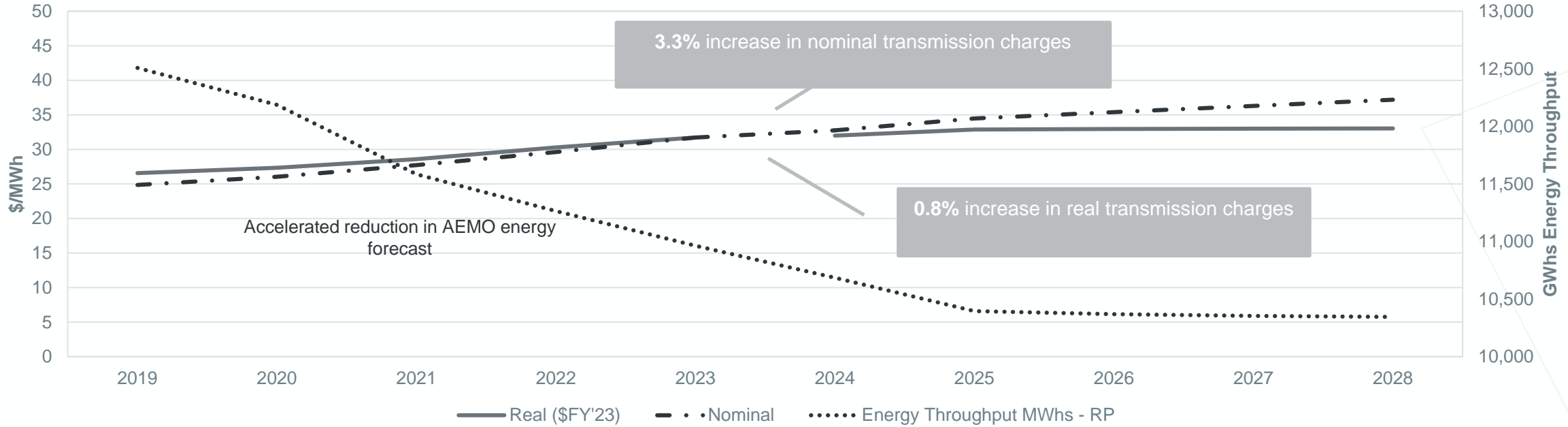
- Ongoing declines in forecast energy consumption offset the stable revenue outlook resulting in upward price impact

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
Revenue Proposal	4.29%	26.6	27.3	28.6	30.3	31.7	32.0	32.9	33.0	33.0	33.0

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Revenue Proposal headlines

Item	Comparison to current period	Comment
Transmission revenue	↓1.7%	Minor real reduction in annual revenue in 2024 to $342m and no real growth for the next four years
Transmission component of electricity bills	↑$5 pa * ($nom)	Increase in transmission component of household electricity bills in 2024, largely driven by RAB growth and ongoing falls in energy use
Transmission prices	↑ 0.8%	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 $742m Drop in underlying capex (excluding ISP projects) to $684m(*)
Operating Expenditure	↑ 9%	Increase in operating expenditure in 2024 to 2028 to $571m
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

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Demand Management Innovation Allowance Mechanism

- Incentive scheme introduced by the AER in May 2021

- Provides TNSPs with funding for R&D in demand management projects with potential to reduce long term network costs

- ElectraNet has proposed to apply in its Revenue Proposal

- Provides funding of up to $1.6m (0.1% of revenue) plus $200k for independent assessment of eligible projects

- Key role for the CAP in assessment of proposed projects prior to commencement (together with an independent engineer)

- Annual reporting to the AER on projects undertaken

- Any unspent amounts refunded to customers at the end of the Regulatory Period

Demand Management Innovation Allowance Mechanism
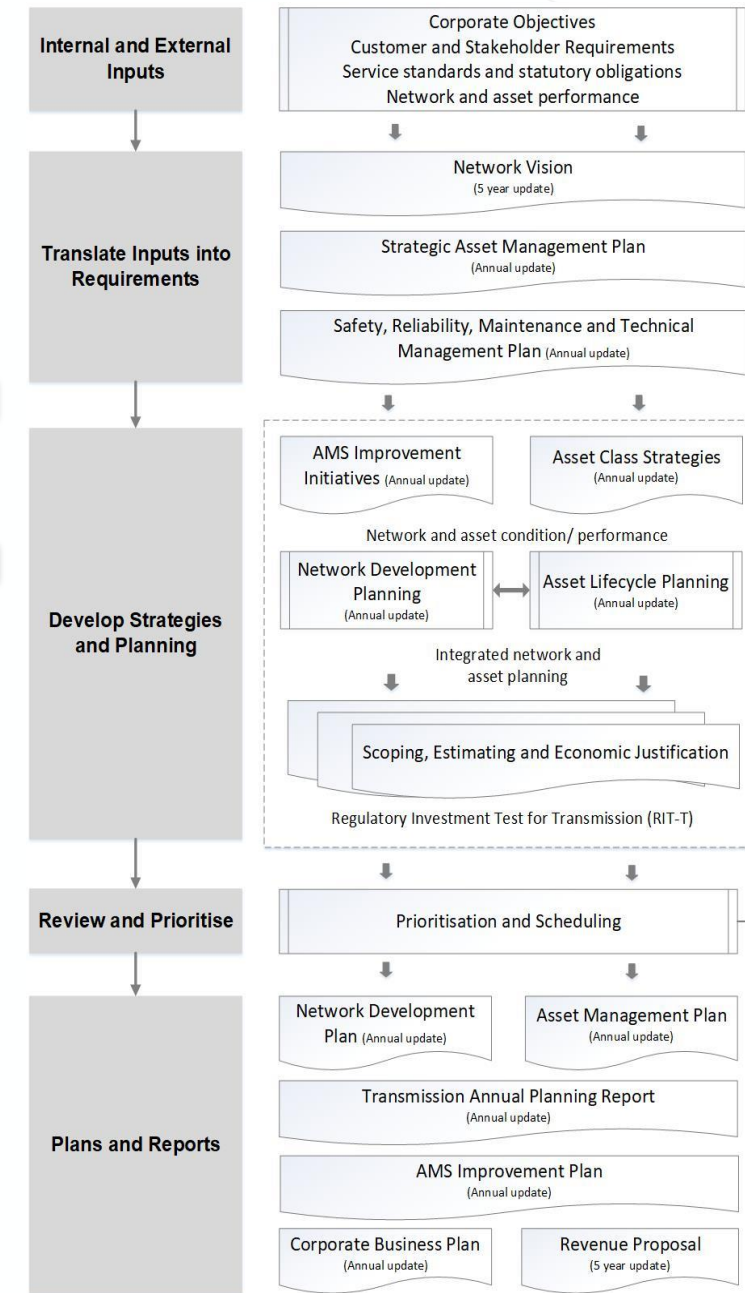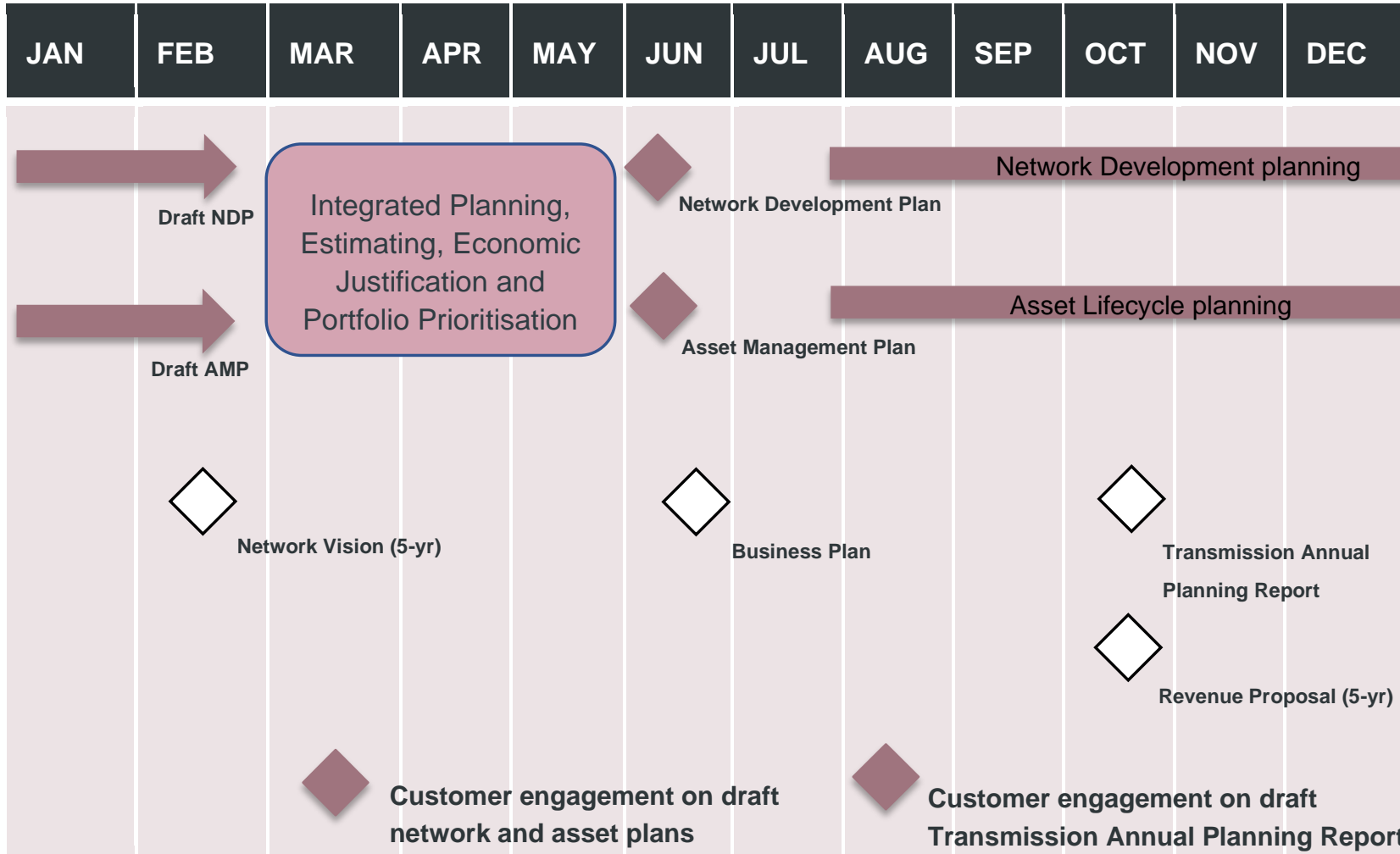
Electricity transmission network service providers

May 2021

AER AUSTRALIAN ENERGY REGULATOR
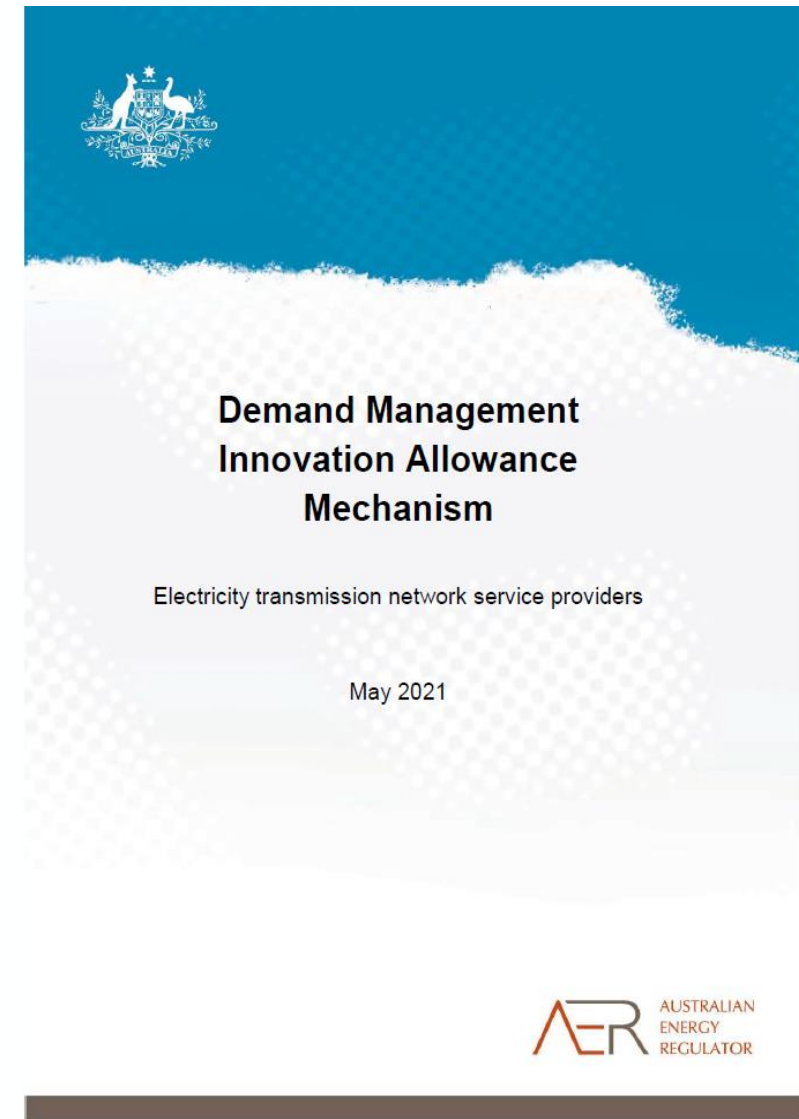
CAP Engagement Report

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Fast Frequency Response Services Update

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ElectraNet Annual Planning Process

Annual Planning Calendar

JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC

Draft NDP

Draft AMP

Integrated Planning, Estimating, Economic Justification and Portfolio Prioritisation

Network Development planning

Network Development Plan

Asset Lifecycle planning

Asset Management Plan

Network Vision (5-yr)

Business Plan

Transmission Annual Planning Report

Revenue Proposal (5-yr)

Customer engagement on draft network and asset plans

Customer engagement on draft Transmission Annual Planning Report

Process flow

Internal and External Inputs
- Corporate Objectives
- Customer and Stakeholder Requirements
- Service standards and statutory obligations
- Network and asset performance

Translate Inputs into Requirements
- Network Vision (5 year update)
- Strategic Asset Management Plan (Annual update)
- Safety, Reliability, Maintenance and Technical Management Plan (Annual update)

Develop Strategies and Planning
- AMS Improvement Initiatives (Annual update)
- Asset Class Strategies (Annual update)

Network and asset condition/ performance
- Network Development Planning (Annual update)
- Asset Lifecycle Planning (Annual update)

Integrated network and asset planning
- Scoping, Estimating and Economic Justification

Regulatory Investment Test for Transmission (RIT-T)

Review and Prioritise
- Prioritisation and Scheduling

Plans and Reports
- Network Development Plan (Annual update)
- Asset Management Plan (Annual update)
- Transmission Annual Planning Report (Annual update)
- AMS Improvement Plan (Annual update)
- Corporate Business Plan (Annual update)
- Revenue Proposal (5 year update)

External Distribution: Consumer Advisory Panel

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Network Development and Asset Management Plan

Network Development Plan (NDP)

- The purpose of the NDP is to document ElectraNet's plan for the safe, secure and effective operation of the network and to support the asset capacity and capability needed to achieve required levels of service in a sustainable manner

- It considers inputs from a range of sources including the AEMO ISP, SAPN and customer demand/supply forecasts, as well as network performance inputs, especially in relation to network constraints, plant and line ratings, fault levels and protection scheme performance

- It provides information about anticipated network developments over the next ten years, and describes the regulatory needs for all connection points, line corridors and electrical system services to facilitate ElectraNet's Network Vision to 2050 and support future ISPs

Asset Management Plan (AMP)

- The purpose AMP is to document the plan for managing the regulated South Australian Transmission Network assets in accordance with ElectraNet's Asset Management Objectives and Strategic Asset Management Plan (SAMP)

- The AMP covers:
  - Maintenance, refurbishment and replacement of physical assets constituting the regulated South Australian Electricity Transmission Network
  - The Plan is part of the asset lifecycle management framework based on ISO55000

Both plans are reviewed and updated annually and form a key component of the annual business planning cycle, in accordance with the Strategic Planning Framework described in our Strategic Asset Management Plan

Network Development Plan – Outline

Section title	Purpose and content
The South Australian Electricity System	Describe the system: supply, demand, transmission network (including description of electrical regions, REZ capability, interconnectors, control schemes), SRAS, frequency control
Planning Scenarios	Describe AEMO's scenarios for the 2022 ISP and how we use them in our planning
The Plan	This section documents "the plan" for network development – what investments will ElectraNet make or champion as a result of the key drivers of change? Topics include: Network congestion forecast, National transmission planning, Joint planning with SAPN, ETC review, System security planning, Reactive power and voltage control planning, Operational review, REZ and interconnector expansion opportunities, HILP and extreme operation, Ratings strategy, Connection point planning and fault levels, Network capability incentive

Asset Management Plan – Outline

Section title	Purpose and content
The State of the Assets	Describes the state of the assets and their ability to deliver the required levels of customer network connection availability and reliability, while meeting acceptable standards of safety and environmental performance, at the lowest asset lifecycle cost to our customers.
Risk Management	Explains the framework in which decisions are made so that the assets are maintained in a condition that is: • Safe and environmentally sustainable • Achieving required levels of reliability and availability • Cost efficient
Long Term Outlook	This section documents the long-term strategy for asset development – what investments (CAPEX and OPEX) will ElectraNet need to make in order to maintain an acceptable risk profile (safety, environment, reliability, availability and cost risk) and ensure the assets continue to perform and deliver value to our customers.
The Plan	The remaining sections outline future works needed to maintain service levels across augmentation, replacement, routine, corrective and refurbishment works.

Consumer Advisory Panel Review
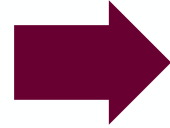
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Consumer Advisory Panel Review

1. Independent Facilitator – Leanne Muffet

2. Review of CAP membership and structure

3. Indicative Meeting Schedule 2022

Consumer Advisory Panel Review

Development of New CAP Structure and Charter

February – April 2022

- Establish a working group to restructure CAP
- Lead by Independent Facilitator
- Working Group made up of CAP Members and ElectraNet staff
- Proposed structure to be endorsed by CAP and ElectraNet

Recruit New CAP Members

April – June 2022

- Once the new CAP structure is finalised, ElectraNet to recruit new members

New CAP formed

June 2022

- Revisit CAP's involvement in the annual planning process
- Arrange an ElectraNet site visit and group gathering

Indicative Meeting Schedule 2022 (subject to feedback)

CAP Meeting	Date	Primary Purpose
Meeting 23	18 February	• Review CAP Engagement Report • Overview of Revenue Proposal • CAP restructure
Meeting 24	March /April	• Input to ElectraNet's annual planning • Consider restructure
Meeting 25	June	• Joint SAPN/ElectraNet meeting (TBC) • Field trip
Meeting 26	September	• Review Revenue Proposal draft decision • Input to annual planning process
Meeting 27	December	• Review Revised Revenue Proposal

Thank You

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