Key topics nominated by the CAP - Meeting held 17 October 2022

Issue	The risk	$$	CAPs suggestions
Price impact/ Contingent Projects • Higher interest rates and inflation have increased required revenue beyond AER Draft Decision expenditure cuts* * NOTE: as ElectraNet can't influence the Rate of Return, which is the biggest driver of the revenue increase, little can be done by ElectraNet or the CAP: to influence price.	Extent of compensating expenditure cuts required would raise concerns about increased reliability and security risks		ElectraNet to consider what options exist to mitigate the impact for customers:… eg: Explore innovations that could reduce capex costs without reducing the quality of supply? ElectraNet to consider whether a more rigorous target can be set on opex productivity? Is there a transition possibility where the full rate of return impact is not applied up front but is delayed? Need to consider regional businesses' sensitivity to reliable supply – consistency of supply can be more important than price relief.
Capital Expenditure Sharing Scheme (CESS) • Some SA-NSW interconnector project (PEC) capex was delayed into next regulatory period • ElectraNet reprioritised previously deferred capital projects to 'fill the gap' left by this deferral • ElectraNet's reprioritisation means that there is no windfall gain from the PEC capex deferral • ElectraNet strongly believes that AER Guideline conditions for making a capex deferral adjustment have not been met	Distortion of CESS incentive sets undesirable precedent likely to drive inefficient behaviours in future	Either ~$3m penalty or ~$22m penalty	Given the timing of this issue, there was limited engagement on this topic with the previous CAP, nor with the new CAP members. This warrants consideration of the new CAP prior to the Revised Revenue Proposal being lodged. CAP sought additional information and CAP to determine the next steps for engagement after consideration of the additional information *ElectraNet agreed to provide a copy of its letter to the AER of May 2022 and response to the AER of Aug 2022*

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Insurance costs • AER cut ElectraNet's proposed step change by ~$15m over the regulatory period • This cut will be reduced in Final Decision following conversation between ElectraNet and AER staff once ElectraNet's higher FY23 insurance costs are considered <u>*Important point:*</u> ElectraNet confirmed if insurance premiums are higher than forecasts, there is an opportunity for a cost pass-through providing the amount is above the threshold of 1% of the total annual revenue.	Allowing less than efficient costs increases risk	~$-	Insurance and cyber security were subject to consumer scrutiny by the previous CAP. The AER Draft Decision focused on what was prudent, so the CAP is comfortable with the AER and ElectraNet coming to a mutually agreeable outcome *ElectraNet agreed to provide information on the costs of insurance to date in the current regulatory period relative to the 1% pass through threshold.*
Cyber step change • ElectraNet proposed an opex increase to fund cost of improving cyber security • AER's advisor considered cost increase excessive • ElectraNet is revisiting cost analysis	Allowing less than efficient costs increases risk	~$6m	Insurance and cyber security were subject to consumer scrutiny by the previous CAP. Check that the forecasts on cyber security are commensurate with other networks Is ElectraNet taking adequate action or only the bare minimum? Ascertain that SP3 is the target and how does that sit with broader risks? For consideration: Is the AER looking at cybersecurity from a 'whole of economy' perspective, given the impact of loss of supply to businesses, particularly the mining industry? ElectraNet to update the CAP regularly in managing cyber security given the dynamic environment. *ElectraNet is working with Deloitte to better understand the cost implications and agreed to re-engage with the CAP when this is clearer.*

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Renewable Energy Zones The CAP has expressed an interest in learning about the future planning of the network, particularly renewable energy zones. • ElectraNet proposed a pass through for the costs of preparing REZ Design Reports • AER did not accept pass through event, which was not subject to a 1% materiality threshold	Allowing less than efficient costs increases risk	$1.2m-1.8m	CAP needs to understand what the network's capacity to accommodate Renewable Energy Zones is. This includes the pace of change, and emissions reporting of businesses. Where is SA is sitting from a national perspective? ElectraNet to provide information *ElectraNet agreed to provide a copy of its 2022 Transmission Annual Planning Report to be issued on 31 October and to engage with the CAP on the development of REZs during its ongoing planning cycle.*
Inertia Services • ElectraNet is tendering for inertia services required by AEMO in FY24 and FY25 • Under network support pass through, costs will either be recovered at the time with a small true-up in arrears, or fully recovered in arrears • Placeholder cost estimate is $6.7m pa based on historical outcomes	There is a trade-off between deferring the cost v price stability and transparency	~$6m pa	The CAP recommended that ElectraNet submit an estimate of expected cost upfront and have smaller variations later. Price certainty and stability are important to customers and it was therefore felt that it's better to create budget / costs clarity for customers than not to