

Consumer Advisory Panel Meeting #7

17 January 2017

Agenda

- 1. Welcome & introductions**
(Ann Shaw Rungie, Independent Facilitator & Rainer Korte, ElectraNet)
- 2. Latest stakeholder feedback**
(Simon Appleby, ElectraNet)
- 3. Revenue Proposal update**
(Rainer Korte, ElectraNet)
- 4. Update on recent developments**
(Rainer Korte, ElectraNet)
- 5. Next Steps**

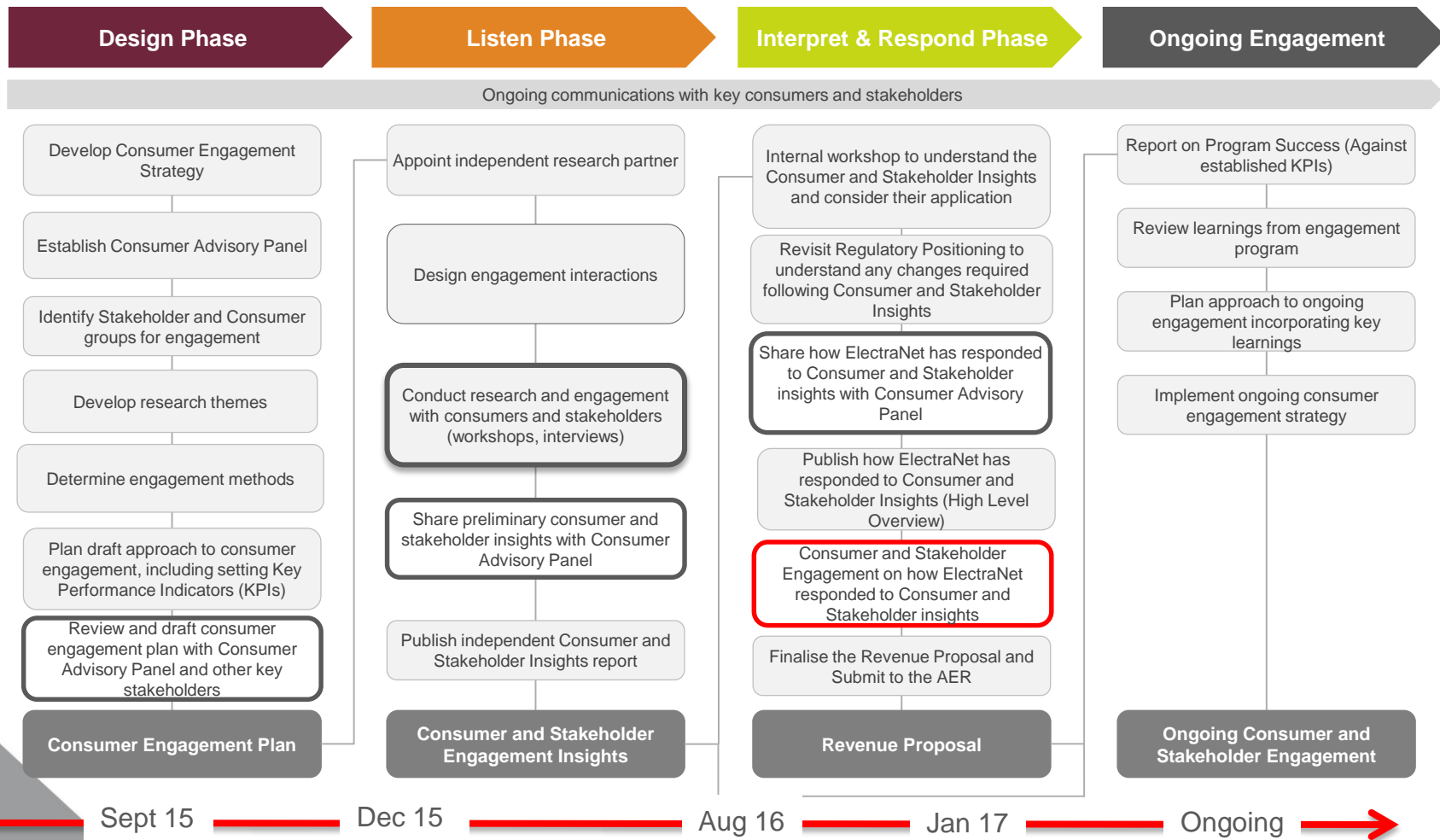
1. Welcome & introductions

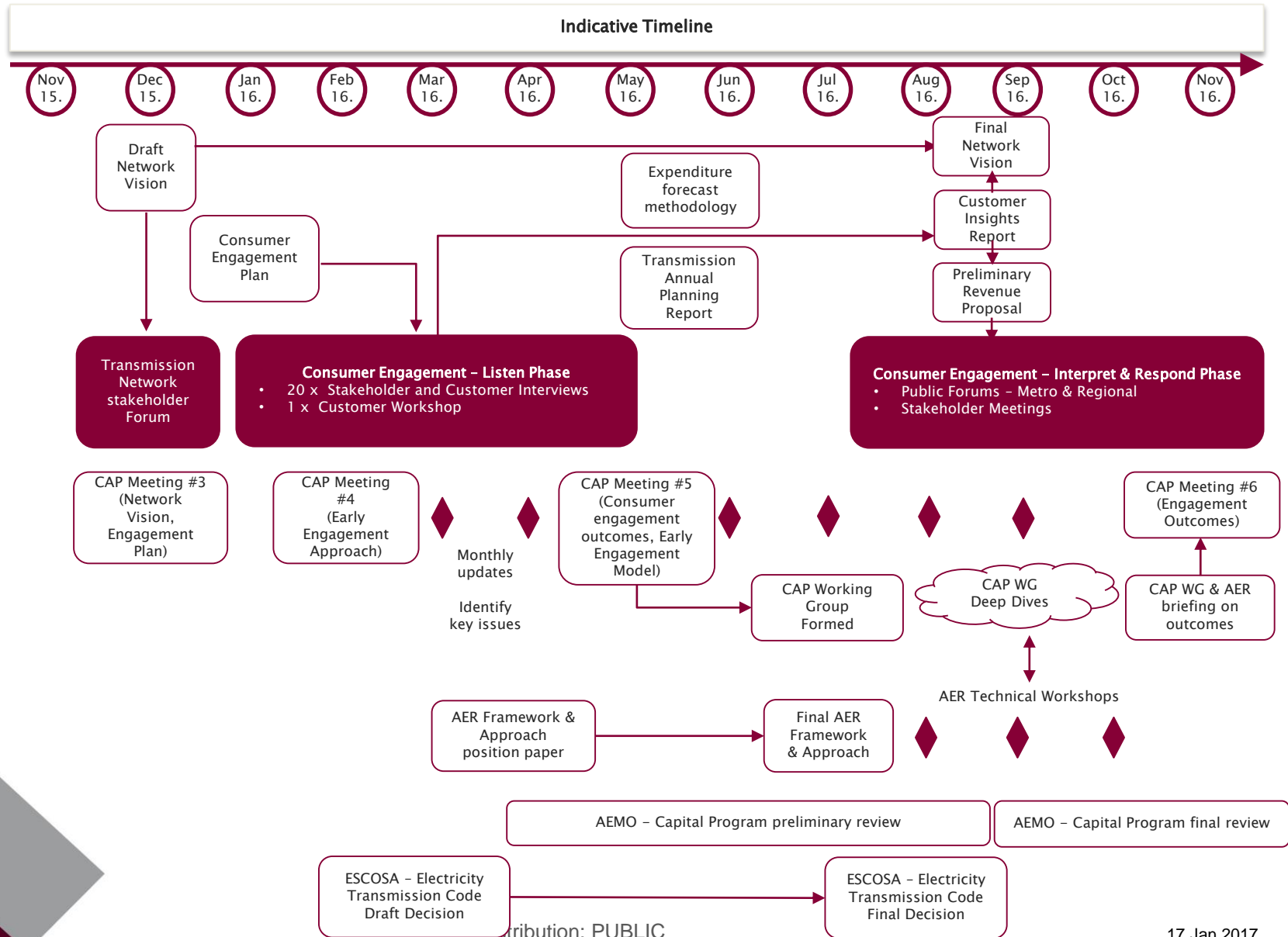
2. Latest Stakeholder Feedback

Simon Appleby

Senior Manager Regulation & Land Management

ElectraNet Consumer Engagement Plan





Engagement Timetable – Key Milestones

Milestone	Timing
AER agreement to early engagement approach	2 May 2016
CAP Meeting # 5 – Working Group formed to review Revenue Proposal in depth	24 May 2016
CAP Working Group Meetings 1 & 2	July & August 2016
Release of: <ul style="list-style-type: none"> • Preliminary Revenue Proposal • Customer Insights Report • Network Vision 	6 September 2016
PRP Public Forum	21 September 2016
AER & CAP Technical Workshops 1, 2, 3	September & October 2016
Comments due on Preliminary Revenue Proposal	11 October 2016
CAP Meeting # 6 – Outcomes of early engagement process	31 October 2016
Telephone survey conducted	November 2016
CAP Meeting # 7 – Latest stakeholder feedback	17 January 2017
Finalisation & lodgement of Revenue Proposal	By 28 March 2017

3. Preliminary Revenue Proposal and what's changed

Rainer Korte
Executive Manager Asset Management

Outline

- > Recap on Preliminary Revenue Proposal (PRP)
- > Outline what's changed since the PRP?

PRP indicative forecasts

Electricity Transmission Prices

↓ **13%**

drop in indicative transmission prices in the first year of the 2019-2023 regulatory period to around 2.5c/kWh.

↓ **\$19 & \$38**

in annual savings for the average residential household and small business customer respectively



Maximum Allowable Revenue

↓ **14%**

lower in the first year of the 2019-2023 regulatory period at \$306m



Capital Expenditure

↓ **46%**

lower than the expenditure allowance in the 2014-2018 regulatory period at \$407m

Operating Expenditure

↓ **10%**

lower than trend expenditure allowance in the 2014-2018 regulatory period at \$434m



Rate of Return

7.5%

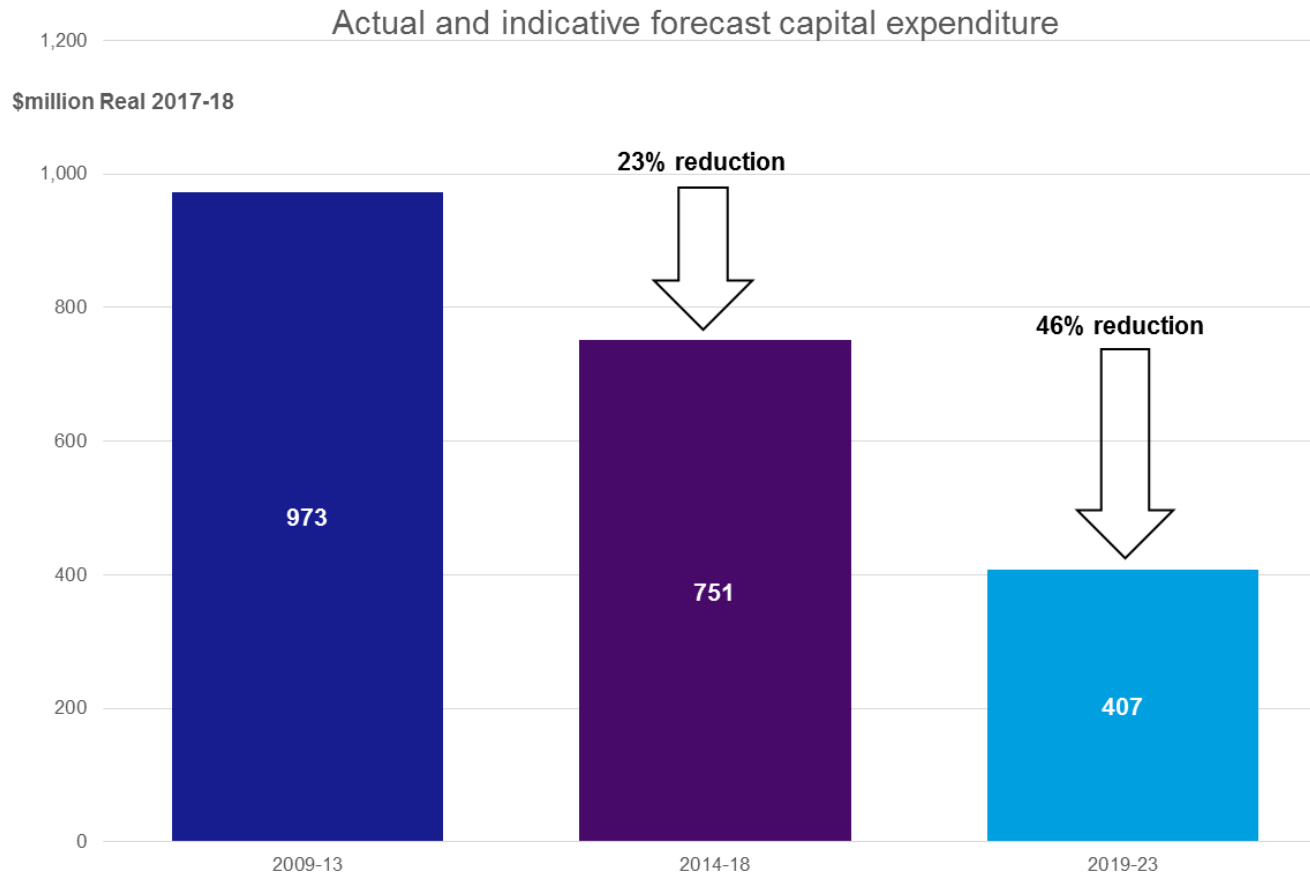
in the 2014-2018 regulatory period indicative rate based on current market data

↓ **to 5.75%**

Indicative changes from PRP

Element	PRP Position	Update
Capex	<ul style="list-style-type: none"> Indicative PRP Capex forecast of \$407m (\$real) 	<ul style="list-style-type: none"> Increased capex forecast proposed due to impacts of storm event on 28 September 2016 and other movements (possibly 10% to 20% increase from PRP)
Opex	<ul style="list-style-type: none"> Year 3 (2015-16) base year trend approach, resulting in indicative forecast Opex of \$434m (\$real) 	<ul style="list-style-type: none"> No material change
WACC	<ul style="list-style-type: none"> Applied default AER WACC guidelines and subsequent appeal outcomes where applicable – indicative rate based on current market data of 5.75% 	<ul style="list-style-type: none"> No material change in approach Updated indicative WACC estimate based on latest market data is about 6.0% Approach will be set out in letter to AER by end January 2017
Inflation	<ul style="list-style-type: none"> CPI of 2% reflecting the bottom of the RBA's inflation target range of 2-3% 	<ul style="list-style-type: none"> Market based inflation forecast has increased to about 2% based on latest market data
Depreciation	<ul style="list-style-type: none"> Applied prevailing AER approaches, including year by year tracking method and asset replacement write downs 	<ul style="list-style-type: none"> No change in approach but proposing to adopt shorter asset life for new telco assets (from 15 years to 10 years) to better reflect their in-service life, and a new asset class for synchronous condensers

PRP Capex forecast

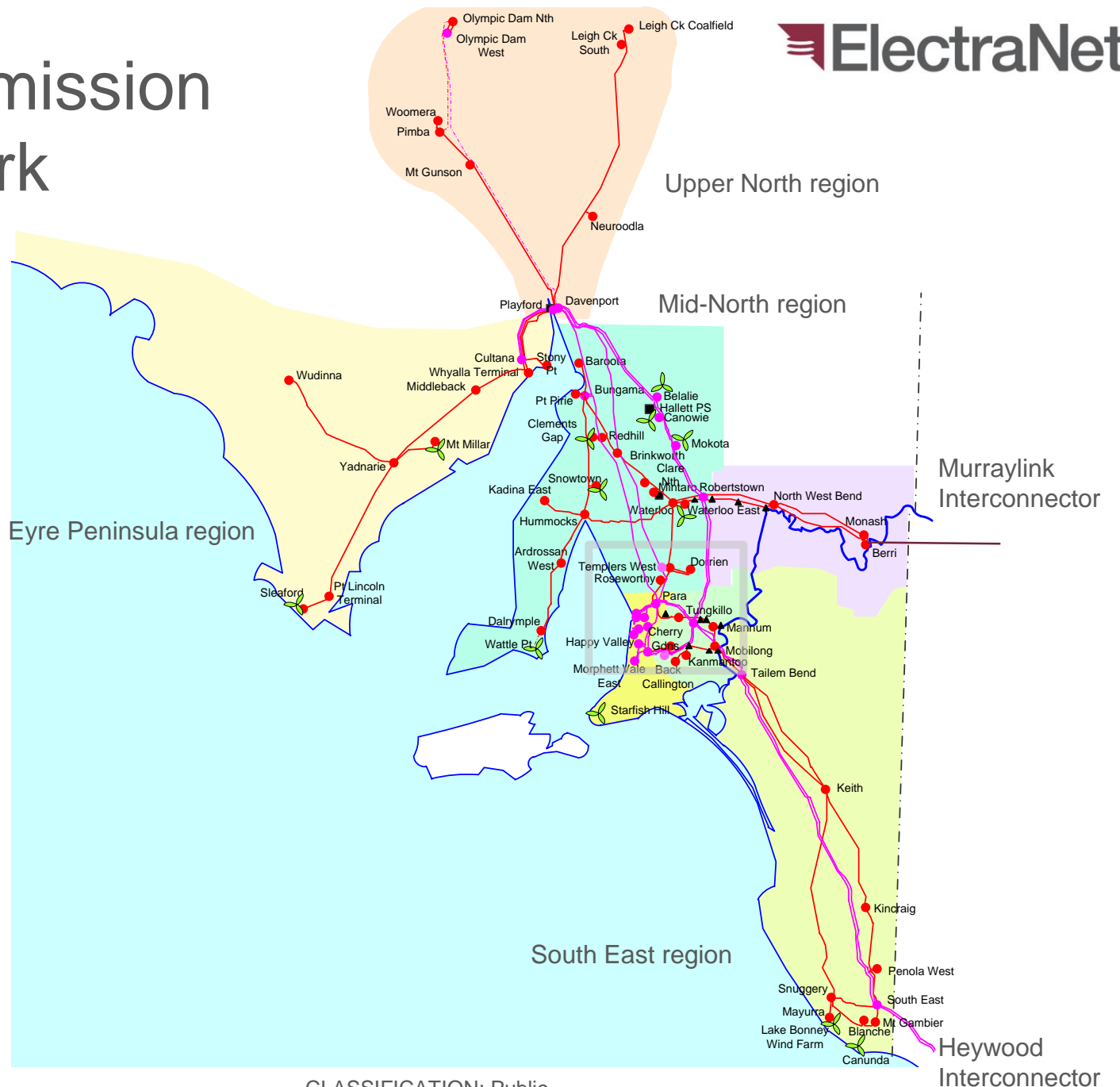


A 20% increase in capex forecast from the PRP would be about a 35% reduction from current spend levels

Increased capex drivers

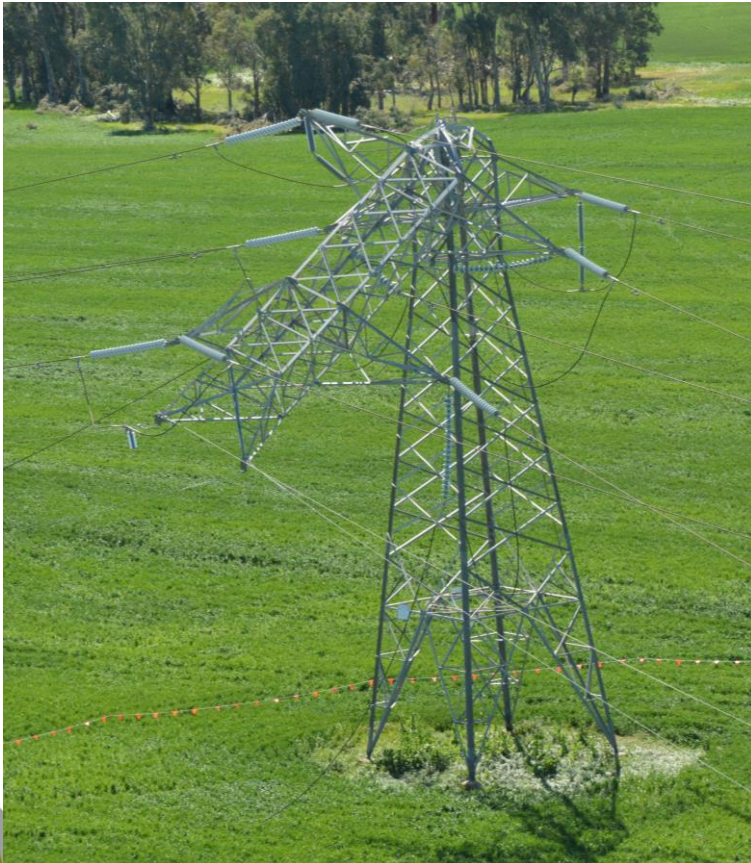
- > The storm event of 28 Sep 2016 has had a significant impact
- > Priority line restoration activities, the associated reallocation of resources, and reduced ability to secure necessary outages has delayed progress of capital projects in the current period
- > ElectraNet is investigating prudent economic measures to reduce the risk of major disruption from extreme weather events and to reduce restoration times
- > This is leading to new expenditure priorities in the current and upcoming period

Transmission network



CLASSIFICATION: Public

Storm event of 28 September 2016



Source: Severe Thunderstorm and Tornado Outbreak South Australia 28 September 2016 - Bureau of Meteorology, November 2016

Severity confirmed by Bureau of Meteorology

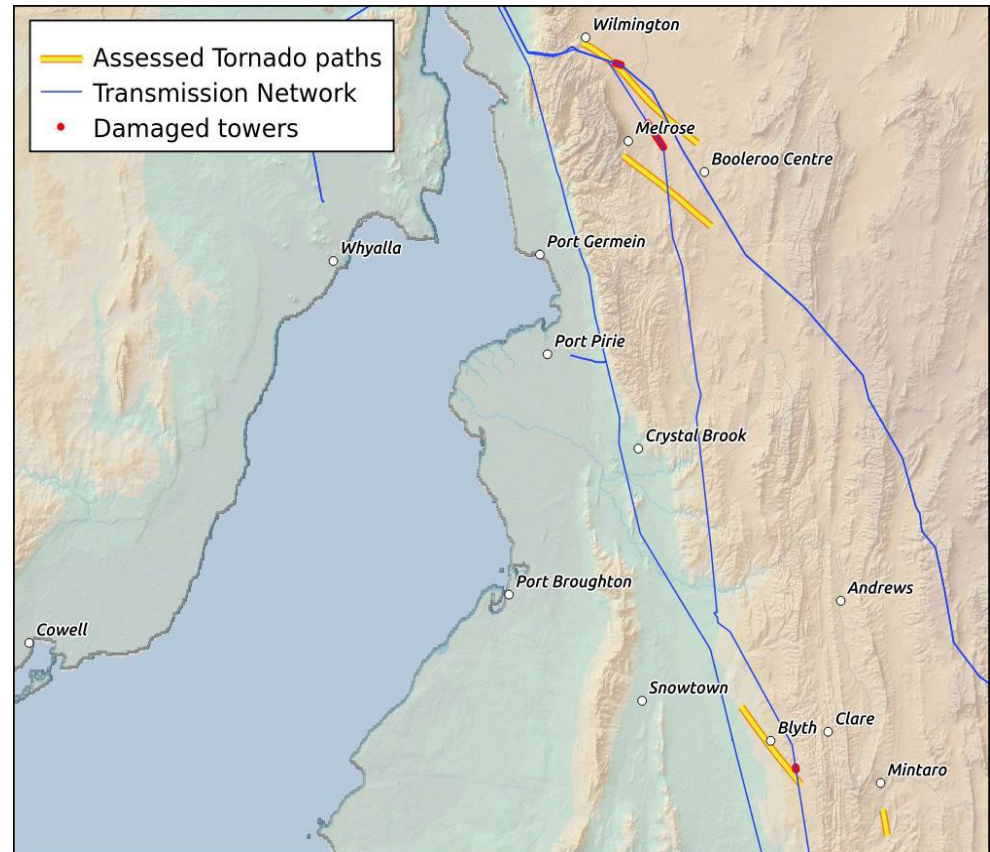
- > “One of the most significant severe thunderstorm outbreaks in recent decades”
- > “Multiple supercell thunderstorms produced damaging to destructive wind gusts, including at least seven tornadoes”
- > The tornados in the vicinity of the ElectraNet assets were rated at F2 with some signs of F3 wind damage

Fujita Scale	
Rating	Estimated 3 Second Wind Gust Speed (km/h)
F0	72 – 126
F1	127 – 189
F2	190 – 260
F3	261 – 337
F4	338 – 421
F5	422 – 510

Source: Severe Thunderstorm and Tornado Outbreak South Australia 28 September 2016 - Bureau of Meteorology, November 2016

Network resilience to extreme weather events

- > Investigating prudent economic measures to reduce the risk of major disruption from extreme weather events
- > Focus is on the Mid North where most events have occurred
- > Effects of climate change may result in more extreme weather in the future
- > Investigation still underway and outcomes not yet clear



Locations of assessed tornado paths overlaid with transmission network and damaged towers

Source: Severe Thunderstorm and Tornado Outbreak South Australia
28 September 2016 - Bureau of Meteorology, November 2016

4. Major Current Developments

Rainer Korte
Executive Manager Asset Management

Outline

- > Provide an update on major current developments
- > Q & A

SA Energy Transformation RIT-T



South Australian Energy Transformation

RIT-T: Project Specification Consultation Report

7 November 2016



South Australian Energy Transformation

RIT-T: Market Modelling Approach and Assumptions Report

21 December 2016



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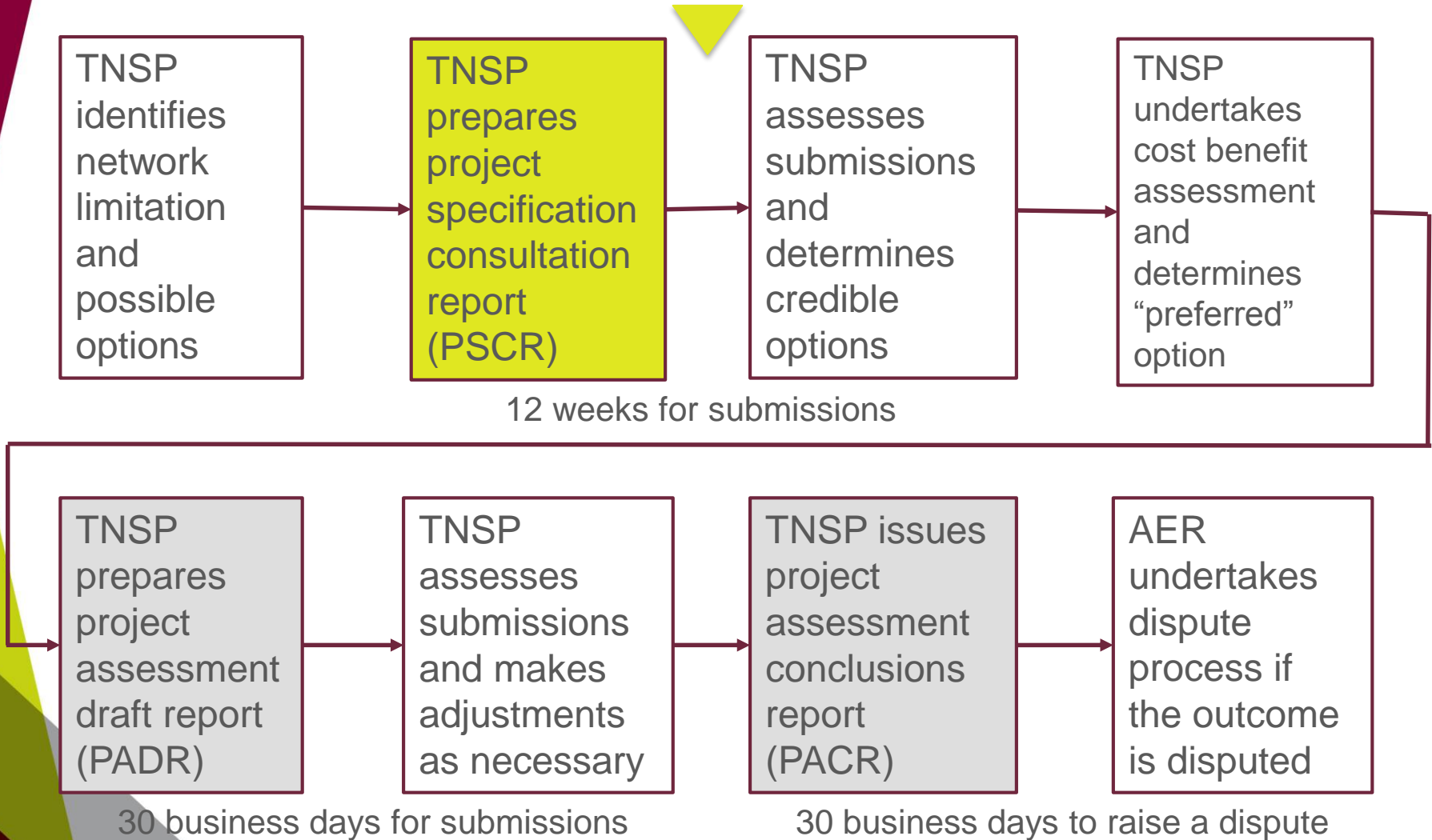
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Identified need for RIT-T study

- > **Improve wholesale market competition** in South Australia and deliver positive price impacts for customers
- > **Improve system security** by reducing the risk of widespread loss of supply when South Australia becomes islanded from the NEM (through loss of the Heywood Interconnector)
- > Provide access to a more diverse range of supply sources, allowing greater **sharing of reserves across regions** and **improving fuel and supply security** for South Australia
- > Open up access to more renewable generation to **help Australia meet its renewable energy targets**

RIT-T process

We are here



TNSP = Transmission Network Service Provider

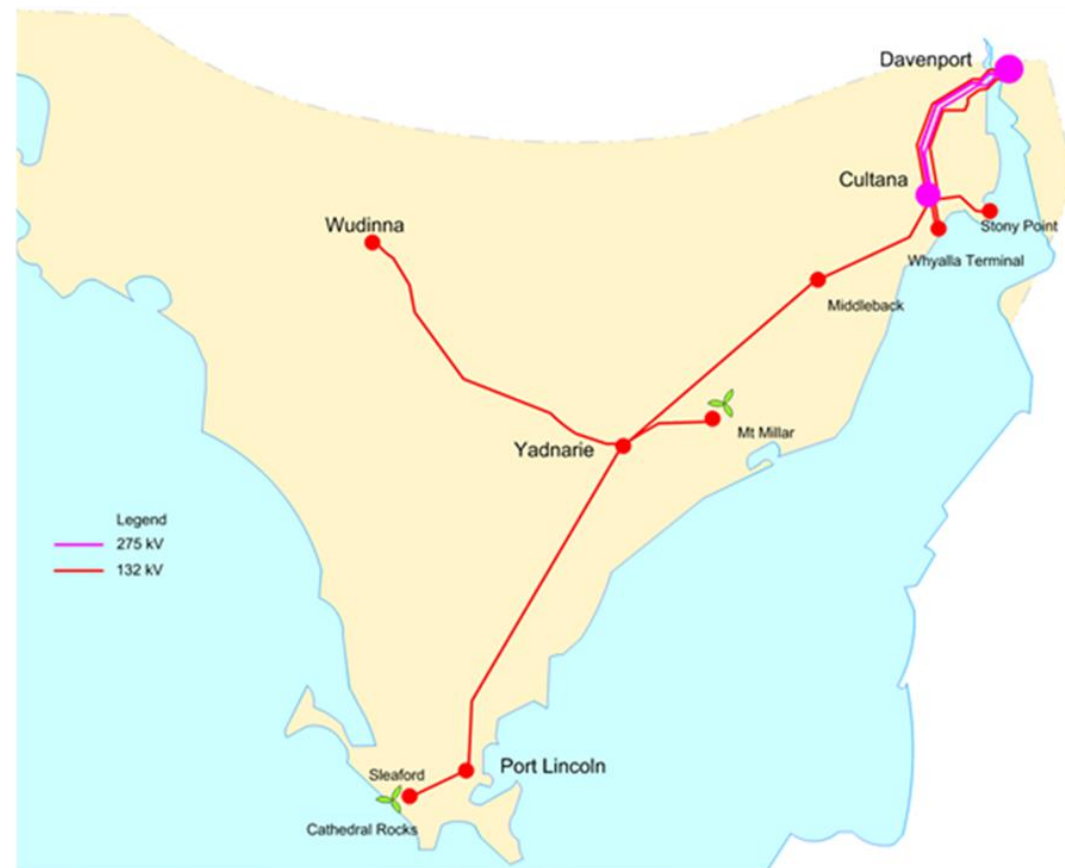
Next steps

ElectraNet is committed to running an open and transparent process to find the best options to support South Australia’s energy transformation

Milestone	Timing
Project Specification Consultation Report (PSCR) published	7 Nov 2016
Public forum	8 Dec 2016
Market Modelling Assumptions Report published for consultation	Week commencing 19 Dec 2016
Submissions due on PSCR and Market Modelling Assumptions Report	6 Feb 2017
RIT-T Draft report (PADR)	Q2 2017
Draft report public forum	Q2 2017
RIT-T Final report (PACR)	Q3 2017

Ensuring reliable supply to Eyre Peninsula

- > Partial line replacement was included in the PRP forecasts at \$56m to replace component assets at end of life (latest cost estimate is about \$80m)
- > Full line replacement may be a better option than renewing network support contract at Port Lincoln
- > But this would only proceed if the benefits to customers exceed the costs



Electricity demand is about 100 MW south of Cultana with about 50 MW at Port Lincoln

Other current development updates

- > Northern South Australia Voltage Control RIT-T
- > ESCRI battery storage project

Questions



5. Next Steps