

# OPERATING EXPENDITURE PROGRAM

28 MARCH 2017

## We're continuing our efficiency drive to deliver an 11% reduction in operating costs

Our role is to manage and operate South Australia's transmission network as cost effectively as possible, to support the safe, secure and reliable supply of electricity.

We continue to work hard to drive efficiencies and reduce our operating costs.

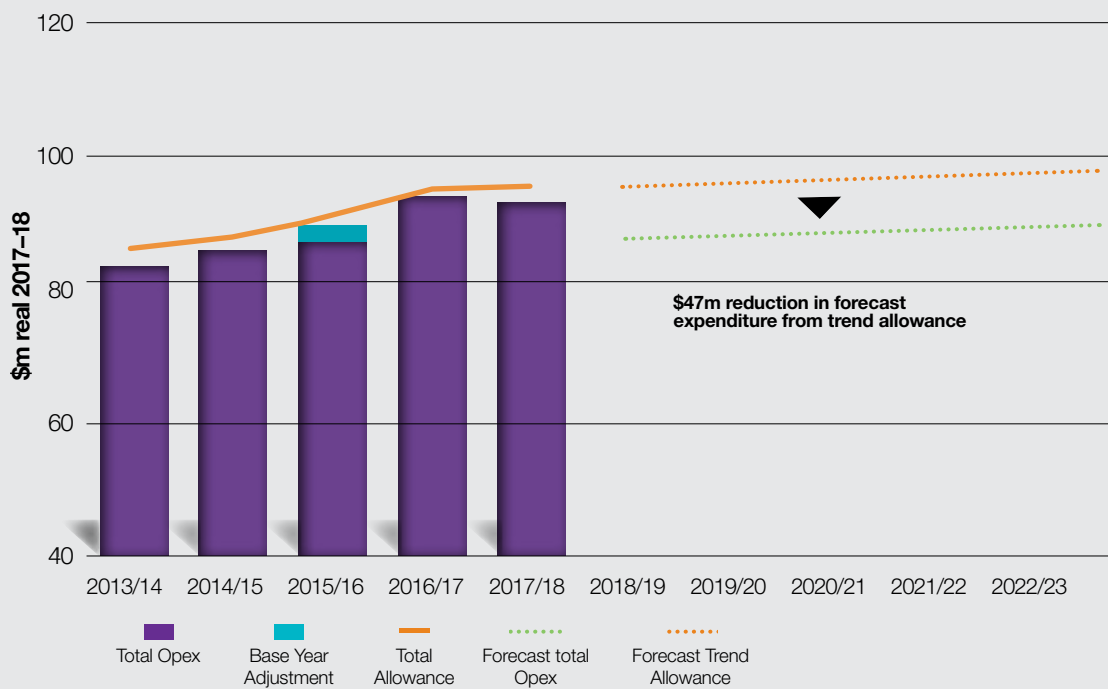
Overall, cost savings of 11% or \$47m are built into our total operating expenditure forecast relative to the trend allowance<sup>1</sup>, as shown below.

This equates to ongoing projected savings of around \$9m per annum. We need to work hard to achieve these savings, particularly given the increasing importance of maintenance expenditure due to aging network assets.

These savings reflect both efficiencies achieved to date, and assumed ongoing efficiencies yet to be delivered.

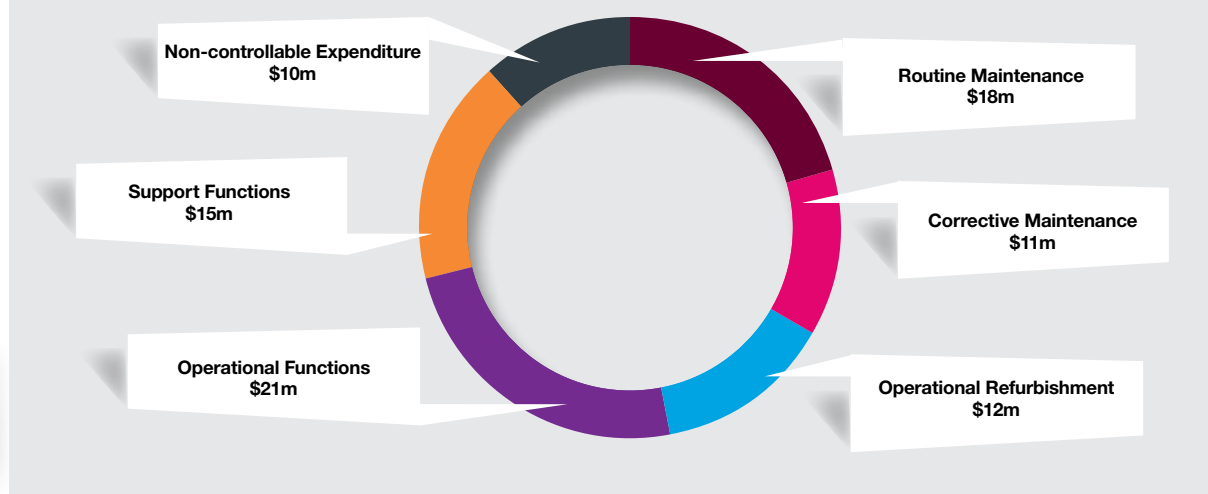
<sup>1</sup> Trend allowance refers to the projected expenditure allowance from the current period.

Actual and Forecast Total Operating Expenditure



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## Annual Operating Expenditure Program during 2019–2023



The focus of the operating expenditure program is on maintenance and the supporting functions needed to efficiently run the network. These programs are described further below.

PROGRAM	DESCRIPTION
<b>Routine maintenance</b>	Field inspections and maintenance activities completed to predetermined schedules and scopes
<b>Corrective maintenance</b>	Field activities to mitigate short term risks, restoring a transmission system asset or component to a satisfactory operational state
<b>Operational refurbishment</b>	Planned activities to mitigate risks identified in asset condition assessments, and manage compliance with legal obligations and good industry practice
<b>Operational functions</b>	Maintenance support activities to ensure the efficient delivery of the maintenance program, and network operations activities including the control centre
<b>Support functions</b>	IT support, asset strategy, network planning and corporate support activities
<b>Non-controllable expenditure</b>	Network support payments
	Debt raising costs
	Self-insurance allowance

In addition to the new challenges posed by the changing generation mix in South Australia, the transmission network faces a number of factors that drive costs higher than other networks in the NEM. These include having:

- among the **oldest** assets, leading relatively to higher maintenance costs
- the **smallest** transmission only network, leading to lower economies of scale

- the **most peaky** electricity demand, leading relatively to higher unit costs
- a **thinly spread** population, requiring more infrastructure to serve customers

Despite this, ElectraNet compares well with its peers in operating cost performance.

All figures are in real terms (excluding inflation) \$2017–2018 and relate to financial years.