

2021-25 EDPR Revenue Update and Price Path



For the Customer Forum

11 October 2018

Content

▶ Updated 2021-25 revenue forecasts

- › Updated expenditure and revenue proposal for the distribution business
- › Price paths

**Overview of revenue and
expenditure forecasts**



Overview

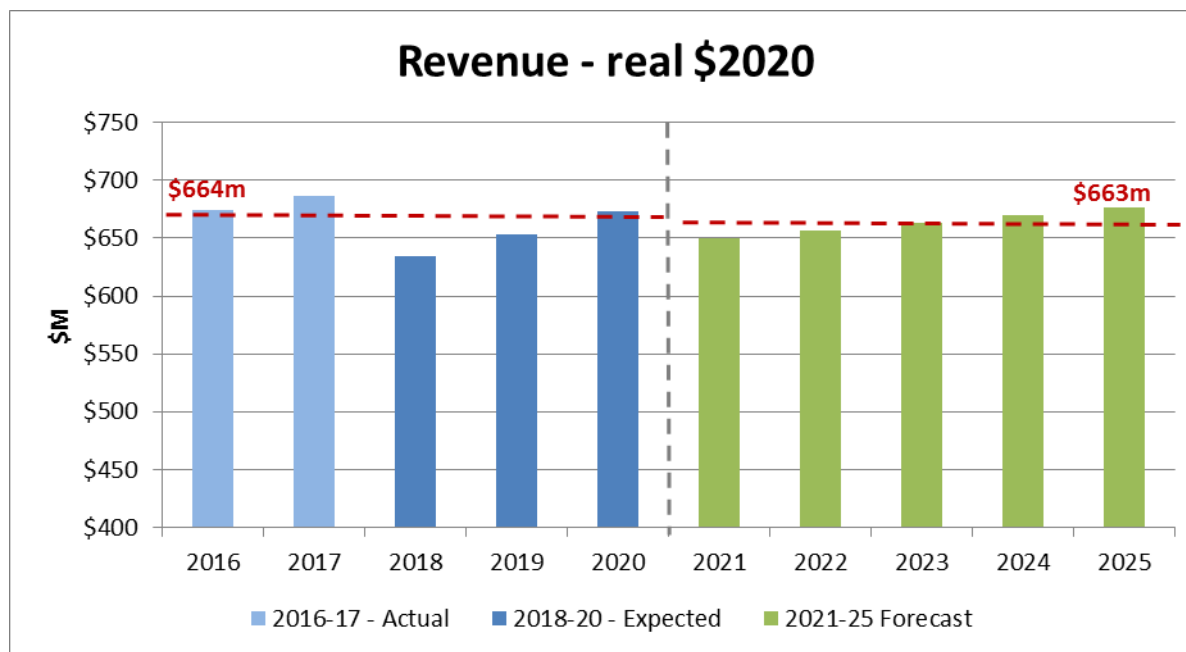
► Update reflects many refinements

- › Network capex: more complete information on asset conditions, refined economic modelling
- › ICT: reflects work with business to clarify IT needs, double counting removed, further refinement of allocation of AMI ICT, we have implemented the longer asset life for AMI ICT as raised by the AER
- › WACC: Slight reduction to reflect AER Draft Decision (was 5.79, now 5.64% to 5.58%)

► Key outcomes of updated modelling

- › Proposed revenue requirement for the distribution business is 3% lower than the previous forecast and is in line with 2016-20 expected actual expenditure
- › Real revenue per customer is now 8% lower on average compared to 2016-20 period

Revenue: Distribution

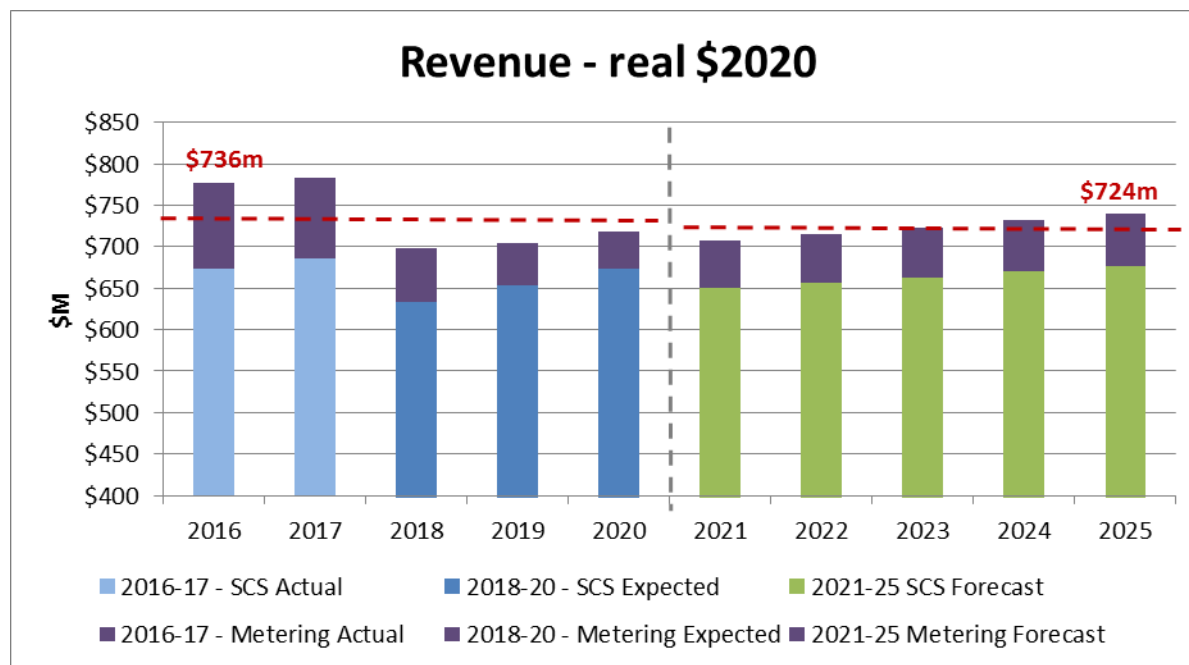


Note: Higher revenue in 2017 due to STPIS payment (reliability performance)

Relative to 2016-20:

- 2021-25 revenue is 0.1% less than 2016-20 (including incentive payments)
- 2021-25 annual average revenue is \$663m, compared to \$664m in 2016-20
- 5% less revenue if incentive payments excluded

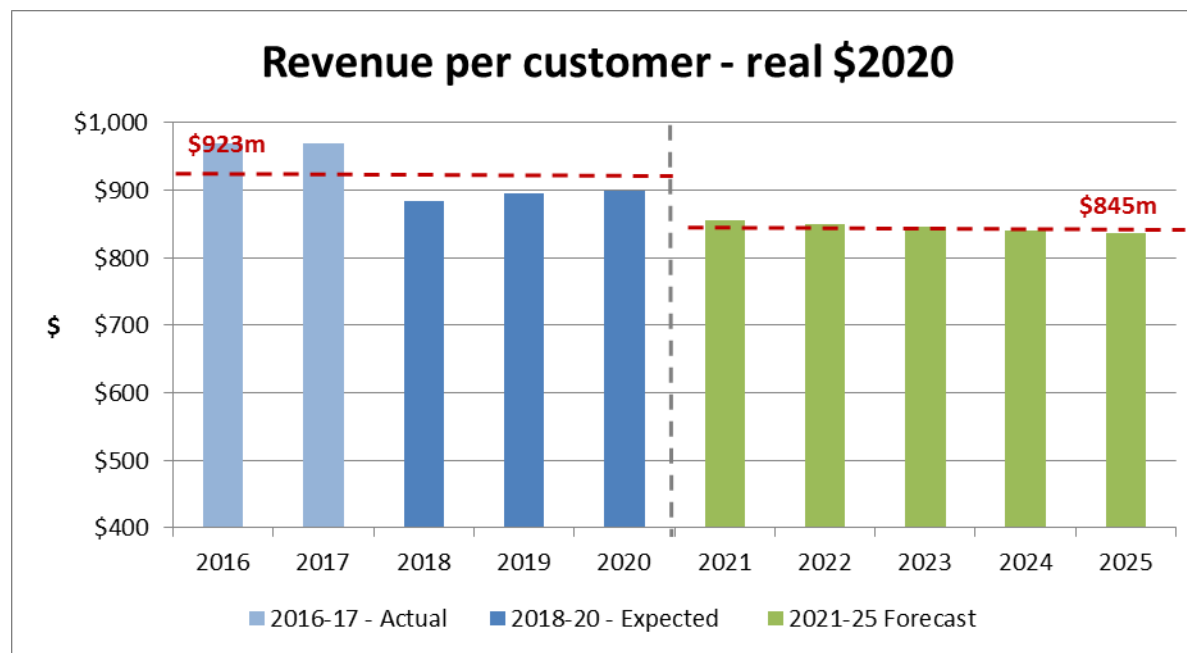
Revenue: Distribution + metering



Relative to 2016-20:

- 16% less metering revenue over 2021-25 than the 2016-20 period
- 2021-25 annual average revenue is \$724m, compared to \$736m in 2016-20
- Combined SCS & metering revenue is 2% lower in 2021-25 than in 2016-20

Revenue per customer: Distribution



Relative to 2016-20:

- Average revenue per customer is \$845 over 2021-25, 8% reduction from \$923 per customer on average over 2016-20
- Revenue per customer reduces by 2% over the 2021-25 period
- 6.5% growth in customer numbers over 2021-25 period (revised forecast)

2021-25 Updated forecasts



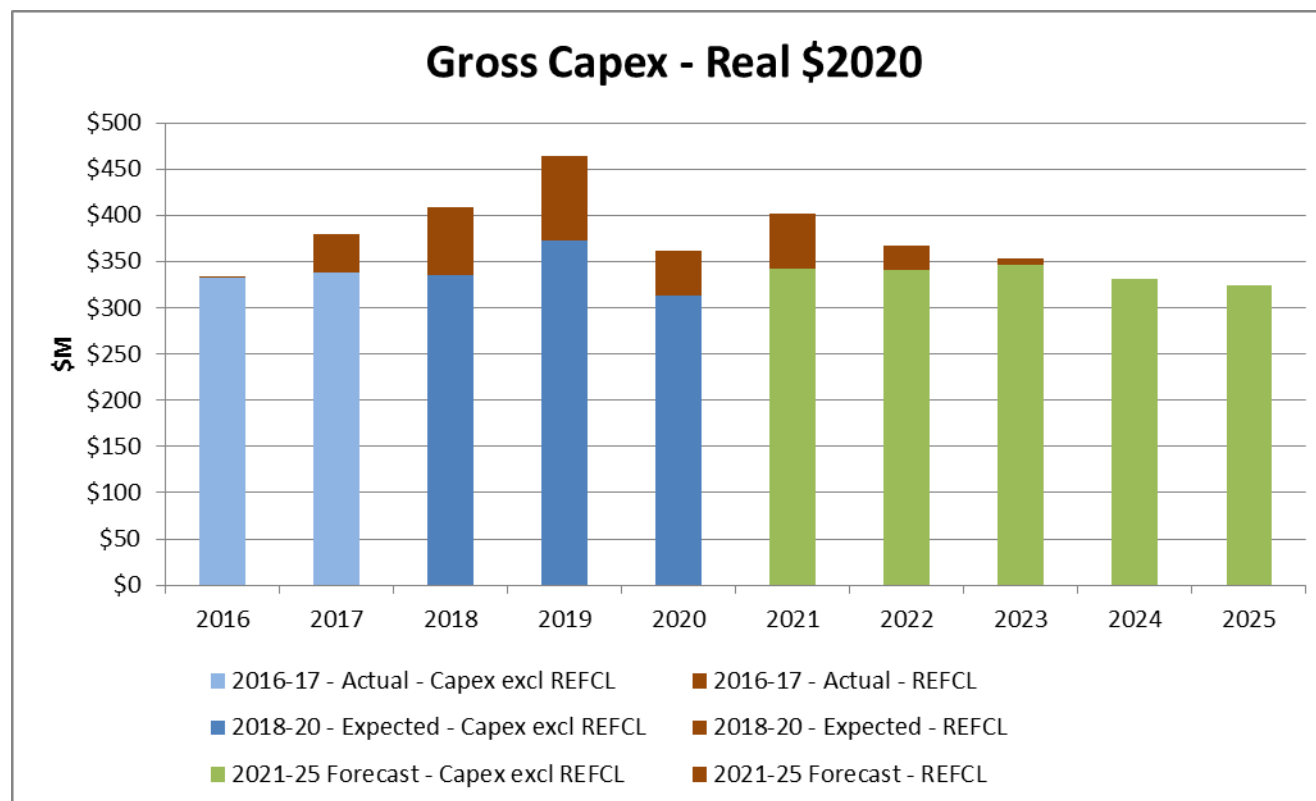
\$2020 real	Previous forecast	Current forecast	Percentage difference	Reason for change
Revenue	\$3,412	\$3,315	-3%	Lower WACC and refined expenditures
Capex:				
Gross Capex	\$1,851	\$1,782	-4%	Reduced IT expenditure
Augex	\$104	\$110	6%	Refined demand forecasts and program to ensure that REFCLs remain operational and within compliance
Connections	\$468	\$497	6%	Change in forecasts
Repex	\$563	\$621	10%	Refined analysis of asset conditions. Note this also includes conductor replacement in bushfire areas
Safety incl REFCLs	\$258	\$259	0.4%	No change
ICT capex	\$236	\$177	-25%	Refinement of program and removal of double counting
AMI IT - SCS	\$78	\$40	-49%	Refinement of program and removal of double counting, longer asset life as per AER advice
Opex	\$1,199	\$1,226	2%	Increase in 2108 base year expenditure, increase in share of AMI opex, offset by reduction in cloud step change

2021-25 Updated forecasts



\$2020 real	Previous forecast	Current forecast	Percentage difference	Reason for change
Incentive payments				
EBSS	\$116	\$97	-16%	Increase in base year (2018) expenditure
CESS	\$93	\$69	-26%	Reduction of underspend due to capitalised leasing costs and REFCL uplift

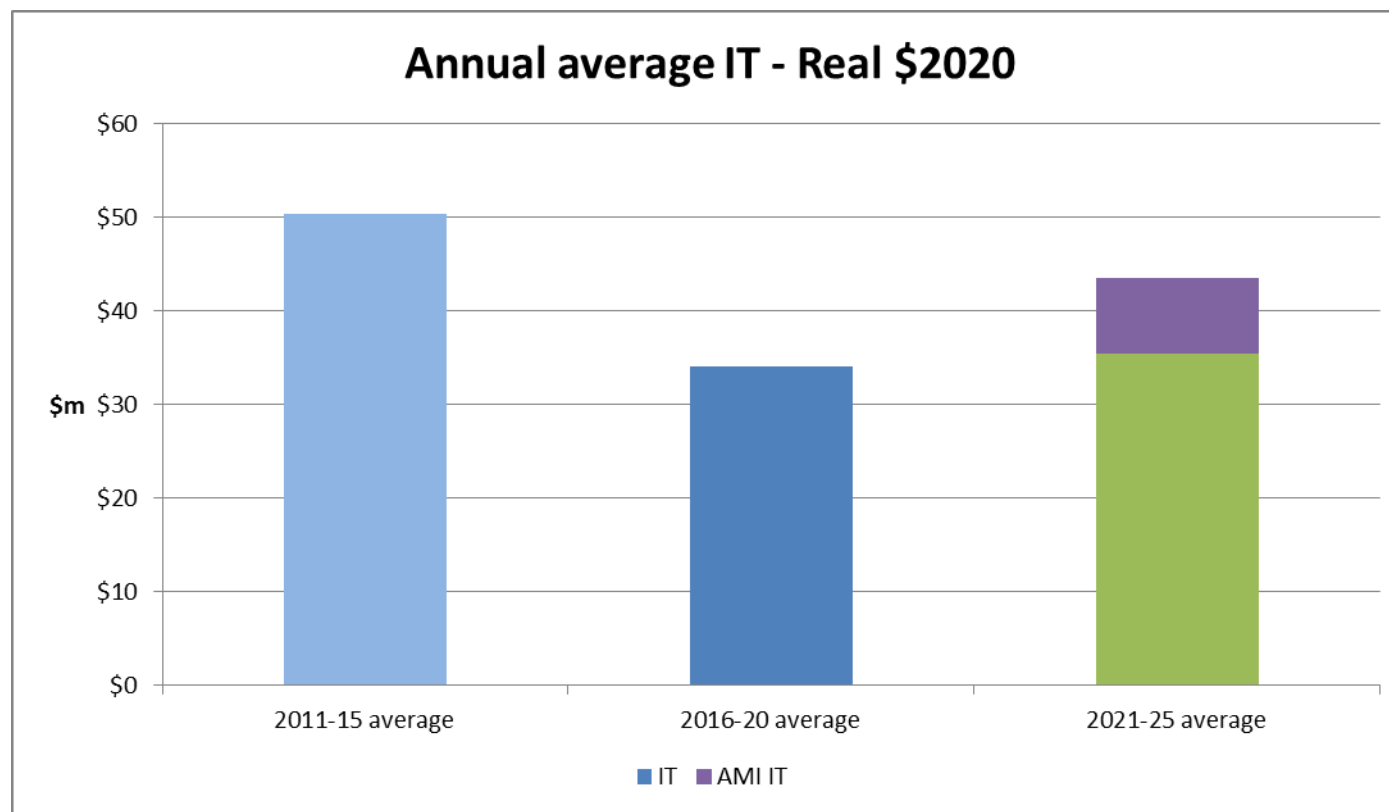
Gross capex



Relative to 2016-20:

- Gross capex 9% lower over 2021-25 relative to 2016-20
- Reduced augmentation (-8%), safety (-53%), REFCL (-64%)
- But increases in:
 - IT (41%) including due to \$40m reallocation of AMI IT
 - Repex (28%) due to increase in spending on poles and conductor

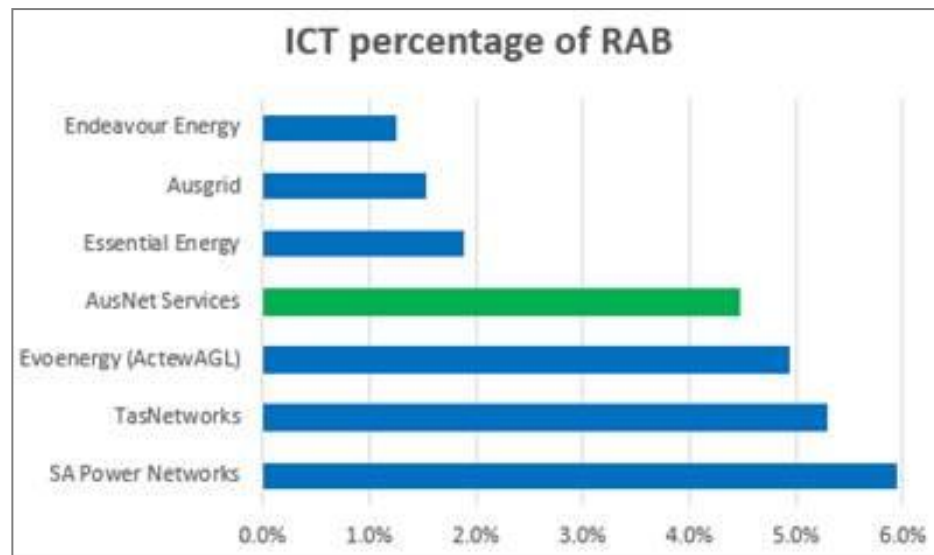
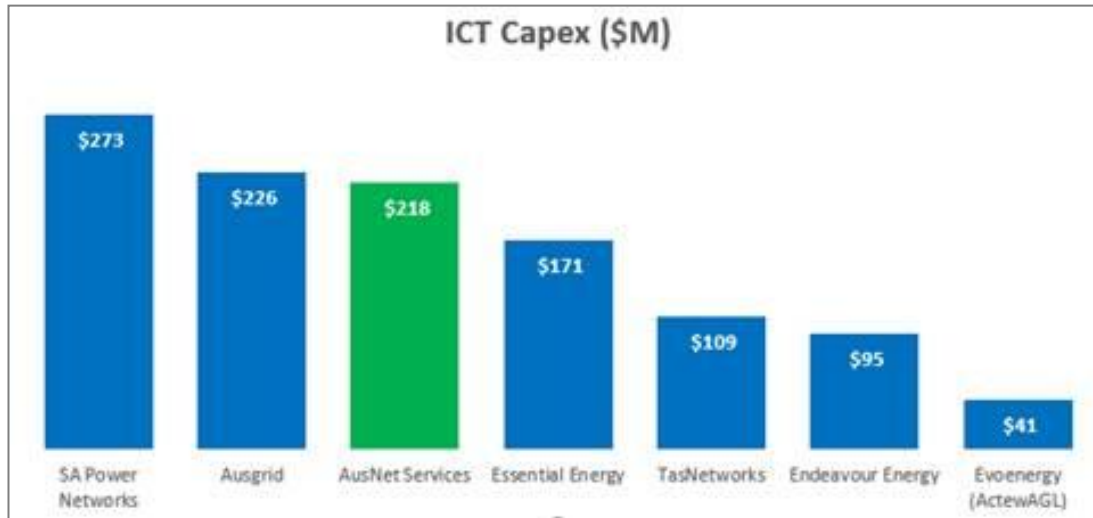
Standard control – IT capex



Relative to 2016-20:

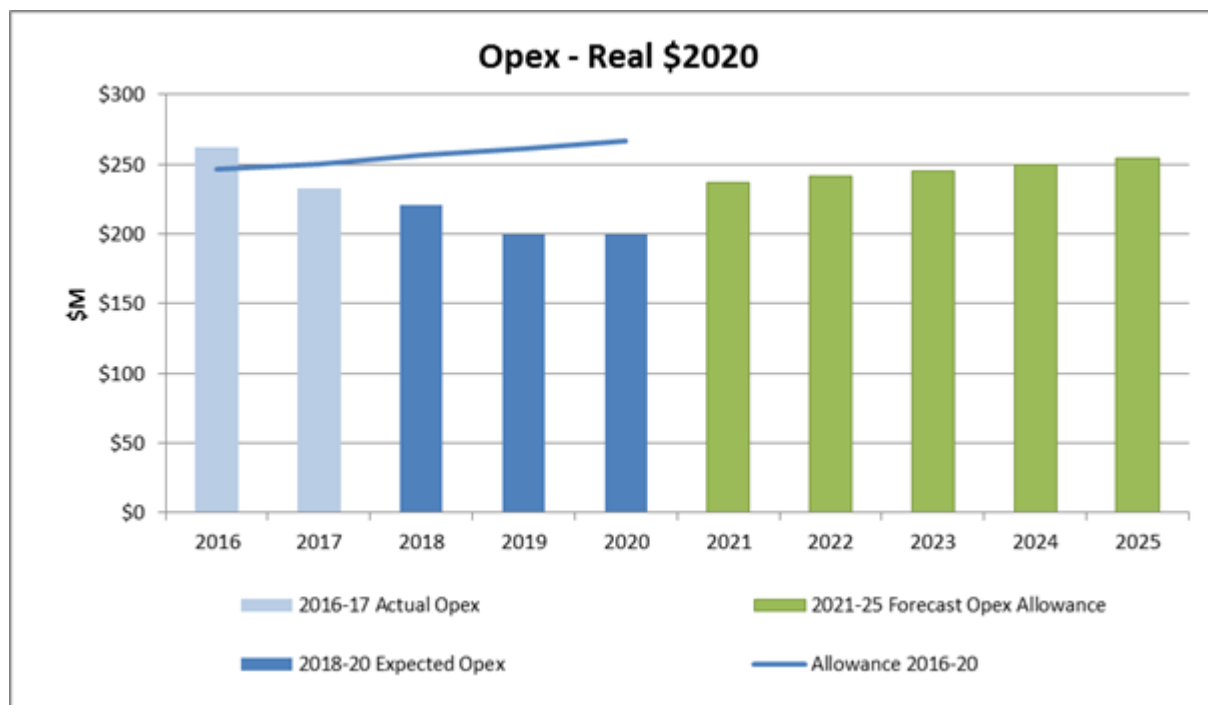
- Proposed IT expenditure is \$177m in 2021-25, only marginally higher than the \$170m in 2016-20
- An allocation made of AMI IT of \$40m (this has a longer depreciation period)

IT capex comparison to recent proposals



All dollars in real \$2020
 NSW/ACT/TAS: FY 2019-24
 SAPN: FY 2020-25

Standard control – opex



Relative to 2016-20:

- Base-step-trend estimated allowance for 2021-25 period, base year is 2018
- Zero productivity parameter
- Step changes include 5 min settlements, REFCL and IT cloud step change (\$6m per annum)
- \$30 million of AMI ICT allocated from ACS to SCS
- Annual average opex is \$245m in 2021-25 down from an allowance of \$256m per annum over 2016-20

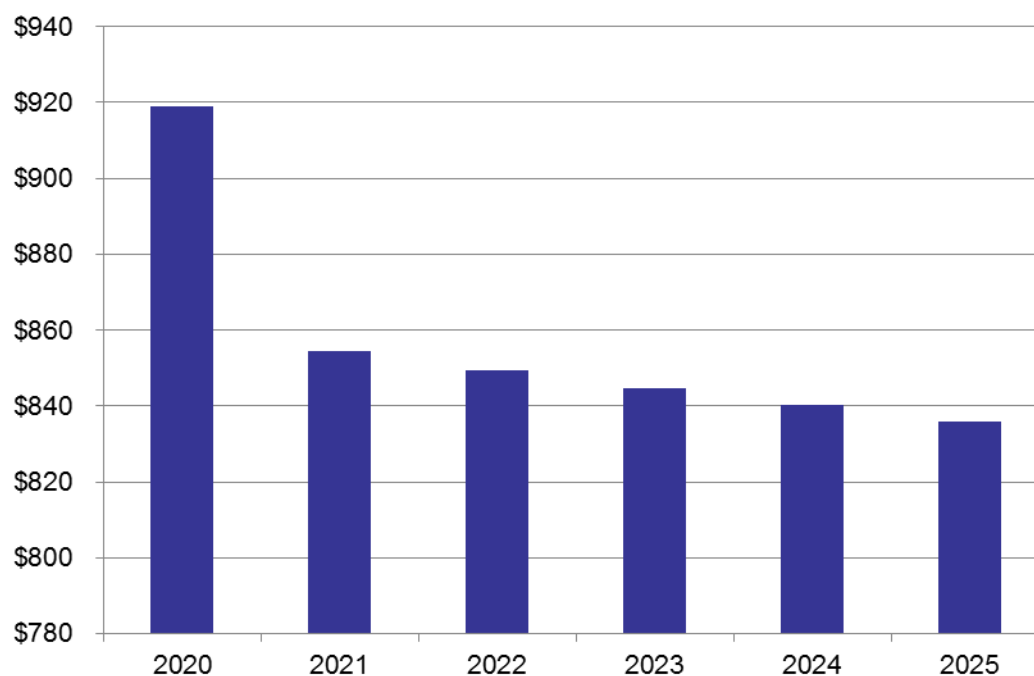
Price path



Option 1 – Default

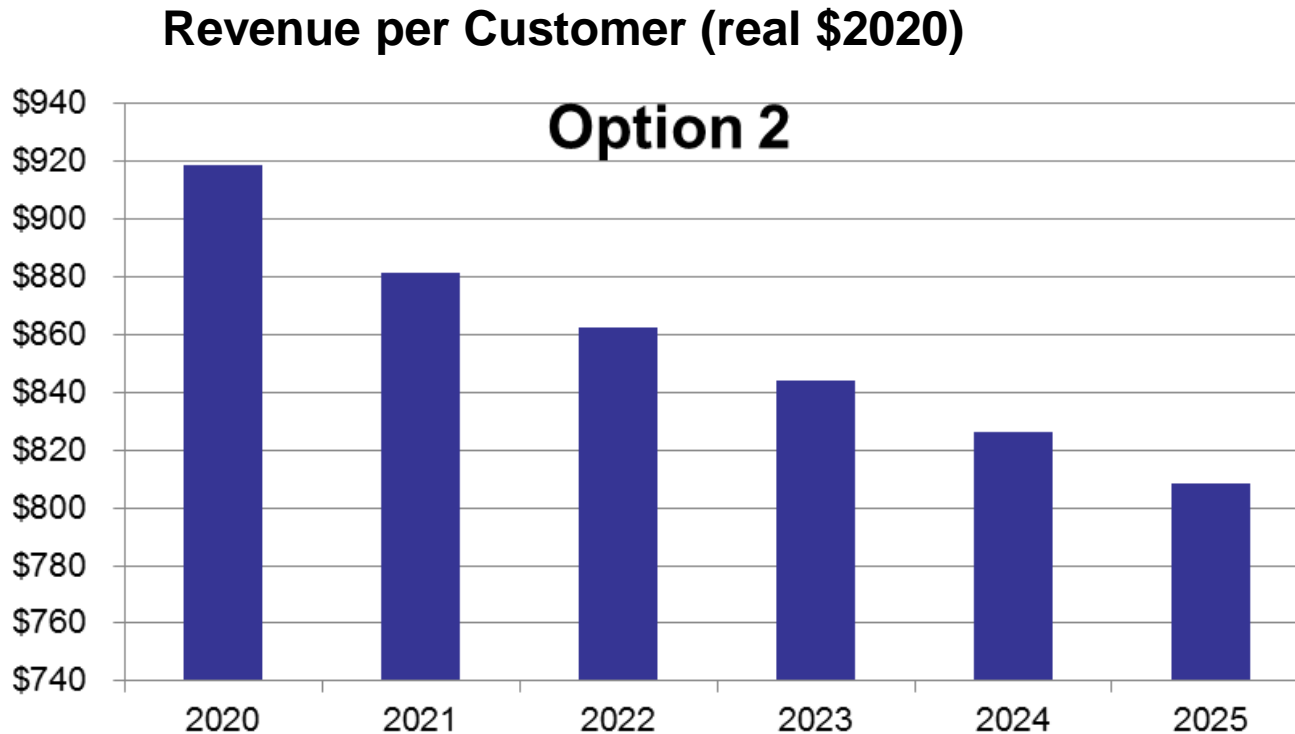
Revenue per Customer (real \$2020)

Option 1



- Initial real reduction of \$64 (7.0%), followed by average annual reductions of 0.6%
- In nominal terms, initial reduction of \$44 (4.7%), followed by average annual increase of 1.9%

Option 2 – Sharp decrease then gradual decrease

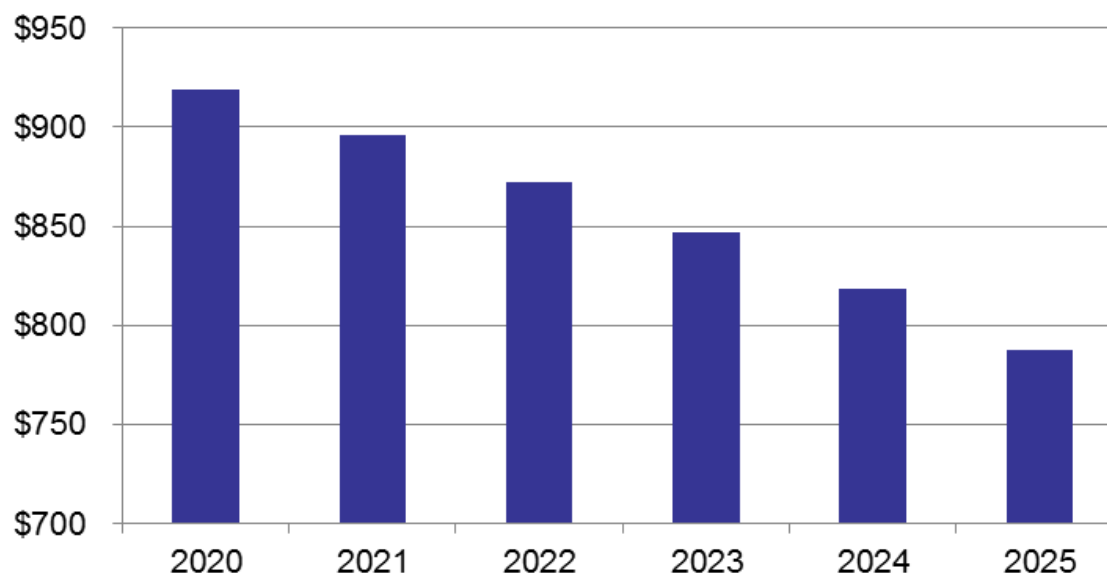


- Initial real reduction of \$37 (4.1%), followed by continued annual reductions of 2.1%
- In nominal terms, initial reduction of \$16 (1.7%), followed by average annual increase of 0.3%

Option 3 – Gradual decrease

Revenue per Customer (real \$2020)

Option 3



- Initial real reduction of \$23 (2.5%), followed by average annual reductions of 3.2%
- In nominal terms, initial reduction of \$1 (0.1%), followed by average annual reductions of 0.8%