Information & consultation working group Meeting 5

Friday 15 December 2014

Agenda

1. General update
2. Capital expenditure options
3. Customer contributions
4. Indicative pricing

General update

- Framework and approach paper released by AER
- AER benchmarking
- NSW decision
- Consultation to date
- Council specific initiatives for inclusion

Benchmarking

On 27 November 2014, AER issued its first annual benchmarking report

Nature of benchmarking

The Report presents two types of benchmarking:

1. Multilateral Total Factor Productivity (**MTFP**)

   This measures the productivity of DNSPs over time and relative to each other by measuring total outputs relative to total inputs

2. Partial performance indicator (**PPI**)

   This examines the ratio of input costs to a single output

The Report:

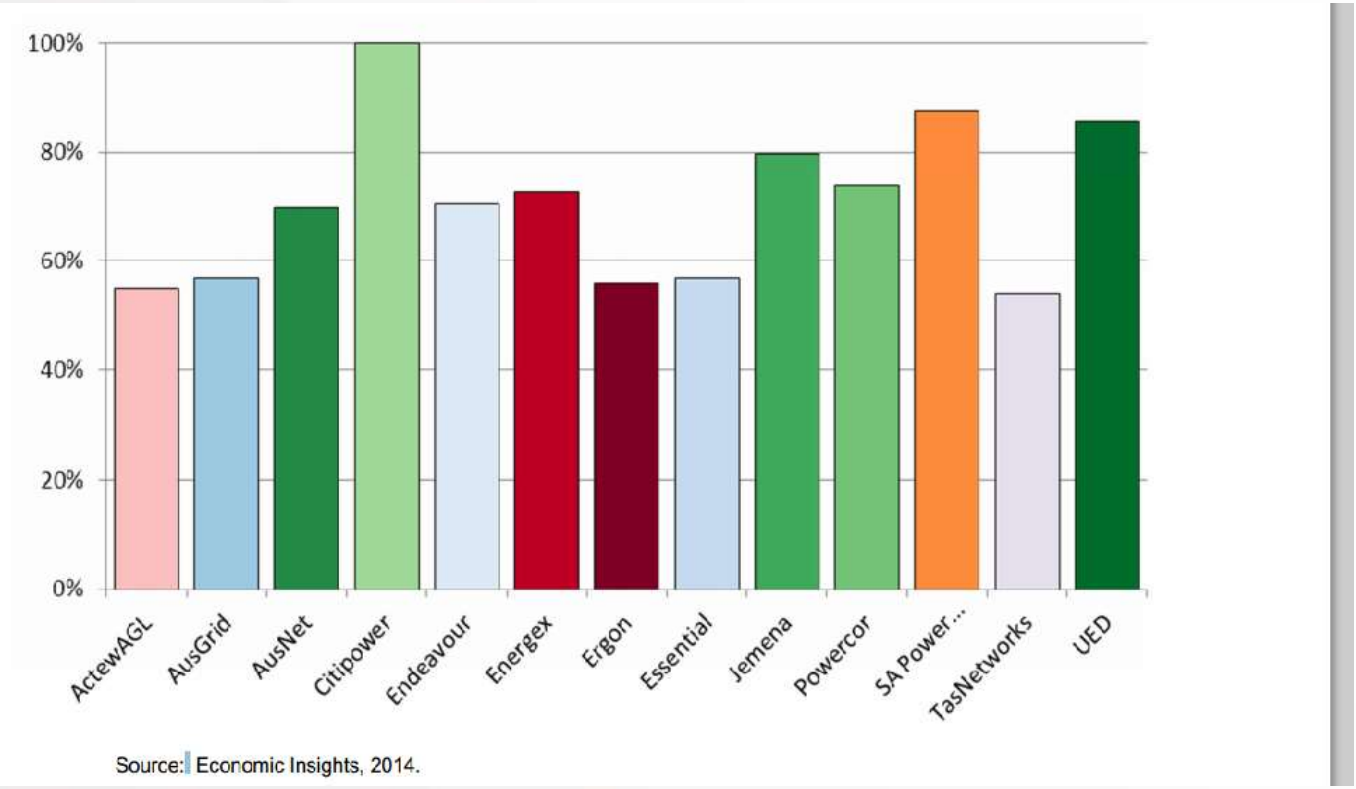
- Only considers the core “poles and wires” component of distribution services
- Does not incorporate the category analysis benchmarking.

Benchmarking was undertaken by Economic Insights

Benchmarking results

(1) MTFP

MTFP analysis showed that “the Victorian distributors including CitiPower, United Energy and Jemena and SA Power Networks are the most productive”



Benchmarking results

(2) PPI

PPI measure considered	Results
Operating expenditure per customer	Victorian and SA DNSPs have the lowest ratio of opex per unit of output
Asset cost (**RAB**) per customer	Victorian DNSPs have the lowest ratio of asset costs per customer regardless of density
Total cost per customer	Victorian DNSPs are the most efficient regardless of density

Draft overview highlights

- 2016-20
  - Price cut
  - Empowering customers, effortless customer experience
  - Innovation to meet peak demand
- Customer engagement
- Benchmarking
- 2011-15 Transformation

What's included in the base

- Capex
  - Maintain current levels of reliability approx. 72 minutes
  - Reduction in demand capex
  - Increase in replacement capex
  - Same base level of IT expenditure
  - Reduction in other capex
- Opex
  - Year 4 approach – lower than current allowance
  - Some increases in safety and maintenance
- Efficiency carry over
  - Approx. $30m as a result of efficiencies achieved to date
- Cost of capital
  - Currently modelling 0.25 gamma
- Energy sales
  - Approx. 1% growth

Regulatory changes

- Competition of metering and related services
- Multiple trading relationships
- Network pricing arrangements
- Customer access to information
- Demand-side participation
- Embedded networks
- NECF

Effortless customer experience (ECE)

Focus on empowering customers with convenient access to information in relation to the network and their energy choices

- Providing customers with more accurate and timely information on unplanned outages to assist their decisions in how to respond at home and at work
- Provide online customer claim facilities and tracking tools
- Enhance our existing *Energy Easy* customer portal to allow customers to receive notifications and clear energy consumption data, and to receive maximum benefit from smart meters
- Implement a self-service New Connections portal for customers, electricians and developers to streamline the connections process.
- A customer-focused operating model
- Improved communications around our role, services and the value we deliver
- Increased engagement with industry and customer advocacy groups

Key enabling projects for ECE

As part of the IT solution to support the ECE program, UE proposes to implement:

- Customer Relationship Management (CRM) system
- Customer self-service information portal
- Integrated Voice Response (IVR) system