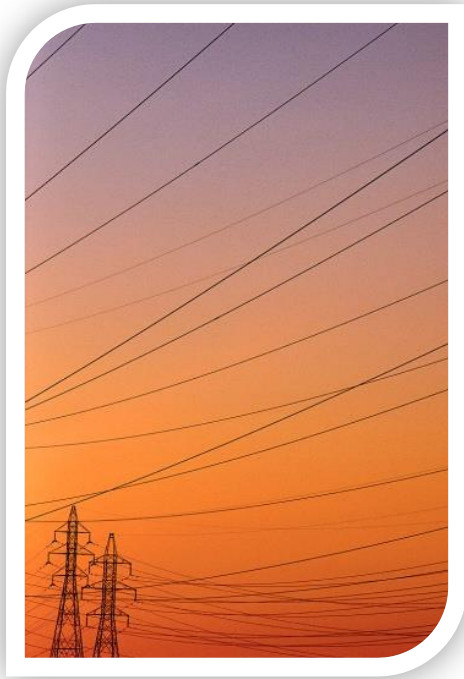


AER capex assessment - an overview



22 March 2018

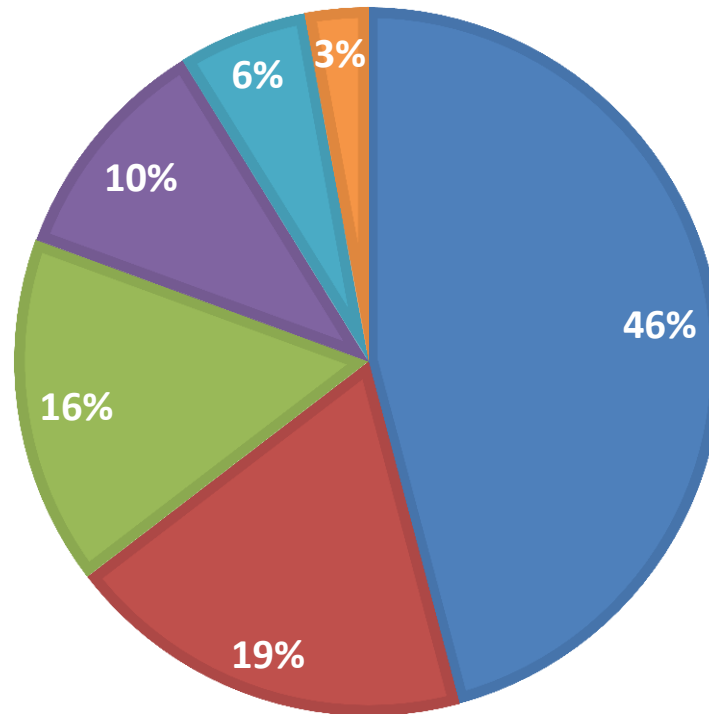
Capex assessment approach

- We assess the network service provider's (NSP's) proposed 5 year forecast
- Starting point is the NSP's regulatory proposal
- Proposal is assessed in accordance with the capex criteria under the NER (clause 6.5.7 (c))
- Qualitative and quantitative tools used in assessment
- AER establishes an alternative total capex forecast as a means to test the NSP's forecast

Capex components

AUSNET SERVICES 2015-20 FORECAST CAPEX*

- Replacement expenditure
- Connections
- Augmentation expenditure
- Non-network
- Capitalised network overheads
- Capitalised corporate overheads



*As per original proposal

Replacement capex

- A proportion of the NSP's assets will need to be replaced in the forthcoming period
- In assessing repex:
 - Technical review - Governance arrangements
 - Historical Trends
 - Predictive modelling – through the repex model (statistical model)
- Repex model – It is used to model high-volume assets (for e.g. Poles, Conductors, Switchgear) in order to predict future volumes and expenditure, based on observed replacement practices
- Some categories are unmodelled (for e.g. SCADA and protection), which are assessed through a cost-benefit analysis as well as historical trends

Augmentation capex

- Augmentation is typically triggered by the need to build or upgrade the network to address changes in demand and network utilisation.
- Augex can also be safety driven e.g. bushfire mitigation
- AER assessment based on:
 - Demand forecast – peak demand, localised demand
 - Existing asset utilisation
 - Technical review –
 - Governance arrangements
 - Individual project reviews – for larger projects, cost-benefit analysis
- Safety driven augex assessed against regulatory obligations and on the efficient cost

Connections capex

- Cost to connect the customer to the shared network
- Connections generally split by customer types:
 - Residential – e.g. low/medium density
 - Commercial/industrial
- A significant proportion of the connections capex is funded by the connecting customer themselves
- AER assessment based on:
 - Trend analysis
 - Demand forecast – customer growth numbers
 - Unit rates – based on a trend of historical unit rates or on recently approved contracts