

Customer Forum Week 11: Opex Update



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Opex update

- ▶ Deep dive feedback
- ▶ Potential changes to opex forecast
- ▶ Process and timing for finalisation of opex

Opex – Deep Dive Feedback



▶ **Base year**

- › Indifferent to 2018 or 2019
- › CCP favoured 2018 due to the availability of audited accounts
- › Questioned how large opex reductions were achieved from an efficient base
- › Comment on need for AER review of the 0.75 threshold for determining base opex is efficient

▶ **Step changes**

› **Regulatory step changes generally accepted**

- REFCL – asked whether this is in the base year (it is not) & any relationship with insurance costs
- Security – questioned the materiality and suggested we absorb it
- 5 min data – requested more info on what capability is being provided

› **IT cloud**

- Need to show analysis of do nothing, on-premises (capex) and cloud option and cost benefit analysis for each

› **EPA step change**

- Ausgrid absorbed some possible environmental costs as it considered it could effectively manage the risk
- Questioned how big the impact would actually be? We should have many of the processes in place already?

Opex – Deep Dive Feedback

▶ **Innovation (opex and capex)** – detailed comments in innovation pack

- › AER would seek to ensure there is no double counting with existing incentive schemes (including the new CSIS) and an appropriate funding mechanism
- › Advocates want to ensure that there is industry collaboration to avoid replicating costs across all businesses
- › Ausgrid example cited of a ‘use it or lose it’ program with customers involved in overseeing the program

▶ **Labour growth**

- › Use of two consultants (AER, business) and why business forecasts tend to be higher, AER lower
- › How is there labour growth in current low wage growth environment
- › Question asked about the consistency of the materials and labour escalation

▶ **Productivity**

- › Push for a productivity adjustment ‘not less than 1%’
- › In a workably competitive market there are always productivity gains
- › Why sit on our hands when there an opportunity to reflect customers views

▶ **Capitalised Leases**

- › NPV neutrality depends on WACC assumptions and outcome

▶ **EBSS**

- › Energy Queensland has elected not to take the EBSS rewards

Potential changes to opex forecast

Potential change	Timing to include in proposal	Comments
Base year (2018)	Audit will be complete in March	The base year will be updated with audited 2018 actual data.
Step Change – REFCLs	April	Internal deadline for final forecast is the end of April 2019 Only a new information or external change would result in further changes.
Step Change – IT Opex	April	As above.
Step Change – IT Security	April	IT security cost increases associated with: <ul style="list-style-type: none"> • AEMO to issue security capability requirements to networks (soon) • New obligations stemming from the <i>Security of Critical Infrastructure Act 2018</i> (longer term process)
Step Change - 5 minute meter data	April	Internal deadline for final forecast is the end of April 2019 Only a new information or external change would result in further changes.
Step Change - Environment Protection Amendment Act 2018 (Vic)	April	Possible new step change for legislative change effective 1 July 2020. Internal deadline for final forecast is the end of April 2019.
Step Change - Demand management (transmission network support)	April	Possible new step change for demand management to avoid transmission support related network augmentation . Internal deadline for final forecast is the end of April 2019.

Potential changes to opex forecast

Potential change	Timing to include in proposal	Comments
Step Change – Insurance	April	Possible new step change. The California bushfires may place upwards pressure on our insurance premiums. If this is material we may need to seek a step change.
Bottom-up Forecast – Innovation	May/June	Finalisation will involve further customer consultation.
Bottom-up Forecast - GSL's	April	Incorporate an additional year of actuals into the five year average. This will be done by the end of April.
Capitalised leases	April	Internal deadline for final forecast is the end of April 2019 Only a new information or external change would result in further changes.
Cost allocation of shared data and communication systems	April	As above.
Trend – Labour Price	April	Consultant report currently being commissioned to finalise the forecast.
Trend – Output Growth	April	Adoption of the AER's revised approach and finalisation of forecasting inputs (demand, circuit length, customer numbers and energy) Internal deadline for final forecast is the end of April 2019 .
Trend - Productivity	AER final decision in February/March	We have committed to adopting the AER's final decision.

Opex – Process and timing for finalisation

- ▶ **March sessions**
 - › Provide an update

- ▶ **April session**
 - › Commence negotiation on completed elements of opex

- ▶ **May sessions**
 - › Negotiation on as many elements as possible
 - › Likely to exclude innovation expenditure

- ▶ **June sessions**
 - › Finalise any outstanding negotiation issues