

AusNet Services Deep Dive No.1 Base Year Selection

Pre-reading pack

11 February 2019

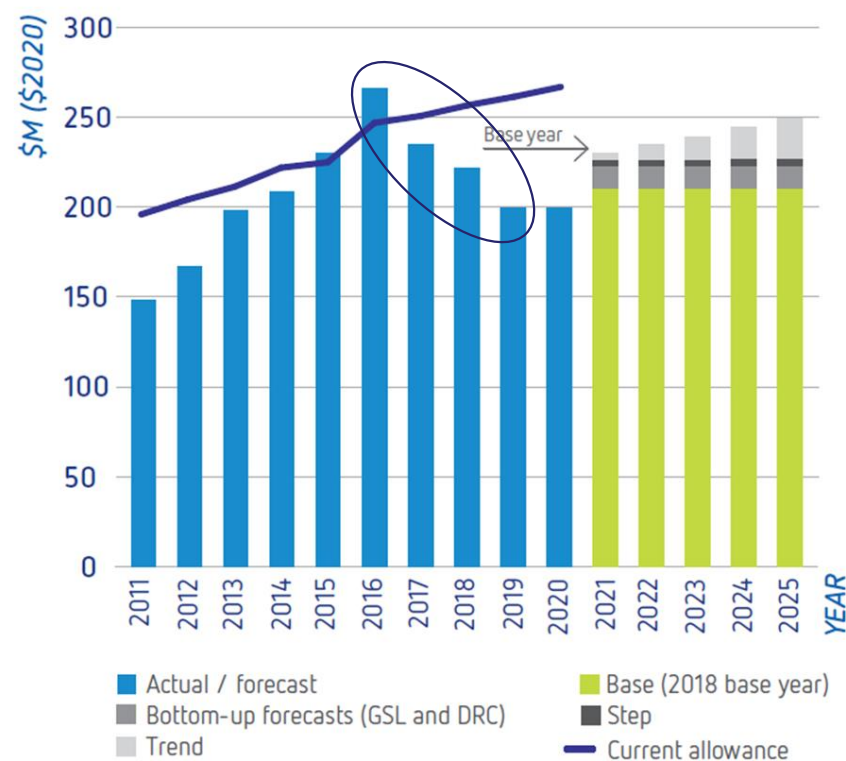


2018 Base year

Our draft proposal uses 2018 as the base year. The draft proposal used a forecast of 2018 opex as finalised actuals were not yet available.

AusNet Services is implementing a significant cost out program, which is delivering significant reductions in our operating expenditure and this is expected to continue into 2019.

The use of 2019 as a base year will result in a lower opex allowance. However, due to the operation of the Efficiency Benefit Sharing Scheme (EBSS) both AusNet Services and our customers are financially indifferent to the base year selected.



Note: The base opex amount shown excludes the \$32 million (\$2020) of shared smart metering opex.

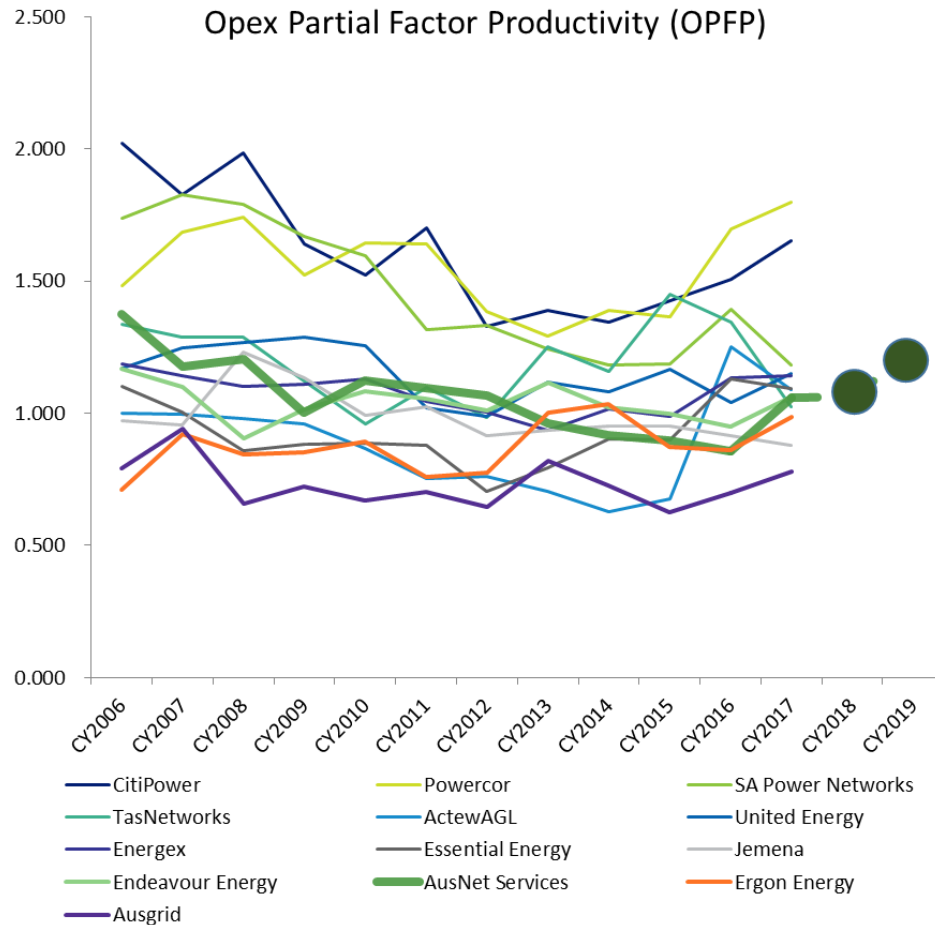
AusNet Services is an efficient DNSP



AusNet Services has previously been identified as a one of the most efficient firms. However, our results had declined, resulting in us falling behind some other DNSPs.

Our cost-out program (and favourable reliability performance) resulted in the NEMs largest increase in productivity in 2017.

We anticipate that our 2018 and 2019 benchmarking performances will result in AusNet Services being considered a highly efficient DNSP.

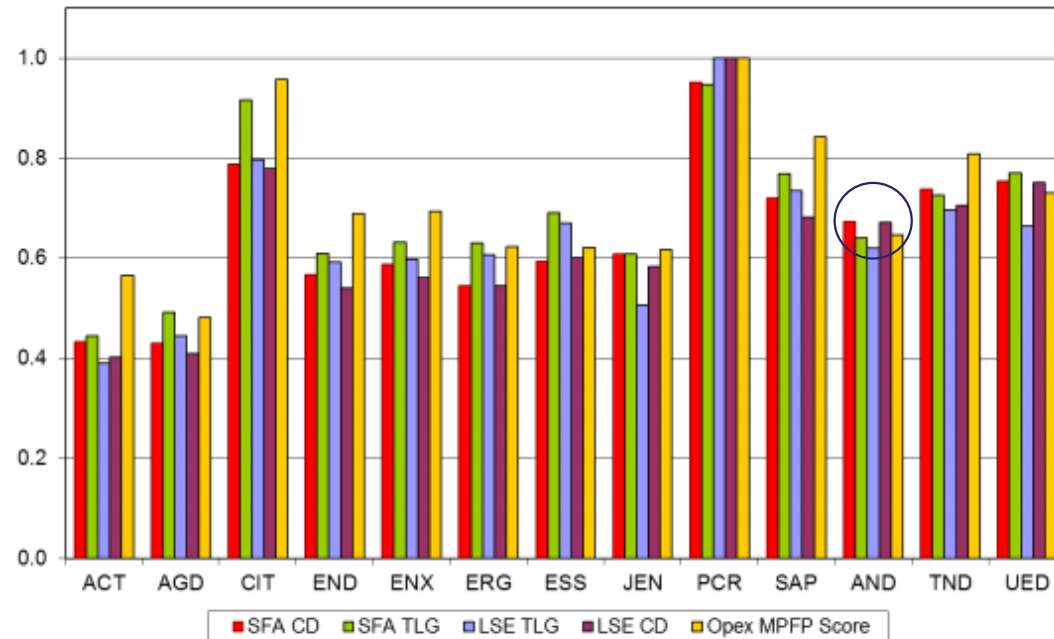


AusNet Services is an efficient DNSP



Similarly, the AER's econometric models show that over the period 2012-17 AusNet Services has been an efficient DNSP as measured by a range of models.

We consider our bushfire risk is a material driver of costs and not adequately accounted for in these models. We expect this would result in a further improvement in our benchmarking performance.



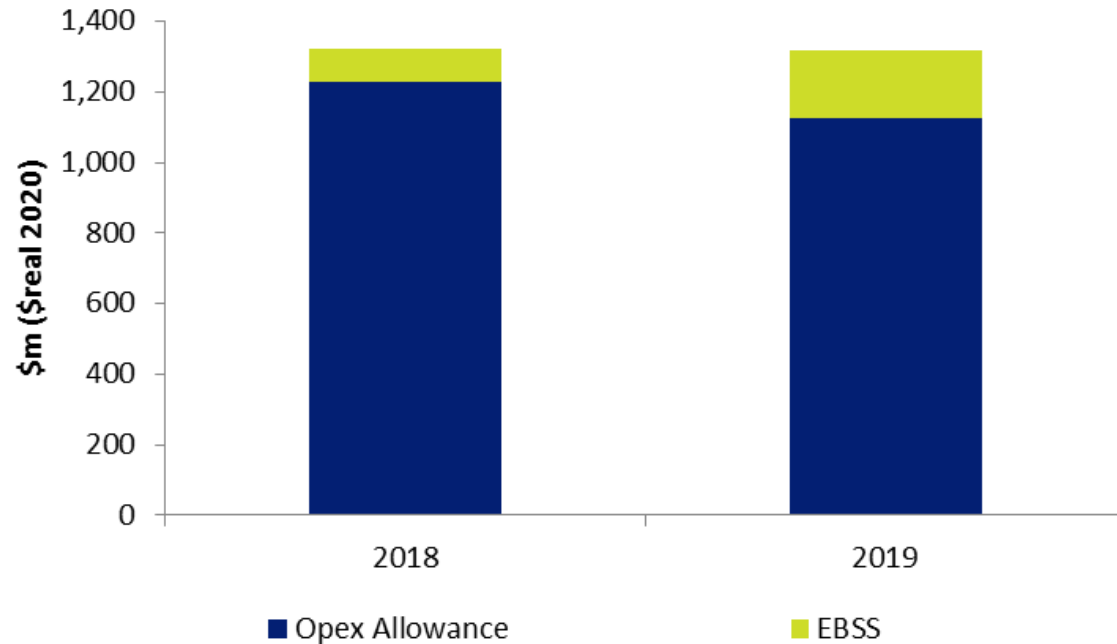
Source: Economic Insights.

Base Year – Indifference due to the opex efficiency incentives



The opex Efficiency Benefit Sharing Scheme (EBSS) incentive scheme is designed to ensure that AusNet Services and its customers are both indifferent to the selection of the base year.

Compared to a 2018 base year, a 2019 base year will result in a lower opex allowance, but an increased EBSS reward.



Base year selection

AusNet Services considers that our expenditure in both 2018 and 2019 is efficient. We anticipate the AER will confirm this in its future benchmarking reports and when it examines our base year expenditure to make its distribution determination. As such, either 2018 or 2019 could be used as the base year.

	2018 base year	2019 base year
Benefits	<ul style="list-style-type: none"> 2018 actual expenditure can be included in the regulatory proposal. Whereas, 2019 actual expenditure will not be known until after the AER's draft decision. 	<ul style="list-style-type: none"> 2019 expenditure will provide further evidence about the efficient operation of our network.

Questions regarding our draft proposal

- ▶ Your feedback is sought on which base year we should use for our regulatory proposal.

Do you consider we should use 2018 or 2019 as the base year?	What is your primary consideration in selecting a preferred base year?	Any additional considerations you think we should consider in selecting the base year?