

# ASX & SGX-ST Release



20 March 2018

TO: ASX Limited  
Singapore Exchange Securities Trading Limited

## AusNet Services Investor Day Presentation

Please find attached the presentation to be made at the AusNet Services Investor Day today.

**Claire Hamilton**  
Company Secretary

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# 2018 Investor Day



20 March 2018

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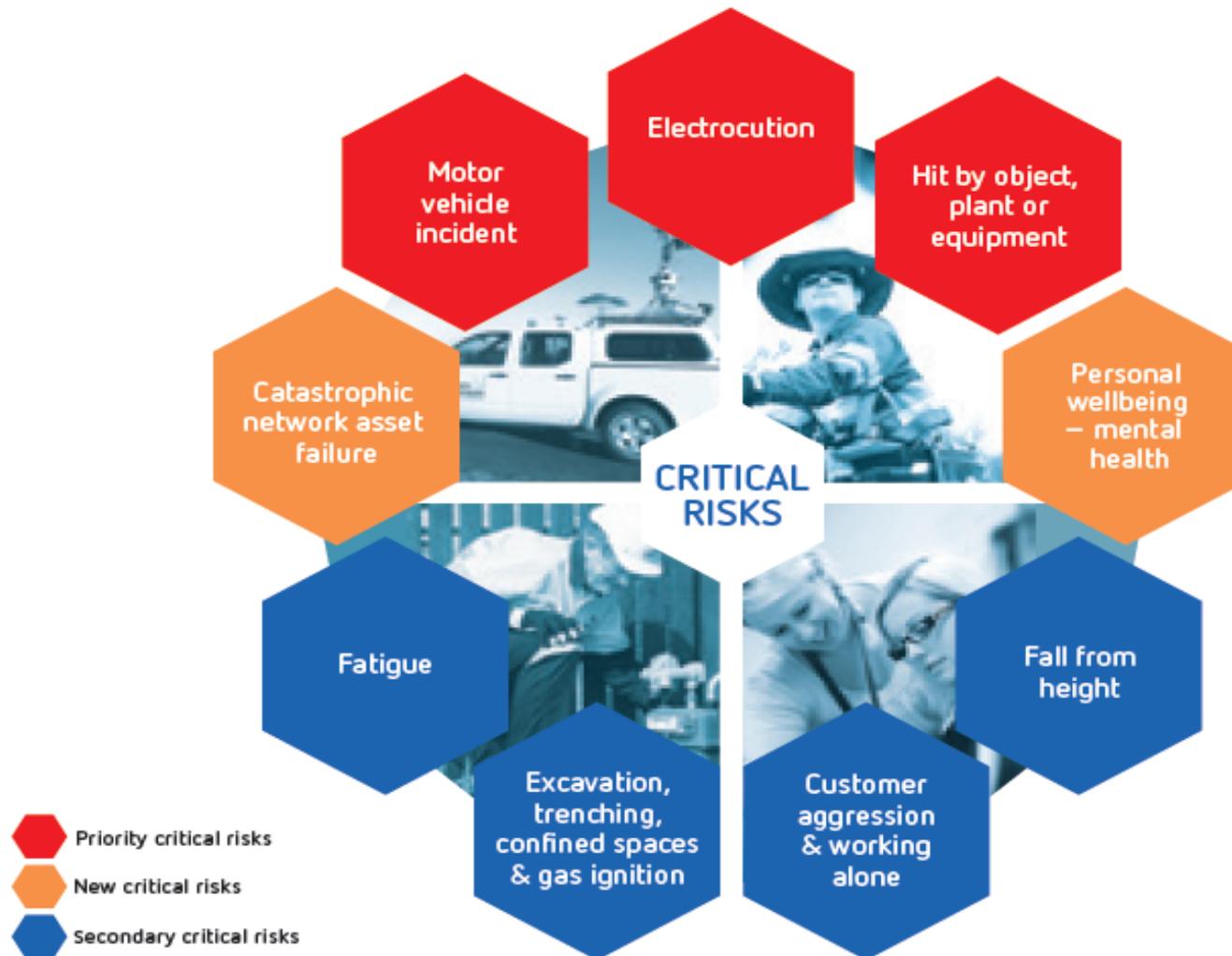
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# Agenda



- Introduction
- Safety
- Corporate Strategy Overview
- Regulated Energy Services
- Energy Security Board
- Australian Energy Regulator
- Commercial Energy Services

# HSEQ Critical Risk Program



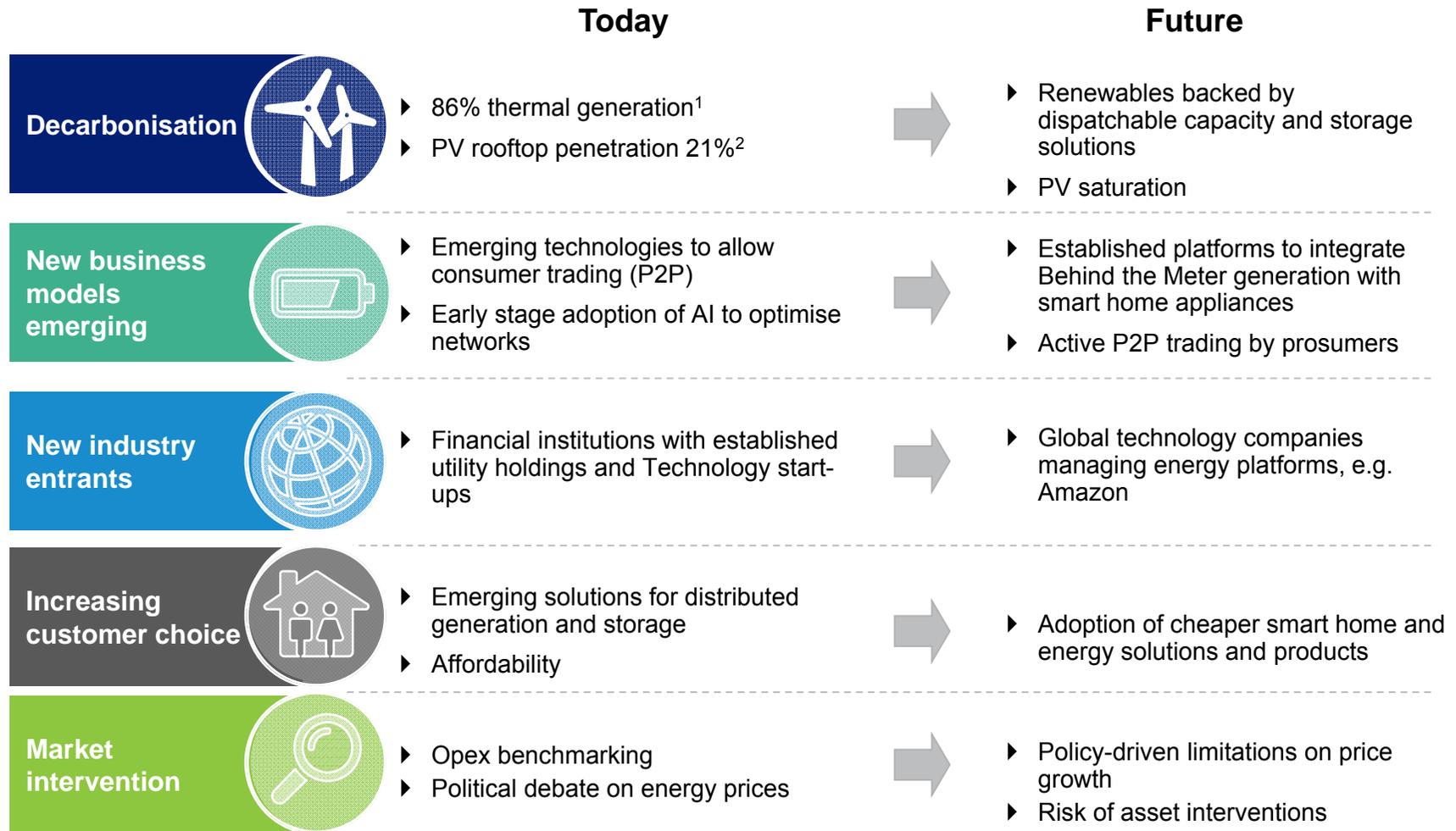


# Corporate Strategy Overview

Nino Ficca, Managing Director



# Megatrends are changing our industry



(1) FY17 NEM generation (AER)

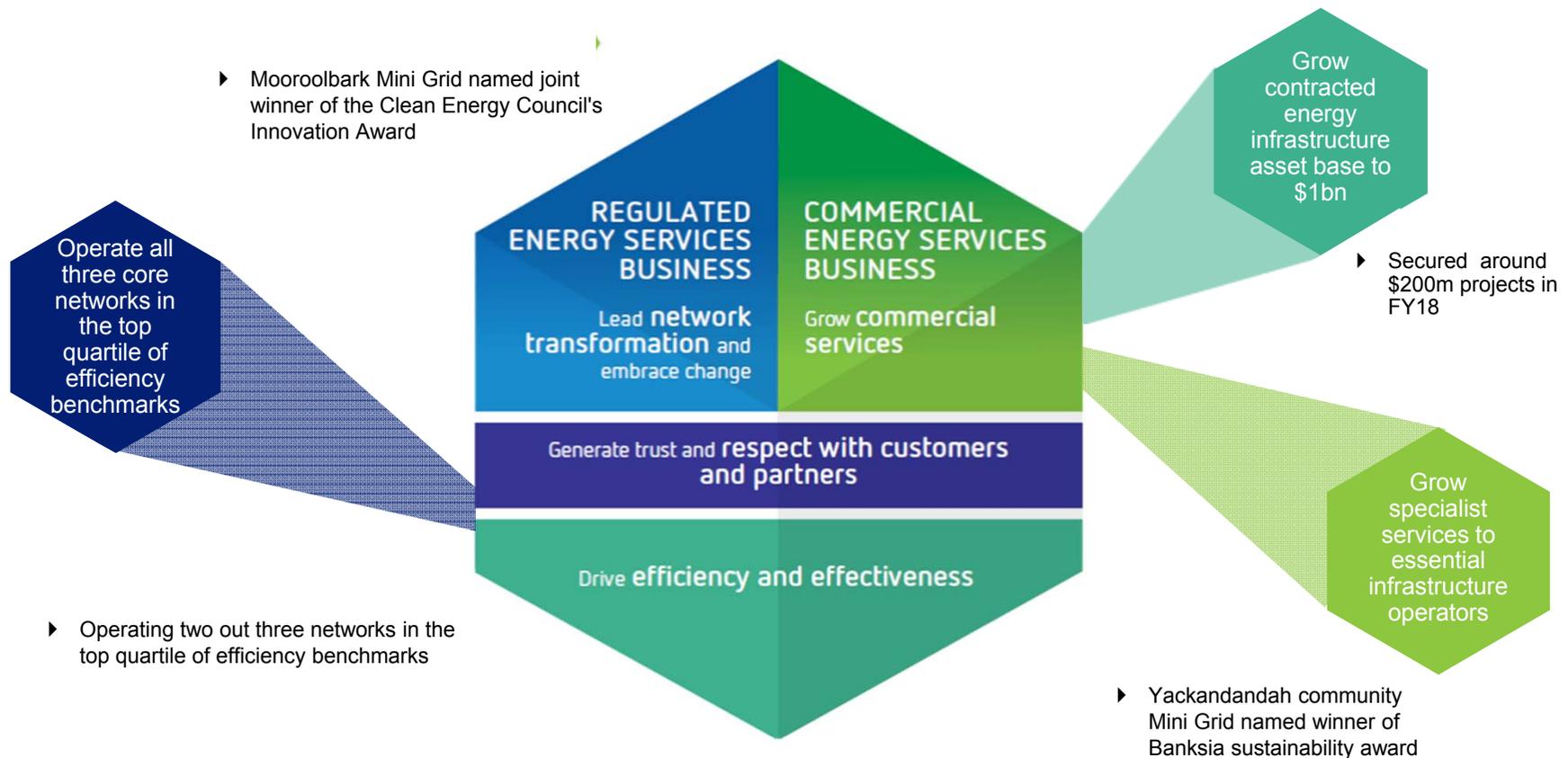
(2) Penetration of suitable rooftops, April 2017, reneweconomy.com.au

# Focus 2021

FY18 marks year two of our five year strategy



## Build a portfolio of high performing and sustainable **Regulated and Commercial Energy Services** businesses



# Strategic priorities



## Transmission



1. **Strengthen our network in Western Victoria** to enable more generators to connect
2. Execute **summer preparedness** to manage the portfolio

## Distribution



1. **Simplify and remove costs**
2. **Operationalise new distributed energy solutions**
3. Drive improvements in customer **satisfaction**
4. Improve **reliability and safety**

## Gas



1. **Increase network utilisation** and establish a path forward for **alternate fuel options**
2. **Focus on value and efficiency** to maintain top quartile position
3. **Influence uptake of gas** and improve **customer satisfaction**

## CES

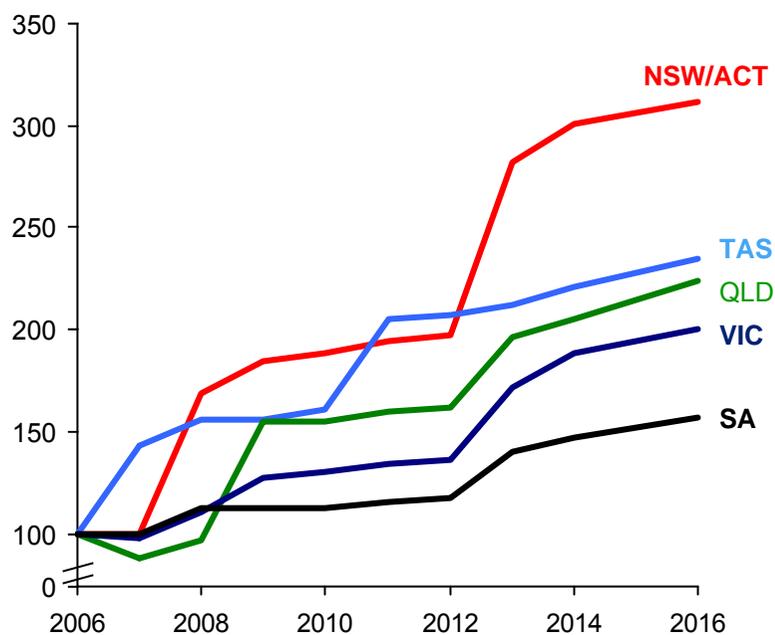


1. **Grow contracted asset** base via utility scale connections, renewable generation infrastructure
2. Develop and **grow commercial, industrial & community asset** base and **platform solutions**
3. Participate in **new market investments** and partnerships

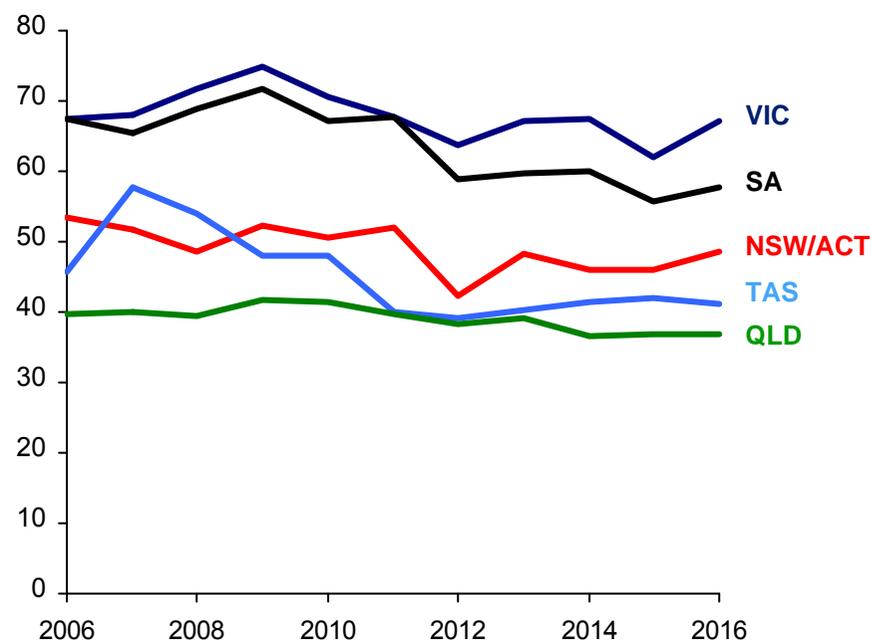
# DNSP RAB's have increased, with utilisation highest in Victoria



**DNSP RAB growth (Index)**



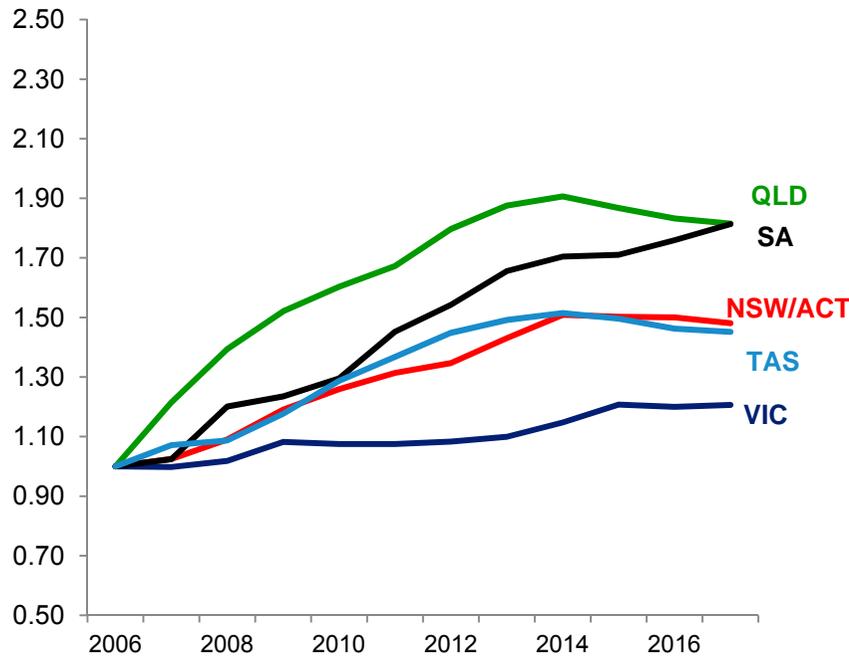
**DNSP Utilisation (%)**



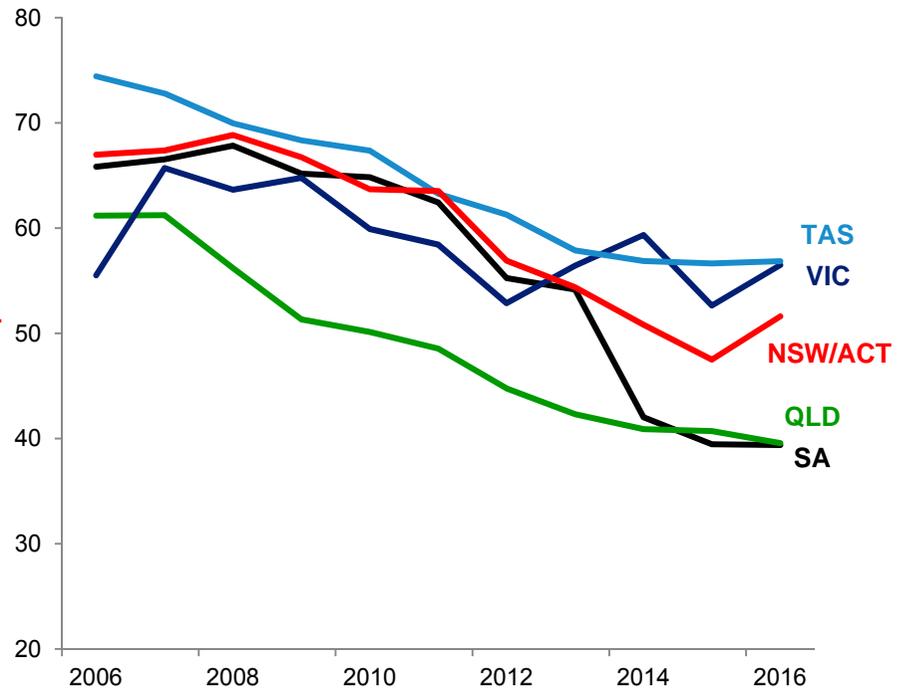
# TNSP RAB's have increased less, with utilisation amongst the highest in Victoria



**TNSP RAB Growth  
(Index)**



**TNSP Utilisation  
(%)**



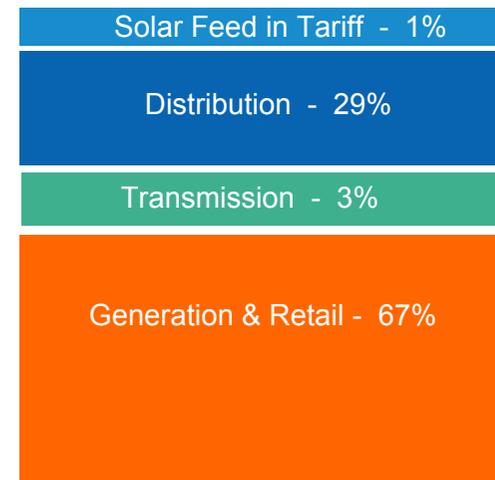
Source: TNSP Economic Benchmarking RIN data (2006-16) and AER Draft TNSP Network Performance Report (13/02/2018), Partially As-incurred RAB. Index based on \$real 2017 Closing RAB values

# Network contribution to customer bills



- ▶ Around one third of a typical customer bill in AusNet Services electricity distribution network is comprised of network costs.
- ▶ AST will be the first Australian utility business to trial a new process that places customers at the heart of developing our expenditure plans.
- ▶ The new process involves the establishment of a Customer Forum which will form part our 2021-25 regulatory proposal, prior to AER submission.

**Breakdown of typical customer bill in AusNet Services Electricity Distribution Network (2018)**



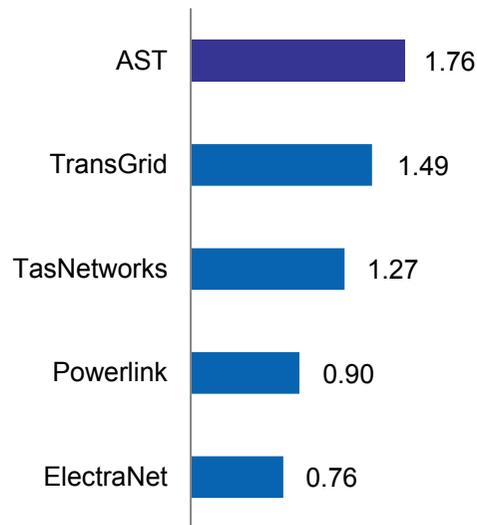
Note: Chart is based on standard retail offers (NEE11) AGL, Energy Australia and Origin Energy and average annual consumption of 4299.25KWh (block 1 3912.32kWh and block 2 of 386.93kWh).

# AST is focused on efficiency improvements

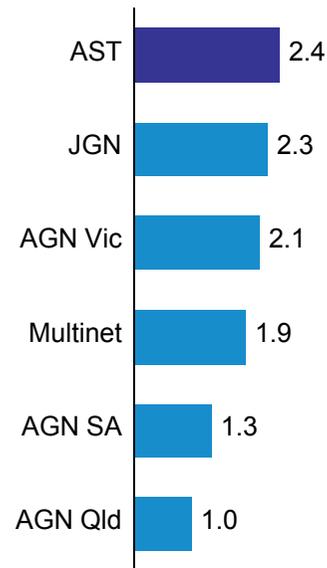


## Opex partial factor productivity

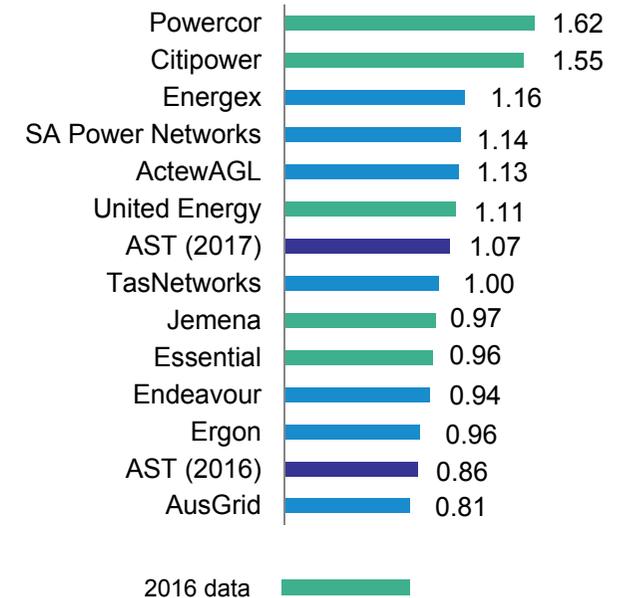
**Electricity Transmission  
(2017 estimate)**



**Gas Distribution (2016)**



**Electricity Distribution  
(2017 estimate)**



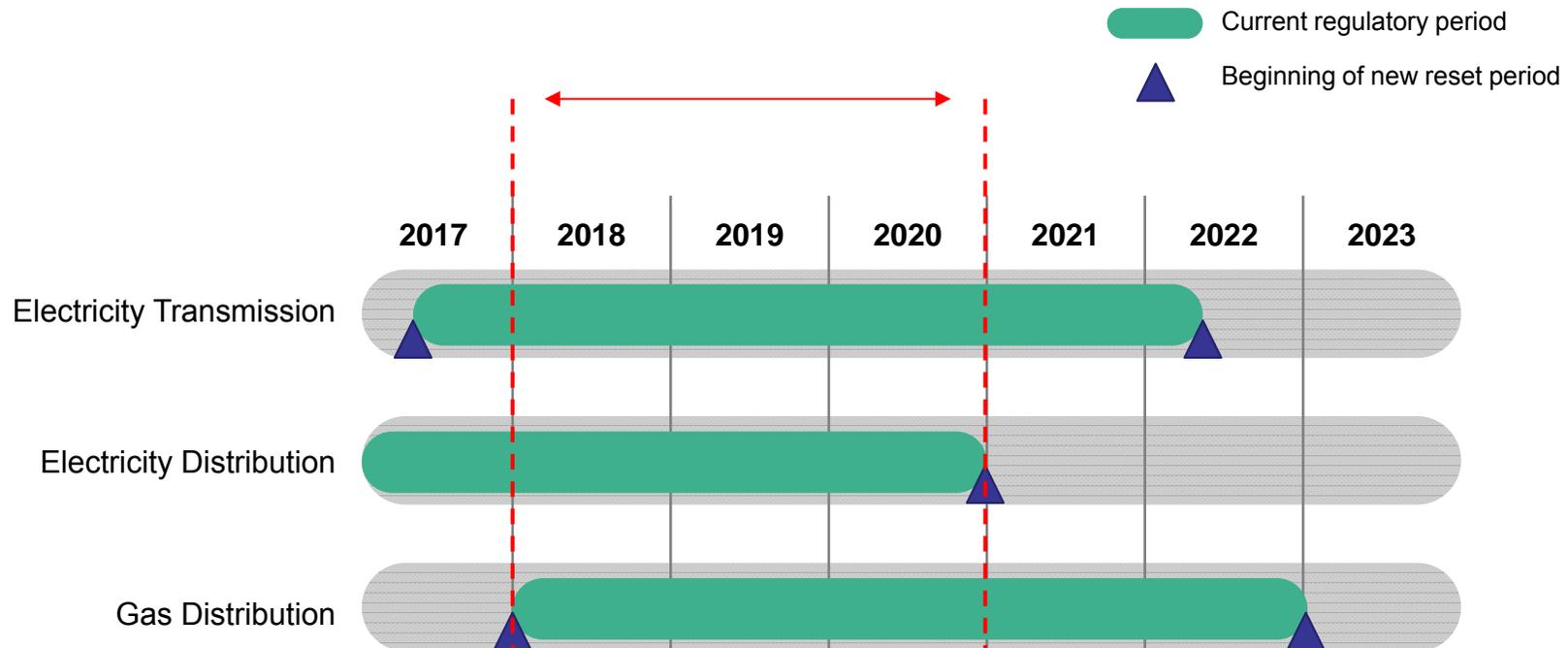
**Note:**

- Benchmarking data sourced from AER and AST modelling.
- Gas Distribution benchmarking provided by Economic Insights.
- Electricity Distribution benchmarking data uses 2016 data for Powercor, Citipower, Jemena, United Energy and Essential (2017 data unavailable).

# Regulated revenues set for 3 years



As of 1 January 2018, around 85% of total revenues locked-in until 2020 under regulatory determinations



# Regulated Energy Services (RES)

Alistair Parker, EGM, RES



*To succeed our Regulated Businesses  
must adapt, be sustainably priced and  
influential advocates for our customers.*



**In Electricity  
Transmission**, this  
means facilitating more  
generation connection to  
reduce costs to  
customers and improve  
security of supply.



**In Electricity  
Distribution** this means  
reducing cost for our  
customers and becoming  
a more dynamic network  
to better integrate the  
distributed energy future.



**In Gas Distribution**  
this means influencing  
our customers to  
continue to use gas as  
we look for lower  
emission alternative  
fuels.

# Putting Customers first



## Why should we care?

*"I have choices and I am changing the way I buy energy. New technologies are attractive to me"*

*"When it goes wrong for me, you are causing me pain, and creating cost"*

*"I pay more for energy than ever before, I deserve your attention!!"*



## What is the outcome?



Simplification



Cost out



Better business outcomes



A new way of thinking



Focus for prioritisation

**...taking into account their current and future needs**

# Electricity Transmission



## The Environment



The generation mix is changing, the existing network is not designed for this



Supply/demand is constrained in Victoria

## Our response



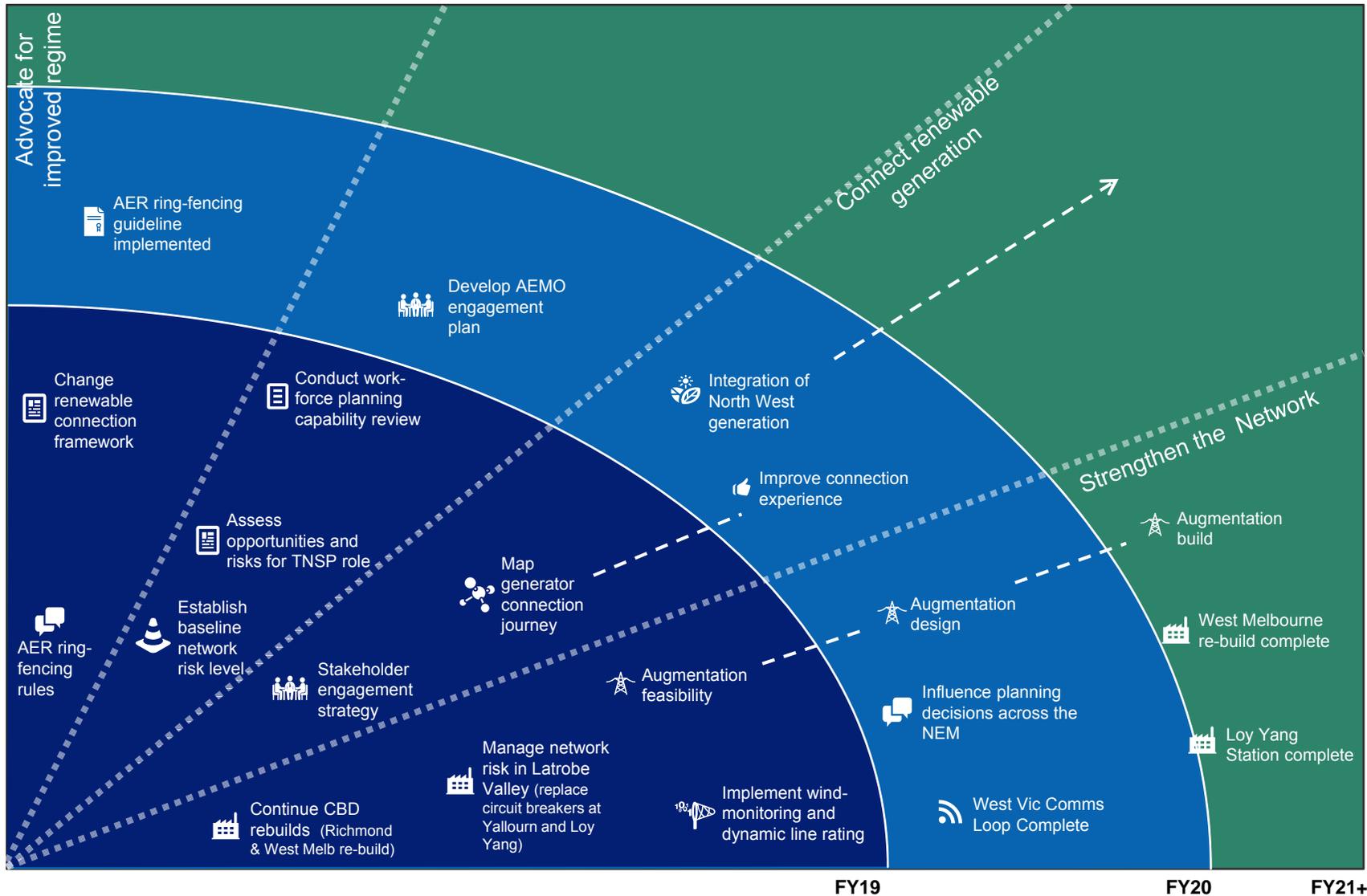
Strengthen our network in Western Victoria to enable more generators to connect e.g. North West Loop expansion highlighted below in red



Embed learnings from the summer preparedness to manage the portfolio



# Preparing for the future in Transmission



# Electricity Distribution



## The Environment



**Underperforming in regulatory benchmarking**



**Customers want more control and are choosing Distributed Energy Resources (DER)**



**Customers energy needs are changing. Future of Metering is unclear in Victoria beyond 2020**

## Our response



Simplify our business and remove costs



Operationalise new distributed energy solutions, move to a dynamically managed network (DSO)



Drive improvements in customer satisfaction and utilise usage data for network and customer benefits

# Learnings from Mooroolbark mini-grid trial



**Objective:** *Testing a snapshot of the future electricity distribution system*

*14 households with solar, batteries & optimised control platform, operating as a unified and grid-interactive energy system*

Customer	Technical	Strategic
<ol style="list-style-type: none"><li><b>1. Customers increase their support for distributed energy</b> once they have lived experience<ul style="list-style-type: none"><li>› 14% initially → 87% now</li></ul></li><li><b>2. Energy cost reduction and control is a key driver</b><ul style="list-style-type: none"><li>› Solar drives 80% of cost reductions, battery drives 20%</li></ul></li><li><b>3. Basic energy literacy</b> improves engagement levels</li></ol>	<ol style="list-style-type: none"><li><b>1. 100% renewable supply system achieved</b>, with stable and secure operation</li><li><b>2. Network value of DER optimisation proven</b><ul style="list-style-type: none"><li>› Peak demand management</li><li>› Facilitates high solar uptake</li><li>› Improved supply reliability</li></ul></li><li><b>3. Industry standards lagging</b> technology development</li></ol>	<ol style="list-style-type: none"><li><b>1. The path to DSO likely to be incremental</b>, with functions added to address specific needs and value</li><li><b>2. IoT energy devices support web-based network integration</b></li><li><b>3. Timeline to DSO may be accelerated</b> by convergence of Government policy, community attitudes and technology</li></ol>

# Gas Distribution



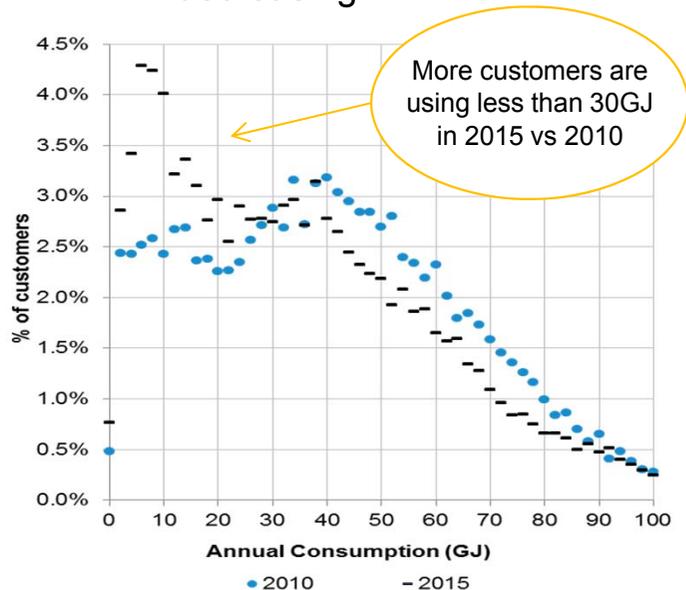
## The Environment



Natural gas is cleaner (relative to grid emissions intensity) and hydrogen provides a pathway to renewable gaseous fuels



Gas commodity prices are high. Connections are increasing (~2% p.a.) but consumption is decreasing



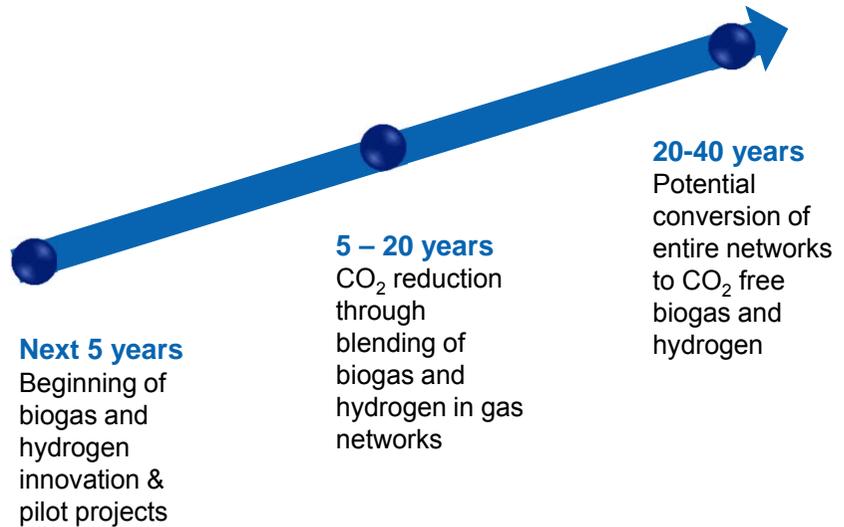
## Our response



Assessing opportunities for alternative fuels



Influence uptake through marketing and drive improvements in customer satisfaction



Source: ENA decarbonising Australia's gas networks. December 2017.

**ENERGY SECURITY BOARD  
NATIONAL ENERGY  
GUARANTEE**

**RELIABLE ENERGY, REDUCED EMISSIONS AND  
IMPROVED AFFORDABILITY**  
26 FEBRUARY 2018





## ENERGY SECURITY BOARD – IMPLEMENTING FINKEL BLUEPRINT & WHOLE-OF-SYSTEM OVERSIGHT

Increased  
security

Reliable and  
low emissions  
future

More efficient  
gas markets

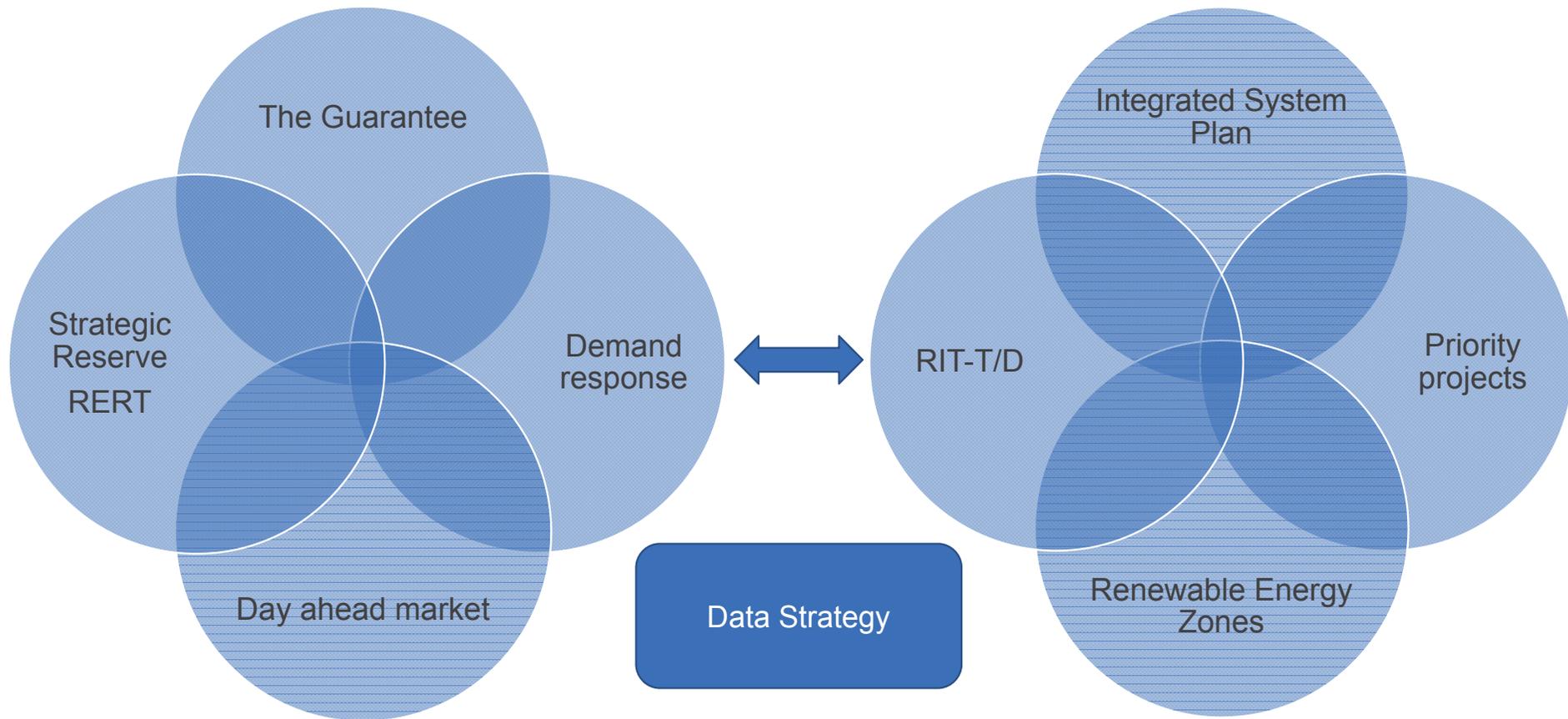
Improved  
system  
planning

Rewarding  
consumers

Stronger governance

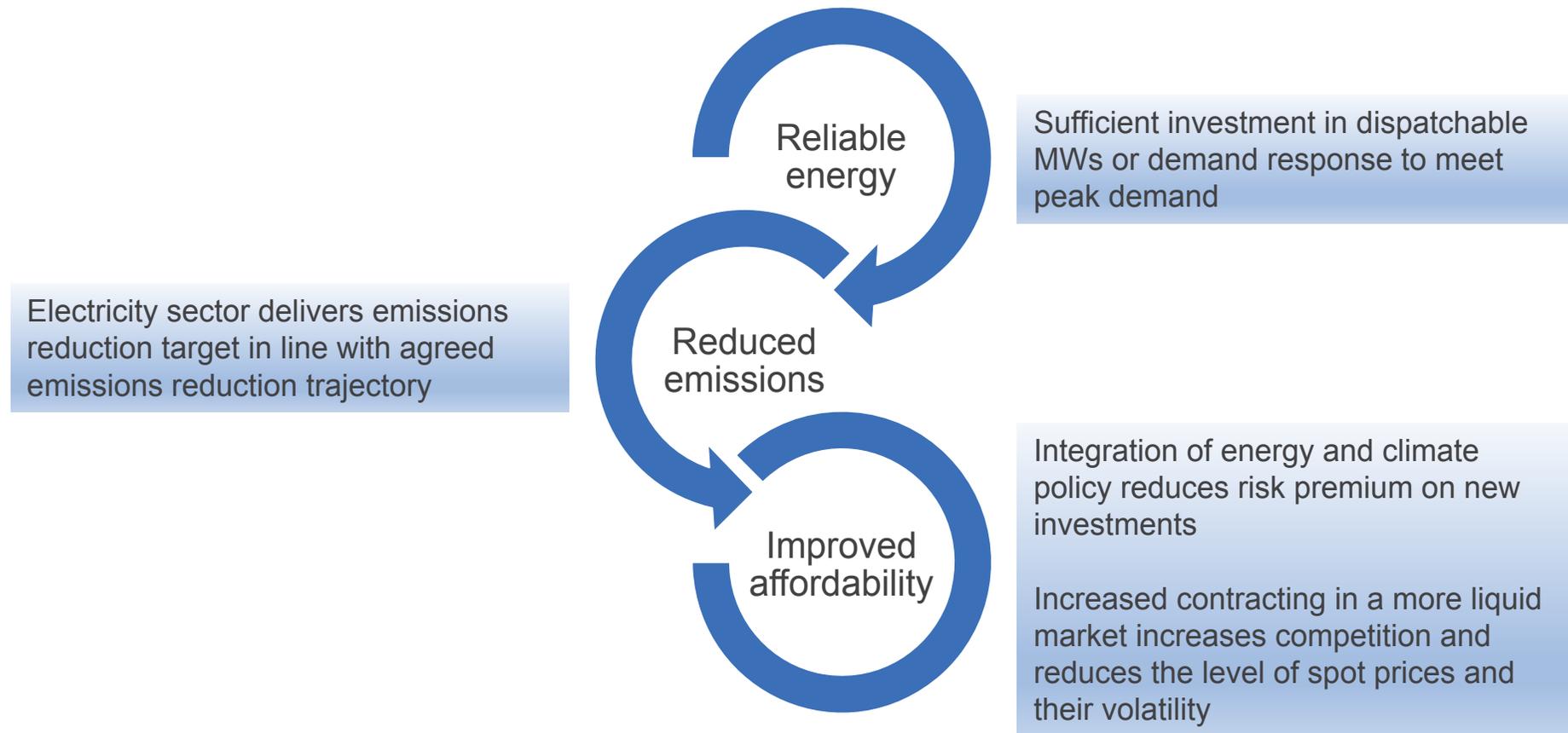


## ENERGY SECURITY BOARD – PRIORITIES FOR 2018



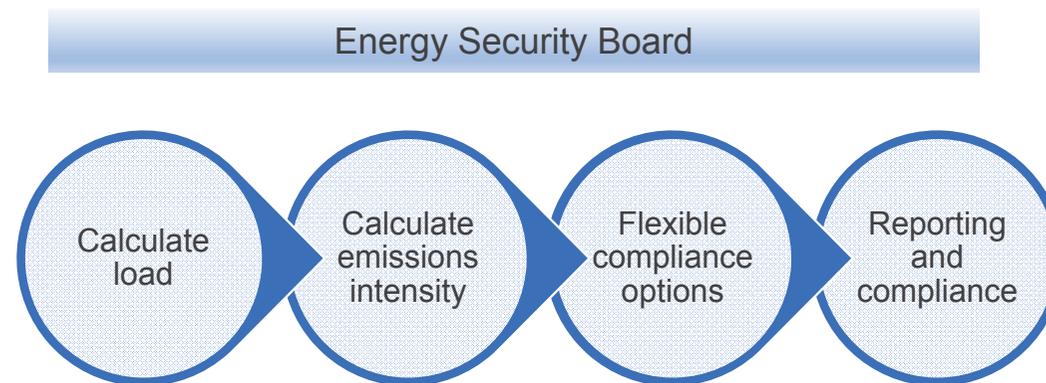


## NATIONAL ENERGY GUARANTEE – WHAT IS IT?





## NATIONAL ENERGY GUARANTEE – TOWARDS A LOWER EMISSION FUTURE



## NATIONAL ENERGY GUARANTEE – 8 STEPS TO A RELIABLE ENERGY SUPPLY





## NATIONAL ENERGY GUARANTEE – NEXT STEPS

- Mid April – High-level design report sent to COAG Energy Council
- Late April – COAG Energy Council meeting
- Subject to COAG Energy Council approval to proceed to detailed design:
  - Late April – High-level design report published
  - May-June – Stakeholder input on detailed design options – working papers/workshops
  - July – Draft final design released for consultation
  - August – Final design to COAG Energy Council for approval
  - Second half of 2018 – Drafting of legislation and rule changes

# QUESTIONS?

**Energy Security Board**  
<http://www.coagenergycouncil.gov.au/council-priority/energy-security-board>



# Update on regulatory environment

Presentation to AusNet Services  
Investor Day  
March 2018

Warwick Anderson  
General Manager Network Finance and Reporting

# 2018 Network regulation program

- Remade 2014 decisions:
  - AusGrid, Endeavour, Essential, EvoEnergy, JGN
- Final decisions:
  - TransGrid, ElectraNet, Murraylink
- Draft decisions:
  - TasNetworks, NT Power and Water, EvoEnergy, AusGrid, Endeavour, Essential
- Preparation:
  - Energy Queensland, SAPN, Directlink, Vic elect dx

# Developments in network regulation

- Enhanced pre-lodgement engagement with
  - Consumers
  - AER
- AER decision making process
  - Triage assessment
    - benchmarking
  - Issues paper
  - Draft and final decisions
  - AusNet new regulatory model trial
- Consideration of demand side options - DMIS

# Rate of return guideline

- Draft legislation published
  - Commenced under current rules
  - Binding guideline
  - No fundamental change to the underlying principles
- Process so far
  - Consultation on process – an incremental review
  - Consultation groups – consumers, investors, retailers
  - Issues paper and submissions
  - Discussion papers – Risk, gearing, financial indicators, MRP, beta, gamma
  - Expert session 1
- Upcoming process
  - Expert session 2
  - Submissions – 4 May 2018
  - Draft guideline – late June
  - Independent panel review
  - Submissions and final guideline – December 2018

# A note on regulatory asset base

- The rules are clear
  - Capital expenditure undertaken by regulated businesses is rolled into the RAB
  - Unless there is an overspend of the total capex allowance
  - And then only the overspend is at risk
- RAB growth has moderated
  - Easing of demand
  - Capital expenditure incentive scheme
  - Reliability has improved
  - Enhanced AER performance reporting

# Commercial Energy Services (CES)

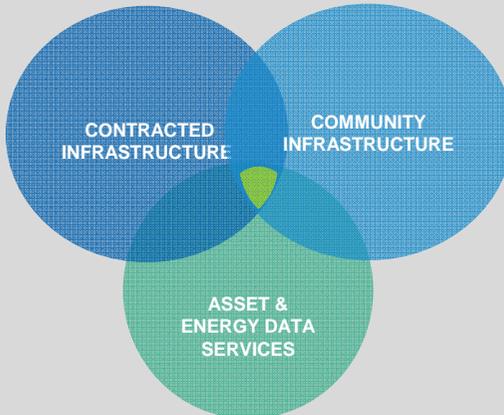
Chad Hymas, EGM, CES



# CES Strategic Response

Positioning the business to capture value in the new energy future



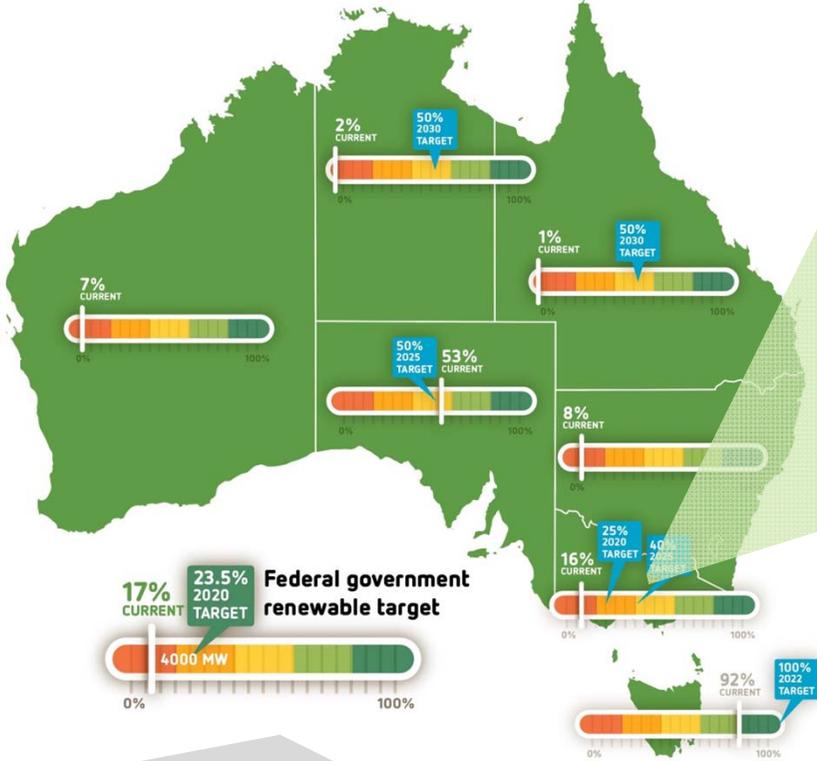
1. BUSINESS REFOCUS AND OPERATING MODEL CHANGES	2. ASSET FOCUSED INVESTMENT SUPPORTED BY UNIQUE SOLUTIONS/SERVICES	3. BUILD AND INVEST IN NEW CAPABILITY
<p> <b>SELECT SOLUTIONS REFOCUS</b></p> <ul style="list-style-type: none"> <li>› Reprioritised service offering</li> <li>› Exited non-core services</li> </ul> <p> <b>CES OPERATING MODEL</b></p> <ul style="list-style-type: none"> <li>› 4 independent businesses into a single operating entity</li> <li>› delivering across various asset types, sectors and customers with a <b>clear bias toward deploying capital</b></li> </ul> <p><b>OUTCOMES</b></p> <ul style="list-style-type: none"> <li>› <b>~60% FTE Reduction</b></li> <li>› Improved <b>EBITDA Margin</b></li> <li>› <b>Safety index</b> improved <b>80 to 115</b></li> </ul>	<p><b>ASSETS LAYER</b></p>  <p><b>SOLUTIONS &amp; SERVICES LAYER</b></p> <ul style="list-style-type: none"> <li>› Capitalise on renewable investment</li> <li>› Asset base of <b>aggregated distributed energy resources</b></li> <li>› <b>Combine assets with smart technologies</b> to deliver unique integrated solutions in changing energy marketplace</li> </ul>	<p> <b>PEOPLE, CAPABILITY &amp; BRAND</b></p> <ul style="list-style-type: none"> <li>› Significant focus on deploying additional resources and developing new capability</li> </ul> <p> <b>INTEGRATED SOFTWARE CAPABILITY</b></p> <ul style="list-style-type: none"> <li>› Market leading software development capability</li> </ul> <p> <b>PARTNERSHIPS AND NEW MARKETS</b></p> <ul style="list-style-type: none"> <li>› Participate in emerging energy models throughout Australia and to partner with new market entrants</li> <li>› Participation in global energy start-up accelerator program – Free Electrons</li> </ul>

# Renewable Opportunities Across Australia

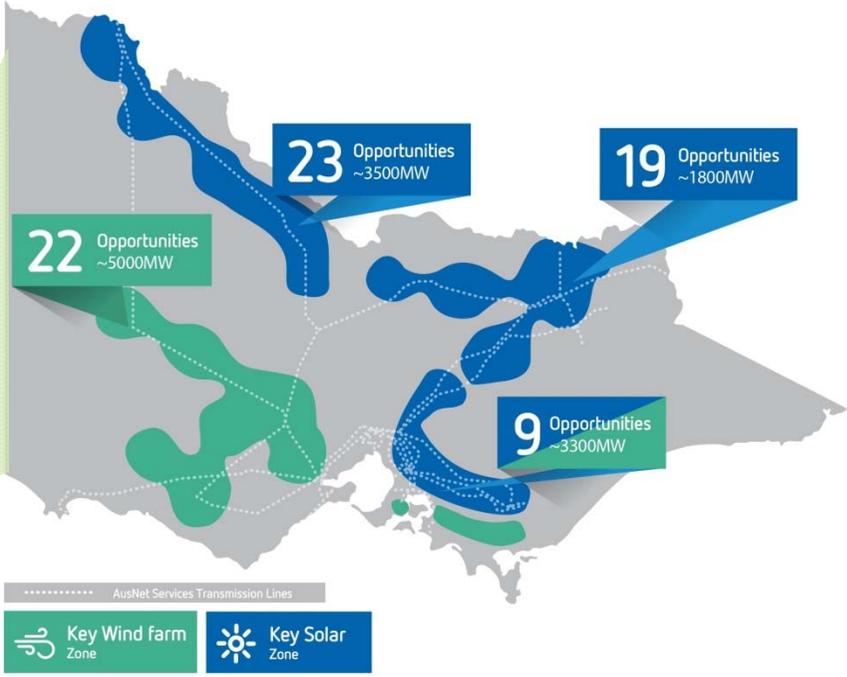
Current market conditions and renewable energy targets driving significant network investment within priority national markets



State of Renewables throughout Australia



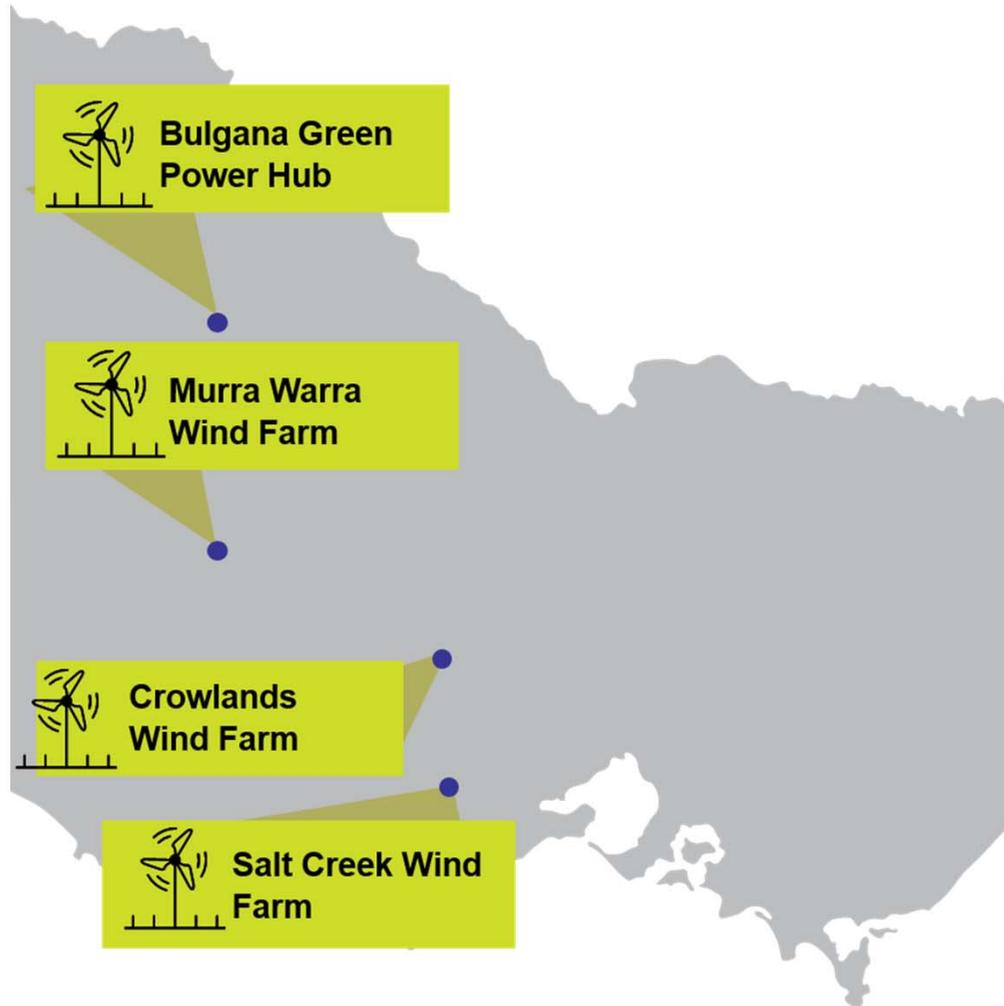
State of Renewable developments throughout Victoria – a lens to the national opportunity



- ▶ National policy and legislated energy targets will continue to **drive significant investment in renewables**
- ▶ Throughout Australia, project generation required to meet renewable targets will **exceed 15000MW**

- ▶ Strong market pipeline exists to achieve \$1bn and beyond
- ▶ Maximise value in Victoria where competitive advantage is highest whilst actively building a significant national presence

# Contracted Infrastructure FY18 Significant Wins Across the State



- Total value of new contracted projects ~\$200m
  - Crowlands Wind Farm with Pacific Hydro
  - Murra Warra Wind Farm with RES Australia & Macquarie Bank
  - Salt Creek with Tilt Renewable
  - Bulgana Green Power Hub with Neoen
  - Deakin Smart Energy
- Strong pipeline to achieve \$1bn target

# Batteries - a New Asset Class



- ▶ Large batteries are critical to providing clean, affordable and reliable energy now and for many years to come
- ▶ Active participation in battery projects will continually improve our understanding of their capabilities and role in the network and communities
- ▶ Utility scale battery projects is something we hope to be part of in the near future

# Deakin University Micro grid Partnership Launch



- ▶ \$30M Project
- ▶ 14.5 Hectare solar farm
- ▶ 7.25 Megawatt smart micro grid
- ▶ 1 Megawatt battery storage capacity
- ▶ 12,000 tonne yearly carbon emission reduction



# Yackandandah Community Mini Grid Fully Operational



- ▶ Award-winning project
- ▶ 14 houses with 110kWh of battery storage and over 50kW of solar panels
- ▶ Designed to facilitate energy sharing.
- ▶ Over 500kW of solar power covering more than 100 houses.
- ▶ 170 Ubis deployed.

Community-Engagement Award-Winning Project



# Partnerships & Investments: Free Electrons



- ▶ 12 of the world's most promising start-ups.
- ▶ Supported by 10 of the world's largest utilities.
- ▶ Gives AusNet Services the "inside running" on the next big thing in tech and energy.
- ▶ Positions AusNet Services as a forward thinking, progressive organisation.
- ▶ Opportunity to network face to face with senior global industry leaders

## Free Electrons World's Best Energy Startup



# Further information and contacts



AusNet Services is the largest diversified energy network business in Victoria, owning and operating around \$12 billion of assets.

The company owns and operations three regulated networks - electricity distribution, gas distribution and the state-wide electricity transmission network. The company also has a Commercial Energy Services division, focusing on unregulated opportunities, including contracted infrastructure, asset intelligence and energy services.

Headquartered in Melbourne, Australia, AusNet Services employs around 2,000 people to service 1.4 million customers and is listed on the Australian Securities Exchange (ASX: AST) and the Singapore Stock Exchange (SGX-ST: AZI.SI).

For more information visit [www.ausnetservices.com.au](http://www.ausnetservices.com.au)

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