



Ref: fC121840

30 November 2017

Paula Conboy
Chair
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Ms Conboy

Remittal of Essential Energy 2014-19 revenue determination

Following the Federal Court order on 4 July 2017 regarding the Australian Energy Regulator's (AER) determination on Essential Energy's 2014-19 regulatory period, Essential Energy is pleased to submit this proposal for the AER's consideration. The proposal reflects both extensive customer consultation and Essential Energy's strategic objectives to:

- Continuously improve safety culture and performance;
- Operate at industry best practice for efficiency, delivering best value for customers;
- Deliver real reductions in customers' distribution network charges; and
- Deliver a satisfactory return on capital employed.

Placing customers at the centre of this proposal

The major benefit of Essential Energy's proposal is the avoidance of significant price shocks for customers for the current and next regulatory periods. The proposal also provides far greater clarity and certainty for customers, stakeholders and Essential Energy. More specifically, the benefits include:

- A 35 per cent reduction in typical residential customer Distribution Use of System (DUoS) bills in real terms from 2014/15 to 2018/19;
- Future price certainty for customers, particularly for 2018/19, with an increase on 1 July 2018 forecast at CPI;
- A 28 per cent reduction in revenue from 2014/15 to 2018/19, keeping downward pressure on network charges;
- Delivering stable network charges for our customers while enabling Essential Energy to recover its efficient costs;
- Maintaining the capital expenditure sharing scheme and service target performance incentive scheme to ensure benefits continue to be delivered to customers into the future;
- Establishing customer prices in accordance with tariff structure statement requirements; and
- The submission of Essential's 2019-24 regulatory proposal by the end of April 2018, based on a remade 2015 determination.

Highlights of this proposal

Since the Federal Court decision was delivered, Essential Energy has invested significantly in customer and stakeholder engagement to ensure the requirements of those we serve across regional, rural and remote NSW are reflected wherever possible in the proposals we make. Energy affordability and reliability emerged as clear priorities for our customers and align closely with the business'

strategic objective to deliver real price reductions in the long term. Therefore, the potential revenue difference associated with key aspects of the Federal Court's order of 4 July 2017 - estimated by Essential Energy to be approximately \$381 million for the 2014-19 regulatory period - are, to a large extent, not reflected in this proposal.

Instead, Essential Energy proposes a revenue allowance in accordance with the AER's set aside 2015 Determination for the period up to 30 June 2016 and the Section 59A undertakings entered into for the period up to 30 June 2019.

Any difference between the total revenue recovered over the period 2014-19 and the notional revenue implicit in the set aside 2014-19 determination due to variations in forecast and actual consumption, will be capped at \$100 million. This cap provides revenue certainty for the two years ending 30 June 2018 and 2019 and ensures that the revenue impact of unexpected increases in actual energy consumed in those years are returned to customers by way of revenue adjustments in the 2019-24 regulatory period. The total revenue Essential Energy is seeking for the 2014-19 regulatory period is \$5.1 billion.

Essential Energy's proposal encompasses a five year regulatory period commencing on 1 July 2014 and ending on 30 June 2019. During the five year regulatory period, Essential Energy is forecasting an under recovery of its operating and debt financing costs. Despite this under recovery, the proposal consolidates improvements and efficiencies since the business began its reform program in July 2012 and reflects the many initiatives underway to meet the affordability and reliability preferences of our customers.

In summary, this proposal provides for a CPI increase in revenue for the year ending 30 June 2019 as set out in Essential Energy's undertaking to the AER. This proposal also negates the operation of the Australian Energy Market Commission's (AEMC) participant derogation on revenue smoothing (assuming demand as forecast in 2017-19) as Essential Energy is not seeking to recoup additional revenue resulting from the Full Federal Court's order of 4 July 2017. This means the AER will not seek to make an adjustment determination that provides for adjustment of the allowed revenues that would otherwise apply for the 2019-2024 regulatory period so as to effect a change to Essential Energy's revenue recovery for the 2014-2019 period.

An infographic outlining the highlights and benefits of this proposal is **attached** to this letter.

Customer prices

Table 1 demonstrates the real (\$2018/19) annual price movements for a typical residential customer using 5Mwh per annum.

Table 1: Real (\$2018/19) annual distribution charge movements

2014/15	2015/16	2016/17	2017/18	2018/19
-5%	-40%	10%	0%	0%*

*Forecast

This proposal provides a real reduction of 35 per cent for a typical residential customer DUoS bill from 2014/15 to 2018/19.

Continuous reform to deliver affordable distribution services for customers

Essential Energy has clearly demonstrated its ability to continuously and significantly improve the efficiency of our capital and operating programs. Since 2012, major reforms to the way we operate have delivered the following significant benefits:

- 29 per cent reduction in full-time equivalent staff levels;
- 35 per cent real reduction in operating expenditure; and
- 41 per cent real reduction in capital expenditure.

These benefits are, in part, attributable to major reforms to our Enterprise Agreement, resulting in a current Workplace Determination that includes improved consultation, dispute resolution and outsourcing clauses, and the introduction of involuntary redundancies, achieved during the current period.

Since the Federal Court order was delivered, these reforms have enabled Essential Energy to meet the significant challenge set by the AER and the business is currently operating in line with the expenditure allowances of the 2015 set-aside determination. As stated earlier, this will result in a 28 per cent reduction in revenue during the 2014-19 regulatory period.

These reforms also provide a sound foundation for Essential Energy's long-term plans to continuously improve efficiencies, deliver real reductions in distribution prices and deliver effective stewardship of the electricity assets on which customers depend.

Customer and Stakeholder engagement

Essential Energy's extensive customer engagement program has provided the business with a better understanding of customer preferences, particularly in relation to affordability and reliability. This increased understanding directly informed our approach to this proposal and represents an ongoing cultural change in how we approach strategy and proposal development, placing the customer at the centre of all submissions.

Similarly, Essential Energy has engaged with Energy Consumers Australia, Consumer Challenge Panel, Public Interest Advocacy Centre, Energy Users Association of Australia and Essential Energy's Customer Advisory Group on key elements of this proposal. Essential Energy also convened a consumer round table, held 23 November 2017, to further discuss elements of this proposal.

Conclusion

Overall, Essential Energy's proposal is designed to deliver affordable, safe and efficient electricity distribution network services for customers. Essential Energy has also chosen to expedite this process in an attempt to resolve this long running matter. This will provide increased certainty and clarity for all stakeholders as we continue to strive towards achievement of our strategic objectives and an absolute focus on customer outcomes based on preferences expressed to us through our continuing customer engagement.

I would like to thank the AER for the constructive meetings we've had since the *NSW and ACT open remittal roundtable* held on 16 August 2017 on all components of our remittal. We look forward to further consultation on our proposal throughout the AER's remittal process.

Please contact me if you have any questions, or would like to discuss our proposal further.

Yours sincerely



John Cleland
Chief Executive Officer

Attachment: 1. Infographic - 2014-19 Remittal Proposal



For customers our proposal will result in a **0% change in real distribution prices** for 2017-19

Ongoing business reform has locked in efficiencies that have already delivered:

↓ 29%

workforce reduction and Enterprise Agreement reforms

↓ 35%

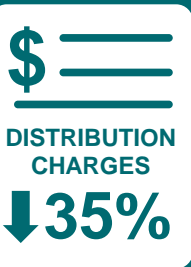
reductions in real operating expenditure

↓ 41%

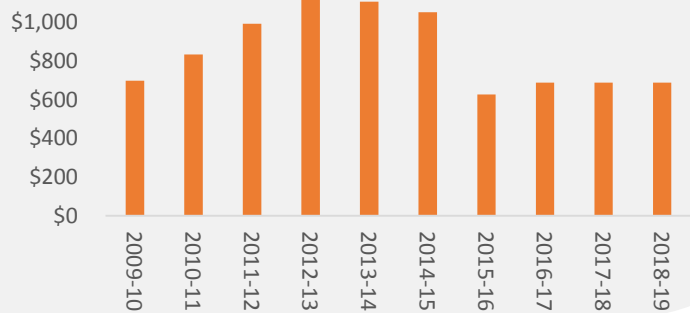
reductions in real capital expenditure

Real reductions

from 2014-15 to 2018-19



Typical Residential Customer (5MWh) Distribution Use of System Bill



Continuing to keep **downward pressure** on distribution charges



Essential Energy estimates it will forgo

\$381 M
in potential revenue allowances

Forecast revenue for 2014-19 will be capped within 2% (\$100 million) of the original revenue allowance

