

Essential Energy

9.02 Key assumptions

January 2023



Attachment summary

- > This section sets out the key assumptions that form the basis of our expenditure forecasts over 2024–29.
- > We must explain our assumptions to comply with the National Electricity Rules
- > The section includes directors' certification of the reasonableness of these assumptions

Schedule 6.1.1 and 6.1.2 of the National Electricity Rules (NER) require Essential Energy's Regulatory Proposal to contain information and matters relating to capital expenditure and operating expenditure, including the key assumptions that underlie our expenditure forecasts. The purpose of this attachment is to meet the NER's requirements relating to key expenditure assumptions.

Certification of the reasonableness of the key assumptions by Essential Energy's directors is attached.

We consider the following assumptions material to our 2024–29 expenditure forecasts.

Key assumptions	How they have informed expenditure
Legislative and regulatory obligations	Expenditure forecasts are based on the legislative and regulatory obligations in place at the time the forecasts were finalised (November 2022). Our RIN response in table 7.3 outlines this information.
Risk management frameworks, including prioritisation	System capex forecasts have been developed using a risk management framework that prioritises the expenditure necessary to maintain a safe, reliable and sustainable network. Further information on Essential Energy's risk framework and prioritisation of investment is contained in Chapter 6 of our Regulatory Proposal (Proposal).
Forecasts of demand	Frontier Economics was engaged to provide a report on forecasts for Essential Energy's customer consumption, and minimum and maximum demand through to 2037. The forecasts used different parameters such as types of customers and locations. They considered trends in new technologies, such take-up of consumer energy resources and electric vehicles. We used this information to develop expenditure forecasts and tariff structures. Chapter 11 of the Proposal and attachment 11.06 provides further information on these forecasts, which are used as inputs to our capital expenditure forecasts.
Cost forecasts for labour and materials	Forecasts for electricity-related labour, materials and land were obtained from BIS Oxford Economics, see attachments 9.04 and 9.05. Internal labour forecasts through to June 2024 are based on Essential Energy's current Enterprise Agreement, with the BIS Oxford forecast report used after that. Chapter 9 and attachment 9.01 reference how this information is included in the forecasts.
Base year opex	The opex year 2022–23 was adopted as the efficient base year for deriving a forecast of recurrent operating expenditure. This base year is used in the base-step-trend methodology for calculating the opex forecasts for 2024–29. Refer to Chapter 9 of the Proposal.
Engagement with customers	Essential Energy has engaged with customers and stakeholders in developing its Regulatory Proposal in accordance with the AER's <i>Better Resets Handbook</i> . Our understanding of our customers' priorities was developed through the engagement process. These priorities are reflected in our expenditure plans for 2024–29. Chapter 4 of the Draft Proposal details the engagement outcomes.

The quantum impacts of the above assumptions (as applicable) is set out in the capital expenditure forecast model, the operating expenditure forecasting model, and in the post-tax revenue models forming part of Essential Energy's Proposal.

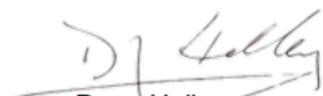
Certification under clauses S6.1.1(5) and S6.1.2(6) of the National Electricity Rules

The undersigned Chair of Essential Energy certifies that:

In accordance with schedule 6.1.1(5) of the National Electricity Rules, the key assumptions that underlie the capital expenditure forecast as set out in the regulatory proposal are reasonable.

In accordance with schedule 6.1.2(6) of the National Electricity Rules, the key assumptions that underlie the operating expenditure forecast as set out in the regulatory proposal are reasonable.

Signed in accordance with a resolution of directors.

A handwritten signature in black ink, appearing to read 'Doug Halley', written over a horizontal line.

Doug Halley

Chair

Dated 29 August 2022