Essential Energy
Cost pass through application
2022 North Coast Flooding

December 2022

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Executive Summary

The flooding that impacted the North Coast of New South Wales at the end of February and into March 2022 was unprecedented in its severity and impact on affected communities.

As the distribution network service provider (DNSP) servicing the North Coast of New South Wales, Essential Energy had substations, depots and whole sections of the network immersed or water damaged, resulting in major outages across the north coast region, impacting almost 70,000 customers.

As the flooding event developed, we enacted our emergency response plan, quickly mobilising our crews from across the state to work with emergency services to ensure safe access to electrical assets, to assess damage and to prepare for the restoration work to come. Over the period of the response, our team comprised over 400 staff from the local area and across the state. We also leveraged the services of contractors and local suppliers to safely and efficiently address the damage and undertake the process of power restoration for our customers.

Priority was given to reinstating supply to community critical infrastructure, including the Lismore hospital, evacuation centre, water and sewerage pumping stations and telecommunications service providers. More than 7,200 premises were disconnected for safety reasons during the event. Over 90 per cent of those premises that can be re-energised, have been, following mitigation of assessed risks. For the remaining de-energised premises, we are continuing to engage with property owners and residents to manage the safe restoration of power in areas which experienced the greatest damage, and where sites remain subject to ongoing reconstruction work or where other factors apply.

Managing and planning our network for safe and reliable operations are key priorities for Essential Energy. Consistent with our industry peers, we are continuing to adjust our network planning practices to maintain a reliable and safe network, resilient to the increased risk of extreme weather events and environmental change which may lie ahead.

Additional costs to address the flooding event will total $25.8M (FY23 terms) between February 2022 and June 2024. These costs exclude expenditure associated with damage rectification or replacement of insured assets, which fall outside the scope of this application.

The additional costs are material for Essential Energy and were unforeseen. Funding for these costs was not included in the revenue allowances for the 2019–24 regulatory control period approved by the Australian Energy Regulator (AER) in April 2019.

We are requesting to recover an extra revenue allowance of $3.8M to cover these unexpected costs. This will result in a typical residential customer paying an estimated average of $2.63 extra in their retail bill during FY24, and a small business customer paying an average $5.66 extra in that year.

We are very grateful for the tireless support of our customers and the community throughout the flood response.

1. Event Details

1.1 The 2022 North Coast Flooding Event

In late February and early March 2022, the North Coast of New South Wales experienced widespread flooding, resulting in the Lismore Central Business District (CBD) and other regional centres being submerged. The magnitude of the flooding so greatly exceeded anything previously recorded in the area that it fell outside the margin for modelling of a 1 in 100 year event, and in some locations a 1 in 500 year event[1].

Tragically, nine lives were lost due to the flooding, 5,303 homes were rendered uninhabitable and 7,731 people were forced to rely on emergency accommodation[2].

As the DNSP servicing the North Coast of New South Wales, Essential Energy had substations, depots and whole sections of the network immersed or water damaged, resulting in major outages across the north coast, impacting 69,603 customers.

Abnormal rainfall

The period leading up to the floods was characterised by high levels of rainfall following two years of La Niña conditions from the second half of 2020. With river levels and catchments already high, February 2022 saw the wettest seven-day average period recorded in north-east New South Wales since 1900, with some areas recording greater than 60% of average annual rainfall within a single week[3]. The rainfall reached its highest rate on 28 February, with daily record falls across much of the area, including Rosebank on the Upper Coopers Creek which recorded over 700mm of rain in 24 hours[4].

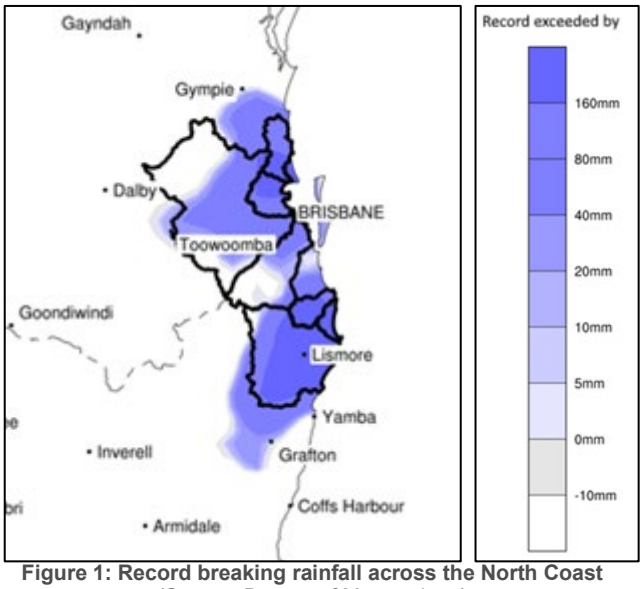


Figure 1: Record breaking rainfall across the North Coast
(Source: Bureau of Meteorology)

According to a Special Climate Statement released by the Bureau of Meteorology[5], the weather was caused by "*a series of deep low-pressure systems through south-east Queensland and northern New South Wales combined with a blocking high pressure system over New Zealand and a coastal trough which fed a large volume of moist tropical air into eastern Australia*".

Rivers in flood

As a result of the sustained torrential rainfall following persistent wet weather over a two-year period, the river systems in the North Coast region registered record high levels, leading to substantial flooding. While numerous other waterways in the region contributed to the natural disaster, the severity of the North Coast Flooding event can be summarised by considering the three major rivers in the area:

- The **Wilsons River** peaked at 14.4m above mean sea level in Lismore - more than two meters above both the designated 100 Year Design Flood Level and the previous highest recorded water level[5]. The Lismore CBD, much of the wider city, and areas up and down stream were submerged in meters of water, resulting in major damage to the city and properties.

[1] In the Lismore area, floods peaked at 14.4m. The 1 in 100 year average recurrence interval (ARI) flood level is 12.37m. The 1 in 500 year ARI flood level is an additional 1.03m above the 1 in 100 year ARI (i.e. 13.4m). See 'Flood Prone Lands' – Part A Chapter 8 of the Lismore Development Control Plan, Lismore City Council - Link.

[2] NSW Government 2022 Flood Enquiry Volume One Summary - Link

[3] Special Climate Statement 76 – Extreme rainfall and flooding in south-eastern Queensland and eastern New South Wales – Bureau of Meteorology - Link

[4] New South Wales in February 2022: Very wet end to the month for the Northern Rivers – Bureau of Meteorology - Link

[5] History of Lismore Flood Events, Lismore City Council. The100 Year Design Flood Level is 1cm above the 1 in 100 year ARI level - Link

- The **Richmond River** peaked at 7.17m at Woodburn, well above the previous record of 5.42m and nearly three meters above the major flood level of 4.2m, with widespread destruction to the town and properties.
- The **Tweed River** inundated Murwillumbah and Tumbulgum following heavy rainfall within the catchment (including 1,347mm in seven days in the town of Uki). Water levels were above the major flood events of 2017 and significant property damage was experienced in the townships and surrounding areas.

1.2 Natural disaster declaration

The New South Wales Government issued a Natural Disaster Declaration regarding the severe weather and flooding from 22 February 2022, impacting 62 local government areas[6]. Given the rapid onset of the event, the unprecedented nature of the flooding, and the scale of the resulting damage, the North Coast Flooding meets the definition of a natural disaster as set out in the NSW Disaster Assistance Guidelines[7].

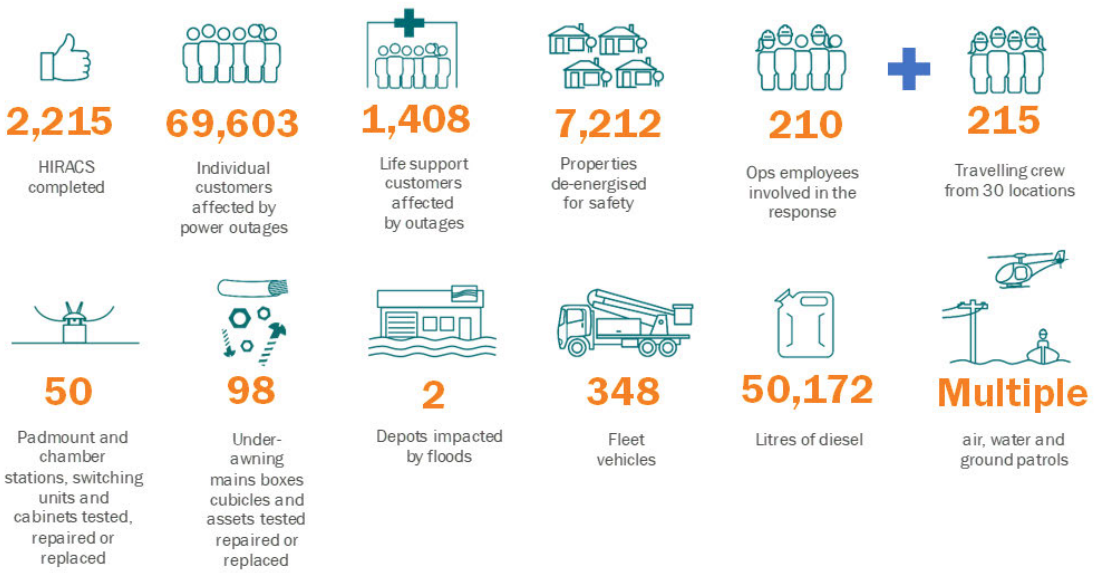
The flooding event involved multiple rivers in the North Coast region, but resulted from a single weather pattern which caused riverine and flash flooding across a confined region over a period of two weeks.

Given the loss of life and property, the NSW Government commissioned an independent inquiry to investigate the preparation for, causes of, and response to the 2022 flood event[8] (the Flood Inquiry). Essential Energy provided a detailed submission to the Flood Inquiry outlining the impacts on our customers, our network and our services[9]. Essential Energy also provided a submission to the Parliament of New South Wales Select Committee into Response to major flooding across NSW in 2022[10].

1.3 Electricity services impact

Flooding is not uncommon across much of the coastal area in which we operate. We plan for flood events in line with planning guidelines and historical data. The occurrence of such events can be reasonably anticipated within the limits of historical precedence and resilience management. However, the 2022 North Coast Flooding was extraordinary both in severity and in the magnitude of its impact on our customers, network and services.

Figure 2: Flood impact in figures



[6] Natural disaster declarations (AGRN – 1012) – New South Wales Government - Link

[7] NSW Disaster Assistance Guidelines – NSW Government - Link

[8] Full Report of the NSW Floods Inquiry – NSW Government - Link

[9] 2022 NSW Flood Inquiry – Essential Energy Submission - Link

[10] Inquiry into Response to major flooding across New South Wales in 2022 – Submission No 44 – Essential Energy - Link

As indicated in Figure 2 (above), many of our customers were impacted as our network became submerged, with more than 7,200 properties needing to be de-energised for safety reasons and to allow for extensive repairs, replacements, and testing; followed by controlled re-energisation as this became possible.

1.4 Resilience Management

Managing and planning our network for safe and reliable operation are key priorities for Essential Energy.

- We are working closely with our DNSP peers on prudent strategies to improve network resilience. Analysis undertaken recognises that with the growth in global mean temperatures, there will be "*an increase in more natural hazards and weather events and therefore an increased likelihood or probability of events that will impact the network*"[11].

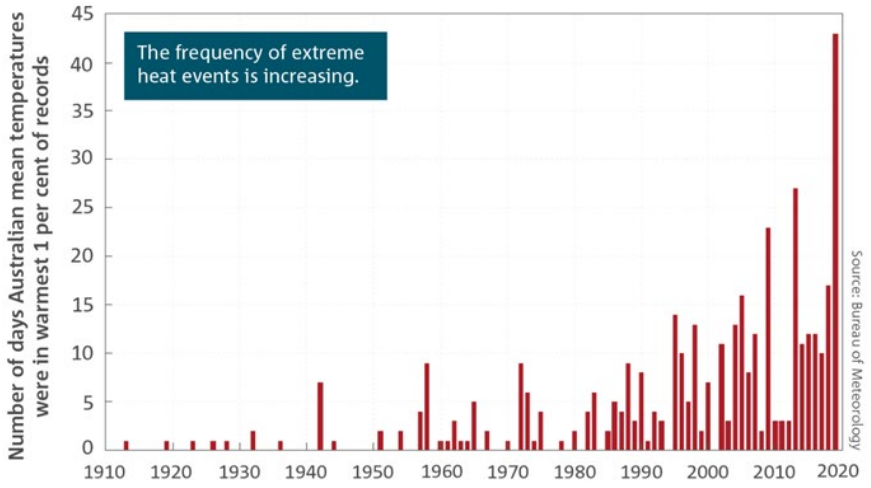


Figure 3: Rapid and continued growth in mean temperatures

- Given the greater likelihood of extreme weather events and natural hazards in the future and consistent with our DNSP peers, we are adjusting our network planning practices so that our ongoing investments will build and maintain a reliable and safe network for the change which may now lie ahead.

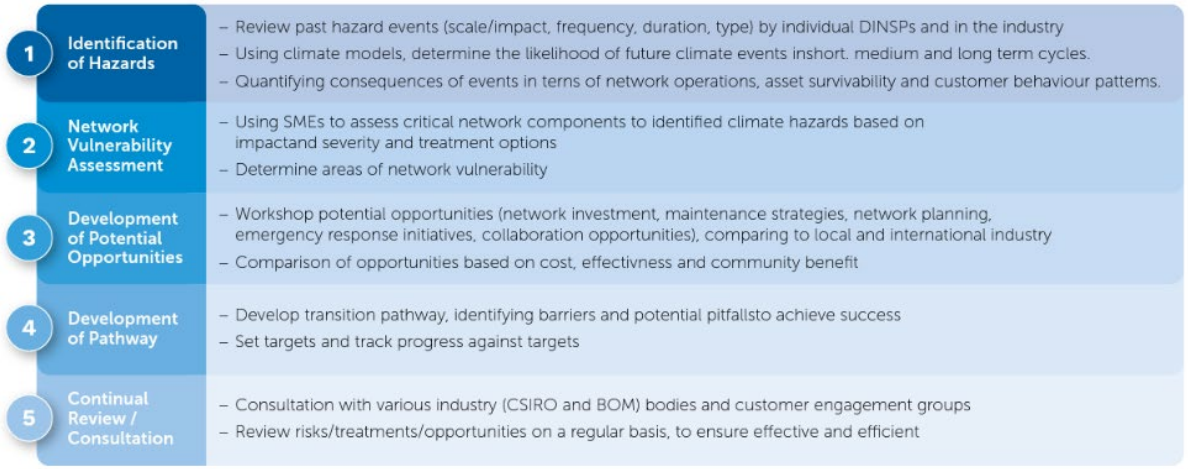


Figure 4: Industry network planning process, for resilience to the changing climate and weather patterns

- Building on the above joint collaboration and planning process, we are completing a detailed climate risk assessment on our network. This involves modelling the effect of climate change on flood patterns, bushfires and windstorms based on multiple Representative Concentration Pathway (RCP) scenarios over the coming decades. This will be used to inform long term planning and risk mitigation across our network, for increased perils such as bushfires and floods. We acknowledge that making our network more resilient

[11] 2022 Collaboration Paper on Network Resilience – NSW/ACT/TAS/NT Electricity Distr butors - Link

to changes in climate risk should reduce the cost impacts that we are now starting to experience. As we progress with these resilience investments, over time there will be reflected reductions in risk and improved customer experience.

- Specifically relating to the North Coast region, we recognise the new reality shared by the residents and other business and infrastructure operators in the area. Previously unimagined flood levels must now be assumed as a possibility into the future. With regard to our own electricity network infrastructure, we have therefore taken the decision to relocate the primary zone substation servicing Lismore to higher ground[12]. In the 2024–29 regulatory control period, we will similarly be relocating the South Lismore depot.

1.5 Insurance

Consistent with most other network businesses, we do not insure our poles, wires and related network infrastructure due to prohibitively high costs for the limited coverage options commercially available. The premiums required to eliminate risks to poles and wires would result in higher customer charges inconsistent with efficient network operation.

Consequently, Essential Energy takes a stepped approach to handling the cost implications of major damage incurred to these assets as indicated below:

- We treat repair and replacement of these network assets as part of our normal business process where damage is contained to a manageable level; and
- We seek to recover costs from network charges through a pass through application where the materiality threshold for a specific event is exceeded.

This approach provides a balance to protect our customers from ongoing inflated costs driven by high insurance premiums while enabling Essential Energy to recover costs for extraordinary events when necessary.

Aside from our poles, wires and related network infrastructure, we do hold insurance for other assets where it is cost effective to do so. Notably this includes insurance on property and major structures including buildings and substations. Within the flood affected area, we therefore hold insurance for the following assets which were destroyed or substantially damaged by the event:

- South Lismore Zone Substation
- South Lismore Depot
- Murwillumbah Depot

The claim process for losses on these insured assets has begun and is likely to take a substantial period to conclude. While the claims are assessed, uncertainty remains as to when the insured losses will be recovered and the final value of the recovery. However, we have taken the decision to exclude these insured assets from this cost pass through application. The rebuild costs of the insured structures will be offset in our Regulated Asset Base (RAB) by insurance proceeds when, and to the extent that these are received, as described in section 2.3.

1.6 Our response to the event

As the flooding event developed, we enacted our emergency response plan, quickly mobilising our crews from across the state to work with emergency services to ensure safe access to electrical assets, assess damage and to prepare for the restoration work to come.

First and foremost, our response to the flooding event focussed on safety and support for our customers, including through regular communications, community engagement, and through efficiently restoring supply as quickly as prudently possible. We ramped up our call centre operations to support customer queries, distributed customer factsheets, and provided daily operational updates and media interviews throughout the flood

[12] The South Lismore Zone Substation.

response. We also utilised electronic signboards to provide safety messages, established customer service hubs in heavily impacted areas, and visited evacuation centres and other community events to speak directly with our customers.

In addition to communications, we arranged the safe supply of power to other essential services, as well as to customers with life support and critical electricity needs. We are also continuing to support our impacted customers through reimbursing or waiving power reconnection fees and providing general assistance.

Mobilising resources

Our local workforce of 210 Essential Energy employees were involved in our immediate flood response, with a further 215 employees progressively mobilised from more than 30 locations across regional and rural New South Wales throughout the period of the recovery. We also used specialist contractors where required, bringing our total complement on the ground to over 450.

Access remained a key risk throughout the response, with landslips, boggy ground, impassable roads and damaged bridges. To mitigate risks for our crews and the community, air, water and ground patrols were established, utilising drones, helicopters, boats and specialised fleet equipment to access segments of the network as required.

In all, nearly 350 fleet vehicles were used in the flood response, using over 50,000 litres of diesel.

Figure 5: Our Ballina crews preparing for work

Logistics and fleet teams delivered supplies into the area including food and water for our crews, new poles, crossarms, replacement substations, conductors, fuel and specialised fleet equipment, boosting local supplies as access became available.

Figure 6: Safety works near Lismore

Safely restoring supply

The network was progressively de-energised as areas became inundated, resulting in close to 70,000 customers impacted by outages. In total, 2,215 Hazard Identification, Risk and Control (HIRAC) assessments were conducted to ensure the safety of electricity assets during the flood and prior to reconnection.

Priority was given to reinstating supply to community critical infrastructure, including the Lismore hospital, evacuation centre, water and sewerage pumping stations and telecommunications service providers.

More than 7,200 premises were disconnected for safety reasons during the event. Over 90 per cent of those premises that can be re-energised, have been, following mitigation of assessed risks.

For the remaining de-energised premises, we are continuing to engage with property owners and residents to manage the safe restoration of power in areas which experienced the greatest damage, and where sites remain subject to ongoing reconstruction work or where other factors apply.

The most heavily impacted and remote areas experienced lengthy outages of several weeks, particularly in areas of Lismore reliant on power fed from the severely damaged South Lismore zone substation. We restored power to other customers within hours or days of water levels receding, subject to inspections, testing and repairs.

Figure 7: Coordinating with contractors to expedite recovery

Rebuilding infrastructure

Rectification of flood damage necessitated 50 pad-mount and chamber substations, switching units and cabinets to be repaired or replaced.

A further 98 under-awning mains boxes, cubicles and assets were tested, repaired or replaced due to floodwaters in the Lismore CBD inundating infrastructure positioned above previously experienced flood levels.

The full extent of the damage to the network also included the repair or replacement of poles, wires and other related infrastructure due to damage from high floodwaters.

In addition to the above damage to the network, the following major infrastructure assets were either destroyed or rendered unfit for long-term operation due to the flooding.

The South Lismore Zone Substation

The 2022 North Coast Flooding significantly impacted the South Lismore zone substation.

Figure 8: Zone substation and depot inundation

At the peak of the flooding, water levels rose to approximately 4m above substation ground level. This resulted in complete submersion of the 66kV busbar, 66kV circuit breakers and voltage transformers, and partial submersion of the 11kV switchboard, control room, capacitor bank, and the three 66/11kV transformers.

While we put measures into place to enable the zone substation to be brought back online, the works are temporary and not suitable for long-term operations. With the prospect of an increase in severity and frequency of major floods, Essential Energy plans to rebuild a sustainable long-term zone substation at a higher location, well above the height of the current site. This is in line with Recommendation 28 of the New South Wales Government Flood Enquiry report[13] to ensure "*essential services infrastructure (communications, water, power and sewerage) is situated as much as possible above the flood planning level*".

As noted in section 1.5, the zone substation is an insured asset. Costs associated with damage rectification or replacement therefore fall outside the scope of this application. There are also no incremental property costs to house the replacement zone substation, as the target site is already owned by Essential Energy.

[13] NSW Government 2022 Flood Enquiry Volume One Summary - Link

South Lismore Depot

Along with the zone substation, the South Lismore depot was submerged by flood waters and severely damaged in the North Coast Flooding event.

As noted in section 1.5, our properties (including the depot structures) are insured assets. Costs associated with damage rectification or replacement of the depot structures therefore fall outside the scope of this application.

Rather than rebuilding the depot at the current location, it is planned to redevelop the depot at a new site on higher ground during the coming regulatory control period (2024–29). To enable preparation for that development, a procurement process has begun to acquire a new land parcel for the depot. As the existing depot land is not included in the insured assets, costs for the new land parcel only have been included in this application. Any disposal proceeds from the sale of the existing site will be adjusted for in the RAB.

Murwillumbah Depot

Floodwater from the Tweed River also inundated the Murwillumbah depot. The depot has since been cleaned and will continue to be used, however the property sustained extensive damage. As an insured property asset, costs associated with damage rectification for the depot therefore fall outside the scope of this application.

Customer support and communication

Throughout our response to the North Coast Flooding event, we maintained a focus on supporting our customers and the local community.

Figure 9: Supporting enquiries at a customer hub

Essential Energy quickly established a sizeable and visible local presence during the floods and the aftermath, through the deployment of Customer Hubs in Lismore, Ballina, Woodburn and Coraki.

Our team also made visits to the evacuation centres and attended community meetings.

We further extended our contact centre staffing to provide greater call handling capacity to answer customer queries.

We also provided community updates through a dedicated flood website providing flood safety and restoration information.

We have been active in media throughout the event, including:

- Our social media updates were viewed over half a million times;
- Our safety messaging was widely broadcast on local radio;
- We participated in over 20 media interviews;
- We used 12 digital message billboards to prominently display critical information in local areas; and
- We distributed reconnection posters and safety fact sheets for those without access to other forms of communications.

Key points

- The 2022 North Coast Flooding was declared a natural disaster by a relevant government authority (from 22 February 2022).
- The event fell well outside of historical precedent and therefore could not have reasonably been anticipated. However, Essential Energy is working with industry peers to plan and invest in network resilience, as necessitated due to forecast changes in climate and weather patterns.
- Essential Energy holds insurance where prudent to do so. i.e., for property structures and other major assets such as zone substations. Damage rectification or replacement costs associated with such assets are therefore excluded from this application. Consistent with our industry peers, it would not be cost effective for our business or our customers for Essential Energy to maintain insurance on our poles, wires and related network infrastructure.

2. Additional Costs and Pass Through Amount

2.1 Summary of additional costs

The costs of undertaking the North Coast Flooding event response, including recovery work to date and in the future, are summarised in Table 1 (below):

Table 1: Summary of additional costs due to the North Coast Flooding

$M FY23	FY22	FY23	FY24	Total
Opex	1.9	0.5	-	**2.3**
Capex	13.8	1.6	8.1	**23.4**
Total	**15.6**	**2.0**	**8.1**	**25.8**

Totals may not add due to rounding

2.2 Cost inclusions

The additional costs summarised in Table 1 (above), are limited to the following cost categories:

Direct labour

A total of approximately 55,000 incremental ordinary hours and 34,000 overtime hours have been directly charged to the flooding recovery. This excludes labour effort associated with recovery of insured assets, which fall outside the scope of this application.

Contractors

Direct costs for contractor services used in the flooding response, including:

- Electrical contractors
- Traffic control and safety services
- Earth moving
- Equipment hire
- Crane hire
- Helicopter and aerial services
- Transportation services
- Waste (and destroyed infrastructure) removal and disposal
- Media services

Direct materials

Direct materials refer to the poles, crossarms, transformers, conductors, etc. that have been directly charged to the flooding response.

Direct motor vehicle fleet

Direct motor vehicle fleet costs that have been directly charged to the flooding response.

Travel and accommodation

Direct costs for workforce travel, meals, and accommodation in affected areas due to the flood response.

Property Expense

Direct costs relating to the clean-up of depots immediately after the flood event, as well as forecast costs associated with purchasing a replacement site for the Lismore depot.

IT Expense

Replacement cost of IT equipment and fibre optic cable as a result of flood damage.

2.3 Cost exclusions

The additional costs summarised in Table 1 specifically exclude:

Administrative and office-based costs

We have excluded administrative and office-based costs related to the flooding event.

However as described in section 2.2, we have included field based employee costs because undertaking the North Coast Flooding recovery has resulted in delays in other scheduled work – which still needs to be completed. Therefore, overall we will have to spend more on field work than we planned over remainder of the 2019–24 regulatory control period.

Overheads

We have excluded corporate and network overheads from all cost categories.

Costs for damage rectification or replacement of insured assets

As described in section 1.5, we have excluded costs associated with rectification or replacement of damaged or destroyed insured assets including the South Lismore zone substation, the South Lismore depot and the Murwillumbah depot. When the insurance claim process completes, the insurance proceeds will be offset against the RAB.

As described in section 1.6, we have however included the cost to procure a new land parcel to enable the relocation of the South Lismore depot in the 2024-29 regulatory control period. The sale value of the existing South Lismore site will be treated as a disposal within the RAB when completed. For more information about the cost estimate for the new land parcel, see section 2.4 below.

2.4 Surety around the costs

Capture of flooding recovery costs

Discrete project codes were established to capture the costs associated with the flooding response, ensuring direct expenses are identifiable. Deloitte were also engaged to undertake a quality assurance review to ensure the incremental costs included in this application are accurate and relate directly to the North Coast Flooding event.

Market assessment and estimation of depot land parcel acquisition costs

As noted in earlier sections, for management of operational risk and network resilience, in the 2024-29 regulatory control period we will redevelop the South Lismore depot at a new site on higher ground. [redacted]

The key site requirements defined for the market engagement include:

- Maximum practical distance from the Lismore precinct;
- Site elevation about flood levels;

- Accessibility requirements during times of flood, including for heavy fleet;
- Site zoning; and
- Site size (square meterage).

2.5 Efficiency of costs

Despite the urgent nature of much of the expenditure, Essential Energy has worked to ensure that the costs incurred are efficient.

In the immediate aftermath of the flooding, we undertook emergency works to make hazardous situations safe and to restore supply to our customers as quickly as possible where it was safe to do so. These emergency activities are described in section 1.6 and comprised temporary repairs to ensure safety in the short term, as well as more permanent restoration work. Our emergency response to the North Coast Flooding event was governed by our internal policies relating to events that present a threat to our business-as-usual activities, and have the potential to impact the safety and reliability of our network and the environment.

Our mitigation of natural disaster risk is discussed in section 1.4, as is our approach to insurance in section 1.5, which together ensure value for money for our customers. Section 1.6 also highlights the importance of collaboration with multiple parties, providing early access to information, and allowing for better planning and more efficient restoration for our customers.

2.6 Any offset of 2019–24 allowances?

Given that the state of our network in the affected areas was of a typical high standard prior to the flooding, the event has not resulted in the avoidance of any major planned investments. However, there has been approximately $10,000 deducted from the total figure for tasks that were existing prior to the flooding event, that were completed or cancelled on the North Coast.

The tasks considered avoided costs met the following criteria:

- Reported before 1 March 2022
- Status of tasks Closed or Cancelled before 28 November 2022
- Included the word 'Flood' as part of the notes for closing/cancelling the task

2.7 Materiality of the costs

In seeking approval for a positive pass event, clause 6.6.1 of the NER requires DNSPs to evidence that the cost of providing direct control services is "*materially higher*" as a result of the event. This materiality threshold is satisfied if the increased costs incurred by the DNSP (or forecast to be incurred) in a single regulatory year of the regulatory control period exceeds 1% of the annual revenue requirement for that regulatory year.[14]

Table 2 (below) compares our approved annual revenue requirements against the costs of the North Coast Flooding event. As indicated in this table, the costs incurred in FY22 were material (greater than 1%) when compared to our approved annual revenue requirement for that year.

Table 2: Materiality of additional costs due to the North Coast Flooding event

$M Nominal Terms	FY20	FY21	FY22	FY23	FY24	2019–24
Approved annual revenue unsmoothed	950.0	1,012.2	1,030.5	1,048.6	1,053.1	**5,094.5**
Total North Coast Flooding costs	-	-	14.6	2.0	7.9	**24.4**
Materiality (%)	**-**	**-**	**1.4%**	**0.2%**	**0.8%**	**0.5%**

[14] See clause 6.6.1 of the NER, as well as the definition of "materially" provided in Chapter 10 of the NER.

2.8 Amount we are looking to recover

We are seeking approval to increase our allowed revenue by $3.8M as identified in Table 3 (below). This amount is equivalent to receiving all of the opex claimed in Table 1 ($2.3M) and a portion of the capex. Under the building block model used by the AER, capex is recovered from customers over the life of an asset, for example, if we bought a capex asset with a 40-year life, it takes 40 years for us to recover the cost (also accounting for the time value of money). We are therefore only claiming up to three years' worth of the capex cost recovery based on the various capex asset lives. The balance of the capex will be recovered by us over the remaining life of the assets, as they will be added into our RAB at the next regulatory period (2024–29).

This $3.8M amount therefore reflects the revenue that we would have received if the $25.8M in costs could have been forecast in our 2019–24 regulatory proposal.

Table 3: Proposed change in smoothed revenue

$M Nominal Terms	FY20	FY21	FY22	FY23	FY24	2019–24
Approved annual revenue smoothed	1,001.7	1,006.8	1,007.6	1,031.1	1,039.7	**5,086.8**
Plus, North Coast Flood Event pass through	-	-	-	-	3.8	**3.8**
Updated annual revenue smoothed	1,001.7	1,006.8	1,007.6	1,031.1	1,043.4	**5,090.6**

The above recovery results in a typical residential customer paying an estimated $2.63 extra in their retail bill during FY24, and a small business customer paying $5.66 extra in that year.

2.9 Customer engagement on cost recovery

As described in section 1.6, support for our customers in the North Coast region has been our priority throughout the flooding event.

We have also discussed this proposed cost pass through application with our Customer Advocacy Group. These customer representatives recognised the critical role Essential Energy played in response to the North Coast Flooding. They also recognised the impact the floods have had on the New South Wales community, and therefore noted that Essential Energy should minimise bill increase impacts on customers as much as feasible.

We have taken that feedback on board and further scrutinised our cost inclusions and exclusions (as described in sections 2.2 and 2.3 above). As a result of that further detailed scrutiny, we have reduced the scale of the FY24 customer bill impacts from $4.29 (residential) and $9.24 (small business) down to $2.63 and $5.66 respectively.

We greatly value the discussion with our customers on this topic and the insights they have provided. We are also very grateful for the tireless support of our customers and the community throughout the flood response.

Key points

The additional costs:

- Are "material" in comparison with our approved FY22 revenue requirement (i.e. greater than 1%).
- Include only the actual and likely direct increased costs incurred as a consequence of the event.

The proposed cost recovery:

- Will be passed through following the regulatory year in which the event occurred. The pass through amount represents only the revenue that we would have received if the costs could have been forecast in our 2019–24 regulatory proposal.

It is also noted that the FY24 customer bill impacts will be lower than estimated at the point of consultation with our Customer Advisory Group.

3. Compliance Check

Table 4 (below) provides a checklist summarising compliance of this application with the NER pass through provisions set out in clause 6.6.1. Cross-references are provided to the locations of the relevant information in the application.

Table 4: Check against NER cost pass through requirements

NER clause	Description	Information provided	Section/s
6.6.1(a1)	Identification as a pass through event - an event allowing for pass through of costs may be specified in the distribution determination (sub 5)	This application confirms that the 2022 North Coast Flooding meets the definition of a "natural disaster" event as specified in Essential Energy's 2019–24 determination.	Section 1 and specifically section 1.2.
6.6.1(a)	A DNSP may seek AER approval for the pass through for a positive change event. To qualify as a positive change event the DNSP must have incurred materially higher costs (NER defined) in providing direct control services.	The application confirms that Essential Energy incurred materially higher costs in providing direct control services, and accordingly the event qualifies as a positive pass through event.	Section 3 and specifically sections 2.1 and 2.7.
6.6.1(c)	A DNSP must submit a statement within 90 business days of the relevant positive change event occurring	This application constitutes our written statement and provides evidence on the period of the North Coast Flooding and date agreed with the AER to extend the submission for the purposes of the pass through application. The final date to submit the application is now 31 December 2022 – see 6.6.1(k)	This application.
6.6.1(c)(1)	The statement must specify: • The details of the positive change event	A summary of the North Coast Flooding event and our response to it is provided.	Section 1 including specifically sections 1.1, 1.2, 1.3 and 1.6.
6.6.1(c)(2)	• The date on which the *positive change event* occurred	A summary of the North Coast Flooding event and our response to it is provided.	Section 1 including specifically sections 1.1 and 1.2.
6.6.1(c)(3)	• The eligible pass through amount in respect of that positive change event	Details and justification for the additional costs have been provided, as well as a table of the eligible positive pass through amount.	Section 2, including specifically section 2.8.

NER clause	Description	Information provided	Section/s
6.6.1(c)(4)	• The positive pass through amount the Distribution Network Service Provider proposes in relation to the positive change event	Details and justification for the additional costs have been provided, as well as a table of the eligible positive pass through amount.	Section 2, including specifically section 2.8.
6.6.1(c)(5)	• The amount of the *positive pass through amount* that the *Distribution Network Service Provider* proposes should be passed through to *Distribution Network Users* in the *regulatory year* in which, and each *regulatory year* after that in which, the positive change event occurred	Details of the eligible positive pass through amount are provided by financial year.	Section 2, including specifically section 2.8 (Table 3).
6.6.1(c)(6) i	Evidence of the actual and likely increase in costs	The application provides information on the costs incurred and methodology for forecasting future costs related to the positive change event, including the purchase of a new land parcel for the South Lismore Depot redevelopment.	Section 2, including specifically sections 2.1 to 2.5.
6.6.1(c)(6) ii	Evidence that the costs occur solely as a consequence of the positive change event.	The application describes how costs have been captured, and the costs which have been excluded in order to isolate only the expenditure occurring directly as a result of the event. Independent confirmation of the cost analysis has been performed by Deloitte.	Section 2, including specifically sections 2.1 to 2.5. Attachment G.
6.6.1(c)(6) iii	Evidence that it relates to the circumstances where the cause of costs is a retailer insolvency event	Not applicable	N/A
6.6.1(c)(7)	Such other information as may be required under any relevant *regulatory information instrument.* Essential Energy's 2019–24 distribution determination notes that in assessing a natural disaster pass through application, the AER will have regard to the insurance held and whether that it represents a level that an efficient and prudent NSP would hold[15].	The application discusses our approach to insurance coverage for flood damage to network assets.	Section 1.5.
6.6.1(c1)	Any expenditure that may be for a restricted asset	Essential Energy does not have any restricted assets.	N/A

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4. Attachments list

A. Confidentiality Claim

B. Lismore Depot – Alternative Site Investigation - Confidential

C. Detailed cost information

D. Cost build up spreadsheet

E. Post Tax Revenue Model

F. Independent Verification and Assessment report - Confidential