

11 March 2011

Catherine Waddell
Group Manager Regulated Pricing
Essential Energy
PO Box 718
Queanbeyan NSW 2620

Dear Catherine,

REVIEW OF ESSENTIAL ENERGY DISTRIBUTION LOSS FACTORS FOR 2011/12

Intelligent Energy Systems Pty Ltd (IES) has undertaken a review of the Distribution Loss Factors (DLFs) for 2011/12 financial year calculated by Hill Michael Consulting (Hill Michael) who were commissioned by Essential Energy. The IES review examined the proposed DLFs with regard to their consistency with Essential Energy's published methodology as at 31 December 2010.

Hill Michael provided IES with a set of detailed spreadsheets for review. A report titled "Distribution Loss Factor Calculations for 2011-12", prepared in March 2011 by Hill Michael was also made available to IES. The report described Hill Michael's (on behalf of Essential Energy) forecast methodology, DLF calculation methodology for independently calculated customers (ICCs), embedded generators and tariff class customers.

The supporting spreadsheets were comprehensive and well set out. A spreadsheet showing the historical reconciliation of financial year 2009/10 was also provided. Hill Michael's submission was clear and concise, the calculations consistent with the published methodology and, DLF values correctly determined. Any increases or decreases in DLF values for Essential Energy's tariff class (general) customers, and site specific customers from last year's DLFs were limited to plus or minus 1%. These DLFs changes will have only a minor effect on Essential Energy's customers energy costs for 2011/12.

IES has examined the data provided by Hill Michael on behalf of Essential Energy (in the form of spreadsheets) and are of the opinion that they have



estimated their projections in accordance with the published methodology and DLFs values correctly determined.

DLFs are based on the most recent available continuous twelve month period in compliance with the Rules. Essential Energy has used a combination of load-flow samples, purchase and sales data, assumptions to theft as a percentage of sales, and engineering data to re-assess the proposed loss factors.

Essential Energy has carried out a reconciliation of losses for financial year 2009/10 in accordance with the National Electricity Rules' requirements. When applying the 2009/10 DLFs to its actual sales figures for 2009/10, the forecast error as a percentage of energy distributed considering a forward looking approach has been used, where forecasts of sales and purchase figures are utilised is an acceptable result.

In summary, IES are of the opinion that the DLFs calculated by Essential Energy for 2011/12 are consistent with the published methodology and, DLF values correctly determined.

Yours Sincerely

A handwritten signature in black ink, appearing to read 'Bryan Whitlock', with a stylized flourish at the end.

Bryan Whitlock

Senior Energy Analyst