

9 March 2012

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

Dear Catherine,

REVIEW OF ESSENTIAL ENERGY DISTRIBUTION LOSS FACTORS FOR 2012/13

Intelligent Energy Systems Pty Ltd (IES) has undertaken a review of the Distribution Loss Factors (DLFs) for 2012/13 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 2011.

Hill Michael provided IES with a set of detailed spreadsheets for review. A report titled "Distribution Loss Factor Calculations for 2012-13", prepared in February 2012 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 2010/11 was also provided. Hill Michael's submission was clear and concise, the calculations consistent with the published methodology and, DLF values correctly determined. The DLFs for tariff class (general) customers for all categories of voltages decreased from the 2011/12 values, except for the LV line where a 0.5% increase has occurred. For some ICCs in the Cobar region increases in DLFs by more than 1% have occurred, this is due to a significant increase in load on this line.

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, and engineering data to re-assess the proposed loss factors.

Essential Energy has carried out a reconciliation of losses for financial year 2010/11 in accordance with the National Electricity Rules' requirements. When applying the 2010/11 DLFs to its actual sales figures for 2010/11, 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 2012/13 are consistent with the published methodology and, DLF values correctly determined.

Yours Sincerely

A handwritten signature in blue ink, appearing to read 'Bryan Whitlock', is written over a light blue rectangular background.

Bryan Whitlock

Senior Energy Analyst