

Essential Energy's 2019-24 Regulatory Proposal

3 July 2018

Our Vision, Purpose & Values

empowering

Our Vision

What we want to be

Empowering communities to share and use energy for a better tomorrow.

Our Purpose

What we stand for

To enable energy solutions that improve life.

Corporate Objectives

What we aim to achieve

- Safety performance & culture
- Best practice operations
- Real reductions in charges
- Acceptable return on capital

Our Values

What we care about



Make safety
your own



Be easy to do
business with



Make every
dollar count

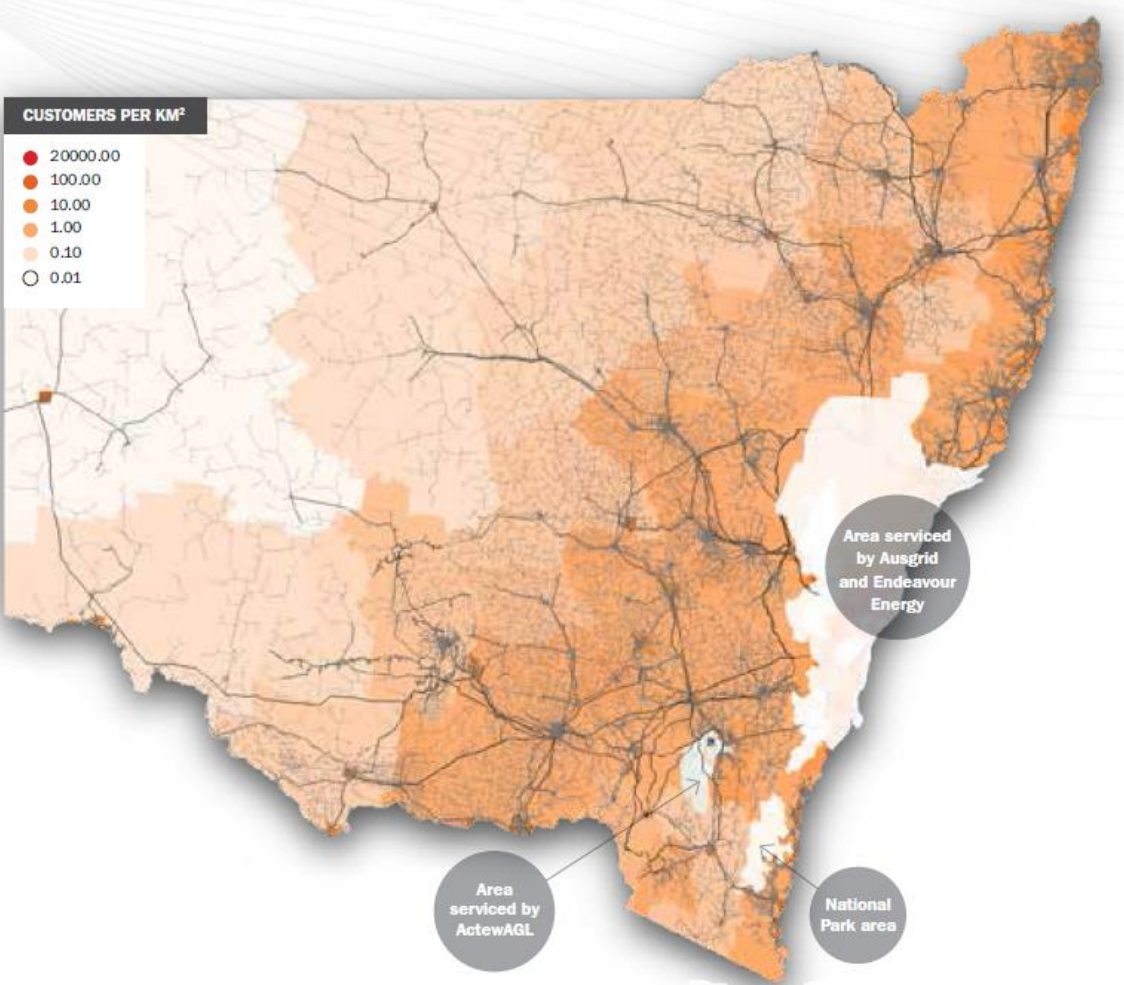











Be courageous,
shape the future



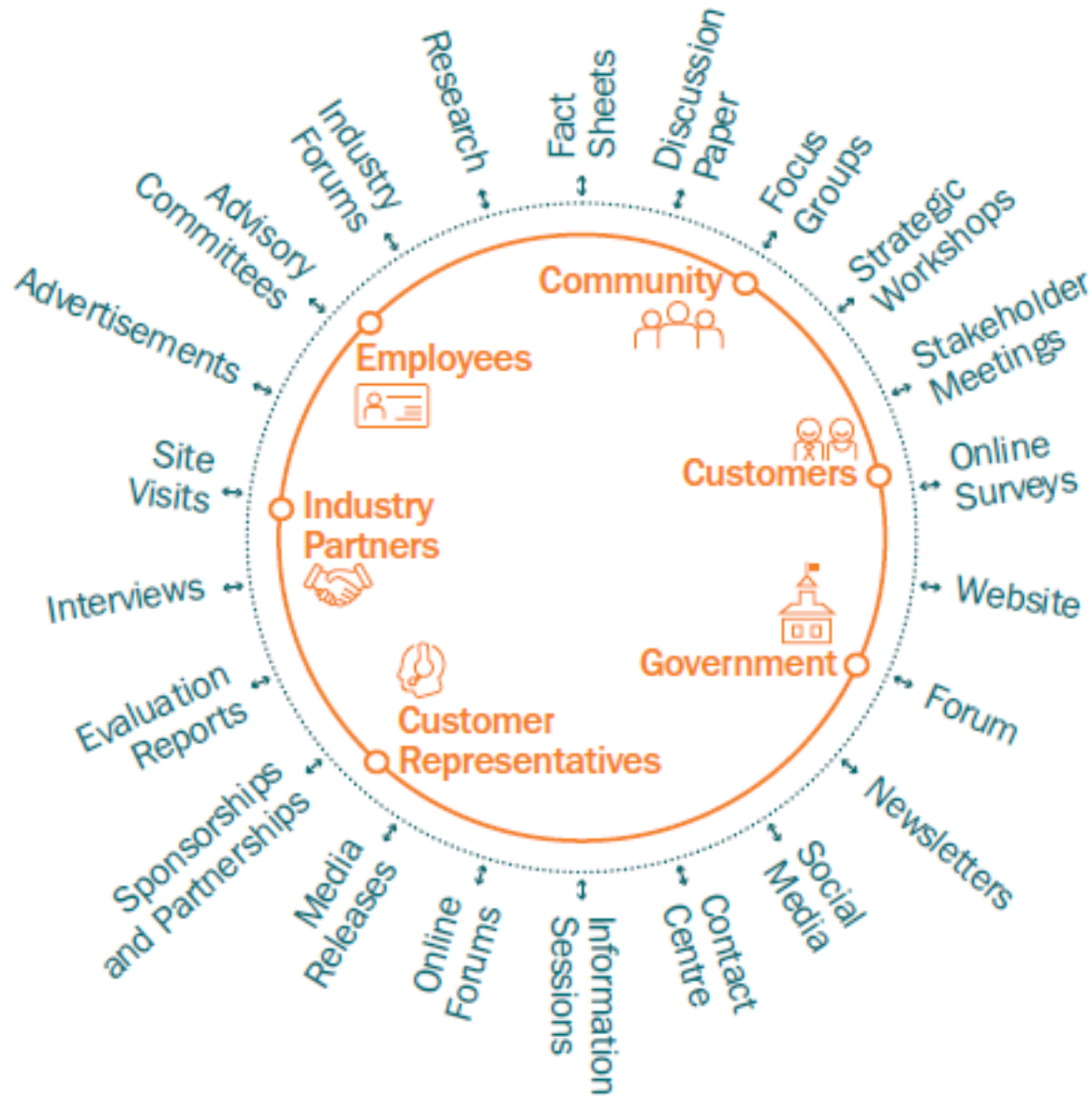
Be inclusive,
supportive and honest

One of Australia's Largest Distribution Networks



 <p>1,381,758 Power poles – which equates to 1.6 power poles for every customer</p>	 <p>1,442 powerlines with 10 that are longer than 1,000km the longest spanning 1,905km</p>	 <p>95% of NSW and parts of southern Queensland</p>
 <p>377 Zone substations and 140,000 distribution substations</p>	 <p>36 years average age of network assets</p>	 <p>737,000 square kilometres of network</p>
 <p>183,612 km of overhead powerlines – equivalent to driving around Australia 13 times</p>	 <p>4.6 customers to fund every 1km of overhead powerlines</p>	 <p>>840,000 customers</p>

Our customer engagement journey



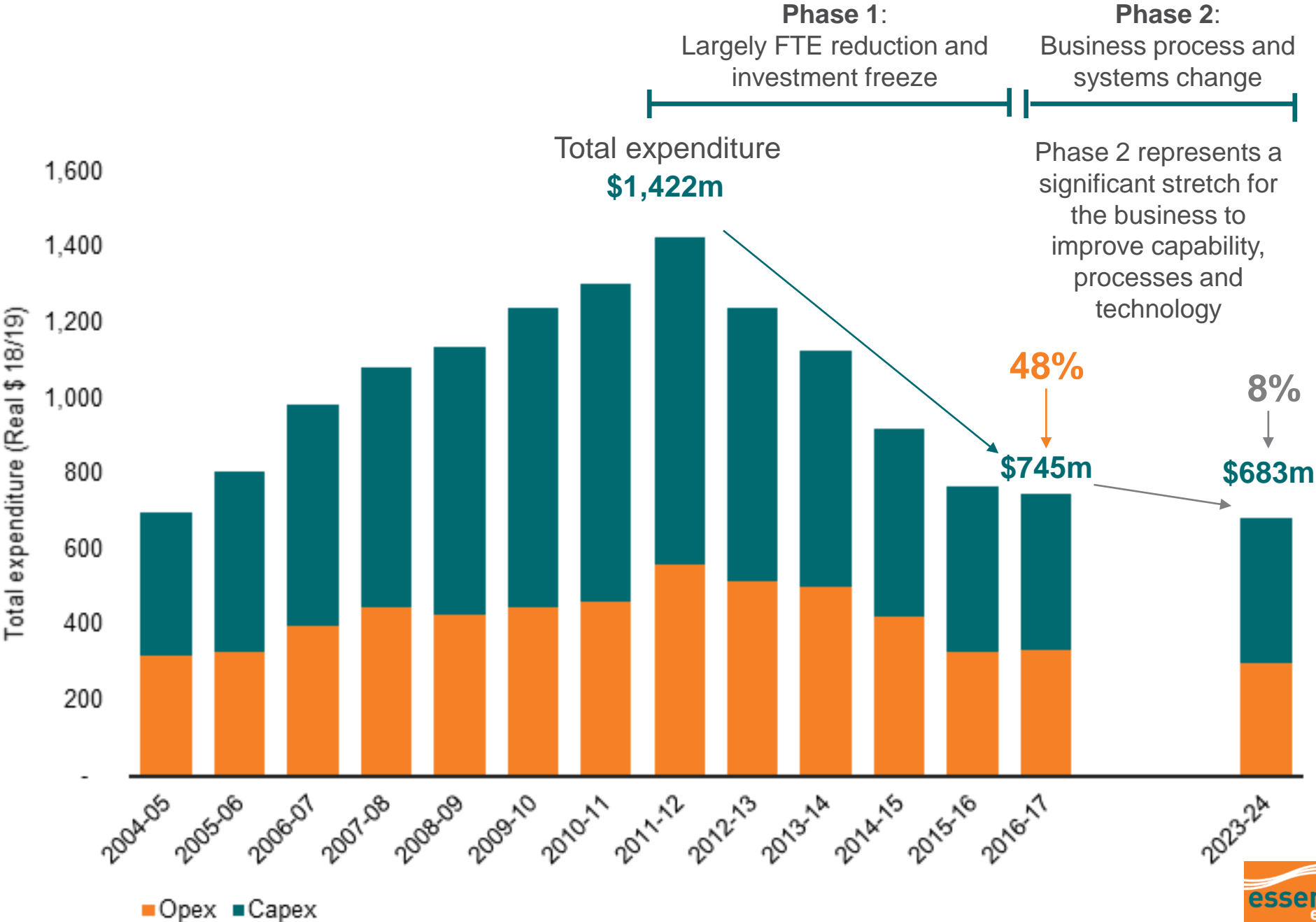
Safety is essential for doing business

- 
Affordability
- 
Reliability
- 
Good customer service and communication
- 
Encourage renewables
- 
Bill itemisation
- 
Innovative technologies

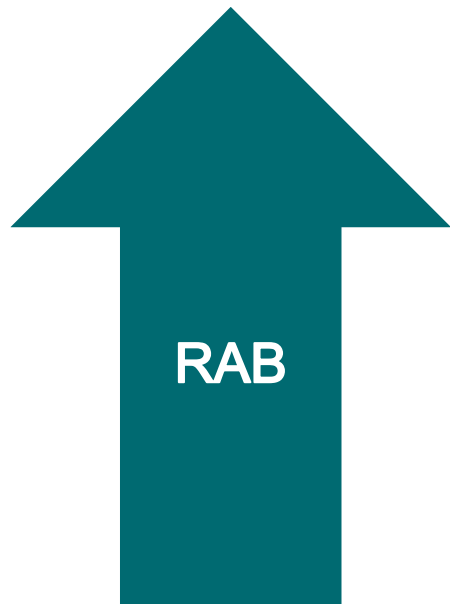
Our Proposal – shaped by customers and AER engagement

- **Deliver a safe and reliable electricity network for customers**
 - Maintain current reliability and service standards
 - Deliver an average 25% improvement in poor performance areas improving supply for 15,000 to 20,000 customers
 - Continue and enhance public safety, bushfire and biosecurity management programs
- **Investing for the future**
 - Trialling new technologies to serve future needs of customers in a rapidly changing energy ecosystem
 - Lower network charges, predicated on significant data, business process and change management program of work, supported by new enabling systems
- **Reduce cost base - deliver long-term price stability**
 - 6% real operating expenditure reduction* (lowest in 20 years)
 - 19% real capital expenditure reduction* (lowest in 19 years)
- **Average annual network charge increases limited to 1.43 per cent above CPI (impact of ongoing RAB growth minimised)**
 - Longer term objective remains to achieve real reductions in distribution charges through the 2024-29 period
 - Capital expenditure is greater than current depreciation

Transforming to improve efficiency



The focus is on reducing network charges



Further analysis underway to better understand and quantify drivers



2014-19 and 2019-24 proposals adopt the AER's rate of return guideline placing downward pressure on network charges

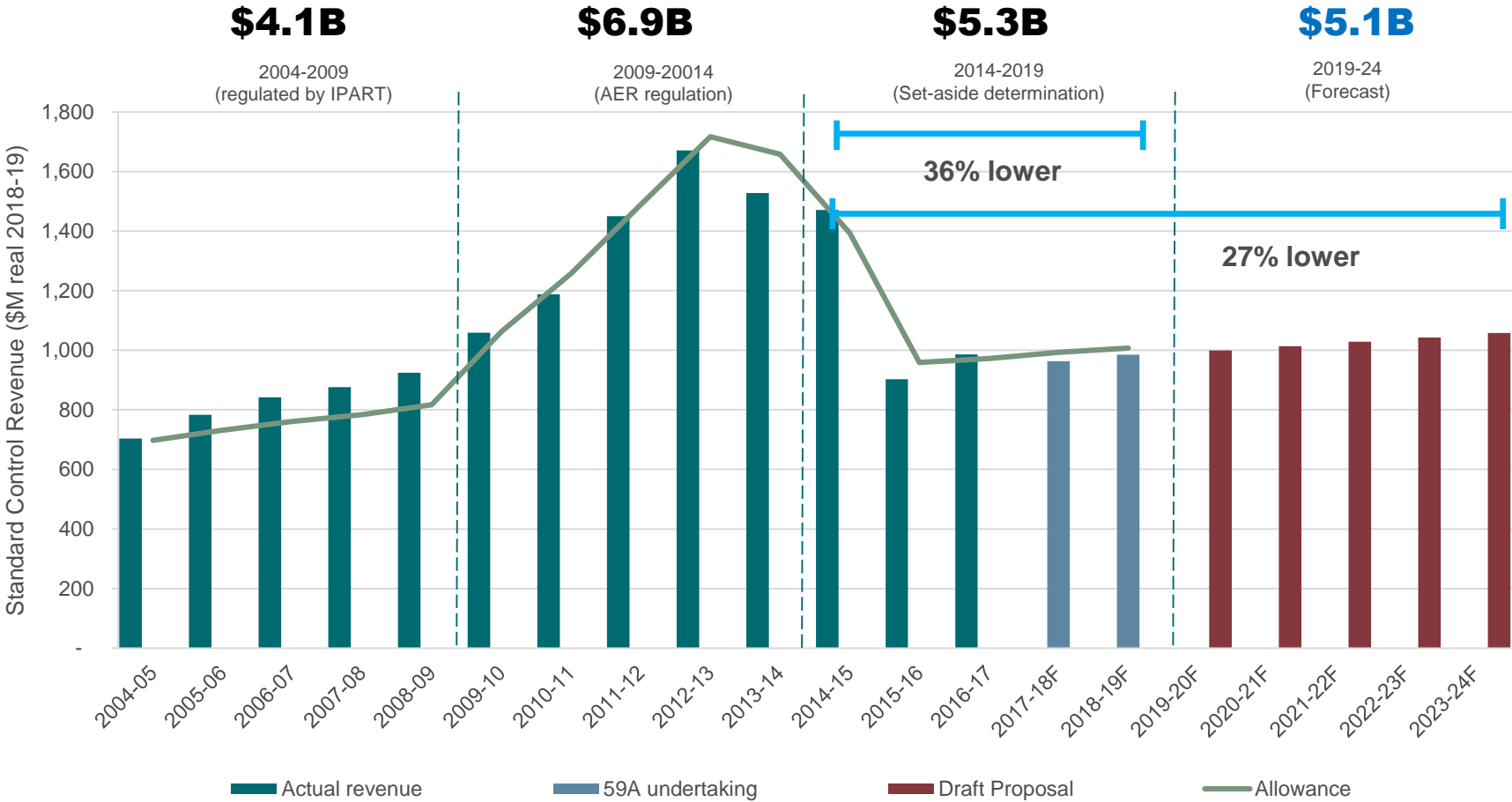


Reduce cost base sustainably by investing in core systems and innovative and enabling technologies

Linking risk-based asset management strategies to asset management decisions to deliver benefits to customers



Cost reductions minimising revenue increases

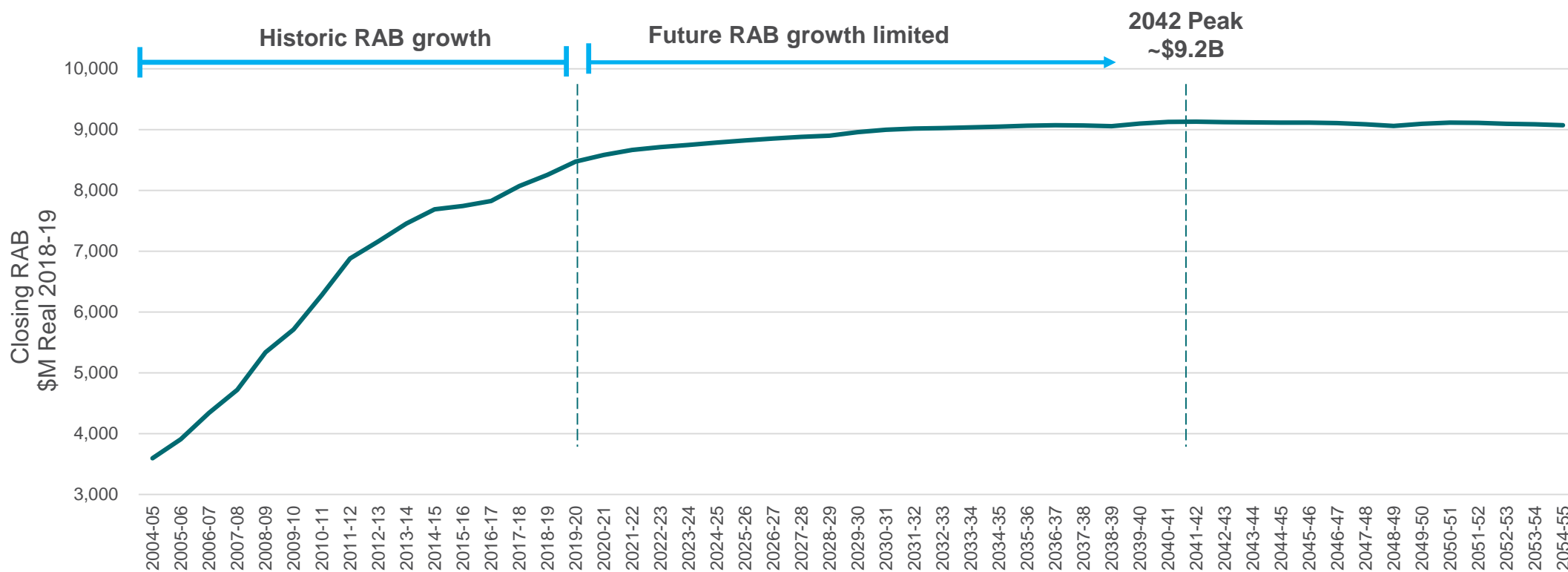


RAB growth driving revenue increases up to 2023-2024

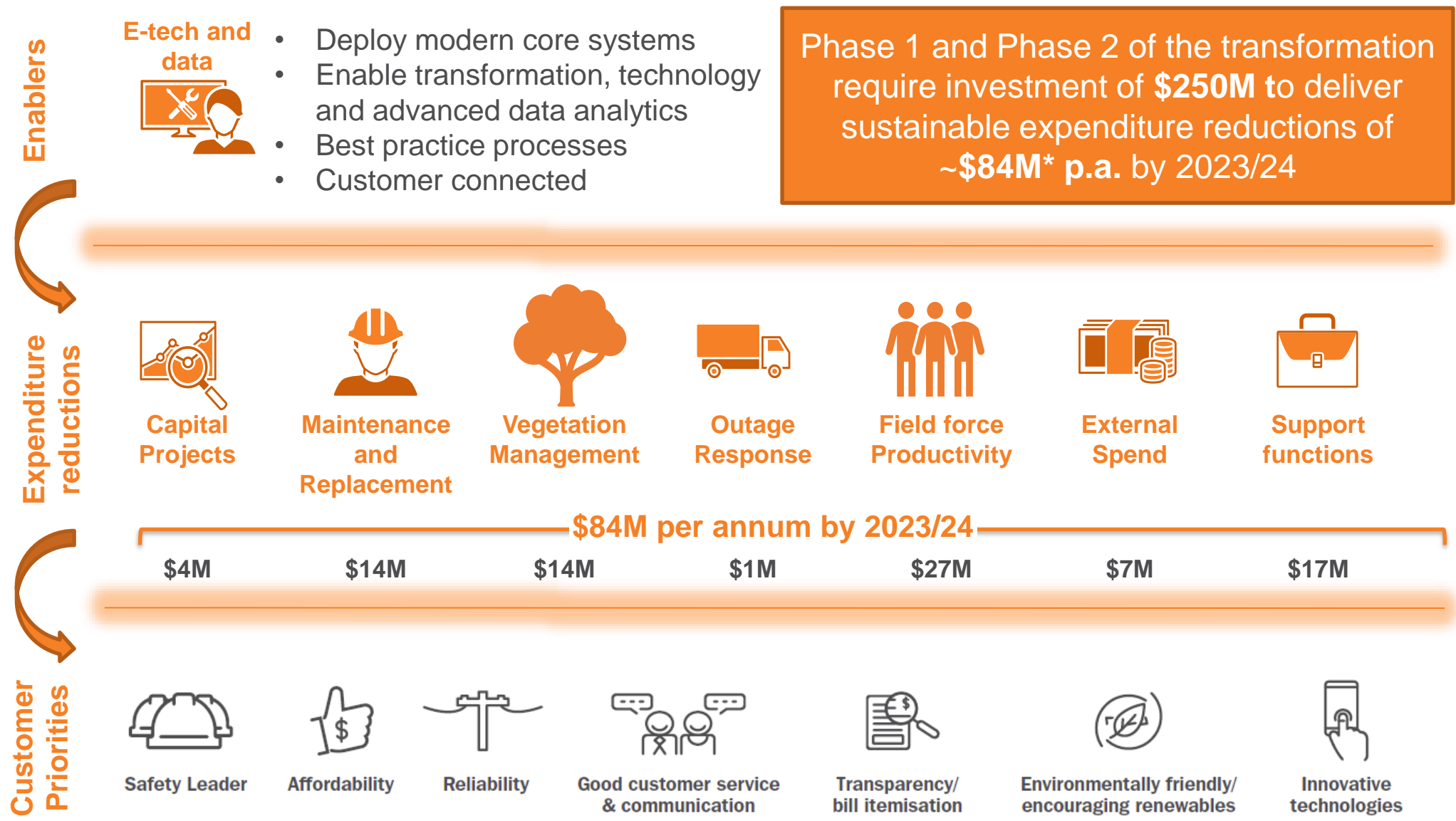
*All values presented in real \$2018-19

Cost reductions minimising impact of RAB growth

- Cost reductions including a 6% reduction in opex and a 21% reduction in capex (compared to 2014-19 allowances) will minimise the impact of RAB growth and limit network charge increases to 1.43% above CPI over 2019-24
- Necessary ongoing capital expenditure is higher than depreciation, resulting in ongoing growth in the Regulated Asset Base (RAB)
- Proposed investment over the next five years to deliver efficiencies and stabilise RAB growth



Creating long term value for our customers



Phase 1 and Phase 2 of the transformation require investment of **\$250M** to deliver sustainable expenditure reductions of **~\$84M* p.a. by 2023/24**

Our energy and demand forecasts



2,300 MW

maximum demand by 2024

Very slow and steady growth in maximum demand

17 January 2017
2,326 MW
(Extreme weather)



12,300 GWh

annual energy consumption by 2024

No material change in forecasted energy consumption

2016-17
12,389 GWh



900,000

Customers by 2024

Customer connections forecast to grow by 0.8% per annum

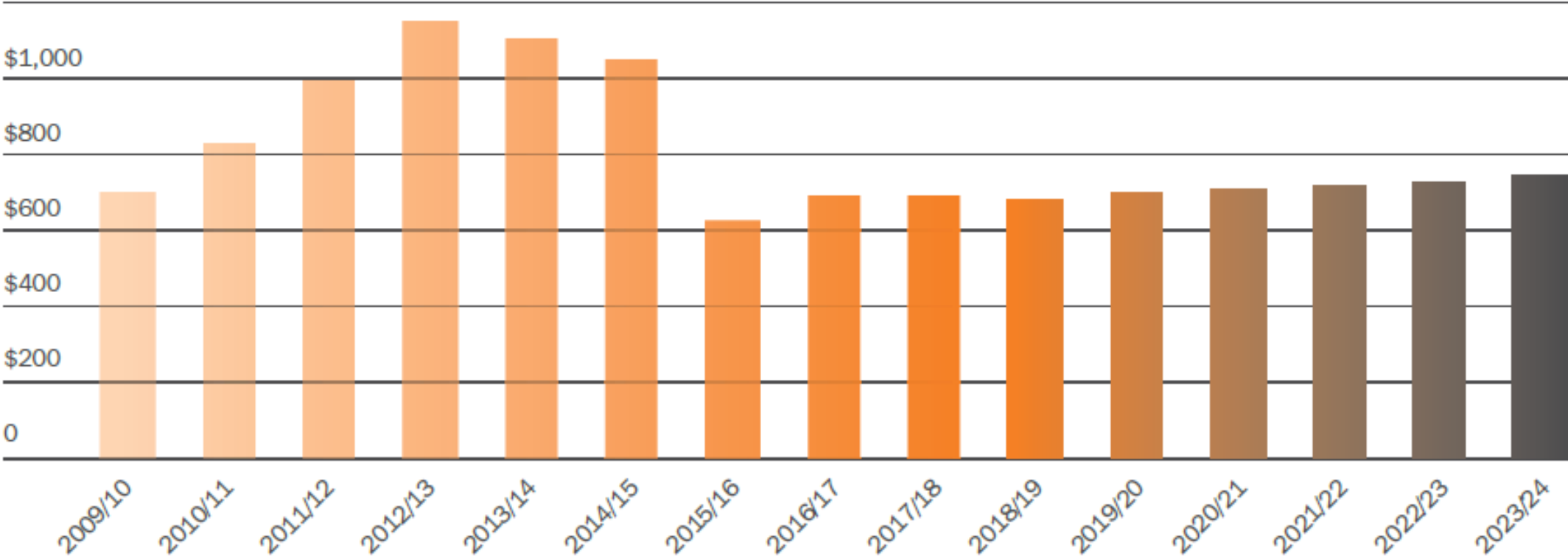
2016-17
842,381 customers

Creating pricing stability

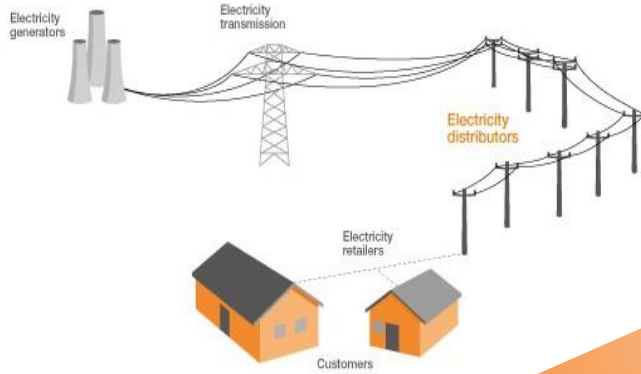
Distribution network charges in 2023-24 are proposed to be 25% lower compared to 2011-12

TYPICAL RESIDENTIAL CUSTOMER USING 5MWH PER ANNUM ²

\$1,200 Annual distribution network bill – real 2018-19\$

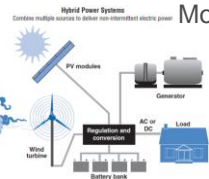


Transforming the core business to support evolution of network



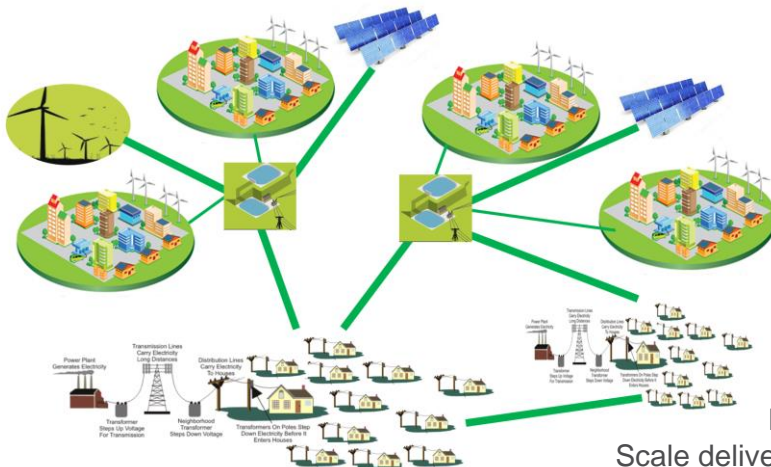
Edge of Grid Stand-alone systems

More reliable and lower cost over time



Mid Grid Microgrids

Improved reliability and network resilience



Heartland Grid

Scale delivery through poles and wires

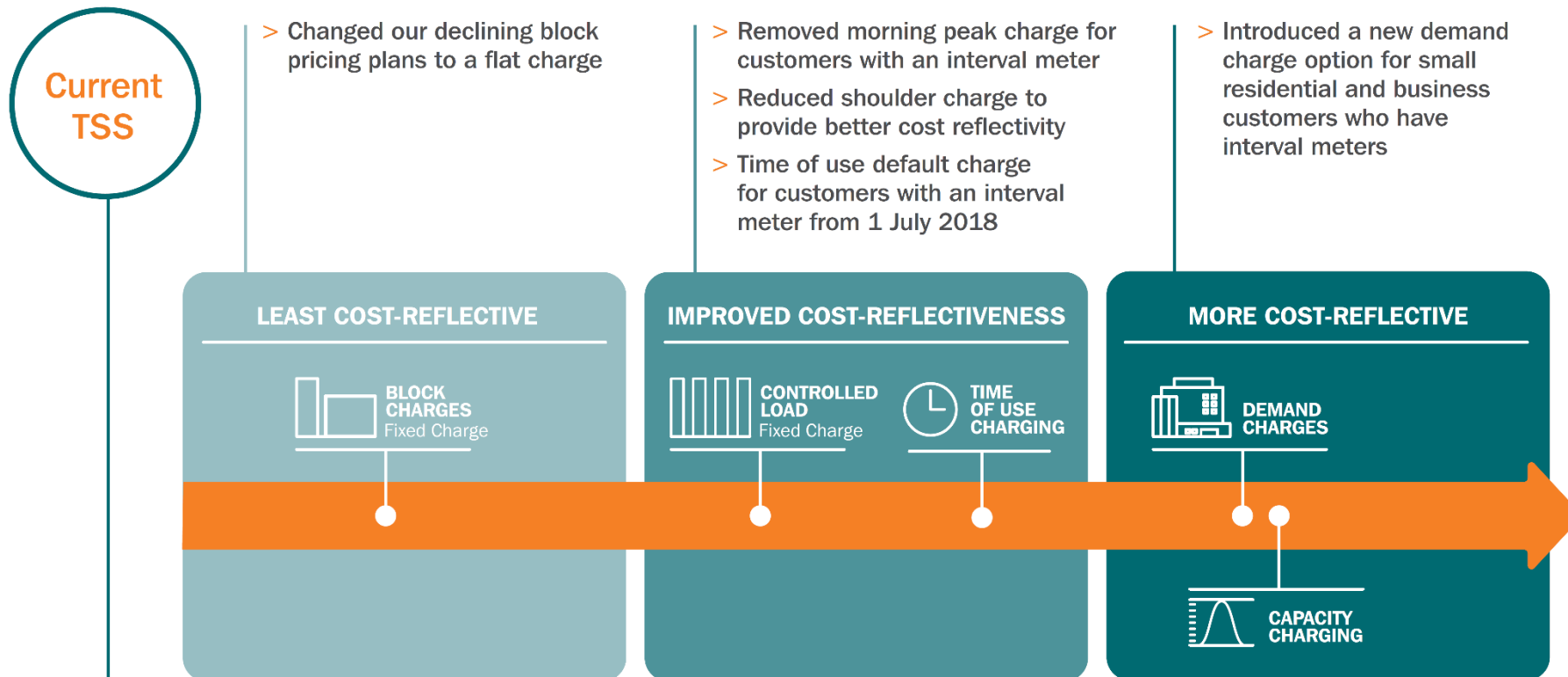
Lower costs and greater value from DER orchestration

Investigations & trials currently underway:

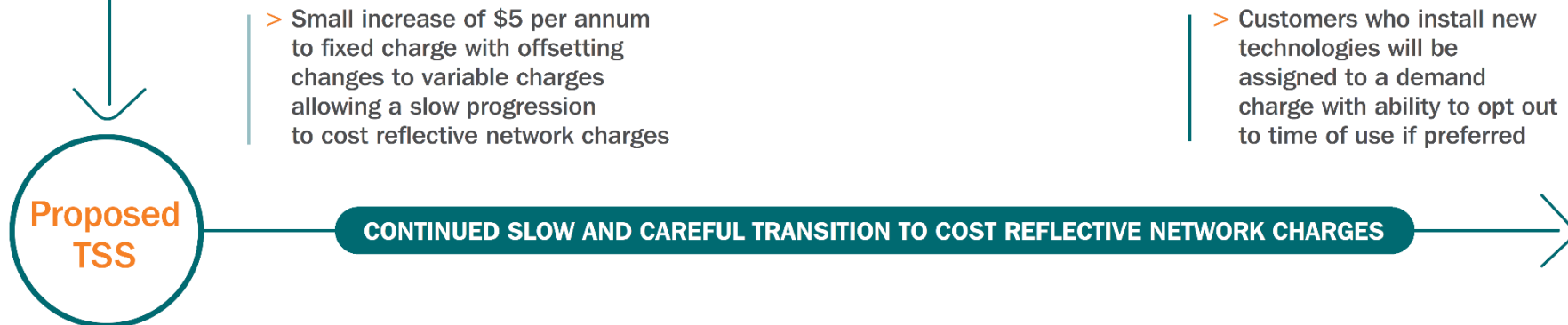
- Partnering with Reposit in Northern NSW to use solar and batteries to manage voltage fluctuations
- Working with NRMA on EV charging
- Trialling a stand alone power system near Bulahdelah
- Grid scale storage trials at Byron Bay
- Microgrid trials Lockhart (mid 2018) and Byron Bay (Q3 2018)
- OEH vulnerable customer program

Tariff reform is vital

Improvements implemented as part of our current TSS



Further improvements proposed for our new TSS



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