

Contact Officer: Evan Lutton
Phone: (03) 9290 1833

7 March 2019

Chantelle Bramley
General Manager Strategy, Regulation and Transformation
Essential Energy
Po Box 5730
PORT MACQUARIE NSW 2444

Dear Ms Bramley,

Re: The AER's operating expenditure productivity growth forecast for the 2019–24 distribution determination

We will soon publish the final decision paper for our operating expenditure (opex) productivity growth forecast review. Based on the available evidence, we are satisfied that a 0.5 per cent annual opex productivity growth forecast reflects a reasonable expectation of the opex productivity growth that an efficient and prudent distributor can achieve. Our reasons for this decision are set out in full in our final decision paper, an embargoed copy of which is attached.

In our draft decision for Essential Energy we were satisfied that its opex proposal was reasonable when compared against our alternative estimate. The alternative opex estimate we used in our draft decision used a productivity growth forecast of zero. We stated in our draft decision that we would adopt the productivity growth forecast decided in this review in our final determination. Consistent with this, we intend to include the 0.5 per cent annual opex productivity growth forecast in the alternative estimate we use to assess Essential Energy's revised opex proposal for the 2019–24 period. We have updated our alternative estimate to include an annual productivity growth forecast of 0.5 per cent and advise that this change would not lead us to change our decision to accept Essential Energy's opex proposal.

We have taken all the submissions we received into account in determining our annual opex productivity growth forecast of 0.5 per cent. If Essential Energy considers the final decision on productivity growth raises additional issues, and would like to make a submission, please do so by 5:00pm, Friday 22 March 2019. We request that any submission you make be limited to the application of the productivity growth forecast to Essential Energy's revised proposal.

Please contact Evan Lutton on (03) 9290 1833 if you have questions.

Yours sincerely

Sebastian Roberts
General Manager, Transmission and Gas
Australian Energy Regulator

Sent by email on 7 March 2019.