

11 February 2015

18 Pioneer St
PARKES NSW 2870

The CEO
Australian Energy Regulator
CANBERRA ACT

BY Email

Dear Sir,

Re: Submission to the Draft Determination – Essential Energy – 2015-2019

I have been a member of Essential Energy's Rural Advisory Group and its predecessors Country Energy and Advance Energy for almost eighteen years.

Our role over this time has been to provide advice to the corporation from a rural and regional customer perspective and we have done so successfully if longevity is any guide. Our role has been totally different to that of the Statutory Customer Councils and as far as I know, unique in the network business. All of the members of the group are voluntary and passionate about growing regional NSW.

We have had several discussions regarding the draft determination with senior and top management of Essential Energy from a customer's point of view and have found little comfort in the way that the AER is trying to drive down energy prices.

This AER's determination for Essential Energy based on so called bench-marking is just ridiculous. In comparing Essential Energy to a minor networks in Melbourne the board has made the fundamental mistake of not looking at reality. How can a network which is believed to be the second largest in the world be possibly compared to PowerCor or Ausnet.

I certainly believe that there is room for some reduction in costs to consumers, but the AER's proposal (backdated to July 2014??) is onerous, unfair and dangerous. Essential Energy's proposals bring costs down too but at a sustainable and planned rate.

The AER's complete disregard for the loss of reliability and safety on this network is just unbelievable. How can the Regulator accept responsibility for the potential loss of life and property? The R2a report which hopefully the AER Board will read at least twice is very troublesome. If a bushfire of the magnitude suggested by R2a occurs with catastrophic loss of life and property how will the regulator look in the light of recent massive payouts in Victoria. After all if the final Determination does force a drastic reduction in vegetation management and network maintenance surely it can be held as being culpable.

So where is the detailed risk assessment from the AER? There obviously isn't one because all of this should have been considered before releasing the draft

determination. Both the Commissioners of the NSW Rural Fire Service and Fire and Rescue NSW have publicly condemned the DT for its lack of integrity.

There are no bushfires in ivory towers, but they are a major concern to us people in the bush.

In any event the reduction in income for the networks would only transpire into about 10% for consumers in the first year and be back up to that level three years later through inflation. And why are the networks the only ones targeted. Does the regulator have no responsibility to see that the retailers give back their share? They are mostly doing nicely paying from nothing up to 6 cents for solar put back to the grid.

The AER seems to readily admit that they accept that there will be a reduction in reliability. It also states that the networks will have to recompense customers for unplanned outages. Huh? Surveys have shown that customers will not sacrifice safety and reliability for a drop in power prices.

The Essential Energy Rural Advisory Group are CUSTOMERS. We are not on the side of Essential Energy any more than the Regulator. As a member of that group I am incensed that a Regulator can be so blind to reality to think that energy prices can be reduced by the magnitude proposed and there not be consequences.

SUMMARY:

1. In comparing Essential Energy to small networks in Melbourne as a means to justify its decision the AER has erred. There is simply no way that the costs of operating a network as small as these can be compared to one of the largest networks in the world.
2. With a network as large as Essential Energy drawing a comparison of cost per customer instead of looking at the sheer number of assets that require upgrading and maintenance is folly. There are only 4.42 customers per kilometre of power line.
3. Backdating the draft determination to July 1 2014 is unfair and unreasonable. There was no warning or previous notice of this.
4. Essential Energy's original and revised proposals both budgeted for reductions in OPEX and CAPEX. These appear to be entirely reasonable on top of savings already achieved in the 2009-14 period. The CAPEX budget is 43% lower than that approved by the AER in 2009-14 period.
5. The OPEX reduction is 1% lower than that approved 5 years ago. But because of new technology identifying faults in the network that were previously not seen it is essential that this Aerial Patrol & Analysis

programme is continued to ensure that the network is maintained in the safest condition possible.

6. AER has shown no concern or regard for employee and public safety, bushfire and vegetation management or life support customers.
7. The AER has shown no concern or regard for the potential loss of over 1500 employees of Essential Energy and the impact of this on families and small rural communities. Small compensation for a small reduction in their electricity bills.
8. The AER must seriously consider the due diligence report from R2a which examines the enormous increase in risk of network failure and safety. How can a body such as the AER accept that their determinations could cost lives and property?
9. Networks NSW and the NSW Government have a five year objective to reduce energy prices. However the AER seems to be determined to make this reduction happen in the first year with complete disregard to reliability and safety.

Yours sincerely,

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

David Hughes