

Paul Toole MP

MEMBER FOR BATHURST ELECTORATE

AUST. COMPETITION &
CONSUMER COMMISSION
MELBOURNE

22 JAN 2015

14th January 2015

FILE No:

DOC:

MARS/PRISM:

Ms. Michelle Groves
CEO
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Ms Groves,

I write to express to you my concerns in relation to recommendations currently under consideration for the Draft Determinations to be implemented in July of 2015.

I would like to raise the following points for your deliberation.

My Electorate, like many others are in a regional area and the impact of the determinations made by the Australian Energy Regulator (AER) could result in economic changes across rural and remote areas.

The five year timeframe of the regulatory period could ultimately have undesirable outcomes far beyond those considered at this time. Further, the backdating of the implementation of the recommendations to July 2014 are unrealistic and would result in consequences that will ultimately have to be met by consumers. It also appears that any transitional period has not been contemplated in the recommendations.

I am more than aware of the challenges faced by Consumers in regards to Electricity prices but there are far reaching influences that will result if further examinations of the draft recommendations are not taken into account.

The following issues are significant –

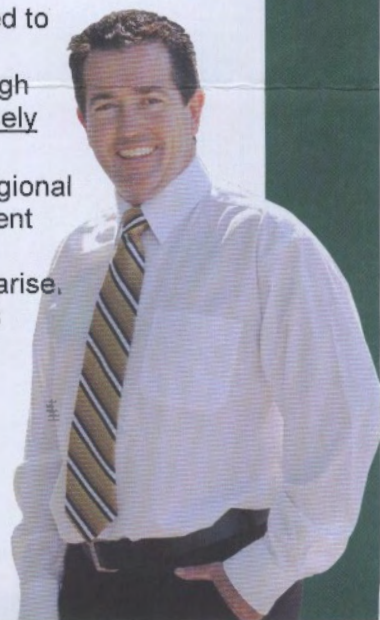
- Whilst a reduction in Electricity pricing is socially attractive the reality is that the existing network must be maintained. Prices may go down but the infrastructure will possibly deteriorate beyond the current situation.
- The Essential Energy Network has an ageing infrastructure and there is an ongoing need to build, sustain and continue to develop the network to an acceptable standard and meet the needs and demands of regional consumers. The ongoing replacement operations need to be undertaken and continued at an acceptable rate to ensure both a sustainable and reliable network.
- This is a network comprising of some 730 square km of lines compared to that of metropolitan counterparts who have an infrastructure of (e.g.) 11 square km. There can be no comparison nor decisions made through benchmark modelling between two such entities that have such diversely different compositions.
- Additionally, Essential Energy is a major employer across rural and regional areas especially for and many smaller isolated communities. The current Staff are also on the ground and have the capacity to respond to any emerging and urgent needs including ongoing maintenance that may arise. The potential loss of these jobs and that of the draft recommendations

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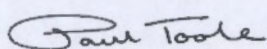


(if they were implemented) would result in job losses. This could possibly result in an untenable level of employees, closures of Depots and reduced capacity to maintain an already ageing network. Regional and rural consumers deserve an acceptable level of reliability as do their metropolitan counterparts.

- What consideration has been given to population comparisons, as revenue generated in the Metropolitan areas may well sustain that infrastructure. However, in regional locations there are fewer consumers contributing across a much greater geographical area. There cannot be a model of 'one size fits all'. Further it should also be understood that the predominant cost driver is the number of assets that need to be maintained
- Other areas not looked at include vegetation management which could not be sustained and would have frightening consequences in relation to bushfires. Further consideration needs to be given to the actual length of the line and the level of vegetation encroachment on these lines as well as the risk mitigation that is required.
- I am aware that the submission prepared by Essential Energy to AER took into consideration suggested recommendations based on a 10-15% reduction. This responded to guidelines and would inevitably have an influence on operations that are currently delivered under an already depleted and existing workforce. The Draft recommendations have revealed a reduction of close to 60% compared to the previous regulatory period.
- Projected job losses of 1503 positions are unrealistic .How can the viability of the network continue to be supported within these parameters on what is the largest Electricity Distribution Network in Australia? What would be the resulting impact on Consumers? The Essential Energy network covers 95% of the State, has some 200,00km of power lines and 1.4 million poles. This by comparison to Endeavour is 570% more line length and 340% more poles. It appears that no cost comparisons have been undertaken.
- The ongoing safety and reliability of the Network is a priority not only an emphasis on affordability. Any changes need to be inclusive of all considerations.
- Further focus also needs to be given to the five year capital program which will reduce from \$4.2 billion (nominal) for the 2009-14 regulatory control period to a proposed \$2.8 billion (nominal) for the 2014-19 regulatory control period. This reflects a reduction of 33 per cent, which is 41 per cent below the forecast rate of inflation over the five year period.
- The five year operating program will increase from \$2.3 billion (nominal) for the 2009-14 regulatory control period to a proposed \$2.8 billion (nominal) for the 2014-19 regulatory control periods. This is an increase of 25 per cent which is 11 per cent above the forecast rate of inflation over the five year period

I understand the necessity of compliance and the need to conduct an efficient and financially viable operation however I do not believe that the abovementioned issues have been considered in full. I believe other and more suitable options need to be explored other than those of the draft AER determinations.

Yours faithfully



Paul Toole MP
Member for Bathurst Electorate
Minister for Local Government