Planning for the future

2024–29 Revised Regulatory Proposal
Overview

November 2023

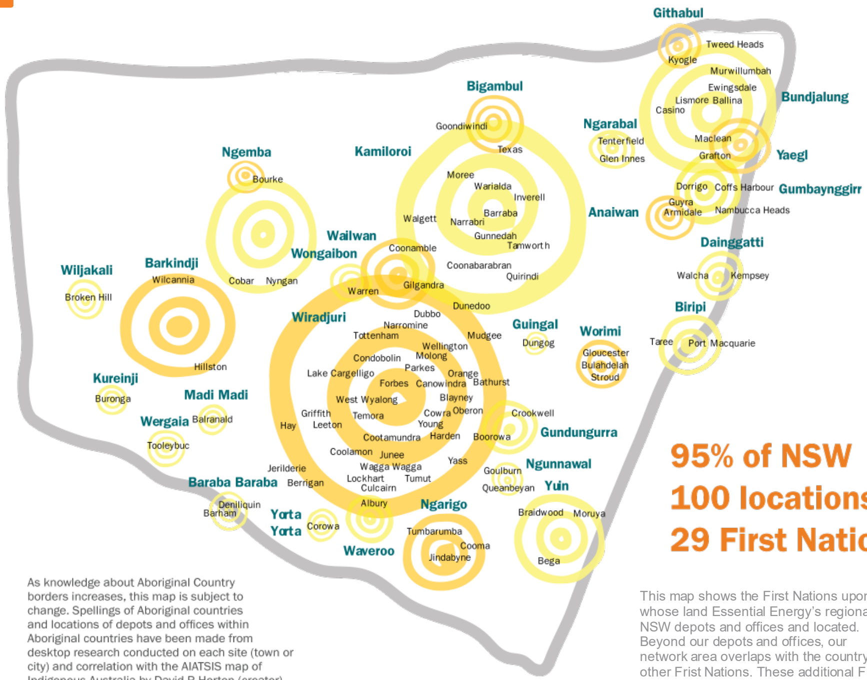
Acknowledgement of Country

Our depots and offices across regional New South Wales are located on the Country of 29 First Nations – from Wiljakali Country on the plains of Far Western New South Wales (NSW), to Ngarigo Country in the high Snowy Mountains and Bundjalung Country on the sub-tropical North Coast, and more First Nations across the diverse landscape that is regional, rural and remote NSW and parts of southern Queensland.

We acknowledge the Traditional Custodians of the lands on which our company is located and where we conduct our business, and we acknowledge all Aboriginal and Torres Strait Islander peoples across Australia. We pay our respects to ancestors and Elders, past, present and emerging.

We are committed to honouring Aboriginal and Torres Strait Islander peoples' unique cultural and spiritual relationships to the land, waters and seas and their rich contribution to society.

Our network area



95% of NSW
100 locations
29 First Nations

As knowledge about Aboriginal Country borders increases, this map is subject to change. Spellings of Aboriginal countries and locations of depots and offices within Aboriginal countries have been made from desktop research conducted on each site (town or city) and correlation with the AIATSIS map of Indigenous Australia by David R Horton (creator), © Aboriginal Studies Press, AIATSIS, and Auslig/Sinclair, Knight, Merz, 1996. This is an estimate only based on desktop research and the AIATSIS map.

This map shows the First Nations upon whose land Essential Energy's regional NSW depots and offices and located. Beyond our depots and offices, our network area overlaps with the country of other Frist Nations. These additional First Nations will be added to the map in our second Reconciliation Action Plan which is currently being developed.

Overview

This document provides an overview of our Revised Regulatory Proposal (Revised Proposal) and Revised Tariff Structure Statement (TSS) for the period 1 July 2024 to 30 June 2029.

Essential Energy engaged extensively with customers and stakeholders to develop its initial Regulatory Proposal (Proposal) for 2024–29, which was submitted to the Australian Energy Regulator (AER) in January 2023. We continued to consult with our customers and stakeholders throughout 2023 to inform our Revised Proposal and Revised TSS in response to the AER's Draft Decision, published on 28 September 2023.

Our Revised Proposal and Revised TSS should be read in conjunction with our January 2023 Proposal and the AER's Draft Decision.

The AER largely accepted our Proposal, but made some changes and some recommendations for the Revised Proposal.

Our Revised Proposal will enable us to provide the safe, reliable and affordable network that our customers expect. It will also support a network that is resilient and flexible enough to accommodate new and emerging technologies. This includes pricing structures that keep pace with the changing energy market – particularly the increasing volume of consumer energy resources (CER) connected to and exporting into the network.

The table below sets out key elements of our Revised Proposal, compared to the Proposal submitted in January 2023 and the AER's Draft Decision.

Standard Control	Expenditure ($M, 2023–24)		Revenue ($M, nominal)			Average annual price increase from 2024–25 before inflation
	Capital expenditure (capex)	Operating expenditure (opex)	Rate of return	Opening regulatory asset base	Maximum allowed revenue (smoothed)	
Regulatory Proposal (January 2023)	$2,655	$2,324	5.65%	$10,275	$6,381	2.97%
Draft Decision (September 2023)	$2,655	$2,324	5.83%	$10,265	$6,191	1.65%
Revised Proposal (November 2023)	$2,655	$2,323	5.83%	$10,337	$6,193	1.01%
Revised Proposal including metering	$2,671	$2,478	5.83%	$10,418	$6,482	1.55%

Notes – The values for Essential Energy's January 2023 Proposal reflect equivalent updated values due to changes in inflation and the weighted average cost of capital (WACC). The values for expenditure and allowed revenue relate to the full five-year period. The rate of return is for 2024–25 only. Capital expenditure is net of disposals and capital contributions, and operating expenditure includes debt-raising costs. We have calculated an equivalent average annual price increase for the AER's Draft Decision over the period 2024–25 to 2028–29. The AER's Draft Decision set an average annual increase of 1.0 per cent for 2024–25 and 2025–26, and 2.66 per cent for 2026–27 to 2028–29.

The AER's Draft Decision

The AER largely accepted Essential Energy's proposed operating expenditure (opex) and capital expenditure (capex) for standard control services. The main difference between our January 2023 Proposal and the AER's Draft Decision is in the AER's application of the Efficiency Benefit Sharing Scheme (EBSS)[1] penalty. The AER decided to apply the penalty in full, which impacts the amount of revenue we can recover over the next five years. While we have adopted this decision in our Revised Proposal, we consider that it has been overestimated and suggest an alternative approach that better aligns with the regulatory precedent and the intent of the incentive regime. We believe that in Essential Energy's situation, the mechanistic application sends conflicting economic signals that we should not have been as ambitious with our cost-saving plans in 2019–24, and that responding to unforeseen incidents was a 'loss of efficiency'. The penalty compounds the additional costs of external events, such as multiple natural disasters, that our business has absorbed over that time.

[1] The EBSS is an incentive scheme that promotes ongoing reductions in opex. It is based on the incremental year on year underspend or overspend compared to the approved allowance. The value for each year is carried forward for five years. It is then shared with customers in the form of a calculated reward or penalty being added into revenue adjustments for the next regulatory period.

Our Revised Proposal

Accepting the AER's Draft Decision for standard control services, our Revised Proposal includes adjustments for actual and forecast expenditures through to 2023–24 and moves legacy metering into standard control services (see 'Metering' below).

Our Revised Proposal builds on the AER's Draft Decision by:

> reflecting updated base-year information for 2022–23 and estimates for 2023–24
> addressing those areas of our January 2023 Proposal that were not fully supported by the AER
> providing information on issues that we suggest the AER considers before it makes its final decision in April 2024.

Updated, audited, actual data from 2022–23 and forecasts for 2023–24 have resulted in a slightly lower level of opex and a higher level of capex than we had previously forecast. These updates have increased the forecast opening regulatory asset base. This also means that compared to the Draft Decision, the penalties for the opex incentive scheme have decreased and the penalties for the capex incentive scheme have increased. The changes in the revenue building blocks compared with the updated value of network charges for 2023–24 result in a lower forecast increase in real network charges for 2024–29.

We have provided further detail about our program for stand-alone power systems (SAPS) as requested by the AER and, for completeness, have included additional information on particular expenditure programs that the AER's technical consultants queried. Revised bushfire risk modelling means that the risk classification for some areas of our network will be upgraded to high risk – leading to significant increases in vegetation management requirements. We need to work through the optimal solutions to mitigate the risks, which will involve engaging with affected communities. Many of our customers have been greatly affected by bushfires and will welcome increased vegetation clearance around network assets. Conversely, we appreciate the need for environmental conservation. Rather than proposing a step change in our Revised Proposal for the anticipated increased costs of clearing vegetation (as flagged in our response to the AER's Issues Paper[2]), we have nominated a new type of pass-through event. This is because, at this stage, we cannot estimate with accuracy the costs, as we have not engaged with affected communities to determine the most appropriate solution for addressing the risks identified. A cost pass through is the most reasonable method available to address the timing associated with this program of work. We will be able to recover uncertain costs of a known event, while still allowing the AER to assess those expenditure plans for prudency and efficiency once they are fully developed.

Tariff Structure Statement

The AER's Draft Decision accepted most elements of our TSS. Reflecting the AER's recommendations and information gained from further engagement, our Revised TSS includes modified tariff structures for:

> the Sun Soaker default tariff – we have simplified some aspects of the export price, which will apply to new smart meters from July 2024, although the export charge and rebate components will not commence until July 2025
> batteries located at the high-voltage level – we removed the rebate for these customers exporting into the grid as it was not necessary to signal a change at that level
> individually calculated tariffs – including additional information on how we calculate them.

Following the methodology in the AER's guidance, we have also included a legacy metering component in standard control services.

[2] Essential Energy's submission to the AER's Issues Paper (May 2023) Link

Metering

The Australian Energy Market Commission's (AEMC's) review of metering[3] recommends accelerating the rollout of smart meters. In response, the AER's Draft Decision has accelerated the depreciation of the legacy meter asset base by 2029, with the expectation of a 100 per cent replacement of legacy meters with smart meters by 2030. Our metering costs over the next five years also include extra remediation costs for some sites to enable smart meters to be installed. They also include project costs associated with developing and implementing Legacy Meter Retirement Plans (LMRP) for the smart meter rollout, offset by reduced inspection and testing costs over the period.

Our Revised Proposal further incorporates metering into the standard control service category, to share the resulting increase in legacy meter costs across more customers. We did this after consulting with customers and stakeholders, who supported this as being the fairest solution over this regulatory period, as all customers will ultimately benefit from lower network costs arising from a faster and more comprehensive smart meter rollout. The AEMC report outcomes are also premised on the wider net societal benefits of a faster smart meter rollout. The AER supports this approach.

Public lighting

The AER's Draft Decision made significant top-down cuts to proposed prices for public lighting and recommended that we engage further with stakeholders. Over the past months, Essential Energy has engaged extensively with local councils and their representatives on all elements of our public lighting proposal, but we did not reach a position that was acceptable to all parties. Our Revised Proposal offers further reductions from our January 2023 Proposal. We consider that this position provides price reductions that are more aligned with stakeholder expectations.

Ancillary Network Services

Essential Energy has accepted most points in the AER's Draft Decision relating to ancillary network services (ANS), including changing from a fee-based service for minor capital works to a quoted service, excluding special meter tests. Our Revised Proposal includes minor adjustments for actual FY24 escalators and forecast inflation used for standard control, and updates to some material fee-based services for material overheads (as accepted in the current regulatory period). We also changed some service fees for new types of security lights (and tariff contract changes), replaced access permit fees with connection fees, and proposed a new quoted fee service for data requests.

[3] AEMC, Final Report - Review of the Regulatory Framework for Metering Services, August 2023 Link

Engagement

Phase 5 Engagement, February to November 2023

- 9 SCC meetings
- 5 PCC meetings
- 4 CAG meetings
- Public lighting 2 forums 9 meetings
- 1 Large, peaky load Customer Working Group meeting
- 1 Customer webinar
- 1 Customer survey
- 2 Essential People's Panel sessions
- 22 Retailer meetings
- 1 New Technology Provider forum
- 1 Joint Network Workshop

During 2023, we undertook over 111 hours of formal engagement across multiple topics and channels. A summary of this engagement is outlined here.

Our customer engagement

Since submitting our January 2023 Proposal, we have responded to feedback raised by our customers and stakeholders, refining parts of the Proposal that we identified needed further work, and considering the AER's Issues Paper and Draft Decision. We continued regular engagement with our stakeholder reference groups (the Stakeholder Collaboration Collective (SCC), Pricing Collaboration Collective (PCC) and the Customer Advocacy Group (CAG)) and established our new customer advisory group, the Essential People's Panel. Recognising that economic conditions have changed since our 2022 customer forums, we retested customer support and willingness to pay for improving our resilience and for future network investments. In October 2023, we engaged with more than 250 customers via a webinar to update them on changes to the Proposal and the resulting bill impacts. In a survey following the webinar, 96 per cent of respondents voted in support of these investments. Our customers' priorities and their vision for our network underpin this Revised Proposal.

Future challenges

Our Revised Proposal lays out our complex operating environment, including several issues that have the potential to change our forecast costs over the next five years. Some of these costs are 'known unknowns', such as the impact of bushfire risk reclassification (discussed above). Others are 'unknown unknowns', such as natural disasters and external regulatory or legislative changes. The pace of change and the impact of the energy transition on our business mean that existing, stable regulatory frameworks are likely to come under further pressure. To that end, we have included minor adjustments to the classification of services for 2024–29, to accompany the amendments required for moving metering from alternative to standard control.

We urge our regulators (including the AER) to focus on improving the agility of regulatory frameworks so that the system can handle the degree of modification needed and the variety of change agents expected during 2024–29. In particular, we recommend that the AER streamlines the pass through process that enables the recovery of reasonable, prudent and efficient costs that have not been included in regulatory determinations.

Next steps

The table below shows the next steps in our revenue determination process.

Date	Action
30 November 2023	Essential Energy submits its Revised Proposal to the AER
19 January 2024	The submission period for the AER's Draft Decision and our Revised Proposal ends
April 2024	The AER releases its final decision on our Revised Proposal
1 July 2024	The new regulatory period begins

Our customers' views helped shape our Revised Proposal and Revised TSS – and we're always here to listen. We invite you to read this information and the full documents, and provide your feedback to the AER by 19 January 2024 via the AER's website.

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