



Ref: 20220128JL:JC

28 January 2022

Kris Funston
Executive General Manager, Network Regulation
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Email: regulatoryInnovation@aer.gov.au

Dear Kris

Expression of Interest to the Early Signal Pathway

Essential Energy welcomes the opportunity to express interest in participating in the early signal pathway offered under the Better Resets Handbook (the Handbook). Both the Essential Energy Board and the Executive team are fully committed to ensuring the views and expectations of Essential Energy's diverse customer base are accurately and meaningfully reflected in the business's 2024-29 Regulatory Proposal, such that it is capable of acceptance and approval by the AER.

As a business with a proven track record of customer and stakeholder engagement, Essential Energy is a perfect candidate for the early signal pathway. We meet with customer and stakeholder groups as part of 'business-as-usual' and place customers at the heart of every business decision. Our desire to genuinely engage is evidenced through:

- > Our industry leading approach to develop the 2019-24 Regulatory Proposal
- > Our more recent collaboration with:
 - customers and stakeholders to design small customer tariff trials
 - stakeholders to propose an agreeable cost pass through scenario for our critical infrastructure and 2019-20 bushfire costs
- > Our current working group to develop alternative tariffs for large, peaky load customers
- > Our participation as a founding member of the Energy Charter

We intend to 'raise the bar' on engagement for our 2024-29 Regulatory Proposal and are aiming to collaboratively develop a Regulatory Proposal that is supported by customers and stakeholders. Our approach to engagement for this Proposal is captured in *Figure 1: A new approach is required this time* in the appendix to this letter.

The remainder of this letter addresses the matters set out in section 2.2.4.1 of the Handbook.

Draft Regulatory Proposal

Essential Energy will be publishing a draft Regulatory Proposal for consultation in September 2022. The draft Regulatory Proposal will incorporate the findings of our consumer engagement and will demonstrate how the draft Regulatory Proposal meets the expectations set out in the Better Resets Handbook, including supporting models, data and analysis. The draft Regulatory Proposal will contain most of the elements of a Regulatory Proposal, however, we are not proposing to publish tier two and three documents, such as Investment Cases and Business Cases at this time.

Engagement plan

Given our collaborative approach to engagement, our engagement plan will flex as required to meet the needs and expectations of our customers and stakeholders. As such, it is an evolving document. The current (third iteration) of the engagement plan as supported by Woolcott Research and Engagement is included as an attachment to this early signal pathway email. However, in the interests of brevity, the key highlights are referred to in this letter and can be found in the appendix.

Our engagement plan encompasses all three aspects required to satisfy an early signal pathway as set out in the Handbook. The key highlights that Essential Energy believes captures the nature of the engagement, the breadth and depth and the impact it will play are summarised below:

- > Our Regulatory Proposal co-design workshop held with stakeholders in August 2021 identified four core themes that will underpin the 2024-29 Regulatory Proposal. The various topics have each been aligned to these themes. In addition, the associated level of IAP2 engagement that will be undertaken is correlated with the impact of the topic on customer prices as well as the ability of customers and stakeholders to influence the outcome. This relationship is captured in *Figure 2: Themes, topics & proposed IAP2 level of engagement* in the appendix to this letter. Not all topics are relevant to all customers and stakeholders, so the level of IAP2 engagement can vary between groups.
- > Our engagement will build across four phases and we are engaging with a diverse set of customers and stakeholders. The phases of engagement and diversity of customer base are captured in *Figure 3: High-level engagement plan* and *Figure 4: Who we are engaging with* of the appendix respectively.
- > We have a range of groups to guide our thinking, the development of our engagement materials and assist with decision making along the way, as shown in *Figure 5: Inputs and decision making for the Regulatory Proposal* in the appendix. Our Stakeholder Collaboration Collective, with whom we meet fortnightly, is our primary reference point.
- > To help build customers' knowledge we have developed an Essential Engagement website that includes a Virtual Room that is updated at the start of each phase of engagement and provides customers with 24/7 access to read about and consider upcoming topics. Examples of content and links to the Essential Engagement website and Virtual Room are provided in *Figure 6: Knowledge building outside of forums* of the appendix.
- > We have commissioned an independent consumer report on our engagement program and a report will be submitted with both our draft Regulatory proposal and Regulatory Proposal, regardless of the outcome of this expression of interest. The independent consumer report will assist the AER in assessing the quality of our engagement process and the extent to which our proposal reflects consumer preferences. The report will be prepared on behalf of our Stakeholder Collaboration Collective. Whilst Essential Energy will fund the report, the tender selection was undertaken by Stakeholder Collaboration Collective members and Essential Energy will not be involved in the report preparation.

Our expectations on AER participation and feedback

Essential Energy values its relationship with the AER and appreciates the current engagement underway across all levels of the AER on a range of topics. For the Regulatory Proposal process particularly, we would invite the AER to be active participants. That invitation stands regardless of the result of this Expression of Interest. If Essential Energy is selected for the early signal pathway, we would welcome relevant AER staff's continued and expanded involvement in our Stakeholder Collaboration Collective meetings and at our customer forums to 'hear the voices' of our customers.

In terms of our data provision, we would like the AER to indicate any concerns it may have regarding the upper and lower bounds of category expenditures and our total estimated direct and fully loaded opex and capex by 31 May 2022.

We would also like the AER to indicate any concerns it may have regarding our draft Regulatory Proposal category and total expenditures by 30 November 2022. It is worth noting that, given our collaborative approach to engagement and the extensive involvement of AER staff as part of the early signal pathway process, we would not expect the AER to have any material issues to raise at this stage.

Analytical methods and techniques

In developing our building block proposals, Essential Energy commits to not diverging from the analytical methods and techniques in the Handbook, and relevant AER guidelines and guidance material, without first seeking the input of consumers and feedback from AER staff.

Base year

Essential Energy intends to use the 2022-23 financial year as the base year for the Regulatory Proposal. We appreciate this is not consistent with the Handbook's preference for the base year to be an audited figure, as 2022-23 will only be an estimate at the time of the Regulatory Proposal.

2022-23 is our preferred base year because both the 2019-20 and 2020-21 financial years contain impacts from the 2019-20 bushfires as well as significant transformation related expenditure that also impacts the 2021-22 financial year. We would have audited confirmation of the 2022-23 data by 31 October 2023, and this will be included in our Revised Proposal.

Data provision

In terms of data provision, Essential Energy proposes an approach that aligns with our Regulatory Proposal engagement plan and appropriately considers:

- > The significant inter-relationships between the various drivers and types of expenditure for this Regulatory Proposal
- > The operation of Essential Energy's Cost Allocation Methodology (CAM), which is based on direct expenditure across every business unit – this means that even though the total business overheads will be known in April, the final allocation to Standard Control Services cannot be confirmed until Alternative Control Services engagement has concluded
- > Customer and stakeholder preferences from engagement sessions in February/March to inform the upper and lower expenditure limits to be put forward by the end of April
- > More detailed trade-off discussions with customers and stakeholders over May/June to inform the draft Regulatory Proposal and associated Reset RIN to be provided at the end of August.

The business would be able to provide the following standard control service forecasts ahead of the Regulatory Proposal:

By 30 April 2022

<u>Benchmarking inputs & outputs</u>	<u>Opex building block</u>	<u>Capex building block</u>
<ul style="list-style-type: none"> > Upper and lower bounds for: <ul style="list-style-type: none"> • Energy throughput in GWh • Customer numbers • Demand • Circuit length in kilometres • Overhead subtransmission lines MVA and kilometres • Overhead distribution lines MVA and kilometres • Underground subtransmission cables MVA and kilometres • Underground distribution cables MVA and kilometres • Distribution transformer MVA, single stage and two stage zone substation level transformer MVA 	<ul style="list-style-type: none"> > Upper and lower spend forecasts for: <ul style="list-style-type: none"> • Repairs and maintenance opex • Vegetation management opex • Fault and emergency opex • Total direct opex • Estimated corporate overheads • Estimated network overheads • Estimated total opex • Identification of opex step changes • Knowledge of possible pass-through amounts 	<ul style="list-style-type: none"> > Furniture and fittings capex > Upper and lower spend forecasts and a summary of the primary drivers for any major change in spend for: <ul style="list-style-type: none"> • Replacement expenditure • Augmentation expenditure • Connections capex • ICT recurrent and non-recurrent capex • Fleet capex • Property capex • Total direct capex • Estimated corporate overheads • Estimated network overheads • Estimated total capex

By 31 August 2022

- > All AER models and a full Reset RIN (based on the draft Reset RIN due to be released by the AER in June/July 2022), including forecast revenue, repex categories, opex step changes, labour and non-labour expenditure split, RAB and revenue estimates, as well as labour unit costs.

Tariff Structure Statement (TSS)

Essential Energy has undertaken extensive engagement throughout 2020-21 on the design and implementation of a number of new tariffs to trial with customers. These trials will provide a rich dataset for the development of our TSS. We are also working closely with larger customers to understand their needs. Given the importance of the tariff trials to inform decision making, Essential Energy does not propose providing any revenue or tariff related data ahead of 31 August 2022.

We expect to have some proposals to put forward in the TSS, for example changes to mandatory opt-outs, the addition of an export charge and other potential new tariffs being trialled. However, further engagement, informed by the results of our tariff trials, will be required over 2023. Therefore, many aspects of the TSS will be finalised in the Revised TSS.

Should you have any questions in relation to this letter, please don't hesitate to contact either myself on [REDACTED] or [REDACTED] Head of Regulatory Affairs on [REDACTED]

Yours sincerely



John Cleland
Chief Executive Officer

Figure 1: A new approach is required this time







2019-24 Regulatory Engagement Program		2024-29 Regulatory Engagement Program
 Design	The Engagement process was designed by Essential Energy	Customers and stakeholders should have input to the framework and approach
 Educate	Participants had moderate education on key issues and trade-offs	More emphasis on creating informed, educated participants
 Independent	Information to participants was provided by Essential Energy	Recruitment of independent experts to provide information to participants would be ideal
 Collaborate	Participants engaged largely at the IAP2 'involve' level - they affirmed/endorsed programs/proposals	Engage at the IAP2 'collaborate' level – they co-design programs/proposals
 Multi-modal	Major component of the engagement was deliberative forums	Include a wider variety of approaches and methods of engagement
 Stakeholders	Mainly customer engagement	Include more stakeholder engagement e.g. consumer representatives, AER, retailers, Councils as well as EE SMEs/internal decision makers

Figure 2: Themes, topics & proposed IAP2 level of engagement

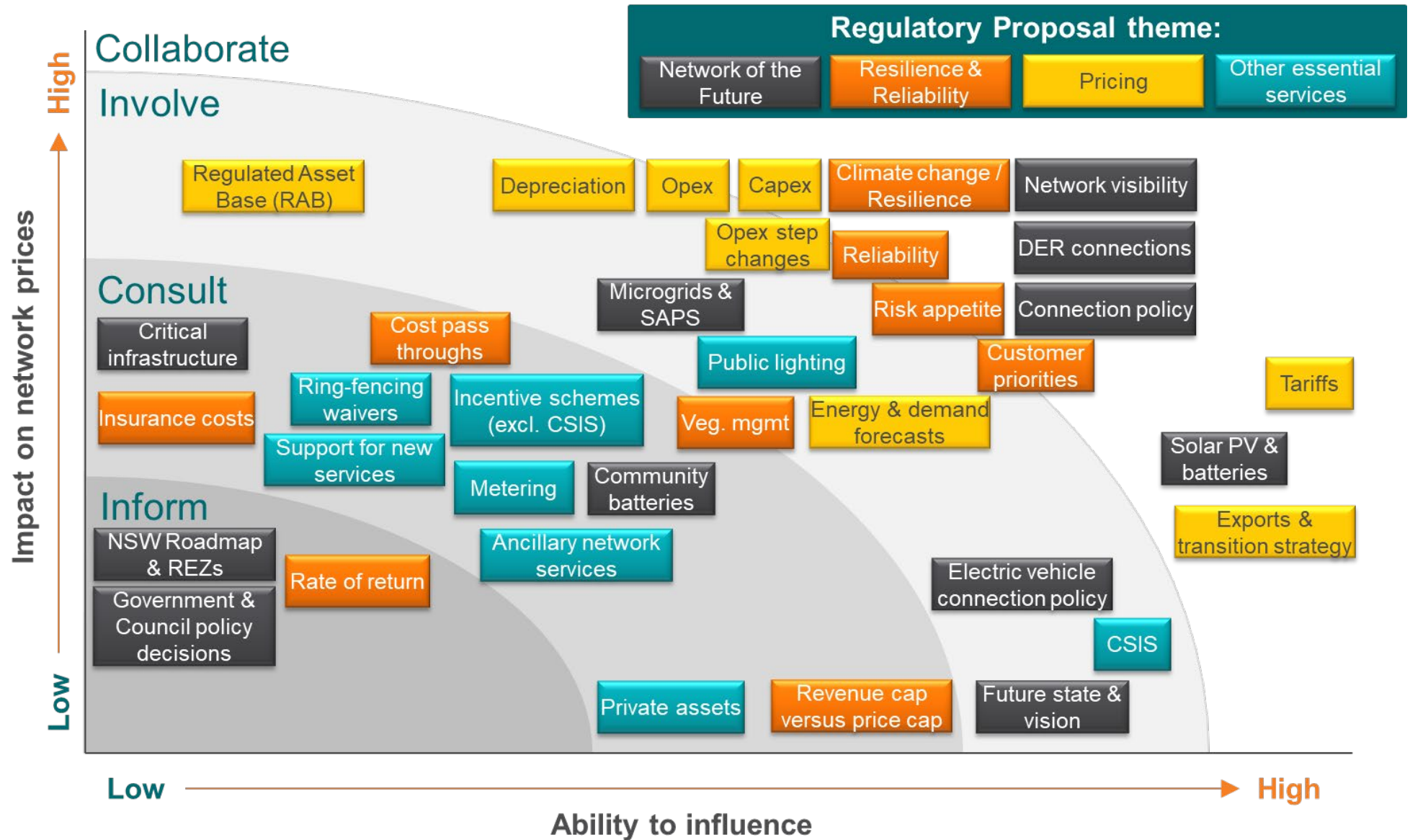


Figure 3: High-level engagement plan

	Planning (Jul – Sep 2021)	Phase 1 Setting the Scene (Oct – Dec 2021)	Phase 2 Understanding our Customers (Jan – Apr 2022)	Phase 3 Collaborative Deep Dives (Apr – Jul 2022)	Draft Regulatory Proposal	Phase 4 Testing the Proposal (Sept – Oct 2022)
Engagement	<ul style="list-style-type: none"> Stakeholder co-design workshop Essential Connectors meeting Development of Stakeholder Collaboration Collective (SCC) 	<ul style="list-style-type: none"> SCC Meetings Consumer Testing of Materials Online Virtual Drop in Visioning Forums Groups and in-depth interviews 	<ul style="list-style-type: none"> SCC Meetings Consumer Testing of Materials Online Virtual Drop in Deliberative Forums Groups and in-depth interviews Mixed Mode Telephone and Online Survey 	<ul style="list-style-type: none"> Essential Energy Subject Matter Expert Workshops SCC Meetings Consumer Testing of Materials Online Virtual Drop in Co-design Forums Groups and in-depth interviews Bill Impact Survey 		<ul style="list-style-type: none"> SCC Meeting Essential Connectors Meeting Closing the Loop' Online Survey
Outcomes	<ul style="list-style-type: none"> A leading edge engagement plan Know who to engage with, what to engage on; and how to engage 	<ul style="list-style-type: none"> Informed participants Customers' future vision and what's important to them Identification of what information they might need in order to make informed decisions 	<ul style="list-style-type: none"> Participants informed at a higher level A clear understanding of customers' views and priorities in relation to the key issues 	<ul style="list-style-type: none"> Development of proposals based on customer and stakeholder collaboration Identification of program preferences 		<ul style="list-style-type: none"> A Regulatory Proposal developed collaboratively and supported by customers and stakeholders Evaluation Report

Figure 4: Who we are engaging with

- > 7 customer forums, targeting 440 customers across the state
- > Youth (1 group)
- > Aboriginal and Torres Strait Islander customers (6 in-depths)
- > Culturally and linguistically diverse (6 in-depths)
- > Commercial & Industrial customers (6 in-depths)
- > Retailers and Aggregators (6 in-depths)
- > Councils (1 group)
- > Business Partners – ASPs, renewable developers, solar installers (2 groups)
- > Advocates (1 group)

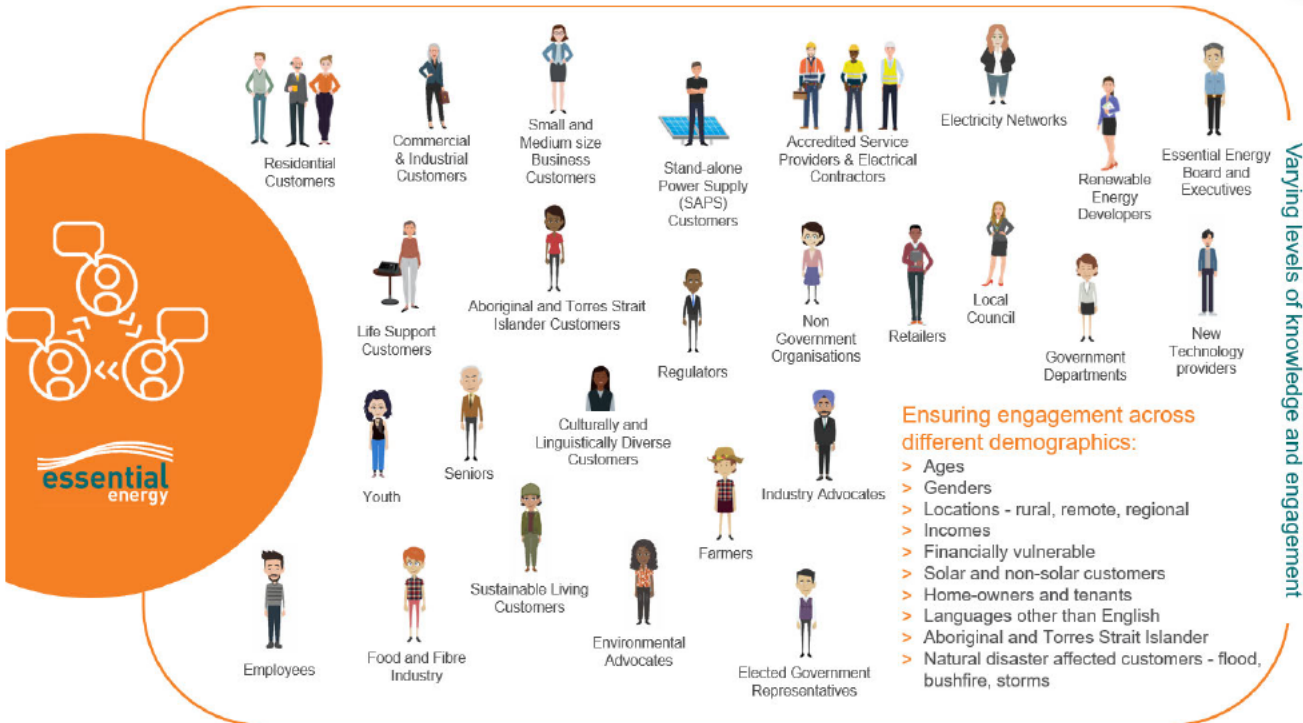
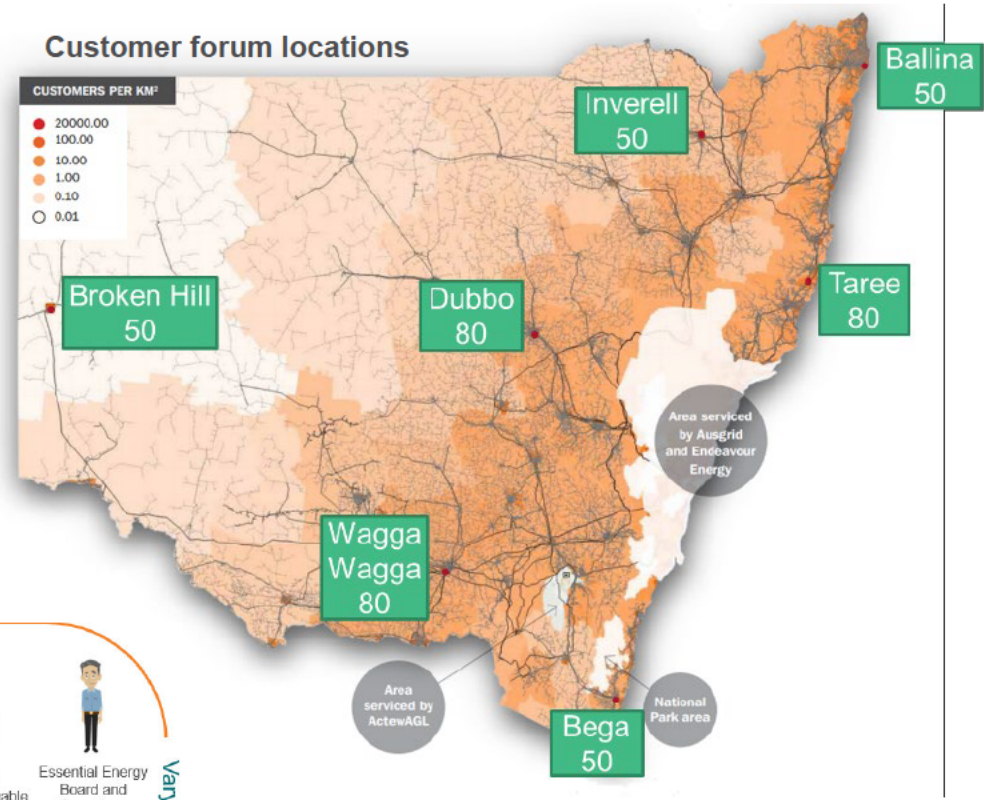


Figure 5: Inputs and decision making for the Regulatory Proposal

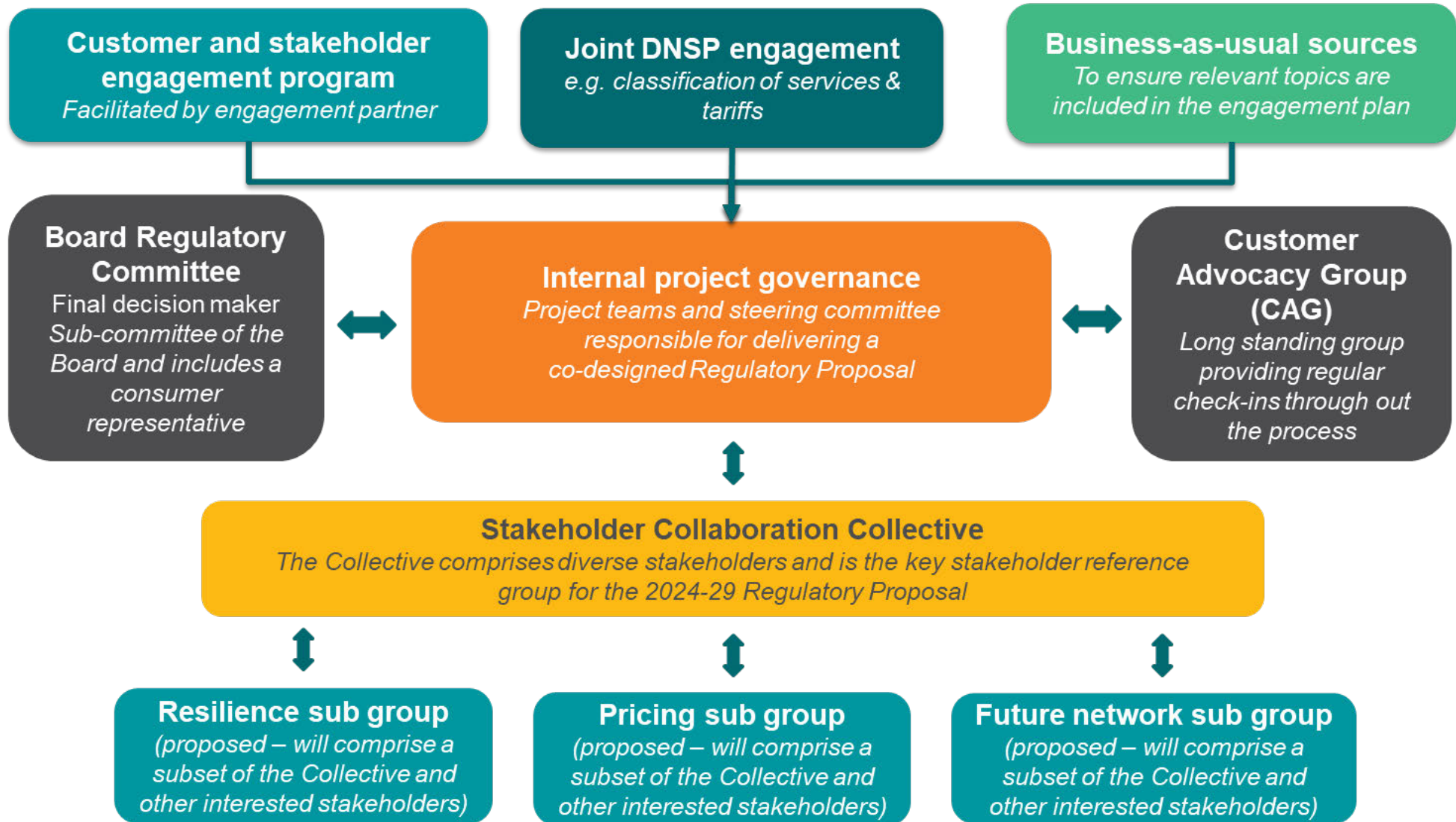


Figure 6: Knowledge building outside of forums

'Bang the table' pre-reading site available on our [Essential Engagement](#) website



Provides access to an interactive walk through of our Virtual Room

- > Dynamic components and audio-visual storytelling
- > Allows for online surveys and polls to be conducted and provides quantitative reports on user behaviour
- > The volume and complexity of the information is built as the engagement program moves forward

