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14 September 2017

Sebastian Roberts
General Manager, Networks
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Mr Roberts

Essential Energy 2019-24 Price Review Process

We refer to our most recent meetings on 25 August 2017 and 7 September 2017.

As discussed at those meetings, and for the reasons explained in this letter, Essential Energy seeks the AER's agreement to submit its regulatory proposal for the 2019 to 2024 regulatory control period by 30 April 2018. For clarity, the regulatory proposal includes the tariff structure statement and reset Regulatory Information Notice (RIN).

Reasons for 30 April 2018 submission of regulatory proposal

Essential Energy considers a 30 April 2018 submission date for its regulatory proposal to the AER appropriate and preferable to 31 January 2018 for the following reasons:

- This timing will enable Essential Energy to bring a greater understanding of the AER's approach in the remittal process for the 2015 determination to bear in formulating its regulatory proposal for 2019 to 2024, for the benefit of consumers. Submission of Essential Energy's 2019 to 2024 regulatory proposal by the end of April 2018 will allow additional time for Essential Energy and the AER to progress, in consultation with other stakeholders, the 2015 determination and for Essential Energy to take this into account in formulating its regulatory proposal. Having greater clarity on the remittal process for the 2015 determination will:
 - assist Essential Energy in developing the building blocks in its regulatory proposal for the 2019 to 2024 regulatory control period having regard to the interdependencies between distribution determinations for consecutive regulatory control periods, which can be expected to facilitate effective stakeholder consultation; and
 - enable Essential Energy to develop a regulatory proposal which seeks to avoid any price shocks for its customers from one period to the next.
- An April 2018 submission date will alleviate resource constraints for Essential Energy associated with contemporaneously progressing the 2015 to 2019 remittal process and preparation of the 2019 to 2024 regulatory proposal. For reasons of efficiency, Essential Energy is resourced to undertake only one significant regulatory process at any given time. However, its staff currently working on the 2015 to 2019 remittal process will also need to work contemporaneously on the 2019 to 2024 regulatory proposal if Essential Energy is to submit that proposal by the end of January 2018. This will create a material resourcing constraint for Essential Energy, particularly in circumstances where Essential Energy is currently working towards an expedited resolution to the remittal process in consultation with the AER and stakeholder groups. By alleviating this resource constraint, an April 2018 submission date will improve the quality of Essential Energy's 2019 to 2024 regulatory proposal and facilitate the timely identification and ventilation of issues arising in the 2019 to 2024 price review for the benefit of all stakeholders.

- An April 2018 submission date will enable Essential Energy to complete a more comprehensive analysis of the realisation of opex/capex benefits resulting from the major Information Systems investment it is currently undertaking for the purpose of its 2019 to 2024 regulatory proposal.
- The anticipated timing of other steps in the price review process, such as the draft decision, revised regulatory proposal and final decision, need not change in order to accommodate an April 2018 submission date for Essential Energy's regulatory proposal. Rather, there could be a compressed period for those steps without any compromise to stakeholder consultation, given that the AER's analysis of Essential Energy's regulatory proposal should be relatively straightforward. This is because the AER has indicated that a less detailed assessment of Essential Energy's opex proposal for 2019 to 2024 will be required in the present circumstances where Essential Energy expects its actual opex for the 2017/18 base year used as the starting point for forecasting opex for 2019 to 2024 will be at or below the AER's opex forecast for 2017/18 in its set aside 2015 determination.

Timing for submission of regulatory proposal

Essential Energy observes that the time for submission of a regulatory proposal is provided for in clause 6.8.2(b) of the National Energy Rules (**NER**). Clause 6.8.2(b) of the NER provides that a DNSP's regulatory proposal and proposed tariff structure statement must be submitted:

- at least 17 months before the expiry of a distribution determination that applies to the DNSP (clause 6.8.2(b)(1)); or
- if no distribution determination applies to the DNSP, within three months after being required to do so by the AER (clause 6.8.2(b)(2)).

Essential Energy's distribution determination for the 2015 to 2019 regulatory control period (**2015 determination**) was set aside by the Tribunal in February 2016. In May 2017, the decision to set aside the 2015 determination was upheld by the Full Federal Court. As a result, the 2015 determination has been remitted to the AER to be remade in accordance with the Tribunal's directions, as modified by the Full Federal Court's order of 4 July 2017. The AER has not yet remade its 2015 determination for Essential Energy. Accordingly, there is currently no distribution determination that applies to Essential Energy for the purposes of clause 6.8.2(b) of the NER.

Since there is currently no distribution determination that applies to Essential Energy, clause 6.8.2(b)(1) does not apply to provide for the time for submission of Essential Energy's regulatory proposal for 2019 to 2024. Rather, clause 6.8.2(b)(2) operates to provide that the time for submission of Essential Energy's regulatory proposal is within three months after being required to do so by the AER.

Accordingly, it is open to the AER to set a date for submission of Essential Energy's regulatory proposal in consultation with Essential Energy.

We would be grateful if you would confirm that Essential Energy may lodge its regulatory proposal by 30 April 2018. Please contact me if you have any questions, or would like to discuss this request.

Yours sincerely



John Cleland
Chief Executive Officer