20 April 2012

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Sir/Madam

Submission to the Australian Energy Market Commission Directions Paper –Economic Regulation of Network Service Providers

Essential Energy welcomes the opportunity to respond to the Australian Energy Market Commission Directions Paper on the economic regulation of network service providers in regard to rule change proposals lodged by the Australian Energy Regulator and the Energy Users Rule Change Committee.

Essential Energy is a member of the Energy Networks Association. This submission is written in support of the ENA's more detailed and comprehensive response, and should be read in conjunction with that document.

Essential Energy would be pleased to discuss this matter further. Should you require further information or clarification please feel free to contact Natalie Lindsay on 02 6589 8419 or Jason Cooke on 02 6338 3685.

Yours sincerely

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Managing Director

Att. 1.

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AEMC – Rule Change Request

Directions Paper

Submission prepared by Essential Energy

20 April 2012

Background

Essential Energy, previously known as Country Energy, is a Distribution Network Service Provider (DNSP) operating an electricity distribution network that extends across an operating area covering 95 per cent of New South Wales' land mass, and into parts of Queensland, Victoria and the Australian Capital Territory. Essential Energy's network includes approximately 200,000 kilometres of powerlines and 1.4 million poles. Within NSW, Essential Energy is licensed to operate its network under the Electricity Supply Act 1995 (NSW).

Importantly, and in providing context to this submission, Essential Energy is yet to experience a regulatory determination made under Chapter 6 of the National Electricity Rules (NER). Essential Energy, as a NSW DNSP, has been subject to review under transitional Chapter 6 contained in Chapter 11 of the NER only, a determination that applies until 30 June 2014.

Essential Energy fully supports the evidence based approach endorsed by the Australian Energy Market Commission (AEMC) in its directions paper on the economic regulation of network service providers ('the directions paper'). Essential Energy provides further evidence for the AEMC on specific issues detailed below, and also directs the AEMC to the submission prepared by the Energy Networks Association (ENA) for a more detailed and comprehensive response.

Capital and Operating Expenditure Allowances

The AEMC's directions paper seeks evidence on the drivers of rising network costs, and the extent to which any perceived deficiencies in the NER may have contributed to these increasing costs. In the directions paper, the AEMC notes that *"there is a general lack of evidence presented to support claims of a causal link between deficiencies in the NER and rising network costs"*[1]. It requests Network Service Providers (NSPs) make further submissions to describe in better detail what the factors driving increasing network costs are.

Therefore, Essential Energy, in conjunction with the ENA, engaged NERA Economic Consulting (NERA) to gather evidence on the drivers of increasing network costs and examine whether deficiencies in the current regulatory framework have contributed to these. A comprehensive report has been prepared by NERA based on evidence provided by NSPs. NERA described the basis of the report as follows:

> *"The focus of the analysis set out in this report is on analysing the extent to which network price changes for both electricity transmission and distribution businesses in the current regulatory period have been the result of changes in WACC and increases in forecast capex and opex allowances. Further, we have examined the key drivers behind the increases in each of these three factors, and considered the extent to which they reflect changes in circumstances which have been recognised as legitimate by the AER, rather than indicating shortcomings with the current regulatory framework.[2]"*

[1] AEMC, Directions Paper, National Electricity Amendment (Economic Regulation of Network Service Providers) Rule 2012, p. 25
[2] NERA Economic Consulting, Analysis of Key Drivers of Network Price Changes, A report for the ENA, April 2012, p. 61

Essential Energy refers the AEMC to NERA's report for a thorough analysis of the reasons for rising network costs, including an analysis of the specific drivers of Essential Energy's increasing network prices.

Whilst Essential Energy acknowledges that its network prices have risen substantially in the current regulatory control period, the NERA report and the discussion below demonstrates those price rises have not been caused by deficiencies in the NER, nor does the NER restrict the AER's ability to interrogate and amend NSPs' forecasts. The evidence below is taken from the most recent NSW regulatory determination made by the AER covering the period 1 July 2009 to 30 June 2014.

Operating expenditure

The main increases in operating expenditure between the current and previous regulatory control periods included in Essential Energy's regulatory proposal were for deferred expenditure relating to vegetation management, inspections, and maintenance and repairs. This was due to:

- new deferred and backlog asset inspection and maintenance programs to mitigate risk, improve network performance and continue to support the functions of the electricity distribution network business;
- the introduction of Design, Reliability and Performance Licence Conditions which included the requirement for compliance with the feeder class reliability standards as well as the individual feeder reliability standards;
- insufficient vegetation management costs had been included in the previous regulatory proposal. This was due to the fact that Essential Energy was formed in 2001 and the historical vegetation spends of the 3 predecessor organisations did not accurately reflect the expenditure necessary to comply with the Industry Safety Steering Committee;
- improved safety standards; and
- a new methodology was developed to more accurately forecast vegetation management expenditure requirements prior to submitting the regulatory proposal for the 2009 to 2014 determination period.

The AER's independent engineering consultant, Wilson Cook, made the following comments in relation to the increased operating expenditure requirements in their report to the AER:

> *"Maintenance and repairs*
>
> *We reviewed the asset management plans and policies and the principles applied to the risk-based model used to derive the work programme. We found the maintenance strategies and processes used by Country Energy to be typical of electricity distribution businesses. Inspection cycles and routine maintenance activities were in line with industry standards. The process used to review and identify maintenance requirements appeared to be robust and appropriate. Based on our review, we are satisfied that Country Energy's maintenance policies and processes are appropriate and properly applied."*[3];

[3] Wilson Cook & Co, Review of Proposed Expenditure of ACT & NSW Electricity DNSPs, Volume 4 – Country Energy, p. 40

"Inspections

The new programmes include new initiatives to widen the scope of the inspection programme, including programmed internal inspection of all underground pits and pillars, six-monthly condition monitoring of critical distribution substations and ring main units, programmed live-line pole-top inspection of all radial sub-transmission feeders, a 'thermo vision' programme covering all critical equipment and urban network components and six monthly condition monitoring of all regulators and reclosers. We consider the increased scope of the proposed programmes reasonable and should enable the company to identify risks earlier and improve system performance."[4]; and

"Vegetation Management

We have reviewed all the information provided on the vegetation management forecast. Much of the increased programme is new and targeted at different purposes to the historical programme. It will take some years before it can be established that the programme achieves the reliability improvements being targeted but use of the profiling data does provide a reasonable basis for estimating the required works."[5]

Despite this advice from Wilson Cook, the AER concluded in its draft determination that it was not satisfied that Essential Energy's total forecast operating expenditure reasonably reflected the operating expenditure criteria in the NER, and reduced the forecast costs above and beyond Wilson Cook's recommendations. Taking into account Wilson Cook's advice as well as their own analysis, the AER applied a reduction of $185 million (8.6 per cent) to Essential's proposed operating expenditure.[6] Specifically, the AER's adjustment was comprised of the following components:[7]

- $135 million reduction to deferred expenditure (inspections, maintenance & repair and vegetation management);[8]
- $25 million reduction to vegetation management escalation;
- $8 million reduction to input cost escalators;
- $12 million reduction to debt raising costs; and
- $5 million reduction to self-insurance costs.

The AER's conclusion on forecast opex was not accepted, and in the revised regulatory proposal, a forecast of $2,211 million was included for the regulatory period, including reinstatement of the $185 million above.[9]

[4] Wilson Cook & Co, Review of Proposed Expenditure of ACT & NSW Electricity DNSPs, Volume 4 – Country Energy, p. 40
[5] Wilson Cook & Co, Review of Proposed Expenditure of ACT & NSW Electricity DNSPs, Volume 4 – Country Energy, p. 41
[6] AER, (2008), *New South Wales Draft Distribution Determination 2009–10 to 2013–14*, Draft Decision, 21 November 2008, p. 198.
[7] Unless otherwise stated: AER, (2008), *New South Wales Draft Distribution Determination 2009–10 to 2013–14*, Draft Decision, 21 November 2008, pp. 198-199.
[8] Unless otherwise stated: AER, (2008), *New South Wales Draft Distribution Determination 2009–10 to 2013–14*, Draft Decision, 21 November 2008, p. 174.
[9] AER, (2008), *New South Wales Distribution Determination 2009–10 to 2013–14*, Final Decision, 28 April 2009, p. 150.

In the revised regulatory proposal, a number of points were clarified for the AER in relation to vegetation management. The AER concluded in its final decision:

> *"As such, Country Energy has alleviated the AER's key concerns by demonstrating that it is not proposing that consumers pay for the same service twice. Rather, in the current regulatory control period Country Energy undertook projects that were of a higher priority and provided benefits to customers."*

The AER went on to say that:

> *"Based on the advice of Wilson Cook and the information setting out the comparison with Ergon Energy, the AER is satisfied that the proposed vegetation management expenditure reasonably reflects the efficient costs a prudent operator in the circumstances of Country Energy would require to achieve the opex objectives.*
>
> *For the reasons discussed and as a result of the AER's analysis of the revised regulatory proposal and additional information, the AER is satisfied that the reinstatement of $135 million ($2008–09) for vegetation management expenditure in Country Energy's forecast opex results in expenditure which reasonably reflects the opex criteria, including the opex objectives. In coming to this view, the AER has had regard to the opex factors."*[10]

Capital expenditure

In their report NERA identifies three categories being primarily responsible for the increase in forecast capital expenditure:

- Augmentation to meet peak demand growth – increased by $762m to $1,341m ($June 2009), contributing 37 per cent of the total increase in real capital expenditure;
- Quality, reliability and security of supply enhancement - increased by $429m to $875m ($June 2009), contributing 28 per cent of the total increase in real capital expenditure; and
- Asset renewal/replacement - increased $444m to $795m ($June 2009), contributing 22 per cent of the total increase in real capital expenditure.

NERA noted that these three categories accounted for approximately 87 per cent of the total increase in forecast capital expenditure.[11]

Taking Wilson Cook's advice into account, the AER concluded that these increases reasonably reflected the efficient costs a prudent operator would require to achieve the capital expenditure objectives.

In addition to these increases, Essential Energy also forecast a step change, albeit on a smaller scale, in non-system capital expenditure for information technology (IT). This was reviewed in exactly the same manner and by the same engineering consultants as the system capital expenditure described above.

[10] AER, New South Wales distribution determination 2009-10 to 2013-14, Final Decision p. 156

[11] NERA Economic Consulting, Analysis of Key Drivers of Network Price Changes, A report for the ENA, 5 April 2012, p. 39

In its draft decision the AER adopted Wilson Cook's recommendation to reduce IT capital expenditure by $66 million (25 per cent) as in their opinion, the proposed IT expenditure was not justified at a project level, and appeared overstated by comparison to other DNSPs. Wilson Cook's conclusions for Essential Energy's non–system capital expenditure were substantiated by benchmarking analysis.

Essential Energy did not agree with the AER's draft decision and reinstated $59 million of the IT reduction made by the AER in its revised regulatory proposal.

In the final regulatory determination, based on Wilson Cook's advice and its own analysis, the AER considered that the IT capital expenditure was still likely to be overstated and reduced the proposed IT capital expenditure in the revised regulatory proposal by $32 million (12.3 per cent). The AER concluded that:

> *"For the reasons discussed above and as a result of the AER's analysis of the revised regulatory proposal, the AER is not satisfied that the proposed non–system IT expenditure of $256 million reasonably reflects the capex criteria, including the capex objectives. In coming to this view the AER has had regard to the capex factors."*[12]

NERA provided evidence in their report that the main drivers of increases in network costs have been the WACC, and increases in capital and operating expenditures. The report also describes that these increases have been driven to a large degree by changes in external circumstances and not shortcomings in the NER. The AER and its engineering consultants have analysed and acknowledged these changes in detail, and in the vast majority of cases, approved the increases as being valid and necessary. However, the evidence presented above on IT capital expenditure also clearly demonstrates that the NER allow the AER to make necessary reductions to forecast costs when they determine that proposed costs do not reasonably reflect the expenditure criteria in the NER.

Capital Expenditure Incentives

Essential Energy agrees with the AEMC's view that the capital expenditure incentives in the NER do not incentivise NSPs to spend above the regulatory allowance for capital expenditure set in the regulatory determination. As Essential Energy will demonstrate below, capital expenditure is driven by the necessity to maintain reliable, secure and safe electricity supply for customers.

To provide further support and evidence for this position, Essential Energy has modelled its actual capital expenditure against the allowances approved for the previous regulatory control period in the same simplified manner used in the examples illustrated in Figures 4.1 and 4.2 of the directions paper.

[12] AER, (2008), *New South Wales Distribution Determination 2009–10 to 2013–14*, Final Decision, 28 April 2009, p. 134.

Financial Year	2005	2006	2007	2008	2009	Total
Capex allowance ($m, nom)	245	249	378	394	404	**1,670**
Capex actual ($m, nom)	271	347	437	490	562	**2,107**
Allowed revenue, ($m, nom)	29	59	105	152	201	**547**
Actual cost, ($m, nom)	33	74	127	186	253	**673**
Revenue impact ($m, nom)	**-3**	**-15**	**-22**	**-34**	**-52**	**-126**
The revenue impact assumes: A WACC of 10% The assets have a useful life of 50 years The costs and revenues are incurred and revenues received on the first day of each regulatory year						

The simplistic example above illustrates that the revenue foregone by Essential Energy in the previous regulatory control period was significant and can never be recovered due to the capital expenditure incentives already built into the NER. This foregone revenue is in addition to the $128 million of approved efficient costs that were not able to be recovered under the revenue smoothing approach adopted in the previous regulatory determination, leaving a combined total of $254 million of unrecovered revenue in one regulatory control period alone.

Essential Energy believes that this example strongly demonstrates there is definitely no incentive to overspend in the NER, and decisions to overspend are not taken lightly but occur due to valid reasons. Essential Energy set out the factors that resulted in its overspend in the previous regulatory control period in section 5.3 of its regulatory proposal[13]. In summary these factors included:

- regulatory allowances being set towards the lower end of a plausible range;
- buoyant economic and market conditions influenced labour availability and material costs;
- labour cost increases not allowed for in regulatory allowances;
- unit rates used in approved construction costs were not reflective of market conditions;
- increases in competitive market rates;
- insufficient capital expenditure allowed for the former Australian Inland that was merged with Essential Energy during the period;
- implementation of enhanced security and protection of critical infrastructure;
- increased difficulty with land and easement acquisitions, particularly in coastal and populated areas, and increases in related costs;
- higher than expected growth related capital expenditure in parts of the network;
- higher than expected asset renewal expenditure (including statutory obligations and reliability and quality of supply related investments) due to the deteriorating condition of assets and increasingly ageing asset base; and
- increases in non-system expenditure primarily due to the recruitment of additional employees to alleviate resource constraints and facilitate the delivery of an expanded capital works and maintenance program during the current regulatory control period.

The AEMC expressed some concern in the directions paper about the lack of supervision of overspends under the ex-ante framework. However, the directions paper notes that the AER does not support ex-post reviews on the grounds that they may add to regulatory risk.[14] The directions paper also observes that as recently as 2006, the AEMC

[13] Country Energy's Electricity Network Regulatory Proposal 2009-14, 2 June 2008, pp. 68-72

[14] AEMC, Directions Paper, National Electricity Amendment (Economic Regulation of Network Service Providers) Rule 2012, p. 44

determined not to allow ex-post reviews of the efficiency and prudency of capital expenditure as it was considered that it would undermine incentives to efficiently incur capital costs that were not foreseen at the time of the applicable regulatory determination, thereby undermining the incentives of the ex-ante cap. The AEMC considered it would contribute to investment uncertainty.[15]

Essential Energy agrees with the AER and the AEMC that ex-post reviews of capital expenditure are not appropriate under an ex-ante framework. Essential Energy does not believe that an ex-post review is an effective solution, and may actually prevent prudent and efficient expenditure.

It is important to note that Essential Energy operated under an ex-post framework in the previous two regulatory control periods.[16] Despite this, Essential Energy incurred efficient capital expenditure substantially higher than the regulatory allowances in both periods, for many of the reasons described in the dot points above. The overspends were not linked to whether there was an ex-post or ex-ante framework, and it would be wrong to infer that capital expenditure incurred in excess of regulatory allowances was inefficient. Capital expenditure is driven by the necessity to maintain reliable, secure and safe electricity supply for customers.

More extensive use of the uncertainty regime

The AEMC's view expressed in the directions paper is that there may be merit in extending capital expenditure reopeners and contingent project provisions to DNSPs. These provisions are currently available to transmission network service providers (TNSPs) under chapter 6A of the NER.

Essential Energy acknowledges the AEMC's comments that the proposed changes to the uncertainty regime may depend on whether other proposed changes to the capital expenditure allowances and incentives are made as part of the rule change process.[17]

Essential Energy is of the opinion that the proposed reopener and contingent projects provisions are of little use to DNSPs, as the nature of the projects undertaken by DNSPs are unlikely to ever trigger such provisions. Typically, capital projects undertaken by DNSPs are far smaller and more numerous than TNSPs. Therefore, adding contingent projects and capital expenditure reopeners to Chapter 6 of the NER are unlikely to be of any benefit to DNSPs, retailers or consumers.

The capital expenditure reopener provisions were designed to only be triggered in extremely limited circumstances, when the impact on costs is substantial and above five per cent of the regulatory asset base value. Using Essential Energy's estimated regulatory asset base as at 30 June 2014 from the AER's final determination of $7,743 million, a capital expenditure reopener would be triggered at $387 million. This is approximately 55 per cent of the total net system capital expenditure approved by the AER for the 2013/14 year, and is well above the value of any single project ever completed by Essential Energy or its predecessors.

[15] AEMC, Directions Paper, National Electricity Amendment (Economic Regulation of Network Service Providers) Rule 2012, p. 44

[16] It is acknowledged that the regulatory determination covering the period from 1 July 2004 to 30 June 2009 was originally made under an ex-post framework, but on the adoption of the NER on 1 January 2008, this was changed to an ex-ante framework. However by this time, spending commitments for the entire regulatory control period had effectively been made or planned under the assumption that ex-post reviews would occur.

[17] AEMC, Directions Paper, National Electricity Amendment (Economic Regulation of Network Service Providers) Rule 2012, p. 52

Regulatory Determination Process

Essential Energy believes that an effective regulatory determination process requires the following:

- complete information disclosure by both NSPs and the AER;
- adequate time for both the AER and NSPs to consider to matters raised and respond to those matters;
- participation by all stakeholders in the regulatory determination process; and
- transparency and accountability from the AER and the NSP.

Essential Energy agrees that improvements could be made to the current regulatory process to achieve the above objectives. The AEMC outlined a number of options in their discussion paper to improve the regulatory determination process and noted that they are not mutually exclusive. Essential Energy briefly discusses each option below.

Option 1 - Creating a new consultation step in the regulatory determination process

Essential Energy supports the addition of both a mandatory issues paper as suggested by the Victorian DPI. A mandatory issues paper that summarises key information provided in regulatory proposals, and any issues in the overall determination process, would assist in engaging all stakeholders in the determination process.

Option 2 – NSP proposal to extend the period for NSPs to submit revised regulatory proposals

Essential Energy was required to prepare its previous revised regulatory proposal over the Christmas and New Year period of 2008/09. The revised regulatory proposal was submitted on time, however ensuring that key internal and external resources were available over the holiday period to complete the significant amount of work involved made the task extremely challenging. The short turnaround time available to complete a comprehensive revised regulatory proposal over the holiday period also makes it very difficult to attain all of the required governance obligations, including executive and Board approvals.

In Essential Energy's opinion, allowing NSPs extra time over the holiday period to submit revised regulatory proposals would help promote an effective regulatory determination process. Alternatively, commencing the regulatory determination process earlier, as contemplated by option 3 below, may result in revised regulatory proposals being due for submission prior to the Christmas and New Year period.

Option 3 – Commencing the regulatory determination process earlier

Essential Energy agrees that commencing the regulatory determination process earlier may assist in addressing some of the problems outlined in the discussion paper, thereby facilitating a more effective process.

Essential Energy believes that commencing the regulatory process up to three months earlier would:

- allow more time to include the addition of a mandatory issues paper and the submission/cross submission stage outlined in option 1;

- avoid revised regulatory proposals being submitted over the Christmas and New Year period;
- assist in better engagement of all stakeholders in the determination process; and
- allow sufficient time for NSPs to prepare pricing proposals, the AER to review them, and retailers to implement and communicate to customers.

This option not only has benefits in its own right, but more importantly could incorporate the benefits of options 1 and 2 outlined above.

Option 4 – Delaying publication of the final regulatory determination until a specified number of days after the last material submission is received

DNSPs are required to submit pricing proposals three weeks after the AER's final determination[18]. Generally it is not desirable to delay the publication of the final determination due to the constrained time available for DNSP pricing proposals to be submitted and approved, and the flow on impact a delay would have for retailers in notifying customers of price changes. A delay may be possible in future if option 3 above is adopted, as it may widen the gap between the final determination and the due date for pricing proposals. However, Essential Energy would not like to see delays extend beyond the due date for the initial annual pricing proposal.

If it is considered that provisions for delays are appropriate, and a delay means the final determination is not made until after the due date for annual DNSP pricing proposals, then it is important that the NER allows DNSPs to recover the allowed five year revenue in full over the remaining years of the regulatory control period. However, this will mean that the price changes in the subsequent pricing proposal will be of a greater magnitude up or down than would otherwise have been the case if the final determination was made on time.

Option 5 – AER proposal to restrict the scope of NSP submissions

Essential Energy is aware that late submissions from NSPs can contribute to problems with fairness in the regulatory determination process, by not providing stakeholders and the AER with an opportunity to effectively scrutinise all material provided. However, Essential Energy believes that all available, relevant and material information must be included to ensure that the regulatory determination process is as robust and accurate as possible.

There will inevitably be circumstances where NSPs need to lodge a submission, for example, where information outside the control of the NSP becomes available after an NSP has submitted its regulatory proposal or revised regulatory proposal. If the determination process is extended consistent with option 3 above, the potential for new information to become available or events to happen after lodgement of regulatory proposals is increased. If an event was to occur after the AER publishes its draft determination, NSPs would be denied the chance to include this in its revised regulatory proposal under the current NER, as the revised regulatory proposal can only address matters raised in the AER's draft determination. Therefore, it is important to retain the ability for NSPs to make submissions so that the integrity of the determination process is maintained.

The following actual example from Essential Energy's last regulatory determination process demonstrates the importance a submission may have to the AER in considering all information after the revised regulatory proposal has been submitted. Essential Energy submitted its revised regulatory proposal on 16 January 2009. On 16 February

[18] NER, 6.18.8

2009, Essential Energy provided additional information to the AER which further discussed and clarified some of the issues not able to be fully covered in the revised regulatory proposal due to the constrained timeframe available under the current NER.

A summary of the information submitted, and the reasons for the need for a submission are outlined in table 1 below. The table shows that there were seven issues outlined in Essential Energy's additional information. Only one of the issues introduced new information to that contained in Essential Energy's revised regulatory proposal, however this information was raised in other DNSP revised regulatory proposals, so it was not new information to stakeholders or the AER. The other six issues were updates to information contained in the revised regulatory proposal, reaffirmation of positions in the revised regulatory proposal or seeking to clarify potential anomalies in the AER's Post Tax Revenue Model.

Table 1 – Summary of information provided to the AER by Essential Energy in its submission after revised regulatory proposal

Description of information provided	Was this an update to information in revised regulatory proposal	Was extra information to the revised regulatory introduced?	Reasons for the submission
Demand forecasts	Yes	No	As requested by the AER in the draft decision, demand forecasts were updated to include 2007-08 audited actual quantities which were not available at the time of submitting the revised regulatory proposal.
TUOS recovery treatment	Yes	No	Like the demand forecast update above, the TUOS unders and overs account audited balances for the year ended 30 June 2008 and estimates for the year ended 30 June 2009 were updated as they were not available for inclusion in the revised regulatory proposal. Essential Energy also sought clarification from the AER on its proposed treatment of TUOS recovery as part of the annual pricing proposal, as it seemed to depart from the methodology employed by IPART.
Network Maintenance Costs	No	No	Reaffirming the position presented in its revised regulatory proposal regarding the AER's decision to disallow some costs.
Growth Capital Expenditure	Yes	No	Essential Energy completed further analysis due to the constrained time period available to quantify the impact of lower forecasts of new customer connections presented in the revised regulatory proposal. The revised forecasts resulted in a deferral of capital expenditure due to lower forecasts of new customer connections.

Description of information provided	Was this an update to information in revised regulatory proposal	Was extra information to the revised regulatory introduced?	Reasons for the submission
EBSS Exclusions	No	Yes	Essential Energy proposed that the AER consider extending the EBSS exclusion for movement of costs between operating and capital expenditure. While this was new information to that presented in the revised regulatory proposal, it was not new information for the AER or stakeholders, as the same issue had already been raised in other DNSP revised regulatory proposals.
Equity Raising costs in the PTRM	No	No	Seeking clarification on treatment of a potential anomaly in the AER's PTRM found at time of submitting revised regulatory proposal.
Gamma	No	No	Seeking clarification on treatment of a potential anomaly in the AER's PTRM found at time of submitting revised regulatory proposal.

Conclusions

Essential Energy has provided evidence in this submission that it believes will assist the AEMC in its deliberations on the economic regulation of NSPs. The key conclusions Essential Energy would like to emphasise include:

- the main drivers of higher network prices have been increases in WACC, capital expenditure and operating expenditure. These increases have arisen through external circumstances that were recognised as legitimate by the AER and its independent engineering consultants, and were not caused by deficiencies in the NER;
- there are no incentives in the NER for DNSPs to spend above and beyond capital expenditure allowances. Capital expenditure is driven by the necessity to maintain reliable, secure and safe electricity supply for customers;
- ex-post reviews under an ex-ante framework should be avoided;
- contingent projects and capex reopeners are of little use to DNSPs; and
- there are opportunities to improve the regulatory process to enable better and more comprehensive engagement with all stakeholders, and these should be further explored.