Essential Energy: Questions on Notice

Inquiry into Electricity Supply, Demand and Prices in NSW

- Essential Energy appeared before the Select Committee on Electricity Supply, Demand and Prices in NSW on 18 June 2018
- This document contains Essential Energy's responses to Questions on Notice taken during the hearing.

Question 1 - Dividends

The Hon. ADAM SEARLE: You did not need the extra almost $1 billion from the AER challenge and you have underspent on your foreshadowed capital spending. Have your dividends to government increased by something like 16 per cent in the last year?

Mr HILLIER: No, they have not in recent years.

The Hon. ADAM SEARLE: So they are static, no growth at all in government dividends?

Mr HILLIER: The dividends that Essential Energy pay to government have reduced over the past 10 years.

The Hon. ADAM SEARLE: What have they been since 2014?

Mr HILLIER: I do not have the numbers in front of me. I can take the question on notice.

Dividends paid by Essential Energy to the NSW Government have significantly reduced since 2013/14, as shown in the table below.

Dividend - historical data	FY12A	FY13A	FY14A	FY15A	FY16A	FY17A	FY18F
Normal Dividend	67,297,000	240,776,000	133,902,000				-
Additional dividend - 2014 unbilled revenue tax treatment				35,000,000			
Additional dividend - NSW Government's Energy rebate Scheme				23,700,000	28,100,000	27,900,000	
Total	**67,297,000**	**240,776,000**	**133,902,000**	**58,700,000**	**28,100,000**	**27,900,000**	**-**

It is worth noting that no normal dividend has been paid by Essential Energy since 2013/14, and no normal dividend is forecast for 2017/18.

The following special dividends were paid:

- FY15 - unbilled revenue tax treatment relating to 2014; and
- Additional dividend relating to NSW Government's Energy Rebate Scheme from FY15-FY17.

Question 2 – Dubbo warehouse

The Hon. ADAM SEARLE: That would be very useful. There was some controversy about the warehouse at Dubbo either closing or changing its functions. Can you tell the Committee what your plans are presently?

Mr HILLIER: I do not have the information to hand but what I can say is that there will be no loss of jobs on any restructure of our warehouses or anything else in Dubbo.

Essential Energy is not considering closing its Dubbo warehouse. In fact, it is currently making significant investments in improving local on-site facilities. However, it has advised warehouse workers in Dubbo that it is considering changes to its warehousing operations to maximise operational and cost efficiencies, which will ultimately benefit customers.

The findings from a detailed feasibility study was to expand existing warehouse facilities at Wagga Wagga and Grafton, and re-purpose the existing Dubbo warehouse as a centralised storage hub for State-wide critical equipment, spares and maintenance.

Six employees were based at the regional Dubbo warehouse. Following recent implementation of the recommended State-wide hub option:

> the Dubbo warehouse supervisor has retained that role, and

> the five other employees have been guaranteed permanent roles with Essential Energy, in Dubbo and at equivalent pay rates.

Question 3 – Network costs and charges

The Hon. ADAM SEARLE: You have given evidence about the decrease in your network costs. Have network costs overall increased over the last 10 or twenty years or have they gone down as a proportion of people's electricity bills?

Ms LINDSAY: As a proportion?

Mr HILLIER: Network charges did go up in the earlier part of the last decade, as we discussed with the licence conditions around the N-1 reliability standards. They have come down significantly since 2012—in the order of 40 per cent. In terms of your question around what proportion of the bill—are they today versus 10 or 20 years ago?—I would have to take that on notice.

Essential Energy has calculated the proportion that distribution network charges contributed to a typical residential customers bill 10 years ago. This calculation is based on:

> the default regulated retail price applied by Essential Energy's predecessor organisation, Country Energy, historically, as approved by the Independent Pricing and Regulatory tribunal (IPART) at that time; and

> the distribution network charge approved by IPART and, subsequently, the Australian Energy Regulator (AER).

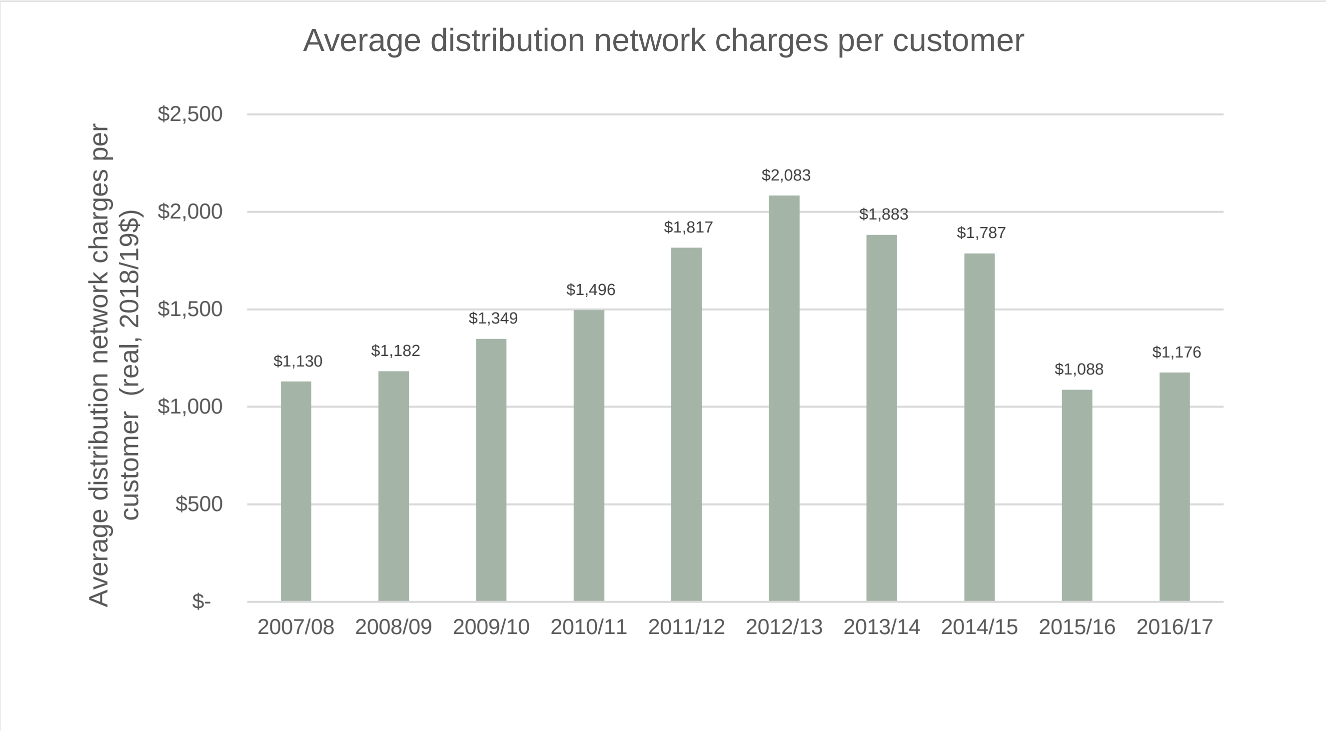
In 2007/08, distribution network charges comprised 46 per cent of the typical residential bill, based on an annual consumption of 5Mwh.

In 2011/12, distribution network charges increased to 59 per cent of the typical residential bill when distribution network charges were at their peak.

During this time, customers have moved into the competitive market where prices are no longer regulated. Retail price data is more difficult to obtain, however, the Australian Energy Market Commission forecast the distribution network charge component of an electricity bill to be 37 per cent[1] for 2017/18 – a substantial reduction since 2011/12 in the distribution network charge proportion of the bill.

This reduction has been achieved through a concerted effort to sustainably reduce Essential Energy's cost base, thereby reducing revenue and, ultimately, distribution network charges for customers.

The chart below shows the average distribution network charges paid per customer for the 10-year period ending 20 June 2017. All values are in today's dollars (real 2018/19$).



As shown above average distribution network charges increased substantially from 2007/08, reaching a peak in 2012/13. From 2012/13, average distribution network charges reduced significantly driven by cost reductions achieved by Essential Energy.

[1] Based on the 2017-18 forecast, Australian Energy Market Commission, 2017 Residential Electricity Price Trends, 18 December 2017 p.100