

Our reference: 11/430

Your reference:

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Ms Terri Benson  
Managing Director, Essential Energy  
PO Box 718  
Queanbeyan NSW 2620

Contact Rebecca Bishop  
T (02) 9113 7764  
E [Rebecca\\_Bishop@ipart.nsw.gov.au](mailto:Rebecca_Bishop@ipart.nsw.gov.au)

Dear ~~Ms Benson~~  
*Terri*

### IPART'S 2013 WATER PRICE REVIEW AND MERGER OF ESSENTIAL ENERGY

I am writing to you to seek your views on the approach we should take to the 2013 price review of Essential Energy's water and sewerage services.

In August 2011 we sent you a letter outlining our information requirements for the 2013 price review of Essential Energy. This included a number of outstanding issues from the 2010 Determination which we have been discussing in our Quarterly meetings.

In the interim, the NSW Government has announced the merger of Essential Energy with Ausgrid and Endeavour Energy from 1 July 2012. We acknowledge that the merger may present some challenges and uncertainties for Essential Energy in participating in our upcoming price review.

In the context of the merger, we have identified 2 options for moving forward with the price review:

1. Delay the review by one year
2. Continue the review as per the indicative timetable in Appendix A (eg, apply the building block or develop a cost index).

We note that if Essential Energy decides to delay the price review, the 2010 Determination provides that current prices will continue in nominal terms and will not be adjusted until a new determination is made.

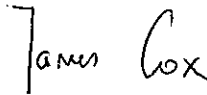
Alternatively, if the review is to continue under the current timetable Essential Energy will be required to meet our standard information requirements as outlined in our August 2011 letter. This includes addressing the outstanding matters that we have been discussing at our Quarterly meetings (see Appendix B). As outlined in our earlier letter it is important that adequate information is included in submissions and where this is not provided IPART would consider 'stopping the clock' and writing to the Minister.

For the price review to proceed we need to be confident that Essential Energy can satisfactorily meet our information requirements in accordance with our review timetable. Further, we have started a project on improving customer engagement in the price review process. If the price review is to proceed, we would welcome the opportunity to discuss our proposals with your office.

We seek your views on these 2 options and your preferred approach. We would appreciate a response on these options at your earliest convenience. If we do not receive your response by 18 May 2012 the review timetable will become unworkable and the review will need to be delayed.

Should you wish to discuss this letter further, please contact Rebecca Bishop on Tel (02) 9113 7764.

Yours sincerely

A handwritten signature in black ink that reads "James Cox". The signature is written in a cursive style with a large initial 'J'.

James Cox PSM  
Chief Executive Officer  
and Full Time Member

cc Natalie Lindsay, General Manager Regulatory Affairs at Essential Energy

## Appendix A: Indicative review timetable

**Table 1** Indicative review timetable for 2013 price determination for Essential Energy

<b>Task</b>	<b>Dates</b>
Release Issues Paper	June 2012
Receive Essential Energy's submission and information returns	Mid-September 2012
Receive public submissions	Mid-October 2012
Conduct a public hearing	Early November 2012
Release draft determination and report	March 2013
Receive submissions to draft report	April 2013
Release final determination and report	June 2013

## Appendix B: Outstanding Issues from the 2010 price Determination

Table 2- Outstanding issues

Issue	Status
Essential Energy suggested reversing the order of the public hearing and close of submissions	Essential Energy to advise on their proposed approach. However, Essential Energy's submission would need to be received by early September 2012 to meet the review timetable.
Incorporation of company tax in pricing – Essential Energy advised that all assets are impaired and therefore have zero value	Essential Energy to seek accounting advice and to update IPART by February 2012. To date IPART has not received this letter.
Essential Energy to resolve uncertainties around the continuation of the NSW Treasury and mining subsidy agreements for its submission in September 2012	Agreed to be included in Essential Energy's submission in September 2012
Essential Energy to develop an appropriate methodology for the allocation of overheads to their water business by September 2012	Agreed to be included in Essential Energy's submission in September 2012
Essential Energy to provide a letter to IPART outlining potential options for the next pricing determination, so that IPART's issues paper can be written in this context	To date IPART has not received a letter on these options.
Special information returns/financial models need to be updated for post-tax WACC and provided to Essential Energy	IPART to update and provide to Essential Energy by June 2012
Customer engagement	Essential Energy is to provide information on consultative mechanisms including those developed by Broken Hill Council.