Contact Officer: Kurt Stevens
Contact Phone: (02) 6243 1329
Our Ref: 54420

20 May 2015

Mr Vince Graham
Chief Executive Officer
Endeavour Energy
51 Huntingwood Drive,
HUNTINGWOOD NSW 2148

Dear Mr Graham

Correcting errors in Endeavour Energy distribution determination 2015−16 to 2018−19

Through discussions with Endeavour Energy in early May 2015, we have identified the
following errors in the Endeavour Energy distribution determination 2015−16 to 2018−19 (the
distribution determination):

1. inaccurate description of metering in Appendix A to the Overview
2. parameter missing for control mechanism

Following those discussions, in which AER and Endeavour Energy staff agreed the errors
should be corrected as soon as practicable, we sent a letter on 13 May 2015 proposing that
we revoke and substitute the distribution determination to achieve this outcome.

In response to that letter, there were further discussions between AER and Endeavour
Energy staff in which Endeavour Energy's legal advisors raised concerns about the AER's
ability under the National Electricity Rules to revoke and substitute the distribution
determination and suggested we seek further legal advice.

We have sought further legal advice. As a result of this advice, we have decided not to
revoke and substitute the distribution determination at this time.

We still intend to correct the above listed errors in the distribution determination as soon as
practicable, in accordance with clause 6.13 of the National Electricity Rules. We anticipate
this would occur no earlier than the latter of:

A. the commencement of the next regulatory control period (1 July 2015); and
B. once any appeal in relation to our distribution determinations is resolved.

As a result of our decision, the period for making an application for review of our decision
does not change.

If you have any queries on this matter please contact Kurt Stevens on (02) 6243 1329.

Yours sincerely

Paula Conboy
AER Chair

Inaccurate description of metering in Appendix A to the Overview

Appendix A of the Overview to our final decision for the distribution determination includes a table of constituent decisions, on which the distribution determination is predicated. The table includes a misdescription. It reads as if the type 5 and 6 unrecovered metering costs are defined as standard control services. However, the AER's reasons in Attachment 13 and Attachment 16 of the final decision make it clear that standard control services do not include the type 5 and 6 unrecovered metering cost. These are classified as part of alternative control services (as part of the type 5 and 6 metering provision).

We propose to correct this error to ensure that the type 5 and 6 unrecovered metering cost is classified as part of alternative control services, in line with our decision. We propose the following correction:

> Overview, Appendix A, page 53, lines 7 and 8:

- Delete ", type 5 and 6 unrecovered meter cost."

> Overview, Appendix A, page 53, lines 9 and 10:

- Delete "Alternative control services include metering types 5 and 6 provision, maintenance, reading, data services and transfer administration services, ancillary network services and public lighting."
- Insert " Alternative control services include:
  - types 5 and 6 meter provision, maintenance, reading, data services, transfer administration services (including type 5 and 6 unrecovered meter cost)
  - ancillary network services
  - public lighting."

Parameter missing for control mechanism

The revenue control formula in figure 14.1 of Attachment 14 of the final decision for Endeavour Energy does not include a parameter for distribution use of system under and over recoveries from previous years. As our distribution determination uses a revenue cap, the revenue control formula should include this parameter.

We propose to correct this error so that the revenue control formula includes a parameter for distribution use of system under and over recoveries from previous years, in line with our decision. We propose the following correction:

> Attachment 14, pages 14-15 to 14-16, Figure 14.1:

- Delete the figure
- Insert:

Figure 14.1 Revenue cap formula

1. $TAR_t \geq \sum_{i=1}^{n} \sum_{j=1}^{m} p_t^{ij} \, q_t^{ij}$ i=1,...,n and j=1,...,m and t=1,...,5

2. $TAR_t = AR_t \pm B_t \pm DUoS_t$

3. $AR_t = AR_{t-1}(1 + \Delta CPI_t)(1 - X_t)(1 + S_t)$

Where:

TAR_t is total annual revenue in year t.

p_t^{ij} is the price of component i of tariff j in year t.

q_t^{ij} is the forecast quantity of component i of tariff j in year t.

AR_t is the annual smoothed expected revenue for year t. For the 2015–16 regulatory year, AR_{t-1} is the annual smoothed expected revenue in the Post Tax Revenue Model for 2014–15.

B_t is:

- the approved pass through amounts (positive or negative) with respect to regulatory year t, as determined by the AER, plus

- the D-factor amounts we approve for 2013–14 (applies to Endeavour Energy's pricing proposal for the regulatory year 2015–16).

$DUoS_t$ is an annual adjustment factor related to the balance of the DUoS unders and overs account with respect to regulatory year t.

$$\Delta CPI_t = [\frac{CPI_{Mar,t-2} + CPI_{Jun,t-2} + CPI_{Sep,t-1} + CPI_{Dec,t-1}}{CPI_{Mar,t-3} + CPI_{Jun,t-3} + CPI_{Sep,t-2} + CPI_{Dec,t-2}}] - 1$$

CPI means the all groups index number for the weighted average of eight capital cities as published by the ABS, or if the ABS does not or ceases to publish the index, then CPI will mean an index which the AER considers is the best estimate of the index.

X_t the smoothing factor determined in accordance with the PTRM as approved in the AER's final decision, and annually revised for the return on debt update in accordance with the formula specified in the return on debt appendix I calculated for the relevant year.

S_t is the STPIS factor sum of the raw s-factors for all reliability of supply and customer service parameters (as applicable) to be applied in year t.[1] S_t for 2015–16 and 2016–17 are set at zero.

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[1] In the formulas in the STPIS attachment, the AR_{t+1} is equivalent to AR_t in this formula. Calculations of the S factor adjustment are to be made accordingly.