

Our Ref:
Your Ref:
Contact Officer: Brett McCarthy
Contact Phone: (02) 9230 9103

23 March 2011

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

Dear Mr Graham

Reporting on the recovery of jurisdictional scheme amounts in respect of the NSW Solar Bonus Scheme

I refer to Integral Energy's letter dated 29 December 2010 in which Integral Energy made a request under clause 6.18.7C(g) of the transitional Chapter 6 of the National Electricity Rules (NER) with respect to its proposed treatment of payments made under the New South Wales Government Solar Bonus Scheme (SBS). Integral Energy requested the Australian Energy Regulator (AER) to determine how it is to report on its recovery of SBS payments for each year of the current regulatory control period, and on adjustments for over and under recovery of such payments.

I note that from 1 March 2011, Integral Energy changed its name to Endeavour Energy. References to Endeavour Energy in this letter include Endeavour Energy under its previous name of Integral Energy.

Reporting on recovery of SBS payments

In the statement accompanying your request, Endeavour Energy proposes that reporting on recovery of SBS payments will occur through the annual pricing process. You have indicated that Endeavour Energy will develop tariffs based on forecasts of rebates payable, and that forecast errors will be corrected in subsequent years pricing proposals. The AER considers that the proposed reporting on recovery of SBS payments in the pricing proposals is appropriate.

Adjustments for overs and unders

In the statement accompanying your request, you have proposed that adjustments to tariffs for each year will be made to account for forecast errors in previous years. The AER considers

that Endeavour Energy's proposed method of making annual adjustments for forecast errors is appropriate.

You have stated that in the event that Endeavour Energy receives funds from other sources with respect to the SBS, it will include these funds as revenues, which will offset forecasts of rebates payable. This will ensure that customers will only be required to fund the net impact on Endeavour Energy arising from the scheme. I note that subsequent to your request of 29 December 2010, the NSW Government announced funding arrangements involving payments to NSW DNSPs to cover the costs of the SBS. I expect that if Endeavour Energy opts to include SBS tariffs in its annual pricing proposals, its pricing proposals would reflect any funds that are received under such arrangements.

The AER has determined that Endeavour Energy should report on its recovery of SBS payments and make adjustments for overs and unders in accordance with the proposal set out in Endeavour Energy's request.

I note that the AER's determination on Endeavour Energy's reporting arrangements is one of a number of steps that must be taken before Endeavour Energy can recover SBS payments in the annual pricing process. The NER provides that the following steps must also be undertaken:

- Endeavour Energy must notify the AER that it elects to recover the payments through its pricing proposal; and
- the AER must decide to accept that election.

The AER notes that neither of these steps have taken place.

The AER will publish the approved reporting and adjustment process of Endeavour Energy's recovery of SBS payments on the AER website.

If you would like to discuss this matter further please contact Brett McCarthy on (02) 9230 9103.

Yours sincerely



Chris Pattas
General Manager