

DIRECT CONTROL SERVICES

INITIAL PRICING PROPOSAL 2014/15

21 MAY 2014



**Endeavour
Energy**

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Item No.	Description
A	CONFIDENTIAL – Distribution Use of System Tariffs
B	CONFIDENTIAL – Consideration of LRMC
C	CONFIDENTIAL – Climate Change Fund Recovery Tariffs
D	CONFIDENTIAL – Transmission Use of System Tariffs
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K	CEG Review – Regulatory Cost of Supply Methodology
L	CEG Review – Long Run Marginal Cost Methodology

Attachments:

Item No.	Description
1	CONFIDENTIAL – Revenue Cap Compliance Model
2	CONFIDENTIAL – Long Run Marginal Cost Model
3	CONFIDENTIAL – Regulatory Cost of Supply Model

1

INTRODUCTION

Endeavour Energy is submitting this *2014/15 Initial Pricing Proposal* to the Australian Energy Regulator (AER) in accordance with the requirements of Part I, section 6.18 of the National Electricity Rules (the *Rules*)

1.1 National Electricity Rules

In accordance with clause 6.1.1 of the *Rules*, the AER is responsible for the economic regulation of distribution services provided by means of, or in connection with, distribution systems that form part of the national grid.

1.1.1 Classification of distribution services

In accordance with clause 6.2.1 of the *Rules*, Distribution services to be provided by the Distribution Network Service Provider (DNSP) are divided into the following two classes:

1. Direct control services; or
2. Negotiated distribution services.

Direct control services are further divided into the following two subclasses:

1. Standard control services; and
2. Alternative control services.

This pricing proposal is relevant to those services provided by Endeavour Energy that are classified as direct control services.

1.2 Scope of Endeavour Energy's pricing proposal

In meeting the requirements of Part I of the *Rules*, and in particular clause 6.18.2(a)(1), Endeavour Energy's *2014/15 Initial Pricing Proposal* sets out the proposed prices required to recover the placeholder revenue approved by the Australian Energy Regulator (AER) in the *2014/15 Transitional Distribution Determination*.

This *2014/15 Initial Pricing Proposal* is submitted in accordance with, and complies with, the requirements of:

1. The National Electricity Law;
2. The National Electricity Rules;
3. The AER's *2014/15 Transitional Distribution Determination*;
4. The AER's Placeholder determination for the transitional regulatory control period 2014/15;

5. The AER's Stage 1 Framework and Approach Paper¹; and
6. The AER's Stage 2 Framework and Approach Paper²

¹ AER (2013), Stage 1 Framework and Approach – NSW electricity distribution network service providers

² AER (2014), Stage 2 Framework and Approach , Ausgrid, Endeavour Energy & Essential Energy

1.3 Structure of Endeavour Energy's pricing proposal

Endeavour Energy's 2014/15 Initial Pricing Proposal is structured as follows:

Table 1.1 – Structure of this pricing proposal

Chapter	Title	Purpose
2	Regulatory Requirements	Summarises the regulatory requirements as they relate to this pricing proposal, and includes the relevant requirements of the <i>Rules</i> and the AER's <i>2014/15 Transitional Distribution Determination</i> .
3	Business Characteristics	Summarises the characteristics of Endeavour Energy's network that provide the context for Endeavour Energy's network tariff strategy.
4	Tariff Classes	Defines the tariff classes into which Endeavour Energy's customers for direct control services are divided.
5	Network Tariff Strategy	Outlines Endeavour Energy's Network Tariff Strategy.
6	Network Use of System Tariffs	Describes the nature and extent of the change in Endeavour Energy's NUOS tariffs between 2013/14 and 2014/15.
7	Customer Impacts	Outlines the expected customer impacts of this pricing proposal.
8	Compliance with Regulatory Requirements	Demonstrates that Endeavour Energy's pricing proposal complies the regulatory requirements as they relate to this pricing proposal.
9	Climate Change Fund	Sets out the amount that Endeavour Energy must recover from its Climate Change Fund Recovery tariffs.
10	Transmission Cost Recovery Tariffs	Sets out Endeavour Energy's Transmission cost recovery tariff setting methodology and demonstrates adjustments made to the tariffs resulting from the operation of the transmission use of system overs and unders account.
11	Customer Reassignment	Sets out the number of customers impacted by and reasons for Endeavour Energy's 2014/15 tariff reassignment strategy.
12	Alternative Control Services	Sets out Endeavour Energy's Alternative Control Service tariffs – Ancillary Network Services and Public Lighting Tariffs are calculated in accordance with the <i>2014/15 Transitional Distribution Determination</i> .
Appendices		Separately provided.

1.4 Confidentiality

Clause 6.19.2(a) of the *Rules* provides that “*all information about a Service Applicant or Distribution Network User used by Distribution Network Service Providers for the purposes of distribution service pricing is confidential information.*”

The following appendices and attachments to the *2014/15 Initial Pricing Proposal* contain sensitive confidential information specific to the individual *Distribution Network Users*. As such, Endeavour Energy requests that the AER does not disclose the information contained in these appendices and attachments to any person except as permitted by the Law and Rules.

Appendices

1. Confidential Appendix A – Distribution Use of System Tariffs;
2. Confidential Appendix B – Consideration of LRMC;
3. Confidential Appendix C – Climate Change Fund Recovery Tariffs;
4. Confidential Appendix D – Transmission Cost Recovery Tariffs; and
5. Confidential Appendix E – Network Use of System Tariffs.

Attachments

1. Confidential Attachment 1 – Revenue Cap Compliance Model;
2. Confidential Attachment 2 – Long Run Marginal Cost Model; and
3. Confidential Attachment 3 – Regulatory Cost of Supply Model.

2

REGULATORY REQUIREMENTS

This Chapter summarises the regulatory requirements as they relate to Endeavour Energy's 2014/15 *Initial Pricing Proposal*, and includes the relevant requirements of the *Rules* and the AER's 2014/15 *Transitional Distribution Determination*.

2.1 Requirements of the Rules

2.1.1 Required elements of a pricing proposal

In accordance with clause 6.18.2 of the *Rules*, Endeavour Energy's 2014/15 *Initial Pricing Proposal* must include the elements summarised below:

6.18.2 Pricing proposals

(b) A pricing proposal must:

- (1) set out the tariff classes that are to apply for the relevant regulatory year; and
- (2) set out the proposed tariffs for each tariff class; and
- (3) set out, for each proposed tariff, the charging parameters and the elements of service to which each charging parameter relates; and
- (4) set out, for each tariff class related to standard control services, the expected weighted average revenue for the relevant regulatory year and also for the current regulatory year; and
- (5) set out the nature of any variation or adjustment to the tariff that could occur during the course of the regulatory year and the basis on which it could occur; and
- (6) set out how designated pricing proposal charges are to be passed on to customers and any adjustments to tariffs resulting from over or under recovery of those charges in the previous regulatory year; and
- (6A) set out how jurisdictional scheme amounts for each approved jurisdictional scheme are to be passed on to customers and any adjustments to tariffs resulting from over or under recovery of those amounts; and
- (6B) describe how each approved jurisdictional scheme that has been amended since the last jurisdictional scheme approval date meets the jurisdictional scheme eligibility criteria; and

(7) demonstrate compliance with the Rules and any applicable distribution determination; and

(8) describe the nature and extent of change from the previous regulatory year and demonstrate that the changes comply with the Rules and any applicable distribution determination.

(c) The AER must on receipt of a pricing proposal from a Distribution Network Service Provider publish the proposal.

Endeavour Energy has prepared its 2014/15 Initial Pricing Proposal in accordance with the requirements of the Rules, as summarised above.

In accordance with clause 6.18.2 of the Rules, Endeavour Energy must submit to the AER, as soon as practicable, and in any case within 15 business days, after the publication of the distribution determination, a pricing proposal (the initial pricing proposal) for the first regulatory year of the regulatory control period.

2.1.2 Tariff Classes

In accordance with clause 6.18.3 of the Rules, Endeavour Energy's 2014/15 Initial Pricing Proposal must satisfy the following criteria with respect to tariff classes:

6.18.3 Tariff classes

(a) A pricing proposal must define the tariff classes into which retail customers for direct control services are divided.

(b) Each customer for direct control services must be a member of 1 or more tariff classes.

(c) Separate tariff classes must be constituted for retail customers to whom standard control services are supplied and retail customers to whom alternative control services are supplied (but a customer for both standard control services and alternative control services may be a member of 2 or more tariff classes).

(d) A tariff class must be constituted with regard to:

(1) the need to group retail customers together on an economically efficient basis; and

(2) the need to avoid unnecessary transaction costs.

2.1.3 Assignment or re-assignment of customers to tariff classes

In accordance with clause 6.18.4 of the Rules, Endeavour Energy is governed by the following customer reassignment principles:

6.18.4 Principles governing assignment or re-assignment of retail customers to tariff classes and assessment and review of basis of charging

(a) In formulating provisions of a distribution determination governing the assignment of retail customers to tariff classes or the re-assignment of retail customers from one tariff class to another, the AER must have regard to the following principles:

(1) retail customers should be assigned to tariff classes on the basis of one or more of the following factors:

- (i) the nature and extent of their usage;*
- (ii) the nature of their connection to the network;*
- (iii) whether remotely-read interval metering or other similar metering technology has been installed at the customer's premises as a result of a regulatory obligation or requirement;*

(2) retail customers with a similar connection and usage profile should be treated on an equal basis;

(3) however, retail customers with micro-generation facilities should be treated no less favourably than retail customers without such facilities but with a similar load profile;

(4) a Distribution Network Service Provider's decision to assign a customer to a particular tariff class, or to re-assign a customer from one tariff class to another should be subject to an effective system of assessment and review.

Note:

If (for example) a customer is assigned (or reassigned) to a tariff class on the basis of the customer's actual or assumed maximum demand, the system of assessment and review should allow for the reassignment of a customer who demonstrates a reduction or increase in maximum demand to a tariff class that is more appropriate to the customer's load profile.

(b) If the charging parameters for a particular tariff result in a basis of charge that varies according to the usage or load profile of the customer, a distribution determination must contain provisions for an effective system of assessment and review of the basis on which a customer is charged.

2.1.4 Pricing Principles

Clause 6.18.5 of the *Rules* state that Endeavour Energy must comply with the following pricing principles:

6.18.5 Pricing principles

(a) For each tariff class, the revenue expected to be recovered should lie on or between:

(1) an upper bound representing the stand alone cost of serving the retail customers who belong to that class; and

(2) a lower bound representing the avoidable cost of not serving those retail customers.

(b) A tariff, and if it consists of 2 or more charging parameters, each charging parameter for a tariff class:

(1) must take into account the long run marginal cost for the service or, in the case of a charging parameter, for the element of the service to which the charging parameter relates; and

(2) must be determined having regard to:

(i) transaction costs associated with the tariff or each charging parameter; and

(ii) whether retail customers of the relevant tariff class are able or likely to respond to price signals.

(c) If, however, as a result of the operation of paragraph (b), the Distribution Network Service Provider may not recover the expected revenue, the provider must adjust its tariffs so as to ensure recovery of expected revenue with minimum distortion to efficient patterns of consumption.

2.1.5 Recovery of charges for transmission use of system services

In accordance with clause 6.18.7 of the *Rules*, Endeavour Energy's 2014/15 *Initial Pricing Proposal* must satisfy the following criteria:

6.18.7 Recovery of designated pricing proposal charges

(a) A pricing proposal must provide for tariffs designed to pass on to retail customers the designated pricing proposal charges to be incurred by the Distribution Network Service Provider.

(b) The amount to be passed on to retail customers for a particular regulatory year must not exceed the estimated amount of the designated pricing proposal charges adjusted for over or under recovery in accordance with paragraph (c).

(c) The over and under recovery amount must be calculated in a way that:

(1) subject to subparagraphs (2) and (3) below, is consistent with the method determined by the AER in the relevant distribution determination for the Distribution Network Service Provider;

(2) ensures a Distribution Network Service Provider is able to recover from retail customers no more and no less than the designated pricing proposal charges it incurs; and

(3) adjusts for an appropriate cost of capital that is consistent with the rate of return used in the relevant distribution determination for the relevant regulatory year.

(d) Notwithstanding anything else in this clause 6.18.7, a Distribution Network Service Provider may not recover charges under this clause to the extent these are:

(1) recovered through the Distribution Network Service Provider's annual revenue requirement;

(2) recovered under clause 6.18.7A; or

(3) recovered from another Distribution Network Service Provider.

2.1.6 Recovery of jurisdictional scheme amounts

In accordance with clause 6.18.7A of the *Rules*, Endeavour Energy's 2014/15 *Initial Pricing Proposal* must satisfy the following criteria:

6.18.7A Recovery of jurisdictional scheme amounts

- (a) *A pricing proposal must provide for tariffs designed to pass on to customers a Distribution Network Service Provider's jurisdictional scheme amounts for approved jurisdictional schemes.*
- (b) *The amount to be passed on to customers for a particular regulatory year must not exceed the estimated amount of the jurisdictional scheme amounts for a Distribution Network Service Provider's approved jurisdictional schemes adjusted for over or under recovery in accordance with paragraph (c).*
- (c) *The over and under recovery amount must be calculated in a way that:*
 - (1) *subject to subparagraphs (2) and (3) below, in consistent with the method determined by the AER for jurisdictional scheme amounts in the relevant distribution determination for the Distribution Network Service Provider, or where no such method has been determined, with the method determined by the AER in the relevant distribution determination in respect of designated pricing proposal charges;*
 - (2) *ensures a Distribution Network Service Provider is able to recover from customers no more and no less than the jurisdictional scheme amounts it incurs; and*
 - (3) *adjusts for an appropriate cost of capital that is consistent with the allowed rate of return used in the relevant distribution determination for the relevant regulatory year.*

2.2 Requirements of the AER's 2014/15 Transitional Distribution Determination

2.2.1 Revenue Cap

In accordance with section 2.4.9 of the AER's Stage 1 Framework and Approach paper, Endeavour Energy must submit to the AER proposed tariffs and charging parameters which correspond to the price terms contained in the Revenue Cap equation as set out below.

$$(1) \text{MAR}_t = \sum_{i=1}^n \sum_{j=1}^m p_{ij}^t q_{ij}^t \quad i = 1, \dots, n \text{ and } j = 1, \dots, m \text{ and } t = 1, \dots, 5$$

$$(2) \text{MAR}_t = \text{AR}_t + I_t + T_t + B_t$$

$$(3) \text{AR}_t = \text{AR}_{t-1}(1 + \text{CPI}_t)(1 - X_t)$$

MAR_t is the maximum allowable revenue in year t .

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

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

AR_t is the annual smoothed revenue requirement in the Post Tax Revenue Model for year t .

I_t is the sum of incentive scheme adjustments in year t .

T_t is the sum of transitional adjustments in year t .

B_t is the sum of annual adjustment factors in year t .

CPI_t is the percentage increase in the consumer price index.

X_t is the X-factor in year t .

AR_1 is the annual smoothed revenue requirement in the Post Tax Revenue Model in the transitional regulatory control period.

2.2.2 Side Constraint

In accordance with clause 6.18.6 of the *Rules*, the side constraints do not apply in the first regulatory year of the regulatory control period and will therefore not apply to tariff classes in 2014/15.

2.2.3 Revenue requirement

The following table outlines the AER's *2014/15 Transitional Distribution Determination* on Endeavour Energy's revenue requirement for the 2014/15 transitional year.

Table 2.1 – AER conclusion on annual revenue requirements and X factors (\$m, nominal)

	2014/15
Smoothed Revenues	949.5
Forecast CPI (%)	2.5%

3

BUSINESS CHARACTERISTICS

3.1 Business Characteristics

Endeavour Energy is a New South Wales state owned energy corporation serving some of Australia's largest and fastest growing regional economies.

Endeavour Energy manages a \$5.3 billion electricity distribution network for 908,000 customers, or 2.2 million people, in households and businesses across a network area spanning Sydney's Greater West, the Illawarra and South Coast, the Blue Mountains and the Southern Highlands.

Our network also covers Sydney's North West and South West Growth Centres – areas earmarked by the NSW Government for future housing development.

We are preparing to meet this extra growth and maintain our existing network by investing responsibly and efficiently in our network over the next regulatory period.

We are committed to making a serious and sincere effort to deliver better value for our customers by reducing our costs without compromising safety or services.



3.2 How our network transports electricity

The NSW electricity supply sector involves generation, transmission, distribution and retail sellers.

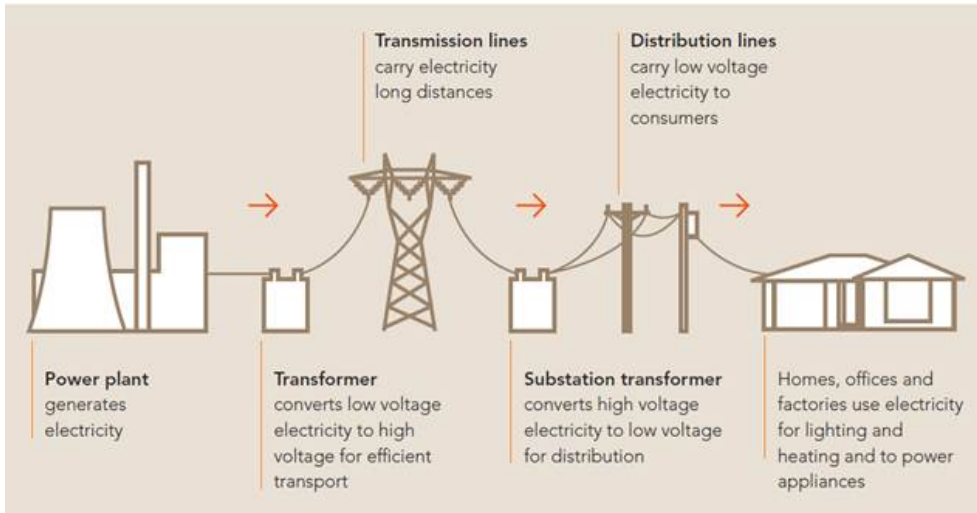
Endeavour Energy builds and operates an electrical network that transports electricity from the high voltage transmission network to customers' homes and businesses.

Power plants typically generate electricity a long way from homes and businesses. It is transported at high voltages to bulk supply points over the transmission system operated

by TransGrid. From here Endeavour Energy transports to our 22 sub transmission and 155 zone substations.

Zone substations, which typically service entire suburbs, transform electricity to mid voltage levels (11kV).

When electricity arrives at the location where it is required, distribution substations further transform the electricity to 415V or 240V. Power lines then carry low voltage electricity to consumers for their home, office and factory use.



4

TARIFF CLASSES

4.1 Regulatory requirements

In accordance with clause 6.18.3 of the *Rules*, Endeavour Energy must satisfy the following criteria with respect to tariff classes:

6.18.3 Tariff classes

- (a) *A pricing proposal must define the tariff classes into which retail customers for direct control services are divided.*
- (b) *Each customer for direct control services must be a member of 1 or more tariff classes.*
- (c) *Separate tariff classes must be constituted for retail customers to whom standard control services are supplied and retail customers to whom alternative control services are supplied (but a customer for both standard control services and alternative control services may be a member of 2 or more tariff classes).*
- (d) *A tariff class must be constituted with regard to:*
 - (1) *the need to group retail customers together on an economically efficient basis;*
 - and*
 - (2) *the need to avoid unnecessary transaction costs.*

4.2 Summary of Tariff Classes

Endeavour Energy's network use of system tariffs represent an aggregation of distribution use of system tariffs, climate change fund recovery tariffs and transmission cost recovery tariffs. Endeavour Energy's tariff classes are applicable to all of the above mentioned tariffs.

The following table provides a summary of Endeavour Energy's standard control services tariff classes³.

³ Endeavour Energy's Alternative Control Services are discussed in Chapter 12 of this pricing proposal

Table 4.1 – Endeavour Energy’s network tariff classes

Tariff Class	Pricing Options	Connection Characteristics
Low Voltage Energy	Residential Inclining Block Tariff	LV Connection; <160MWh pa
	Residential Time of Use	LV Connection; <160MWh pa
	General Supply Inclining Block Tariff	LV Connection; <160MWh pa
	General Supply Time of Use	LV Connection; <160MWh pa
	Controlled Load 1	LV Connection; <160MWh pa
	Controlled Load 2	LV Connection; <160MWh pa
Low Voltage Demand	LV TOU Demand	LV Connection; >160MWh pa
	LV TOU Demand Transition Tariff	LV Connection; >160MWh pa
High Voltage Demand	HV TOU Demand	HV Connection
	Individually Calculated	HV Connection; >40GWh pa or 10MVA ⁴
Subtransmission Demand	ST TOU Demand	ST Connection
	Individually Calculated	ST Connection; >40GWh or 10MVA ⁵
Inter-Distributor Transfer Demand	Individually Calculated	Distributor Transfer
Unmetered Supply	Streetlighting	Unmetered
	Traffic Control Signals	Unmetered
	Unmetered Supply	Unmetered
	Nightwatch	Unmetered

Endeavour Energy has defined tariff classes with respect to:

- The nature and extent of customers’ usage;
- The nature of the customers’ connection to the network; and
- Whether remotely-read interval metering or other similar metering technology has been installed at the customer’s premises as a result of a regulatory obligation or requirement.

Endeavour Energy believes that this definition of tariff classes represents an economically efficient tariff class assignment that will avoid the need for unnecessary transaction costs.

4.3 Low Voltage Energy Tariff Class

4.3.1 Residential inclining block tariff – N70

The residential network use of system inclining block tariff (IBT) applies to *customer connection services* supplied to the *connection point* where:

- Total electricity consumption, per financial year, is less than 160MWh; and
- Electricity is supplied at a voltage level defined as Low Voltage (LV) - nominally 230/400 V.

⁴ For more details refer to section 4.5.2

⁵ For more details refer to section 4.6.2

In addition, the residential IBT is predominantly used for one or more of the following purposes:

- Private dwellings;
- Boarding and lodging houses, being any house in which three or more persons exclusive of the family of the proprietor thereof are lodged for hire or reward from week to week or for more than a week;
- Retirement villages;
- Residential sections of nursing homes and hospitals;
- Residential sections of educational institutions;
- Children's homes;
- Approved baby health centres, day nurseries and kindergartens;
- Churches, mosques, temples etc., being buildings or properties which are used principally for public worship or partly for public worship and partly for educational purpose; or
- Approved caravan sites.

The residential IBT is applied where the *connection point* has an accumulation (basic or disc - Type 6) meter or an interval meter that is read as a type 6 meter.

The residential IBT comprises the following components:

- A Network Access Charge (\$pa); and
- Two variable energy components consisting of:
 - a) a First Block Rate, expressed on a ¢/kWh basis, to be applied to electricity consumption (kWh) up to and including 1,750 kWh per quarter; and
 - b) a Second Block Rate, expressed on a ¢/kWh basis, to be applied to electricity consumption (kWh) above 1,750 kWh per quarter.

4.3.2 Residential time of use (type 5) tariff – N705

The residential network use of system time of use (type 5) tariff applies to *customer connection services* supplied to the *connection point* where:

- Total electricity consumption, per financial year, is less than 160MWh;
- Electricity is supplied at a voltage level defined as Low Voltage (LV) - nominally 230/400 V; and
- A type 5 interval meter that records 30 minute intervals.

The residential time of use (type 5) tariff applies to a property, which is predominantly used for one or more of the purposes set out in section 4.3.1 at a *connection point* with a time of use meter from which interval meter data is obtained. Type 5 tariffs are applicable to supply points with a type 5 (manually read interval) meter installed.

The installation of a type 5 meter capable of recording 30 minute interval data is payable by the customer.

The residential time of use (type 5) tariff comprises the following components:

- A Network Access Charge (\$pa); and
- Three variable energy components consisting of:

- a) a Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Peak period;
- b) a Shoulder Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Shoulder period; and
- c) an Off-Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Off-Peak period.

The time of day period definitions are outlined in Appendix J.

4.3.3 Residential time of use tariff – N706

The residential network use of system time of use tariff applies to *customer connection services* supplied to the *connection point* where:

- Total electricity consumption, per financial year, is less than 160MWh;
- Electricity is supplied at a voltage level defined as Low Voltage (LV) - nominally 230/400 V; and

A type 6 meter that records a single “peak”, “shoulder” and “off peak” interval per billing period. The residential time of use tariff applies to a property, which is predominantly used for one or more of the purposes set out in section 4.3.1 at a *connection point* with a time of use meter from which interval meter data is obtained.

The installation of a type 6 meter capable of recording TOU meter data is payable by the customer.

The residential time of use tariff comprises the following components:

- A Network Access Charge (\$pa); and
- Three variable energy components consisting of:
 - a) a Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Peak period;
 - b) a Shoulder Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Shoulder period; and
 - c) an Off-Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Off-Peak period.

The time of day period definitions are outlined in Appendix J.

4.3.4 General supply inclining block tariff – N90

The general supply network use of system inclining block tariff (IBT) applies to *customer connection services* supplied to the *connection point* where:

- Total electricity consumption, per financial year, is less than 160MWh;
- Electricity is supplied at a voltage level defined as Low Voltage (LV) - nominally 230/400 V.

The general supply IBT applies to low voltage electricity used for any purpose other than Residential, at a *connection point* with an accumulation meter or an interval meter that is read as a type 6 meter.

The general supply IBT comprises the following components:

- A Network Access Charge (\$pa); and
- Two variable energy components consisting of:

- a) a First Block Rate, expressed on a ¢/kWh basis, to be applied to electricity consumption (kWh) up to and including 2,500 kWh per quarter; and
- b) a Second Block Rate, expressed on a ¢/kWh basis, to be applied to electricity consumption (kWh) above 2,500 kWh per quarter.

4.3.5 General supply time of use (type 5) – N845

The general supply network use of system time of use (type 5) tariff applies to *customer connection services* supplied to the *connection point* where:

- Total electricity consumption, per financial year, is less than 160MWh;
- Electricity is supplied at a voltage level defined as Low Voltage (LV) - nominally 230/400 V; and
- The interval meter records 30 minute intervals.

The general supply time of use (type 5) tariff applies to a property, which is predominantly used for any purpose other than residential at a *connection point* with a time of use meter from which interval meter data is obtained. Type 5 tariffs are applicable to supply points with a type 5 (manually read interval) meter installed.

The installation of a type 5 meter capable of recording 30 minute interval data is payable by the customer.

The general supply time of use (type 5) tariff comprises the following components:

- A Network Access Charge (\$pa); and
- Three variable energy components consisting of:
 - a) a Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Peak period;
 - b) a Shoulder Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Shoulder period; and
 - c) an Off-Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Off-Peak period.

The time of day period definitions are outlined in Appendix J.

4.3.6 General supply time of use – N84

The general supply network use of system time of use tariff applies to *customer connection services* supplied to the *connection point* where:

- Total electricity consumption, per financial year, is less than 160MWh;
- Electricity is supplied at a voltage level defined as Low Voltage (LV) - nominally 230/400 V; and
- A type 6 interval meter that records a single “peak”, “shoulder” and “off peak” interval per billing period.

The general supply time of use tariff applies to a property, which is predominantly used for any purpose other than residential at a *connection point* with a time of use meter from which interval meter data is obtained.

The installation of a type 6 meter capable of recording TOU meter data is payable by the customer.

The general supply time of use tariff comprises the following components:

- A Network Access Charge (\$pa); and
- Three variable energy components consisting of:
 - a) a Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Peak period;
 - b) a Shoulder Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Shoulder period; and
 - c) an Off-Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Off-Peak period.

The time of day period definitions are outlined in Appendix J.

4.3.7 Controlled load tariffs – N50 and N54

A control load network use of system tariff applies to *customer connection services* supplied to the *connection point* where:

- Total electricity consumption, per financial year, is less than 160MWh;
- Electricity is supplied at a voltage level defined as Low Voltage (LV) - nominally 230/400 V; and
- A residential or general supply tariff also applies.

A controlled load tariff applies where electricity load is separately metered and controlled at a *connection point* with an accumulation meter.

- a) Controlled Load 1 applies where specified appliances are controlled by our equipment so that supply may not be available between 7:00am and 10:00pm; and
- b) Controlled Load 2 applies where our equipment controls approved specified appliances so that electricity is available for restricted periods not exceeding a total of 17 hours in any period of 24 hours.

Switching times will be managed to minimise network investment and meet customer needs for the load being controlled.

Customers with a Controlled Load relay are entitled to a controlled load network price only if all of the following conditions are met:

- a) Controlled Load consumption is separately metered using the same type of meter as the uncontrolled portion of a customer's load;
- b) Controlled Load consumption and uncontrolled load consumption is always synchronously read, i.e. on the same day; and
- c) The Controlled Load is operated by our load control systems or time switches.

A controlled load tariff is applicable only to approved appliances as detailed in Endeavour Energy's Network Price List.

The controlled load 1 and 2 tariffs comprise of the following components:

- A Network Access Charge (\$pa); and
- An Energy rate, expressed on a ¢/kWh basis, to be applied to electricity consumption (kWh).

4.4 Low Voltage Demand Tariff Class

4.4.1 Low voltage time of use demand – N19

The low voltage network use of system time of use demand tariff applies to *customer connection services* supplied to the *connection point* where:

- Total electricity consumption, per financial year, is greater than 160MWh;
- Electricity is supplied at a voltage level defined as Low Voltage (LV) - nominally 230/400 V; and
- There exists a time of use meter, from which both interval meter energy and demand data is obtained.

The low voltage time of use demand tariff comprises the following components:

- A Network Access Charge (\$pa);
- Three variable energy components consisting of:
 - a) a Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Peak period;
 - b) a Shoulder Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Shoulder period; and
 - c) an Off-Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Off-Peak period.
- Two variable demand components consisting of:
 - a) a High-Season Peak Demand rate, expressed on a \$/maximum kVA/month basis, applied to the consumption of electricity in the High-Season Peak period; and
 - b) a Low-Season Peak Demand rate, expressed on a \$/maximum kVA/month basis, applied to the consumption of electricity in the Low-Season Peak period.

The time of day and season definitions are outlined in Appendix J.

4.4.2 Transitional time of use – N89

The transitional network use of system time of use tariff applies to *customer connection services* supplied to the *connection point* where:

- Total electricity consumption, per financial year, is greater than 160MWh;
- Electricity is supplied at a voltage level defined as Low Voltage (LV) - nominally 230/400 V; and
- There exists a time of use meter, from which at a minimum interval meter energy data is obtained.

The Transitional time of use tariff applies to those customers on a Low Voltage Energy Tariff Class tariff who have been identified as consuming in excess of 160MWh per annum, and therefore requiring a demand based tariff, but cannot be directly transferred to the low voltage time of use demand tariff due to a lack of metering capable of supporting the demand based tariff or the expected bill impact of a direct transition to low voltage time of use demand is deemed excessive.

The transitional time of use tariff comprises the following components:

- A Network Access Charge (\$pa); and

- Three variable energy components consisting of:
 - a) a Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Peak period;
 - b) a Shoulder Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Shoulder period; and
 - c) an Off-Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Off-Peak period.

The time of day period definitions are outlined in Appendix J.

4.5 High Voltage Demand Tariff Class

4.5.1 High voltage time of use demand – N29

The high voltage network use of system time of use demand tariff applies to *customer connection services* supplied to the *connection point* where:

- Electricity is supplied at a voltage level defined as High Voltage (HV) - nominally 12.7 kV SWER, 11 or 22 kV.

The high voltage time of use demand tariff comprises the following components:

- A Network Access Charge (\$pa);
- Three variable energy components consisting of:
 - a) a Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Peak period;
 - b) a Shoulder Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Shoulder period; and
 - c) an Off-Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Off-Peak period.
- Two variable demand components consisting of:
 - a) a High-Season Peak Demand rate, expressed on a \$/maximum kVA/month basis, applied to the consumption of electricity in the High-Season Peak period; and
 - b) a Low-Season Peak Demand rate, expressed on a \$/maximum kVA/month basis, applied to the consumption of electricity in the Low-Season Peak period.

The time of day and season definitions are outlined in Appendix J.

4.5.2 Individually calculated high voltage time of use demand tariffs

Individually calculated high voltage network use of system time of use demand tariffs may apply to *customer connection services* supplied to the *connection point* where:

- Electricity is supplied at a voltage level defined as High Voltage (HV) - nominally 12.7 kV SWER, 11 or 22 kV; and
- Electricity consumption has been equal to or greater than 100 GWh in total for the 36 months preceding the application; or
- Electricity consumption has been equal to or greater than 40 GWh per annum in each of the two financial years preceding the application; or
- Monthly peak demand has been equal to or greater than 10 MVA for 24 of the 36 months preceding the application.

Endeavour Energy may assign an individually calculated high voltage time of use demand tariff to any *connection point* in circumstances such as, but not limited to:

- The need to recover investment associated with stranded or dedicated assets, or other cost caused to Endeavour Energy by the customer at that *connection point*, which may otherwise not be recovered under the high voltage time of use demand tariff; and
- Endeavour Energy agrees to assign an individually calculated high voltage time of use demand tariff following an application from the customer, or a retail supplier acting on their behalf, to be assigned to an individually calculated high voltage time of use demand tariff.

Individually calculated high voltage time of use demand tariffs comprise the following components:

- A Network Access Charge (\$pa);
- Three variable energy components consisting of:
 - a) a Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Peak period;
 - b) a Shoulder Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Shoulder; and
 - c) an Off-Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Off-Peak period.
- Two variable demand components consisting of:
 - a) a High-Season Peak Demand rate, expressed on a \$/maximum kVA/month basis, applied to the consumption of electricity in the High-Season Peak period; and
 - b) a Low-Season Peak Demand rate, expressed on a \$/maximum kVA/month basis, applied to the consumption of electricity in the Low-Season Peak period.

The time of day and season definitions are outlined in Appendix J.

4.6 Subtransmission Voltage Demand Tariff Class

4.6.1 Subtransmission time of use demand – N39

The subtransmission network use of system time of use demand tariff applies to *customer connection services* supplied to the *connection point* where:

- Electricity is supplied at a voltage level defined as Sub-Transmission (ST) - 33, 66 or 132 kV.

The subtransmission time of use demand tariff comprises the following components:

- A Network Access Charge (\$pa);
- Three variable energy components consisting of:
 - a) a Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Peak period;
 - b) a Shoulder Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Shoulder period; and
 - c) an Off-Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Off-Peak period.
- Two variable demand components consisting of:

- a) a High-Season Peak Demand rate, expressed on a \$/maximum kVA/month basis, applied to the consumption of electricity in the High-Season Peak period; and
- b) a Low-Season Peak Demand rate, expressed on a \$/maximum kVA/month basis, applied to the consumption of electricity in the Low-Season Peak period.

The time of day and season definitions are outlined in Appendix J.

4.6.2 Individually calculated subtransmission voltage tariffs

Individually calculated subtransmission network use of system time of use demand tariffs may apply to *customer connection services* supplied to the *connection point* where:

- Electricity is supplied at a voltage level defined as Sub-Transmission (ST) - 33, 66 or 132 kV; and
- Electricity consumption has been equal to or greater than 100 GWh in total for the 36 months preceding the application; or
- Electricity consumption has been equal to or greater than 40 GWh per annum in each of the two financial years preceding the application; or
- Monthly peak demand has been equal to or greater than 10 MVA for 24 of the 36 months preceding the application.

Endeavour Energy may assign an individually calculated subtransmission time of use demand tariff to any *connection point* in circumstances such as, but not limited to:

- The need to recover investment associated with stranded or dedicated assets, or other cost caused to Endeavour Energy by the customer at that *connection point*, which may otherwise not be recovered under the subtransmission time of use demand tariff; and
- Endeavour Energy agrees to assign an individually calculated subtransmission time of use demand tariff following an application from the customer, or a retail supplier acting on their behalf, to be assigned to an individually calculated high voltage time of use demand tariff.

Individually calculated subtransmission time of use demand tariffs comprise the following components:

- A Network Access Charge (\$pa);
- Three variable energy components consisting of:
 - a) a Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Peak period;
 - b) a Shoulder Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Shoulder period; and
 - c) an Off-Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Off-Peak period.
- Two variable demand components consisting of:
 - a) a High-Season Peak Demand rate, expressed on a \$/maximum kVA/month basis, applied to the consumption of electricity in the High-Season Peak period; and
 - b) a Low-Season Peak Demand rate, expressed on a \$/maximum kVA/month basis, applied to the consumption of electricity in the Low-Season Peak period.

The time of day and season definitions are outlined in Appendix J.

4.7 Inter-Distributor Transfer Tariff Class

Inter-distributor transfer network use of system tariffs are calculated on an individual basis and are specifically applied to electricity transferred through the Endeavour Energy network on behalf of Ausgrid and Essential Energy.

Inter-distributor transfer tariffs comprise the following components:

- A Network Access Charge (\$pa);
- Three variable energy components consisting of:
 - a) a Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Peak period;
 - b) a Shoulder Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Shoulder period; and
 - c) an Off-Peak Energy rate, expressed on a ¢/kWh basis, to be applied to the consumption of electricity in the Off-Peak period.
- Two variable demand components consisting of:
 - a) a High-Season Peak Demand rate, expressed on a \$/maximum kVA/month basis, applied to the consumption of electricity in the High-Season Peak period; and
 - b) a Low-Season Peak Demand rate, expressed on a \$/maximum kVA/month basis, applied to the consumption of electricity in the Low-Season Peak period.

The time of day and season definitions are outlined in Appendix J.

4.8 Unmetered Supply Tariff Class

Tariff N99 comprises two variable energy components consisting of:

- a) a First Block Rate, expressed on a ¢/kWh basis, to be applied to calculated electricity consumption (kWh) up to and including 2,500 kWh per quarter; and
- b) a Second Block Rate, expressed on a ¢/kWh basis, to be applied to calculated electricity consumption (kWh) above 2,500 kWh per quarter.

Endeavour Energy also offers specific unmetered tariffs for:

- streetlighting *connection points*;
- traffic control signal lights *connection points*; and
- nightwatch *connection points*.

The streetlighting, traffic control signal light and nightwatch tariffs all comprise an energy rate, expressed on a ¢/kWh basis, to be applied to calculated electricity consumption (kWh).

Energy consumption is calculated using the appropriate algorithm in the applicable Metrology Procedure.

5

NETWORK TARIFF STRATEGY

5.1 Network Tariff Objectives

To provide a high-level framework for network tariff strategy development, Endeavour Energy has adopted the following network pricing objectives:

- Move toward prices that better reflect the underlying costs of supplying network capacity; and
- Constrain average distribution price increases to no more than the rate of inflation.

5.2 Network Tariff Strategy

Consistent with the network tariff objectives outlined above, Endeavour Energy's network tariff strategy aims to:

- Constrain our share of a customer's bill to no more than the rate of inflation for (at least) the next five years;
- Align the largely fixed costs of the network and revenues;
- Provide outcomes that recognise the impacts that pricing decisions have on our customers;
- Pass through the full cost of TransGrid's transmission services and preserve transmission price signals where possible; and
- Explore tariff based demand management opportunities, including voluntary time of use tariffs, and tariffs that target network constraints on a locational basis.

Over the coming determination period, Endeavour Energy will be looking to progressively move the residential tariff to a three block structure with a Declining Block Tariff (DBT) while continuing to keep its share of customer bill increases to CPI or below. Endeavour Energy proposes to gradually move towards a DBT to help make distribution charges more stable and predictable for customers in the longer term.

Restructuring the residential tariff to a three block structure while transitioning to a DBT would result in some customer impacts if implemented in a single year, in particular for small and average energy users. To manage the transition to a three block DBT it is proposed that Endeavour Energy take the following sequential steps:

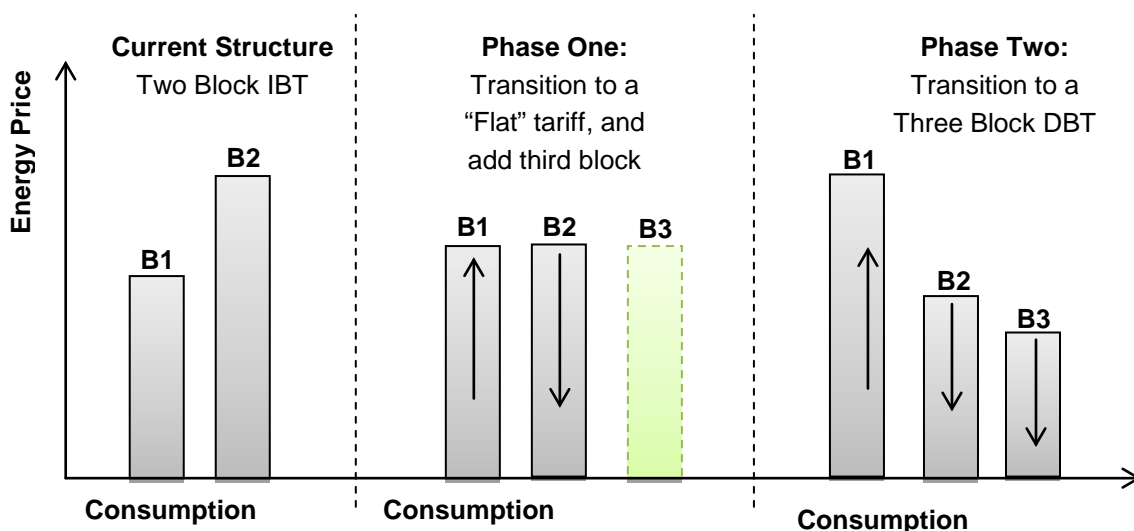
1. Reduce the existing differential between block one and block two to zero (noting that this transition will need to be managed over time to limit bill impacts);
2. Use the "flat" energy pricing structure to introduce a third pricing block and manage existing block consumption thresholds as required, thus eliminating adverse customer impacts from this structural change: and

3. Transition the “flat” tariff to a DBT structure

Endeavour Energy proposes to consult with stakeholders prior to any introduction of a DBT. In particular Endeavour Energy would emphasise to stakeholders that even if a DBT was introduced, our ambition is to contain distribution bill increases to no more than CPI for the five year regulatory period.

This energy price strategy is illustrated in the figure below:

Figure 5.1: Proposed Residential Energy Price Strategy



It is Endeavour Energy's intention to reduce the current differential between block one and block two in July 2014 and introduce phase one in July 2015 or July 2016.

5.3 Changes from the Previous Regulatory Year

In accordance with clause 6.18.2(b)(8) of the *Rules*, Endeavour Energy's 2014/15 *Initial Pricing Proposal* must describe the nature and extent of change from the previous regulatory year and demonstrate that the changes comply with the *Rules* and any applicable distribution determination.

Endeavour Energy does not propose to make any changes to the structure of network tariffs in 2014/15, but will introduce a new individually calculated tariff for a customer satisfying the criteria outlined in Chapter 4 above. The new tariff will take effect 1 July 2014 and has been developed in consultation with the customer.

5.4 Changes within the Regulatory Year

In accordance with clause 6.18.2(b)(5) of the *Rules*, Endeavour Energy's 2014/15 *Initial Pricing Proposal* must set out the nature of any variation or adjustment to the tariff that could occur during the course of the regulatory year and the basis on which it could occur.

Endeavour Energy does not propose to make any variations or adjustments to the structure of network tariffs during the course of 2014/15.

6

NETWORK USE OF SYSTEM TARIFFS

6.1 Calculation of Network Use of System Tariffs

Endeavour Energy's network use of system (NUOS) tariffs represent the aggregation of distribution use of system (DUOS) tariffs, climate change fund (CCF) recovery tariffs and transmission cost recovery (TCR) tariffs. The tariffs include the allowed movement in the consumer price index and are exclusive of GST.

6.2 Low Voltage Energy Tariff Class

6.2.1 Residential inclining block tariff – N70

The following table provides the proposed prices for the default residential inclining block tariff (IBT) for 2014/15. N70 is Endeavour Energy's primary residential tariff with over 99.9% of residential customers charged using this tariff.

Table 6.1 – Proposed 2014/15 residential inclining block tariff

Charging Parameter	Existing NUOS Tariff 2013/14	Proposed NUOS Tariff 2014/15	% change
Network Access Charge (\$pa)	127.7500	130.8525	2.4%
First Block Energy Charge (c/kWh)	10.8934	10.8934	0.0%
Second Block Energy Charge (c/kWh)	14.5818	12.4941	-14.3%

All prices in the above table are exclusive of GST

Endeavour Energy proposes to limit DUOS price increases for each charging parameter to CPI or below for N70 customers in 2014/15. It also proposes reducing the existing NUOS IBT price differential from 34% to 15%. Variances in the rate of change in the energy charges reflect the different rates of change in the DUOS, TCR and CCF tariffs and their differing proportional representation in each NUOS energy price.

6.2.2 Residential time of use (type 5) – N705

The following table provides the proposed prices for the residential time of use tariff (type 5) for 2014/15. N705 is an optional residential time of use tariff with less than 0.1% of residential customers charged using this tariff.

Table 6.2 – Proposed 2014/15 residential time of use (type 5) tariff

Charging Parameter	Existing NUOS Tariff 2013/14	Proposed NUOS Tariff 2014/15	% change
Network Access Charge (\$pa)	346.7500	315.6885	-9.0%
Peak Energy Charge (c/kWh)	19.4411	18.8334	-3.1%
Shoulder Energy Charge (c/kWh)	11.1819	10.9871	-1.7%
Off Peak Energy Charge (c/kWh)	4.7396	4.8669	2.7%

All prices in the above table are exclusive of GST

Endeavour Energy proposes to limit DUOS price increases for each charging parameter to CPI or below for N705 customers in 2014/15. Variances in the rate of change in the energy charges reflect the different rates of change in the DUOS, TCR and CCF tariffs and their differing proportional representation in each NUOS energy price.

6.2.3 Residential time of use – N706

The following table provides the proposed prices for the residential time of use tariff for 2014/15. N706 is an optional residential time of use tariff with less than 0.1% of residential customers charged using this tariff.

Table 6.3 – Proposed 2014/15 residential time of use tariff

Charging Parameter	Existing NUOS Tariff 2013/14	Proposed NUOS Tariff 2014/15	% change
Network Access Charge (\$pa)	200.7500	205.6775	2.5%
Peak Energy Charge (c/kWh)	19.4411	18.8334	-3.1%
Shoulder Energy Charge (c/kWh)	11.1819	10.9871	-1.7%
Off Peak Energy Charge (c/kWh)	4.7396	4.8669	2.7%

All prices in the above table are exclusive of GST

Endeavour Energy proposes to limit DUOS price increases for each charging parameter to CPI or below for N706 customers in 2014/15. Variances in the rate of change in the energy charges reflect the different rates of change in the DUOS, TCR and CCF tariffs and their differing proportional representation in each NUOS energy price.

6.2.4 General supply inclining block tariff – N90

The following table provides the proposed prices for the default general supply inclining block tariff for 2014/15. N90 is Endeavour Energy's primary general supply tariff with approximately 97.6% of general supply customers charged using this tariff.

Table 6.4 – Proposed 2014/15 general supply inclining block tariff

Charging Parameter	Existing NUOS Tariff 2013/14	Proposed NUOS Tariff 2014/15	% change
Network Access Charge (\$pa)	182.5000	186.9530	2.4%
First Block Energy Charge (c/kWh)	9.7650	9.7650	0.0%
Second Block Energy Charge (c/kWh)	11.6335	11.5226	-1.0%

All prices in the above table are exclusive of GST

Endeavour Energy proposes to limit DUOS price increases for each charging parameter to CPI or below for N90 customers in 2014/15. It also proposes reducing the existing NUOS IBT price differential from 19% to 18%. Variances in the rate of change in the energy charges reflect the different rates of change in the DUOS, TCR and CCF tariffs and their differing proportional representation in each NUOS energy price.

6.2.5 General supply time of use – N84

The following table provides the proposed prices for the general supply time of use tariff for 2014/15. Approximately 1.9% of general supply customers are charged using the N84 tariff.

Table 6.5 – Proposed 2014/15 general supply time of use tariff

Charging Parameter	Existing NUOS Tariff 2013/14	Proposed NUOS Tariff 2014/15	% change
Network Access Charge (\$pa)	313.9000	321.6015	2.5%
Peak Energy Charge (c/kWh)	16.8209	16.4165	-2.4%
Shoulder Energy Charge (c/kWh)	10.9093	10.7803	-1.2%
Off Peak Energy Charge (c/kWh)	4.9347	5.0841	3.0%

All prices in the above table are exclusive of GST

Endeavour Energy proposes to limit DUOS price increases for each charging parameter to CPI or below for N84 customers in 2014/15. Variances in the rate of change in the energy charges reflect the different rates of change in the DUOS, TCR and CCF tariffs and their differing proportional representation in each NUOS energy price.

6.2.6 General supply time of use (type 5) – N845

The following table provides the proposed prices for the general supply time of use tariff (type 5) for 2014/15. Approximately 0.5% of general supply customers are charged using the N845 tariff.

Table 6.6 – Proposed 2014/15 general supply time of use (type 5) tariff

Charging Parameter	Existing NUOS Tariff 2013/14	Proposed NUOS Tariff 2014/15	% change
Network Access Charge (\$pa)	456.2500	421.6115	-7.6%
Peak Energy Charge (c/kWh)	16.8209	16.4165	-2.4%
Shoulder Energy Charge (c/kWh)	10.5148	10.7803	2.5%
Off Peak Energy Charge (c/kWh)	5.9697	5.0841	-14.8%

All prices in the above table are exclusive of GST

Endeavour Energy proposes to limit the average customer DUOS increase to CPI or below for N845 customers in 2014/15 as consumption charging components are brought into alignment with N84. Variances in the rate of change in the energy charges reflect the different rates of change in the DUOS, TCR and CCF tariffs and their differing proportional representation in each NUOS energy price.

6.2.7 Controlled load tariffs – N50 and N54

The following table provides the proposed prices for the controlled load 1 tariff for 2014/15.

Table 6.7 – Proposed 2014/15 controlled load 1 tariff

Charging Parameter	Existing NUOS Tariff 2013/14	Proposed NUOS Tariff 2014/15	% change
Network Access Charge (\$pa)	14.6000	14.6000	0.0%
Energy Charge (c/kWh)	0.5621	0.6419	14.2%

All prices in the above table are exclusive of GST

The following table provides the proposed prices for the controlled load 2 tariff for 2014/15.

Table 6.8 – Proposed 2014/15 controlled load 2 tariff

Charging Parameter	Existing NUOS Tariff 2013/14	Proposed NUOS Tariff 2014/15	% change
Network Access Charge (\$pa)	14.6000	14.6000	0.0%
Energy Charge (c/kWh)	2.8118	2.8417	1.1%

All prices in the above table are exclusive of GST

Endeavour Energy proposes to limit DUOS price increases for each charging parameter to CPI or below for N50 and N54 customers in 2014/15. Variances in the rate of change

in the energy charges reflect the different rates of change in the DUOS and TCR tariffs and their differing proportional representation in each NUOS energy price.

The lower prices for controlled load tariffs provide an incentive for customers to save money by electing to switch eligible equipment to the tariff, while at the same time reducing peak demand on the network.

6.3 Low Voltage Demand Tariff Class

6.3.1 Low voltage time of use demand – N19

The following table provides the proposed prices for the low voltage time of use demand tariff for 2014/15.

Table 6.9 – Proposed 2014/15 low voltage time of use demand tariff

Charging Parameter	Existing NUOS Tariff 2013/14	Proposed NUOS Tariff 2014/15	% change
Network Access Charge (\$pa)	6,416.7000	6,573.6500	2.4%
Peak Energy Charge (c/kWh)	4.8142	4.7047	-2.3%
Shoulder Energy Charge (c/kWh)	2.9879	3.2436	8.6%
Off Peak Energy Charge (c/kWh)	1.2062	1.3777	14.2%
High Season Peak Demand Charge (\$/kVA/Month)	15.1358	14.2174	-6.1%
Low Season Peak Demand Charge (\$/kVA/Month)	14.0683	13.2098	-6.1%

All prices in the above table are exclusive of GST

Endeavour Energy proposes to limit DUOS price increases for each charging parameter to CPI or below for N19 customers in 2014/15. Variances in the rate of change in the energy and demand charges reflect the different rates of change in the DUOS, TCR and CCF tariffs and their differing proportional representation in each of the NUOS energy and demand prices.

6.3.2 Transitional time of use – N89

The following table provides the proposed prices for the transitional time of use tariff for 2014/15.

Table 6.10 – Proposed 2014/15 transitional time of use tariff

Charging Parameter	Existing NUOS Tariff 2013/14	Proposed NUOS Tariff 2014/15	% change
Network Access Charge (\$pa)	6,416.7000	6,573.6500	2.4%
Peak Energy Charge (c/kWh)	16.2852	16.3078	0.1%

Shoulder Energy Charge (c/kWh)	8.9612	9.1669	2.3%
Off Peak Energy Charge (c/kWh)	1.6129	1.7648	9.4%

All prices in the above table are exclusive of GST

Endeavour Energy proposes to limit DUOS price increases for each charging parameter to CPI or below for N89 customers in 2014/15. Variances in the rate of change in the energy charges reflect the different rates of change in the DUOS, TCR and CCF tariffs and their differing proportional representation in each NUOS energy price.

6.4 High Voltage Demand Tariff Class

6.4.1 High voltage time of use demand – N29

The following table provides the proposed prices for the high voltage time of use demand tariff for 2014/15.

Table 6.11 – Proposed 2014/15 high voltage time of use demand tariff

Charging Parameter	Existing NUOS Tariff 2013/14	Proposed NUOS Tariff 2014/15	% change
Network Access Charge (\$pa)	10,617.8500	10,877.0000	2.4%
Peak Energy Charge (c/kWh)	3.4017	3.4870	2.5%
Shoulder Energy Charge (c/kWh)	2.3994	2.6851	11.9%
Off Peak Energy Charge (c/kWh)	1.0167	1.1534	13.4%
High Season Peak Demand Charge (\$/kVA/Month)	10.9594	10.3721	-5.4%
Low Season Peak Demand Charge (\$/kVA/Month)	10.2045	9.6569	-5.4%

All prices in the above table are exclusive of GST

Endeavour Energy proposes to limit DUOS price increases for each charging parameter to CPI or below for N29 customers in 2014/15. Variances in the rate of change in the energy and demand charges reflect the different rates of change in the DUOS, TCR and CCF tariffs and their differing proportional representation in each of the NUOS energy and demand prices.

6.4.2 Individually calculated high voltage tariffs

The individually calculated high voltage NUOS tariffs have been provided to the AER on a confidential basis as Appendix E of this 2014/15 Initial Pricing Proposal on the basis that the tariffs contain customer specific data.

6.5 Subtransmission Voltage Demand Tariff Class

6.5.1 Subtransmission time of use demand – N39

The following table provides the proposed prices for the subtransmission time of use demand tariff for 2014/15.

Table 6.12 – Proposed 2014/15 subtransmission time of use demand tariff

Charging Parameter	Existing NUOS Tariff 2013/14	Proposed NUOS Tariff 2014/15	% change
Network Access Charge (\$pa)	16,687.8000	17,096.6000	2.4%
Peak Energy Charge (c/kWh)	3.0281	3.0868	1.9%
Shoulder Energy Charge (c/kWh)	2.0865	2.3335	11.8%
Off Peak Energy Charge (c/kWh)	0.9089	1.0660	17.3%
High Season Peak Demand Charge (\$/kVA/Month)	8.4210	7.8510	-6.8%
Low Season Peak Demand Charge (\$/kVA/Month)	7.9253	7.3783	-6.9%

All prices in the above table are exclusive of GST

Endeavour Energy proposes to limit DUOS price increases for each charging parameter to CPI or below for N39 customers in 2014/15. Variances in the rate of change in the energy and demand charges reflect the different rates of change in the DUOS, TCR and CCF tariffs and their differing proportional representation in each of the NUOS energy and demand prices.

6.5.2 Individually calculated subtransmission voltage tariffs

The individually calculated subtransmission voltage NUOS tariffs have been provided to the AER on a confidential basis as Appendix E of this *2014/15 Initial Pricing Proposal* on the basis that the tariffs contain customer specific data.

6.6 Inter-Distributor Transfer Tariff Class

The inter-distributor NUOS tariffs have been provided to the AER on a confidential basis as Appendix E to this *2014/15 Initial Pricing Proposal* on the basis that the tariffs contain customer specific data.

6.7 Unmetered Supply Tariff Class

The following table provides the proposed prices for the unmetered supply NUOS tariff (N99) for 2014/15

Table 6.13 – Proposed 2014/15 unmetered supply tariff

Charging Parameter	Existing NUOS Tariff 2013/14	Proposed NUOS Tariff 2014/15	% change
Network Access Charge (\$pa)	0.0000	0.0000	0.0%
First Block Energy Charge (c/kWh)	9.7650	9.7650	0.0%
Second Block Energy Charge (c/kWh)	11.6335	11.5226	-1.0%

All prices in the above table are exclusive of GST

The following table provides the proposed prices for the streetlighting NUOS tariff (SL) for 2014/15.

Table 6.14 – Proposed 2014/15 streetlighting tariff

Charging Parameter	Existing NUOS Tariff 2013/14	Proposed NUOS Tariff 2014/15	% change
Network Access Charge (\$pa)	0.0000	0.0000	0.0%
First Block Energy Charge (c/kWh)	9.6992	9.2194	-4.9%

All prices in the above table are exclusive of GST

The following table provides the proposed prices for the traffic control signal lights NUOS tariff (SL) for 2014/15.

Table 6.15 – Proposed 2014/15 traffic control signal lights tariff

Charging Parameter	Existing NUOS Tariff 2013/14	Proposed NUOS Tariff 2014/15	% change
Network Access Charge (\$pa)	0.0000	0.0000	0.0%
First Block Energy Charge (c/kWh)	9.7650	9.7650	0.0%

All prices in the above table are exclusive of GST

The following table provides the proposed prices for the nightwatch NUOS tariff (NW) for 2014/15.

Table 6.16 – Proposed 2014/15 nightwatch tariff

Charging Parameter	Existing NUOS Tariff 2013/14	Proposed NUOS Tariff 2014/15	% change
Network Access Charge (\$pa)	0.0000	0.0000	0.0%
First Block Energy Charge (c/kWh)	5.9452	6.0833	2.3%

All prices in the above table are exclusive of GST

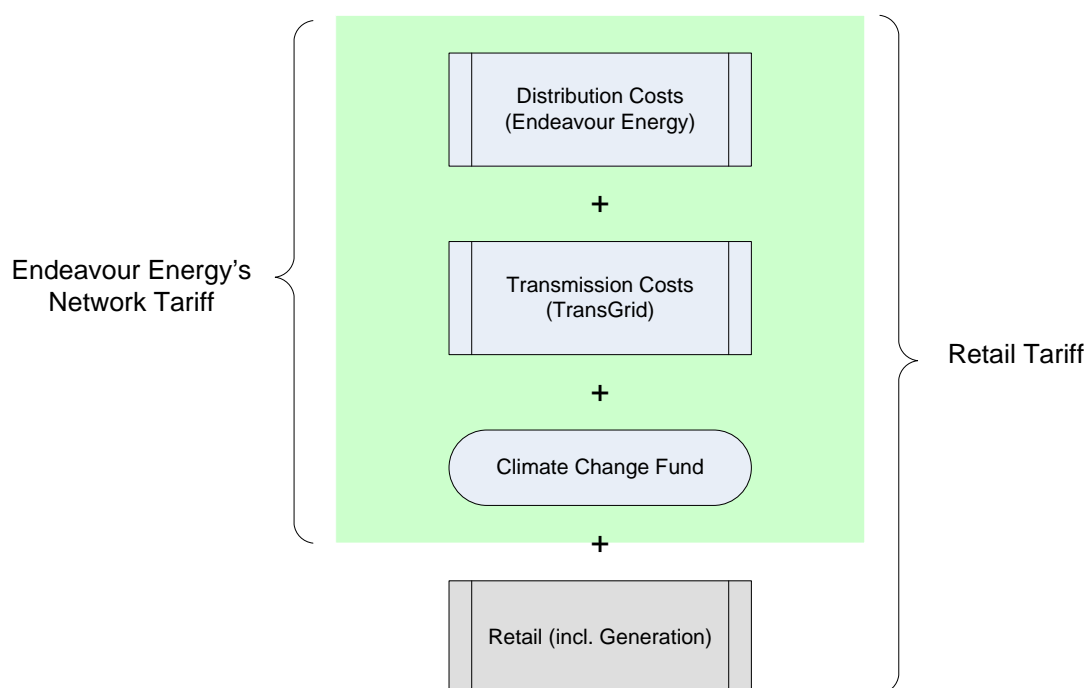
7

CUSTOMER IMPACTS

7.1 Endeavour Energy's Network Tariffs

Endeavour Energy's network use of system tariffs are an aggregation of distribution tariffs, transmission cost recovery tariffs and climate change fund recovery tariffs. Retailers generally pass through network tariffs to end use customers and add the costs of purchasing electricity from the wholesale market and other retail-related costs of selling electricity⁶ as illustrated in Figure 7.1 below. The customer impacts examined in this chapter relate only to network charges and do not include assumptions relating to retail charges.

Figure 7.1 – Costs recovered through Endeavour Energy's network tariffs

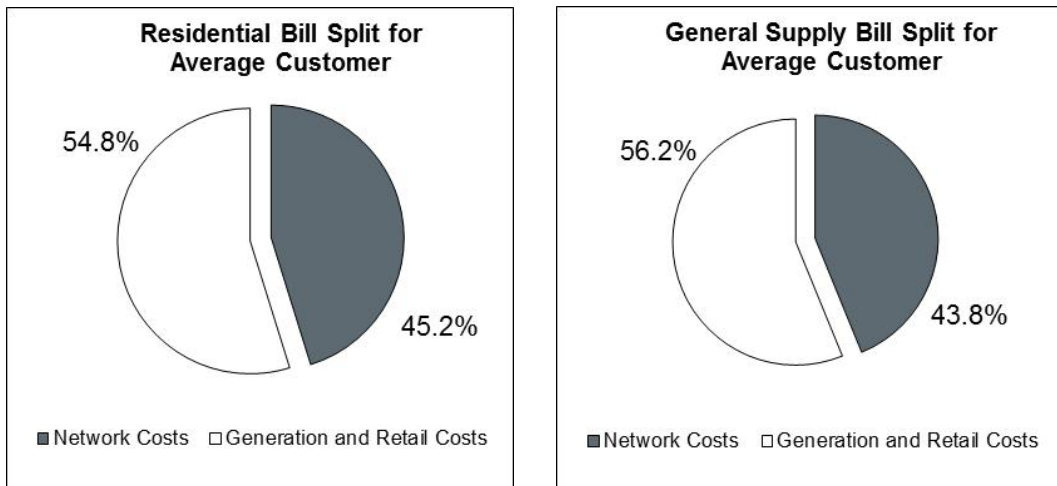


By way of example, figure 7.2 below provides the proportional network and retail components of an average regulated residential IBT and general supply IBT retail bill⁷.

⁶ Including retail operating costs, retail margin and wholesale fees.

⁷ Average regulated retail bills are calculated on the basis of the 2013/14 regulated Retail price for residential IBT and general supply IBT tariff customers in the Endeavour Energy network consuming 5,000kWh and 10,000kWh respectively.

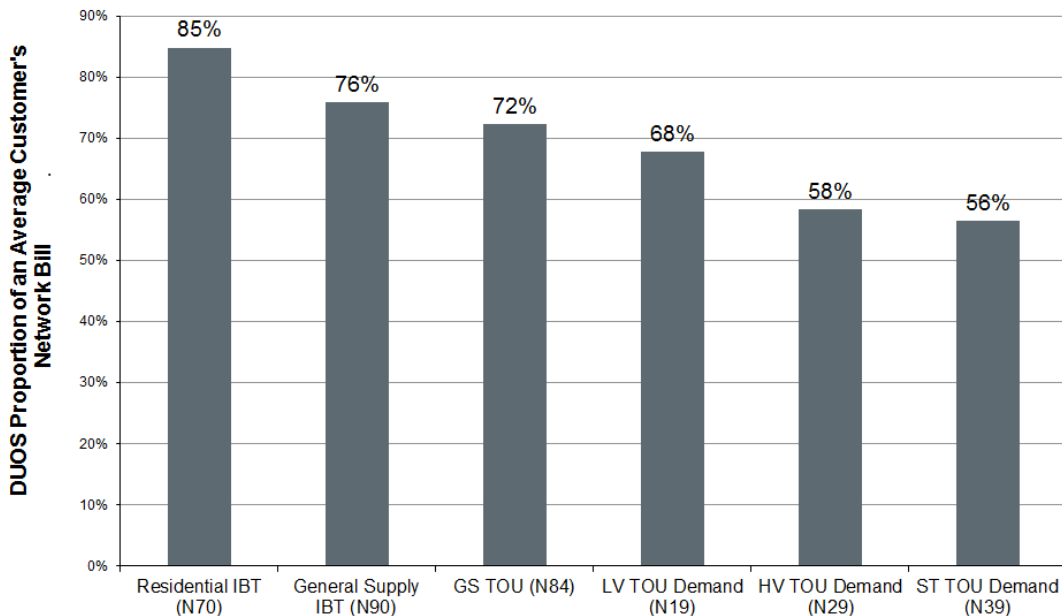
Figure 7.2 – Average regulated residential and general supply IBT bills by network and retail component – 2013/14



As demonstrated in figure 7.2 above the NUOS charges represent less than 50% of the total electricity price in each case.⁸

Figure 7.3 below demonstrates that as average customer size increases and customers connect to higher voltages on the Endeavour Energy network the Distribution proportion of the total Network bill decreases and the proportional weighting of Transmission Cost Recovery and Climate Change Fund Recovery tariffs increases.

Figure 7.3 – Average DUOS proportion of a Network Bill – 2014/15



⁸ Over 99% of Endeavour Energy's customers are charged for electricity on the basis of either residential IBT (N70) or general supply IBT (N90) network tariff. Not all customers are supplied on the basis of the regulated retail tariff.

The DUOS tariffs contained in the overall NUOS charges have been calculated in accordance with the revenue cap constraint as specified in the AER Stage 1 Framework and Approach Paper. In nominal terms, the maximum allowable revenue in DUOS charges for 2014/15 is \$956.9 million, as provided in Table 7.1 below:

Table 7.1 – Revenue cap compliance factors

Compliance Item		2014/15 Criteria (\$'000)
Annual Revenue Requirement (t)	AR_t (AR_1)	\$949,455 ⁹
Sum of incentive scheme adjustments (t)	I_t	\$7,435 ¹⁰
Sum of transitional adjustments in year (t)	T_t	\$0
Sum of annual adjustment factors in year (t)	B_t	\$0
Maximum Allowable Revenue (t)	MAR_t	\$956,890

Endeavour Energy's transmission cost recovery (TCR) tariffs are designed to recover transmission related costs, including TransGrid's transmission use of system (TUOS) charges, avoided transmission payments made to embedded generators and adjustments to balance Endeavour Energy's transmission overs and unders account.

Endeavour Energy's transmission related costs are calculated to increase by 8.39% in 2014/15. The following table provides a breakdown of the drivers of the changes in Endeavour Energy's 2014/15 transmission costs.

Table 7.2 – Changes in 2014/15 transmission costs

Transmission Cost	2014/15 Change
A. Change in transmission related payments (a + b)	8.39%
- Impact of change in transmission revenues payable to TransGrid (a)	7.26%
- Impact of change in avoided TUOS payments to embedded generators (b)	1.13%
B. Change required to balance transmission overs and unders account	-0.60%
Total change in transmission costs $((1+A)*(1+B))-1$	7.74%

The customer impacts presented in the following section are calculated using Endeavour Energy's proposed NUOS tariffs and include changes in CPI, DUOS, climate change fund recovery and transmission cost recovery tariffs.

All customer impacts presented in this chapter arising from NUOS price changes are GST exclusive and have been calculated on the basis that historic customer energy consumption levels and patterns are indicative of 2014/15 consumption levels and patterns.

The distribution of impacts is provided where the number of customers on the tariff is sufficient and the data is available to provide a meaningful analysis.

⁹ AR_1 is the annual smoothed revenue requirement in the Post Tax Revenue Model, approved by the AER for the transitional regulatory control period.

¹⁰ In accordance with the AER's Stage 2 Framework & Approach, Endeavour Energy is entitled to recover the costs of foregone revenue of applicable demand management projects in the 2009 determination period. Endeavour Energy's 2014-15 demand management costs and foregone revenue equate to \$7.4m as submitted to the AER in the 2012-13 RIN.

7.2 Low Voltage Energy Tariff Class

7.2.1 Residential inclining block tariff – N70

The following table shows the expected network bill impacts of the proposed network price change for customers on the residential inclining block tariff¹¹.

Table 7.3 – Customer impact residential inclining block tariff

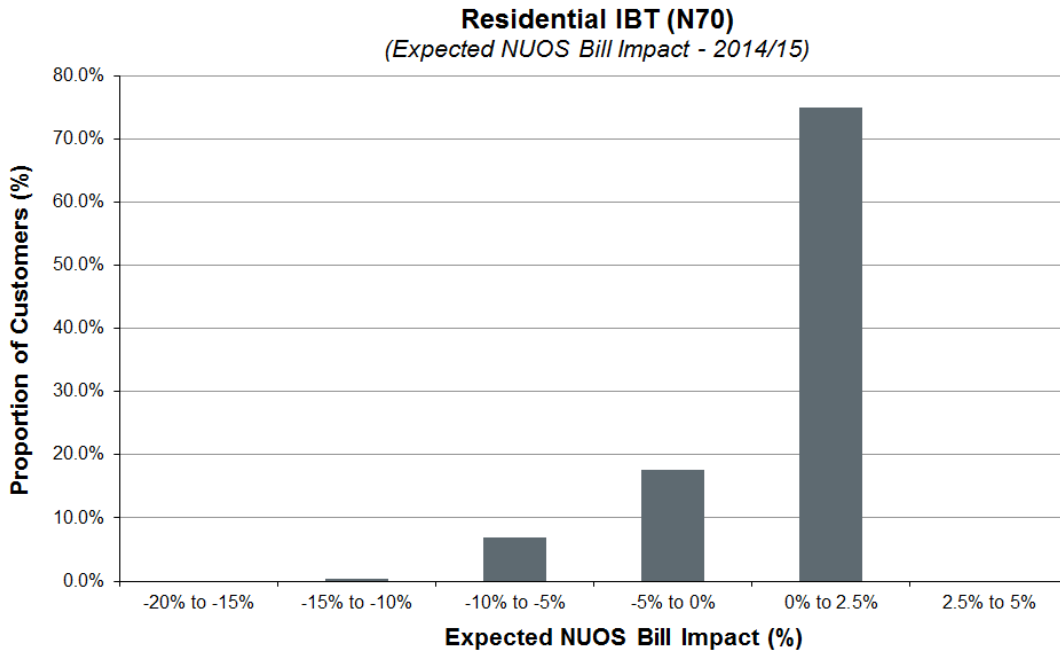
Annual Consumption	NUOS Bill (\$pa)		Change in NUOS Bill (%)
	2013/14	2014/15	
2,000	345.62	348.72	0.9%
5,000*	672.42	675.52	0.5%
7,000	890.29	893.39	0.3%
10,000	1,327.74	1,268.21	-4.5%
15,000	2,056.83	1,892.92	-8.0%

All indicative bill outcomes in the above table are exclusive of GST

() Approximate annual consumption of an average sized customer*

The following figure shows the impact distribution of the proposed network price change for customers on the residential inclining block tariff.

Figure 7.4 – Expected residential inclining block tariff NUOS bill impact distribution



¹¹ Customer distribution based on historic (2012/13) data

7.2.2 Residential time of use (type 5) – N705

The following table shows the expected network bill impacts of the proposed network price change for customers on the residential time of use (type 5) tariff.

Table 7.4 – Customer impact residential time of use (type 5)

Annual Consumption	NUOS Bill (\$pa)		Change in NUOS Bill (%)
	2013/14	2014/15	
5,000	769.38	735.40	-4.4%
10,000	1,192.01	1,155.11	-3.1%
30,000	2,882.53	2,833.97	-1.7%
50,000	4,573.05	4,512.82	-1.3%
70,000	6,263.57	6,191.67	-1.1%

All indicative bill outcomes in the above table are exclusive of GST

7.2.3 Residential time of use – N706

The following table shows the expected network bill impacts of the proposed network price change for customers on the residential time of use tariff.

Table 7.5 – Customer impact residential time of use

Annual Consumption	NUOS Bill (\$pa)		Change in NUOS Bill (%)
	2013/14	2014/15	
5,000	623.38	625.39	0.3%
10,000	1,046.01	1,045.10	-0.1%
30,000*	2,736.53	2,723.96	-0.5%
50,000	4,427.05	4,402.81	-0.5%
70,000	6,117.57	6,081.66	-0.6%

All indicative bill outcomes in the above table are exclusive of GST

() Approximate annual consumption of an average sized customer*

7.2.4 General Supply inclining block tariff – N90

The following table shows the expected network bill impacts of the proposed network price change for customers on the general supply inclining block tariff.

Table 7.6 – Customer impact general supply inclining block tariff

Annual Consumption	NUOS Bill (\$pa)		Change in NUOS Bill (%)
	2013/14	2014/15	
5,000	670.75	675.20	0.7%
10,000(*1)	1,159.00	1,163.45	0.4%
23,000(*2)	2,671.36	2,661.39	-0.4%
40,000	4,649.05	4,620.23	-0.6%
60,000	6,975.75	6,924.75	-0.7%

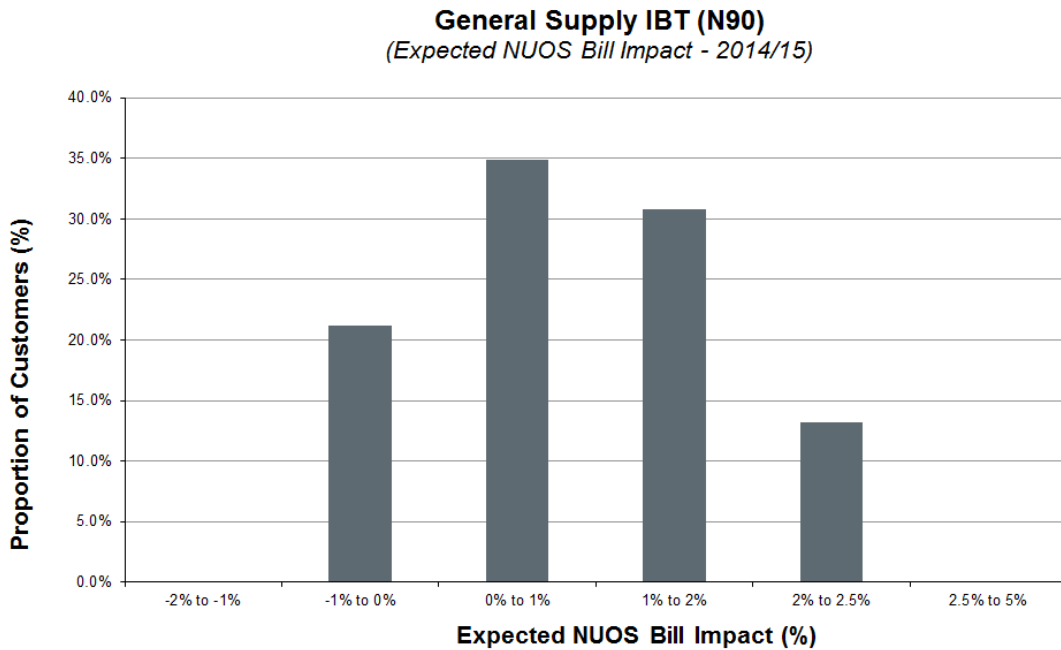
All indicative bill outcomes in the above table are exclusive of GST

*(*1) Approximate annual consumption of the median customer*

(*2) Approximate annual consumption of an average sized customer

The following figure shows the impact distribution of the proposed network price change for customers on the general supply inclining block tariff¹².

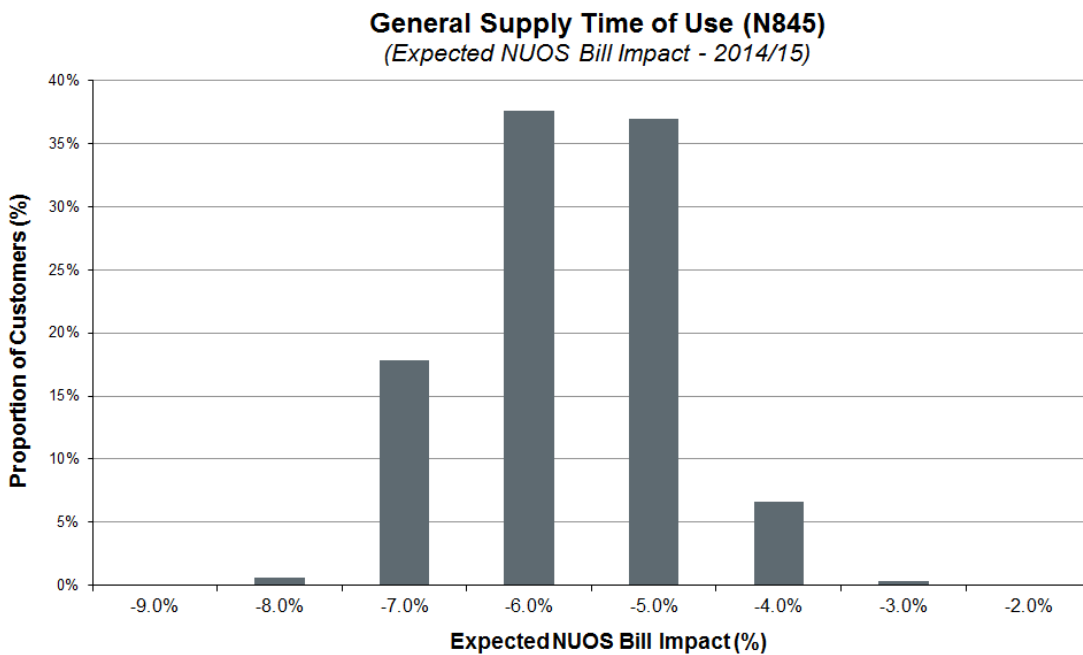
Figure 7.5 – Expected general supply inclining block tariff NUOS bill impact distribution



7.2.5 General supply time of use (type 5) – N845

The following figure shows the impact distribution of the proposed network price change for customers on the general supply time of use (type 5) tariff.

Figure 7.6 – Expected general supply time of use (type 5) NUOS bill impact distribution

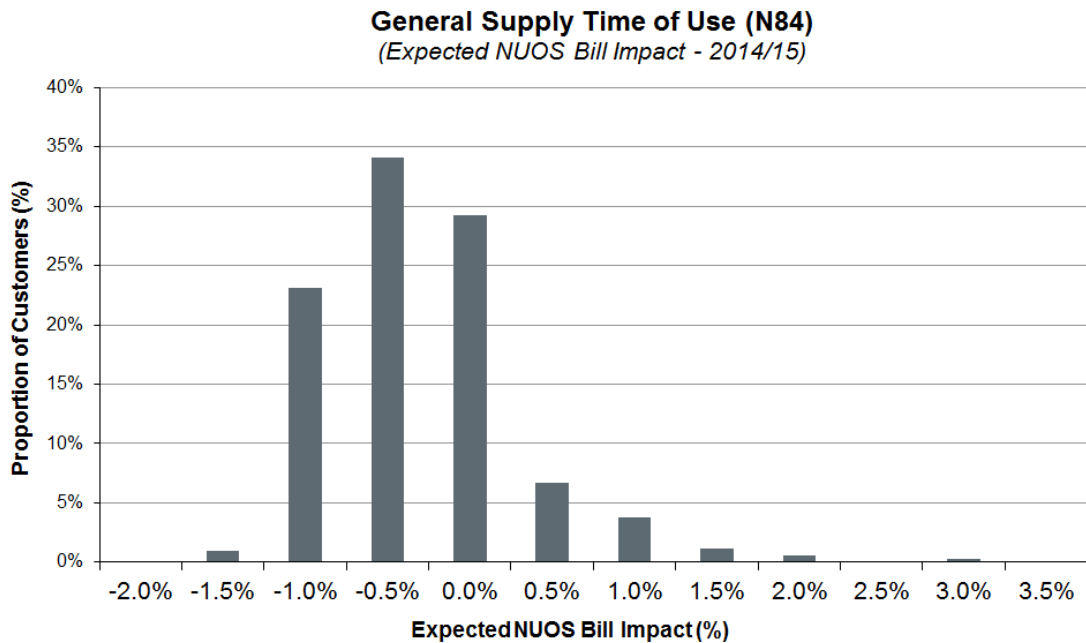


¹² Customer distribution based on historic (2012/13) data

7.2.6 General supply time of use – N84

The following figure shows the impact distribution of the proposed network price change for customers on the general supply time of use tariff.

Figure 7.7 – Expected general supply time of use NUOS bill impact distribution



7.2.7 Controlled load tariffs – N50 and N54

The following table shows the expected network bill impacts of the proposed network price change for customers on the controlled load 1 tariff.

Table 7.7 – Customer impact Controlled Load 1

Annual Consumption	NUOS Bill (\$pa)		Change in NUOS Bill (%)
	2013/14	2014/15	
1,000	20.22	21.02	3.9%
3,000*	31.46	33.86	7.6%
5,000	42.71	46.70	9.3%
10,000	70.81	78.79	11.3%

All indicative bill outcomes in the above table are exclusive of GST
(*) Approximate annual consumption of an average sized customer

The following table shows the expected network bill impacts of the proposed network price change for customers on the controlled load 2 tariff.

Table 7.8 – Customer impact Controlled Load 2

Annual Consumption	NUOS Bill (\$pa)		Change in NUOS Bill (%)
	2012/13	2013/14	
1,000	42.72	43.02	0.7%
3,000*	98.95	99.85	0.9%
5,000	155.19	156.69	1.0%
10,000	295.78	298.77	1.0%

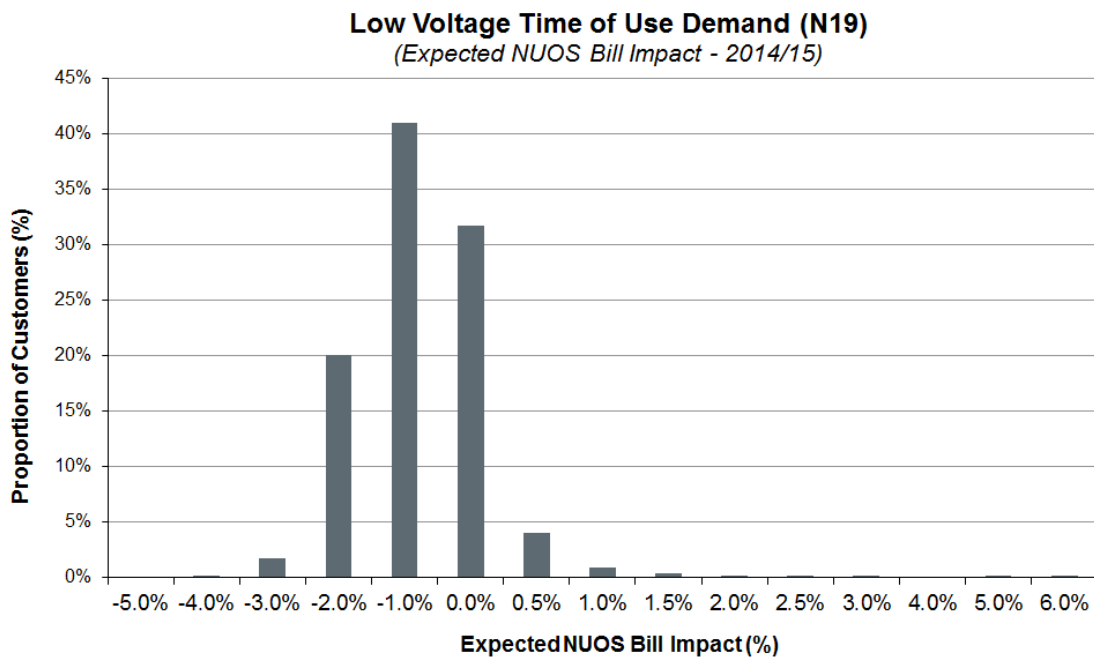
All indicative bill outcomes in the above table are exclusive of GST
 (*) Approximate annual consumption of an average sized customer

7.3 Low Voltage Demand Tariff Class

7.3.1 Low voltage time of use demand – N19

The following figure shows the impact distribution of the proposed network price change for customers on the low voltage time of use demand tariff.

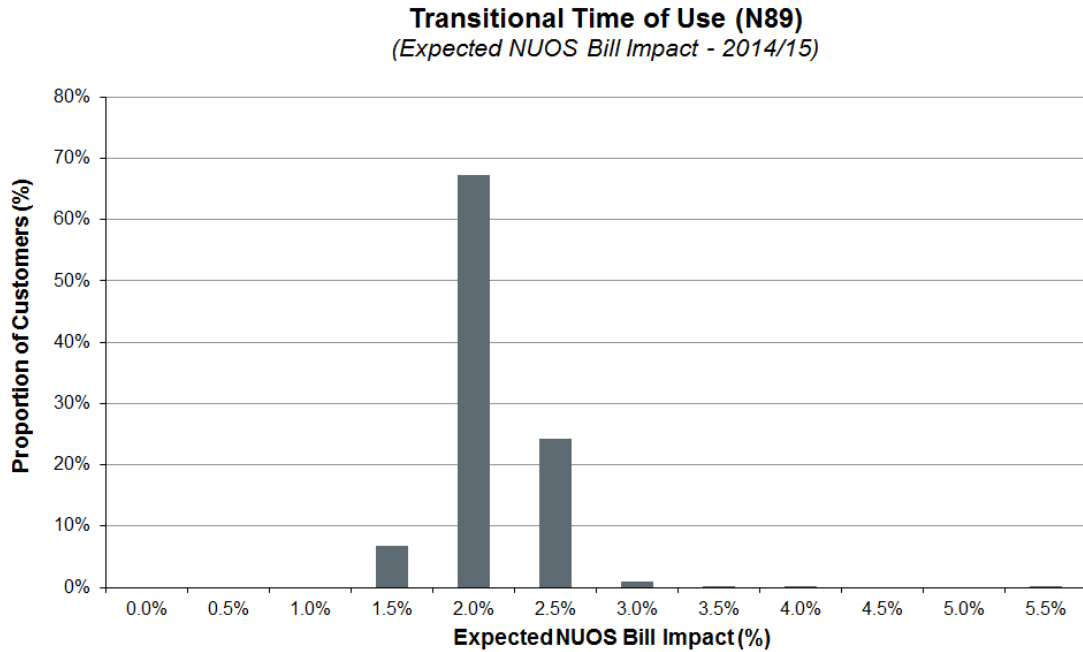
Figure 7.8 – Expected low voltage time of use demand NUOS bill impact distribution



7.3.2 Transitional time of use – N89

The following figure shows the impact distribution of the proposed network price change for customers on the transitional time of use tariff.

Figure 7.9 – Expected transition time of use NUOS bill impact distribution

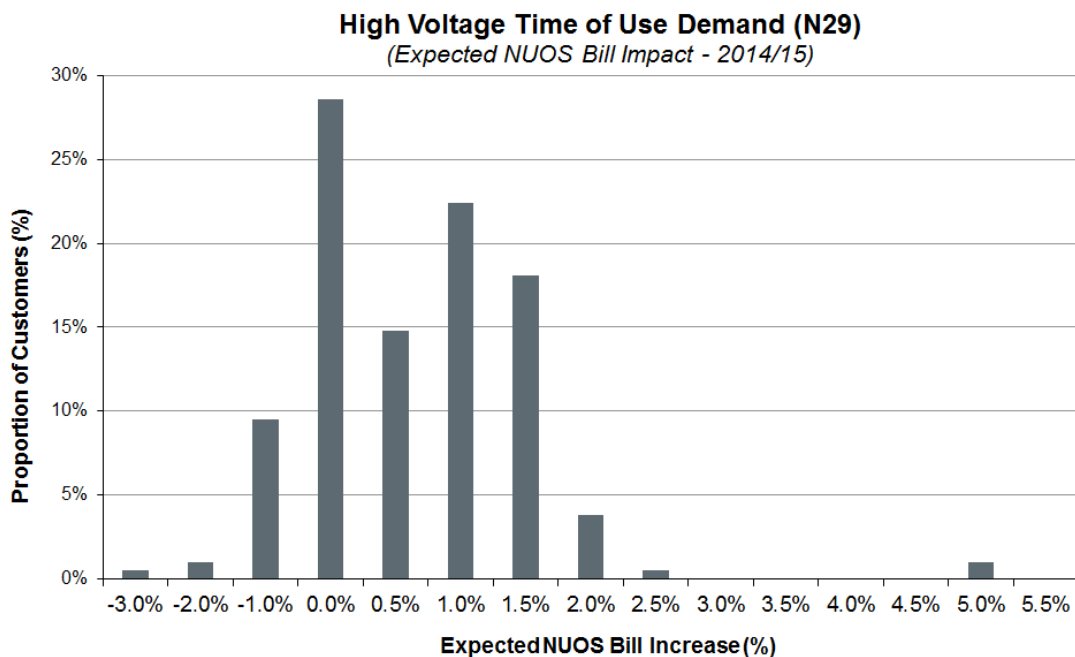


7.4 High Voltage Demand Tariff Class

7.4.1 High voltage time of use demand – N29

The following figure shows the impact distribution of the proposed network price change for customers on the high voltage time of use demand tariff.

Figure 7.10 – Expected high voltage time of use demand NUOS bill impact distribution

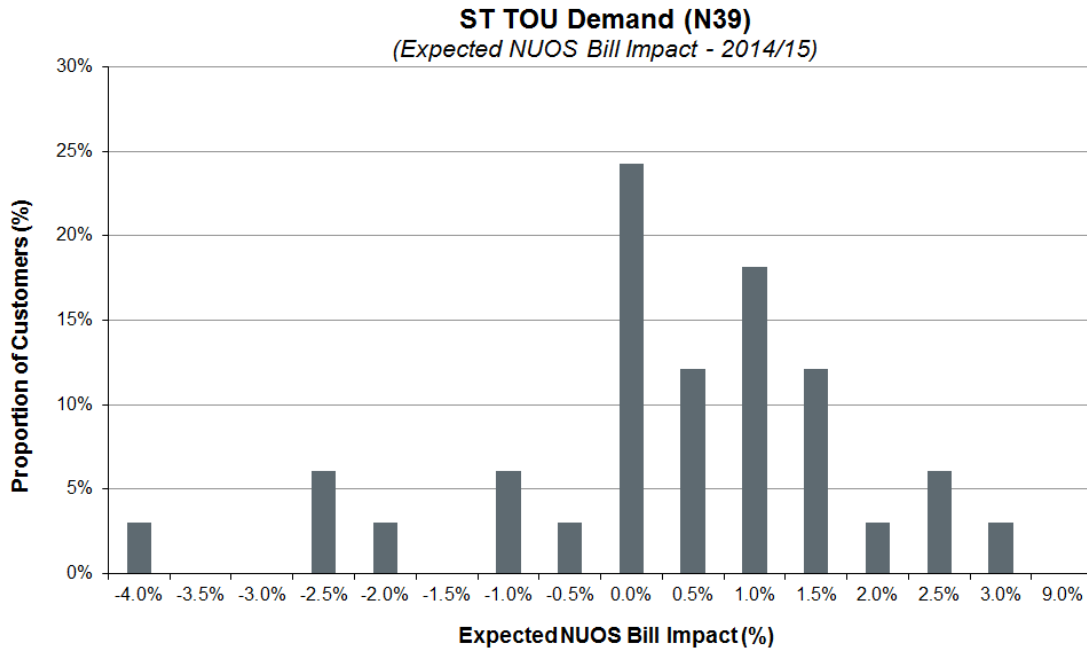


7.5 Subtransmission Voltage Demand Tariff Class

7.5.1 Subtransmission time of use demand – N39

The following figure shows the impact distribution of the proposed network price change for customers on the subtransmission time of use demand tariff.

Figure 7.11 – Expected subtransmission time of use demand NUOS bill impact distribution



7.6 Unmetered Supply Tariff Class

The following table shows the expected network bill impacts of the proposed network price change for customers on the unmetered supply tariff.

Table 7.9 – Customer impact of the unmetered supply tariff (N99)

Annual Consumption	NUOS Bill (\$pa)		Change in NUOS Bill (%)
	2013/14	2014/15	
1,000	97.65	97.65	0.0%
3,000	292.95	292.95	0.0%
5,000	488.25	488.25	0.0%
10,000	976.50	976.50	0.0%
20,000	2,139.85	2,128.76	-0.5%

The following table shows the expected network bill impacts of the proposed network price change for customers on the unmetered streetlighting tariff.

Table 7.10 – Customer impact unmetered streetlighting tariff (SL)

Annual Consumption	NUOS Bill (\$pa)		Change in NUOS Bill (%)
	2013/14	2014/15	
1,000	96.99	92.19	-4.9%
3,000	290.98	276.58	-4.9%
5,000	484.96	460.97	-4.9%
10,000	969.92	921.94	-4.9%
20,000	1,939.84	1,843.88	-4.9%

All indicative bill outcomes in the above table are exclusive of GST

The following table shows the expected network bill impacts of the proposed network price change for customers on the unmetered traffic signal tariff.

Table 7.11 – Customer impact unmetered traffic signal tariff (TL)

Annual Consumption	NUOS Bill (\$pa)		Change in NUOS Bill (%)
	2013/14	2014/15	
1,000	97.65	97.65	0.0%
3,000	292.95	292.95	0.0%
5,000	488.25	488.25	0.0%
10,000	976.50	976.50	0.0%
20,000	1,953.00	1,953.00	0.0%

All indicative bill outcomes in the above table are exclusive of GST

The following table shows the expected network bill impacts of the proposed network price change for customers on the unmetered nightwatch tariff.

Table 7.12 – Customer impact nightwatch (NW)

Annual Consumption	NUOS Bill (\$pa)		Change in NUOS Bill (%)
	2013/14	2014/15	
1,000	59.45	60.83	2.3%
3,000	178.36	182.50	2.3%
5,000	297.26	304.17	2.3%
10,000	594.52	608.33	2.3%
20,000	1,189.04	1,216.66	2.3%

All indicative bill outcomes in the above table are exclusive of GST

8

COMPLIANCE WITH REGULATORY REQUIREMENTS

8.1 2014/15 Compliance Requirements

The following table summarises the 2014/15 network pricing compliance criteria.

Table 8.1 – Revenue cap compliance factors

Compliance Item		2014/15 Criteria (\$'000)
Annual Revenue Requirement (t)	AR_t (AR_1)	\$949,455 ¹³
Sum of incentive scheme adjustments (t)	I_t	\$7,435 ¹⁴
Sum of transitional adjustments in year (t)	T_t	\$0
Sum of annual adjustment factors in year (t)	B_t	\$0
Maximum Allowable Revenue (t)	MAR_t	\$956,890

8.2 Compliance with the Revenue Cap

The following table demonstrates that Endeavour Energy's 2014/15 Initial Pricing Proposal complies with the revenue cap constraint outlined in the 2014/15 Transitional Distribution Determination and based on the tariff classes outlined in Chapter 4 of this Proposal. The table also satisfies clause 6.18.2(b)(4) of the Rules.

¹³ AR_1 is the annual smoothed revenue requirement in the Post Tax Revenue Model, approved by the AER for the transitional regulatory control period.

¹⁴ In accordance with the AER's Stage 2 Framework & Approach, Endeavour Energy is entitled to recover the costs of foregone revenue of applicable demand management projects in the 2009 determination period. Endeavour Energy's 2014-15 demand management costs and foregone revenue equate to \$7.4m as submitted to the AER in the 2012-13 RIN.

Table 8.2 – Compliance with the revenue cap¹⁵

Tariff Class	Weighted Average Existing Revenue 2013/14 (\$'000)	Weighted Average Proposed Revenue 2014/15 (\$'000)
Low Voltage Energy	699,326	667,479
Low Voltage Demand	208,361	195,745
High Voltage Demand	42,957	40,147
Subtransmission Demand	31,115	28,291
Inter-Distributor Transfers	6,183	6,318
Unmetered Supply	10,969	9,341
Revenue from Tariffs	998,910	947,321
Miscellaneous and Monopoly Fees	8,781	9,569
Total	1,007,691	956,890
Maximum Allowable Revenue (t)		956,890
Is the proposed DUOS revenue within the Revenue Cap MAR?		Yes

8.3 Compliance with tariff class constraints

In accordance with clause 6.18.6 of the *Rules*, the side constraints do not apply in the first regulatory year of the regulatory control period and will therefore not apply to tariff classes in 2014/15.

Endeavour Energy notes however, that the weighted average revenue change by tariff class is below CPI or 2.50% for all tariff classes.

Table 8.3 – Average Tariff Class Movement¹⁶

Tariff Class	Weighted Average Existing Revenue 2013/14 (\$'000)	Weighted Average Proposed Revenue 2014/15 (\$'000)	Change in Weighted Average Revenue (%)
Low Voltage Energy	699,326	667,479	-4.55%
Low Voltage Demand	208,361	195,745	-6.05%
High Voltage Demand	42,957	40,147	-6.54%
Subtransmission Demand	31,115	28,291	-9.07%
Inter-Distributor Transfers	6,183	6,318	2.20%
Unmetered Supply	10,969	9,341	-14.85%

8.4 Pricing Principles

In accordance with 6.18.5 of the *Rules* Endeavour Energy must comply with the following pricing principles:

6.18.5 Pricing principles

(a) For each tariff class, the revenue expected to be recovered should lie on or between:

¹⁵ Weighted average revenues have been calculated using forecast 2014/15 volumes.

¹⁶ Weighted average revenues have been calculated using forecast 2014/15 volumes.

(1) an upper bound representing the stand alone cost of serving the customers who belong to that class; and

(2) a lower bound representing the avoidable cost of not serving those customers.

(b) A tariff, and if it consists of 2 or more charging parameters, each charging parameter for a tariff class:

(1) must take into account the long run marginal cost for the service or, in the case of a charging parameter, for the element of the service to which the charging parameter relates; and

(2) must be determined having regard to:

(i) transaction costs associated with the tariff or each charging parameter; and

(ii) whether customers of the relevant tariff class are able or likely to respond to price signals.

(c) If, however, as a result of the operation of paragraph (b), the Distribution Network Service Provider may not recover the expected revenue, the provider must adjust its tariffs so as to ensure recovery of expected revenue with minimum distortion to efficient patterns of consumption.

8.5 Compliance with Avoidable and Stand Alone Cost Requirements

8.5.1 Definition of Avoidable and Stand Alone Cost

As part of its 2009/10 Initial Pricing Proposal, Endeavour Energy engaged CEG to provide an external review of Endeavour Energy's avoidable and stand alone cost calculation methodology and model.

As part of this review, CEG provided Endeavour Energy with two definitions of avoidable and stand alone cost.

Option 1:

The first hypothesises the different costs associated with building a new network with and without the relevant customer class. This approach ignores the sunk nature of the existing network and calculates costs as follows:

- **Avoidable cost for tariff class A** - total cost of building and operating the network that Endeavour Energy would design to serve all customers less total cost of building and operating the network that Endeavour Energy would design to serve all customers except those in tariff class A; and
- **Stand alone cost for tariff class A** - total cost of building and operating the network that Endeavour Energy would design to serve only the customers in tariff class A.

Option 2:

The second is to acknowledge the existence of the network as it presently stands today and to calculate standalone/avoidable costs taking the existing network design as a given. Under this approach costs are calculated as follows:

- **Avoidable cost for tariff class A** - total cost to Endeavour Energy of using the existing network to serve all customers less total cost to Endeavour Energy of using the existing network to serve all customers except those in tariff class A; and

- **Stand alone cost for tariff class A** - total cost to Endeavour Energy of using the existing network to serve only the customers in tariff class A.

CEG note that the second definition (Option 2) involves a more ‘real world’ definition of avoidable costs. Namely, it is the costs that would actually be avoided if a set of customers did not need to be served (rather than the hypothetical costs that would have been avoided if that set of customers had never existed).

The *Rules* are not prescriptive about the methodology used to calculate avoidable and stand alone cost. However, given a regulatory framework which recognises the existence and value of sunk costs and does not, in general, seek to conduct ex-post optimisation on the structure of the *Distribution Network Service Provider’s* networks, one may reasonably conclude that the second method (Option 2) is consistent with the general approach set out in the *Rules*.

Consistent with the approach underpinning the 2009/10, 2010/11, 2011/12, 2012/13 and 2013/14 Annual Pricing Proposals submitted to the AER, Endeavour Energy has adopted the second method (Option 2) for this *2014/15 Initial Pricing Proposal*, as detailed in the following section.

For the purposes of the 2009/10 Initial Pricing Proposal, CEG was satisfied that Endeavour Energy’s:

- Methodology for calculating avoidable and stand alone costs; and
- The model used to calculate avoidable and stand alone costs at the *tariff class*.

meet the requirements of section 6.18.5(a) of the *Rules*.

Endeavour Energy has maintained a consistent approach for this *2014/15 Initial Pricing Proposal*.

The CEG review of Endeavour Energy’s avoidable and stand alone cost methodology and model is provided in Appendix K.

8.5.2 Avoidable and Stand Alone Cost Methodology

To estimate stand alone costs, Endeavour Energy’s *Regulatory Cost of Supply Model* makes an allocation of all costs (network and overhead costs) to each tariff class. Through this allocation, the stand alone cost of serving each separate tariff class must sum to the standalone cost of serving all customers. The implicit assumption underlying this calculation is that there are no economies of scale or scope in the provision of electricity networks. Since it is clear that there are economies of scale and scope and that they are material, CEG concluded for the purposes of the 2009/10 Initial Pricing Proposal that Endeavour Energy’s stand alone costs will be materially higher than those estimated in its model.

Similarly, Endeavour Energy’s model makes an allocation of all ‘direct’ (or causative) costs to estimate the level avoidable costs for each tariff class. These do not include overheads such as motor vehicles and information technology systems but do include a full allocation of all network assets and network operating and maintenance costs. Again, this assumes that there are no economies of scale or scope in relation to network assets (since each tariff class must bear a proportional share of direct costs with the proportions summing to unity). In effect, the only costs that are not treated as avoidable are overheads. Taking into account the existence of such economies of scale, CEG concluded for the purposes of the 2009/10 Initial Pricing Proposal that Endeavour Energy’s avoidable costs will be materially lower than those estimated in its model.

Given that Endeavour Energy's proposed revenues fall between the bounds of avoidable and stand alone cost as estimated in its Regulatory Cost of Supply Model, and for the reasons set out above, Endeavour Energy considers that the approach meets the *Rule* requirements. That is, amendments to Endeavour Energy's estimates as suggested by CEG would cause these bounds to widen, rather than to narrow. Given that Endeavour Energy already estimates that its revenues fit within these 'too narrow' bounds, Endeavour Energy concludes that revenues would similarly fall within the broader bounds that would more accurately reflect stand alone and avoidable costs.

Accordingly, Endeavour Energy considers that its pricing meets the requirements of section 6.18.5(a) of the *Rules*.

8.5.3 Calculation of Avoidable and Stand Alone Cost

Table 8.4 – avoidable and stand alone cost calculation

Tariff Class	Expected DUOS Revenue (\$'000)	Avoidable Cost (\$'000)	Stand Alone Cost (\$'000)	Between Avoidable and Stand Alone Cost?
Low Voltage Energy	667,479	429,960	876,410	Yes
Low Voltage Demand	195,745	38,783	485,233	Yes
High Voltage Demand	40,147	13,376	366,991	Yes
Subtransmission Demand	28,291	9,140	187,108	Yes
Inter-Distributor Transfers	6,318	2,602	180,571	Yes
Unmetered Supply	9,341	0	446,450	Yes

Endeavour Energy's network tariff classes lie within the subsidy free range whereby the expected DUOS revenue collected from each tariff class lies between the avoidable and stand alone costs of supply and therefore meet the requirements of section 6.18.5(a) of the *Rules*.

8.6 Long run marginal cost

8.6.1 External Review of the Long Run Marginal Cost Methodology

In 2005, Endeavour Energy commissioned National Economic Research Associates (NERA) to develop a report into the Long Run Marginal Cost (LRMC) of Electricity Distribution in Endeavour Energy's network area.

In preparing its 2009/10 Initial Pricing Proposal, Endeavour Energy engaged CEG to provide an external review of Endeavour Energy's long run marginal cost methodology and model, both of which were developed on the basis of the NERA Report¹⁷.

In that review CEG endorsed Endeavour Energy's:

- Methodology for calculating long run marginal cost; and
- The model used to calculate long run marginal cost by tariff *charging parameter*.

¹⁷ NERA (2005) Long Run Marginal Cost of Electricity Distribution - A Report for Integral Energy p 8-9

On 1 March 2011, Endeavour Energy (formerly known as Integral Energy Australia) completed the sale of its retail business (including the name Integral Energy Australia) to Origin Energy as part of the NSW Government's energy reform strategy. All references to Integral Energy are references to Endeavour Energy.

For the purpose of this *2014/15 Initial Pricing Proposal*, Endeavour Energy has adopted the same methodology and model for LRMC, as set out below.

The CEG review of Endeavour Energy's LRMC Methodology and Model is provided in Appendix L.

8.6.2 Marginal Cost Pricing

The principle of marginal cost plays a central role in the formulation of economically efficient prices. If prices are set below marginal cost, resources will be wasted in meeting customers' demands which cost more than the benefits customers derive from them; and if prices are set above marginal cost, then they will discourage purchases by customers which would have been valued more than the cost to society of supplying them.

NERA notes that marginal costs are often differentiated according to whether they correspond to the short or long run. The distinction between these two categories has to do not with any specific length of time, but rather with the factors of production that are variable. The short run refers to a situation in which the investment in plant and equipment is fixed. Capacity can be neither added nor removed, although it can be used to a greater or lesser extent.

The short run marginal cost of electricity distribution is the cost to society of a customer using existing capacity in the network at any point in time. This is generally very low unless the system is capacity constrained¹⁸, and reflects the fact that the great majority of the costs of an electricity network provider are fixed in the short run and do not vary with the usage of the network. However, when the system is capacity constrained the marginal costs of usage can be very high.

It should be noted that these costs do not generally reflect increased costs to the network service provider but rather reflect the costs to society of "customer A" using the network and thereby preventing "customer B" from using the network. That is, when the system is constrained the costs of one customer using the network are equal to the benefits foregone by other customers who are unable to use the network.

These benefits foregone are generally measured as the maximum amount a customer who is constrained would have been willing to pay for the last available unit of capacity. By definition, this is equal to the market-clearing price for existing capacity. That is, the price at which existing capacity is rationed amongst potential users. When capacity is not constrained, as noted above, the market-clearing price is zero and therefore the short run marginal cost of congestion is also zero.

The long run refers to a situation in which the investment in plant and equipment is variable. Existing firms may add or remove capacity; firms may enter or exit the market. A long-run marginal cost therefore indicates how costs change with respect to output or capacity when all factors of production including plant and equipment are variable. The long run marginal cost then will relate broadly to the annualised cost of augmenting capacity (in the case of electricity, at a particular voltage, at a particular location, at a particular time), generally, per unit of additional capacity provided (i.e., kW or kVA).

¹⁸ This abstracts from variable (demand related) operating and maintenance costs and, most significantly, the cost of electricity losses on the distribution system. The level of electricity losses imposed by a customer on the distribution system will also vary with the location of that customer in the network, the level of energy use by the customer and the level of capacity utilisation at the time of that energy use.

8.6.3 The importance of efficient pricing for network utilities

NERA¹⁹ note that the economies of scale or density applying to network utilities mean that supplying services at marginal cost may not be financially sustainable. This gives rise to a tension between economic efficiency and revenue adequacy. In such circumstances a firm differentiates its price so as to ensure:

- That the total quantity produced is as close as possible to the quantity that corresponds to the intersection of demand and marginal cost, while maintaining overall financial viability; and
- That any differences between average cost and marginal cost are recovered from those customers who have the least responsive demand (with respect to price movements) referred to as price elasticity.

The above approach to pricing enables *DN*SP's to recover their average costs while maintaining incentives to invest in maintaining and augmenting their networks.

In this case it is important that one *charging parameter* of the tariff reflects the marginal cost of supply (however defined), providing effective signals for allocative efficiency of existing capacity; and for a second *charging parameter* to recover the remaining costs required to ensure that the network service provider can recover the fixed costs of the network. It is important in structuring the tariff that the second *charging parameter* be levied so as to impose the least possible distortion to customers' consumption behaviour.

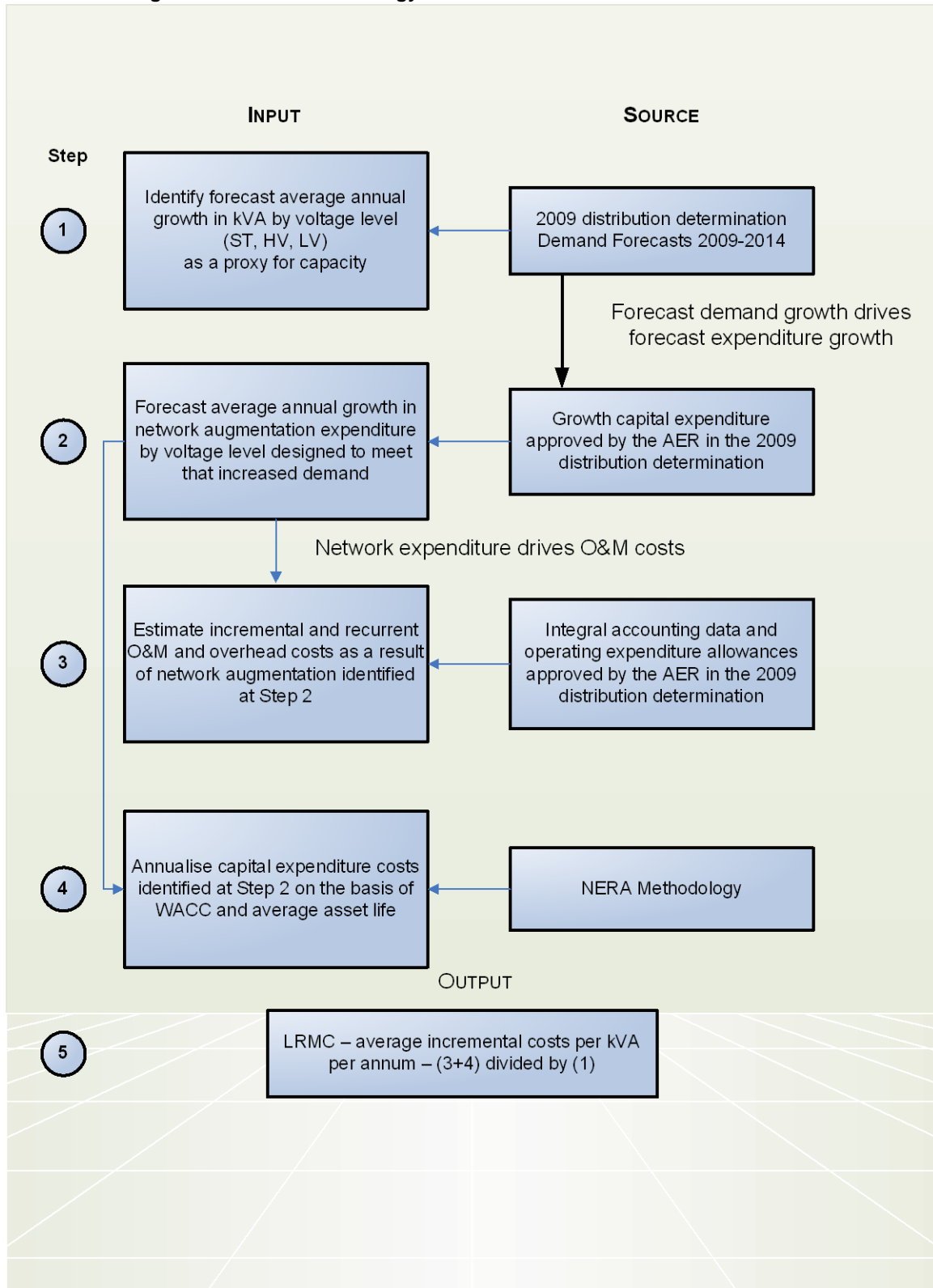
8.6.4 Long Run Marginal Cost Methodology

Endeavour Energy's long run marginal costs are calculated on a dollar per kVA per annum basis at the relevant voltage level. The methodology uses Endeavour Energy's current demand forecast and capital expenditure and operating expenditure forecasts.

The following schematic illustrates Endeavour Energy's methodology as advised by NERA and previously endorsed by CEG, to arrive at an estimate of Endeavour Energy's LRMC. The process has been divided into five separate steps:

¹⁹ NERA (2006), Distribution Pricing Rule Framework, *Network Policy Working Group*, p 9

Figure 8.1: LRMC Methodology - National Economic Research Associates



The following LRMC estimates represent the cost associated with meeting forecast growth in critical peak demand for apparent energy (kVA). Critical peak demand is any level of demand that, should it occur often enough, would trigger an increase in network augmentation under Endeavour Energy’s network planning.

Table 8.5 – Voltage level LRMC calculation

Voltage Level	LRMC Calculation (\$/kVA/pa)
Low Voltage	159.49
High Voltage	39.83
Subtransmission	26.68

It should be noted that the values for low voltage and high voltage already include the long run marginal cost of upstream (higher voltage) costs caused by consumption at the lower voltage level.

The formulas used to allocate the above LRMC by voltage into tariff *charging parameter* rates and the resultant LRMC tariffs by *charging parameter* have been provided to the AER on a confidential basis as Appendix B to this *2014/15 Initial Pricing Proposal*.

Endeavour Energy considers that its *2014/15 Initial Pricing Proposal* meets the LRMC requirements of section 6.18.5(b)(1) of the *Rules* as we take LRMC into account for each tariff *charging parameter* and use it as a guide for movements in our demand and peak energy pricing.

8.7 Transaction Costs

In accordance with clause 6.18.5(b)(2)(i) of the *Rules*, Endeavour Energy attempts to minimise any transaction costs arising from its network tariffs by limiting the complexity of the tariff structure and *charging parameters* within each tariff. The *charging parameters* applicable to each tariff are provided in Chapter 4 of this *2014/15 Initial Pricing Proposal* while more detailed information of Endeavour Energy's tariffs and *charging parameters* are provided in the Network Price List available on the Endeavour Energy website.

Endeavour Energy has not introduced new tariff structures in 2014/15 and as such, transaction costs will not be increased as a result of the implementation of this *2014/15 Initial Pricing Proposal*.

8.8 Response to Price Signals

In accordance with clause 6.18.5(b)(2)(ii) of the *Rules*, Endeavour Energy notes that efficiency gains of marginal cost pricing are realised when the tariff, based on the marginal cost of supply, induces a behavioural change in the customer²⁰. To maximise this customer response Endeavour Energy signals the long run marginal cost of supply through those tariff *charging parameters* with the greatest price elasticity of demand, namely the variable consumption charges that are based on the customer's energy use and maximum demand.

Consistent with the principles of efficient pricing (section 8.6.3), and in accordance with clause 6.18.5(c) of the *Rules*, Endeavour Energy recovers the shortfall between marginal cost and average cost from those charging parameters with the lowest price elasticity of demand, namely the fixed *charging parameter*, subject to consideration of customer impact. This minimises the distortion of the long run marginal cost signal inherent in Endeavour Energy's variable *charging parameters* and maximises the probability of efficiency gains realised through customer behavioural response to efficient price signals.

²⁰ NERA (2006), Distribution Pricing Rule Framework, *Network Policy Working Group*, p 31 - 35

9

CLIMATE CHANGE FUND

9.1 Regulatory Requirement

In accordance with clauses 6.18.2(b) (6A and 6B) and 6.18.7A (a,b,c) of the *Rules*:

6.18.2 Pricing proposals

(b) A pricing proposal must:

(6A) set out how jurisdictional scheme amounts for each approved jurisdictional scheme are to be passed on to customers and any adjustments to tariffs resulting from over or under recovery of those amounts; and

(6B) describe how each approved jurisdictional scheme that has been amended since the last jurisdictional scheme approval date meets the jurisdictional scheme eligibility criteria.

6.18.7A Recovery of jurisdictional scheme amounts

Pricing proposal

- (a) *A pricing proposal must provide for tariffs designed to pass on to customers a Distribution Network Service Provider's jurisdictional scheme amounts for approved jurisdictional schemes.*
- (b) *The amount to be passed on to customers for a particular regulatory year must not exceed the estimated amount of jurisdictional scheme amounts for a Distribution Network Service Provider's approved jurisdictional schemes adjusted for over or under recovery in accordance with paragraph (c).*
- (c) *The over and under recovery amount must be calculated in a way that:*
 - (1) *subject to subparagraphs (2) and (3) below, is consistent with the method determined by the AER for jurisdictional scheme amounts in the relevant distribution determination for the Distribution Network Service Provider, or where no such method has been determined, with the method determined by the AER in the relevant distribution determination in respect of designated pricing proposal charges;*
 - (2) *ensures a Distribution Network Service Provider is able to recover from customers no more and no less than the jurisdictional scheme amounts it incurs; and*

(3) *adjusts for an appropriate cost of capital that is consistent with the allowed rate of return used in the relevant distribution determination for the relevant regulatory year.*

9.2 Climate Change Fund Requirement

On 17 April 2014, the NSW Government provided Endeavour Energy with advice that the Climate Change Fund contribution amount will most likely decrease to \$93,651,005 in 2014/15. Consistent with NSW Government direction in previous years, Endeavour Energy has assumed that no more than 25% of the Climate Change Fund contribution can be recovered from residential tariffs.

9.3 Climate Change Fund Recovery Tariff Setting Methodology

Climate Change Fund recovery tariffs have been in place since 1 July 2005 and are levied on the energy (kWh) based *charging parameter* of tariffs only. Existing tariffs are annually adjusted such that the weighted average price change for the climate change fund recovery portion of network price is evenly applied to all tariffs to achieve the required annual contribution amount (subject to the 25% cap placed by the NSW Government on residential tariff contributions to the fund).

Endeavour Energy does not recover a contribution to the climate change fund from:

- controlled load tariffs as customers contribute to the fund through their primary tariff; or
- inter-distributor transfer tariffs as customers contribute to the fund through the tariffs offered by the destination distributor.

9.4 Climate Change Fund overs and unders account balance

In accordance with clause 6.18.7A (c) of the *Rules*, Endeavour Energy has adopted the unders and overs methodology used by Endeavour Energy to calculate the balance of the transmission overs and unders account. This methodology is consistent with the methodology outlined by the AER in Appendix I of the 2009 Distribution Determination for the unders and overs associated with transmission charges.

Table 9.1 provides the forecast 2014/15 balance of Endeavour Energy's climate change fund overs and unders account.

Table 9.1 – Climate Change Fund overs and unders account balance (\$'000)

	2012/13 Actual	2013/14 Expected	2014/15 Forecast
Revenue from Climate Change Fund charges	72,915	93,790	95,992
Climate Change Fund Payments	74,250	94,432	93,651
Over / (Under) Recovery	(1,335)	(641)	2,341
Overs and Unders Account			
Annual Rate of Interest (applicable to balance)	10.02%	10.02%	8.06%
Semi Annual Rate of Interest	4.89%	4.89%	3.95%
Opening balance of CCF overs/(unders) account	-32	-1,436	-2,252
Interest on opening balance	-3	-144	-182
Over / (under) recovery for financial year	-1,335	-641	2,341
Interest on over/under recovery	-65	-31	93
Closing Balance of Account	-1,436	-2,252	0

Endeavour Energy's Climate Change Fund recovery tariffs have been provided to the AER on a confidential basis as Appendix C to this *2014/15 Initial Pricing Proposal* as they contain individual customer data.

10

TRANSMISSION COST RECOVERY TARIFFS

10.1 Transmission Costs

Endeavour Energy's transmission cost recovery (TCR) tariffs are designed to recover transmission related costs, including TransGrid's transmission use of system (TUOS) charges, avoided transmission payments made to embedded generators and adjustments to balance Endeavour Energy's transmission overs and unders account.

Endeavour Energy's transmission related costs are calculated to increase by 7.74% in 2014/15. The following table provides a breakdown of the drivers of the changes in Endeavour Energy's 2014/15 transmission costs.

Table 10.1 – Change in 2013/14 transmission costs

Transmission Cost	2014/15 Increase
A. Change in transmission related payments (a + b)	8.39%
- Impact of increase in transmission revenues payable to TransGrid (a)	7.26%
- Impact of increase in avoided TUOS payments to embedded generators (b)	1.13%
B. Change required to balance transmission overs and unders account	-0.60%
Total change in transmission costs $((1+A)*(1+B))-1$	7.74%

10.2 Regulatory Requirement

10.2.1 Transitional Rule Requirements

In accordance with clause 6.18.7 of the *Rules*, and with respect to the recovery of charges for transmission use of system (TUOS) services, Endeavour Energy's 2014/15 *Initial Pricing Proposal* must satisfy the following criteria:

6.18.7 Recovery of designated pricing proposal charges

- (a) A pricing proposal must provide for tariffs designed to pass on to customers the designated pricing proposal charges to be incurred by the Distribution Network Service Provider.
- (b) The amount to be passed on to customers for a particular regulatory year must not exceed the estimated amount of the designated pricing proposal charges adjusted for over or under recovery in accordance with paragraph (c).
- (c) The over and under recovery amount must be calculated in a way that:

- (1) subject to subparagraphs (2) and (3) below, is consistent with the method determined by the AER in the relevant distribution determination for the Distribution Network Service Provider;
- (2) ensures a Distribution Network Service Provider is able to recover from customers no more and no less than the designated pricing proposal charges it incurs; and
- (3) adjusts for an appropriate cost of capital that is consistent with the rate of return used in the relevant distribution determination for the relevant regulatory year.

(d) Notwithstanding anything else in this clause 6.18.7, a Distribution Network Service Provider may not recover charges under this clause to the extent these are:

- (1) recovered through the Distribution Network Service Provider's annual revenue requirement;
- (2) recovered under modified clauses 6.18.7A; or
- (3) recovered from another Distribution Network Service Provider.

Where:

Designated pricing proposal charges are defined under Chapter 10 of the *Rules* as:
Any of the following:

- (a) charges for designated pricing proposal services;
- (b) avoided Customer TUOS charges;
- (c) charges for distribution services provided by another Distribution Network Service Provider, but only to the extent those charges comprise:
- (1) charges incurred by that Distribution Network Service Provider for designated pricing proposal services; or
- (2) charges for standard control services;
- (d) charges or payments specified in rule 11.39.

Designated pricing proposal services are defined under Chapter 10 of the *Rules* as:
Any of the following services:

- (a) prescribed exit services;
- (b) prescribed common transmission services; and
- (c) prescribed TUOS services.

10.3 Transmission cost recovery tariff methodology

The key principles of Endeavour Energy's Transmission Cost Recovery Tariff (TCR) Methodology are:

- Total TUOS allocated to network tariffs are aligned with the total estimated transmission charge to be paid by Endeavour Energy²¹, adjusted for any overs and unders account balance;

²¹ Calculated using final transmission pricing received from TransGrid on 15 May 2014.

- Transmission charges are allocated to network tariffs in a manner that reflects the cost drivers present in transmission pricing;
- Customers on an individually calculated tariff have transmission charges allocated in a manner that preserves the location and time signals of transmission pricing in accordance with the principles in Part J of chapter 6A of the *Rules*; and
- Network tariffs for smaller customer classes have transmission charges allocated on an energy basis, as location signals cannot be preserved in all cases due to metering limitations.

10.4 Transmission use of system overs and unders account balance

The forecast 2014/15 balance of Endeavour Energy's transmission use of system overs and unders account is provided in table 10.2 below:

Table 10.2 – Transmission overs and unders account balance (\$'000)

	2012/13 Actual	2013/14 Expected	2014/15 Forecast
Revenue from TCR charges	207,898	186,039	212,131
Transmission Related Payments			
Transmission charges to be paid to TNSP's	200,974	191,010	205,300
Avoided TUOS payments	4,238	5,827	8,054
Total transmission related payments	205,212	196,837	213,354
Over / (Under) Recovery	2,686	(10,798)	(1,223)
Overs and Unders Account			
Annual Rate of Interest (applicable to balance)	10.02%	10.02%	8.06%
Semi Annual Rate of Interest	4.89%	4.89%	3.95%
Opening balance of trans overs/(unders) account	7,768	11,363	1,176
Interest on opening balance	778	1,139	95
Over / (under) recovery for financial year	2,686	(10,798)	(1,223)
Interest on over/under recovery	131	(528)	(48)
Closing Balance of Account	11,363	1,176	0

Endeavour Energy's transmission use of system cost recovery tariffs have been provided to the AER on a confidential basis as Appendix D to this *2014/15 Initial Pricing Proposal* as they contain customer specific information.

CUSTOMER REASSIGNMENT

11.1 Regulatory Requirement

In accordance with clause 6.18.4 of the *Rules*, Endeavour Energy is governed by the following customer reassignment principles:

6.18.4 Principles governing assignment or re-assignment of customers to tariff classes and assessment and review of basis of charging

(a) In formulating provisions of a distribution determination governing the assignment of retail customers to tariff classes or the re-assignment of retail customers from one tariff class to another, the AER must have regard to the following principles:

(1) retail customers should be assigned to tariff classes on the basis of one or more of the following factors:

(i) the nature and extent of their usage;

(ii) the nature of their connection to the network;

(iii) whether remotely-read interval metering or other similar metering technology has been installed at the retail customer's premises as a result of a regulatory obligation or requirement;

(2) retail customers with a similar connection and usage profile should be treated on an equal basis;

(3) however, retail customers with micro-generation facilities should be treated no less favourably than customers without such facilities but with a similar load profile;

(4) a Distribution Network Service Provider's decision to assign a customer to a particular tariff class, or to re-assign a customer from one tariff class to another should be subject to an effective system of assessment and review.

Note:

If (for example) a customer is assigned (or reassigned) to a tariff class on the basis of the customer's actual or assumed maximum demand, the system of assessment and review should allow for the reassignment of a customer who demonstrates a reduction or increase in maximum demand to a tariff class that is more appropriate to the customer's load profile.

(b) If the charging parameters for a particular tariff result in a basis of charge that varies according to the usage or load profile of the customer, a distribution

determination must contain provisions for an effective system of assessment and review of the basis on which a customer is charged.

11.2 Proposed Compulsory Re-Assignment of Customers from 1 July 2014

Endeavour Energy intends to compulsorily assign 357 customers with annual consumption in excess of 160 MWh pa from their existing general supply IBT, general supply time of use, transitional time of use or demand time of use tariff to the appropriate demand time of use or transitional time of use tariff from 1 July 2014.

The customers targeted for re-assignment meet the following criteria:

- Have an annual consumption in excess of 160MWh pa;
- Have time of use metering capable of supporting the proposed tariff; and
- The expected network bill impact of the reassignment to the destination tariff is either less than CPI or less than the bill impact the customer would have received had they stayed on their existing tariff.²²

This reform proposal is consistent with Endeavour Energy's pricing policy of compulsory demand pricing for all customers with annual consumption greater than 160 MWh pa, which was introduced after significant public consultation on 1 July 2004.

A summary of the proposed compulsory re-assignment of customers is provided in the following table:

Table 11.1 – compulsory customer assignment

Origin Tariff	Proposed Tariff	Customers Assigned
General Supply IBT	Transitional Time of Use	46
	Low Voltage time of use Demand	181
General Supply Time of Use	Transitional Time of Use	9
	Low Voltage time of use Demand	46
Transitional Time of Use	Low Voltage time of use Demand	66
	High Voltage time of use Demand	3
Low Voltage time of use Demand	High Voltage time of use Demand	6
Total		357

To be eligible for compulsory tariff re-assignment Endeavour Energy requires that the customer has metering installed that is capable of supporting the proposed tariff and that 2012/13 quantities are available in the form of the destination tariffs (ie peak, shoulder and off peak energy and demand tariff charging parameters).

Upon approval of the this *2014/15 Initial Pricing Proposal*, Endeavour Energy will write to the customer's retailer, who acts on the customers behalf, informing them of the proposed tariff reassignment.

The notification letter will provide the retailer with:

- The reasons for the reassignment;

²² Bill impacts calculated on the basis of the 2012/13 annual consumption volume by customer.

- The criteria by which the customer was identified for transfer;
- The opportunity to object to the reassignment prior to its actioning; and
- Notification that an alternate dispute resolution process is available should the retailer be dissatisfied with Endeavour Energy's proposal.

12

ALTERNATIVE CONTROL SERVICES

12.1 Determination

The AER has determined that price cap regulation will apply to alternate control services in the transitional regulatory control period (2014-15). Alternative control service prices in the transitional regulatory control period must be the current prices escalated by CPI.

The AER has determined that the following formula gives effect to the cap on prices of individual services:

$$\bar{p}_i^t \geq p_i^t \quad i = 1, \dots, n \text{ and } t = 1, 2, 3, 4$$
$$\bar{p}_i^t = \bar{p}_i^{t-1}(1 + CPI_t)(1 - X_i^t) + A_i^t$$

Where:

\bar{p}_i^t is the cap on the price of service i in year t

p_i^t is the price of service i in year t

CPI_t is the percentage increase in the consumer price index.

X_i^t is the X-factor for service i in year t . For 2014–15, this value is set at zero.

\bar{p}_i^0 is the cap on the price of service i in the transitional regulatory control period. As specified in the transitional rules, these values will be prices from the final year of the 2009–14 regulatory control period escalated by CPI.

A_i^t is an adjustment factor. Likely to include, but not limited to adjustments for residual charges when customers choose to replace assets before the end of their economic life. For 2014–15 this value is set at zero.

Applying the formula above, the list of prices set out in appendix A of the AER's transitional decision²³ are the charges that will apply for Endeavour Energy's alternative control services for the transitional regulatory control period (2014-15).

The AER's appendix A.1 (public lighting tariffs) and A.2 (ancillary network services) are reconstructed in Appendix G, H & I of this pricing proposal.

²³ AER (2014), Endeavour Energy Placeholder determination for the transitional regulatory control period 2014-15, April

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GLOSSARY

Term	Definition
AER	Australian Energy Regulator
Alternative Control Service	as defined in Chapter 10 of the Rules
Charging Parameters	as defined in Chapter 10 of the Rules
Connection	as defined in Chapter 10 of the Rules
Connection Point	as defined in Chapter 10 of the Rules
Current regulatory control period	the regulatory period 1 July 2009 to 30 June 2014
<i>Customer connection services</i>	as defined in Chapter 10 of the Rules
CCF	climate change fund
CEG	Competition Economists Group
CESS	capital expenditure sharing scheme
CPI	consumer price index
Direct Control Services	as defined in Chapter 10 of the Rules
DMEGCIS	demand management and embedded generation connection incentive scheme
DNSP	distribution network service provider
DUOS	distribution use of system
EBSS	efficiency benefit sharing scheme
Distribution Network Service Provider	as defined in Chapter 10 of the Rules
Distribution Use of System	as defined in Chapter 10 of the Rules
LRMC	long run marginal cost
NUOS	network use of system
Negotiated distribution services	as defined in Chapter 10 of the Rules
Previous regulatory control period	the regulatory period 1 July 2004 to 30 June 2009
Pricing Proposal	as defined in Chapter 10 of the Rules
PTRM	post tax revenue model
RAB	regulatory asset base
Regulatory Obligation or Requirement	as defined in Chapter 10 of the Rules
Regulatory Year	as defined in Chapter 10 of the Rules
RIN	regulatory information notice
Rules	National Electricity Rules
Standard Control Services	as defined in Chapter 10 of the Rules
STPIS	service target performance incentive scheme
Subsequent regulatory control period	the regulatory period 1 July 2015 to 30 June 2019
Supply Point Connection point	the point of connection to Endeavour Energy's network
Tariff Class	as defined in Chapter 10 of the Rules

Term	Definition
TCR	transmission cost recovery
TNSP	transmission network service provider
Transitional regulatory control period	the regulatory period 1 July 2014 to 30 June 2015
TRP	transitional revenue proposal
TUOS	transmission use of system
WACC	weighted average cost of capital
2009 Regulatory Control Period	the regulatory period 1 July 2009 to 30 June 2014