

Attachment 1 – Matters required by Schedule 1 of the RIN

INFORMATION

1.1 Provide:

(a) the information required in the Financial Regulatory Templates;

Endeavour Energy has completed the Microsoft Excel file and has attached it as Appendix 1a.

(b) the information required in the Non-Financial Regulatory Templates;

Endeavour Energy has completed the Microsoft Excel file and has attached it as Appendix 1b.

(c) in relation to the information provided in the response to paragraph 1.1(a) and 1.1(b), explain:

(i) the assumptions and methodologies underlying the information provided;

Where methodologies or assumptions were required to complete the files other than the mere application of the AER approved CAM to the general purpose financial statements Endeavour Energy has included commentary by way of the “note” function within Microsoft Excel to provide guidance to the AER.

The listing of Endeavour Energy’s formalised policies and procedures that, to a greater or lesser extent, were directly related to or supported the development of the information contained in the completed RIN schedules as Appendix 5.

Further, the systems used to complete the AER RIN included:

- **Cognos** – Business reporting system managing database information such as organisation policies and procedures;
- **Ellipse** – financial management system including: accounts payable; payroll; asset and equipment registers and financial reporting functions. The Ellipse system also caters for defect management (condition based) and also routine maintenance (planned). The equipment register is also linked to various other supporting systems such as field inspections and the Geographical Information System (GIS);
- **TM1** – Endeavour Energy uses this OLAP tool for various purposes including budgeting and forecasting, monthly reporting and regulatory accounts allocations. It is a cube based technology which allows rules to be created between cubes and within cubes.
- **eFrams** – Endeavour Energy uses this system in relation to IT Allocation Drivers. The system enables access to all telecommunication billing, inventory management\asset register and Reporting.
- **Remedy** - Endeavour Energy uses this system in relation to IT Allocation Drivers. This is a BMC tool used by Logica for asset management, definitive software library, incident management and service request management.

- **Autocad** - Endeavour Energy uses this system in relation to Property Drivers. This is a program used for computer-aided design and drafting. The program is used to maintain Floor Plans which can be used to summarise occupancy by business unit.
- **Banner** – Endeavour Energy’s customer database and billing system;
- **Figtree** – Worker’s compensation claims management data base. This system is maintained separate (but linked at aggregate levels) to other systems to maintain confidentiality of data as required by legislation.
- **Value Development Algorithm (VDA)** – Endeavour Energy uses the Value Development Algorithm (VDA) for its high level asset renewal expenditure modelling. The model is populated with specific asset data in order to produce the replacement capital forecast. Data for each asset is allocated into asset categories, which represent major components that make up the network such as poles, transformers, conductor, cable, switchgear etc. Each asset type is assigned an asset life and a replacement cost. The quantity of assets installed on the network each financial year is also entered, thus generating an age profile of the network assets.
- **Visual Risk** – Endeavour Energy uses this in house Treasury Management System for improving the productivity of its treasury operations. Visual Risk provides functions such as capturing a facility drawdown; valuing an exotic FX option; and facilitating back office administration and financial reporting. Specifically it was used to prepare the the cost of funds schedule.
- **System Fault Recording (SFR)** – Endeavour Energy uses this Oracle database system for all reliability reporting. The data in this system is accessed using Cognos, with further analysis and processing of data being undertaken using Microsoft Office programs such as Access and Excel.
- **SCADA** - Endeavour Energy uses this system to monitor and control its network. This system is used to identify and register an event such as a plane strike on the network.
- **Outage Management System** - Endeavour Energy uses this system to log outages on its network, with the point of contact being from external sources. This system can also be used to identify events such as plane strikes where these are externally identified.
- **Contact Centre 6** – Endeavour Energy’s call centre uses this system to run reports on historical call volume according to skill set (Call Type). The system is also used to assign agents to specific call taking groups based on call type.

(ii) each instance where the information cannot be provided or is not provided in full;

Where Endeavour Energy has been unable to fully complete the AER RIN commentary has been included by way of the “note” function within Microsoft Excel to provide guidance to the AER. This commentary should be read in conjunction with comments provided to the AER during the consultation phases of the RIN development.

(d) a Microsoft Excel workbook that explains all movements between the Audited Statutory Accounts and the Regulatory Accounting Statements;

The adjustment column in the RIN template represents the adjustments made to audited Statutory accounts to arrive at the accounts for the regulated distribution business. The adjustments include

unregulated activities, re-classifications and other variances to the statutory accounts. Refer to the RIN for further explanation.

(e) the Capitalisation Policy for the Relevant Regulatory Year; and

Included as Attachment 1.1

(f) a statement of the policy's for determining the allocation of overheads in accordance with the *Cost Allocation Method* for the Relevant Regulatory Year and the Previous Regulatory Year.

Endeavour Energy's policy is to apply hierarchical principles to determine the allocation of costs in accordance with the CAM. Broadly these principles are:

- **Costs/assets that are directly attributable to a service should be allocated directly to that service;**
- **Costs/assets that are shared between services should be allocated to those services on a causal basis; and**
- **Costs/assets that are shared between services but a causal link cannot be applied should be allocated on a reasonable, defensible and non-distortionary basis.**

1.2 For each of the following items, identify each Material Difference between that reported in the Regulatory Accounting Statements and that provided for in the 2009–14 Distribution Determination for the Relevant Regulatory Year:

(a) total actual revenue and total forecast revenue;

The difference between Forecast 2012/13 Distribution Revenue (\$1,104.094m – AER Decision CPI Adjusted) and Actual 2012/13 Distribution Revenue (\$1,018.416m – RIN template 1) is \$85.678m.

(b) total actual Operating Expenditure and total Forecast Operating Expenditure;

Please refer to comments included in template 10, table 2 of the Electricity DNSP Annual Reporting template – Financial Information

(c) total actual Maintenance Expenditure and total Forecast Maintenance Expenditure

Please refer to comments included in template 8, table 2 of the Electricity DNSP Annual Reporting template - Financial Information

(d) total actual Capital Expenditure and total Forecast Capital Expenditure;

Please refer to comments included in template 5, table 1 of the Electricity DNSP Annual Reporting template – Financial Information

1.3 Explain the reasons for any underlying operational activities or drivers that caused each Material difference identified in the response to paragraph 1.2.

Please refer to Endeavour responses to items 1.2 – a, b, c & d

1.4 Identify all differences between the Regulatory Accounting Principles and Policies provided in the response to paragraphs 1.1(e) and 1.1(f), compared to the Previous Regulatory Year.

Please refer to comments included in template 22 of the Electricity DNSP Annual Reporting template – Financial Information

1.5 For each change identified in the response to paragraph 1.4,

(a) explain the nature of and the reasons for the change; and

N/A

(b) quantify the effect of the change on the Regulatory Accounting Statements for the Relevant Regulatory Year.

N/A

1.6 Explain the procedures and processes used by Endeavour Energy to ensure:

(a) that the *distribution services* have been classified as determined in the 2009–14 Distribution Determination; and

Endeavour Energy applies the AER approved Cost Allocation Method (CAM) for all operating and capital cost categories. The AER approved CAM applies a cascading approach whereby all directly attributable costs are applied directly to the service definitions as per the AER determination, with any residual or indirect costs allocated using the methodologies and allocation measures as set out in the CAM.

The application of the CAM has been reviewed by PwC in undertaking the financial audit (at Appendix 3a to this package) as required by Appendix E of the 2012/13 RIN.

(b) that the negotiable component criteria (NCC), as set out in the 2009–14 Distribution Determination, have been applied.

Endeavour Energy has published on its web site the negotiation framework approved by the AER in the 2009-14 distribution determination at

http://www.endeavourenergy.com.au/wps/wcm/connect/6f3f16804701a97c89f1cf23afe1452b/EEs+Negotiating+Framework+2+June+2008_.pdf?MOD=AJPERES and is therefore available to be used by customers seeking a negotiated component of their standard control service.

Endeavour Energy has an established Branch Procedure (NBS 4005 ESTABLISHMENT OF NEGOTIATED CONNECTION CONTRACTS). This procedure sets out the steps and responsibilities of Endeavour Energy staff in facilitating negotiated connection contracts in accordance with the applicable laws and regulatory obligations.

1.7 Describe the process the DNSP has in place to identify negative change events under clause 6.6.1(f) of the NER and the threshold of materiality applied by Endeavour Energy to these events.

Endeavour Energy continuously monitors developments from a variety of sources that may give rise to pass through events, both positive and negative. This includes monitoring of and/or engagement with:

- the AEMC regarding its various reviews such as the review of the NSW design planning and reliability standards, review into electric vehicles, etc;
- NSW Departments such as DTIRIS (responsible for NSW Distribution Licence arrangements);
- developments relating to national income taxation and other levies;
- national market changes such as the implementation of the NECF; and

- **any other matters that may also give rise to a pass through event, such as material movements in insurance premiums.**

2. COST ALLOCATION TO THE REGULATED DISTRIBUTION BUSINESS

2.1 Identify each item in the Regulatory Accounting Statements that is:

- (a) not allocated on a directly attributable basis but is allocated on a causation basis to the distribution business; and
- (b) not allocated on a directly attributable basis and cannot be allocated on a causation basis to the distribution business.

2.2 For each item identified in the response to paragraphs 2.1(a):

- (a) state the amount of the item that has been allocated;

Please refer to template 15 of the Electricity DNSP Annual Reporting template – Financial Information

- (b) explain the method of allocation and reasons for choosing that method; and

Costs are allocated on a causal basis and are as follows:

- **Direct Network Costs - These are the operating costs associated with activities within the network functional areas are directly attributed to the services to which they support, based on direct relationships between the activity or sub-activity category and the service category (i.e. Standard Control Service, Alternative Control Service or Unregulated).**
- **Indirect Network Overhead Costs – The remaining network operating costs that cannot be allocated directly are network overheads and are allocated to service categories based on a non-causal allocator. Network overheads are allocated on a pro rata basis, based on the proportions of the direct allocation of direct network costs to each service category.**
- **Corporate Overhead Costs – Corporate overheads and shared business unit costs are allocated to the network business by a combination of causal factors relative to the nature of the expense type e.g. call volumes to call centre etc. Where a causal basis cannot be determined overheads are allocated on the basis of the weighted value of costs attributed to distribution and non-distribution services. The network business’s share of corporate overheads are then allocated to the relevant service categories using a similar approach as with network overheads, i.e. allocated on a pro rata basis, based on the proportions of the direct or specific allocation of network costs (stages 1 or 2) to each service category.**

The above method was deemed to be the most reasonable as it relies on analysis of the actual activities and sub activities of work in regards to the service classification relationships.

- (c) state the numeric amount of the allocator(s) used.

Not numeric but rather analysis of the organisation unit, activity and sub-activity coding to link the underlying activities to the RIN service classifications.

2.3 For each item identified in the response to paragraph 2.1(b):

- (a) state its amount;

Please refer to template 15 of the Electricity DNSP Annual Reporting template – Financial Information

(b) state whether it was Material;

Please refer to template 15 of the Electricity DNSP Annual Reporting template – Financial Information

(c) explain the method of allocation and reasons for choosing that method; and

Refer to response at 2.2(b) for the method of allocation. The allocation on a pro rata basis for the Indirect Network Overheads and the Corporate Overheads was considered reasonable as the direct network costs provides the proportions of the allocation of direct network costs to each service category.

(d) explain the reason(s) why it cannot be allocated on a causation basis.

These costs are limited to pure corporate overheads which by their very nature are required for effective management of the company and are not specifically related to, and cannot be causally linked to, any individual activity without undue cost or effort.

3. COST ALLOCATION TO SERVICE SEGMENTS

Note: Service segment refers to standard control services, alternative control services, negotiated services and unregulated services

3.1 Identify each item in the Regulatory Accounting Statements that is:

(a) not allocated on a directly attributable basis but is allocated on a causation basis from the distribution business to a service segment; and

(b) not allocated on a directly attributable basis and cannot be allocated on a causation basis from the distribution business to a service segment.

3.2 For each item identified in the response to paragraph 3.1(a):

(a) state the amount of the item that has been allocated;

(b) explain the method of allocation and reasons for choosing that method; and

(c) state the numeric amount of the allocator(s) used.

3.3 For each item identified in the response to paragraph 3.1(b):

(a) state its amount;

(b) state whether it was Material;

(c) explain the method of allocation and reasons for choosing that method; and

(d) explain the reason(s) why it cannot be allocated on a causation basis.

All as section 2 above

4. RELATED PARTY TRANSACTIONS

4.1 Identify each Related Party with which a transaction has been conducted.

4.2 Identify each transaction relating to the provision of *standard control services*, *alternative control services* or *negotiated distribution services* between Endeavour Energy and a Related Party, where the transaction amount is greater than five per cent of the relevant total expenditure or revenue category. Relevant categories are standard control revenues, alternative control revenues, negotiated distribution services revenues, standard control capex, alternative control capex, standard control operations expenditure, standard control maintenance expenditure, alternative control operations expenditure, alternative control maintenance expenditure, negotiated distribution services expenditure.

4.3 For each transaction identified in the response to paragraph 4.2:

(a) state the name of the Related Party;

(b) identify any other parties involved;

(c) explain the nature and purpose of the transaction, including the good(s) or service(s) provided by the Related Party;

(d) state the actual costs incurred by the Related Party in providing good(s) or services(s), not including any profit margin or management fee incurred by Endeavour Energy;

(e) explain how the actual costs of the good(s) or service(s) incurred was determined;

(f) identify the actual costs of the good(s) or service(s) in the Regulatory Accounting Statements, including the Asset category, Maintenance Cost category or Operating Cost category to which the actual cost(s) is allocated to; and

(g) explain the basis upon which the actual costs of the good(s) or service(s) was or were allocated, as identified in the response to paragraph 4.3(f), and state the amount of any allocator applied.

Nil amount reported on template 10, table 4

5. EFFICIENCY BENEFIT SHARING SCHEME

5.1 Identify all changes between the Capitalisation Policy for the Relevant Regulatory Year and the Previous Regulatory Year:

There were no changes in capitalisation policy

5.2 For each change identified in the response to paragraph 5.1:

(a) state, if any, the financial impact of the change;

- (b) state the reasons for the change;
- (c) explain the effect of the change (excluding changes in accounting policies) if any, on:
 - (i) forecast Operating and Maintenance Expenditure incurred for the Relevant Regulatory Year;
 - (ii) forecast Capital Expenditure incurred for the Relevant Regulatory Year;
 - (iii) actual Operating and Maintenance Expenditure incurred for the Relevant Regulatory Year;
 - (iv) actual Capital Expenditure incurred for the Relevant Regulatory Year; and
- (d) explain the estimated effect of the change, if any, for the Previous Regulatory Year on:
 - (i) actual Operating and Maintenance Expenditure incurred; and
 - (ii) actual Capital Expenditure incurred.

There were no changes in capitalisation policy

6. DEMAND MANAGEMENT INCENTIVE SCHEME

6.1 In respect of the Demand Management Innovation Allowance (*DMIA*):

- (a) provide an explanation of each demand management project or program for which approval is sought
- (b) explain, for each demand management project or program identified in the response to paragraph 6.1(a), how it complies with the *DMIA* criteria detailed at section 3.1.3 of the *DMIS*, with particular reference to:
 - (i) the nature and scope of each demand management project or program
 - (ii) the aims and expectations of each demand management project or program
 - (iii) the process by which each demand management project or program was selected, including the business case for the demand management project and consideration of any alternatives
 - (iv) how each demand management project or program was/is to be implemented
 - (v) the implementation costs of the demand management project or program
 - (vi) any identifiable benefits that have arisen from the demand management project or program, including any off peak or peak demand reductions
- (c) provide an overview of developments in relation to the demand management projects or programs completed in previous years, and any results to date

- (d) state whether the costs associated with each demand management project or program identified in the response to paragraph 6.1(a) are:
 - (i) not recoverable under any other jurisdictional incentive scheme
 - (ii) not recoverable under any other Commonwealth or State Government scheme
 - (iii) not included as part of
 - (1) in the forecast capital or operating expenditure; or
 - (2) any other incentive scheme applied by the 2009-14 Distribution Determination
- (e) provide the total amount of *DMIA* spent in the current regulatory control period and how this amount has been calculated.

The total amount of DMIA spent in the current regulatory control period is \$844,505 to 30 June 2013. This is based on the summation of project costs in the current regulatory control period. The other matters regarding 6.1 of Schedule 1 of the RIN relating specifically to projects under the DMIA have been addressed in Appendix 4b titled “Demand Management Innovation Allowance 2012-2013 Report”.

7. D-FACTOR

7.1 In respect of the D-factor:

- (a) identify each non-tariff demand management measure undertaken by Endeavour Energy during the Relevant Regulatory Year;
- (b) explain each non-tariff demand management measure identified including with reference to:
 - (i) its characteristics and any reasonable alternative to the measure;
 - (ii) the basis of the estimates of avoided distribution costs and Forgone Revenue resulting from it, including any assumptions underlying them, provided in Financial Regulatory Template 20b, for the Relevant Regulatory Year;
- (c) explain how the methodology used to calculate Forgone Revenue provides a reasonable estimate of the actual amount of Forgone Revenue and that it is consistent with the D-factor scheme
- (d) explain each partial demand management measure and the basis for calculating the avoided distribution cost values provided in Financial Regulatory Template 20b
- (e) for economic value of loss management investments, provide:
 - (i) a description of the loss management investment;
 - (ii) an assessment of the quantity of energy loss avoided;

(iii) the basis, including any assumptions and methodologies, for the assessment of energy loss avoided. For example, provide details of the unit value estimate and the source data (AEMO average price data, internal data or other third party data).

These matters regarding 7 of Schedule 1 of the RIN relating specifically to projects under the D-factor have been addressed in Appendix 4a titled “Report on demand management projects 2012/13”.

8. ASSET REPLACEMENT VOLUMES

8.1 With respect to the asset replacement volumes reported on template 7 of the workbook attached at Appendix C, for each asset identify the proportion of total replacements that were a like for like replacement, where the new asset provided an equivalent level of service as the asset being replaced. If the proportion of like for like replacements is estimated, please provide details of the basis for the estimation.

For the replacement portion of the total asset installations reported on template 7, **100% of replacements are on a like-for-like basis in accordance with our replacement methodology and strategy policies.**

9. RECONCILIATION OF REGULATORY ASSET BASE

9.1 Provide information that reconciles:

(a) the incremental change in the Property, Plant and Equipment category within the Audited Statutory Accounts (that is, the change in the closing values of this category of the Balance Sheet between the Previous Regulatory Year and the Relevant Regulatory Year)

Property, plant and equipment reconciliation –

Regulatory Amounts		PPE *	Intangibles	Total
Opening Property, Plant and Equipment	5,628,830	5,555,956	72,874	5,628,830
Add Capex 202/13	684,521	668,180	16,342	684,521
Less Regulatory Depreciation	-184,412	-167,737	-16,675	-184,412
Less Disposals	-9,802	-9,471	-331	-9,802
Add Revaluations	8,854	8,854	0	8,854
Closing Property, Plant and Equipment 2012/13	6,127,991	6,055,783	72,210	6,127,992

The 2011/12 RIN had separate lines in the Balance Sheet for PPE and Intangibles respectively. However the 2012/13 RIN only has the one line "PPE" so this year we have added Intangibles into "PPE". Therefore, the opening balance has been adjusted accordingly.

(b) the incremental change in the closing values for the Regulatory Asset Base between the Previous Regulatory Year and the Relevant Regulatory Year.

The information in the table below seeks to reconcile the expected RAB movements based on the RAB roll-forward model provided to Endeavour Energy from the AER.

Several key inputs in the table below are sourced from the AER's model including the regulatory depreciation, the indexation of the RAB to account for within year finance holding costs, indexation adjustments, and the WACC.

Information from the RIN templates that is included below includes disposals being proceeds from disposal of assets as per the RAB arrangements and capex excluding capital contributions and capitalised interest as per the RAB arrangements.

Opening RAB	4,908,192
Add Capex 2012/13	566,658
Less Disposals	10,189
Net Capex (\$Nominal)	556,469
RFM Index for conversion to \$0809	1.130
Net Capex (\$0809)	492,530
Nominal WACC (fixed real time varying)	9.26%
Real Actual Net Capex (Adjusted WACC ^{0.5})	514,823
Nominal Actual Net Capex (Adjusted WACC ^{0.5})	581,657
Less Regulatory Depreciation	145,857
Closing RAB	5,343,992

10. CHARTS

10.1 Provide charts that sets out:

- (a) the group corporate structure which Endeavour Energy is a part of; and
- (b) the organisational structure of Endeavour Energy.

Included as Attachment 1.2

11. AUDIT REPORTS

11.1 Provide:

- (a) a Special Purpose Financial Report in accordance with the requirements set out at Appendix E of this Notice; and
- (b) Audit Report/s for Non-Financial Regulatory Templates information in accordance with the requirements set out at Appendix E of this Notice

Four (4) audits/reviews have been conducted in total to satisfy the requirements of Appendix E of the RIN as well as pre-existing requirements under the D-factor Scheme. Collectively these audit/review reports have been attached as Appendix 3 being:

- Financial Audit undertaken by PwC as Appendix 3a;
- Non-Financial audit of template 2 in respect of demand undertaken by PwC as Appendix 3b;
- Non-Financial audit of templates 1a, 1b, 1c, 1d, 1e, 1f in respect of the STPIS and template 20a in respect of the DMIA undertaken by TCFT as Appendix 3c; and

- **Non-Financial audit of template 20b in respect of the DMIS – D-factor undertaken by Futura Consulting as appendix 3d.**

12. BOARD RESOLUTION

12.1 Provide an extract from the board minutes or a resolution agreed to at a Endeavour Energy board meeting that confirms that, to the best of the Board's information, knowledge and belief:

(a) the information provided in the response to paragraph 1.1(a) (being the information to be provided in the workbook attached at Appendix B) is true and fair; and

A copy of the signed circular resolution made by the Board of Endeavour Energy confirming to the best of the Board's information, knowledge and belief that the financial information contained in the 2012/13 RIN is true and fair has been attached as appendix 6.

(b) the *service target performance incentive scheme* and demand and asset installation information provided in the response to paragraph 1.1(b) (being the information to be provided in templates 1(a), 1(b), 1(c), 1(d), 1(e), 1(f), 2 and 7 of the workbook attached at Appendix C) is true and fair.

A copy of the signed circular resolution made by the Board of Endeavour Energy confirming to the best of the Board's information, knowledge and belief that the above non-financial information contained in the 2012/13 RIN is true and fair has been attached as appendix 6.