
# Empowering communities to share and use energy for a better tomorrow

## 2024-25 Statement of Compliance

May 2024

# Contents

# Introduction

This statement of compliance, as well as the standardised Standard Control Services (SCS) and Alternative Control Services (ACS) pricing models form Essential Energy's pricing proposal for 2024-25. This pricing proposal has been submitted to the Australian Energy Regulator (AER) within 15 business days after publication of its distribution determination for Essential Energy.

**Below is a full list of documents that form part of this proposal:**

- Essential Energy's 2024-25 Annual Pricing Proposal Overview - public
- Att. A – 2024-25 Statement of Compliance – public (**this document**)
- Att. B – 2024-25 SCS pricing model - public
- Att. C – 2024-25 SCS pricing model - confidential
- Att. D – 2024-25 ACS pricing model – public
- Att. E – Network Use of System Price List for 2024-25 – public
- Att. F – Public Lighting Price List for 2024-25 – public
- Att. G – Ancillary Network Services Price List for 20245-25 - public
- Att. H – 2024-25 Sub-Threshold Notification - public

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# Demand Forecasts

## Standard Control Services

Essential Energy has provided quantity forecasts for standard control services in the 'QTY forecasts' sheet of the SCS pricing model.

The forecast consumption volumes and customer numbers for the 2024-25 regulatory year are not materially different compared to the previous pricing proposal forecasts.

The customer numbers and sales volumes methodology for 2024-25 are consistent with that of 2023-24. The forecasts for 2024-25 are based on:

- Customer numbers – straight line trend, demonstrating strong continued growth in both residential and small business customer numbers, consistent with historical trends.
- Average customer use – showing either growth or decline in consumption based on the various customer segments, with key drivers including solar uptake, industry growth, weather and smart meter uptake considered.

Energy consumption forecasts are prepared at a tariff class and individual site specific customer level, aggregated to total network level. The forecasts for our site specific customers are based on a review of each customers' actual consumption history and advised future operational changes. For the other tariff classes movements in historical energy consumption, customer numbers, seasonal impacts, economic factors and other variables are all considered.

The forecast volumes by tariff class have been summarised in Table 1 below.

**Table 1: Actual and Forecast consumption by tariff class (GWh)**

| Tariff class | 2020-21 Actual | 2021-22 Actual | 2022-23 Actual | 2023-24 Estimate | 2024-25 Forecast | Explanation |
|---|---|---|---|---|---|---|
| **Low voltage - Residential and Small Business** | 6,228 | 6,322 | 6,331 | 6,228 | 6,137 | Reduced volumes reflect increasing solar PV and decreasing controlled load |
| **Low voltage - Large Business** | 2,279 | 2,230 | 2,316 | 2,365 | 2,336 | |
| **High voltage – Demand** | 871 | 914 | 945 | 966 | 972 | Growth due to inclusion of new HV storage tariff |
| **Subtransmission and Site Specific** | 2,988 | 2,922 | 2,997 | 3,051 | 3,113 | Increase due to site specific forecast consumption |
| **Unmetered Supply** | 75 | 64 | 55 | 55 | 55 | |
| **Total GWh** | **12,440** | **12,452** | **12,645** | **12,663** | **12,614** | |

The forecasts prepared take into consideration the shift of residential and small business customers between our legacy time of use tariffs and the default interval time of use tariffs for new connections and meter upgrades. The residential and small business customer number trends by tariff type can be seen in Figure 1: Residential customer count and Figure 2: Small Business customer count.

**Figure 1: Residential customer count**

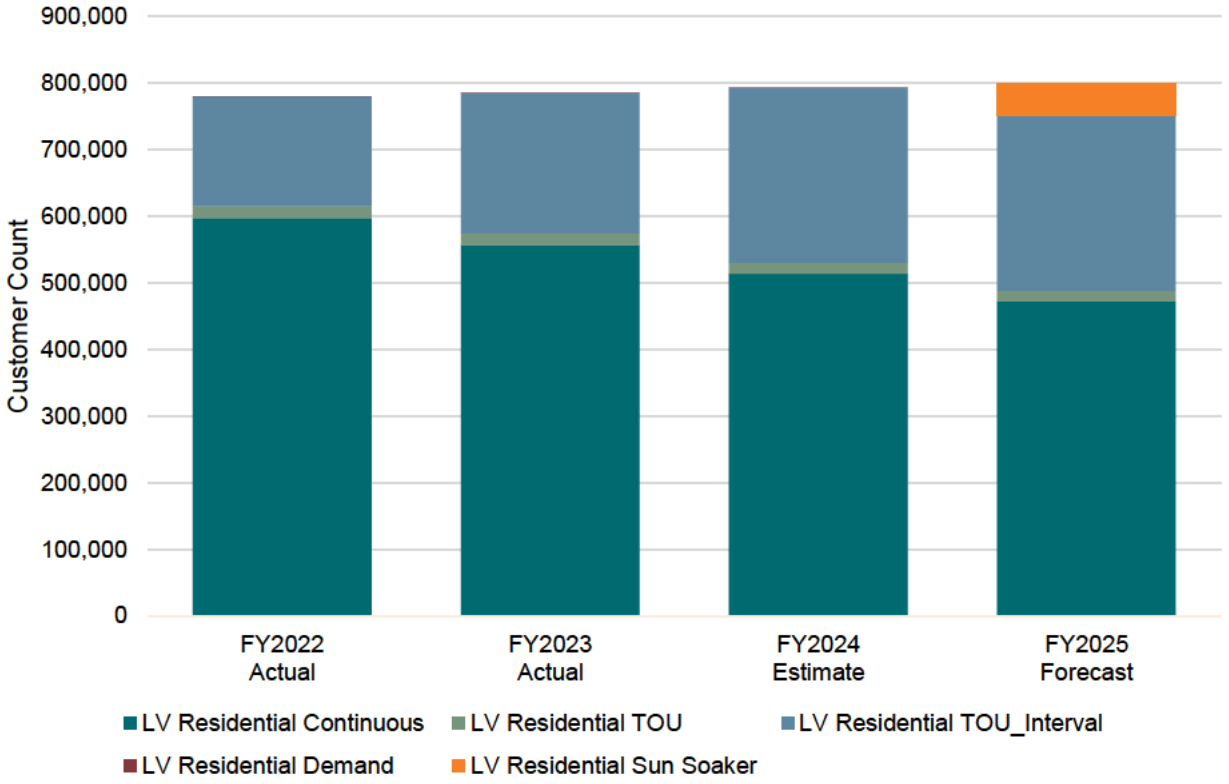
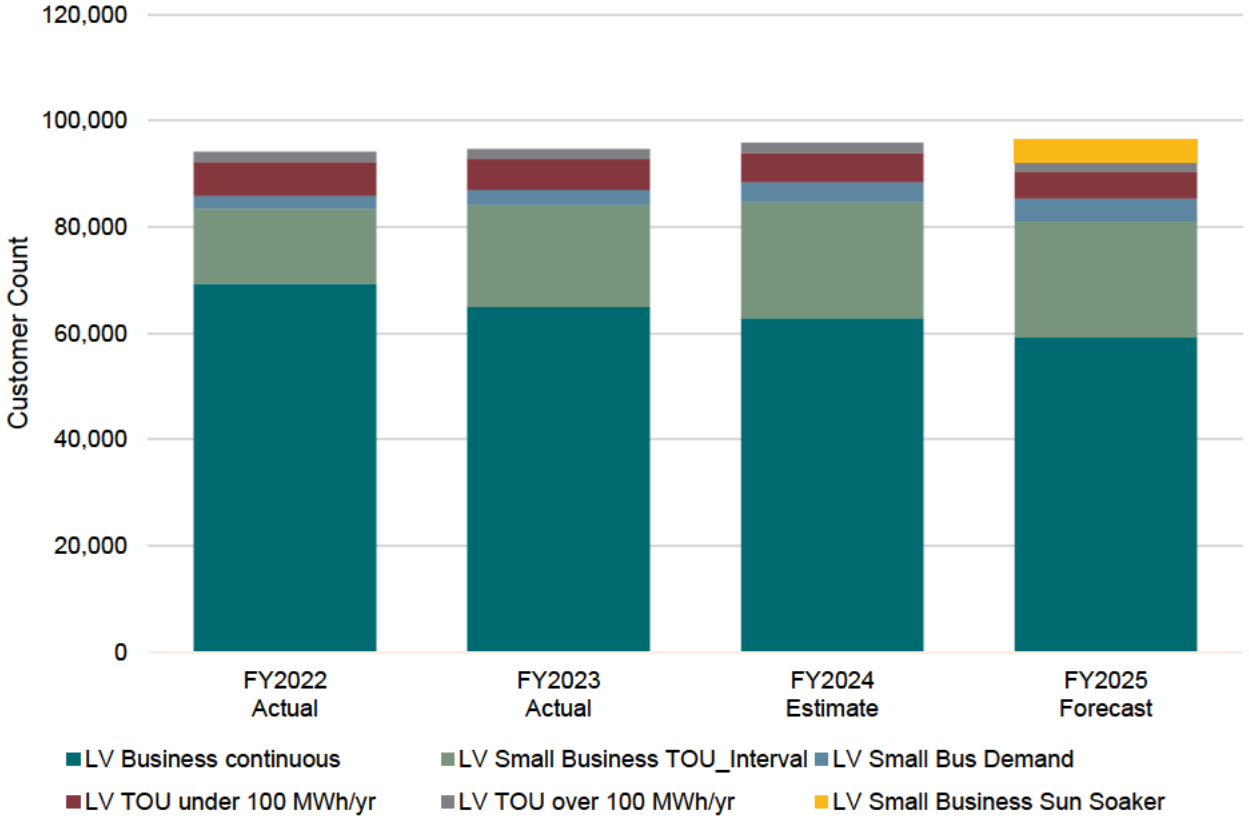



**Figure 2: Small Business customer count**



The forecast Customer numbers by tariff class have been summarised in Table 2 below.

**Table 2: Actual and Forecast customer numbers by tariff class**

| Tariff class | 2020-21 Actual | 2021-22 Actual | 2022-23 Actual | 2023-24 Estimate | 2024-25 Forecast | Explanation |
|---|---|---|---|---|---|---|
| **Low voltage - Residential and Small Business** | 874,298 | 873,552 | 879,970 | 884,652 | 895,724 | Continued strong growth in Residential numbers |
| **Controlled Load** | 470,846 | 470,276 | 466,188 | 465,270 | 459,193 | Decline seen in Controlled load customers with the uptake of Smart meters |
| **Large Business incl Site specific** | 4,916 | 4,980 | 4,893 | 4,863 | 4,792 | Reduction in consumption to below 160MWh and economic drivers |
| **Total Customer excluding Controlled Load** | **879,213** | **878,532** | **884,863** | **889,515** | **900,516** | |

# Tariffs

## Standard Control Services

The 'Tariff schedule' sheet of the SCS pricing model sets out the proposed 2024-25 prices for standard control services.

All tariffs remain in the same tariff class as the current TSS[1]. This is demonstrated in tariff schedule 2 of the SCS pricing model.

All tariffs retain the same charging parameters as the current TSS[2]. This is also demonstrated in tariff schedule 2 of the SCS pricing model.

Below is a summary of each charging parameter:

| Charging parameters | Unit | Explanation |
|---|---|---|
| **Network access charge** | $/day | Fixed dollar per day charge |
| **Energy anytime** | c/kWh | Flat energy consumption charge regardless of time of day |
| **Energy peak** | c/kWh | Energy consumption rate for the peak window relevant to the assigned tariff |
| **Energy shoulder** | c/kWh | Energy consumption rate for the shoulder window relevant to the assigned tariff |
| **Energy off peak** | c/kWh | Energy consumption rate for the off peak window relevant to the assigned tariff |
| **Energy Sun Saver** | c/kWh | Energy consumption rate for the Sun Soaker window for Storage tariffs |
| **Demand peak** | $/kVA/M | Applies to the single highest 30-minute kVA demand during the month for the peak window relevant to the assigned tariff |
| **Demand shoulder** | $/kVA/M | Applies to the single highest 30-minute kVA demand during the month for the shoulder window relevant to the assigned tariff |
| **Demand off peak** | $/kVA/M | Applies to the single highest 30-minute kVA demand during the month for the off peak window relevant to the assigned tariff |
| **Demand Sun Saver** | $/kVA/M | Applies to the single highest 30-minute kVA demand during the month for the Sun Soaker window for Storage tariffs |
| **Export rebate** | c/kWh | Rebate for any energy exported between 5pm and 8pm daily relevant to the assigned tariff |
| **Export demand charge <=1.5KW** | $/KW/M | Step charge <=1.5KW, that applies to the single highest 30-minute export KW demand between 10am and 3pm peak period in the month |
| **Export demand charge >1.5kW** | $/KW/M | Step charge >1.5KW, that applies to the single highest 30-minute export KW demand between 10am and 3pm peak period in the month |
| **Export consumption charge <=7.5kWh** | c/kWh | Step charge <=7.5KWh, that applies to the export consumption between 10am and 3pm peak period.<br>The 7.5kWh daily free threshold is multiplied by the number of days in the billing period to calculate the level of free exports. For example, the free export threshold for a 30 day billing period is 30 days x 7.5kWh = 225kWh. |

[1] Essential Energy Tariff Structure Statement 2024-29 Link
[2] Essential Energy Tariff Structure Statement 2024-29 Link

| | | |
|---|---|---|
| **Export consumption charge >7.5kWh** | c/kWh | Step charge >7.5KWh, that applies to the export consumption between 10am and 3pm peak period.<br>The 7.5kWh daily free threshold is multiplied by the number of days in the billing period to calculate the level of free exports. For example, the free export threshold for a 30 day billing period is 30 days x 7.5kWh = 225kWh. |
| **Demand anytime** | $/kVA/M | Applies to the single highest 30-minute kVA demand during the month |
| **Capacity anytime** | $/kVA/M | Not used.<br>Charge was applied to Obsolete tariffs that no longer exist in 2024-25 |
| **Demand kW** | $/KW/M | Applies to the single highest 30-minute kW demand during the month |

The expected weighted average revenue for each tariff class for the current and forecast years is demonstrated in output table 5 of the SCS pricing model.

Essential Energy Time Periods

| Time period | Description | Day type | Time of day | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | 12pm | 7am | 10am | 3pm | | | 10pm |
| SS | Sun Soaker – Interval meter | Everyday | Off-peak | Peak | Off-peak | Peak | | | Off-peak |
| | | | 12pm | 7am | 10am | 3pm | 5pm | 8pm | 10pm |
| PSO-Int | Peak, shoulder & off-peak – Interval meter | Weekday | Off-peak | Shoulder | | | Peak | Shoulder | Off-peak |
| | | Weekend | Off-peak | | | | | | |
| | | | 12pm | 7am | 9am 10am | 3pm | 5pm | 8pm | 10pm |
| PSO-B | Peak, shoulder & off-peak – Basic meter | Weekday | Off-peak | Peak | Shoulder | | Peak | Shoulder | Off-peak |
| | | Weekend | Off-peak | | | | | | |
| | | | 12pm | 7am | 10am | 3pm | 5pm | 8pm | 10pm |
| EXP | Export - Interval meter | Everyday | | | Export Charge | | Export Rebate | | |
| | | | 12pm | 7am | 10am | 3pm | 5pm | 8pm | 10pm |
| ANY | Anytime | Everyday | Anytime | | | | | | |
| | | | 12pm | 7am | 10am | 3pm | 5pm | 8pm | 10pm |
| STO | Storage – Interval meter Consumption (E Channel) | Everyday | Off-peak | Shoulder | Sun Saver | Shoulder | Peak | Shoulder | Off-peak |
| | Storage – Interval meter Generation (B Channel) | Everyday | | | Export Charge | | Export Rebate (LV tariffs only) | | |

These times are unchanged when a public holiday falls on a weekday.

DAYLIGHT SAVINGS TIME will be applied to all customers with interval read meters and unmetered supplies in determining Network charges. Other customers will have Summer Time applied, see definition below.

SUMMER TIME is the period from the last Sunday in October at 2am to the last Sunday in March at 3am of the following year. Summer time adjustments will be made to ToU Type 5 (Basic) meters.

## Alternative control services

The ACS pricing model sets out the proposed 2024-25 prices for alternative control services.

Essential Energy will offer the list of services for public lighting and ancillary network services as approved in the AER's final determination for alternative control services[3], while also including the following new services. These new services are included due to customer request or are supplier replacements:

- LED Luminaire – LED 76W Luminaire, IGNIS 1 036 RMS5 400K, 675mA + Zhaga
- LED Luminaire – GE 35W LED HID Lamp in dec. luminaire
- LED Luminaire – GE 80W LED HID Lamp in dec. luminaire
- LED Luminaire – GE Evolve LED 14W 3000K

The list of services for public lighting and fee-based services are provided in the ACS pricing model. Quoted services are provided in line with the approved control mechanism formula[4] using the applicable labour rates in the ACS pricing model.

## Tariff variations

We are not anticipating variations or adjustments to our tariff prices, tariff class or charging parameters within the 2024-25 period.

## Sub-threshold tariffs

Essential Energy is not proposing sub-threshold tariffs for the 2024-25 regulatory year.

[3] Final Decision: Essential Energy distribution determination 2024-29, Attachment 16 - Alternative control services Link
[4] Final Decision: Essential Energy distribution determination 2024-29, Attachment 14 – Control Mechanisms Link

# Pricing Principles

The revenue expected to be recovered from each tariff class lies on or between an upper bound, representing the standalone cost of serving the retail customers who belong to that class, and a lower bound representing the avoidable cost of not serving those retail customers. This is demonstrated in compliance table 5 of the SCS pricing model. The estimation method we have used to identify these efficient pricing bounds, is the same as for our previous TSS - with updates to the cost inputs to account for new export service costs incurred after 1 July 2024, under our new two-way service obligations.

We have used current expenditure as the basis for estimating stand-alone and avoidable costs. For example, to assess our stand-alone cost for the high voltage charging class, we have identified the existing assets and operating expenditure needed for these customers.

Our framework uses two dimensions to classify each network cost category.

1. Whether costs are direct or indirect
   - Direct: the cost can be attributed to a specific group of users and would not be incurred but for those users.
   - Indirect: the cost is common to multiple groups of customers.

   For example, a service line is directly attributable to an individual customer, but operational expenditure costs are generally indirect. For instance, the cost of raising equity cannot be attributed to specific customers or customer groups.
2. Whether costs are scalable or non-scalable
   - Scalable: the cost tends to increase in proportion to the scale at which the service is provided.
   - Non-scalable: the cost is independent of the scale at which the service is provided.

   For example, maintenance and repair costs are scalable as they usually depend on the physical size of the network. Equity-raising costs will be independent of network characteristics such as the number of customers or maximum demand.

The following explains how we calculate avoidable and stand-alone costs.

- Avoidable cost for each tariff class is the sum of all direct costs for providing traditional distribution services multiplied by a weighting. This represents the proportion of direct costs that are attributable to that tariff class. Added to this is the export long-run marginal cost (LRMC) attributable to export-billed customers in this tariff class.
- Stand-alone cost for each tariff class is the sum of avoidable costs, non-scalable indirect costs and scalable indirect costs. This is then multiplied by a set of scaling factors that vary according to the costs in question.

The sum of the revenue expected to be recovered from each tariff allows Essential Energy to recover the expected revenue for the relevant services in accordance with the distribution determination. This is demonstrated in compliance table 1 of the SCS pricing model.

Each tariff is based on the LRMC of providing the service to which it relates to the retail customers assigned to that tariff.

The LRMC estimates for the 2024-25 pricing proposal are slightly different from the current TSS, due to the identification of an overstated current expenditure forecast for the subtransmission tariff class. This has resulted in an immaterial movement across all tariff classes for avoidable costs.

# Indicative Prices

The indicative prices for SCS tariffs are provided in input table 29 and 30 of the SCS pricing model. Indicative price caps for ACS are provided in the ACS pricing model. These indicative price levels have been determined in accordance with the approved tariff structure statement and updated to account for this pricing proposal.

The proposed tariff prices are materially different to the updated corresponding indicative prices and this is demonstrated in compliance tables 6 and 7 of the SCS pricing model. Brief notes have been written in column AC of the 'Price comp. ind.' sheet explaining the reasons for the difference. Furthermore, we explain below in greater detail, the sources of the material differences between the proposed tariff prices and their corresponding indicative prices.

The main differences between the proposed 2024-25 tariff prices submitted for the 2024-29 Determination and the indicative 2024-25 prices are due to:

- a higher New South Wales Electricity Roadmap contribution determination then previously forecast, and
- an increase in TUoS charges compared to forecast

# Tariff Components

## Distribution use of system charges

Tariffs designed to pass on Distribution Use of System (DUoS) charges are available in the 'Tariff schedule' sheet of the SCS pricing model. The revenue expected to be recovered from these tariffs does not exceed the estimated amount of DUoS charges, adjusted for over- or under-recovery and incentive scheme revenues. This is demonstrated in output table 6 of the SCS pricing model.

The over- or under-recovery amount is calculated in a manner consistent with the AER's final decision for control mechanisms[5].

Estimated Retailer of Last Resort (ROLR) amounts reflect the debt from Retailers who have gone into administration and triggered ROLR events. These amounts have been included in the SCS pricing model in the 'Financials' sheet[6].

Forecast DUoS amounts are calculated in a manner consistent with the AER's final decision as demonstrated in the SCS pricing model.

## Metering charges

From 2024-25, standard control tariffs designed to pass on legacy metering charges are available in the 'Tariff schedule' sheet of the SCS pricing model. The revenue expected to be recovered from these tariffs does not exceed the estimated amount of metering charges. This is demonstrated in output table 6 of the SCS pricing model.

## Designated pricing proposal charges

Tariffs designed to pass on designated pricing proposal charges are available in the 'Tariff schedule' sheet of the SCS pricing model. The revenue expected to be recovered from these tariffs does not exceed the estimated amount of designated pricing proposal charges adjusted for over- or under-recovery. This is demonstrated in output table 6 of the SCS pricing model.

The over- or under-recovery amount is calculated in a manner consistent with the AER's final decision for control mechanisms[7] and is compliant with the Rules.

The designated pricing proposal charge amounts that Essential Energy are required to recover include the following:

- Transmission charges paid to transmission network service providers (TNSPs), TransGrid[8] and Powerlink[9].
- Avoided TUoS payments Essential Energy forecasts to make to eligible Embedded Generators calculated in accordance with the National Electricity Rules ('the Rules')
- Inter-distributor payments to Ausgrid, Endeavour Energy, Powercor and Ergon for cross border supply[10]

## System strength charges

Essential Energy is planning to pass through system strength charges for system strength connection points for the 2024-25 period.

Legislation requires Essential Energy to bill customers on a pass through basis for system strength charges.

We will aim to replicate the amount, structure and timing of the System Strength Service Provider's system strength charge as far as is reasonably practicable. Our charges will identify the system strength connection point and other information to enable the customer to verify the charge.

This pass through charge will not be recovered through network prices, but billed separately to applicable customers.

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[5] Final Decision: Essential Energy distribution determination 2024-29, Attachment 14 – Control Mechanisms Link
[6] Refer to attached Supporting information file 'ROLR Debt by NMI as at 07 May 2024'
[7] Final Decision: Essential Energy distribution determination 2024-29, Attachment 14 – Control Mechanisms Link
[8] Refer to attached Supporting information file, 'Essential Energy 2024-25 TUoS Transgrid Supporting Material_CONFIDENTIAL'
[9] Refer to attached Supporting information file, 'Essential Energy 2024-25 TUoS Powerlink Supporting Material_CONFIDENTIAL'
[10] Refer to attached Supporting information file, 'Essential Energy 2024-25 TUoS forecast Supporting Material_CONFIDENTIAL'

## Jurisdictional scheme amounts

Essential Energy's jurisdictional schemes have not been amended since the last jurisdictional scheme approval date.

Tariffs designed to pass on jurisdictional scheme amounts are available in the 'Tariff schedule' sheet of the SCS pricing model. The revenue expected to be recovered from these tariffs does not exceed the estimated amount of jurisdictional scheme amounts, adjusted for over- or under-recovery. This is demonstrated in output table 6 of the SCS pricing model.

The over- or under-recovery amount is calculated in a manner consistent with the AER's final decision for control mechanisms[11] and is compliant with the Rules.

The designated pricing proposal charge amounts that Essential Energy are required to recover include the following:

- Climate Change Fund (CCF) - Legislation requires Essential Energy to contribute $61.3 million[12] to the New South Wales CCF in 2024-25. Essential Energy is permitted to collect this contribution from its customers through network prices and is required to take into account any under- or over-recovery from previous years. It is also a requirement that only 25 per cent of this contribution is collected from residential customers.
- Queensland Solar Scheme - Legislation requires Essential Energy to pay eligible customers located in Queensland and connected to Essential Energy's network an amount for their solar export. As this scheme is a designated jurisdictional scheme under the Rules, Essential Energy is recovering the amount paid to these customers back through tariffs in a similar manner to the CCF.
- New South Wales Electricity Infrastructure Roadmap - Legislation requires Essential Energy to contribute $66.72 million[13] to the New South Wales Electricity Infrastructure roadmap in 2024-25. Essential Energy is permitted to collect this contribution from its customers through network prices. In addition, Essential Energy is required to credit exempt customers for charges owing due to the Roadmap against charges owing under contribution orders. As this scheme is a designated jurisdictional scheme under the Rules, Essential Energy is recovering the amount paid to these customers back through tariffs.

[11] Final Decision: Essential Energy distribution determination 2024-29, Attachment 14 – Control Mechanisms Link
[12] Refer to attached Supporting information file, 'Essential Energy 2024-25 CCF Contributions Supporting Material_CONFIDENTIAL'
[13] NSW Electricity Infrastructure Roadmap – contribution determination 2024-25, Link

# Compliance

## Compliance with the determination

We confirm that our tariff assignment policy[14] and the methodology in which we review and assess the basis on which a customer is charged, aligns with the 2024-29 TSS[15] and is compliant with the National Electricity Rules.

There are no other material changes that should be brought to the attention of the AER.

**Compliance table**

| Rule reference | Section reference |
|---|---|
| **6.18.2(a)** | Chapter 1 - Introduction |
| **6.18.8(a)(3)** | Chapter 2 - Demand forecasts |
| **6.18.2(b)(2)**<br>**6.18.2(b)(3)**<br>**6.18.2(b)(4)**<br>**6.18.6**<br>**6.18.2(b)(5)**<br>**6.18.1C**<br>**11.141.8** | Chapter 3 - Tariffs |
| **6.18.5(e)**<br>**6.18.5(f)**<br>**6.18.5(g)(2)** | Chapter 4 - Pricing principles |
| **6.18.2(d)**<br>**6.18.2(e)**<br>**6.18.2(b)(7A)** | Chapter 5 - Indicative prices |
| **6.18.2(b)(6)**<br>**6.18.2(b)(6A)**<br>**6.18.2(b)(6B)**<br>**6.18.2(b)(6C)**<br>**6.18.7**<br>**6.18.7A** | Chapter 6 - Tariff components |
| **6.18.3**<br>**6.18.4**<br>**6.18.2(b)(7)**<br>**6.18.2(b)(8)** | Chapter 7 - Compliance |

I, Charlie Boyes, Chief Financial Officer, confirm that the above statements are true and correct.

Charlie Boyes

Date: 23 May 2024

[14] Network tariff assignment and reassignment policy, Link
[15] Essential Energy 2024-29 Tariff Structure Statement, Link

# Modification History

| Version | Date | Description |
|---|---|---|
| 1 | 17/05/2024 | Original version |
| 2 | 23/05/2024 | Updated to note additional public lighting services (ACS page 10) |


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