



21 May 2015

Mr Chris Pattas
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Network Operations and Development
Australian Energy Regulator
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Dear Mr Pattas

Ausgrid's 2015/16 Initial Pricing Proposal

I am pleased to provide Ausgrid's Initial Pricing Proposal to the Australian Energy Regulator (AER).

Ausgrid's Initial Pricing Proposal is in accordance with the AER's determination on the allowed revenue for 2015-16. It is also in accordance with the requirements of Chapter 6 of the National Electricity Rules (Rules), which establishes a process of price notification and review by the AER for annual price changes.

Ausgrid's proposed 2015-16 prices represent interim prices pending the outcomes of Ausgrid's decision to appeal the AER Final Determination, and in the event that aspects of this appeal are upheld, Ausgrid believes that it is consistent with the NEO to:

- Vary tariffs during 2015-16 to minimise the step change in prices on 1 July 2016.
- Propose an approach to vary prices within the year in the annual pricing proposal to ensure that our customers, retailers and other market participants make informed investment and consumption decisions.

Ausgrid's proposed approach to vary our tariffs during the year is:

- To limit the scope of variations during the course of 2015-16 to only the DUOS component of the interim tariffs.
- To mark-up the interim tariffs to unwind reduction in prices received on 1 July 2015, but only to the extent that the weighted NUOS price change for our tariffs over the entire year does not exceed CPI.
- Irrespective of the magnitude of the mark-up to the interim tariffs during the course of 2015-16, Ausgrid will ensure that this adjustment to the level of charging parameters results in the least distortion to efficient consumption patterns.
- To implement the variation of the interim tariffs within 20 business days of the latter of the publication of the order instructing the AER to vary the AER Final Determination or the remaking of the determination consequent to a Tribunal order.
- Ausgrid proposes to return the additional DUOS revenue earned by Ausgrid as a result of the application of a mark-up to the interim tariffs during the course of 2015-16 to customers via the operation of the overs and unders in 2016-17. This approach will result in a lessening of the required step-change in prices to eliminate the gap between revenue recovered from tariffs and the new annual revenue requirement.

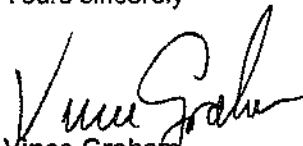
The Rules allow for Ausgrid to indicate the parts of our pricing proposal that we claim as confidential. In the list below we identify documents over which we are claiming confidentiality.

The documents we attach as part of this proposal are:

- Ausgrid Interim 2015-16 Annual Pricing Proposal
- Attachment A – Cost reflective Network Price TUOS Arrangements CONFIDENTIAL
- Attachment B – Interim Individually Calculated Network Use of System Tariffs CONFIDENTIAL
- Attachment C – Customer Bill Information for Public Lighting Customers CONFIDENTIAL
- Attachment D – Price Information for Public Lighting Tariffs
- Attachment E – Completed Compliance Spreadsheet CONFIDENTIAL
- Attachment F – Notification of Climate Change Fund Contribution
- Attachment G – TransGrid's Transmission Charges for FY16
- Attachment H – Pricing Information for Ancillary Network Services
- Attachment I – Pricing Information for Type 5 and 6 Metering Services
- Attachment J – Long Run Marginal Cost Model CONFIDENTIAL
- Attachment K – Avoidable and Standalone Cost Model CONFIDENTIAL
- Attachment L – Pricing Compliance Model for Alternative Control Services
- Attachment M – Pricing Compliance Model for Public Lighting Customer Charges CONFIDENTIAL

If you have any questions with respect to the proposal, please do not hesitate to contact Robert Telford on (02) 9269 2136 or Matthew McQuarrie on 9269 4353.

Yours sincerely



Vince Graham
Chief Executive Officer