

APPLICATION FOR APPROVAL OF *PASS THROUGH AMOUNT*

STATEMENT OF *RELEVANT PASS THROUGH EVENT* BY ETSA UTILITIES

2005-2010 Electricity Distribution Price Determination PART B
Section 4 – clause 4.2

1. **Application for the Approval of *Pass Through Amount* – clause 4.2.1**

ETSA Utilities seeks the approval of the Essential Services Commission of South Australia (“**ESCOSA**”) to pass through a *pass through amount* described as the “PV Rebate Pass-Through event” in the Statement set out below in relation to the amounts that it is permitted to charge for *prescribed services* pursuant to Chapters 2 and 3 of the Electricity Distribution Price Determination (**EDPD**).

2. **Statement of *Pass Through Event* – clause 4.2.2**

ETSA Utilities gives notice to ESCOSA that a *relevant pass through event* has occurred (**PV Rebate Pass-Through event**) and provides its statement of that *relevant pass through event* in accordance with clause 4.2.2 as follows:

(a) Details of the *relevant pass through event*

ETSA Utilities nominates that the “PV Rebate Pass-Through event” is a *services standard event* and has occurred as the result of an amendment to the Electricity Act 1996 where the South Australian Parliament approved the Electricity (Feed-In Scheme – Solar Systems) Amendment Bill 2008. This Amendment Bill requires ETSA Utilities to pay small customers 44 cents per kWh for every kWh of electricity generated from a small photovoltaic generator that is fed back into the network. The legislation came into effect on 1 July 2008. The legislation currently applies for 20 years until 2028.

The legislation (section 36AD(1)) requires ETSA Utilities to undertake several activities in addition to those covered by the EDPD’s prescribed distribution services. Section 36AD(1)(a) requires ETSA Utilities to allow small customers to feed small photovoltaic generation into the network. This is not an additional obligation on ETSA Utilities, but the volume of such generation applications will be a significant increase on that which occurred prior to the legislation.

Section 36AD(1)(b) specifies the payment by ETSA Utilities of 44 cents per kWh for small photovoltaic generation exported to the network.

Section 36AD(1)(c) requires ETSA Utilities to comply with any reporting requirements imposed by the Minister under section 36AD(4).

(b) Date the *relevant pass through event* took or takes effect

ETSA Utilities nominates that the *relevant pass through event* took effect on 1 July 2008 when the feed-in legislation came into effect.

(c) Financial effects of the *relevant pass through event*

There are six areas of ETSA Utilities expenditure that will be affected by the *relevant pass through event* legislation, with five of them incorporated into this application. The sixth item is covered by excluded services. The amounts shown below are estimates for 2008/09 and 2009/10 only.

(1) Operating Expenditure – Salaries and Wages

PV applications initially increased from a few hundred a year to 50 per month under the Federal Government Rebate Scheme and have jumped to 350 per month since the State Government PV Rebate Scheme was announced. This has far exceeded ETSA Utilities expectations six months ago when the legislation was considered in Parliament. Applications have continued to increase despite the May 2008 amendment to the Federal Government Rebate Scheme.

The activity involved in Small PV Generation now includes:

- Answering customer enquiries and maintaining a register of approved generation equipment;
- Managing inverter approvals and connection agreements on new installations;
- Managing connection agreements on change of ownership;
- Managing meter requirements and upgrades;
- Managing import/export meter data; and
- Network billing, including PV export rebates.

Previously, 0.6 FTE's have been directly involved with small generation. ETSA Utilities estimates that an additional 2.4FTE staffing increase will enable this additional activity to be met.

| Year | 2008/09 | 2009/10 |
|--------------|---------|---------|
| Amount (\$M) | 0.180 | 0.190 |

(2) Operating Expenditure – New Systems

ETSA Utilities must implement new systems to meet Government reporting requirements. The CIS O/V system has been amended to enable the PV Rebate credits to be processed whilst reporting amendments are ongoing as Government requirements are clarified.

There is also an opportunity to install new systems and business processes which will enable current manual processes to be streamlined, enabling operational efficiencies necessary to meet the increased activity.

| Year | 2008/09 | 2009/10 |
|--------------|---------|---------|
| Amount (\$M) | 0.100 | 0.000 |

(3) Operating Expenditure – Customer Correspondence

ETSA Utilities was required by the South Australian Government to undertake a communications strategy with all existing (known) owners of PV panels to ensure that those small customers were aware of any action necessary for their participation in the scheme (see letter from the Premier on 13 June 2008). There were over 3,000 such customers, with three different mailing streams (PV customers with single phase import/export, known PV customers without export metering and PV customers with import/export metering with 3-phase supply). ETSA Utilities was also asked to host a Government PV industry conference in June 2008 which outlined the new policy arrangements.

The costs involved with this additional correspondence and conference, including updating of addresses is set out below.

| | | |
|--------------|---------|---------|
| Year | 2008/09 | 2009/10 |
| Amount (\$M) | 0.020 | 0.000 |

(4) Operating Expenditure – PV Rebate Payments

ETSA Utilities' forecast of PV Rebate Payments to small PV generation customers is set out below. The forecast level of customers assumes the current rate of applications continue. The forecast export per customer is slightly below that currently occurring with such customers, as smaller units are expected to be installed under the amended Federal Government Rebate Scheme.

| PV Export | NMI's 30 June NMI's | NMI's Ave Year NMI's | Export per NMI MWh | Total Export MWh | Value at 44c/kWh \$M |
|-------------------|---------------------------|----------------------------|--------------------------|---------------------|----------------------------|
| 2005/06 | 1,148 | 974 | 1.130 | 1,100 | \$0.484 |
| 2006/07 | 1,599 | 1,361 | 1.328 | 1,808 | \$0.795 |
| 2007/08 | 3,203 | 2,234 | 1.237 | 2,765 | \$1.217 |
| 2008/09 FC | 6,800 | 5,000 | 1.150 | 5,750 | \$2.530 |
| 2009/10 FC | 10,400 | 8,600 | 1.150 | 9,890 | \$4.352 |

| | | |
|--------------|---------|---------|
| Year | 2008/09 | 2009/10 |
| Amount (\$M) | 2.530 | 4.352 |

The actual pass-through will be determined by the actual energy exported to the network and the corresponding payment to customers. The 2008/08 estimate and 2009/10 forecast will be updated in April 2009 using latest information for the 2009 annual pricing submission.

(5) Operating Expenditure – Replace 3-phase Installation PV Metering

The Electricity Act only provides for a rebate on the net exported energy (ie any energy required in the customer's installation when the PV cell is operating is effectively deducted from the gross output of the PV unit). Following preliminary discussions with Government, ETSA Utilities expected to be formally required to replace the existing import/export metering at small PV installations where three-phase supply is used. These customers have previously paid for the additional cost of import/export metering but the technical solution available at that time involved additional metering of one phase only. This method is not appropriate where export has a higher value, as the export phase will show export when the other two phases are importing, ie the meter will not report net import and net export across all 3 phases at all times.

As the confirmation has just been received from the South Australian Government (DTEI letter dated 24/9/08), ETSA Utilities will be required to replace the existing import/export metering with a new three-phase import/export meter. Such work is normally considered an excluded service under the EDPD, but the proposal from Government is that this is not to be charged to the customer (as they have already paid for import/export metering). Instead, the cost should be recovered from all customers as part of the pass-through. This program is likely to reduce the overall pass-through cost for customers generally as the annual reduction in the PV rebate payable to the 3-phase small PV generation customers (through lower levels of export being metered) is expected to exceed the one-off meter change-over cost.

The standard fee for such work is currently \$593 (excl GST) and may increase in 2009/10 (perhaps by 4% to \$617). There are over 740 of these 3-phase PV generation customers who are expected to require a meter changeover. ETSA Utilities proposes to include the actual volume of meter changeovers at these rates in the annual pricing submission in May 2009. It is likely that this work will cost around \$0.45M, with a larger offsetting reduction in the annual PV rebate payments.

In the forecast costs (see summary below) this item has been excluded as initially the formal requirement to proceed had not been received, and because of the potential to otherwise over-estimate the total pass-through cost including PV rebate payments (as those PV rebate payments will reduce when the metering is amended).

| Year | 2008/09 | 2009/10 |
|-------------|---------------------------------------|---------------------------------------|
| Amount (\$) | \$593 per meter, \$0.45M estimated | \$617 per meter, \$0.00M estimated |

(6) Excluded Service – Install new import/export PV Metering

There are some small PV generation installations from several years ago which have ‘spinning’ meters installed (ie no separate import/export metering but rather a reversing meter). ETSA Utilities is aware of some 1300 such installations. As part of the correspondence obligation (see above), these customers have been advised that they cannot receive the PV rebate until appropriate metering is installed. The metering upgrade is conducted as an excluded service for those customers wishing to participate in the new program.

The same arrangements will also apply to those customers with PV installed who have not previously notified ETSA Utilities of the connection. That is, the customer will require import/export metering to be installed (and standard technical compliance issues met) before they will be eligible to receive the PV rebate.

There are no costs for this activity in the pass-through application. All such costs are recovered through the relevant excluded service metering charge.

- (d) the pass through amount ETSA Utilities proposes in relation to the relevant pass through event;

The forecast pass-through amount required is set out below.

| | 2008/09 \$M | 2009/10 \$M | Total \$M |
|-------------------------------|--------------------|--------------------|------------------|
| 1 Salaries and Wages | 0.180 | 0.190 | 0.370 |
| 2 New Systems | 0.100 | 0.000 | 0.100 |
| 3 Correspondence | 0.020 | 0.000 | 0.020 |
| 4 PV Rebate Payment | 2.530 | 4.352 | 6.882 |
| 5 3 ph Meter Replacement | 0.000 | 0.000 | 0.000 |
| Total Forecast Expense | 2.830 | 4.542 | 7.372 |

The 2009/10 pass through amount will be determined using the following formula. Forecasts and Estimates required for PV Rebates and 3 Phase Meter Replacements will incorporate information available when the annual tariff submission is prepared in April 2009.

Operating Expenditure

| | 2009/10 |
|---------------------------------------|---|
| Amount (\$M) excluding GST | $ \begin{aligned} & [0.180 + 0.100 + 0.020 + \text{PV Rebate Estimate 2008/09} \\ & + (0.000593 * \# 3 \text{ Phase Replacements Estimate 2008/09}) \\ & \quad * [(1 + \text{WACC}) * (\text{CPI}^1_{\text{Mar09}} / \text{CPI Mar08})] \\ & + [0.190 + 0.000 + 0.000 + \text{PV Rebate Forecast 2009/10} \\ & + (0.000617 * \# 3 \text{ Phase Replacements Forecast 2009/10})] \end{aligned} $ |

Any true-up correction required in 2010/11 and 2011/12 for forecast/estimate errors will involve a time-value of money CPI and WACC adjustment consistent with the above formula.

- (e) the basis on which ETSA Utilities proposes to apply the pass through amount to distribution network users;

1 July 2008 to 30 June 2010

ETSA Utilities proposes to add the additional amounts as detailed under item (d) above as a simple pass-through in conjunction with the other miscellaneous pass-throughs previously approved. A charge per kWh is proposed to apply to all energy distributed to customers by ETSA Utilities. Such an approach will enable an administratively simple monitoring arrangement. It will add approximately \$0.63/MWh to the customer price of all energy in 2009/10.

The pass through amounts to 30 June 2010 will principally be recovered over the period 1 July 2009 to 30 June 2010, with some true-up for forecast and estimate errors occurring in 2010/11 and 2011/12, possibly in conjunction with the ongoing pass-through of PV Rebate in those years.

Future Regulatory Years

The increased expenditures associated with this policy initiative will be included in our future Reset submissions. It is expected that the PV Rebate component will remain as a pass-through.

¹ All Groups index number weighted average of 8 capital cities, published by Australia Bureau of Statistics

Definitions

In this Application and Statement:

“**ETSA Utilities**” means ETSA Utilities (ABN 13 332 330 749) a partnership of:

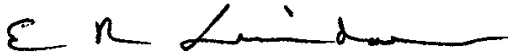
Spark Infrastructure SA (No.1) Pty Ltd ABN 54 091 142 380
Spark Infrastructure SA (No.2) Pty Ltd ABN 19 091 143 038
Spark Infrastructure SA (No.3) Pty Ltd ABN 50 091 142 362
each incorporated in Australia, and

CKI Utilities Development Limited (ARBN 65 090 718 880)
HEI Utilities Development Limited (ARBN 82 090 718 951)
each incorporated in The Bahamas

of 1 Anzac Highway, Keswick SA 5035.

A term written in italics has the same meaning as in the Electricity Distribution Price Determination or National Electricity Rules as the case may be.

DATED the thirtieth day of September 2008



Eric Lindner

GENERAL MANAGER CORPORATE AFFAIRS
ETSA UTILITIES