

ENDEAVOUR ENERGY
REGULATORY REFERENCE GROUP (RRG)
INDEPENDENT MEMBERS PANEL

17 January 2024

Arek Gulbenkoglou
General Manager
Australian Energy Regulator
GPO Box 1313
Canberra ACT 2601

Submitted via email to: AERresets2024@aer.gov.au

Dear Arek,

Re: Endeavour Energy Regulatory Draft Decision and Revised Proposal 2024-29

The Independent Members' Panel of the Endeavour Energy Regulatory Reset Group (IMP) appreciates the opportunity to comment on the draft decision and revised revenue proposal submitted by Endeavour Energy as part of the 2024-29 resets.

Since Endeavour Energy commenced their planning of the 2024-29 regulatory reset back in April 2021, the Independent Members Panel has been integral in the co-design of the engagement process and has provided feedback and challenged decisions as Endeavour Energy's Regulatory Proposal evolved. We have brought the lens of an independent panel representing all consumers – household, small business consumers, councils and large energy users – to ensure that all voices are heard and that their needs are either reflected in the Proposal or, where it is not, a clear explanation is provided.

Since the lodgement of their 2024-29 regulatory proposal and the publishing of the AER's Draft Decision, the IMP have continued to be involved in Endeavour Energy's proposal process. In particular, we have had the opportunity to monitor, consider and challenge Endeavour Energy's response to recent policy developments in the regulatory and government environment such as:

- the Emissions Reduction Objectives Bill 2023,
- the NSW Electricity Supply Reliability Check-up report,
- Residential electrification initiatives,
- Cybersecurity requirements and SOCI Act compliance, and
- The AEMC metering review.

There is a high level of concern by IMP members regarding the potential cost to consumers of schemes being introduced by governments and regulators, such as the NSW GSL scheme, rising AEMO costs and ESB reforms. We commend Endeavour Energy in not putting forward any operating cost step changes in the revised proposal, and we recognise the pressure such a decision may have on the financial performance of the business.

We have also been deeply involved in the final phase of Endeavour Energy's reset proposal engagement programme; the 'confirm' phase. Given the very dynamic nature of not only the electricity industry but the wider economic environment, we strongly believed that Endeavour Energy should include the latest and most relevant sentiments and needs of the community in their final proposal.

From that latest work, we are pleased to see that Endeavour Energy has largely accepted the findings of the latest engagement, in particular:

- Placing a high priority on the need for affordable energy and value for money,
- Providing a faster transition to cost-reflective tariffs,
- Maintaining a strong customer engagement focus on Endeavour Energy's business operations beyond the regulatory reset itself,
- Recognising the critical integration with community bodies, in particular councils, across a range of services from smart streetlighting to the critical response in weather emergencies,
- Supporting a cost-sharing arrangement during the transition to smart metering.

Based on our close involvement through the latter stages of the regulatory proposal process, we are pleased to provide our support for Endeavour Energy's Revised Regulatory Proposal. Endeavour Energy has seamlessly maintained their transparent and consultative engagement approach beyond the lodgement of their Regulatory Proposal early in 2023, through to the preparation of the Final Proposal, and into the function of the ongoing Peak Customer and Stakeholder Committee.

The predominant feature of our support is for the way that Endeavour Energy has approached the affordability imperative; a key issue with consumers. As Endeavour Energy notes in their revised proposal;

"Ordinarily, we would adjust our forecast expenditure to account for the latest available information and unit costs. However, we have only done so in this Revised Proposal where this results in a forecast that is equal to or lower than the AER's draft decision (e.g., our opex forecast)."

Endeavour Energy has confirmed that consumer engagement will continue into the next regulatory period through the oversight of a renewed Peak Customer and Stakeholder Committee (PCSC). We have observed the renewal of this committee, including ongoing involvement by a number of IMP representatives. Through this mechanism, we intend 'holding Endeavour Energy to its promises' and ensure that when the next regulatory reset process commences, there is a customer and stakeholder memory to assess the impact of the commitments made and present a consumer view that extends beyond the 5-year regulatory reset horizon.

Finally, there are several specific matters that we wish to bring to the AER's attention as part of the assessment of the Final Proposal, including innovation, resilience, metering services and the Tariff Structure Statement. The attachment to this letter addresses these points.

We would be pleased to clarify any of these matters should the AER require.

Regards,

Mike Swanston

On behalf of the Endeavour Energy Regulatory Reset Group Independent Members' Panel.

Elisabeth Ross, Mark Grenning, Iain Maitland, Simon Moore, Jan Kucic-Riker

Matters for consideration.

Innovation Fund

We note Endeavour's acceptance of the AER's decision to not expressly approve an Innovation Fund. This decision is easier to accept when the overall approved opex and capex expenditure has the headroom to undertake innovation expenditure than when a network seeks an additional innovation specific amount. We are pleased to see that Endeavour Energy remains committed to implementing a consultative committee to investigate and trial innovative technologies and solutions within the 2024-29 expenditure allowances via offsetting efficiencies.

The exploration and assessment of new technologies to support changing consumer energy needs, new approaches to energy distribution and the improved efficiency, productivity and utilisation of networks remains a key priority for energy customers. This position is supported by numerous DNSP engagement outcomes, not just for Endeavour Energy. It is clear to us that the current innovation funding available under the Demand Management Innovation Allowance (\$5m for the whole 5-year period) is no longer sufficient to support the level of innovation consumers are prepared to fund and what is required to deliver on Government renewables objectives.

Given that some RRG members are also members of the Endeavour Energy PCSC and are likely to be members of the innovation consultative committee, those members look forward to working with Endeavour to meet the guidance set out by the AER for innovation expenditure in the Draft Decision¹. It is our intention to highlight the role of innovation by distributors, in particular the funding and oversight of such work, to Endeavour and ultimately the AER.

Resilience to changing climate risks.

The IMP supports the position taken by Endeavour Energy in their approach to the changing risks to the network and community through changing climate. We note the actions by the NSW Government through their community resilience initiatives, as well as the steps taken by other jurisdictions, notably Victoria, towards possible legislation to extend the accountabilities of utilities.

We continue to support Endeavour Energy's balanced approach through targeted replacement and augmentation expenditure, maintenance and innovation, as well as its approach to major cost recovery through the existing ex-post mechanism.

However, we see this area as likely to draw greater attention from communities over time and will encourage Endeavour Energy and the AER to continually evaluate their approach to changing climate risks.

Metering Services

We have raised with Endeavour Energy our concerns that an accelerated metering transition could result in exponentially increasing prices for legacy metering services. We note the AER's draft decision to maintain the classification of legacy accumulation metering services as an Alternate Control Service.

Our position is to support Endeavour Energy's proposal to reclassify legacy metering services as a Standard Control Service, on the understanding that the replacement of the vast majority of legacy meters will take place over the upcoming regulatory period and that the remaining customers on legacy meters would otherwise face escalating costs.

¹ See pp24-5 in Attachment 5 Capital Expenditure of the Draft Decision <https://www.aer.gov.au/system/files/2023-10/AER%20-%20Draft%20Decision%20Attachment%205%20-%20Capital%20expenditure%20-%20Endeavour%20Energy%20-%202024-29%20Distribution%20revenue%20proposal%20-%20September%202023.pdf>

Tariffs and tariff strategy

We note that Endeavour Energy's revised TSS has proposed a kWh/annum basic export level to be calculated on a daily basis and applied to the billing period. This is not supported by IMP members. Further, we would strongly encourage Endeavour to consider the possible application of locational export pricing during the 2024-29 period so it can be considered as an option for the 2029-34 period.

Embedded networks

We note the AER did not approve Endeavour Energy's proposed approach to embedded network tariffs. While we agree with Endeavour Energy's revised response to amend its embedded network tariffs to reduce its customer impact, we consider that Endeavour Energy's initial proposal had merit. The implicit cross subsidy from non-embedded network customers to embedded network customers should be unwound as a matter of priority.