



**FINAL DECISION**  
**Endeavour Energy**  
**Distribution Determination**

**2019 to 2024**

**Attachment 18**  
**Tariff structure statement**

April 2019

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## Note

This attachment forms part of the AER's final decision on the distribution determination that will apply to Endeavour Energy for the 2019-2024 regulatory control period. It should be read with all other parts of the final decision.

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. The attachments have been numbered consistently with the equivalent attachments to our longer draft decision. In these circumstances, our draft decision reasons form part of this final decision.

The final decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 9 – Capital expenditure sharing scheme

Attachment 10 – Service target performance incentive scheme

Attachment 12 – Classification of services

Attachment 13 – Control mechanisms

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## Shortened forms

Shortened form	Extended form
ACS	alternative control services
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CCP 13	Consumer Challenge Panel, sub-panel 13
CESS	capital expenditure sharing scheme
CPI	consumer price index
DRP	debt risk premium
DMIAM	demand management innovation allowance (mechanism)
DMIS	demand management incentive scheme
distributor	distribution network service provider
DUoS	distribution use of system
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
Expenditure Assessment Guideline	Expenditure Forecast Assessment Guideline for Electricity Distribution
F&A	framework and approach
MRP	market risk premium
NEL	National Electricity Law
NEM	national electricity market
NEO	national electricity objective
NER or the Rules	National Electricity Rules
NSP	network service provider
opex	operating expenditure
PPI	partial performance indicators
PTRM	post-tax revenue model
RAB	regulatory asset base

Shortened form	Extended form
RBA	Reserve Bank of Australia
repex	replacement expenditure
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue and pricing principles
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SCS	standard control services
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
WACC	weighted average cost of capital

# Glossary of terms

Term	Interpretation
Apparent power	See kVA
Anytime demand tariff	A tariff incorporating a demand charge where the demand charge measures the customer's maximum demand at anytime (i.e. not limited to within a peak charging window).
CoAG Energy Council	The Council of Australian Governments Energy Council, the policymaking council for the electricity industry, comprised of federal and state (jurisdictional) governments.
Consumption tariff	A tariff that incorporates only a fixed charge and usage charge and where the usage charge is based on energy consumed (measured in kWh) during a billing cycle, and where the usage charge does not change based on when consumption occurs. Examples of consumption tariffs are flat tariffs, inclining block tariffs and declining block tariffs.
Cost reflective tariff	Consistent with the distribution pricing principles in the NER, a cost reflective distribution network tariff is a tariff that a distributor charges in respect of its provision of direct control services to a retail customer that reflects the distributor's efficient costs of providing those services to the retail customer. These efficient costs reflect the long run marginal cost of providing the service and contribute to the efficient recovery of residual costs.
Declining block tariff	A tariff in which the per unit price of energy decreases in steps as energy consumption increases past set thresholds.
Demand charge	A tariff component based on the maximum amount of electricity consumed by the customer (measured in kW, kVA or kVA <sub>r</sub> ) which is reset after a specific period (e.g. at the end of a month or billing cycle). A demand charge could be incorporated into either an anytime demand tariff or a time-of-use demand tariff.
Demand tariff	A tariff that incorporates a demand charge component.
Fixed charge	A tariff component based on a fixed dollar amount per day that customers must pay to be connected to the network.
Flat tariff	A tariff based on a per unit usage charge (measured in kWh) that does not change regardless of how much electricity is consumed or when consumption occurs.
Flat usage charge	A per unit usage charge that does not change regardless of how much electricity is consumed or when consumption occurs.
Inclining block tariff	A tariff in which the per unit price of energy increases in steps as energy consumption increases past set thresholds.
Interval, smart and advanced meters	Used to refer to meters capable of measuring electricity usage in specific time intervals and enabling tariffs that can vary by time of day.
kW	Also called real power. A kilowatt (kW) is 1000 watts. Electrical power is measured in watts (W). In a unity power system the wattage is equal to the voltage times the current.
kWh	A kilowatt hour is a unit of energy equivalent to one kilowatt (1 kW) of power used for one hour.
kVA	Also called apparent power. A kilovolt-ampere (kVA) is 1000 volt-amperes. Apparent power is a measure of the current and voltage and will differ from real power when the current and voltage are not in phase.

Term	Interpretation
LRMC	Long Run Marginal Cost. Defined in the National Electricity Rules as follows: <i>"the cost of an incremental change in demand for direct control services provided by a Distribution Network Service Provider over a period of time in which all factors of production required to provide those direct control services can be varied".</i>
Minimum demand charge	Where a customer is charged for a minimum level of demand during the billing period, irrespective of whether their actual demand reaches that level.
NEO	The National Electricity Objective, defined in the National Electricity Law as follows: <i>"to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to—</i> <i>(a) price, quality, safety, reliability and security of supply of electricity; and</i> <i>(b) the reliability, safety and security of the national electricity system".</i>
NER	National Electricity Rules
Power factor	The power factor is the ratio of real power to apparent power (kW divided by kVA).
Tariff	The network tariff that is charged to the customer's retailer (or in limited circumstances, charged directly to large customers) for use of an electricity network. A single tariff may comprise one or more separate charges, or components.
Tariff structure	Tariff structure is the shape, form or design of a tariff, including its different components (charges) and how they may interact.
Tariff charging parameter	The manner in which a tariff component, or charge, is determined (e.g. a fixed charge is a fixed dollar amount per day).
Tariff class	A class of retail customers for one or more direct control services who are subject to a particular tariff or particular tariffs.
Time-of-use demand tariff (ToU demand tariff)	A tariff incorporating a demand charge where the demand charge measures the customer's maximum demand during a peak charging window. A ToU demand charge might also include an off-peak demand charge or minimum demand charge, and may include flat, block or time-of-use energy usage charges.
Time-of-use energy tariff (ToU energy tariff)	A tariff incorporating usage charges with varying levels applicable at different times of the day or week. A ToU energy tariff will have defined charging windows in which these different usage charges apply. These charging windows might be labelled the 'peak' window, 'shoulder' window, and 'off-peak' window.
Usage charge	A tariff component based on energy consumed (measured in kWh). Usage charges may be flat, inclining with consumption, declining with consumption, variable depending on the time at which consumption occurs, or some combination of these.



## 18 Tariff structure statement

This attachment sets out our final decision on Endeavour Energy's (Endeavour) tariff structure statement to apply for the 2019–24 regulatory control period.

A tariff structure statement applies to a distributor's tariffs for the duration of the regulatory control period. It should describe a distributor's tariff classes and structures, the distributor's policies and procedures for assigning customers to tariffs, the charging parameters for each tariff, and a description of the approach the distributor to setting tariffs in pricing proposals. It is accompanied by an indicative pricing schedule.<sup>1</sup> A tariff structure statement is designed to provide consumers and retailers with certainty and transparency in relation to how and when network prices will change.

Our final decision deals only with issues unresolved after our draft decision and Endeavour's revised tariff structure statement proposal. For details of our consideration of previously settled issues, please see attachment 18 of our draft decision.<sup>2</sup>

### 18.1 Final decision

Our final decision is to approve Endeavour's revised tariff structure statement with amendments that:

- require Endeavour to reassign all residential and small business customers that receive a new smart meter to the transitional demand tariff
- require Endeavour to create a financial incentive for customers to opt-in to cost reflective tariffs (demand and time of use) from flat tariffs and transitional tariffs.

Our broad acceptance of Endeavour's revised proposal is due to Endeavour's revised tariff structure statement mostly aligning with our draft decision. However, following feedback on our draft tariff structure statement decisions from Endeavour and other NSW distributors<sup>3</sup> and stakeholders<sup>4</sup> we have revised our approach to now accept:

- residential and small business customers may opt-out to flat tariffs, but only if cost reflective tariffs are set at a discount to the flat tariff
- distributors need not provide a 12-month data-sampling period to reassigned customers, but only if customers may opt-out to discounted flat tariffs

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<sup>2</sup> AER, *Draft Decision – Endeavour Energy Distribution determination – 2019 to 2024 – Attachment 18 Tariff structure statement*, November 2018.

<sup>3</sup> Endeavour's Explanatory statement accompanying its tariff structure statement argued against removing opt-out to flat tariffs and a 12-month data-sampling period; Endeavour Energy, *Tariff Structure Explanatory Statement – 1 July 2019-30 June 2024*, January 2019, p. 13.

<sup>4</sup> Consumer Challenge Panel 10, *CCP 10 Response to the Endeavour Energy Revised Regulatory Proposal 2019-24 and AER Draft Determination*, February 2019, p. 44.

- residential and small business customers may be assigned to a transitional demand tariff which is less cost reflective, as an interim approach.

We are applying this updated policy consistently to NSW and ACT distributors.

## 18.2 Endeavour's revised proposal

Endeavour's revised tariff structure statement closely resembles the tariff structure statement it initially proposed in June 2018. In response to our draft decision, Endeavour made the following changes:

- residential customers may opt-in to a seasonal time of use tariff
- large business demand tariffs retain time of use energy charges
- reduced cost recovery for the cost reflective demand tariff, to be more competitive with the flat tariff.

Contrary to our draft decision, Endeavour proposed:

- to not reassign to a cost reflective tariff those residential and small business customers that receive a smart meter to replace a faulty accumulation meter
- to allow opt-out to a flat tariff for residential and small business customers.

## 18.3 Assessment approach

We assessed the proposed tariff structure statement against two sets of requirements under the NER.

First, the NER sets out a number of elements that an approved tariff structure statement must contain.<sup>5</sup> These include the structure of the proposed tariffs, and the policies and procedures the distributor will use to assign customers to those tariffs.

Second, a tariff structure statement must comply with the distribution pricing principles.<sup>6</sup> Broadly, the pricing principles require tariffs to reflect a distributor's efficient costs. An approved tariff structure statement must have regard to the impact on customers in the transition to cost reflective tariffs.

Please refer to our draft decision for more details.<sup>7</sup>

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<sup>5</sup> NER, cl. 6.18.1A(a).

<sup>6</sup> NER, cl. 6.18.1A(b).

<sup>7</sup> AER, *Draft Decision – Endeavour Energy Distribution determination – 2019 to 2024 – Attachment 18 Tariff structure statement*, November 2018, pp. 18-10 to 18-13.

## 18.4 Reasons for final decision

In this section, we will outline our reasons for:

- amending Endeavour's tariff assignment policy to require reassignment of all customers receiving a smart meter
- approving default assignment to the transitional demand tariff and opt-out to flat tariffs
- amending Endeavour's approach to setting prices to ensure customers do not have financial incentives, at a network level, to opt-out of cost reflective tariffs
- summarising Endeavour's approach to setting prices to assist customers, retailers, Endeavour and the AER with the annual pricing process.

As noted in section 18.1, Endeavour changed relatively little of its initial tariff structure statement for its revised tariff structure statement. We have not provided additional analysis of:

- issues we approved and Endeavour did not change (e.g. Endeavour's charging windows and long run marginal cost (LRMC) estimates)<sup>8</sup>
- our draft decisions that Endeavour adopted with its revised proposal (e.g. offering a seasonal time of use tariff for residential customers).

Stakeholders seeking the reasons for our above decisions should refer to attachment 18 of our draft decision.

### 18.4.1 Assignment policy should facilitate tariff reform

Endeavour proposed, both in its initial regulatory proposal and in its revised tariff structure statement, to immediately:

- Assign new residential and small business connections to a transitional demand tariff
- Reassign residential and small business connections that upgrade to 3-phase or bi-directional flow to a transitional demand tariff.

In our draft decision, we raised two objections to Endeavour's approach:

1. we considered all customers that receive a new smart meter should not remain on flat tariffs, and
2. we considered the transitional demand tariff is not sufficiently cost reflective to be a default tariff.

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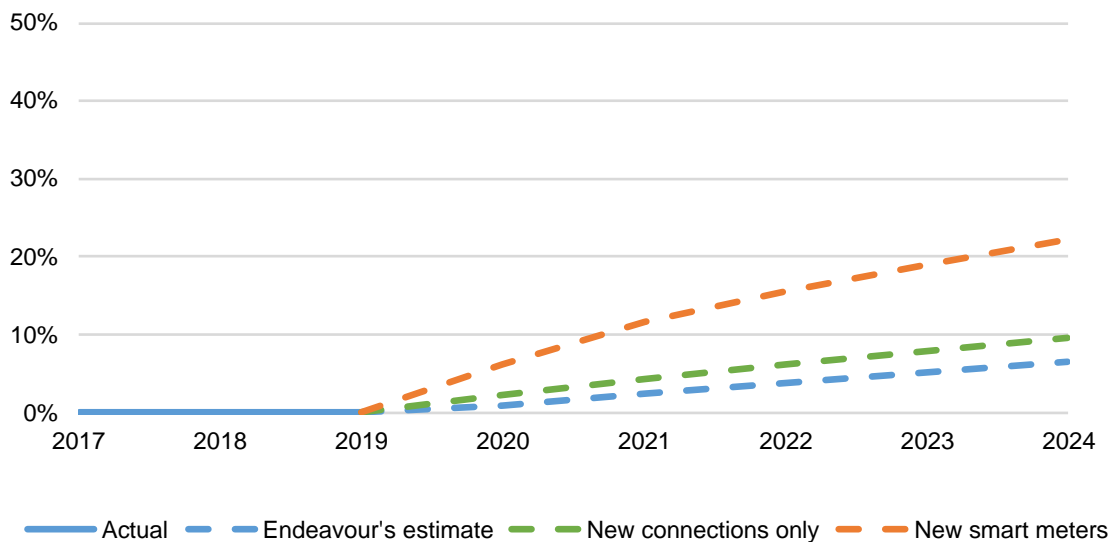
<sup>8</sup> Endeavour proposed no changes to the methodology for estimating LRMC for each tariff class. However, Endeavour revised the LRMC estimates to account for changes to capital expenditure forecasts. The LRMC estimates are lower for each tariff class in the Revised Proposal compared to the initial Proposal, which we consider is appropriate.

Additionally, we decided that Endeavour should give customers receiving a replacement meter, due to faulty accumulation meter, a 12-month data-sampling period.

*We consider all new smart meters should lead to tariff reassignment*

Our final decision is to amend Endeavour’s revised tariff structure statement such that Endeavour will reassign to cost reflective or transitional tariffs all customers that receive a new smart meter. The NER network pricing objective requires customers’ tariffs to reflect their efficient costs.<sup>9</sup> Endeavour cannot achieve this while leaving a large proportion of its customers on the least cost reflective tariff. Figure 1 below shows the impact of changes to Endeavour’s tariff reassignment policy.

**Figure 1 Estimated residential cost reflective tariff penetration**



We note that in Figure 1 Endeavour’s estimate includes its expected opt-out to flat tariffs and therefore is not directly comparable to the ‘New connections only’ and ‘New smart meters’. We consider adopting the ‘new smart meter’ tariff reassignment trigger would make a significant contribution to the achievement of the network pricing objective, by moving customers to tariff structures that allow Endeavour to better reflect long-run marginal costs in its tariffs<sup>10</sup>

Applying this approach to Endeavour also creates consistency within NSW with benefits for governments, distributors and retailers as they educate customers.

This position was supported by the Consumer Challenge Panel.<sup>11</sup>

<sup>9</sup> NER 6.18.5(a).

<sup>10</sup> NER 6.18.5(f).

<sup>11</sup> Consumer Challenge Panel 10, *CCP 10 Response to the Endeavour Energy Revised Regulatory Proposal 2019-24 and AER Draft Determination*, February 2019, p44-45.

## *We will allow default assignment to the transitional demand tariff*

In our draft decision, we indicated Endeavour should:

- make a cost reflective tariff its default tariff for new customers and reassigned customers
- give customers assigned to the cost reflective tariff, due to replacement of faulty meter, a 12-month data-sampling period on the flat tariff.

Endeavour has maintained its original proposal to set the transitional demand tariff as the default tariff with no 12-month data-sampling period. The Consumer Challenge Panel made submissions agreeing with this position.<sup>12</sup> We consider that a 12-month data-sampling period helps customers by:

- giving customers, retailers and distributors a 12-month period to target customers to help them understand the changes,<sup>13</sup> and
- reduces customers impacts by allowing them have the necessary information to make informed decisions about retail offers.<sup>14</sup>

In general, we consider that transitional tariffs provide inefficient demand signals and can lead to inefficient demand.<sup>15</sup> However, Endeavour's long-run marginal cost estimate by design looks at a subset of its substation zones where demand is growing, which is a small part of its network. Therefore, in this instance the transitional demand tariff is not less efficient than the cost reflective demand tariff for many customers.<sup>16</sup>

Additionally, the transitional tariff reduces the need for a 12-month data-sampling period as the impacts of reassignment are more muted. While we consider there is value in the 12-month data-sampling period, it is not as important in the context of default assignment to the transitional demand tariff and the price levels discussed below in section 18.4.2.

Therefore, we approve Endeavour's proposal to have default assignment to the transitional demand tariff, without a 12-month data-sampling period. This is because it leads to more customers on tariff structures that are capable of better reflecting efficient costs.<sup>17</sup>

### **18.4.2 Tariffs should support choice and cost reflectivity**

In our draft decisions, we recommended that all of the NSW, Tasmanian and ACT distributors no longer offer customers assigned to cost reflective tariff the option to

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<sup>12</sup> Consumer Challenge Panel 10, *CCP 10 Response to the Endeavour Energy Revised Regulatory Proposal 2019-24 and AER Draft Determination*, February 2019, p44.

<sup>13</sup> NER 6.18.5(i).

<sup>14</sup> NER 6.18.5(h).

<sup>15</sup> That is, that they do not set tariffs based on long-run marginal cost. NER 6.18.5(f).

<sup>16</sup> NER 6.18.5(f) and NER 6.18.5(g)(1).

<sup>17</sup> NER 6.18.5(g).

opt-out to non-cost reflective tariffs. Rather, we recommended distributors give customers and retailers a choice of different cost reflective tariffs.

### *We approve Endeavour's tariff portfolio*

Endeavour's revised tariff structure statement accepted our decision to offer a choice, by adding a seasonal time of use tariff. We approve this position.

### *We will allow opt-out to flat tariffs with no incentive to opt-out*

However, Endeavour did not accept our draft decision stop customers from opting out of cost reflective tariffs to flat tariffs. The Consumer Challenge Panel supported opt-out to flat tariffs.<sup>18</sup>

Essential Energy's revised tariff structure statement convincingly argued that we should allow it to maintain opt-out to flat tariffs. Essential Energy designed its tariffs so that almost all customers have a financial incentive, at the network charge level, to choose cost reflective tariffs. Essential Energy argued that this meant customers would only choose to opt-out for non-financial reasons. Our final decision for Essential Energy accepted its revised tariff structure statement. Therefore, allowing customers to opt-out to flat tariffs provides an option for customers that cannot understand retail tariff offerings under cost reflective network tariffs.<sup>19</sup>

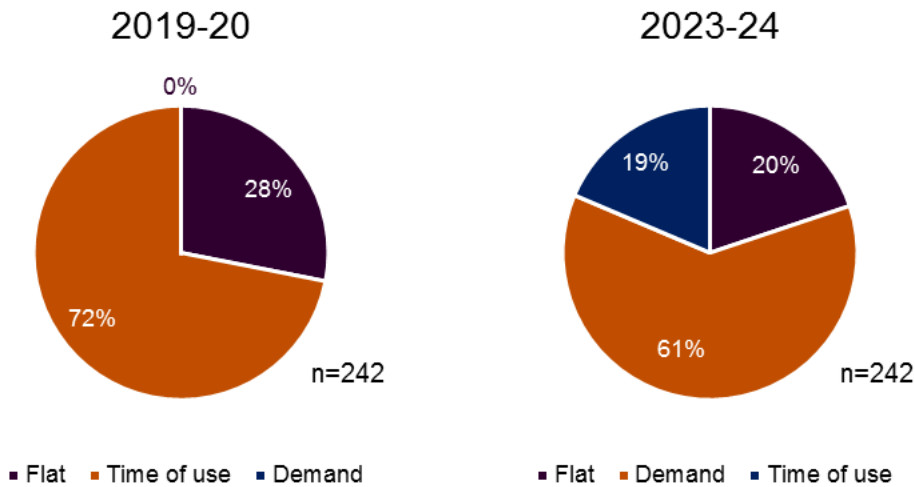
Our decision is to apply the Essential Energy approach to Endeavour. This means we approve Endeavour's proposal for customers to have the option of opting-out to flat tariffs from cost reflective tariffs. However, we need to amend Endeavour's approach to setting annual prices to set its cost reflective tariffs at a discount to its flat tariff and its transitional demand tariff. Figure 2, below shows what tariff is cheapest for Endeavour's customers under its indicative pricing schedule. Our amendment provides customers and retailers certainty and confidence in opting out of flat tariffs.

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<sup>18</sup> Consumer Challenge Panel 10, *CCP 10 Response to the Endeavour Energy Revised Regulatory Proposal 2019-24 and AER Draft Determination*, February 2019, p44.

<sup>19</sup> NER 6.18.5(i).

**Figure 2 Cheapest network tariff for residential customers<sup>20</sup>**



Our decision is to amend Endeavour’s approach to setting annual prices to require that no more than 10 per cent of Endeavour’s customers can have a financial incentive to be on the flat tariff over a cost reflective tariff (i.e. the cost reflective demand or seasonal time of use tariff). The graph above shows that this will only require a small adjustment in Endeavour’s tariffs compared to their indicative pricing schedule. We consider that without amendment, the revised tariff structure statement does not apply the distribution pricing principles in a manner that contributes to the achievement of the network pricing objective.<sup>21</sup> This will mean most customers will only opt-out due to non-financial concerns, such as having difficulty understanding cost reflective tariffs,<sup>22</sup> while minimising customer impacts of reassignment.<sup>23</sup>

*Tariff transitions should not lead to annual price increases*

Endeavour’s proposal is to transition the transitional demand tariff to converge with the demand tariff over 10 years. We consider this is an appropriate timeframe, given limited congestion in Endeavour’s network combined with Endeavour’s approach to calculating long-run marginal cost,<sup>24</sup> and the need to manage customers’ ability to adapt and understand the tariff.<sup>25</sup> However, we consider that the transition should take into account the annual customer impacts.

<sup>20</sup> Excluding the transitional tariff.

<sup>21</sup> NER 6.18.5(d).

<sup>22</sup> NER 6.18.5(i).

<sup>23</sup> NER 6.18.5(h).

<sup>24</sup> That is, because the long-run marginal cost focuses on areas with growing demand, the cost reflective demand tariff does not reflect the long-run marginal cost of demand for a large number of customers. NER 6.18.5(f).

<sup>25</sup> NER 6.18.5(h) and NER 6.18.5(i).

Our analysis of Endeavour’s indicative pricing structure suggests that, to converge customers on the transitional demand tariff, customers would see their transitional tariffs increase annually relative to the cost reflective demand tariff.

We consider customers on a transitional tariff should not have to face annual price increases compared to the cost reflective tariff. This would have negative customer impact (if tariff revenue levels are flat, this would likely require an increase in the transitional demand tariff each year as it transitions towards the higher cost reflective tariffs) and may erode support for tariff reform. Therefore, we have decided to amend Endeavour’s approach to setting annual prices to ensure most customers (i.e. more than 50 per cent) have a financial incentive (at the network level) to choose the cost reflective demand tariff over the transitional demand tariff.

### *Endeavour provided certainty on its approach to annual pricing*

In our draft decision,<sup>26</sup> we required Endeavour to provide more clarity on how it will base tariffs on long-run marginal cost<sup>27</sup> and recover residual costs when there is variation in revenue.<sup>28</sup> We reasoned that providing additional clarity helps customers understand their network charges.<sup>29</sup> Also, that greater certainty enables customers to make behavioural changes and investments to reduce their network charges over the longer term.<sup>30</sup>

Endeavour’s revised tariff structure statement, and the two amendments discussed above, adequately addresses our concerns. They will make it easier for customers to understand their tariffs, by providing certainty that they can see and retailers can use in developing tariffs for customers.<sup>31</sup> We consider that based on its approved tariff structure statement, Endeavour will need to do the following in its annual pricing proposals from 2019–20 to 2023–24:

- Set tariffs so that no more than 10% of customers have a financial incentive, at the network level, to opt-out of the cost reflective demand or seasonal time of use tariff to the flat tariff.
- Set tariffs so that at least 50% of customers have a financial incentive, at the network level, to choose the cost reflective demand tariff over the transitional demand tariff.

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<sup>26</sup> AER, *Draft Decision – Endeavour Energy Distribution determination – 2019 to 2024 – Attachment 18 Tariff structure statement*, November 2018, pp 18-17 to 18-18.

<sup>27</sup> NER 6.18.5(f).

<sup>28</sup> NER 6.18.5(g).

<sup>29</sup> NER 6.18.5(i).

<sup>30</sup> NER, cl. 6.18.5(h)(3).

<sup>31</sup> NER 6.18.5(i)



- Transition the transitional demand tariff to converge with the cost reflective demand tariff over 10 years, making approximately 50% of the progress over this reset period.<sup>32</sup>
- Signal Endeavour’s long-run marginal costs in the demand charges of demand tariffs (consistent with the transition above) and peak energy charges of time of use tariffs.<sup>33</sup>
- Use annual fluctuations in revenue requirement to rebalance the recovery of residual costs from energy charges towards fixed charges, with the extent constrained by managing customer impacts.<sup>34</sup>
- Tariff class revenue will be between standalone and avoidable costs.<sup>35</sup>

### 18.4.3 Stakeholder submissions

We received several stakeholder submissions which were generally supportive of Endeavour’s revised tariff structure statement. The key themes picked up on by stakeholders recognised the need for Endeavour to:

- implement cost–reflective network tariffs to advance consumer’s long term interests
- balance cost–reflectivity with complexity to manage customer impacts
- remain mindful of related initiatives occurring in retail markets.

#### *Recognition of role of network tariff reform*

Red and Lumo Energy submitted that the government, NSW distributors and retailers work together to educate consumers on the benefits of tariff reform as the transition towards more cost reflective tariffs continue.<sup>36</sup>

Origin Energy submitted that there is a need for a broad and synchronised communication campaign regarding tariff reform to provide customers with the understanding they need to make informed decisions.<sup>37</sup>

AGL submitted that it supported greater implementation of cost reflective network tariffs.<sup>38</sup>

We expect that the transition to cost-reflective network tariffs is to occur over several regulatory control periods. As the CCP and Energy Consumers Australia (ECA) note in

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<sup>32</sup> Endeavour Energy, *Tariff Structure Statement – 1 July 2019-30 June 2024*, January 2019, p 33.

<sup>33</sup> Endeavour Energy, *Tariff Structure Statement – 1 July 2019-30 June 2024*, January 2019, p 28.

<sup>34</sup> We consider that this means each fluctuation in revenue has a minimum condition of leading to a greater proportion of residual costs recovered by fixed charges. Endeavour Energy, *Tariff Structure Statement – 1 July 2019-30 June 2024*, January 2019, p 28.

<sup>35</sup> Endeavour Energy, *Tariff Structure Statement – 1 July 2019-30 June 2024*, January 2019, p 98.

<sup>36</sup> Red and Lumo Energy, *Submission on NSW draft decisions and revised proposals*, February 2019, p.1

<sup>37</sup> Origin Energy, *Submission on NSW draft decisions and revised proposals*, February 2019, p.1

<sup>38</sup> AGL, *Submission on NSW draft decisions and revised proposals*, February 2019, p.2

their submissions, there is a need for broad-based initiatives across the sector to provide a cohesive NEM wide approach to promote tariff reform.<sup>39</sup> We consider collaboration across the sector through the 2019–24 regulatory control period is important and would involve retailers, distributors and consumer advocates.

#### *Balancing complexity and customer impacts*

AGL remains satisfied with Endeavour’s proposals for improving the cost-reflectivity of its residential network tariffs.<sup>40</sup>

Origin Energy submitted that it remains concerned that some tariff structures approved by the AER are too complex for most consumers to understand and therefore respond to.<sup>41</sup>

We consider the intention of network tariff reform is to change the way distributors charge retailers for distribution services. While, initially there is likely to be increases in network costs for particular customer segments, we consider that there are options available to retailers to manage network price signals. We encourage retailers to investigate how they can balance their overall network costs to mitigate transitional impacts. We also note that time varying charges provide opportunity for consumers to manage their bills by shifting their consumption.

#### *Mindfulness of other retail market reform required*

AGL further submitted that it does not support moving to cost-reflective network pricing under a regulated retail pricing framework.<sup>42</sup>

Similarly, Origin Energy submitted that the AER consider the implications of how tariff reform will interact with other key retail tariff reforms such as the default market offer.<sup>43</sup>

We do not consider that retailers are subject to regulated retail pricing in NSW. Measures such as the default market offer act rather as retail benchmarks and do not constrict retailers’ ability to offer innovative tariffs. Further, the relative level of the default market offer and prevailing standing offers is a key determinant of the implications for retailers.

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<sup>39</sup> CCP10, *Submission on NSW draft decisions and revised proposals*, February 2019, p.18  
ECA, *Submission on NSW draft decisions and revised proposals*, February 2019, p.18

<sup>40</sup> AGL, *Submission on NSW draft decisions and revised proposals*, February 2019, p.3

<sup>41</sup> Origin Energy, *Submission on NSW draft decisions and revised proposals*, February 2019, p.3

<sup>42</sup> AGL, *Submission on NSW draft decisions and revised proposals*, February 2019, p.3

<sup>43</sup> Origin Energy, *Submission on NSW draft decisions and revised proposals*, February 2019

## A Assigning retail customers to tariff classes

This appendix sets out our determination on the principles governing assignment or reassignment of Endeavour Energy's retail customers for direct control services. We approve Endeavour Energy's procedures for assigning and reassigning retail customers to tariff classes.

### *Procedures for assigning and reassigning retail customers to tariff classes*

These procedures are set out below.

#### **Assignment of existing customers to tariff classes at the commencement of the next regulatory control period**

1. Each customer who was a customer of Endeavour Energy immediately prior to 1 July 2019, and who continues to be a customer of Endeavour Energy as at 1 July 2019, will be taken to be “assigned” to the tariff class which Endeavour Energy was charging that customer immediately prior to 1 July 2019.

#### **Assignment of new customers to a tariff class during the next regulatory control period**

2. If, after 1 July 2019, Endeavour Energy becomes aware that a person will become a customer of Endeavour Energy, then Endeavour Energy will determine the tariff class to which the new customer will be assigned.
3. In determining the tariff class to which a customer or potential customer will be assigned, or reassigned, in accordance with paragraph 2 or 5, Endeavour Energy will take into account one or more of the following factors:
  - (a) the nature and extent of the customer's usage;
  - (b) the nature of the customer's connection to the network; and
  - (c) whether remotely-read interval metering or other similar metering technology has been installed at the customer's premises as a result of a regulatory obligation or requirement.
4. In addition to the requirements under paragraph 3, Endeavour Energy, when assigning or reassigning a customer to a tariff class, will ensure the following:
  - (a) that customers with similar connection and usage profiles are treated equally;
  - (b) that customers which have micro-generation facilities are not treated less favourably than customers with similar load profiles without such facilities; and
  - (c) the national pricing objective and the distribution pricing principles which direct that tariffs charged by a distributor for direct control services should reflect the distributor's efficient costs of providing these services to the customer.

### **Reassignment of existing customers to another existing or a new tariff during the next regulatory control period**

5. If Endeavour Energy believes that an existing customer's load characteristics or connection characteristics (or both) are no longer appropriate for that customer to be assigned to the tariff class to which the customer is currently assigned or a customer no longer has the same or materially similar load or connection characteristics as other customers on the customer's existing tariff, then Endeavour Energy may reassign that customer to another tariff class.

### **Notification of proposed assignments and reassignments**

6. Endeavour Energy will notify the customer's retailer in writing of the tariff class to which the customer has been assigned or reassigned, prior to the assignment or reassignment occurring.
7. A notice under paragraph 6 above must include advice informing the customer's retailer that they may request further information from Endeavour Energy and that the customer's retailer may object to the proposed reassignment. This notice must specifically include reference to Endeavour Energy's published procedures for customer complaints, appeals and resolution.
8. If the objection is not resolved to the satisfaction of the customer's retailer under the Endeavour Energy's internal review system or Energy & Water Ombudsman NSW (EWON), then the retail customer is entitled to seek a decision of the AER via the dispute resolution process available under Part 10 of the National Electricity Law (NEL).
9. If, in response to a notice issued in accordance with paragraph 7 above, Endeavour Energy receives a request for further information from a customer's retailer, then it must provide such information within a reasonable timeframe. If Endeavour Energy reasonably claims confidentiality over any of the information requested by the customer's retailer, then it is not required to provide that information to the retailer or retail customer. If the customer's retailer disagrees with such confidentiality claims, it may have resort to the dispute resolution procedures referred to in paragraph 7 above (as modified for a confidentiality dispute).
10. If, in response to a notice issued in accordance with paragraph 7 above, a customer's retailer makes an objection to Endeavour Energy about the proposed assignment or reassignment, Endeavour Energy must reconsider the proposed assignment or reassignment. In doing so Endeavour Energy must take into consideration the factors in paragraphs 3 and 4 above, and notify the customer's retailer in writing of its decision and the reasons for that decision.
11. If a customer's retailer objection to a tariff class assignment or reassignment is upheld, in accordance with Endeavour Energy's published procedures for customer complaints, appeals and resolution then any adjustment which needs to be made to tariffs will be done by Endeavour Energy as part of the next annual review of prices

### **System of assessment and review of the basis on which a customer is charged**

12. Where the charging parameters for a particular tariff result in a basis of charge that varies according to the customer's usage or load profile, Endeavour Energy will set

out in its pricing proposal a method of how it will review and assess the basis on which a customer is charged.