

Consumer  
Challenge  
Panel

10 April 2018

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Dear Slavko

### Endeavour Energy 2014-19 revenue allowance remittal proposal

On 5 April 2018 Tony Narvaez, the CEO of Endeavour Energy (Endeavour), wrote to Paula Conboy, Chair of the AER, outlining a proposal for the remittal of Endeavour's 2014-19 determination. The proposal comprises a 5-page letter to the AER and an infographic.

Endeavour has had an engagement program with consumer groups about its proposal. The proposal has been disclosed by Endeavour and discussed with consumer groups in the following meetings:

Stakeholder Group	Dates
Bilateral discussions CCP10, ECA and PIAC	November 2017- January 2018
CCP10	17 January 2018
Endeavour's Customer Advisory Group (CAG), CCP10 and AER deep dive	16 March 2018
Teleconference with all groups	28 March 2018
WSROC	4-5 April 2018
Energy Users Association Australia	5-9 April 2018
NCOSS	4-5 April 2018

CCP10 had the following involvement during this engagement process:

- we gave feedback to Endeavour on the draft proposal generally between November 2017 and January 2018
- we gave feedback on the draft proposal letter on 17 January 2018

- we observed preliminary feedback to the draft proposal given to Endeavour by the deep dive participants on 16 March and we subsequently discussed with Endeavour how it would incorporate that further feedback into its proposal and
- we participated in the teleconference on the final draft proposal on 28 March and reviewed the revised proposal and infographic prior to lodgement with the AER.

CCP10 confirms that Endeavour was very receptive to comments from consumer groups and that it has taken steps to incorporate the feedback in the final proposal and the infographic.

In both of the meetings on 16 and 28 March several members of Endeavour's CAG positively acknowledged the 20% decline in operating expenditure since 2012. Endeavour was the only business of the 3 NSW businesses to have the EBSS applying in the 2014-19 regulatory period, which further reinforces Endeavour's ongoing opex efficiency initiatives, including reducing staff numbers by 994 since 2012 and negotiating more efficient labour conditions.

CCP10 acknowledges that Endeavour has proposed to the AER a revenue allowance in accordance with the AER's set aside 2015 determination and that Endeavour will retain approximately \$110 million that has been collected by it due to variations in demand forecasting and the total over-recovery for the 2014-19 period. A feature of the proposal is that the revenue effects will be smoothed over the 2019-24 period and within a CPI-1% price path leading to price stability for Endeavour's consumers. In order to achieve this proposal, Endeavour has chosen not to re-open contentious matters following the Federal Court decision.

Endeavour's proposal for resolving its regulatory allowance for 2014-19, following the remittal of that determination to the AER by the Federal Court, is supported by CCP10. We commend Endeavour on its consumer engagement on its proposal and on the way it has listened to that feedback and reflected it in its revised proposal. CCP10 believes that the Endeavour proposal is in the long-term interests of Endeavour's customers. We understand that this involves Endeavour retaining up to \$110m in revenue over-recovery that would otherwise be returned to consumers, but this needs to be considered in the context of the overall proposal. Consumers will benefit from:

- the certainty provided by the resolution of the proposed price path
- the removal of the risk for consumers from the reopening of the contentious issues from the Federal Court decision, particularly in regard to debt costs
- on an ongoing basis from the reductions in operating expenditure that Endeavour has achieved and
- the continuation of reduction in network prices since 2012.

It is our opinion that the benefits from this proposal outweigh the costs, in aggregate, for consumers.

We commend Endeavour and its new shareholders for taking this opportunity to resolve the 2014-19 revenue determinations. Consumers were not well served by the regulatory impasse between the AER and the NSW/ACT businesses around the 2014-19 determinations.

We note also that Endeavour has continued with more transparent consumer engagement as part of its 2019-24 proposal extension, particularly through a program of “deep dive” discussions.

Yours sincerely

Mark Henley, Louise Benjamin, Eric Groom and Mike Swanston