

**TARIFF STRUCTURE
STATEMENT &
FRAMEWORK AND
APPROACH
WORKSHOP REPORT**

.....
SEPTEMBER 2016
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1.0 Executive summary

Endeavour Energy hosted a stakeholder workshop attended by over 30 representatives from consumer advocacy groups, retailers, regulators and electricity distributors on 15 September 2016 in the Sydney CBD.

The workshop was independently facilitated by Kathy Jones of KJA and a webcast of the event allowed Melbourne-based retailers to participate on the day.

Presentations were given by Endeavour Energy's Acting CEO Rod Howard, HoustonKemp Partner Adrian Kemp, Endeavour Energy Executive Leadership Team members and managers around two key objectives. The key objectives were to:

- seek feedback from stakeholders on proposed changes to Endeavour Energy's tariff structures for 2017-19 following feedback from the Australian Energy Regulator (AER) in August to its initial Tariff Structure Statement (TSS)
- outline Endeavour Energy's initial views on changes to the Framework and Approach (F&A) for the 2019-24 regulatory proposal, seek feedback on these views, and ascertain from stakeholders whether further changes are required.

Some key themes that emerged in relation to the proposed tariffs can be summarised as follows:

- There is 'no one magic bullet' to the question of which tariff structure is best and it will change over time. The appropriate structure is dependent on the particular set of circumstances unique to the network, including the structure of business, the load structure of customers and future objectives of the business. It is an ongoing process.
- The AER rejected Endeavour Energy's default Declining Block Tariff (DBT) for residential customers on the basis it did not send sufficient price signals or recover costs. In response to feedback from the AER and stakeholders, Endeavour Energy has proposed a Flat Tariff for residential customers.
- The general consensus was that a newly proposed Flat Tariff for residential customers was a reasonable alternative to a DBT. Some thought that bill impacts would have to be appropriately managed in the transition period to cost reflective prices.
- The proposed policy of opt-out for Time of Use (TOU) tariffs for new residential and small business customers was seen by some as a significant shift for the network, and some felt the impacts of this proposed option needed to be further explored.
- Charging windows have dramatic influences on bill impacts, and potential changes in patterns in demand across the network. Whenever charging windows are altered along with different tariff levels, there will be winners and losers in that process. There is a lot of uncertainty around changing these variables, and at end of day not everyone can win.

- The AER believed shoulder and peak periods proposed were too long and not adequately justified by Endeavour Energy. Some other stakeholders believed there should be a shorter peak charging windows in winter and on weekends, with off-peak in autumn and spring.

Some key themes that emerged during the F&A session can be summarised as follows:

- **Form of control** – there was a general consensus that a revenue cap for network services, and a price cap for alternative control services, was appropriate.
- **Service classification** – emerging technologies, including new products and services, should be driving the AER to open up the framework. Some believed there is scope for greater flexibility in the classification of services for different customers, such as retailers. There is scope for the AER to explore competition in the provision of some services.
- **Incentive schemes** - there was a general consensus that incentive schemes for expenditure, innovation and service levels should continue to operate, but required some future review to keep them in line with a transforming network sector. Some commented that the AER should increase financial incentives to facilitate more R&D, and that demand management initiatives should continue to be incentivised. Some stakeholders supported incentives around capital expenditure, however the basis for the capital incentive needs to be explored to ensure it is achieving the desired outcome.

Endeavour Energy will consider this feedback prior to the submission of its revised TSS, and before providing recommendations to the AER regarding the F&A for the 2019-24 regulatory proposal. Both submissions are due in October 2016.

2.0 Introduction

Endeavour Energy aims to distribute electricity to its customers safely, reliably and sustainably. Endeavour Energy is committed to genuine engagement with all stakeholders and supports the AER's focus on network distributors using effective stakeholder engagement to drive plans.

In light of the AER's feedback on Endeavour Energy's initial TSS, Endeavour Energy sought to undertake further consultation with a variety of stakeholders to:

- seek feedback on the proposed changes to Endeavour Energy's tariff structures for 2017-19 which had been updated after receiving AER's feedback on the initial structure
- outline Endeavour Energy's initial views on changes to the F&A for the 2019-24 regulatory proposal, seek feedback on these views, and ascertain from stakeholders whether further changes are required
- assess stakeholders opinions prior to a formal submissions being made to the AER
- demonstrate Endeavour Energy's commitment to stakeholder engagement and alignment with the AER's consumer engagement guidelines.

The workshop was independently facilitated by Kathy Jones of KJA and attended by over 30 representatives from consumer advocacy groups, retailers, regulators and electricity distributors. A full list of attendees and invitees is in Appendix A.

The workshop was split into two sessions. The first session was devoted to discussing the proposed changes to Endeavour Energy's initial TSS. The objective of this session was to engage with stakeholders on the design of Endeavour Energy's tariff structures in light of the AER's feedback, and to consider impacts and issues for customers, consumer groups, retailers and the business.

The second session focussed on Endeavour Energy's F&A for the 2019 – 2024 regulatory period. The F&A is the first step in our next regulatory determination process. The objective was to seek feedback from retailers and consumer advocates on three key elements of our F&A: service classifications, incentive schemes and form of control.

Webcast of workshop

A number of retailers based interstate who were unable to attend the workshop requested conference call/webinar facilities to be arranged so they could participate. Endeavour Energy actioned this request and managed a webcast of the workshop whereby these retailers could participate in real time, listen to presentations and discussion, and submit questions and discussion points. Five retailer representatives had asked to participate and were sent invitations, and two representatives from Vocus Communications (formerly M2 Group) were able to take part on the day.

The webcast was a practical way of meeting the communication needs of our stakeholders. A recording of the webcast, available upon request, has been used post the workshop to

analyse points of view and ensure all stakeholder feedback has been given weight in our submission of 2017– 2019 tariff structures.

This report outlines the key issues and comments from the workshop and webcast participants.

All presentation slides from the workshop are in Appendix B.

3.0 Workshop objectives

All participants outlined their own key objectives during a opening discussion. The key themes that emerged from stakeholders were around understanding the rationale behind Endeavour Energy’s plans; understanding how distributors can work together; wanting to learn about, and listen to, stakeholder concerns; wanting to understand issues from different retail (consumer) perspectives and the different target groups; wanting to understand how to address feedback. More generally, the workshop was seen as an avenue for fact finding.

The specific objectives noted were:

- are we heading in the right direction
- vulnerable and targeted people perspectives should be considered
- maintain affordability
- rationale behind Endeavour’s plans
- how can distributors work together
- feedback on AER initial decision
- attain TSS information
- beyond jargon
- learn and listen about stakeholder concerns
- understand Endeavour’s view and its evolution
- understand issues from different retail (consumer) perspectives – different target groups
- listen
- impacts on customers
- protection for specialist customers (e.g. solar)
- retail perspective
- how to address feedback
- fact finding

Endeavour Energy Acting CEO Rod Howard gave an opening presentation which focused on some of the overarching objectives of the business.

Rod emphasised the importance of genuine stakeholder engagement in finalising our proposed tariffs for the 2017-19 period. He said that Endeavour Energy was committed to lodging tariff proposals which achieve a balance of transparency, predictability, efficiency and fairness. Endeavour Energy would also give weight to stakeholder views about 2017–2019 tariff structures when making decisions, and would let the group know how feedback had been used.

4.0 Tariff Structure Statement session

4.1 AER’s findings on our initial Tariff Structure Statement

By way of background, Endeavour Energy submitted its initial TSS to the AER for review in late 2015. The AER provided its initial decision on the initial TSS on 2 August 2016. Endeavour Energy must then, following further engagement with its stakeholders, provide a revised TSS to the AER by 4 October 2016.

Below is a summary of AER’s feedback on Endeavour Energy’s initial TSS. (Note: the summary should be read in conjunction with the presentation in Appendix B).

- The TSS demonstrated a modest movement toward cost reflectivity through TOU tariffs for small customers and complementing cost reflective tariffs for large customers.
- A default DBT for residential customers was rejected. The AER was not satisfied that it would create efficient price signals or efficiently recover costs.
- Regarding charging windows, the AER believed shoulder and peak periods proposed were too long and not adequately justified by Endeavour Energy. The AER asked Endeavour Energy to provide further evidence in support of its proposed charging windows; or, amend its charging windows to demonstrate greater movement towards cost reflectivity.
- TOU tariffs are preferred to Flat, Inclining Block Tariffs (IBT) or DBT structures as they allowed Endeavour Energy to send pricing signals to retailers.
- The AER’s preference is for customers to be assigned to opt-out TOU tariffs, not opt-in.

4.2 Independent economic assessment of the AER’s decision

In light of the AER’s initial decision, Adrian Kemp from HoustonKemp Economists provided an independent analysis of the AER’s initial findings. The following themes emerged:

What is the TSS process is all about?

- It is intended to facilitate discussions with key stakeholders – recognising that pricing should play an important role to drive consumers’ behaviour.

- It is about thinking more strategically – how can we put in place a pricing structure which elicits the types of behaviours that are desirable?
- Understanding the environment - it is highly complex and very uncertain; which means what might be happening to changes in demand for customers is also uncertain.

When the AER set the rules it built in two important features...

- Tariff structures were to be kept in the hands of the network businesses, not the AER.
- A transition period is required – networks don't need to go to the most efficient outcome on day one. A transition period will be required because there will be impacts to customers, and an engagement process needs to be undertaken to work out the trade-offs, and to come up with a plan which makes most people happy.

Declining Block Tariff

There is 'no one magic bullet' to the question of which tariff structure is best and it will change over time. The appropriate structure is dependent on the particular set of circumstances unique to the network, including the structure of business, the load structure of customers and future objectives of the business. It is an ongoing process.

There was a lot of objection to the proposed DBT from stakeholders and the AER because it's not seen to provide efficient recovery of costs, or sufficient price signals to consumers. The AER noted 'it does not contribute to the achievement of compliance with the distribution pricing rules'. This is not to say that it does not comply, but that it does not comply as well, in the view of AER, compared with a Flat Tariff. Therefore it can be seen as a different 'judgement call' because it has different impacts for some customers. Some customers would be better off under a Flat Tariff & worse off under a DBT, and vice versa. Trade-offs will be required under either tariff structure.

Length of charging windows

The AER made explicit recommendations around specific charging windows, which they want Endeavour Energy to investigate. Charging windows have dramatic influences on bill impacts and potentially change patterns in demand across the network.

Charging windows need to be aligned closely with the drivers of future costs. Whenever charging windows are altered along with different tariff levels, there will be winners and losers in that process. There is a lot of uncertainty around changing these variables, and at end of day not everyone can win.

It is important to make sure you are lining up your charging windows with the drivers of future costs. Given that we have a short period of time left before submission of the TSS, it is a challenging exercise. This would also need to be undertaken in the context of not knowing what total revenue requirement, following the decision of the Australian Competition Tribunal to set aside the April 2015 Determination.

Tariff assignment policy

Endeavour Energy proposed an opt-in approach for new customers into TOU tariff; however the AER prefers it to be an opt-out approach.

It should also be noted that the AER made some observations about wider issues for networks to consider. These were: how one estimates Long Run Marginal Cost. (LRMC); and better analysis and understanding of customer impacts.

4.1 Key themes and discussion

Adrian’s presentation was followed by Endeavour Energy’s Network Pricing Manager Daniel Bubb. Daniel provided overview of the revised TSS being proposed by Endeavour Energy.

Specifically, Daniel presented information regarding Endeavour’s proposal to shift from a DBT to a Flat Tariff; and to introduce a default opt-out TOU tariff for new customers. Appropriate transition timeframes and pricing forecast data was also presented. Throughout the presentation Daniel sought feedback from the group.

Some key themes that emerged in relation to the proposed tariffs during the discussion were the following:

- the general consensus was that a newly proposed Flat Tariff for residential customers was a reasonable alternative to the previously proposed DBT. Some thought that bill impacts would have to be appropriately managed in the transition period to cost reflective prices
- the proposed policy of opt-out for TOU tariffs for new residential and small business customers was seen by some as a significant shift for the network, and some felt the impacts of this proposed option needed to be further explored
- in terms of charging windows for tariffs, there was a general consensus was that there should be a shorter peak window in winter, weekends, with off-peak in autumn and spring.

4.2 Specific questions, views and comments

Questions to stakeholders	Stakeholder views and comments
Flat Tariff proposal	
<ul style="list-style-type: none"> • What are your views on views on replacing the existing DBT with a Flat Tariff structure for the residential non-TOU tariff? • What is the appropriate transition period? 	<ul style="list-style-type: none"> • A Flat Tariff as an alternative option to a DBT was not seen as a major issue for workshop attendees. • Retailer comment: “In the absence of a smart meter roll out in NSW, both demand and TOU tariffs are not significant. We don’t have any issue with Endeavour moving to Flat Tariffs. The comment made previously that in a battery-saturated world a Flat Tariff would be most efficient/ appropriate is spot on.” (Vocus Communications (formerly M2

Questions to stakeholders	Stakeholder views and comments
	<p>Group))</p> <ul style="list-style-type: none"> • Comment: “In terms of impacts here If average household consumption is around 5000KWH - as with the Ausgrid shift from DBT to Flat Tariff we talked about this morning - you are looking at about \$15 for average household, so it’s not going to change their behaviour anyway, even if going to passed by retailer which it may not be. It’s not a big issue.” (Total Environment Centre) • Allocation of residual costs, availability of evidence of this. • Some participants felt that an IBT would send a pricing signal to people to be more energy efficient which was good outcome. <p>Tariff transition</p> <ul style="list-style-type: none"> • Some participants advocated that Endeavour Energy move immediately to the new tariff structure. • Other participants believe changes should be transitioned over 2 years. • Comment: “Regardless of how large and how much consumption they have, the more bill shock, the more likely customers are to complain about notices. I would suggest that the two year at least would be more appropriate than the one year” (Energy Policy Advisor, Energy & Water Ombudsman NSW) • Use of IBT should be used for the transition period (incentive for large customers, disincentive to others). • Comment: “The biggest impacts were on the biggest users and they are the users that should be looking to move to for TOU, so might offer and bigger incentive doing it (transitioning) immediately.” (Total Environment Centre) • Participants don’t believe Endeavour Energy can get people to move to TOU

Questions to stakeholders	Stakeholder views and comments
	by either DBT or an IBT.
TOU Assignment Policy	
<ul style="list-style-type: none"> • What are your views on our approach to assign new customers directly to a TOU tariff with the option to opt-out to a non-TOU tariff? • Are there scenarios where an existing customer should be assigned on an opt-out basis to the TOU tariff? • Should any change in TOU assignment policy coincide with the metering rule change? 	<p><i>Opt-out option (for TOU for new residential and small business customers)</i></p> <ul style="list-style-type: none"> • This is seen as a big shift for the network. • Endeavour Energy does not have any customer data on the impact this would have to customers. • Attendees believe more discussion and research is needed to investigate the impacts, even if only limited to focus groups. • Comment: “This sounds like significant change in pricing behaviour on part of your company, that would seem to me to suggest that some explanation of the likely reaction of customer would not go amiss, particularly in terms of informing you own judgements. Two years may be way longer than what you need to take.” (Energy Consumers Australia) • Some participants believe the opt-out option should be expanded to existing customers. <p><i>Alignment with metering change</i></p> <ul style="list-style-type: none"> • It is seen as an important opportunity but customers having their meters replaced haven’t made a decision.
Charging Windows	
<ul style="list-style-type: none"> • Do you believe that residential and non-residential charging windows should be aligned? • Should the residential weekend shoulder rate be removed within 2017-19 to allow this to occur? • What impact will changes in time of day charging windows have on pricing and billing? 	<p><i>Seasonal time of day charging</i></p> <ul style="list-style-type: none"> • The general consensus was that there should be a shorter peak window in winter and weekends, with off-peak in autumn and spring. • Comment: “It would been good to have opportunity to discuss possibility of introducing different charging windows for TOU tariffs, but you’ve already flagged that you don’t have enough time to assess the impact of that on the network, which I completely appreciate in terms of

Questions to stakeholders	Stakeholder views and comments
	tight timeframe the AER's given you, but it is regrettable in terms of the potential for something different to be trialled over next couple of years, now you won't have opportunity to do so." (Total Environment Centre).

5.0 Framework and Approach session

The second half of the workshop started with a presentation by Endeavour Energy's Chief Financial Officer Michael Ghattas. Michael provided an overview of the F&A and the important role it played in the regulatory process.

He informed participants that the F&A establishes the list of services that Endeavour Energy provides and determines what level, and what kind of regulation will apply. The workshop was being held to seek feedback from stakeholders about the appropriate level of regulation for services and incentives, to help Endeavour Energy inform its position and submission to the AER.

Michael presented a timeline of the F&A process which showed that Endeavour Energy must notify the AER by 31 October of its proposed F&A changes.

5.1 Key themes and discussion

Michael was followed by Endeavour Energy's Regulatory Manager Jon Hocking, who presented slides on three specific topic areas: form of control; service classification; and incentive schemes (see Appendix B). A facilitated discussion was held whereby Jon outlined Endeavour Energy's preliminary views on these subjects and a number of questions were put to attendees for consideration.

Some key themes that emerged were the following:

Form of control

There was a general consensus that a revenue cap for network services, and a price cap for alternative control services, was appropriate.

Service classification

Some believed there is scope for greater flexibility in the classification of services for different customers, such as retailers. There is scope for the AER to explore competition in the provision of some services.

Incentive schemes

There was a general consensus that incentive schemes for expenditure, innovation and service levels should continue to operate, but required some future review to keep them in line with a transforming network sector. Some commented that the AER should increase financial incentives to facilitate more R&D, and that demand management initiatives should continue to be incentivised.

5.2 Specific views, questions and comments

Questions posed to participants	Themes from participant feedback
Form of control	
<ul style="list-style-type: none"> Is the current revenue cap applied to network services appropriate? What is your view? Is the current price cap for alternative control services an appropriate form of control? Why or why not? 	<ul style="list-style-type: none"> There was consensus from participants to stay with what is happening currently. The nature of revenue cap means that it is a straight guaranteed cap, and there is no incentive for distributors. It is based on real cost framework. The price cap is designed around those types of services where specific customer volumes are unknown. The regulatory process is considered to be the building block process; AER looks at efficient operating costs, capital costs, rate of return etc. to calculate revenue. AER has not changed its views on revenue cap for past few determinations.
Service Classification	
<ul style="list-style-type: none"> Are the current service listings or definitions appropriate? Should they be reviewed? Should network services remain as standard control services? Should existing public lighting services and technologies remain alternative control services? 	<ul style="list-style-type: none"> Emerging technologies, including products and services, should be driving the AER to open up the framework. AER needs to move beyond classifying the service towards including classification by product. Competition. There is a need to include more flexibility in dealing with different customers e.g. retailers. Network services could be contestable (customer expansion is contestable) and is a regulatory investment test issue. Formalise negotiations with councils. Are meters a standard control service? Or should they be fully contestable (and what do you do with the residual costs if they are?) There needs to be a principle with service classification around transparency of how

Questions posed to participants	Themes from participant feedback
	the meter issue is addressed.
Incentive Schemes	
(1) Efficiency Benefit Sharing Scheme (EBSS)	
<ul style="list-style-type: none"> Should networks have a consistent incentive to drive operating expenditure efficiency? Should the EBSS continue to apply to energy networks? Why do you hold this view? Should the EBSS only apply where the AER uses the network's revealed costs as the basis for forecasting opex? 	<ul style="list-style-type: none"> Endeavour Energy's position on EBSS is that it should continue. There was little opposition from participants to this stance. Good flow-on to customers as it reduces impact of electricity charges to them. EBSS is not applied consistently across distributors e.g. Ausgrid are incentivised differently. Are there better ways of achieving incentives? When applied EBSS should always be about reducing the impact on customers. The issue is complex and a separate small group discussion should be held at a later date.
(2) Capital Expenditure Sharing Scheme (CESS)	
<ul style="list-style-type: none"> Should networks continue to have a 'higher powered' incentive to drive capital expenditure efficiencies? Should the CESS continue to apply to energy networks? Why or why not? 	<ul style="list-style-type: none"> The 2014-2019 period will be the first time that CESS applies to Endeavour Energy. An incentive to reduce, not defer capital expenditure. It was difficult for participants to comment on this stage as it is still an unknown quantity. Should be used to balance capex and opex. Purpose of CESS is supported however the unknown maths behind it needs to be explored.
(2) Demand Management Incentive Scheme (DMIS)	
<ul style="list-style-type: none"> Should networks be provided with a positive incentive to explore untested 	<ul style="list-style-type: none"> Relatively low R&D expenditure (\$600,000 determined by AER) and this

Questions posed to participants	Themes from participant feedback
<p>technologies that may reduce long term investment needs, such as through a DMIA?</p> <ul style="list-style-type: none"> Is the current annual allowance of \$600,000 sufficient to support exploration of new technologies? Do you have a view on what the appropriate allowance should be? Should demand management be incentivised through a DMIS? 	<p>should be reviewed.</p> <ul style="list-style-type: none"> Increase amount to allow more R&D so to understand how to make best use of technology – otherwise it will become a barrier to integrating a variety of solutions. A tool to predicting how tariffs respond in future - incentive schemes need to be increased to be ahead of the game. Relates to CESS. Attendees would like to see better reporting on DMIS. There should be an incentive to look at alternative technology. Demand Management should be incentivised.
(4) Service Target Performance Incentive Scheme (STPIS)	
<ul style="list-style-type: none"> Should networks be provided with an incentive to manage customer service performance outcomes? Do stakeholders agree that the scheme should continue to be symmetrical? Is the current incentive power i.e. 2.5% of revenue at risk, a sufficient incentive? Should this figure be increased or decreased? 	<ul style="list-style-type: none"> 2.5% incentive or penalty depending on if service outcomes are better or worse from previous regulatory period baseline (network reliability and customer service). Needs to be auditable, possibly by 3rd party. Consider replacement measures for customer service e.g. access measure. Categorise calls and measure against. Understand what customers require and measure against that. Actionable measures. Put in place safeguards against worsening service.

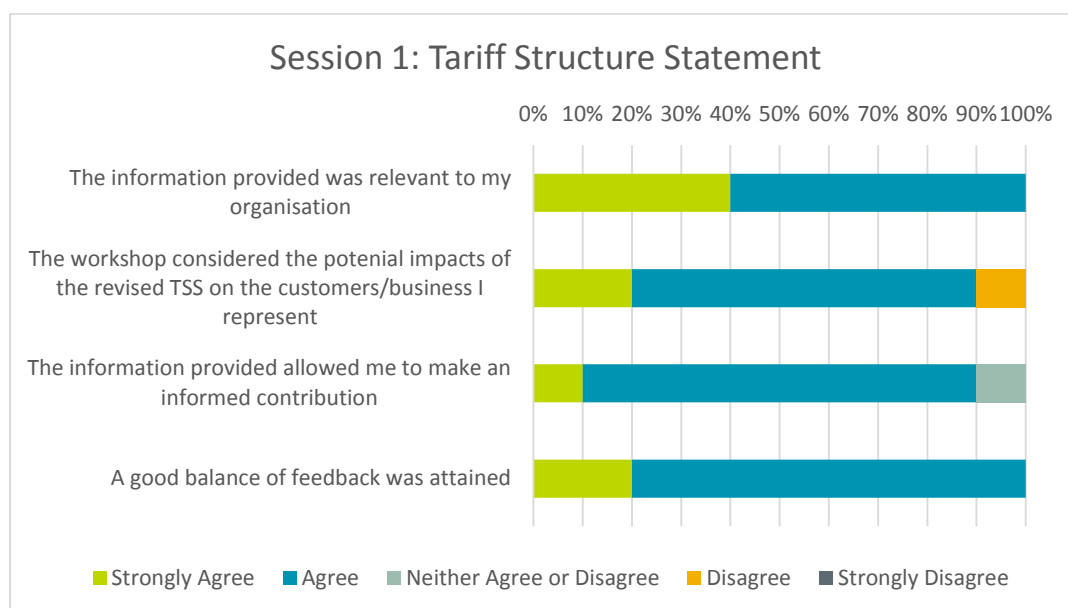
6.0 Actions and next steps

The conversation led to a number of actions on both the TSS and F&A. A summary of these actions is provided in the following table. Endeavour Energy will continue to build on its engagement activities and progress the conversation on regulatory and pricing matters.

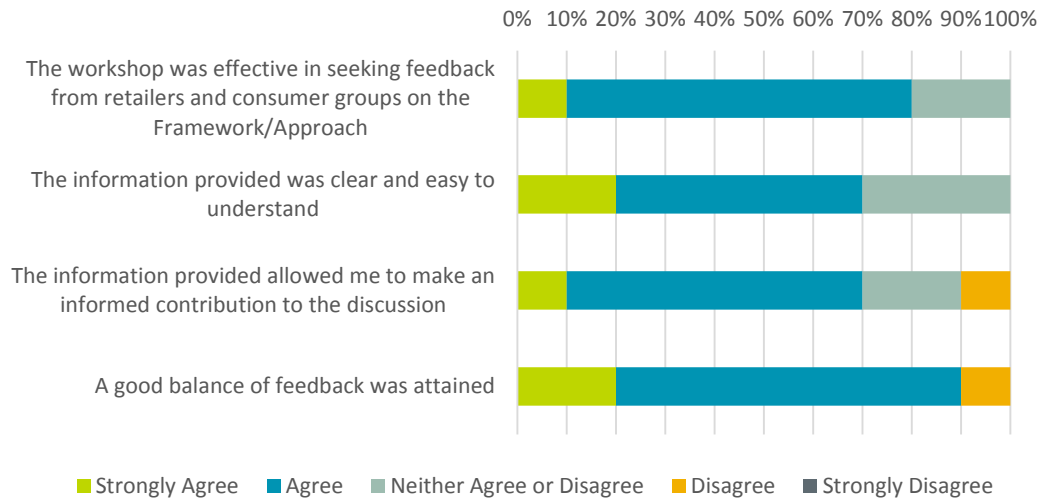
Actions	Responsibility
Feedback to stakeholders on engagement research	Kate McCue
Review seasonal TOU charges in next TSS	ALL
Customer data (focus groups) on response to TOU and Flat Tariff (and transition timing)	Kate McCue
Continue conversation on seasonal TOU	ALL
Use existing stakeholder networks for next round of discussions	ALL
Metering discussion with retailers	Jon Hocking
Coordinate small group discussion (s) on incentive schemes across the three NSW network businesses.	Endeavour Energy / Ausgrid / Essential Energy Corporate Affairs functions.
Distributed workshop report to participants	James Tydd
Impact analysis of TSS on customer segments	John Hocking/ Daniel Bubb

7.0 Participant questionnaire results

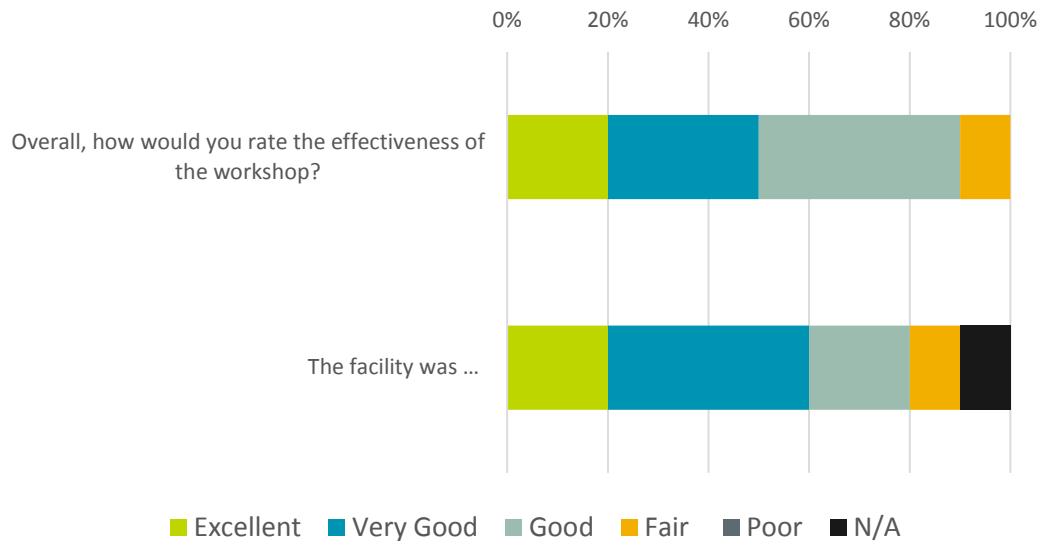
At the conclusion of the event, participants responded to a series of survey questions which sought feedback on the effectiveness of the workshop. The information will be used to ensure future engagement is both targeted and relevant to our stakeholders. A summary of this feedback is below.



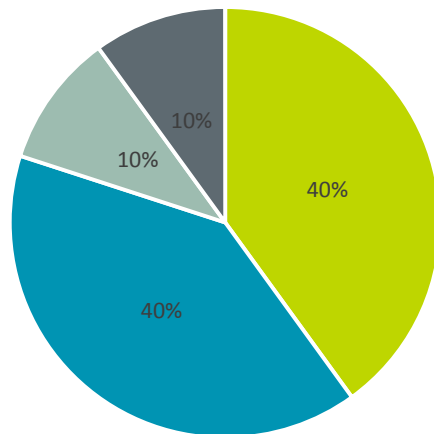
Session 2: Framework and Approach



General feedback

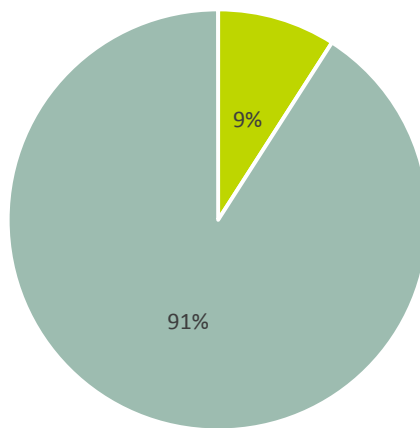


Stakeholder Type



■ Retailer ■ Consumer Group ■ Environmental Group ■ N/A

The length of the workshop was



■ Too long ■ Too short ■ Just right

Appendix A – Workshop and webcast attendees and invitees

Workshop and webcast attendees

First name	Surname	Title	Organisation
Israel	del Mondo	Acting Assistant Director	AER
Jessica	Crombie	Senior Commercial Analyst	Alinta Energy
Paul	Vittles	Customer & Stakeholder Engagement Manager	Ausgrid
Anthony	O'Brien	Manager Corporate Affairs	Ausgrid
Rod	Howard	Acting Chief Executive Officer	Endeavour Energy
Michael	Ghattas	Chief Financial Officer	Endeavour Energy
Daniel	Bubb	Network Pricing Manager	Endeavour Energy
Bruce	Rowley	GM Customer & Corporate Services	Endeavour Energy
Nathalie	Cooke	Manager Customer Service	Endeavour Energy
Joseph	Caruana	Regulatory Compliance Manager	Endeavour Energy
Kate	McCue	Manager Corporate Affairs	Endeavour Energy
Patrick	Duffy	Regulation Strategy Manager	Endeavour Energy
Jon	Hocking	Manager Network Regulation	Endeavour Energy
James	Tydd	Stakeholder & Community Relations Manager	Endeavour Energy
Rory	Campbell	Manager Policy & Research	Energy & Water Ombudsman NSW (EWON)
David	Sita	Pricing Strategy Lead	Energy Australia
Jay	Whelan	Pricing Operations Leader/Customer Promise	Energy Australia
Keith	Besgrove	Senior Policy Adviser	Energy Consumers Australia (ECA)
Jason	Cooke	Regulatory Strategy Manager	Essential Energy
Graeme	Ferguson	Market Liaison Manager	Essential Energy
Iain	Maitland	Energy Advocate	Ethnic Communities' Council of NSW (ECC)
Adrian	Kemp	Economist	Houston Kemp Economics
Stefani	Macri	Regulatory Manager	Lumo Energy
Dominic	Adams	Regulatory Strategy Manager	Mojo Power
Douglas	McCloskey	Policy & Research Officer	NSW Council of Social Services (NCOSS)
Jonathon	Mattock	Manager Strategy & Pricing	Origin Energy
John	Reidl	CEO	Pooled Energy

Felicity	Stening	Regulatory & Compliance Manager	Pooled Energy
Jane	Leung	Senior Policy Officer	Public Interest Advocacy Centre
Ben	Barnes	Regulatory Manager	Red Energy
Lam	Phan	Senior Commercial Analyst	Simply Energy
James	Barton	General Manager Regulations	Simply Energy
Hannah	Penwarden	Team Leader, Metering & Operations (C & I)	Simply Energy
Peter	Youll	Tariff Researcher	Solar Citizens
Mark	Byrne	Energy Market Advocate	Total Environment Centre
Michael	Milmeister	General Manager – Energy Markets	Vocus Communications (formerly M2 Group) (webcast)
Sigmund	Malter	Energy Strategy Analyst Focus Communications	Vocus Communications (formerly M2 Group) (webcast)

Invitees unable to attend

First name	Surname	Title	Organisation
Lauren	Kennedy	Billing and Data Manager	ActewAGL
Chris	Pattas	General Manager, Networks	AER
John	Skinner	Director Network Regulation	AER
Patrick	Whish-Wilson	Regulatory Economist	AGL
Melanie	Donelson	Operations Manager	AGL
Shaun	Ruddy	Manager National Retail Regulation	Alinta Energy
Ian	Turner	Connections & Data Manager	Aurora Energy
Scott	Sandles	Director, Tariff Structure Statement Project	Australian Energy Regulator
Wendy	McLeod	Manager, Legal and Regulatory	Blue NRG
David	McNeil	General Manager Customer Experience	Click Energy
Sarah	Davidson	Education and Business Development Manager	Council on the Ageing NSW COTA NSW
Beth	Corcoran	Business Operations Manager	COVAU
Stuart	Auld	Chief Operations Officer	COzero Energy Retail
Stephen	White	Retail Operations Manager	Diamond Energy
Chris	Dodds	Senior Policy Officer	Energy & Water Ombudsman NSW (EWON)

Melinda	Green	Regulatory Manager	Energy Australia
Oliver	Derum	Senior Policy Officer	Energy Consumers Australia
Jonathon	Merry	General Manager Operations	ERM Power
Belinda	Kallmier	Manager Customer Service	Essential Energy
Tom	Colebatch	Senior Manager	Macquarie Bank
Martin	Jenner	General Manager Operations & CIO	Mojo Power
Bab	Kamath	Networks Metering & Settlements Manager	Momentum Energy
Heather	Hall	Retail Operations Manager	Next Business Energy
Mike	Bailey	Policy Lead	NSW Council of Social Service - NCOSS
Katherine	Hole	Executive Director, Strategy Policy and Coordination	NSW Department of Trade and Investment
Andrew	Lewis	Senior Adviser	NSW Minister for Industry, Resources and Energy
Arun	Wadhwa	Manager Network Performance	Origin Energy
Mario	Ilogha	Manager, Industry and Network Relationships	Origin Energy
Steven	Dimosovski		Origin Energy
Keith	Robertson	Manager, Wholesale and Retail Regulatory Policy	Origin Energy
Jess	Mutton	Policy Officer	Public Interest Advocacy Centre
Melanie	Donelson	Operations Manager	Powerdirect
Scott	Begg	Operations Manager	Powershop
Danielle	Holly		Powershop
Bill	van der Linden		Progressive Green
Scott	Henderson	Chief Operations Officer	Qenergy
Glenn	Jones	Retail Operations Manager	Sanctuary Energy
James	Barton	General Manager Regulations	Simply Energy (webcast)
Hannah	Penwarden		Simply Energy (webcast)
Lam	Phan		Simply Energy (webcast)
Dan	Scaysbrook	Campaigns and Organising Director	Solar Citizens
Tani	Weinert	Commercial Solar Manager	Urth Energy
Andrew	Mair	Regulatory Operations Manager	Vocus Communications (formerly M2 Group) (webcast)
James	Norton	Energy & Procurement Manager	WINenergy

Appendix B – Workshop presentation

Tariff Structure Statement & Framework and Approach Workshop

15 September 2016

① Listen, respect, deliver



01

Welcome

Bruce Rowley -
General Manager
Customer and Corporate Services

② Listen, Respect & Deliver



WELCOME

- Safety briefing
- Acknowledgement of country
- Representatives from consumer advocacy groups, retailers, regulators and electricity distributors.
- Facilitator - Kathy Jones
Executive Chair of KJA
Industry experience working with TransGrid, Delta
Electricity, Ausgrid
- Independent economic assessment - Adrian Kemp
Houston Kemp Economists

3 Listen, respect, deliver



02

Logistics, introductions and objectives

Kathy Jones - KJA

4



03

The task ahead

Rod Howard -
Acting Chief Executive Officer



COMMITMENT TO GENUINE STAKEHOLDER DIALOGUE

- We're committed to genuine engagement with all stakeholders. It's good for our business and good for our customers.
- We support the Australian Energy Regulator's focus on network distributors using effective stakeholder engagement to drive plans.
- Our challenge is to reconcile competing stakeholder interests in designing tariffs that reflect the long-term interests of consumers.
- We recently evaluated our approach to engagement and will be in contact with you regarding our response in the coming weeks.



*CALD - Culturally and Linguistically Diverse communities

6 Listen, Respect & Deliver



EIGHT DIFFERENT TARIFF TYPES



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AER FEEDBACK

- Modest movement toward cost reflectivity through TOU for small customers and complementing cost reflective tariffs for large customers.
- DBT – rejected as not satisfied it creates efficient price signals or efficiently recover costs.
- Shoulder and peak periods are too long, timing of peak hours on weekdays should be different between summer and winter.
- TOU tariffs - preferable to Flat, IBT or DBT structures as they allow Endeavour Energy to send pricing signals to retailers.
- Preference for opt out TOU tariffs.

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THE TASK AHEAD

AER draft decision on initial Tariff Structure Statement	2 August 2016
Endeavour Energy revised Tariff Structure Statement due	4 October 2016
Submissions on AER draft decision due	4 October 2016
Submissions on revised Tariff Structure Statement due	25 October 2016
AER final decision	27 February 2017
2017/18 annual pricing proposal	31 March 2017
AER decision on 2017/18 annual pricing proposal	17 May 2017
Prices go live	1 July 2017

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COMMITMENTS AND CHALLENGES

- ✓ Give weight to your views about 2017– 2019 tariff structures when making decisions and let you know how we used your feedback
 - ✓ Lodge tariff proposals that achieve a balance of transparency, predictability, efficiency and fairness
 - ✓ Provide better customer impact analysis to understand winners and losers
 - ✗ We're challenged in finding ways to propose tariffs that benefit every customer segment
 - ✗ We would prefer not to propose tariffs or transitional periods that will lead to excessive price volatility
 - ✗ We're challenged in sending pricing signals to customers without the support of retailers and appropriate metering
-

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FRAMEWORK AND APPROACH

- First step of 2019-24 Regulatory Determination process.
- Establishes the list of services that we provide, and determines what level, and what kind, of regulation will apply.
- The classification of a service will also determine whether any ring-fencing obligations apply i.e. the separation of contestable and non-contestable services.
- For network services it determines whether, and how, any incentive schemes will be applied to our expenditure forecasts, innovation programs and service levels.
- We want to hear from you about on the appropriate level of regulation for services and incentives.

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04

AER decision on TSS – independent assessment

Adrian Kemp -
Houston Kemp Economists

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05

Revised TSS

Daniel Bubb
Network Pricing Manager



DEFAULT RESIDENTIAL TARIFF

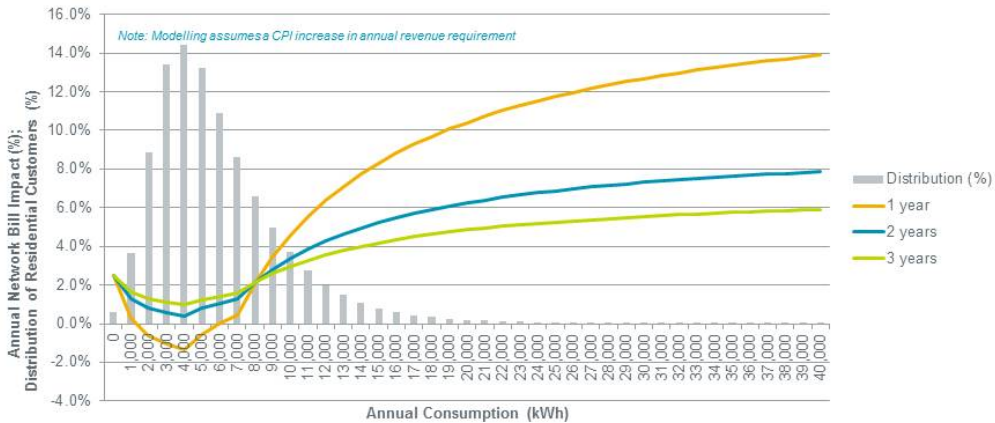
Summary of AER decision:

- The proposed DBT does not provide efficient price signals to consumers to make use of spare capacity within the NSW networks, in particular it does not provide a signal regarding the timing of consumption.
- The proposed DBT does not efficiently recover costs from customers. Specifically, the AER does not consider that there is sufficient evidence to conclude that low consumption users are less price sensitive than others.

DEFAULT RESIDENTIAL TARIFF

If we were to adopt a **Flat tariff**, does a two-year transition path strike the appropriate balance between achieving the desired tariff and managing customer impacts?

Illustrative DBT to Flat Tariff Transition
Annual Network Bill Impact for Period of Transition



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DEFAULT RESIDENTIAL TARIFF



Questions for you:

- What are your views on replacing the existing DBT with a Flat Tariff structure for the residential non-TOU tariff?
- What is the appropriate transition period?

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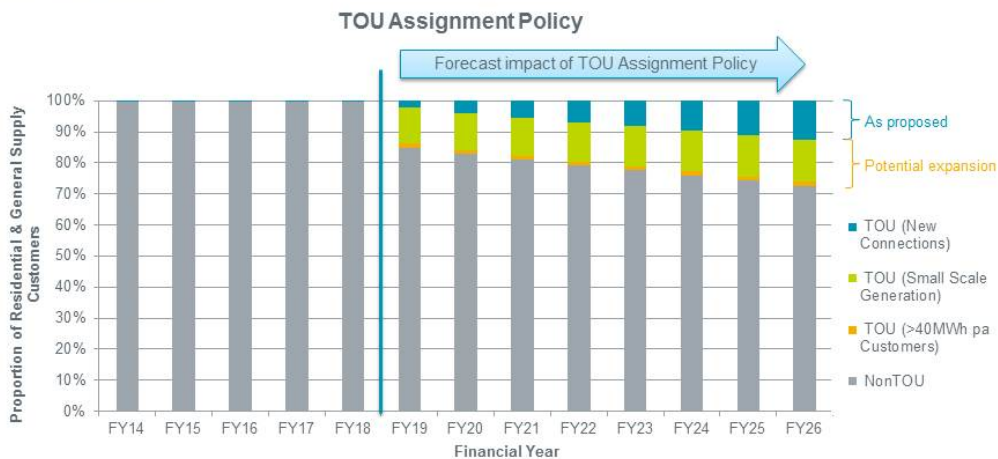
TOU ASSIGNMENT POLICY

Summary of AER decision:

- TOU tariffs are preferable to Flat, IBT or DBT structures because they lead to more efficient use of resources and investment.
- The opt-in policy proposed by Endeavour Energy has not been successful in moving customers to time-of-use tariffs.
- Endeavour Energy should promote customer assignment to more cost reflective tariffs where interval metering is present.

TOU ASSIGNMENT POLICY

We are interested in your views on our [proposed TOU assignment](#). Are there scenarios where an existing customer should be assigned on an opt-out basis to the TOU tariff?



TOU ASSIGNMENT POLICY



Questions for you:

- What are your views on our approach to assign new customers directly to a TOU tariff with the option to opt-out to a non-TOU tariff?
- Are there scenarios where an existing customer should be assigned on an opt-out basis to the TOU tariff?
- Should any change in TOU assignment policy coincide with the metering rule change?

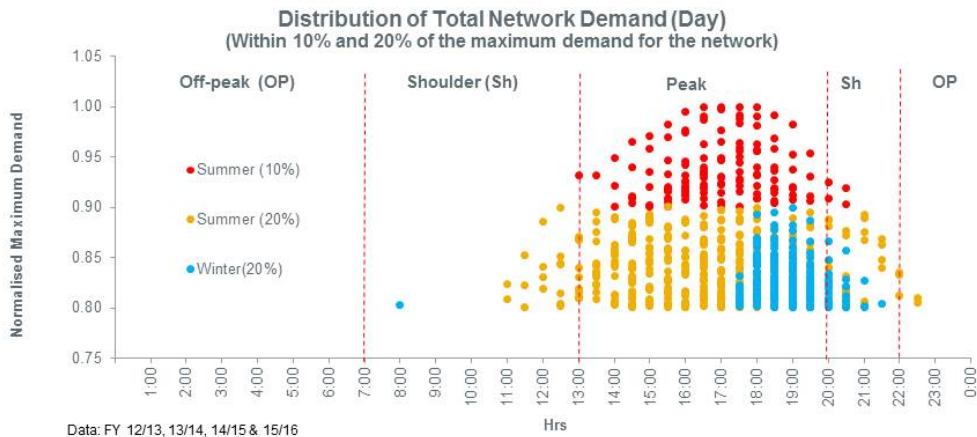
CHARGING WINDOWS

Summary of AER decision:

- Proposed times for the shoulder and peak periods are too long and do not reflect the level of congestion in its network.
- Shoulder (or peak) rates should not apply on weekends and public holidays.
- The timing of peak hours on weekdays should be different between summer and winter.
- Did not provide sufficient evidence and reasoning to justify its method for determining the threshold between peak, shoulder and off peak hours.

CHARGING WINDOWS

We are interested in your views on our proposed approach to review our time of day charging windows as part of the next TSS period commencing 1 July 2019.



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CHARGING WINDOWS

Questions for you:



We are interested in your views on our proposed approach to review our time of day charging windows as part of the next TSS period commencing 1 July 2019.

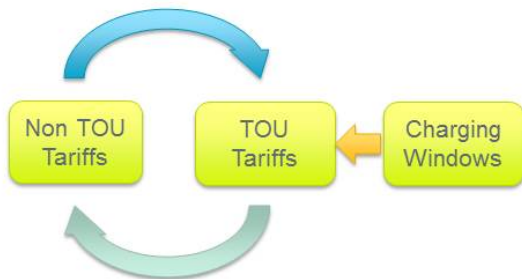
- Do you believe that residential and non-residential charging windows should be aligned? Should the residential weekend shoulder rate be removed within 2017-19 to allow this to occur?
- What impact will changes in time of day charging windows have on pricing and billing?

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OUR CHALLENGE

While it is relatively easy to consider each issue raised by the AER in isolation, it is important to recognise that tariff change of this nature impacts all customers and will require a balanced and considered approach for successful implementation.



Many 'moving parts':

- tariff relativities
 - customer movement
 - impacts of seasonality
 - transition
-
- Limited time to prepare and submit the Revised TSS by **4 October 2016**

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06

Framework & Approach

Overview

Michael Ghattas
Chief Financial Officer



DETAILED OBJECTIVES

What we want to do in this session:

- Provide you with an understanding of the F&A - its purpose, importance and role in a reset.
- Understand your views on the key F&A topic areas to help inform our position and submissions to the AER.
- Discuss with you our preliminary views and identify the areas of agreement/disagreement, or where further targeted engagement may be required.

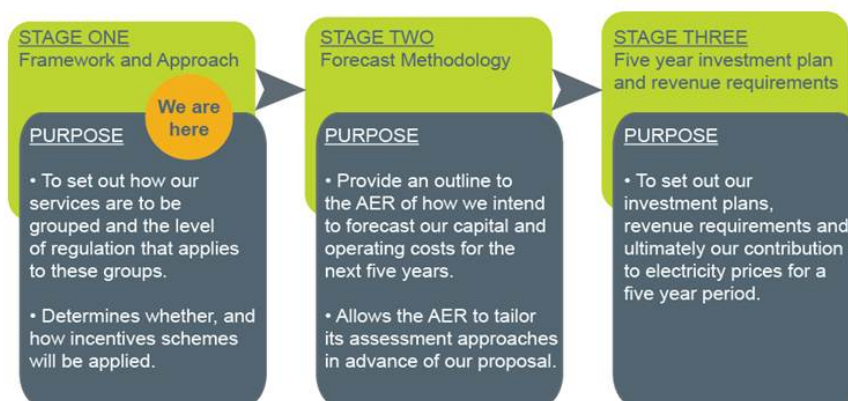
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WHAT IS THE F&A?

As previously outlined, the F&A is the important first step in a reset process that sets out the AER's approach to regulation.

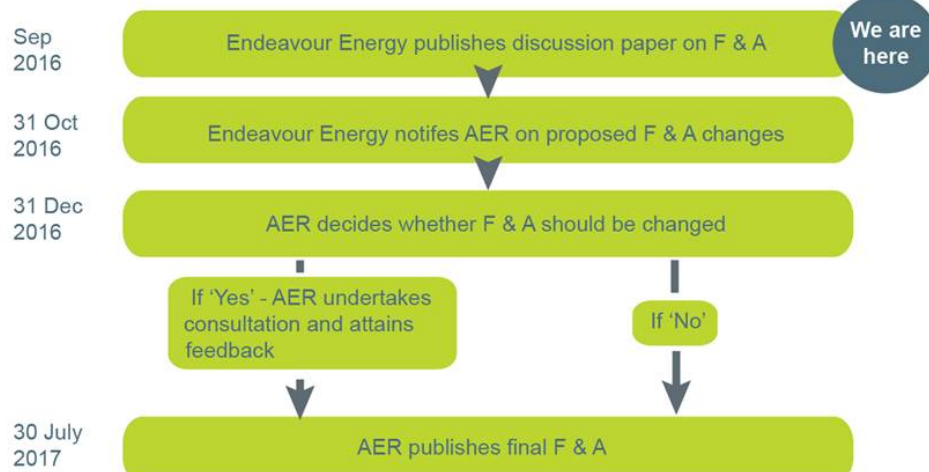
Other stages of the process address the quality and cost of our services:



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HOW DOES THE F&A PROCESS WORK?



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OUR OPENING THOUGHTS ON THE F&A

Our starting position is that the AER should consult on the F&A rather than carry-over the existing F&A unchanged. This is because:

- Service classifications or definitions may need to be updated following several rule changes in recent years e.g. metering competition.
- The AER may wish to review our service listing to ensure it is simple and consistent with other networks.
- The AER's new ring-fencing guideline will be an important and new consideration must be given to how services should be classified.
- Customers and representative groups, particularly recently established groups, should be given an opportunity to provide their views and suggestions.

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07

Discussion -
what's in scope?



F&A - KEY QUESTIONS IN SCOPE

The purpose of today's session to engage with you on several key threshold questions.

- Should the AER conduct an F&A process?
- What services should, or should not, be subject to direct AER oversight?
- What form of control(s) should be applied to those services the AER decides to regulate?
- What incentives are appropriate to apply to regulated services?

While we understand that stakeholders will have views on the detailed operation that arises from answering these questions, we believe that it is better to raise those implementation issues with the AER during its consultation processes.

08

Framework & Approach

Views and discussion

Jon Hocking
Manager, Network Regulation



FORM OF CONTROL

For regulated services, the AER must decide how it wants to regulate the service. There are two main options available to the AER:

- **Revenue Cap:** the AER sets the maximum amount of revenue we can collect for a service. This currently applies to standard control (i.e. network) services. A revenue cap limits the ability to earn returns above the benchmark used by the AER. However, prices can fluctuate if consumption is more/less than expected resulting in adjustments
- **Price Cap:** the AER sets the maximum price we can charge for a service. This currently applies to user-pay alternative control services. A price cap provides pricing certainty but networks can earn additional revenue to support higher costs where customers use more of our services than expected (and vice versa).

FORM OF CONTROL



Questions for you:

- Is the current revenue cap applied to network services appropriate? What is your view?
- Is the current price cap for alternative control services an appropriate form of control? Why or why not?

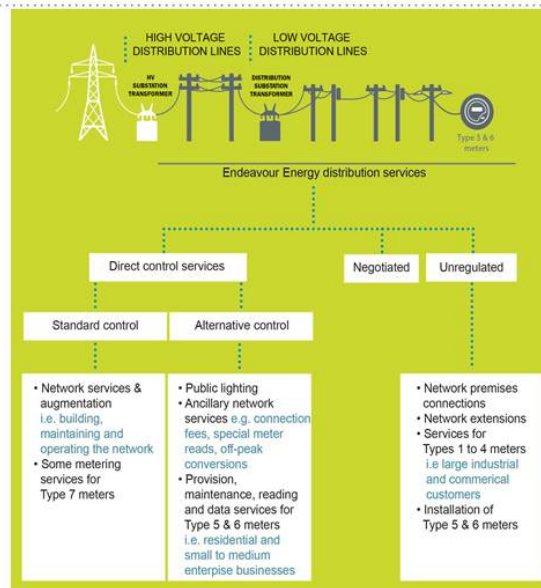
SERVICE CLASSIFICATION - OVERVIEW

Service Classification - assessment of which customer groups access a distribution related service, level of competition and regulation.

There are four groupings of distribution services available:

- **Standard Control:** Provided to most customers and no scope for competition. AER directly controls.
- **Alternate Control:** Provided to a specific group of customers and/or prospects for competition. AER directly controls.
- **Negotiated:** Both parties have sufficient bargaining power to negotiate the price and T&Cs of a service. AER arbitrates disputes.
- **Unregulated/Unclassified:** competition exists and customers can choose their supplier. No AER oversight.

SERVICE CLASSIFICATION – CURRENT STATUS



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SERVICE CLASSIFICATION



Questions for you:

- Are the current service listing or definitions appropriate? Should they be reviewed?
- Should network services remain as standard control services?
- Should existing public lighting services and technologies remain alternative control services?

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SERVICE CLASSIFICATION



Questions for you:

- How should new public lighting services or technologies that arise within a regulatory period, be classified?
- Should types 5 & 6 metering services should remain alternative control services? Why or why not?
- How should the recovery of replaced meters be classified? Should it be an alternative control service for a specific customer or a market facilitated service?

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INCENTIVE REGULATION

Networks are regulated on an ex-ante, incentive basis. This means targets are set beforehand for expenditure, innovation and service levels. Financial rewards/penalties are then applied based on whether these targets are achieved.

There are four schemes in place currently:

- Efficiency Benefit Sharing Scheme (EBSS)
- Capital Expenditure Sharing Scheme (CESS)
- Demand Management Incentive Scheme (DMIS)
- Service Target Performance Incentive Scheme (STPIS)

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EBSS – THE OPEX INCENTIVE SCHEME

- The EBSS exists to ensure that networks have the same incentive to pursue operating efficiencies in every year of a regulatory period, not simply in the early years.
- The EBSS provides a payment/penalty for networks that lower/increase their opex at an improving rate over a regulatory period by reference to the AER's opex allowance.
- Networks benefit from the payment, and customers benefit from the lower opex amount being used to set the allowance in the next period.
- Where historic opex is not used as the basis of the forecast allowance, the EBSS has been suspended. For example, the EBSS was suspended for Ausgrid and Essential Energy for 2014-19 due to the AER's reliance on benchmarking.

EBSS



Questions for you:

- Should networks have a consistent incentive to drive operating expenditure efficiency?
- Should the EBSS continue to apply to energy networks? Why do you hold this view?
- Should the EBSS only apply where the AER uses the network's revealed costs as the basis for forecasting opex?

CESS – THE CAPEX INCENTIVE SCHEME

- The CESS provides a payment/penalty for networks that spend below/above the AER's capex allowance, accounting for any financing benefits/costs within the period.
- Networks benefit from the payment.
- Customers benefit from a lower amount of capital being added to the asset base.
- The AER proposes that 'material' deferrals from one period to the next may result in a reduction to any potential CESS payment.
- The CESS applies for the first time during the 2014-19 period.

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CESS

Questions for you



- Should networks continue to have a 'higher powered' incentive to drive capital expenditure efficiencies?
- Should the CESS continue to apply to energy networks? Why or why not?
- Should the CESS seek to distinguish between savings and deferrals?

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DMIS – THE INNOVATION INCENTIVE SCHEME

- **Demand Management (DM)** refers to ‘non-network’ solutions that help reduce demand and avoid the need to increase the size of our network.
- DM can involve new, innovative technology that can benefit the environment and limit additions to our asset base.
- The DMIS has two components to incentivise innovation:
 - DMIS: A new scheme due to be finalised by the AER by December 2016. It can provide a share of the distribution, transmission and generation costs avoided by a DM project.
 - DMIA: An existing scheme that provided a set allowance for trials and research projects for new non-network options. If we do not spend the allowance we return it to customers in the next period. We have received \$0.6M p.a. for 2009-14 and 2014-19.

DMIS



Questions for you

- Should networks should be provided with a positive incentive to explore untested technologies that may reduce long term investment needs, such as through a DMIA?
- Is the current annual allowance of \$600,000 sufficient to support exploration of new technologies? Do you have a view on what the appropriate allowance should be?
- Should demand management should be incentivised through a DMIS?

STPIS – THE SERVICE STANDARD INCENTIVE SCHEME

The STPIS monitors our reliability and customer service levels.

The two components are:

- **Reliability:** the frequency and duration of outages (blackouts) is monitored and a payment of up to 2.25% of annual revenue, based on performance.
- **Customer Service:** the number of telephone calls answered within 30 seconds is monitored against a target for a payment of up to 0.25% of our annual revenue.

The STPIS has fully applied to our performance in the 2014-19 period for the first time. Targets were based on 2009-14 data.

STPIS



Questions for you

- Should networks should be provided with an incentive to manage customer service performance outcomes?
- Do stakeholders agree that the scheme should continue to be symmetrical?
- Is the current incentive power i.e. 2.5% of revenue at risk, a sufficient incentive? Should this figure be increased or decreased?

09

Cross check



10

Next steps

Rod Howard



CONTACT DETAILS



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Thank you

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