

8 December 2017

Mr Sebastian Roberts
General Manager, Network Expenditure
Australian Energy Regulator
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Dear Mr Roberts

SEEKING AER APPROVAL TO EXTEND SUBMISSION DATE FOR ENDEAVOUR ENERGY'S INITIAL REGULATORY PROPOSAL

The National Electricity Rules require Endeavour Energy to provide the AER with an Initial Regulatory Proposal by no later than 31 January 2018. This letter seeks the AER's approval to extend the submission date to no later than 30 April 2018 in order to undertake more extensive customer and stakeholder engagement.

Endeavour Energy considers an extension the most appropriate course of action to meet our customers' long term interests and we provide the following supporting comments to support this request:

1. It will provide additional time for Endeavour Energy to offer further opportunities for customer and stakeholder groups to engage in more detail in our proposal. Earlier this year we prepared a Directions Paper for consultation and we undertook constructive consultation with key stakeholders including Regional Organisations of Councils, major retailers, NSW Government agencies and departments, developers and our Customer Consultative Committee.
2. We have received feedback from peak customer advocates that the Directions Paper lacks sufficient detail in some key areas around our long term investment plans. Customer groups have advised us that we need to be more transparent and provide more detail of our expenditure plans so they can provide meaningful and constructive comments and allow us to reflect this feedback in our investment plans. We need time to action this feedback and intend to scope the terms of reference with our stakeholders and implement a series of 'deep dive' workshops, including capex and other issues, in early 2018.
3. It acknowledges that Endeavour Energy has faced extraordinary circumstances leading up to original submission date. In particular, the sale process conducted earlier this year diverted significant resources from the AER process to the sale process. Accordingly, support and consultation has not been as extensive as originally planned.

4. Having considered the outcomes of the various review processes conducted nationally on the application of the AER's 2013 rate of return guideline, Endeavour Energy commits to applying the guideline for the 2019-24 regulatory proposals in respect of gamma, inflation, cost of debt and cost of equity, acknowledging that there remain unresolved matters relating to the cost of debt to be addressed in remaking the 2014-19 determinations that are the subject of a separate process.

5. As per our Directions paper, Endeavour Energy is committed to a base opex for FY18 that is at or below the AER's April 2015 determination of \$268.6m having updated for outturn inflation. In adopting the base year opex of \$268.6m the average opex per customer over the 2019-24 period is anticipated to fall to \$275 per annum in real FY19 dollar terms compared to the average opex per customer of \$308 per annum in real FY19 dollar terms over the current regulatory period. Endeavour Energy is committed to continuing to respond to the incentive based regulatory regime and sharing the benefits of any further savings with customers through the EBSS and revealed cost approach in future determinations.

6. Endeavour Energy's intention is to achieve pricing stability and affordability for customers throughout 2019-24. This is consistent with Endeavour Energy's pricing outcomes for residential and SME customers since 2009, where its efficiency program delivered the lowest network charges of the three NSW distributors. It's also evidenced by Endeavour Energy's participant derogation approved by the AEMC in early 2017 that codified the importance of achieving pricing stability for customers as the 2014-19 determination is re-made. The graph below of Endeavour Energy's historic and forecast average residential NUOS bill illustrates that our plans lock in the benefits to customers of lower network costs. This is a direct outcome of Endeavour Energy's ongoing efficiency program.



Figure 1: Endeavour Energy's historic and forecast average residential NUOS bill

7. It will also provide Endeavour Energy the opportunity to establish a customer forum, moving towards the model of engagement used by Scottish Water (as an example), to guide our long-term investment plans to cater for the unique growth across our

communities. A high-level consumer engagement plan follows as an attachment to this letter and sets out key engagement initiatives and suggested timeframes. Key topics we plan to engage on include:

- a deep dive on our growth forecasts including an understanding of government planning releases and developer plans;
- a deep dive on Endeavour Energy contributions policy;
- a deep dive on the potential investment to support the development of Sydney's second airport, including consideration of whether the potential project is a candidate for being treated as a contingent project;
- a deep dive on Endeavour Energy's replacement program and asset management approach; and
- deep dives on two major replacement projects: the Parramatta-Camellia 132kV oil cable replacement and the Carlingford Transmission substation, including consideration of whether they are candidates for being treated as contingent projects.

A breakdown of our thinking on our capex investment plans, capped at \$2.25b, is shown below to help scope further engagement with stakeholders (excluding potential contingent projects). We intend to write to interested parties this week to invite their input into the terms of reference and to help scope further areas of consultation in addition to those listed above.

\$m; Real FY19	2009 to 2014 Actual	2014 to 2019 Allowance	2014 to 2019 Actual / Forecast	2019 to 2024 Directions Paper	2019 to 2024 Current Proposal
New connections	83	84	133	150	310
Growth / Augmentation	1,172	306	279	400	448
Replacement	845	720	733	850	850
Reliability	57	27	20	20	21
Other network	69	22	87	45	46
Overheads	499	391	309	360	400
Total System capital	2,724	1,549	1,561	1,825	2,075
IT	92	90	102	90	91
Vehicles	69	29	20	25	22
Other	306	61	50	60	62
Total Other	270	180	171	175	175
Total Capital	2,995	1,729	1,732	2,000	2,250

Figure 2: A breakdown of our thinking on our capex investment plans

Whilst an extension provides less time for the AER in making its decision, our view is that this could be accommodated. Specifically:

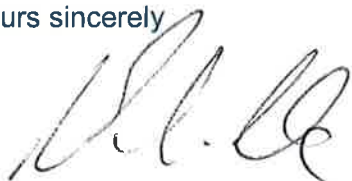
1. An extension will not materially impact on the AER's ability to assess our regulatory proposal, as the number of matters where we expect debate is limited.
2. Endeavour Energy commits to applying the AER's 2013 rate of return guideline and in line with the precedents set in AER determinations since that guideline was published in respect of the AER's point estimates for the return on equity and a value of gamma of 0.4 acknowledging that the process to address outstanding matters in relation to the cost of debt is to be addressed via a separate process. The outcomes of that process to be reflected in full in our regulatory proposal once known.
3. An extension of time will provide to the AER and other stakeholders a higher quality proposal informed and shaped by more intensive customer feedback. An extension will allow upfront consultation to take place and provide us an opportunity to respond to the same, rather than post submission consultation. We would contend that the AER review would then be more straight-forward under this approach.
4. Endeavour Energy will be at or below the year 4 opex benchmark of \$268.6 m that the AER established as an efficient benchmark. We also commit to applying the AER's approach to establishing our opex forecast for the 2019-24 regulatory period, including a commitment to seek no step change costs. We have reduced costs and have achieved the efficiency targets set by the AER. We are in a position to pass those onto customers and this allows the AER and stakeholder groups additional time in the consultation process to focus on other areas.

Under the Rules it is open to the AER to set a date for submission of Endeavour Energy's regulatory proposal in consultation with Endeavour Energy.

We have also made this request with the knowledge and input of key stakeholders, including ECA, the AER's CCP and PIAC.

Please contact me if you have any questions on 9853 8682 or 0404 028 250 or would like to discuss this request.

Yours sincerely



Andrew Schille

**GENERAL MANAGER
REGULATION AND CORPORATE AFFAIRS**

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