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Mr Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Via: NSW2019-24@aer.gov.au

**SUBMISSION TO THE AER'S DRAFT DECISION ON THE ENDEAVOUR ENERGY 2019 TO 2024
DISTRIBUTION DETERMINATION**

Dear Mr Roberts,

Energy Consumers Australia is the national voice for residential and small business energy consumers. Established by the Council of Australian Governments Energy Council in 2015 our objective is to promote the long-term interests of energy consumers with respect to price, quality, reliability, safety and security of supply.

We appreciate the opportunity to respond to the Australian Energy Regulator's (AER) *Draft Decision: Endeavour Energy Distribution Determination 2019 to 24* (the Draft Decision).

Is Endeavour Energy's revised proposal capable of acceptance?

We have assessed Endeavour Energy's revised proposal on a decision-as-a-whole basis. In addition to the elements below, we have taken into consideration pricing outcomes for consumers and capital expenditure (capex), including the treatment of the Western Sydney Aerotropolis.

Our view is that Endeavour Energy's revised proposal is capable of acceptance if Endeavour Energy agrees to:

- meet the AER's minimum productivity requirement of one per cent;
- accept the 2018 Rate of Return Guideline; and
- apply the outcomes of the AER's tax review.

Decision as a whole

Endeavour Energy's Revised Proposal is \$45 million lower than the AER's Draft Decision. This means that over the next six years, average bills should fall (in real terms) by \$66 for the average household and \$113 for the average small business. This is welcome price relief after many years of price increases undermined energy affordability.

We were pleased that the revised capex proposal in Endeavour Energy's submission reflected consumer preferences for:

- a change to capital contributions so that households and small businesses will not be subsidising the connection costs of developers; and



- Endeavour Energy pursuing options other than augmentation to meet network needs. For example, improved utilisation of the existing assets that consumers are continuing to pay for and the pursuit of non-network options¹.

We are now more comfortable with the treatment of uncertainty for the Western Sydney Aerotropolis. Endeavour Energy's approach is to increase the overall \$1.70 billion capex proposal by \$39.3 million (real, 2018-19) for the Aerotropolis. This sees the actual cost allocation for the Aerotropolis reduced from \$61.2 million, which is a reduction of 35.7 per cent.

Endeavour Energy's Revised Proposal states that this approach "...includes a lower cost solution that utilises existing network in the earlier stage of development with further work to be considered for the next period".²

We would encourage Endeavour Energy to explore innovative ways to manage the uncertainty associated with this project. TransGrid's Powering Sydney's Future (PSF) is an example of a new approach being trialed to manage uncertainty while building and maintaining consumer trust that the expenditure is efficient. The final proposal saw PSF planned and staged in a way to help guard against premature investment, provide option value to consumers and deliver a future solution should a second cable be required in the future.

Similar to the Aerotropolis, PSF is a unique project, due to its numerous drivers and complexities, especially related to the failure rate of the current cables and future electricity demand in inner Sydney. In response to stakeholder views regarding the uncertainties in forecasting such matters, TransGrid is undertaking ongoing community engagement through the planning and build stages of the project and committed to delivering transparency for these stages by ensuring a mechanism for continued consumer engagement with the PSF project through a Stakeholder Monitoring Committee, which met for the first time in December 2018. In our experience, this is a very effective process and one that could be applied to the Aerotropolis.

On productivity, Endeavour Energy states "We consider the available evidence does not support a positive productivity factor (to the contrary, the evidence favours a negative one)".³ We are disappointed that Endeavour Energy is relying on a report that we did not have adequate time to discuss. We continue to support a minimum productivity factor of one per cent.

We note that legislation to make a binding rate of return came into effect in December 2018. In its Revised Proposal, Endeavour Energy has reluctantly accepted the binding 2018 Rate of Return Guideline on the principle that it is the prevailing guideline.

The application of the Rate of Return Guideline is crucial to our acceptance of Endeavour Energy's revised proposal.

We would like to see Endeavour Energy update its Post Tax Revenue Model to incorporate the outcomes of the AER's tax review.

¹ Endeavour Energy, *Revised Regulatory Proposal 1 July 2019 - 30 June 2024*, pages 19-20. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/endeavour-energy-determination-2019-24/revised-proposal>

² Ibid, page 14.

³ Endeavour Energy, *Revised Regulatory Proposal 1 July 2019 - 30 June 2024*, pages 22. Accessed from <https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/endeavour-energy-determination-2019-24/revised-proposal>



Approach to network pricing

Energy Consumers Australia has appreciated the opportunity to engage with Endeavour Energy on their Tariff Structure Statement (TSS), and support the proposed approach in the revised proposal including the retention of the tariff assignment policies as proposed in the initial TSS.

We see this TSS as a first step in developing innovation in pricing that rewards consumers for flexibility in their energy use and enables better capacity utilisation of the network and reduced need for future investment in network capacity. Together with the AER, and other members of the Tariff Reform Roundtable, Energy Consumers Australia is collaborating on opportunities for innovation in network tariffs and retail pricing, that empower consumers to understand and manage their energy bills. To support this work, we are developing an approach to customer impact analysis, using open source data and looking to energy companies to collaborate on trials to test and refine new retail pricing offers. From the Roundtable, we will be looking to facilitate discussions between network businesses and retailers, for a commitment to collaborate on trials of new offers.

Approach to stakeholder engagement

Our view is that Endeavour Energy's approach to stakeholder engagement was mixed.

Endeavour Energy's decision to make a submission to the AER's Issues Paper, proposing amendments to its original revenue proposal was an innovative and positive step. It recognised and acknowledged consumers concerns about the level of capital expenditure and its implications for electricity affordability and demonstrated Endeavour Energy's willingness to be agile and responsive to these concerns. Endeavour Energy's engagement on the tariff structure statements and deep dive forums is also to be commended.

On reflection, Endeavour Energy's proactive approach to stakeholder engagement dwindled after consultation on the AER's Issues Paper closed. In future, we expect any network business to continue to engage with us and other consumer stakeholders, and provide an adequate amount of time for consultation on any materials that it will rely on to support its proposed revenue approach.

Thank you for the opportunity to comment on the revised proposal. Please do not hesitate to contact Shelley Ashe, Associate Director of Advocacy and Communications on 08 9220 5500 or shelley.ashe@energyconsumersaustralia.com.au if you would like to discuss this submission further.

Yours sincerely,

Rosemary Sinclair AM
CEO, Energy Consumers Australia