

Attachment 2.04

Retailer Forum Engagement Report

January 2015



RETAILERS' FORUM ENGAGEMENT REPORT - MAY 2014



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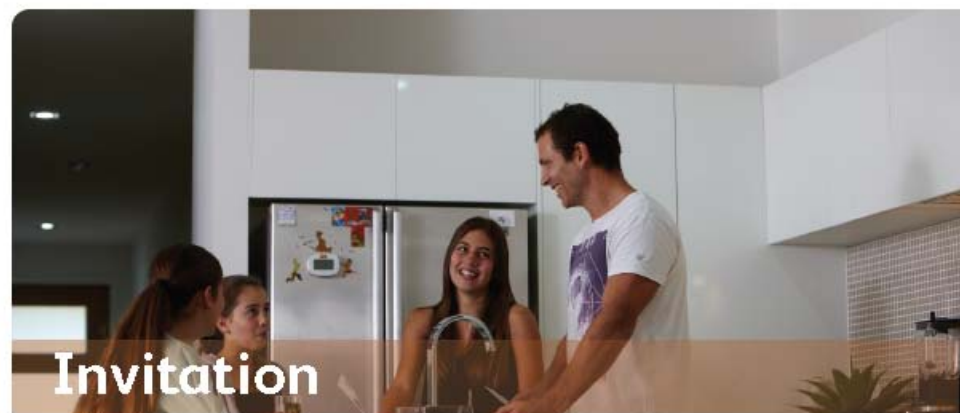
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Left – the invitation to the forum



Our plans and challenges ahead

You're invited to our first annual retailer forum to discuss our plans for the electricity networks in NSW so we can understand your views.

The joint forum is being held by Ausgrid, Endeavour Energy and Essential Energy.

We would like to share key aspects of our latest proposals to the Australian Energy Regulator (AER). This includes our one-year transitional proposals our four-year proposals due to the AER on 31 May.

Topics we would like to discuss:

- Responding to declining electricity use
- Directions for our annual pricing proposals
- Key areas such as metering.

Our relationship with retailers is important and will help us better meet the needs of our customers. We would also like your feedback on how we can improve our engagement and communication with you.

I look forward to seeing you at the forum.

Yours sincerely,

Vince Graham
Chief Executive Officer – Ausgrid
Chief Executive Officer – Endeavour Energy
Chief Executive Officer – Essential Energy

Date

Friday, 2 May 2014

Time

10.00am - 12.00pm
(9.30am: Registration – Tea & Coffee)

Location

Pullman Hotel, Hyde Park
36 College St, Sydney
(see map below)

Parking

Available at the hotel. Cost from \$20

RSVP

Thursday, 24 April 2014

E: Josette.Caltabiana@endeavourenergy.com.au



Background to the forum

On 2 May 2014, a forum was hosted by Vince Graham, joint CEO of Ausgrid, Endeavour Energy and Essential Energy for electricity retailers, their industry association and the AER.

A joint initiative of Networks NSW and the three distribution network providers in NSW, the forum was arranged to provide retailers with an opportunity to understand, discuss and provide feedback on networks' plans for safe, reliable and affordable electricity for the next five years.

The forum focused on these key issues:

- a recap of the regulatory process for determining network prices
- the AER's determination of the 2014-15 Transitional Regulatory Proposals
- our proposed network tariff strategy for 2014-15
- potential options to address declining electricity use
- directions for our annual pricing proposals
- impacts of the AER's changes to how we charge for metering services

Throughout the forum, participants were given opportunities for input and feedback on proposed changes to each of the networks' plans and metering prices.

This report summaries outcomes from the forum. It should be read in conjunction with the accompanying presentation by NNSW CEO Vince Graham.

Attendees at the forum

AGL
AER
Ausgrid
Click Energy
Endeavour Energy
EnergyAustralia
Energy Retailers
Association of Australia
Essential Energy

Lumo Energy
Networks NSW
Origin Energy
Powershop
QEnergy
Red Energy
Simply Energy

WINenergy

Note:

As the retailers attending the forum are competitors in the National Electricity Market, the forum observed the Competition and Consumer Act 2010 guidance on industry gatherings.

The forum therefore precluded discussion of any matters that may relate to anti-competitive conduct or any activities which have the purpose or effect of substantially lessening competition

A summary of what was discussed

Transitional Regulatory Proposal (TRP) determination

- AER has approved placeholder revenue allowance for 2014-15.
- **Customer benefit** – average residential (6.5MWh p.a.) and small business customers (10MWh p.a.) will see a reduction of between 2.8% and 6% in their distribution charges in 2014-15 depending on the network in which they reside.

Expenditure Profile from TRP

- Proposed capital expenditure across the three networks during 2014-19 is 39% below the AER's approved capex for the 2009-14 period, which is 45% below the forecast inflation over the five year period.
- Proposed operating expenditure across the three networks during 2014-19 is 2% above the forecast of inflation over the five year period.
- **Customer benefit** – this level of expenditure will limit the increase in the distribution network component of customers' bills to no more than the rate of inflation for 2014-19.

Energy Forecasts

- Customer energy consumption over the 2009-14 period is expected to be 4% below the AER's determination.
- In the TRP, we forecast average consumption to decline by 1.6% per annum on average across the three businesses during 2014-19.
- **Customer benefit** – lower consumption by customers ultimately reduces the capital cost of providing network services.

Updates for Substantive Regulatory Proposal (SRP)

- The SRP will be broadly consistent with the TRP but updated for:
 - capital and operating expenditure to include updated information on cost escalation
 - updated for latest WACC data
 - new pricing for metering and ancillary network services
- **Customer benefit** – retailers are provided with the latest information on the development of network prices for 2015-19.

Challenges of current Tariff Structures

- Current tariffs are not cost reflective and designed to discourage network utilisation.
- Consumer impact of declining consumption is regressive.
- Options for tariff reform are being considered to address these challenges.
- **Customer benefit** – retailers have the opportunity to have input into the options available for network tariff reform.

Metering pricing arrangements

- AER has introduced a new framework to improve cost reflectivity of metering services.
- **Customer benefit** – Ausgrid, Endeavour Energy and Essential Energy are working to minimise barriers for metering competition when developing cost reflective prices relative to their historic investment in meters.

Feedback from retailers

RETAILERS SAID

- they appreciated the opportunity to be briefed by Networks NSW's CEO and to provide feedback on the regulatory proposal and tariff strategy
- they welcomed the substantial reduction in network capital investment and asked why there was not a corresponding reduction in operating expenditure
- they noted both consumption and peak demand were declining and so recognised the reasons for rethinking network tariff structures
- exit fees for the early retirement of meters would hinder the development of a broader competitive market for metering services
- they were interested to know if the administrative component of metering exit fees could be included elsewhere in network prices
- they looked forward to further consultation on metering tariff reform.

OUR RESPONSE

- The networks' regulatory proposal sets out to achieve the three key long-term objectives for our business:
 - continuously improving our safety performance
 - keeping prices affordable by containing average increases in our share of customers' electricity bills at or below CPI
 - ensuring the ongoing reliability and sustainability of the network.
- there is a strong emphasis on controlling operating costs to end rising network charges and build customer value.
- operating costs will increase slightly over the next five years as the networks manage stranded resources and increased vegetation management costs to better mitigate bushfire risk
- retailers' views on network tariff options to address changes in customers' consumption patterns and peak demand are welcome
- there needs to be further conversations between retailers, networks and the AER on metering exit fees that do not create sovereign risks or introduce cross subsidies between customers
- further consultation could be held with retailers on specific issues once the substantive regulatory proposals have been submitted to the AER.