

19 August 2018

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Australian Energy Regulator  
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By email: [slavko.jovanoski@aer.gov.au](mailto:slavko.jovanoski@aer.gov.au)

Dear Slavko,

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

CCP10 is supportive of the AER's Draft Decision regarding the remitted 2014-19 revenue decision for Endeavour Energy (Endeavour) which is "to accept Endeavour Energy's proposal to recover total revenues of \$4143.4 million (\$, nominal) from consumers over the five-year 2014-19 regulatory control period.<sup>1</sup>"

As background to our support for the Endeavour proposal and AER's acceptance of it, we provide some recent background as context.

#### Recent Background to Endeavour Remittal Proposal

On 5 April 2018 Tony Narvaez, the CEO of 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 had been disclosed by Endeavour and discussed with consumer groups in the following meetings:

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<sup>1</sup>.[https://www.aer.gov.au/system/files/AER%20Draft%20decision%20Endeavour%20Energy%20distribution%20determination%20-%20July%202018\\_1.pdf](https://www.aer.gov.au/system/files/AER%20Draft%20decision%20Endeavour%20Energy%20distribution%20determination%20-%20July%202018_1.pdf)

Stakeholder Group	Dates
Bilateral discussions CCP10, ECA and PIAC	November 2017- January 2018
CCP10	17 January 2018
Endeavour's Customer Consultative Committee (CCC), CCP10 and Endeavour deep dive	16 March 2018
Endeavour teleconference with all groups	28 March 2018
WSROC	4-5 April 2018
NCOSS	4-5 April 2018
EUAA	5-9 April 2018

CCP10 had the following involvement during this engagement process:

- we gave feedback to Endeavour on the draft proposal 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.

### Endeavour's Proposal

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, which has been developed to summarise the remittal process and to assist with discussions with a diversity of consumer interests. The key elements of the remittal proposal from Endeavour are:

- Adopt the April 2015 determination opex and application of the EBSS for the 2014-19 regulatory control period;
- Commit to the application of the revealed cost opex forecasting methodology so that the opex for the 2019-24 regulatory control period will be determined using the AER's opex forecasting model based on our 2017/18 actual opex. The reported actual opex for 2017/18 will be at or below the forecast included in the AER's April 2015 determination;
- Continued application of the EBSS for the 2019-24 regulatory control period;
- Continued adoption of the capex allowances contained in the April 2015 determination and continued support for the application of the CESS for the 2014-19 and 2019-24 regulatory control periods;
- Adoption of the AER's 2013 Rate of Return Guideline, including the application of a transition to the trailing average for the 2014-19 and 2019-24 regulatory control periods;
- Retain no more than \$110m of revenues...under the undertakings in 2018/19 dollar

terms;

- Return the balance of revenues...under the undertakings; forecast to be \$239.6m in financial year 2018/19 dollar terms on the basis that Endeavour Energy enters into an enforceable undertaking with the AER to set prices for 2018/19 based on the 2017/18 revenues, escalated for CPI. This amount also includes adjustments to reflect an updated CPI forecast as per corrections provided by the AER and in accordance with the findings of the Australian Competition Tribunal of \$12.2m; and
- The amount above to be returned to customers has not considered the outcomes of the STPIS over the current regulatory period. Once the revenue target has been determined by the AER, the outcomes will be incorporated into the balance to be returned in the regulatory proposal for the 2019-24 regulatory control period.”

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 they have collected, due to variations in demand forecasting and the total revenue it is likely to recover for the 2014-19 period which is an outcome of the revenue undertakings agreed during 2014-19. 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.

### Consumer Benefit

We also note that in both of the meetings on 16 and 28 March several members of Endeavour’s CCC 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.

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 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;

- from the continuation of reduction in network prices since 2012;
- any potential revenue in excess of the \$110m that is to be retained by Endeavour being returned to consumers during the 2019-24 regulatory period.

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 associated with the 2014-19 determinations.

Yours sincerely

Louise Benjamin, Eric Groom, Mark Henley and Mike Swanston

*Note. CCP10 affirms that to the best of our knowledge this submission does not contain any confidential material.*