

17 May 2023

Reset Coordination Team
Australian Energy Regulator
By email: AERresets2024-29@aer.gov.au

Dear Colleagues,

SUBMISSION ON ENDEAVOUR ENERGY'S DRAFT PLAN 2024-2029

Thank you for the opportunity to lodge a submission to the Australian Energy Regulator on Endeavour Energy's Draft Plan 2024-2029. Our submission examines Endeavour Energy's proposed embedded network tariffs.

Endeavour Energy has proposed introducing new embedded network tariffs for the 2024-2029 regulatory control period. The proposed embedded network tariffs would apply an additional demand charge to embedded networks currently on the large low voltage (N19) tariff. Endeavour Energy claims this additional charge is necessary to address an "inequitable allocation of residual costs" whereby embedded network customers are making an "inappropriately low contribution to recovering the cost of [Endeavour Energy's] existing network." However, Endeavour Energy has failed to provide sufficient evidence to justify the additional charges.

We say that Endeavour Energy seeks to address concerns that are properly dealt with by the legislative and executive arms of government (by bodies such as the AER and the AEMC), not by a regulated business. The tariff review process was not intended to operate, and should not be used, as a means for changing the shape or function of the energy market. Driving reform by increasing pricing has and always will hurt those who can least afford it.

Impact on consumers

Endeavour Energy has not adequately considered the impacts of the proposed tariffs on embedded network customers. The additional demand charges could significantly increase costs for operators of embedded networks. Endeavour Energy acknowledges that the proposed tariffs could increase embedded network operators' network bills by up to 12% on average but does not adequately explore potential effects on end customers.

We note that there may be an assumption behind the proposal that embedded network consumers are being charged the DMO and, therefore, any increase in the gate meter supply charges will simply reduce the margin of the embedded network operator. That assumption is not correct where embedded network operators are charging less than the DMO or in certain types of embedded networks such as those governed by the Residential (Land Lease) Communities Act.

Inadequate analysis

The proposed tariffs do not consider the benefits embedded networks provide, such as avoiding or deferring future network investments. Higher charges are proposed irrespective

of whether the embedded network reduces or increases costs for Endeavour Energy. In this regard, a 'one-size-fits-all' approach is taken.

For an adequate assessment to be conducted, we submit that:

- a. Modelling needs to be undertaken by independent experts engaged by the AER;
- b. Such independent modelling needs to examine load profiles across all Endeavour Energy embedded networks across different seasons; and
- c. Such independent modelling needs to examine and quantify:
 - i. avoided costs (for Endeavour Energy) resulting from the private embedded network operators having responsibility for the internal infrastructure, wiring, private poles, tree trimming, etc;
 - ii. the costs (for consumers) of 'reverse retrofitting.' Reverse retrofitting is a term we use to refer to the process of abolishing an embedded network and reconnecting all child meters to the wider distribution system. Substantial costs may be incurred by consumers, and Endeavour Energy, in such a process as each embedded network child connection point is converted into a NMI/ market-connected meter, including re-wiring of the switch board. The likelihood of reverse retrofitting resulting from the proposed embedded network tariffs is high as not all embedded network operators will not be able to absorb a significant increase in their costs at the gate meter; and
 - iii. the likelihood of embedded network operator failure from these increased costs and consequences for consumers i.e. where smaller embedded network operators are placed into administration. This should be considered noting that there is no established RoLR scheme for exempt embedded network operators.

Impact on the market and on innovation

Significantly higher demand charges will discourage further investment in embedded networks, impacting future customers who may benefit from an embedded network's services, it will also stifle innovation.

The introduction of the proposed embedded network tariffs will result in stifled innovation and the potential benefits of embedded networks in terms of the uptake of on-site generation, EV charging, and storage and 'services' that embedded networks can offer to consumers and to the wider distribution system.

Some of the most innovative on-site generation and storage arrangements in the NEM are found within embedded networks. Embedded networks have the potential to operate independently of the wider distribution system and to reduce pressures on the wider distribution system.

Areas where further evidence is required:

We say that:

- Endeavour Energy has not undertaken or cited adequate independent analysis quantifying the actual 'tariff arbitrage' and whether it leads to cross-subsidies for other customers. Assertions are made but evidence is not provided.

- The load profile analysis comparing embedded networks to standard business tariffs is high-level. Further technical analysis could explore the diversity between different embedded networks and how their load profiles actually differ.
- Alternatives to the proposed tariffs, such as introducing more cost-reflective, tailored tariffs or additional transitional arrangements have not been quantitatively assessed. The costs and benefits of options have not been weighed up.
- The customer impacts of the new tariffs, including end customers within embedded networks, do not appear to have been specifically surveyed or researched beyond high-level bill impact analysis.
- Interactions with other regulatory changes, such as the AER's review of the authorisation and exemption framework, have not been fully considered.
- Unintended consequences may result including in relation to consumers who have 'opted out' of an embedded network and are being charged 'network only' tariffs by their retailer or by the embedded network operator.

Recommendations

We recommend that Endeavour Energy's proposed embedded network tariffs be rejected by the AER.

Yours faithfully,



Connor James

Principal
Compliance Quarter

Email: 