

**ENERGY
CONSUMERS
AUSTRALIA**

A Suite 2, Level 14, 1 Castlereagh Street
Sydney NSW 2000
T 02 9220 5500
W energyconsumersaustralia.com.au
@energyvoiceau
in /energyconsumersaustralia
f /energyconsumersaustralia
ABN 96 603 931 326

30 August 2018

Mr Andrew Schille
General Manager Regulation & Corporate Affairs
Endeavour Energy
PO Box 811
SEVEN HILLS NSW 1730

**ENDEAVOUR ENERGY'S RESPONSE TO THE AUSTRALIAN ENERGY REGULATOR (AER) ISSUES
PAPER: NSW ELECTRICITY DISTRIBUTION DETERMINATIONS 2019 to 24**

Dear Mr Schille, *Andrew*

Energy Consumers Australia appreciates the opportunity to provide further comment on Endeavour Energy's response to the Australian Energy Regulator (AER) Issues Paper: *NSW Electricity Distribution Determinations 2019 to 24* (Issues Paper).

Consumers are looking to Endeavour Energy to provide high quality services, at affordable prices. In return, they accept that Endeavour Energy's investors should earn a fair return for their long-term investment in these regulated assets. Endeavour Energy's revision to its capital expenditure (capex) forecast for 2019-2024 demonstrates genuine willingness to listen to stakeholder feedback and take action by revising its regulatory proposal.

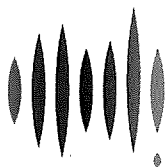
In our August 2018 submission to the Issues Paper, Energy Consumers Australia called on the AER to engage directly with the Board of Endeavour Energy to improve the Board's awareness about the importance of achieving least cost network services for consumers by investing not one more dollar than necessary, not one day earlier than needed.

We are pleased to see that Endeavour Energy is publicly committed to engaging with stakeholders in a consultative, dynamic and transparent manner. The commitment is demonstrated through your willingness to engage with stakeholder feedback in a new way - by responding to the AER's Issues Paper to address stakeholder feedback quickly, instead of waiting for the next established step in the process.

Summary

Energy Consumers Australia believes that Endeavour Energy's amended capex proposal is much closer to being capable of acceptance by consumers as being in their long-term interests. This is subject to comments in our original submission to the Issues Paper on the Rate of Return and operational expenditure (opex) productivity:

- Rate of Return: confirmation from Endeavour Energy that should the revised 2018 binding guideline be released by the end of the year, it should apply to the 2019-24 final determinations for Endeavour Energy.
- Opex productivity: confirmation that Endeavour Energy will apply the AER's preferred approach to productivity measures.



Capex

Endeavour Energy has continued to engage with Energy Consumers Australia in the development of its response to the AER's Issues Paper. We understand Endeavour has updated its position on the key issues outlined in the table below:

ECA August 2018 submission to the Issues Paper	Endeavour Energy [August/September] 2018 submission to the Issues Paper
1. Capex	
<p>The amount proposed for capex is too high, largely driven by:</p> <ul style="list-style-type: none"> • expenditure on replacement of assets (\$800.5 million); and • a change in the approach to connection capex (\$309 million). 	<p>Endeavour Energy has proposed a reduction of around 21 per cent on its original capex proposal (excluding equity raising costs):</p> <ul style="list-style-type: none"> • replacement expenditure: reduced from \$800.5 million to \$600 million; • connections: \$309 million to \$119 million; and • augmentation expenditure: reduced from \$417 million to \$350 million. <p>Energy Consumers Australia notes that the capital contributions forecast was increased from \$535 million to \$726 million in this updated proposal.</p>

Energy Consumers Australia believes that previous high capital expenditure has resulted in a Regulated Asset Base (RAB) that is greater than that required to efficiently deliver the services consumers want. Previous RAB expenditure also reflects embedded inefficiencies in the RAB stemming from historical inefficient practices. An excessive RAB is a problem because distribution network businesses continue to recover the cost of their RAB from consumers for many years. Our submission to the Issues Paper suggested that the AER carefully scrutinise Endeavour Energy's capex and RAB, as consumers are yet to receive a benefit from the increased capacity and improvements in reliability from previous investment.

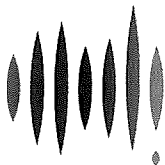
In its response to the Issues Paper, Endeavour Energy proposes to reduce its capex by 21 per cent, from \$2.16 billion to \$1.70 billion (real, \$2018-19). This is expected to result in a material decrease in the RAB per customer, from \$6,478 to \$6,083.

Rate of Return

In our submission to the Issues Paper, we proposed that should the revised 2018 guideline be released by the end of the year and be binding on the distribution businesses as proposed by the Council of Australian Governments Energy Council, it should apply to the 2019-24 final determinations for Endeavour Energy

Productivity measures

Endeavour Energy provides examples of investment in capital delivery and notes concerns that the required capex program and associated outcomes can be delivered at a lower cost than what is proposed. However, Endeavour Energy has not provided a measure of improvements in its opex productivity.



Consumers need to see ongoing opex productivity improvements to reduce costs. There is an expectation that networks, like other businesses, will innovate and continually search for more efficient ways of delivering services. It is critical that productivity savings are built into the 2019-24 determination.

We reiterate our call for a market-wide process to drive and recognise productivity across regulatory periods. Energy Consumers Australia is committed to further engage with Endeavour Energy and the AER to progress this matter.

If you have any questions in relation to our comments on this submission, or require further detail, please contact Chris Alexander, Director Advocacy and Communications on 02 9220 5500 or by email at chris.alexander@energyconsumersaustralia.com.au.

Yours sincerely,

Rosemary Sinclair
CEO
Energy Consumers Australia