

## DRAFT CUSTOMER AND STAKEHOLDER ENGAGEMENT PLAN: PHASE 2.

DECEMBER 2017 TO DECEMBER 2018

### *Aim*

Endeavour Energy's engagement goal is to achieve better outcomes for customers. We will achieve this by reaching agreement with key stakeholders on the price service compact so that the AER accepts the regulatory submission proposed by Endeavour Energy and its stakeholders.

### *Background*

Endeavour Energy's central focus in developing its 2019-24 regulatory proposal is to align our future plans with the long-term interests of the 2.4 million people who depend on us every day for a safe, reliable and affordable electricity supply.

In order to develop more robust, evidence-based plans for the 2019-24 period, we have sought the AER's approval to extend the submission date to no later than 30 April 2018. The accompanying letter outlines several reasons for the extension, including allowing more time to action requests from key stakeholders to undertake more detailed engagement on our opex and capex plans.

This plan sets out engagement to be completed through to April 2018, and then outlines the foundations of a longer term approach to engagement linked to the major driver of Endeavour Energy's capex plans – unprecedented growth across Western Sydney.

### *What we have heard so far...*

Through consultation to date, customers have told us that the following issues are a priority for them in terms of their energy needs.

#### **1. Affordability**

Electricity affordability is the greatest concern for customers. Value is defined through the security and lifestyle benefits it provides to residential customers and communities, and through timely decisions that facilitate economic growth. There's a clear expectation Endeavour Energy's plans should reflect measures to keep downward pressure on electricity prices, and enable greater choice and control over their energy decisions.

#### **2. Reliability**

Reliability is considered very good and so peak stakeholder groups expect Endeavour Energy to have strong empirical evidence to justify future expenditure plans, particularly for capex. Price service trade-offs do not indicate a willingness to trade lower bills with lower reliability.

#### **3. Energy security**

Customers are concerned about a South Australian style blackout and want us to ensure this does not occur.

#### **4. Tariff design**

Customers were generally supportive of Endeavour Energy's plans to transition new customers to TOU tariffs with a demand charge, although the most vulnerable customers appeared to prefer flat tariffs due to their simplicity and a preference to avoid demand tariffs. Some small businesses believed they had little scope under TOU pricing to change their usage and reduce their bills, as they had fixed hours of operation. Peak consumer groups cautioned Endeavour Energy to avoid large increases to its fixed service charge.

Many find tariffs hard to understand. We need to keep tariffs simple for retailers if they are to pass on cost reflective price signals and be able to sell TOU effectively in the marketplace. While regulators have adopted a clear delineation about the role of network and retail businesses, this is not necessarily shared by retailers, and certainly not understood by customers. Networks will experience increasing pressure to be seen as part of the solution to educating customers.

## **5. Meeting growth, particularly across priority growth areas**

Business groups, councils and developers want timely construction of new networks to facilitate housing, jobs and growth. Councils throughout our franchise area, the Western Sydney Leadership Dialogue, Chambers of Commerce, and the Urban Development Institute of Australia have clearly advocated this as a priority.

## **6. Future of the grid, choice and control**

Solar is seen as ideal for customers, and batteries are seen as the final technology needed to wrest back control of electricity bills. Stakeholders expect Endeavour Energy to be innovative and trial new technologies associated with distributed energy resources and demand management, largely to keep downward pressure on capital expenditure, and to prepare the grid for customers' future technology choices.

## **7. Street lighting**

Councils are keen to quickly transition to LEDs. They want street lighting tariffs that reflect the lower maintenance costs of LEDs.

## **8. Vegetation Management**

Customers generally want us to maintain the status quo with vegetation management. Safety should not be compromised for appearance. Councils would like to see less aggressive trimming and further consultation on the nature of tree trimming.

## **9. Vulnerable customers**

Vulnerable customers want us to keep network costs as low as possible without compromising reliability. Assisting the vulnerable is seen as the responsibility of the whole energy sector, particularly retailers. Customers have told us we should focus on assisting life support customers in particular.

## **10. Trust deficit**

Customers aren't sure who to trust. They generally don't trust retailers because they are suspicious of their motives. Customers don't know where to access information and advice on metering, tariffs and batteries.

## ***Some new engagement initiatives in phase 2 to be completed by April 2018***

### ***Deep dives***

Feedback from key stakeholders including the CCP10 and ECA has recommended that Endeavour Energy conduct a transparent, collaborative expenditure consultation process involving opex and capex 'deep dives'. As the name suggests, a deep dive involves a more detailed exploration of the evidence and underlying assumptions being used to justify our plans. It also includes a breakdown of the costs allocated to specific projects and programs.

The objective of the deep dive phase is satisfy stakeholders that key aspects of our investment plans are essential to meeting consumer needs as these will translate into the final prices and services that electricity consumers will ultimately pay for, and benefit from. We firmly believe that this added layer will lead to a more thorough understanding between Endeavour Energy and its key stakeholder groups of the internal and external factors which influence the plans and proposals of our electricity network business and address any perceived engagement gaps.

The subjects we propose to explore are likely to include those key areas which, based on feedback to date, are clearly of importance to our stakeholders and customers. We note, however, that the agenda and scope of discussions for workshops would be set by the group prior to the 'deep dives' being undertaken. The key areas which would likely be explored include but will not be limited to:

- operating expenditure
- capital expenditure
- replacement expenditure
- growth forecasts
- our contributions policy with developers

- contingency projects including Western Sydney Airport, Carlingford Transmission Substation and oil cable replacement.

Such engagement would likely include the key stakeholders of the CCC including representatives from the AER, ECA, CCP10 and PIAC.

### ***The Stakeholder Reference Group – post April 2018***

Endeavour Energy's engagement to date has been characterised by more collaborative interaction with peak consumer groups on specific issues. This has helped to rebuild our relationship, strengthen trust, understand priorities and refine areas for further engagement. Specifically, we have been working closely with the following organisations.

- AER's Consumer Challenge Panel (CCP10)
- Public Interest Advocacy Centre
- NSW Council of Social Services
- Energy Consumers Australia

We would like to continue to build on this type of engagement for the benefit of our customers. In order to do so, and to align our engagement with best practice engagement, we propose to establish a Stakeholder Reference Group (SRG). We would move towards adopting the model used by Scottish Water in the operation of its Customer Forum, which has been recognized as a strong and independent vehicle for effective customer engagement.

#### *Organisations to be invited to our SRG*

Given the relatively complexity of regulatory issues and the requirement for a level of economic, technical and industry knowledge, the SWG would comprise the stakeholders previously listed as well as number of other groups that have played an important role in the development of our proposal.

The organisations we would look to approach to participate are the following, subject to consideration of the effective size of the group. Members should bring specialist expertise to the deliberations and be a senior decision maker in the organization they represent.

- AER (technical/engineering expert)
- AER CCP10 (Observer)
- Urban Development Institute of Australia
- Energy Consumers Australia
- Public Interest Advocacy Centre
- NSW Council of Social Services
- Energy Consumers Australia
- Total Environment Centre
- Western Sydney Regional Organisation of Councils
- Macarthur Regional Organisation of Councils
- Illawarra Regional Organisation of Councils
- Macarthur Regional Organisation of Councils
- Western Sydney Leadership Dialogue
- Department of Planning
- AGL
- Energy Australia
- Origin Energy

Rapid urban growth is a key feature of Endeavour Energy's network and the main point of difference to other Australian networks. Western Sydney is one of Australia's fastest growing regions and the third largest economy in Australia. It is home to 1 in every 11 Australians. According to the Greater Sydney Commission, \$1billion is invested every month on infrastructure in Sydney, with a large portion of that investment allocated to more than nine NSW Department of Planning and Environment priority growth centres, all within Endeavour Energy's network.

The NSW Government has provided new dwelling projections which indicate that the number of customers we will be servicing in growth areas will dramatically increase. This is in part due to rezoning and increased housing density.

We currently connect about **8000-10,000 homes** to the network each year; predominantly in green fields or new growth areas. NSW Government projections indicate that we could potentially connect more than **23,000 homes** each year for the next 25 years. As a result, building the network to service this demand will be a major focus for us in coming years.

This group would be asked to assist in informing, guiding and publishing the development of long term plans and evidence based business plans, particularly focused on meeting growth across Endeavour Energy's network.

We expect that this group would benefit from an independent chair, and be guided by a charter built on the AER's consumer engagement principles, using consensus decision making techniques. The group would be able to access expert resources if needed on particular topics.

### **Other engagement - to continue throughout 2018.**

#### **Customer Consultative Committee**

Our CCC has been a vital part of our engagement to date. Feedback around tariffs and our communication materials for our deliberative forums have been very important and constructive and led to some excellent outcomes for our customers.

We will look to enhance CCC membership, which has been actioned recently with the inclusion of Energy Consumers Australia. Invitations have also been provided to Ethnic Communities Council and we are working with Council for the Aging regarding their involvement (COTA).

We will continue to utilise the strong relationships developed through our CCC to deep dive during the next 12 months into some of the more complex aspects of our regulatory proposals and test our thinking.

#### **Deliberative planning forums**

These forums have been a key piece of engagement which is central to our proposal and have helped to build our understanding of consumer preferences in many areas. The forums have provided another engagement avenue for those responsible for planning and helped understand the reaction of customers to our thinking.

We propose to build on this success by revisiting our deliberative forums following the draft decision by the AER. We would look to engage around 30-40 end use customers segmented over vulnerability, solar and small to medium enterprises explored key themes of safety, reliability and affordable electricity, our plans to meet electricity demand in new growth areas, and enabling customers' future energy choices.

#### **Independent audit process**

In August 2017, Endeavour Energy's Board sought an assurance that Endeavour's Customer and Stakeholder Engagement Strategy complied with the AER's Consumer Engagement Guideline and best practice principles. Endeavour Energy also wanted assurance that the results of engagement were directly linked to customer outcomes expressed in its regulatory proposal. As a result, Endeavour Energy commissioned an internal audit of its approach in September 2017. Areas for focus included:

- Governance over the Customer and Stakeholder Engagement process.
- Compliance with the AER's Customer Engagement Guidelines through assessment of the best practice principles and the four components of the guideline, as below:
  1. Principles
  2. Priorities
  3. Delivery
  4. Results

## 5. Evaluation and review

- Engagement with a sample of identified external stakeholder groups to support the evaluation of compliance to the Guideline above.
- Compliance with the National Electricity Rules specific in relation to the levels of customer engagement in the regulatory process.
- Completeness of information substantiating the customer and stakeholder engagement process.

As a result, the audit recommended four areas of improvement including developing KPIs prior to engagement initiatives being implemented, tracking completion of the agreed recommendations from the July 2016 Strategic Review of Endeavour Energy's Customer Engagement approach to its first AER regulatory submission; better explaining the process for re-engagement in the event of changes in the underlying business assumptions; a maturity assessment against the IAP2s Quality Assurance Standard for community and stakeholder engagement processes; and updating the Customer and Stakeholder Strategy to show deliverables for each engagement stage.

Endeavour Energy has agreed to action each recommendation by December 2018.

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**Detailed engagement plan**

Proposed engagement prior to lodging our final proposal in Dec 2018 will include, but not be limited to, the following.

ENGAGEMENT INITIATIVES		20	2018													
		17	D	J	F	M	A	M	J	J	A	S	O	N	D	
1	Invite stakeholders to take part in deep dive workshops on operating expenditure; capital expenditure; replacement expenditure; growth forecasts; our contributions policy with developers; contingency projects including Western Sydney Airport, Carlingford Transmission Substation; and oil cable replacement.															
2	Expand CCC membership for 2018 and scope work plan for the year.															
3	Finalise stakeholders participating in deep dive workshops															
4	Hold scoping workshop on deep dives listed in Line 1 above. Location – Sydney CBD.															
5	Hold deep dive workshops listed in Line 1 above. Location – Sydney CBD. Workshop attendees and scope to be confirmed during scoping workshop.															
6	Scope out proposed SRG membership, charter and resource requirements															
7	Review of proposed SRG with key stakeholders															
8	Invite SRG members to participate															
9	Hold feedback forum on engagement to date															
10	Finalise March CCC meeting terms of reference & scope															
11	March CCC meeting															
12	<b>Submit draft regulatory proposal 2019-24</b>															
13	Hold first SRG meeting															
14	Finalise July CCC meeting terms of reference & scope															
15	July CCC meeting															
16	Draft determination released by the AER															
17	Attend AER's pre-determination conference on draft decision															
18	Hold SRG meeting to discuss draft decision and attain feedback.															
19	Residential and SME deliberative planning forums to inform final proposal.															
20	Finalise Nov CCC meeting terms of reference / scope.															
21	Nov CCC meeting.															
22	Revised regulatory proposal due.															