

**ENDEAVOUR ENERGY'S  
2019-24 REGULATORY  
PROPOSAL**

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**AFFORDABLE, SAFE,  
RELIABLE ELECTRICITY**

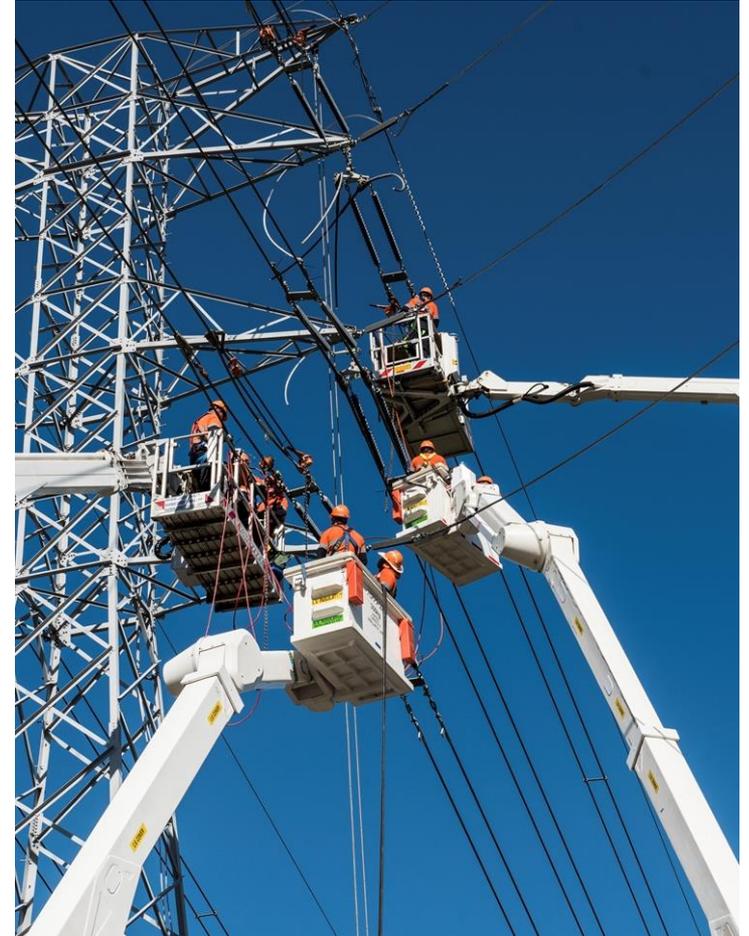
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# WHAT WE WANT TO COVER

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1. Our efficiency journey
2. Our proposal on a page
3. Customer and stakeholder engagement
4. Our growth
5. Capex and opex forecasts
6. Changes to tariff design
7. 2014-19 Remittal
8. Next steps



# YOUR SAY

Our proposal is built on extensive engagement, with lots of information housed on our new digital site.

We'd love your feedback.

[yoursay.endeavourenergy.com.au](https://yoursay.endeavourenergy.com.au)

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Have your say about our regulatory proposal  
We want to hear from you.  
**HAVE YOUR SAY**

**Welcome to Your Say Endeavour Energy**

We want you to have your say on our plans to deliver an affordable, safe and reliable electricity supply. This site is designed to inform you about our plans for the future and attain your valued feedback.

**Sign up to have your say!**

**Endeavour Energy TV**

Customers have their say at our forums

**Key Dates**

- 30 Apr** Endeavour Energy submits its regulatory proposal to the AER.
- 21 May** AER commences review of NSW electricity distributors' 2019-24 revenue proposals
- 27 Jun** Registrations close for AER public forum

**The regulatory process**

Read an overview of our regulatory proposal 2019-24  
08 May 2019

# OUR EFFICIENCY JOURNEY – IS ABOUT AFFORDABLE PRICES

\$m real 19	2014-15	2015-16	2016-17	2017-18	2018-19	Total
AER Opex allowance	256.4	260.4	264.5	269.1	274.3	1,324.6
Actual/Forecast	322.6	336.3	325.9	266.3	271.5	1,522.6

- Our corporate-wide efficiency program has involved many tough, but necessary decisions - to achieve benchmark performance by 2017/18.
- Since 2012, we've cut our workforce by almost 1,000 FTEs without compromising safety or reliability, and generated total savings of \$891m (real FY18) through to February 2018.
- Endeavour Energy continues to build on a history of reform and measurable, sustained efficiency improvements.
- Our final year opex in 2018/19 represents a reduction in our annual opex of 20% in real 2018/19 dollar terms over the current regulatory period.

# 2019-24 PROPOSAL – A DECADE OF REAL PRICE REDUCTIONS

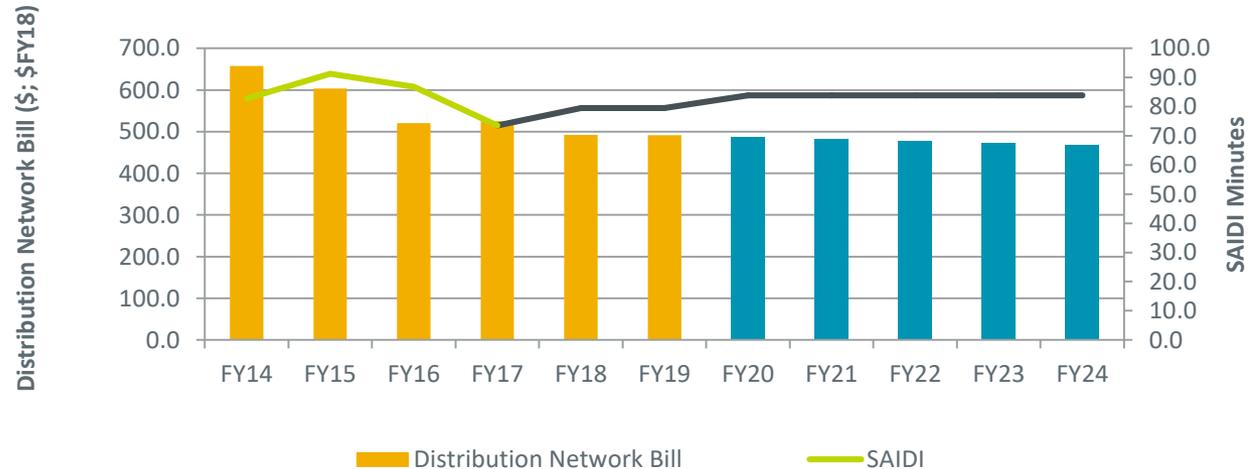
Customers will benefit from a  
**↓1%**  
 decrease in network charges each year, in today's dollars, for 2019-24.\*

**99.9%**  
 average reliability will be maintained without compromising safety.

**105,000**  
 connections will become available for new homes and businesses in 2019-24.

- We have proposed price changes of CPI minus 1% in each of the 5 years of the regulatory control period.
- On 1 July 2018 our prices fell marginally. This continues the downward trend in network prices.
- Despite our cost base increasing our prices to customers continue to fall – that is due to being more efficient.

Residential Distribution Bill vs Reliability



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# IMPROVE CUSTOMER AND STAKEHOLDER ENGAGEMENT

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## Establishment phase (Jan – Jun 2016)

Review and improvements, what did we learn?, strategy setting and design



## Research phase (Jul – Dec 2016)

City Smart persona research, research of attitudes towards electricity in Australia



## Engagement phase 1 (Jan – Dec 2017)

Directions paper, focus groups, deliberative forums, online community, engagement audit



## Extended Engagement phase 2 (Jan to April 2018)

4 x Deep Dives



## Targeted engagement (May – Dec 2018)

Repex, capital contributions, tariff strategy.

Conversations with retailers, councils, customer groups, Customer Consultative Committee and consumer groups

WE  
ARE  
HERE

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# CUSTOMERS' TOP TEN ISSUES

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<b>1. Affordability</b>	<ul style="list-style-type: none"><li>• Affordability is <u>the</u> key issue for most customers and stakeholders.</li><li>• They want to see continued downward pressure on network charges.</li><li>• Safety and reliability should not be sacrificed.</li></ul>
<b>2. Fair pricing through tariff design</b>	<ul style="list-style-type: none"><li>• Customers understand they can benefit from new 'user pays' ways of charging and support move to cost reflective pricing with opt-out option.</li><li>• Customer groups concerned charging windows were too wide and included shoulder periods which could dilute pricing signals.</li><li>• Retailers want simplicity and uniformity to develop a marketable product.</li></ul>
<b>3. Reliability</b>	<ul style="list-style-type: none"><li>• Customers generally satisfied with current average reliability of 99.9%.</li><li>• Customers do not want bills to increase to fund improved reliability, nor are most willing to trade lower bills for lower reliability.</li></ul>
<b>4. Security</b>	<ul style="list-style-type: none"><li>• Customers are concerned about the impact of extreme weather events.</li><li>• Customers and regulators expect us to maintain high safety standards workplace, community and address cyber security risks.</li></ul>

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# CUSTOMERS' TOP TEN ISSUES

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<b>5. Growth</b>	<ul style="list-style-type: none"><li>• Business groups, councils and developers want timely and affordable construction of new networks to facilitate growth.</li><li>• Customer advocates want a fairer capital contributions policy that does not burden existing customers.</li></ul>
<b>6. Transformation, choice and control</b>	<ul style="list-style-type: none"><li>• Customers are keen to know more about smart meters, solar and batteries as a means to reduce bills. Network must meet their future energy needs.</li><li>• Local councils support investment in greener technology.</li><li>• Stakeholders expect Endeavour Energy to be innovative and trial new technologies.</li></ul>
<b>7. Vegetation management</b>	<ul style="list-style-type: none"><li>• Customers generally want us to maintain the status quo for vegetation management, with safety to take priority over appearance.</li><li>• Councils would like to see more sensitive tree trimming in the interests of amenity and urban heat.</li></ul>

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# CUSTOMERS' TOP TEN ISSUES

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<b>8. Street lighting</b>	<ul style="list-style-type: none"><li>• Local councils strongly support the roll out of LED street lights and would like to see earlier details of pricing, replacements, repairs and explore future technologies to assist in their decision making.</li><li>• Endeavour Energy should provide a clear plan for LED replacement in its proposal. Charges should reflect maintenance costs.</li></ul>
<b>9. Vulnerable customers</b>	<ul style="list-style-type: none"><li>• Vulnerable customers want us to keep network costs as low as possible.</li><li>• Assisting the vulnerable is seen as the responsibility of the whole energy sector, particularly retailers.</li><li>• Focus is on assisting life support customers.</li><li>• Customer advocates encouraged us to take a broader view of vulnerability.</li></ul>
<b>10. Education &amp; engagement</b>	<ul style="list-style-type: none"><li>• Increased education and consultation are seen as important in building trust and empowering customers.</li><li>• The AER is seeking frank, respectful engagement with a clear understanding of risks and trade-offs.</li></ul>

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# WHAT WE HAVE HEARD AND WHAT WE HAVE DONE

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## What we have heard

Customers and stakeholders have asked us to concentrate on:

- providing an affordable, safe and reliable electricity supply
- containing investment to support new customer connections and economic growth
- enabling customers' future energy choices

## What we have done

- Made affordability, safety, and reliability our key deliverables for all customers.
- Submitted plans that will build on a \$75 reduction in network charges since 2012-13 and decrease by a further \$25 for an average residential customer by 2024.
- Focussed on maintaining reliability across the existing network and limit reliability improvements to the poorest performing areas, consistent with licence conditions.
- Planned battery storage trials so that reliability is not compromised as we connect and utilise new generation and storage technologies in accordance with the *CSIRO/ENA Electricity Network Transformation Roadmap*.
- Proposed an overall real reduction in public lighting charges in the order of 8% followed by annual CPI increases until end of period.
- Proposed a pricing differential between LED and non-LED of 15% to reflect expected maintenance savings from increased density of LED lighting.
- Reduced our proposed capital expenditure plans by almost \$90m.
- Designed a new energy and demand based tariff.

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# FEEDBACK ON ENGAGEMENT

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*"Very productive, well facilitated and covered good content." Deep dive feedback*

*"Great job! Excellent work in progressing the key conversations productively. Left me feeling positive about getting to a point of mutual understanding on big issues (and some of the small ones)." Consumer advocate in the first deep dive*

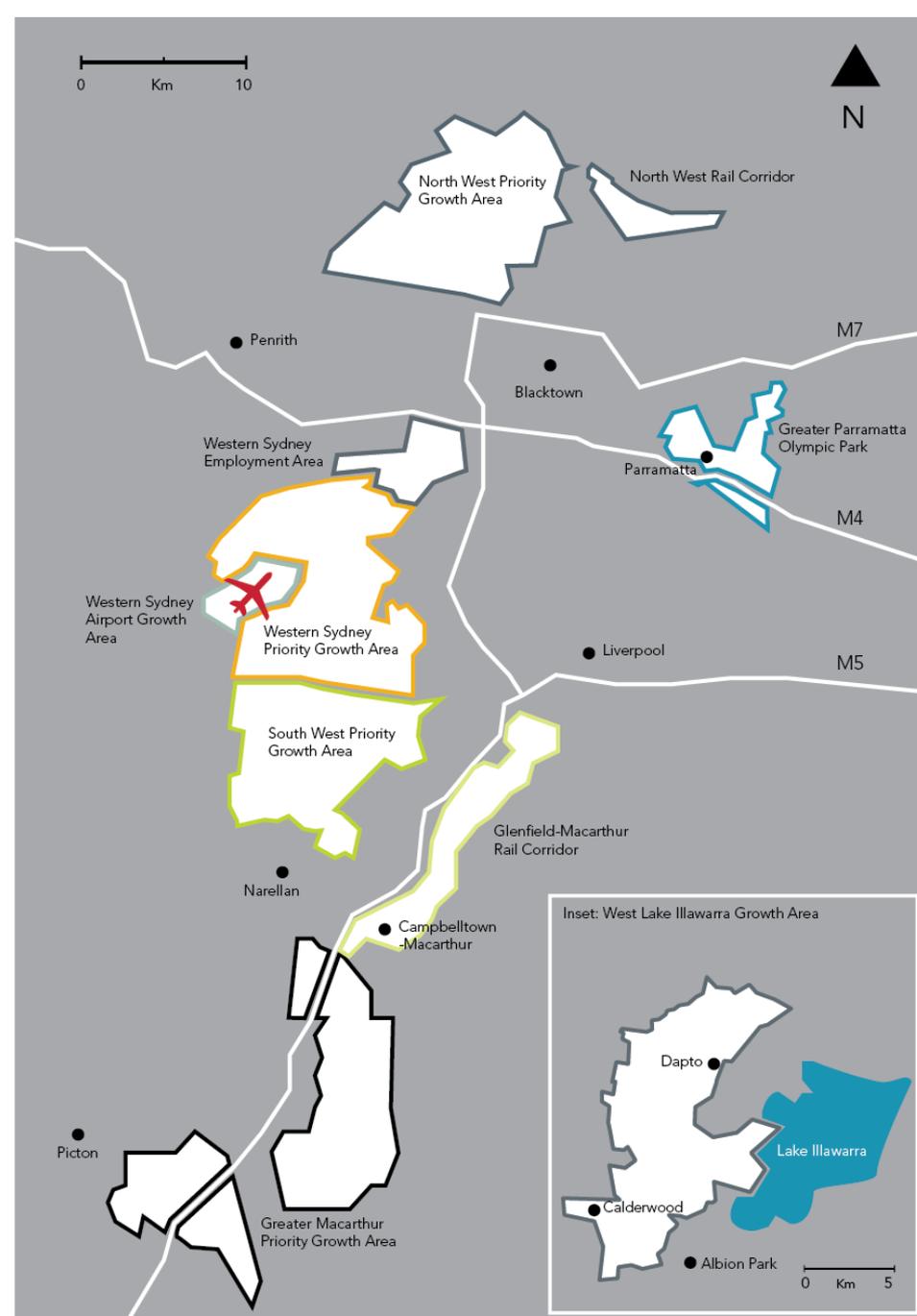
*"Very interested with the dedication and openness of the workshop and the support provided by senior management. A very valuable day which I believe achieved the desired effect." Customer Consultative Committee member, following the first deep dive*

*"I like that you are keen to involve the customers and keep us informed. Great company and more positive about who is looking after us." Customer at a deliberative forum*

*"Keep listening to your variety of customers and remember those who struggle to pay for electricity." Customer at a deliberative forum*

# OUR GROWTH

- We have sought \$2.2b of capex compared to our current spend of \$1.6b – growth is our key driver.
- Our aim is to find an underlying level of capex that does not create a ‘boom and bust’ profile.
- We are forecasting to connect over 105,000 customers in the next five years.
- We plan to build 16 new substations to help power Sydney’s new growth areas similar in size to Wollongong and Canberra. Double the number built in 2014-19.



# CAPITAL FORECAST

<b>\$m real 19</b>	<b>2009-14 Actual</b>	<b>2014-19 Actual / Forecast</b>	<b>2019-24 Proposal</b>
Repex (inc. reliability)	943.2	684.7	820.5
Connections	84.7	124.7	309.4
Greenfield Augex	595.3	158.2	301.1
Brownfield Augex	594.8	97.7	115.7
ICT	93.9	120.8	91.2
Other	181.0	69.1	120.3
Overheads	539.5	363.3	400.0
<b>Total net capex</b>	<b>3,032.4</b>	<b>1,618.6</b>	<b>2,158.1</b>
Cap Cons	350.5	682.9	534.7
<b>Connections + Cap Cons</b>	<b>435.2</b>	<b>807.6</b>	<b>844.1</b>

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# AFFORDABILITY & OPERATING EXPENDITURE

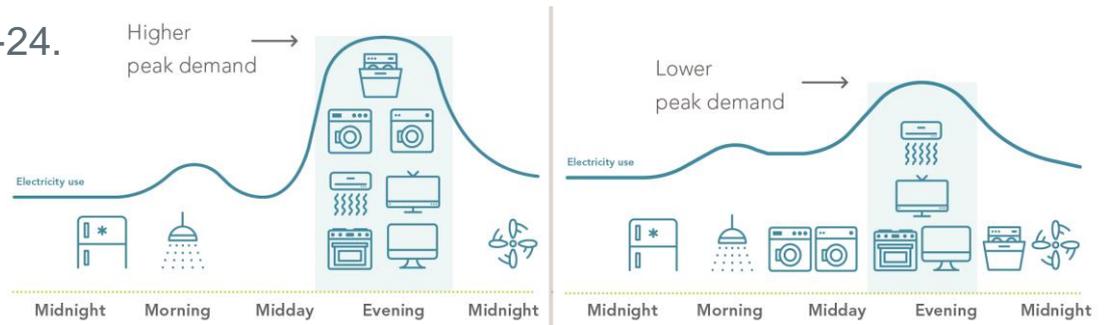
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## Committed to adopting the AER's April 2015 opex allowance for 2017/18

- Our costs this year are \$65 million less than at the start of this regulatory period. This means we will be at, or below the AER's operating expenditure allowance for this year. These savings will be locked in to be passed onto customers in the next regulatory period.
- We are not proposing any step changes to our operating expenditure.
- We will adopt the AER's decision for projecting our operating expenditure into the next regulatory period. Specifically:
  - Adopt the approach used by the AER to escalate the real cost of labour using benchmark measures that incorporate labour efficiency improvements.
  - Adopt zero real cost changes for the cost of materials.
  - Adopt the AER's method of scaling our operating expenditure for changes in size and scope of our network using the rate of change in customer numbers, circuit length and ratcheted maximum demand.
  - Our average opex per customer will reduce from \$306 p.a. over 2014-19 to \$274 p.a. over 2019-24.

# TARIFF REFORM THAT LEADS TO LOWER CAPITAL

- We set out to design tariffs that are:
  - (1) fair
  - (2) transparent
  - (3) empower customers with choice
  - (4) provide predictable and stable prices over time.
- In this period we transitioned away from a declining block to a flat tariff and continued to offer voluntary TOU energy tariffs.
- Proposing to move to a combination of flat energy and demand based tariff – apply to all new customers from 1 July 2019.
- This rewards customers who manage their peak demand between 4pm and 8pm on weekdays.
- This is aimed at reducing our network capital spend after 2019-24.



# CHARGING WINDOWS

	Deep Dive			Revised TSS2 Proposal			
	Weekday High Season	Weekday Low Season	Weekend All times	Weekday High Season	Weekday Low Season	Weekend All times	
Peak Energy	3 – 8pm	n/a	n/a	Removed and replaced with a flat energy charge			change
Shoulder Energy	1-3pm & 8-10pm	3 – 8pm	n/a	Removed and replaced with a flat energy charge			change
Off Peak Energy	All other times	All other times	All times	Removed and replaced with a flat energy charge			change
High Season Demand	3 – 8pm	n/a	n/a	4 – 8pm	n/a	n/a	change
Low Season Demand	n/a	3 – 8pm	n/a	n/a	4 – 8pm	n/a	change

# TARIFF STRUCTURES

		Fixed	Energy		Seasonal Demand
			Flat	STOU	
DEEP DIVE	Legacy Tariff	✓	✓	✗	✗
	Cost Reflective Tariff	✓	✗	✓	✓ (5 day average)
REVISED TSS2 PROPOSAL	Legacy Tariff	✓	✓	✗	✗
	Cost Reflective Tariff	✓	change ✓	change ✗	change ✓ (Single point monthly charge)

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## 2014-19 REMITTAL

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- In 2015 we appealed elements of the 2014-19 Determination. Two issues remain outstanding – opex and cost of debt.
- The AER is required to remake its decision.
- We have been consulting with both the AER and consumer groups to hopefully finalise this matter.
- Show of good faith by the new owners to put this issue behind us.

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# NEXT STEPS

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Continued improvement in our engagement program including:

- action independent audit recommendations
- liaise with retailers and consumer groups on tariffs
- engage with councils, business groups and NSW government on our proposal
- review our CCC charter
- continue our engagement on capital contributions.



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# THANK YOU

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- The many mums and dads and small business owners who took part in our research program.
- Our Customer Consultative Committee representatives for their sustained support.
- The consumer advocates who partnered with us on the design and then implementation of our engagement program.
- Our key partners including retailers, councils, business groups and government agencies for their participation.
- The AER's Consumer Challenge Panel for their participation and frank, positive and constructive feedback.
- All engagement participants who gave up their time to help frame better business decisions and outcomes for customers.
- AER for approving our extended engagement program.
- Fellow NSW energy industry colleagues at Essential, Ausgrid and TransGrid for their collaboration and support.