

ENDEAVOUR ENERGY REGULATORY REFERENCE GROUP (RRG) INDEPENDENT MEMBERS PANEL

Advice to Endeavour Energy following the release of their Draft Proposal

4 November 2022

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Acknowledgement of Country

The Endeavour Energy Regulatory Reference Group acknowledges the traditional owners of the lands on which Endeavour Energy operates – the people of the Dharawal, Dharug, Gundungarra, Wiradjuri and Yuin nations - and the lands on which this report was prepared. We pay our respect to the elders of these nations, past, present and emerging.

EXECUTIVE SUMMARY

The Independent Members Panel of Endeavour Energy's Regulatory Reference Group welcomes the opportunity to comment on Endeavour Energy's Draft Proposal for the 2024-29 regulatory period.

Endeavour Energy is developing its revenue proposal for the 2024-29 regulatory period under the new *Early Signal Pathway* process set out in the Australian Energy Regulator's (AER) *Better Resets Handbook*¹ (The *Handbook*). Publishing a draft proposal that reflects the findings of its extensive consumer engagement and demonstrates how the draft proposal meets the regulator's expectations of genuine engagement with consumers is a key milestone in the revenue reset process. We congratulate Endeavour Energy on its commitment to meeting the Handbook requirements.

The role of the Independent Members Panel leading up to this Draft Proposal

Since Endeavour Energy commenced their planning of the 2024-29 regulatory reset in April 2021, the Independent Members Panel has been integral in the co-design of the engagement process and has provided critical feedback as Endeavour Energy's regulatory proposal has evolved. We have brought the lens of an independent panel representing all consumers – household, small business consumers, councils and large energy users – to ensure that all voices are heard that their feedback is either reflected in the proposal or, where it is not, a clear explanation is provided.

In August 2022, we provided comprehensive and detailed feedback to Endeavour Energy's Preliminary Proposal published in April 2022 and subsequent engagement. That feedback was supportive of Endeavour Energy's consumer and stakeholder engagement programme through the *Discover* and *Explore* phases. One key recommendation of that feedback was to encourage Endeavour Energy to distil the extensive data drawn from the many instances and forms of engagement into a concise and well-reasoned summary of 'what was heard.' This led to the development of the *Engagement Summary Report*, published at the same time as the Draft Proposal, which is a comprehensive overview of the extensive engagement activities and the way Endeavour Energy has interpreted the findings into the Draft Proposal.

Endeavour Energy has addressed each of the issues we raised in our August report. This includes an increased focus on affordability and options that provide customers with value for money, and the need to adapt engagement to reflect a fast-changing social environment and increasing energy costs.

Since the work on the Preliminary Proposal, we have worked with Endeavour Energy in updating the overarching business narrative of the reset to reflect the emerging economic volatility and increasing pressures in the cost of living stemming from rising energy prices. In addition, we have examined several technical capex business cases in detail to consider Endeavour Energy's approach to energy supply risk and the application of non-network solutions to consumer needs. We have also worked with Endeavour Energy to encourage the transparency of the productivity improvements flowing from the significant ICT investment in this period, and how that productivity is delivering downward price pressure for consumers.

In the transition from the *Prioritise* to the *Refine* phase of the reset process, we have invested significant time into considering the form and purpose of the proposed Customer Panel deliberative forum waves and local targeted workshops with retailers, local councils and energy retailers.

Overall, we consider Endeavour Energy has met the guidelines of the AER's Handbook in the development and execution of its engagement process. This observation results from our extensive involvement in the development of the Draft Proposal to date, but more importantly reflects our first-hand observation of Endeavour Energy's commitment to an accessible, wide-ranging, clear and transparent engagement process and their willingness to share information early on and to listen and respond to feedback.

¹ [Better Reset Handbook - December 2021.pdf \(aer.gov.au\)](https://www.aer.gov.au/better-reset-handbook)

Engagement

Endeavour Energy has continued to engage sincerely with a broad range of its customers and stakeholders. This is evidenced by many factors, not least being the extensive Board, CEO and senior management continuing to attend a wide range of engagement sessions throughout the *Refine* phase - including several Deep Dives and Customer Panel sessions - in roles that included directly presenting issues, listening first-hand to consumer feedback and directly engaging with consumers in Q & A sessions.

We have been deeply involved in the co-design of a live engagement plan that has been adapted and refined over time, with Endeavour Energy showing a genuine interest in consumer feedback and an openness to challenge. Workshops and codesign sessions continue to be typified by open and frank conversations, and Endeavour Energy maintains the availability of key staff to work closely with the Independent Members Panel to answer our many questions and provide all the necessary support for us to engage critically.

The breadth and depth of engagement has been strong. Endeavour Energy has continued to engage with multiple customers and stakeholders across a range of channels, including the Customer Panel Waves and in-language engagement to review and strengthen their understanding of the consumer issues identified in the earlier phases of the work. The Engagement Summary Report informed a comprehensive range of tools and techniques to both obtain and analyse the data, thereby creating a strong evidence base to draw from. This process inevitably revealed differences in customer and stakeholder preferences and views. However, we believe that Endeavour Energy has appropriately balanced the range of views.

While in practice there is a limit to the elements of the proposal that consumers and stakeholders can influence, the Draft Proposal presents a strong link between customer and stakeholder feedback and features of the revenue proposal. We are particularly pleased to see a renewed emphasis on affordability and value for money following the increasing financial pressures on all consumers over the last few months.

Endeavour Energy has taken a significant step forward in improving its engagement processes from the last regulatory reset. While we identify some areas for improvement in this report, we have confidence that Endeavour Energy will continue to learn from, and build on, its experience to date to guide its future business-as-usual engagement and to form a robust platform for the next regulatory reset.

The Draft Proposal

The Independent Members Panel recognises the challenge that the current environment brings to the regulatory reset process. Rising interest rates and supply chain costs, along with growing expectations by consumers for utilities to support a low carbon economy and respond to climate change pressures, are placing significant upward pressure on revenues and prices.

We commend Endeavour Energy for its commitment to stay within the parameters of the early signal pathway agreed with the AER, and its focus on affordability and providing energy consumers with services that are clearly seen as valued. We have observed the efforts made by Endeavour Energy to limit cost increases for its customers through a clear commitment to maintain an investment forecast that is lower than that allowed in the current period. In some instances Endeavour Energy has instead opted for its shareholders to bear the cost, or risk of cost increases, such as its approach on materials costs and insurance. We also note that Endeavour Energy has taken a balanced approach to justifying expenditure in some instances, such as in relation to distributed energy resources and the resilience of the network to the impact of climate change.

Endeavour Energy has shared with us its approach to making investment decisions in relation to new and replacement capital expenditure. Based on several workshops with subject matter experts, we are comfortable that Endeavour Energy has a strong governance framework in place and a sound process for deciding which projects are executed.

Looking ahead to the Regulatory Proposal and beyond

Endeavour Energy is entering its *Refine* and *Confirm* phases of engagement.

A significant challenge exists in attempting to confirm consumer priorities in this fast-changing external environment. The likely extraordinary retail price increases expected to impact energy consumers are likely to change the expectations and priorities of consumers in how Endeavour Energy may invest in aspects of network resilience or facilitating a low-carbon future.

There will very likely be increasing pressure for Endeavour Energy to find additional cost reductions wherever possible help restrain overall bill increases.

For the remainder of the current reset process, we encourage Endeavour Energy to continue monitoring the external environment for changes that may impact customer and stakeholder views, consider whether the engagement plan needs to be amended and continue to keep the Independent Members Panel involved. Given the recent Federal Budget forecasts for significant increases in power prices in the next 12 months we encourage Endeavour Energy to continue its excellent engagement into 2023 to ensure consumers are fully informed and supportive of its proposal.

We support the plans to continue with stakeholder check-ins, regular RRG involvement and effective customer performance tracking.

Against this backdrop, we believe that there is more work to be done to effectively understand and refine the approach to emerging consumer needs for resilience in the context of changing climate risks to the network, and the optimal use of network assets as electrification of consumer installations continues. Demand response, optimisation of electric vehicle charging, improving the utilisation of network assets remain as key issues for consumers in their influence to lower network prices and greater consumer choice.

There are several elements of the Draft Proposal that we look forward to ongoing conversations on. These include how the proposed innovation fund will be governed, how Endeavour Energy proposes to address cyber security, network resilience, and the customer export curtailment value that Endeavour Energy will use to justify its investment to support distributed energy resources.

Endeavour Energy will soon provide their draft Tariff Structure Statement (TSS). We are very keen to be able to review this document, especially to see how consumer needs have influenced the development of this document and to get a line-of-sight on the ultimate impact of the reset process on consumer bills. Endeavour Energy have provided some insight into their pricing narrative and strategy, however there are a number of outstanding issues in respect of tariffs that are required to understand the complete picture. We look forward to seeing the tariff strategy in its entirety, so that we can understand and comment on the implications and interrelationships of the many initiatives with matters such as capital investment, distributed energy resources, customer incentives and choice and demand response.

1 INTRODUCTION

The Independent Members Panel is a group of independent customer advocates whose role is to challenge Endeavour Energy to develop a revenue proposal that genuinely reflects the preferences of its customers and provides value for money.² We played a major part in the co-design of the engagement process, and throughout the progress of the engagement and preparation of the proposal have provided critical feedback on all aspects of Endeavour Energy's regulatory proposal as it has evolved. A more fulsome discussion of the role of the Independent Members Panel and additional relevant context is contained in our first report.

This report provides feedback on, the Draft Proposal published by Endeavour Energy setting out its expenditure plans for the 2024-29 regulatory period. It builds on the first report prepared by the Independent Members Panel of the Regulatory Reference Group in response to Endeavour Energy's Preliminary Proposal published in April 2022.³

This report is designed to assist Endeavour Energy to refine the next steps in the reset journey by providing an independent consumer view of both the adequacy of engagement to date and whether the Draft Proposal appropriately reflects consumer preferences. Ultimately, the Independent Members Panel's objective is to ensure that the Revenue Proposal will deliver the services that consumers want at a price they are prepared to pay, given the current and emerging market context.

Assessment framework

Our assessment has been guided by the expectations of the framework set out in the Australian Energy Regulator's (AER's) Better Resets Handbook. This requires consideration of:

- The quality of engagement - its nature, sincerity, framework and accessibility
- The extent to which the proposal reflects consumer preferences and desired outcomes
- Outcomes Endeavour Energy is proposing to deliver and whether customers support those outcomes.

In assessing the revenue proposal, we bring together our collective expertise in consumer engagement, economic regulation and a comprehensive understanding of current issues impacting the energy industry.

The context of this report in Endeavour Energy's reset process

This Draft Proposal is the second of four separate proposals that Endeavour Energy will be presenting over the course of its 2024-29 revenue reset. The Preliminary Proposal was published in April 2022 and has been used as a base case to test Endeavour Energy's initial views with its customers and stakeholders. Since then, the most intensive *Prioritise* phase of its engagement plan was conducted, which has included multiple forms of engagement with multiple customers and stakeholders from May to October 2022.

Endeavour Energy's second milestone publication, the Draft Proposal, refines its positions from the Preliminary Proposal based on customer and stakeholder feedback. Endeavour Energy is now seeking

² The Independent Members Panel comprises Mike Swanston (Independent Customer Advocate and independent panel coordinator); Mark Grenning (Energy Users Association of Australia), Jan Kucic-Riker (NSW Public Interest Advocacy Centre), Simon Moore (Business NSW), Iain Maitland (Ethnic Communities' Council of NSW), Nic Pasternatsky (Western Sydney Regional Organisation of Councils Limited), Bruce McClelland (Business Western Sydney) and Elisabeth Ross (Independent Customer Advocate). Our Terms of Reference is available on Endeavour Energy's [Your Say website](#).

³ Endeavour Energy's Preliminary and draft Revenue Proposals and the Independent Members Panel's first report are available on Endeavour Energy's [Your Say website](#).

feedback on whether they appropriately interpreted and incorporated customer stakeholder views into their proposal. Publishing a Draft Proposal is also a requirement of the AER Handbook.

This report by the Independent Members Panel responds to the Draft Proposal. It focuses on engagement conducted from August 2022 to the publication of the Draft Proposal. Our views on engagement conducted up to August 2022 are contained in our first report.

Endeavour Energy will submit its third proposal to the AER in January 2023, and a revised revenue proposal in December 2023. The Independent Members Panel will prepare a report on each of these documents.

Structure of this report

The remainder of this report is structured as follows:

- chapter 2 provides external market context for the development of the Draft Proposal;
- chapter 3 provides our views on the engagement process conducted by Endeavour Energy, with a focus on activity since August 2022; and
- chapter 4 provides our views on specific elements of the Draft Proposal.

2 EXTERNAL MARKET CONTEXT

Key changes since the Preliminary Proposal and how these changes impact consumers

A key piece of feedback the Independent Members Panel has provided to Endeavour Energy is the need to consider the dynamic external market context. This is both in the context of adapting the revenue proposal to reflect market developments, but also in adapting the engagement plan to re-test results given changes in circumstances. Cost of living pressures have become more evident since the engagement program began and may have changed the views of some customers.

In response, Endeavour Energy has updated both its business narrative and its engagement plan and has been more transparent with the Customer Panel about the elements of bills that are within Endeavour Energy's control. Endeavour Energy has also provided a comprehensive summary of relevant factors in the external environment both to the Consumer Panel and in the Draft Proposal, as set out in Figure 1. However, we consider more could be done to explain how these events and policy changes will impact Endeavour Energy and therefore its decisions, particularly in relation to the Revenue Proposal.

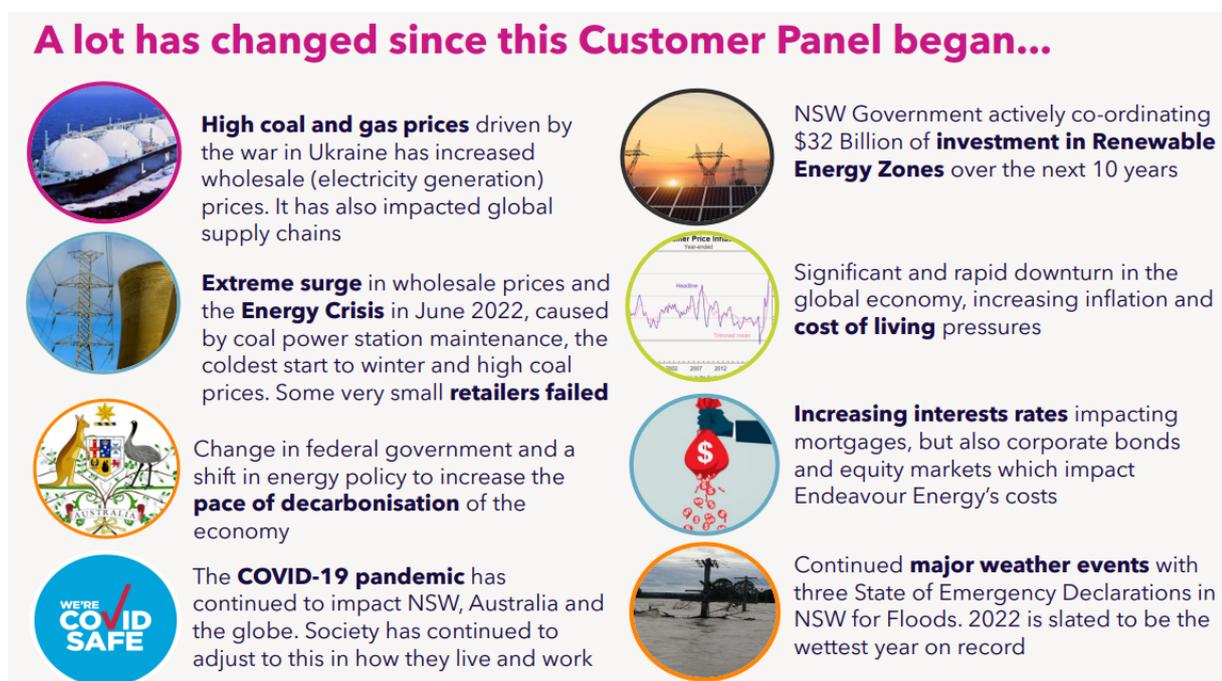


Figure 1: Summary of external context provided to the Customer Panel, September 2022

Further, changes in the external environment continue apace. Since the last Customer Panel was convened in September 2022, Alinta Energy has predicted price changes of up to 35%⁴ and, more recently, the Federal Budget papers revealed expectations of retail price rises of 20% by the end of this financial year and an additional 30% in 2023-23.⁵

These extraordinary forecast price rises, combined with ongoing high inflation levels and increasing interest rates, will place extreme pressure on households and businesses alike over coming years. In turn, there will likely be significant pressure on Endeavour Energy and other network businesses - particularly those currently going through their revenue reset process - to minimise expenditure to help constrain

⁴ See for example, Australian Financial Review, [Electricity prices to soar as energy transition falters](#), 10 Oct 2022.

⁵ The Commonwealth of Australia, [Budget October 2022-23, Budget Strategy and Outlook, Budget Paper No.1](#), 25 Oct 2022, p57.

overall bill increases. Therefore while Endeavour Energy has made commendable efforts to restrain its proposed expenditure in this Draft Proposal, the external environment may necessitate further consideration of whether additional expenditure reductions can be made, such as optimal timing of investments and a strong awareness of the needs of vulnerable consumers, both small and large.

Even before the recent announcements about expected price increases, research has found that the cost of electricity is one of people's key concerns. For example, the quantitative survey commissioned by Endeavour Energy as part of its engagement plan, conducted in August 2022, asked customers how concerned they were about a broad range of issues. The cost of electricity was the second highest concern for residential customers, after cost of living.⁶ Further, one in two residential customers were already very or extremely concerned about being able to afford to pay their electricity bills.

Businesses are facing similar cost pressures. In addition, businesses are grappling with the ongoing consequences of the Covid-19 pandemic such as difficulty engaging staff and supply chain challenges.

The energy market crisis in June 2022 also created new challenges for consumers. The most recent Vinnies Tariff Tracker found that during that time:⁷

- many retailers ceased offering market offers or accepting new customers
- some retailers actively encouraged their customers to find a new retailer
- many of the retailers' communications were quite alarmist in nature
- many retailers warned about delays to customer service timelines due to high demand
- many retailers announcing significant price increases did not clearly refer to the regulated standing offers.

Perhaps not surprisingly, consumers' confidence the energy market is working in their long-term interest has dropped considerably, from 44% providing a positive rating in April 2022 to 37% in August 2022.⁸

Combined with multiple floods and other potential threats from climate change, the mental load taxing the community right now cannot be understated. While these factors are largely outside of Endeavour Energy's control, they provide important context for how consumers may respond to Endeavour Energy's revenue proposal in an environment of high prices and low trust. They also provide opportunities for Endeavour Energy to be creative in considering how it might continue to support its communities during what will be challenging times ahead.

What we expect to see in the Regulatory Proposal in response

We will continue our challenge to Endeavour Energy to identify further opportunities for operational productivity, optimal timing of investments and a strong awareness of the needs of vulnerable consumers, both small and large.

While the Draft Proposal generally aligns with our expectations, the Independent Members Panel encourages Endeavour Energy to consider whether additional expenditure reductions can be found given the recent announcements. We also expect Endeavour Energy to continue to monitor the external environment and reflect any changes in both the Revenue Proposal that it submits to the AER in January 2023 as well as its ongoing engagement plan.

⁶ Specifically, 77% of residential customers were very or extremely concerned about cost of living, followed by 67% concerned about the cost of electricity. See SEC Newgate Australia and Endeavour Energy, Endeavour Energy Residential and SME Customer Quantitative Research, Revenue Reset (2024-2029) Final Report, October 2022, p9.

⁷ St Vincent de Paul Society, [The NEM: Volatile prices, vanishing retailers and vulnerable consumers](#), October 2022, p32.

⁸ See Energy Consumers Australia's [Energy Consumer Sentiment Survey website](#).

3 THE ENGAGEMENT PROCESS AND SUPPORT FOR THE DRAFT PROPOSAL

Endeavour Energy has engaged with a broad range of its customers and stakeholders on its Draft Proposal, particularly over the last six months. A summary of the engagement, including Endeavour Energy's interpretation of the results, is set out in their Engagement Summary Report.⁹

The Independent Members Panel has been pleased to see the diversity of customers that Endeavour Energy has sought to engage with. In addition to a Customer Panel of 89 customers representing a cross-section of their customer base, Endeavour Energy conducted in-language focus groups with members of the Vietnamese community. This is a first for Endeavour Energy and represents a significant improvement from their last regulatory reset. Targeted consultation with local councils on key issues of concern has also been highly effective.

Of the 89 Customer Panellists, 25 were from small and medium sized enterprises (SMEs). An additional 265 respondents to Endeavour's Quantitative Survey were SME customers of Endeavour Energy. The prolonged involvement of SMEs via the Customer Panel has allowed for commendable depth of participation in the reset process. Recruitment of participants and timing of Panel sessions was organised in a way intended to facilitate SME involvement, and the fact that SME Panellists (as was the case also for residential panellists) stuck with the process across multiple sessions from May to September indicates that they saw their involvement as worthwhile.

Large energy users had alternative avenues to participate in the engagement process, including the High Energy User Workshop in February 2022. The workshop explored major users' desire for a more collaborative relationship with Endeavour Energy to replace what is presently felt to be a transactional relationship.

Local government councils have participated at the Endeavour Energy Local Government – Illawarra, South Coast & Southern Highlands online workshop on Wednesday 25 May 2022. An in-person Local Government Workshop - Greater Western Sydney, followed on Thursday 2 June 2022

Overall, we consider Endeavour Energy has met the requirements of the Australian Energy Regulator's Better Resets Handbook in the development and execution of its engagement. The remainder of this chapter sets out our assessment using the framework set out in the Better Resets Handbook as a guide.

Nature of engagement

Sincerity

Development of the engagement plan began with the *Discover* phase in April 2021, with the most recent *Prioritise* phase commencing in May 2022. This afforded sufficient time for the Independent Members Panel to co-design the plan, as well as for Endeavour Energy to implement the ambitious range of engagement activities. Endeavour Energy executed the plan faithfully, and updated it based on recommendations by the Independent Members Panel.

Endeavour Energy has sincerely engaged with a broad range of its customers and stakeholders. This is evidenced by several factors, but two stand out:

- Extensive involvement by the Board, CEO and senior management. Execution of the engagement plan was 'led from the top', with the Board, CEO and senior management not only attending a

⁹ Endeavour Energy's draft Revenue Proposal and the Engagement Summary Report are available on Endeavour Energy's [Your Say website](#).

wide range of engagement sessions but being available for questions from both customers and stakeholders. This also resonated with members of the Customer Panel, one of whom commented *“The level of engagement I felt from the executives was excellent”*.¹⁰

- An openness to challenge. Endeavour Energy demonstrated a genuine interest in consumer feedback and listened closely to diverse opinions, including those that challenged their own. Endeavour Energy has responded to challenges from the Independent Members Panel in a constructive way, engaging in conversation to reach an agreed approach. Every challenge has been met with a willingness to change their initial position.

We consider Endeavour Energy’s sincerity in engaging was summed up well by one of the attendees of a deep dive session, who noted in response to “what was done well” in the session: *“The willingness of Endeavour to communicate, listen and interact with stakeholders. This has improved significantly over the recent year or two”*.¹¹

Consumers as partners

Consumers and stakeholders have been treated as partners throughout the process. At the start of the process Endeavour Energy and the Independent Members Panel identified the areas of the Revenue Proposal that customers had the most ability to influence and the aspects of the Proposal that would have the greatest impact on revenue and therefore consumers’ bills (see Figure 2 below). This has proven to be an immensely useful approach that has helped focus attention on areas that consumers can have the greatest influence.

Engagement has been accessible, clear and transparent with multi channels of engagement occurring. Significant effort was made by Endeavour Energy to prepare materials and processes for each engagement activity, including sending materials in advance where possible. This approach has maximised opportunities for customers and stakeholders to consider the issues and contribute meaningfully to the Draft Proposal. While there were occasions where the Independent Members Panel were not given sufficient time to review materials, these were in the minority.

Endeavour Energy has been open to the Independent Members Panel “setting the agenda”. This includes, for example, amending topics of discussion at Regulatory Reference Group meetings on request by the Independent Members Panel, as well as convening additional “mini deep dives” on specific topics that the Panel has wished to explore in more detail.

This co-design approach means that the Independent Members Panel has had an ongoing influence on both Endeavour Energy’s engagement process and the Draft Proposal. Treating us as partners has led to more constructive engagement allowing us to be much more effective in our challenge role. We can see the influence that this approach has had on the Draft Proposal. This influence has been one of ‘degrees’, rather than substantive changes, due to the ongoing collaborative approach adopted.

Ensuring all key issues have been raised

Figure 2 below was developed in the very early stages of the engagement codesign. It provides a good checklist of the matters that have been considered in the engagement, in particular the issues identified to the right of the diagram as being able to be influenced by consumer engagement.

¹⁰ SEC Newgate Australia and Endeavour Energy, *Endeavour Energy Customer Panel, Revenue Reset (2024-2029) Final Report – Waves 1, 2 and 3*, October 2022, p130.

¹¹ SEC Newgate Australia and Endeavour Energy, *Endeavour Energy Stakeholder Deep Dives*, August 2022, p.30.

In our assessment, all have been adequately dealt with in the engagement programme, with the opportunity to transparently and reasonably assess and challenge Endeavour Energy’s position in the Draft Proposal, with the following exceptions:

- a) *Tariff Strategy and Structures* – will be examined deeply on publication of the draft TSS
- b) *Innovation fund* – we look forward to working with Endeavour Energy to refine the terms of reference and governance framework to oversee prudent and customer-focused innovation investment
- c) *Demand Management* – will also be addressed in the draft TSS response
- d) *Network resilience* – to be revisited as further modelling and response options are examined
- e) *Cyber security* – it is difficult to determine how influential engagement may be on Endeavour Energy’s position. We have made several comments on the progress of this issue in the Capital Investment section of this advice.
- f) *Customer export curtailment value and DER investment* – we note that Endeavour Energy has embraced the AER’s CECV guidelines, with some caveats¹². This is also a very dynamic area of regulation that includes possible benchmarking of export services¹³. Should Endeavour Energy change their current position, we expect engagement will be undertaken to assess consumer sentiment regarding the value of curtailed energy generally.

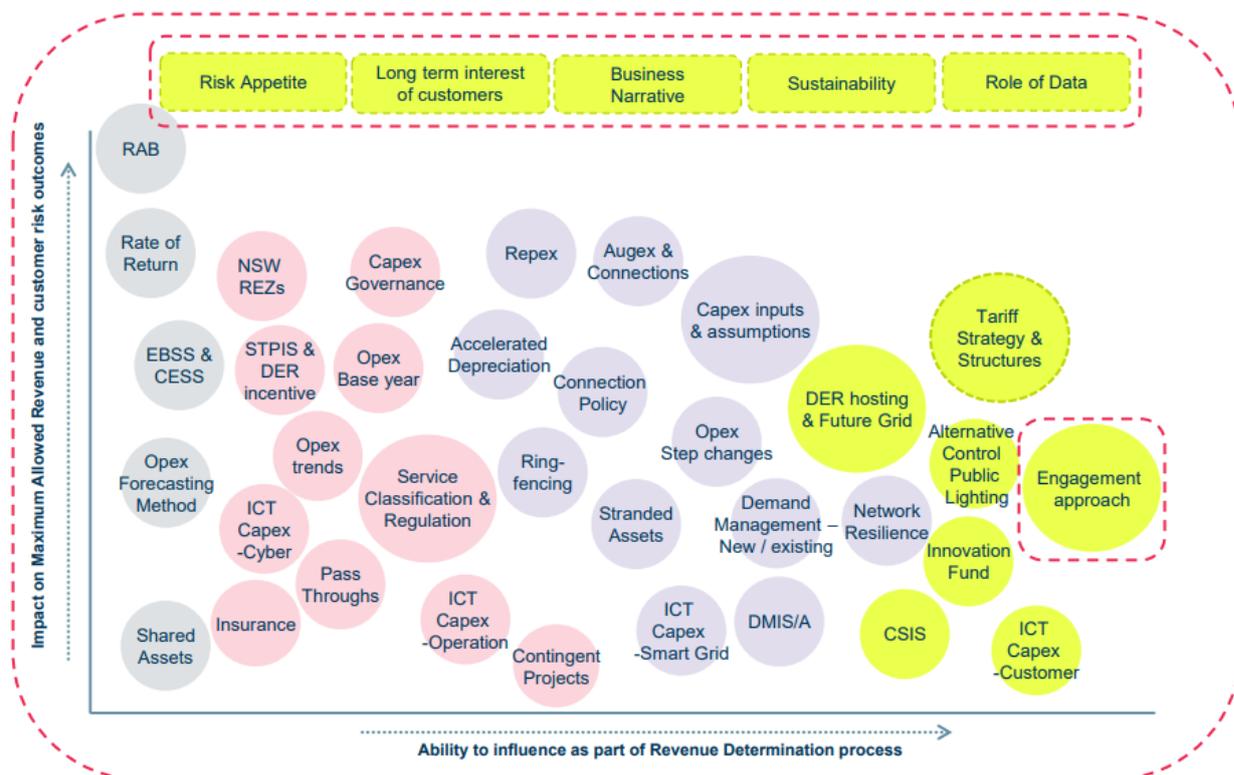


Figure 2: Initial stages of the codesign process - issue identification, May 2021

¹²[Endeavour Energy - Incentivising and measuring export service performance - September 2022.pdf \(aer.gov.au\)](#)

¹³<https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/incentivising-and-measuring-export-services-performance>

Equipping customers

Endeavour Energy has provided the Independent Members Panel with the necessary support for us to engage critically on key issues. This includes consistently providing us with the information and materials that we need to challenge proposed positions. We have had access to staff both at the executive level and subject matter experts, who have all been willing to make time to explain initial positions and respond to feedback. Endeavour Energy has also provided the Independent Members Panel with administrative support, while respecting the need for us to operate independently. Through this process, the Independent Members Panel has strengthened as a group.

Endeavour Energy has also worked hard to provide the Customer Panel and other stakeholders with the information they need to provide an informed opinion. For the Customer Panel, this included online activities, short presentations and opportunities to ask questions to provide feedback on key questions. It is always challenging to present such complex material. We note the mixed feedback on this issue from members of the Customer Panel,¹⁴ and suggest this is an area where Endeavour Energy can build on its learnings for future engagement.

Endeavour Energy staff have also been very open to continued engagement with local councils and other stakeholders to ensure their opinions are heard. For example, Endeavour Energy offered to meet one on one with local councils to talk through the individual impacts on proposed tariff changes and obtain feedback.

Accountability

Accountability has been demonstrated through detailed and accurate reporting on all engagement. Detailed feedback from the Independent Members Panel on both the engagement process and the Draft Proposal has been transparently documented and addressed. The majority of RRG meetings have included a “closing the loop” session where Endeavour Energy has identified key areas of feedback from the Independent Members Panel and how it has been addressed or whether it is outstanding for discussion.

Engagement with the Customer Panel and stakeholders via two deep dive sessions included detailed reports from contracted engagement specialists.¹⁵ These reports, along with the results of a quantitative survey¹⁶, have been made publicly available on the [Your Say](#) website, and identify suggestions for improvement as well as what was done well. Endeavour Energy held a “closing the loop” session with the Customer Panel to explain how the Panel’s feedback was taken into account, and Panel participants have been encouraged to stay in touch with Endeavour Energy via regular newsletters and the Your Say website.

Involvement of the executive team throughout the engagement process has also strengthened accountability.

¹⁴ For example, one participant noted “*Not only have Endeavour Energy collected my feedback, but they have gone out of their way to educate and ensure it was an interesting and positive experience to be involved in*”. On the other hand, other participants wanted more time for question-and-answer sessions in smaller groups, reduced technical jargon and presentation packs to be distributed in advance so participants could have more time to absorb the information. See SEC Newgate Australia and Endeavour Energy, *Endeavour Energy Customer Panel, Revenue Reset (2024-2029) Final Report – Waves 1, 2 and 3*, October 2022, pp130-131.

¹⁵ See SEC Newgate Australia and Endeavour Energy, *Endeavour Energy Customer Panel, Revenue Reset (2024-2029) Final Report – Waves 1, 2 and 3*, October 2022 and SEC Newgate Australia and Endeavour Energy, *Endeavour Energy Stakeholder Deep Dives*, August 2022.

¹⁶ https://yoursay.endeavourenergy.com.au/your-power-your-say-your-future/news_feed/quantitative-survey-of-1250-customers-see-what-they-said

Breadth and depth of engagement

Accessible, clear and transparent engagement

Endeavour Energy has worked hard to be open and transparent in the way they engage. As noted above, staff at both the executive level and subject matter experts have been available to meet with the Independent Members Panel as needed. They have also been involved in key aspects of customer and stakeholder engagement.

Generally, the information and materials provided by Endeavour have been clear and transparent. Finding the appropriate level of engagement with different customer and stakeholder groups is always a challenge and Endeavour Energy has responded to our feedback provided along the way as the proposal matured. For example, the Independent Members Panel considered that some of the content presented in Deep Dive was not targeted to the right group of stakeholders. Similarly, feedback from some participants on the Customer Panel suggested the material was overly complex and they needed more time to digest the material. We are confident that Endeavour Energy will take on this feedback and continually improve both for business-as-usual engagement and its approach to the next regulator reset.

We were pleased to see Endeavour Energy re-testing its understanding of community preferences developed in deliberative forums with both the Customer Panel and stakeholders. Endeavour Energy also responded to our feedback to re-test the results of the first two waves of engagement with the Customer Panel following a significant change in external circumstances.

An ongoing challenge for all network businesses is to present potential changes to the distribution network component of the bill while acknowledging other components of a customer's overall bill that are outside of their control. This is particularly challenging in the current context, with wholesale prices significantly increasing over the last few months and expected to increase further into 2023. Increasing interest rates, while not in Endeavour Energy's control, will also impact on the network component of the bill. While Endeavour Energy responded to our feedback to be more transparent about these factors with the Customer Panel, generally we consider more needs to be done to communicate clearly and honestly with customers about energy bills to maintain and build community trust.

Consultation on desired outcomes and then inputs

The Independent Members Panel considers the evolution of Endeavour Energy's engagement has aligned with the expectation that consumers should be consulted on long-term outcomes before considering specific inputs to the Regulatory Proposal. This is demonstrated through the various phases of the research, starting with a *Discover* phase that involved exploratory research about consumer preferences. The *Prioritise* phase, where most of the consumer research was conducted, also focussed on higher-level questions about preferred outcomes in relation to key issues with a longer-term focus, such as reliability, resilience and the future grid.

More detailed discussions on inputs, such as step changes in operating expenditure and analysis of business cases, have generally been confined to the Independent Members Panel. We consider this approach is appropriate given the level of expertise required to provide input on these issues.

Multiple channels of engagement

As explained in Endeavour Energy's Engagement Summary Report, Endeavour Energy has sought to engage with multiple customers and stakeholders across multiple channels. Different engagement methods have been used to elicit feedback from specific groups, including in-language focus groups for the CALD community. We also note the use of a quantitative survey to confirm some of the results from the Customer Panel across a larger number of customers.

The breadth and depth of engagement across these multiple channels has been well considered and well implemented. It has provided Endeavour Energy with ‘pillars of evidence’ across multiple customers and multiple issues.

The challenge has been to bring the evidence together and assess what it means for the Draft Proposal. We consider Endeavour Energy has responded well to this challenge. The Engagement Summary Report provides a comprehensive, clear and readable summary that synthesises all the pillars of evidence in one place. As discussed further in section 3.3, we also consider that Endeavour Energy has transparently considered consumer and stakeholder views in developing its Draft Proposal, and appropriately balanced the views expressed by consumers and stakeholder where these diverge.

Consumers’ influence on the proposal

The benefits of strong engagement have flowed through to Endeavour Energy’s Draft Proposal. While in practice there is a limit to the elements of the proposal that consumers and stakeholders can influence, the links between customer and stakeholder feedback and adjustments to the revenue proposal are clear.

An indication of the consumer influence is the fact that Endeavour Energy convened the RRG regularly, and presented their current position and thinking on a wide range of issues, giving the Independent Members Panel many opportunities to provide feedback prior to moving on.

The changes between the Preliminary Proposal and the Draft Proposal demonstrate that Endeavour Energy has not only listened but taken into account consumer and stakeholder preferences. As noted above, the Independent Members Panel has provided input along the way, and we can clearly identify where our input has influenced the Draft Proposal.

Endeavour Energy has responded to the feedback in our first report by:

1. Presenting a clear distillation of the engagement data in the Engagement Summary Report
2. Clearly linking ‘*what was heard*’ to how Endeavour Energy responded in both the Engagement Summary Report and the Draft Proposal and articulating how they resolved the diverse range of views and expectations that emerged from the broad-reaching engagement.
3. Acknowledging the dynamic and evolving nature of their consumers’ *lived experiences* by re-testing the trade-off questions as part of the wave 3 engagement and committing to conduct an additional phase of engagement after submitting the Draft Proposal to the AER
4. Reframing the concept of affordability through the lens of *value for money*
5. Revising the business narrative to acknowledge and respect the many external cost pressures on consumers, including the impact of rising energy prices and wider economy cost pressures
6. Committing to the challenging expenditure and revenue targets articulated in the Preliminary Proposal, reflecting the need for restraint. This issue is discussed further in the next chapter.

The initial co-design and subsequent review of engagement design between the Independent Members Panel and Endeavour Energy and agreement about levels of engagement has been at the upper end of the IAP2 spectrum criteria.

Clearly evidenced impact

Proposals linked to consumer preferences

We consider that the Engagement Summary Report and Draft Proposal together demonstrate that Endeavour Energy has taken consumer and stakeholder preferences into account. There is a clear link between “what we’ve heard” and “how we’ve responded”.

A good example of where customers have directly shaped outcomes is the development of a new Customer Service Incentive Scheme. Endeavour Energy responded to feedback that the existing measure of telephone calls answered within 30 seconds is no longer meaningful for customers. Two new measures have been developed that more directly relate to issues of key concern for customers – management of planned outages and customer satisfaction.

One of the challenges Endeavour Energy had in conducting such a comprehensive engagement plan is marrying up customer and stakeholder views where these diverge. For questions about resilience, network growth and solar export tariffs, the results were consistent between the Customer Panel and the stakeholders that participated in the “deep dive” sessions. However, views diverged on other questions.

We believe the way Endeavour Energy has balanced differences in preferences for reliability and energy choices is appropriate, particularly in the context of increasing concerns about affordability. Endeavour Energy has focused on lower cost solutions, while targeting funds to areas where they will make the most difference. For example, while most customers preferred improved reliability, albeit at a higher cost, Endeavour Energy is proposing to focus on edge of grid customers where value for money will be highest, noting that the majority of customers are already satisfied with current levels of reliability.

Opinions from the Customer Panel on new connections were split, with 52% preferring “causer pays” and 39% preferring “beneficiary pays”.¹⁷ In contrast, a clear majority of stakeholders preferred a causer pays approach.¹⁸ While we agree with Endeavour Energy’s approach retain the existing causer pays approach, we consider there is room for improvement in the way the options are presented, particularly to the Customer Panel. In particular, the language used to describe the options could be clearer.

Cost reflective network tariffs is also an area where views diverge, and where we consider more thought can be given both on how best to present the options to customers and on the appropriate approach for the Revenue Proposal and Tariff Structure Statement. Customer Panel preferences themselves changed significantly over time, shifting away from mandating the take-up of cost-reflective tariffs for all customers with the necessary technology towards allowing customers to opt-in to cost reflective tariffs where they want to.¹⁹ Stakeholders also had quite varied views, but mandated cost reflective tariffs received the most support (46% of respondents).²⁰

Tariffs are a complex topic and are challenging to explain to customers. This is particularly the case for networks, where there is uncertainty about how those tariffs will be passed through by retailers. We consider Endeavour Energy can build on the experience it has gained from the current engagement process to improve the way in frames future conversations with customers on tariffs. We consider greater focus should be placed on conveying the purpose and outcomes for customers from cost reflective network tariffs, rather than framing it as an enabler for customers to save money where they are able to change their behaviour.

Cost reflective network tariffs are discussed further in the next chapter and will be the subject of a follow-up advice once Endeavour Energy releases their Tariff Structure Statement.

¹⁷ SEC Newgate Australia and Endeavour Energy, Endeavour Energy Customer Panel, Revenue Reset (2024-2029) Final Report – Waves 1, 2 and 3, October 2022, p72.

¹⁸ SEC Newgate Australia and Endeavour Energy, *Endeavour Energy Stakeholder Deep Dives*, August 2022, p17.

¹⁹ SEC Newgate Australia and Endeavour Energy, Endeavour Energy Customer Panel, Revenue Reset (2024-2029) Final Report – Waves 1, 2 and 3, October 2022, p96.

²⁰ SEC Newgate Australia and Endeavour Energy, *Endeavour Energy Stakeholder Deep Dives*, August 2022, p21.

Independent consumer support for the Draft Proposal

Overall, the Independent Member Panel considers that Endeavour Energy's Draft Proposal is on the right track. We believe Endeavour Energy has approached its engagement in an honest and open way, and that this has positively influenced the Draft Proposal. We look forward to seeing how Endeavour Energy reflects any further feedback in the proposal that it submits to the AER. Based on our engagement with Endeavour Energy to date, we are confident we will be able to support the final proposal.

We note that Endeavour Energy has engaged a third party to conduct a review of their engagement process and support the review.

Recommendations

We note that Endeavour Energy has taken on board our previous recommendation to continue testing customer and stakeholder views beyond September 2022. Beyond the additional Phase 5 *Confirm* stage, we have the following recommendations for the remainder of the 2024-29 reset:

- a) Continue to implement the engagement plan as agreed with the Independent Members Panel.
- b) Monitor the external environment for changes that may impact customer and stakeholder views on the Draft Proposal and consider whether the engagement plan needs to be consequently amended. This includes issues that may impact customers' energy bills, such as wholesale costs and the NSW Roadmap, as well as economy-wide issues that may impact customers' ability to pay their bills, such as cost-of-living pressures. A trigger point will be the AER's publication of the draft Default Market Offer in February 2023.
- c) Continue to discuss the evolution of the engagement plan with the Independent Members Panel.

For the next revenue reset, we encourage Endeavour Energy to undertake a comprehensive post-implementation review (PIR) to consider the feedback provided by the Customer Panel and stakeholders, as well as reflect on what aspects of the engagement plan worked well and what could be improved. Endeavour Energy has built a good base from which it can continue to adapt and refine the engagement approach and materials.

In particular, the Independent Members Panel recommends further consideration be given to:

- The appropriate audience to test complex questions and issues
- How materials can be simplified, particularly for the Customers Panel but also for stakeholders, particularly in respect of tariffs.
- Providing materials in advance to provide sufficient opportunity for customers and stakeholders, as well as the Independent Members Panel, to review and absorb complex issues.
- Consider the appropriate balance between cost and comprehensiveness of engagement, and whether ongoing BAU engagement will help support a reduced need for such extensive engagement in future.

We also note that Endeavour Energy has flagged an intention to embed its improved engagement framework into its business-as-usual processes. We wholeheartedly support this intention. For example, we believe that Endeavour Energy can build on the 'green shoots' of its improved CALD engagement to a more holistic, authentic interaction that forms part of its ongoing business operation.

4 ENDEAVOUR ENERGY'S DRAFT PROPOSAL

The Independent Members Panel commends Endeavour Energy for its commitment to stay within the parameters of the early signal pathway agreed with the AER and its focus on affordability and providing its customers with value for money. We support Endeavour Energy's restraint in areas such as deciding not to escalate labour and materials costs and its conservative approach to justifying expenditure in relation to distributed energy resources. The Draft Proposal clearly sets out how consumer and stakeholder feedback has influenced relevant elements of the proposal.

Areas of continuing development of consumer insights

There are several areas where we believe further work is required for Endeavour Energy to refine their position:

a) Continue to refine the approach to network resilience and the impact of climate change

The recent severe weather impacts of bushfire, flood and extreme weather has heightened the awareness and expectations of many communities in Endeavour Energy's supply area to the influence of climate change and the likely increased risks to a safe and reliable electricity supply. Endeavour Energy has responded in their Draft Proposal in a relatively low-key, balanced manner.

Whilst we support the moderate increase in expenditure to address the communities most at risk and encourage the role of the proposed innovation framework to further investigate and refine an appropriate community-focussed response, we also support further development of tools to meaningfully assess the impact of Major Event Days (MEDs) and Widespread and Long Duration Outages (WALDOs) in assessing the true reliability of power supply to consumers and the ultimate impact to communities under stress.

b) The continued development of efficiently integrating Distributed Energy Resources and addressing falling network utilisation

There is more to be done in the way Endeavour Energy can support and optimally interact with consumers who choose to adopt renewable energy generation, energy storage, electric vehicles and other aspects of the electrification journey. We believe that in this Draft Proposal Endeavour Energy has taken a balanced approach, informed by their consumer engagement. We look forward to further engagement on the DER business case, in particular any expansion of the customer export curtailment value (CECV) from the AER's approach that would include environmental benefits and avoided network investment. We do not support the use of a higher value based on avoided network investments and await to see how environment is incorporated into the NEO to comment on the inclusion of environmental costs. There is an opportunity for Endeavour to further clarify the integration of the many components of DER work, including tariff incentives for customers, updated forecasts and a focus on the optimal utilisation of the energy network.

c) Articulate a wide-ranging strategy of network pricing

This report was compiled before Endeavour Energy released its network pricing Tariff Structure Statement. Endeavour Energy has informed us on the progress of development of their key tariffs and has engaged with consumers on the intent of some of the primary residential network pricing.

We believe that there is more work that needs to be done in explaining the tariff development in the context of network utilisation and investment drivers, customer incentives to adapt to new energy sources and how new tariffs will be delivered. We are also keen to see the detailed view of the development of tariffs and pricing for energy export services, embedded networks and electric vehicle charging.

Operating Expenditure

(All figures in the sections below are \$FY24 unless otherwise stated)

Table 1 below summarises opex expenditure trends in \$m:

	2019-24		2024-29		comparison			2024-29	
	Allowance	Forecast	Preliminary Plan	Draft Plan	Plan v allowance	Plan v forecast	Plan v forecast	Preliminary Plan (with DRC)	Draft Plan (with DRC)
Draft (in Draft FY24 terms)	1,664	1,296		1,415	-15%	119	9%		1,434
Prelim (in prelim FY24 terms)	1,631	1,253	1,393		-15%	140	11%	1,411	

Table 1: Operating cost (opex) trends for Endeavour Energy (source: RRG)

DRC = Debt raising costs

While the Draft Proposal is lower than the current period allowance, it is 9% higher than current period forecast with a portion of that coming from step changes including capex to opex. We leave the AER to assess the efficiency of the base year (2022/23) but expect that it will be deemed 'not materially inefficient'.

There were two outstanding issues from our previous submission - step changes and opex productivity.

Step changes

The Preliminary Plan identified five step changes for further analysis – insurance, Security of Critical Infrastructure (SOCl- cyber), DER enablement (rooftop solar exports), demand management contracts and GSL payments with a placeholder total of \$57m.

Subsequently two further step changes were considered – SaaS driven by accounting treatment where what was previously capex is now opex and capex/opex trade-off for DER enablement. Further analysis of these led to a significant increase in the total step change cost to a range of \$107-215m.

Endeavour Energy correctly recognised that this level of cost pass through would not be supported by customers and engaged with the RRG to develop a 'constrained view' of what might be acceptable. This led to the Draft Proposal proposed \$67m in step changes. We consider the engagement process on these matters was very informative and transparent. In the deep dive on insurance, we were presented with data on the recent dramatic change in the insurance market that is facing not only all networks, but all businesses. A range of options was considered, and detailed analysis provided on the pro and cons of each.

Endeavour Energy decided not to include a step change relating to new GSL levels to apply from 1 July 2025. We discuss SOCl more below as it includes capex and opex elements.

We leave the AER to assess whether the proposed step change amounts are prudent and efficient.

Productivity

In our submission on the Preliminary Proposal, we said we would seek further discussions with Endeavour Energy on whether the opex productivity factor should be greater than the mandated 0.5%/yr. We conclude that the strong productivity gains in the current period which provide the base for 2024-29 plus the overall approach on step changes means the overall opex proposal does already include considerable improvement on what could have been argued for in 2024-29.

Alignment with AER expectations

Our assessment of the alignment of Endeavour Energy’s opex approach with the expectations of the Better Reset Handbook are shown in Table 2 below.

Expectations	Comments
Opex forecasting approach	Endeavour Energy is using the ‘base step trend’ approach consistent with the AER’s expectations.
Base opex	We expect the AER to confirm Endeavour Energy’s view that the base year is ‘not materially inefficient’ and note that the AER’s draft decision will be subject to updates for FY23 actuals.
Trend	Endeavour Energy’s Draft Proposal adopts the AER’s standard approach to trend factors, including price growth, output growth and productivity.
Step changes are limited to a few ‘well justified ones, or none at all’	Well-run deep dives on the major issues, especially insurance, gave the Independent Members Panel confidence that these changes were being well considered by Endeavour Energy and we welcome the final ‘constrained view’ approach. We leave it to the AER to assess whether the proposed costs are ‘prudent and efficient’.
Category specific forecasts limited to the same categories in previous AER decisions	The Independent Members Panel does not propose to review these in detail, and instead will rely on AER methodology for calculations
Genuine consumer engagement on forecasts	We believe that has occurred to support the Draft Proposal. As we say elsewhere in this submission, further engagement will be required in 2023.

Table 2: Alignment of the preliminary proposal with AER expectations - opex (Better Reset Handbook)

Capital expenditure

Current period forecast capex has increased from \$1,936m in the Preliminary Plan. In our submission on the Preliminary Plan, we discussed the significant improvements in Endeavour Energy’s capex governance framework and talked about the robust repx framework.

Table 3 below summarises capex expenditure trends in \$M:

2019-24		2024-29	
Allowance	Forecast	Preliminary Plan	Draft Proposal
\$2,003	\$1,993	\$1,825	\$1,882
<i>Compared to 2019-24 forecast:</i>		-8%	-6%

Table 3: Capital investment (capex) trends for Endeavour Energy (source: RRG)

This is based on a combination of ‘top down’ (to provide a network wide overview of the forecasted asset replacement volumes and expenditure) and ‘bottom up’ (applying the AER repx guidelines and the

Endeavour value and risk framework through rigorous cost benefit analysis to better understand what is required in each asset class) lenses. This provides a much better view of the balance between proactive and reactive asset intervention based on the balancing of asset risk, cost of intervention and benefit to the customer.

Our comments on 'Alignment with AER expectations' noted that:

- a) Proposed capex was similar to the current period forecast,
- b) There was evidence of prudent an efficient but that we were planning more deep dives to gain a more comprehensive view
- c) We were going to put more focus on resilience capex
- d) Evidence suggested alignment with asset and risk management standards and there was genuine consumer engagement on the capex proposals

Since then we have undertaken a range of deep dives on sample capex projects. We provide a summary of our conclusions below.

Information and Communication Technology (ICT)

We examined two aspects:

a) The major overrun in current period expenditure on the Optimus programme

ICT expenditure in the current period is a significant increase on previous periods and that forecast for 2024-29. In the current period forecast expenditure is \$(18/19)292.7m compared with an AER allowance of \$(18/19)91.2m. Forecast expenditure in 2024-29 is \$129m, a \$178m or 58% decrease on the current period.

The main contributor has been the significant cost overrun for the Optimus Programme, a core SAP business transformation platform that:

"...provides Endeavour Energy with a foundational platform to consolidate systems of record for operational and customer facing purposes, mitigate business continuity risk while having a stable system capable of handling market rule change"

We went through in detail the post implementation review conducted by Deloitte. It indicated a poorly developed business case in 2018 led to a pause to re-evaluate the project in 2019. A new business case was developed in 2020 based on a revised scope and architecture, governance, delivery model and vendor. The actual delivery costs in 2022 are \$31m or 9% lower. Benefits are now accruing faster than forecast in the 2020 business case.

Apart from Optimus, two other major ICT investment programmes – ADMS and Security Improvement Programme – have been undertaken in the current period to address most of the legacy ICT environment within Endeavour Energy and establish a platform for further modernisation of ICT assets.

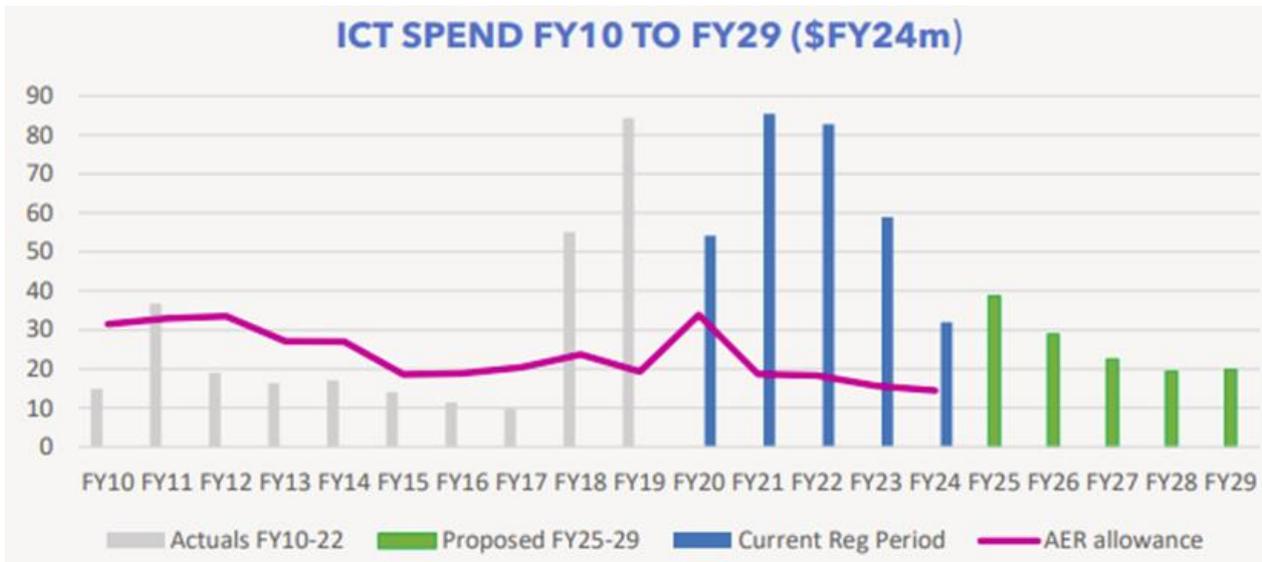


Figure 3: Endeavour Energy ICT spend FY10 to FY29

b) How the ICT spend in the current period provides a benefit in 2024-29

Following discussion of the large overrun in ICT capex in the current period, the Independent Members Panel sought further information on how consumers would gain the benefits of this much higher ICT capex in the current period with lower capex in 2024-29. This was provided in a further deep dive. Savings covered FTE reduction (two thirds of the benefits), higher quality data from the Enterprise Asset Management (EAM) contributing to field productivity, optimisation of asset maintenance and improved capital planning; risk avoidance and technology savings.

We discussed the key initiatives taken by Endeavour energy within the corporate Investment Management Framework to improve governance e.g. new value framework and use of Copperleaf investment prioritization tool, bringing a customer focus, benefits realization plan and register, establishment of a Project Management Office and appointing change champions. We came away having confidence that the risk of a repeat of the current period cost blowout is significantly lower.

Repex and Augex

We did a deep dive on HV distribution switchgear risk failure mitigation as a representative repex project. The discussion had a particular focus on modelling methodology e.g.

1. Run to failure risk costs – how the PV of the residual risk was calculated for the four risk categories of safety, reliability, financial and reactive capital replacement costs
2. Capital costs sensitivity calculations in the three scenarios and how that impacts on NPV
3. Modelling assumptions – selection of WACC and evaluation period and calculation of VCR values

The representative augex project was to increase the capacity of the electricity supply to the Badgery’s Creek Development area. The discussion again had a particular focus on the modelling, for example how the base case was measured, VCR value, period of calculation and WACC and the level of customer contributions.

Our overall conclusion was that the two projects provided practical evidence of the robust capex planning and evaluation process used by Endeavour Energy.

There were several categories of expenditure where the majority of Customer Panel participants and stakeholders indicated they would be comfortable with additional capex above what was proposed in the Preliminary Proposal.

For example:²¹

- 66% of participants on the Customer Panel supported long-term improvements in service outcomes at a higher cost
- 75% of participants supported a more proactive approach to maintaining network services in the face of major weather events and at an increased cost to customers
- 52% of participants supported Endeavour Energy planning for an accelerated energy transition at a slightly higher cost

Most stakeholders participating in the Deep Dive sessions also supported a more proactive approach to resilience at a higher cost, and 64% supported planning for a rapid energy transition – the most expensive of the four approaches to “future energy choices” presented.²²

We commend Endeavour Energy for maintaining a focus on affordability and value for money and identifying alternative opportunities to deliver consumer preferences without significant additional expenditure.

Resilience

The engagement program revealed a strong sense of community mindedness amongst customers and a consistent desire to minimise the impacts of weather-related events across the Endeavour Energy supply area. Indeed, final customer preferences from the Customer Panel suggested taking a more proactive approach to improve network resilience in the face of increasing climate change and weather risks should be a key priority within regulatory proposal.

In line with customer feedback, Endeavour Energy has proposed a modest investment of \$28M to address improved resilience through a combination of network hardening and providing back-up power to critical infrastructure and community hubs.

We support this constrained approach, noting that Endeavour Energy already has significant programmes to address bushfire risk and most weather-related network impacts.

There remains a lot of work in front of Endeavour Energy should climate-related weather risks be shown to increase. Greater planning, communication and integration and partnerships with communities will be required, but not immediately.

We commend the Endeavour Energy innovation framework as a possible vehicle to develop as more robust and consumer-focussed response to climate-related risks.

An innovation framework

We strongly support the development of an innovation fund of \$25m for technology related innovation investment. However, we consider more detail should be provided in the Revenue Proposal on the governance structure for the fund. We recommend that an innovation committee be established, including customer representatives, that is tasked with co-designing how projects are selected, how they are assessed etc. This will provide both an appropriate level of oversight and ongoing engagement with, and influence of, customers.

We are keen to work with Endeavour Energy on the design of such a joint oversight framework.

²¹ See SEC Newgate Australia and Endeavour Energy, Endeavour Energy Customer Panel, *Revenue Reset (2024-2029) Final Report – Waves 1, 2 and 3*, October 2022.

²² See SEC Newgate Australia and Endeavour Energy, *Endeavour Energy Stakeholder Deep Dives*, August 2022.

Distributed Energy Resources

As noted above, the Independent Members Panel supports Endeavour Energy's approach to DER integration and enablement, and we look further to engaging further on how the customer export curtailment value is calculated and used.

We also note the AER's current work on establishing the appropriate incentives and benchmarking on providing an efficient export service that meets consumer needs. We encourage Endeavour Energy to use the results of the engagement to date in support of their position, and consider further engagement to ensure that any incentives are appropriately target to meet consumers' reasonable and informed expectations.

Cyber security

The Federal Government's Security of Critical Infrastructure legislation covers the requirements for resilience of critical infrastructure including electricity networks.

Recent events related to Optus and Medibank Private have focused consumer interest on how networks will ensure they are prepared for cyber risks. We note that the major cyber risk to networks is around network operations, rather than the security of customer details, though they are still important. Endeavour Energy's network has been declared as a system of national significance, making it subject to enhanced cyber security obligations.

The Draft Proposal has discussed two components for cybersecurity:

- Capex of \$72m based on meeting existing licence conditions, and
- An opex step change a preliminary estimate of \$25m to \$48m to meet compliance obligations

Requirements under SOCI is a fast-moving story with recent events likely to lead to more specific obligations in the near future. Endeavour Energy has included the capex estimate, but not the opex estimate, in the Draft Proposal. It will engage further with the Customer Panel and the RRG in 2023 and we look forward to participating in this.

Capex productivity

In our last submission we discussed Endeavour Energy's relative performance against other DNSPs using the AER benchmarking and utilisation data.

In examining the more relevant long-term trends we noted overall DNSP MTFP was in long term decline until around 2015. The improvement since then has been due to a significant improvement in opex productivity while capex productivity has continued to decline. Endeavour's performance mirrors these overall trends – the improvement in absolute and relative productivity since 2016 has been driven by improved opex productivity offsetting a continued fall in capex productivity. In 2020 Endeavour was 4th in opex productivity (10th in 2016) and 6th in capex productivity (4th in 2016). We sought further engagement on how to improve capex productivity.

Since then, the engagement discussed above on repex and augex provided a good insight into what improvement Endeavour Energy is bringing to its capital productivity. Given the long asset life, a network must bear (and consumers must pay) for past investment decisions for a long time. The large capex increases from 2008-2012 will take a long time to work their way through the depreciation machine. The key to improving capex is to improve the evaluation rigor for capex to get into the RAB in the first place.

As we noted above, Endeavour Energy is making important improvements to do just that. Then the exercise of significantly reducing the output of the bottom-up exercise to the final proposal shows a much greater focus on the capex spend being as efficient as possible which is even more important in the coming years given the changing external environment on energy cost and general inflationary pressures.

The final aspect to note is the approach to cost escalation. Endeavour Energy is applying the standard ‘average of two consultants’ approach for labour. There is no proposed increase for materials and land which is again the standard AER approach, but will require careful management given current and expected supply chain pressures over the 2024-29 period.

Alignment with AER expectations

Expectations	Comments
Top-down testing of the total capital expenditure forecast and at the category level	Proposal has a 6% reduction compared with the forecast in the current period.
Evidence of prudent and efficient decision-making on key projects and programs	Range of deep dives on assessment methodology in general and then applied to a representative range of projects across capex categories gives us confidence on the proposal appears reasonable but it is up to the AER to assess whether the proposed capex is prudent and efficient.
Evidence of alignment with asset and risk management standards	Information from the range of deep dives provides evidence of alignment.
Genuine consumer engagement on capital expenditure proposals	Engagement with the Customer Panel and stakeholders on key issues contributing to capex, including expenditure to support reliability, resilience and DER. Engagement with the Independent Members Panel on more detailed aspects of the capex proposal through multiple mini deep dive sessions on specific topics.

Table 4: Alignment of the preliminary proposal with AER expectations - capex (Better Reset Handbook)

Regulatory depreciation

There is no change from our position in the previous report.

Alignment with AER expectations

Expectations	Comments
Regulatory depreciation recovered evenly over an asset’s useful life with accelerated depreciation in only limited circumstances e.g. where asset life is shortened by Government legislation	We note that Endeavour Energy has applied the standard straight-line depreciation approach and standard asset lives approved by the AER in previous periods.

Table 5: Alignment of the preliminary proposal with AER expectations -depreciation (Better Reset Handbook)

Incentive schemes

We support the continued application of the current incentive schemes – STPIS, EBSS, CESS and DMIAAS.

As discussed in the previous chapter, Endeavour Energy undertook significant engagement with the RRG and limited engagement with the Customer Panel to develop a Customer Service Incentive Scheme (CSIS). This is to replace the current telephone answering component of the STPIS where 0.5% of revenue is at risk.

This involved:

- Drawing on the outcome of the voice of customer surveys on what was important - communications about unplanned outages, accuracy of outage reports and tracking of ‘felt experience’
- RRG views – measure something practical and significant (already doing), measure most important components of customer satisfaction surveys and focus on the numbers

We support the two measures proposed – management of planned outages and customer satisfaction.

Innovation allowance

There is a proposed Innovation allowance of \$25m - \$20m capex and \$5m opex. This fund will be excluded from the Capital Efficiency Sharing Scheme (CESS) and operate in a similar manner to the Demand Management Innovation Allowance (DMIA) with oversight from a newly constituted customer reference group. It will cover trials for new technology with a particular focus on resilience and DER enablement.

We support the establishment of this initiative. The Draft Proposal outlines some high-level governance aspects e.g. quarterly reporting to a new PCSC sub-Committee, annual public disclosure of projects with a focus on key learnings, a ‘use it or lose it’ mechanism where underspend is returned to customers.

We look forward to further discussions in 2023 on governance details.

Network Tariffs

Endeavour Energy has proposed several amendments to its tariff strategy to shift towards more cost reflective network tariffs (CRNT) for both load and exports, and better align embedded network tariffs.

While Endeavour Energy has engaged on some of the conceptual elements of tariff design, we have not yet seen a draft of the TSS. At this stage, we consider that we do not have sufficient information to meaningfully comment on Endeavour Energy’s approach to tariffs, except for public lighting which is discussed below.

We propose to provide a supplementary note to provide our views on Endeavour Energy’s approach to tariffs in response to the draft TSS when it is published.

Public lighting tariffs

Councils have participated at the Endeavour Energy Local Government – Illawarra, South Coast & Southern Highlands online workshop on Wednesday 25 May 2022. An in-person Local Government Workshop - Greater Western Sydney, followed on Thursday 2 June 2022. The need to conduct Local Government specific workshops to identify the issues that matter most to local councils was essential to recognize the issues of concern, which included street & smart lighting, vegetation management and sustainability (incorporating resilience and innovation) initiatives. This resulted in Endeavour Energy being informed from Councils’ perspective regarding what is working well, and which areas of their interactions could be improved.

On the 10 October 2022 a further workshop was conducted by Endeavour Energy with Councils on the proposed public lighting tariffs over the 2024 – 2029 Regulatory Period. The discussion and briefing included:

- an update of the LED lighting upgrade program
- an overview of the proposed new public lighting tariff model
- case studies illustrating the impacts of the new model on major metropolitan councils, large regional councils and small regional councils
- insight into how Endeavour Energy plan to advance pricing for smart technologies, and
- advice about the next steps in Endeavour Energy’s engagement with Councils (both individually and collaboratively), with the offer to meet individually to look at their specific cases.

It is pleasing that Endeavour Energy is utilising a consistent lighting model favoured by the AER which has the benefits of cost reflective component pricing, simplified network charging schedules, and a reduced number of (185 fewer) tariffs. Three tariff Council (large metropolitan, medium and small regional) case studies were presented with savings projected to be between 3 – 4%. The simplified pricing structure was well received, and the opportunity given to Councils to meet with Endeavour Energy and discuss the proposed tariff model as it pertains to their local government area was welcomed. However, it was made clear to Endeavour Energy that as there will be no non-LED street lights by 1 July 2024, the focus must be on smart lighting and how that technology should be immediately available with the LED street lights installed, and not retrofitted after the event.

In summary, we believe that Endeavour Energy have responded to council preferences to have simpler tariffs, cost reductions and quicker uptake of new technologies, and have offered to engage one on one so individual councils can understand the impact on them

Alignment with AER expectations

Expectations	Comments
Progression of tariff reform consistent with the network pricing objective and pricing principles set out in the Electricity Rules	To be addressed following the publication of the draft TSS.
Incorporation of its tariff strategy in its overall business plan	
Demonstration of significant stakeholder engagement and broad stakeholder support	
Insight into and management of any adverse customer impacts.	

Table 6: Alignment of the preliminary proposal with AER expectations – Tariffs (Better Reset Handbook)

APPENDIX 1 – ACRONYMS AND ABBREVIATIONS

Acronym/Abbreviation	Meaning
\$ nominal	These are nominal dollars of the day
real \$FY24	These are dollar terms as at 30 June 2024
Next regulatory control period	the period commencing 1 July 2024 and ending 30 Jun 2029
Current regulatory period	1 July 2019 to 30 June 2024
ACS	Alternative Control Service
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ARR	Annual Revenue Requirement
Augex	Augmentation expenditure
CALD	Culturally and Linguistically Diverse
CAM	Cost allocation method
capex	Capital expenditure
CBD	Central business district
CCP	Consumer Challenge Panel
CECV	Customer Export Curtailment Value (refers to DER exports)
CESS	Capital efficiency sharing scheme
CIM / CRM	Customer Information / Relationship Management
CPI	Consumer Price Index
CRNT	Cost-reflective network tariff
CSIS	Customer Service Incentive Scheme
DER / CER	Distributed energy resources / Customer Energy Resources
DB / DNSP	Distribution Network Service Provider
DM / DR	Demand Management / Demand Response
DMIA	Demand Management Incentive Allowance
DMIAM	Demand Management Innovation Allowance Mechanism
DMIS	Demand Management Incentive Scheme
DUOS	Distribution Use of System
EBSS	Efficiency benefits sharing scheme
ECA	Energy Consumers Australia
EDPR	Electricity Distribution Price Review
EV	Electric Vehicle

F&A	Framework and Approach
GSL	Guaranteed service level
GWh	gigawatt hours
HV	High voltage
ICT	Information and Communication Technologies
LED	Light emitting diode (refer: Street lighting)
LRMC	Long Run Marginal Cost
LV	Low voltage
MW	megawatt
MTFP	Multilateral Total Productivity Factor (for benchmarking)
NEL	National Electricity Law
NEO	National Electricity Objective
NER	National Electricity Rules (or Rules)
Opex	Operating and Maintenance Expenditure
PTRM	Post-tax revenue model
PV	Photovoltaic (Solar PV)
RAB	Regulatory Asset Base
RBA	Reserve Bank of Australia
Regulatory Proposal	regulatory proposal submitted under clause 6.8 of the NER
Repex	Replacement capital expenditure
Revised Regulatory Proposal	revised proposal submitted under clause 6.10.3 of the NER
RFM	Roll Forward Model
RIN	Regulatory Information Notice
RRG	Endeavour Energy's Regulatory Reference Group
SAAS	Software as a Service (provided by an external service)
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SCS	Standard Control Service
SOCI	Federal Security of Critical Infrastructure Act 2018 (the SOCI Act)
STPIS	Service target Performance Incentive Scheme
TSS	Tariff Structure Statement
TUOS	Transmission Use of System
VCR	Value of Customer Reliability
WACC	Weighted Average Cost of Capital (also known as Rate of Return)