

# ENDEAVOUR ENERGY REGULATORY RESET GROUP (RRG) INDEPENDENT MEMBERS' PANEL

Advice to Endeavour Energy following the release of the  
Preliminary Positions Paper (the *Preliminary Proposal*)

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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.

## 1 INTRODUCTION AND CONTEXT

Endeavour Energy has the challenge of operating the electricity distribution network in one of the fastest growing regions in Australia. Covering Sydney's Greater West, the Blue Mountains, the Southern Highlands, the Illawarra and the South Coast regions of NSW. The region is experiencing significant residential, commercial and industrial growth at a time of unprecedented change in the electricity industry and customer expectations for the electricity network.

In preparing for the upcoming revenue reset for the 2024-29 period, Endeavour Energy has undertaken to intensely listen to its remarkably diverse customer base to guide the priorities and approach of the revenue submission it will make to the Australian Energy Regulator (AER) in January 2023. This critical commitment is made at a time when the electricity industry, and the needs of energy consumers, is in sharp focus. The impact of climate change increasing severe weather events has hit many Endeavour Energy customers extremely hard in the last couple of years. The desire of customers to support and play their part in the transition to a low-carbon future, a seismic shift in how energy is generated and therefore used, and the rising cost of energy in overall challenging economic times are all front of mind for energy consumers, large and small.

Endeavour Energy began its engagement journey in March 2021 with the establishment of the Regulatory Reference Group (RRG). It is a sub-committee of the Peak Customer and Stakeholder Committee (PCSC) and includes both senior Endeavour Energy employees and a panel of independent members of the PCSC (the Independent Members Panel). The RRG was established on a principle of co-design in which the Independent Members Panel and representatives of Endeavour Energy work collaboratively on the development and implementation of the engagement plan and the development of the Endeavour Energy 2024-29 revenue proposal. The RRG regularly reports back to the PCSC, ensuring all members of the PCSC remain informed of its work, and are afforded opportunities to influence and contribute to engagement as the regulatory proposal is developed.

In May 2021, the newly formed RRG, together with Endeavour Energy executives and directors met to co-design an engagement plan. It set the course for an unprecedented commitment by Endeavour Energy to consult its customers and stakeholders as to what is important in the emerging energy landscape and invite them to play an influential role in Endeavour Energy's plans – not only for the regulatory reset but in the longer-term strategy of the company.

In December 2021 Endeavour Energy applied to be assessed according to the newly developed AER Better Resets Handbook Early Signals Pathway<sup>1</sup>. In January 2022 it was selected as one of two networks to be the inaugural participants in the process<sup>2</sup>. This requires Endeavour Energy to commit to several features of its engagement and regulatory proposal around consumer engagement and building block revenue. In return the AER committed to providing early feedback on whether the proposal may be capable of acceptance based on those features. Endeavour Energy's co-designed engagement plan, which has been adapted to meet the Better Resets Handbook requirements, has demonstrated a willingness to invest in a broad range of aspects of engagement, including quantitative customer surveys, deep dives and regular use of a customer panel to meet the AER's requirements.

Endeavour Energy will be presenting four separate proposals over the course of its 2024-29 revenue reset which show the longer-term consumer centric focus of the company – Preliminary Proposal (April 2021), Draft Proposal (October 2022), revenue proposal to the AER (January 2023) and revised revenue proposal

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<sup>1</sup> See <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/better-resets-handbook-towards-consumer-centric-network-proposals>

<sup>2</sup> See <https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/better-resets-handbook-towards-consumer-centric-network-proposals/expressions-of-interest>

to the AER (December 2023). The Independent Members Panel of the RRG will prepare a report on each of these documents.

This report focusses on the Preliminary Proposal together with subsequent consumer engagement leading up to the Draft Plan, in particular the breadth and depth of engagement, what Endeavour Energy considers it has heard from that engagement and how the results are guiding the content of the proposal itself. The objective of this report is to assist Endeavour Energy to refine the next steps in the reset journey; not only to develop a regulatory proposal that fairly represents the needs and expectations of their community, but also to inform Endeavour Energy's longer-term strategic customer focus.

We wish to acknowledge the willingness of Endeavour Energy staff at all levels to actively engage with the Independent Members Panel, to facilitate detailed discussions with subject matter experts, to provide a process to enable members to fully understand all aspects of the proposal and to accept our many challenges. We would particularly highlight the continued active participation of the Endeavour Energy senior leadership team and Board members in our discussions. Their considerable time commitment is most welcome. There were many active debates that we believe enhanced understanding and the quality of the *Preliminary Proposal* and will make the same contribution to the Draft Proposal.

### The Regulatory Reference Group (RRG) Independent Members Panel

The RRG Independent Members Panel (IMP) comprises nine members and operates with a high degree of independence and autonomy, meeting regularly both as a group and with the entire RRG to fulfil a role of active review, informed input and guidance, and rigorous challenge in representing the interests of Endeavour Energy's many diverse consumer cohorts ranging from residential, small business, large commercial and industrial, local councils, indigenous and the cultural and linguistically diverse. The Panel's objective is to drive engagement that demonstrates a *consult, involve* and *collaborate* level of engagement with consumers and the community wherever appropriate, not only in the co-design process and but, as needed, in all aspects of the preparation of the regulatory reset proposal. We were selected to provide significant economic, engineering, policy, social and engagement expertise.

Several RRG members participated in the previous 2019-24 revenue reset and have brought to the current task a wealth of knowledge as to how the business operates. The other members have been able to familiarise themselves with Endeavour Energy's operations through an extensive series of briefings and meetings, starting with the engagement codesign work over twelve months ago. An advantage of the joint Endeavour Energy / independent panel structure means that there is many opportunities to understand the nuances and detail of Endeavour Energy's strategy, challenges and opportunities.

The independent panel has regular and effective access to Endeavour Energy staff, including their content experts and, through the RRG, the Endeavour Energy executive management team and several directors.

The membership of the RRG Independent Members' Group is:

- Mike Swanston, Independent Customer Advocate (independent panel coordinator)
- Mark Grenning, Energy Users Association of Australia
- Doug McCloskey / Jan Kucic-Riker (from June 2022), NSW Public Interest Advocacy Centre (PIAC)
- 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
- Elisabeth Ross, Independent Customer Advocate (joined May 2022)

Whilst the RRG panel scope does not include commenting on broader energy industry matters, it is inescapable that they consider the impact of the changing wider economic environment and energy market seen by customers. As cost pressures increase, both in the electricity bill and the wider economy – recognising that these are essentially out of the control of Endeavour Energy – we continue to bring to the RRG the total interests of customers.

We are passionate that everything Endeavour Energy does should represent value for the energy consumer.

### Regulatory Reference Group (RRG) Terms of Reference <sup>3</sup>

The RRG has been established on a principle of co-design; in which independent members of the RRG and representatives of Endeavour Energy work collaboratively on the development and implementation of the engagement plan and the development of the Endeavour Energy 2024-29 Revenue proposal.

This commitment to the principle and practice of co-design however shall not infringe the autonomy of the independent members, who represent peak stakeholder organisations and consumers at large; and who are expected to report separately to the AER on the Endeavour Energy proposal, and Endeavour Energy's engagement program.

The RRG is subject to the objectives and procedures of the Peak Customer & Stakeholder Committee Charter. The PCSC representatives ('Independent Members'), acting in an advisory capacity, perform the following roles throughout the development of the Revenue Proposal:

1. representing the long-term interests of Endeavour Energy customers
2. co-designing of the engagement program
3. participating as key stakeholders in the Revenue Proposal engagement; and,
4. challenging Endeavour Energy throughout the development of its' 2024-29 Revenue Proposal both on its proposal and the engagement program.

The Independent Members will prepare four independent reports:

- on the Preliminary Positions paper (this report)
- on the Draft Plan
- on the Regulatory Proposal
- on the AER Draft Decision and Revised Revenue Proposal

These reports will comment on how the engagement process has influenced the Plan/Proposal, highlighting areas of agreement and disagreement and how Endeavour Energy responded to the challenges that were presented with during the reset process.

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<sup>3</sup> The complete terms of reference is available from [Endeavour Energy RRG Terms of Reference](#)

## 2 A SUMMARY OF THE ENGAGEMENT AND RECOMMENDATIONS

In April 2022, Endeavour Energy, as part of its preparation for the 2024-29 Regulatory Reset, published its *Preliminary Proposal*, the first in a series of four proposal documents committed to under the engagement plan agreed with the Independent Members Panel in August 2021, which also serves to meet their subsequent commitments to the Australian Energy Regulator’s (AER) Early Signal Pathway process.<sup>4</sup>

This first document is not a requirement under the Early Signal Pathway. However, Endeavour Energy has elected to issue the *Preliminary Proposal* as ‘a peg in the sand’ to inform customers and stakeholders on the progress of the preparation of the regulatory proposal, noting the findings of the engagement so far, and to provide an initial look at the expected components of the proposal including early aggregate building block expenditures.

Endeavour Energy describes the document as a “key milestone in the engagement program, bringing together the ‘discover’ and ‘explore’ phases.” As this report is being written three months after the release of the Preliminary Proposal, we can also consider the next ‘prioritise’ stage of engagement. See Figure 1 below.

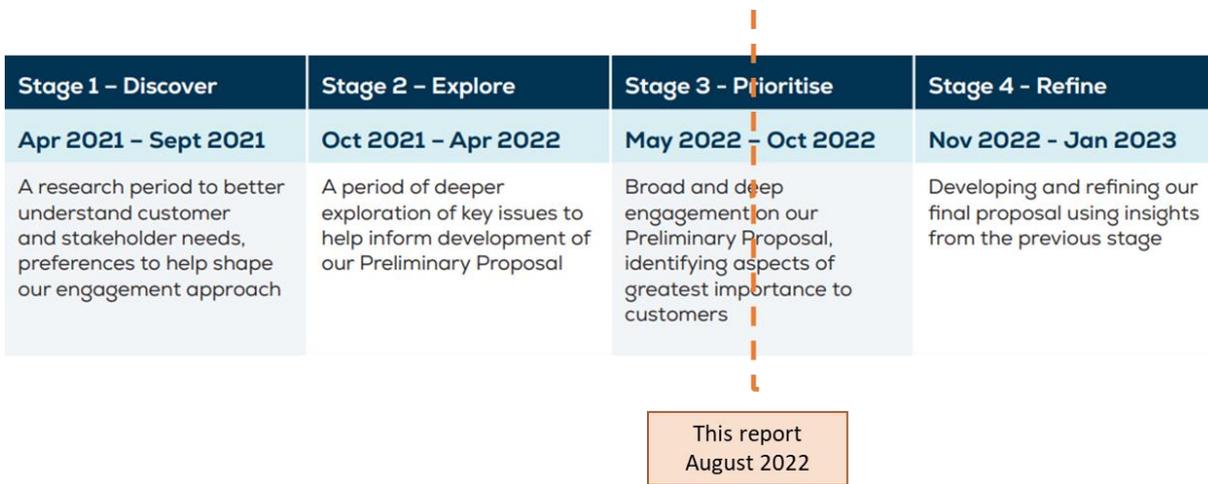


Figure 1: Phases of the Endeavour Energy Customer Engagement

We examine how consumer engagement has shaped the proposal so far, and how Endeavour Energy is responding to the challenges from the Independent Members Panel and other segments of their diverse community and energy customers. It also provides advice to Endeavour Energy on how its upcoming engagement and interpretation of community needs may be adapted and prioritised.

The intention of this report is to assist Endeavour Energy in the next steps of the preparation of their Draft Proposal by identifying any gaps or shortcomings in their engagement to date and to help identify any issues that will benefit from deeper or more extensive engagement.

Whilst we do comment on key commercial aspects of the *Preliminary Proposal* itself, we recognise that the numbers in the *Preliminary Proposal* are just that – preliminary. Given the Draft Proposal will have much more detail on expenditure plans, our next report on the Draft Proposal will look at these matters in more detail.

### 2.1 Considering Endeavour Energy’s Customer Engagement

Our observation is that Endeavour Energy has well understood the current expectations of a regulatory reset as far as developing a much more engaging, well-resourced and consumer-focused process than the

<sup>4</sup><https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/better-resets-handbook-towards-consumer-centric-network-proposals>

last reset. The time allowed for reasonable and fulsome engagement reflects good planning and a commitment to strong engagement. The assurances made in their application for the Early Signals Pathway, which reflect a commitment to the guidance from the Better Resets Handbook, are being followed.

The initial co-design workshops drew from concepts explored initially by Powerlink Queensland in their recent reset, by establishing a roadmap linking issues, stakeholders and engagement techniques which guides the prioritisation and approach to engagement issues. To date, this guiding framework has proved effective in focusing the work and making efficient use of engagement resources. Regular reference back to the framework has occurred as the engagement proceeded.

Despite the challenges of COVID, the exploratory research program across fifteen focus groups in September 2021 set a powerful base in identifying the key issues to consumers and driving the more formal 'value framework' stage. We support that Endeavour Energy has committed to 'closing the loop' and considering changes in customer expectations in this very dynamic energy environment.

The development of the four priority investment themes has a strong 'audit trail', and we appreciate the escalation of 'affordability and value for money' as themes as part of feedback from the Independent Members Panel.

We note that every one of the 28 (to date) formal RRG meetings has involved open and transparent discussion of the matters at hand, with the panel having ample opportunity to consider and respond to the material, and clear evidence of Endeavour Energy 'listening' to our advice and feedback by either informing the RRG as to how that feedback has been incorporated, or by flagging the matter for further discussion and clarification.

Endeavour Energy has been diligent in minuting the progress and outcomes of all the RRG discussions and the varied engagement sessions. The *yourSay* website<sup>5</sup> has been well maintained with accurate records of engagement and decisions. We commend Endeavour Energy for the diligence, presentation and accuracy of this record keeping.

Consequently, we believe that Endeavour Energy has done a high quality and comprehensive job so far on engagement in the 'Discover', 'Explore' and 'Prioritise' phases of the program. The engagement and co-design plans initially devised in May 2021 have been followed with a high degree of consistency and capability. Our benchmarks for this assessment are clarity of the issues being consulted on, fairness and objectivity in the questioning, and breadth of engagement considering Endeavour Energy's wide demographic makeup.

We recognise the extensive, carefully planned and executed, and inclusive way Endeavour Energy has engaged with a wide range of consumer groups - including households, businesses, local councils, developers and their representatives. We have observed the significant resources Endeavour Energy has put into the engagement and believe there has been a genuine commitment to 'listening'. There is evidence of strong consumer and wider stakeholder relationships indicated by the enthusiasm of the Customer Panel throughout the engagement process, as demonstrated by very few participating customers discontinuing their involvement, the willingness to provide supportive messages, and the number and diversity of participants in the wider deliberative forums.

With the assistance of SEC Newgate, Endeavour Energy has undertaken an engagement program that, in our view, has been extensive and multifaceted.

From an RRG Independent Member Panel perspective, we acknowledge that Endeavour Energy has given us many opportunities to collaborate with them in the design and execution of the engagement, asked for

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<sup>5</sup> [www.yoursay.endeavourenergy.com.au](http://www.yoursay.endeavourenergy.com.au)

and considered our advice and challenges, and sought to respectfully engage with consumers with a high degree of detail.

## 2.2 Key issues and recommendations from the engagement

Overall, we are supportive of the engagement process that led to the development and content of the Preliminary Proposal.

Drawing on our experience with the 'prioritise' phase of engagement post publication of the Preliminary Proposal we see the following key issues for consideration by Endeavour as it prepares its Draft Plan.

### 1. Presenting a clear distillation of the engagement data – 'what we heard'

As the primary purpose of the *Preliminary Proposal* is to summarise and draw conclusions from the first two stages of the engagement, we believe that the report could have better articulated the findings and interpretation of the first stages of the engagement. This would involve highlighting the diversity of responses, its 'surprises' (or otherwise), successes and shortcomings and other things that, in retrospect, could have been done differently. It is very important to say to the audience (consumer) in a clear and precise way:

*"This is what we have heard (from our consumers) so far. Have we missed anything? Is anything unclear, contradictory or we need to discuss further? What do we need to dig deeper into?"*

and

*"This is what we are thinking based on information so far – does it 'feel' right to you?"*

We look forward to seeing this detail in the Customer and Stakeholder Engagement report that we understand will accompany the Draft Proposal.

### 2. Clearly linking 'what was heard' to 'how we respond'

We expect to see the Draft Proposal providing a clear link between what was heard from the engagement, how it was interpreted and how it was specifically reflected or otherwise. This is particularly important in the discussion of the trade-off topics and the occasional contradictory information flowing from the engagement.

Such analysis should also identify the challenges that Endeavour Energy may face in delivering these consumer needs in the challenging economic environment that we are seeing and identify what further engagement is required. This assessment should also highlight how the immediate influences were considered in interpreting the results – for instance, one of the Customer Panel sessions on reliability took place on the same day AEMO suggested load shedding from a generation shortfall in NSW.

### 3. Adapt engagement to the evolving nature of 'lived experience'

Engagement activities in the lead-up to publication of the Preliminary Proposal very much reflected consumers 'lived experience' such as repeated floods in the Hawkesbury and bush fires in the Blue Mountains and South Coast. The engagement plan needs to be viewed as a 'living document' that is updated as and when required to continually evaluate and refresh conclusions where the validity of the data is unclear due to changed circumstances. Having a nimble, adaptive and flexible approach to engagement will be necessary in the current environment. Incorporating sensitivity plans and contingency plans into Endeavour Energy's engagement will help ensure that not only the regulatory proposal, but the delivery of services in the 2024-29 regulatory period, is fit-for-purpose and meets consumers' evolving expectations.

The lived experience is starting to change with the changed economic circumstances. We think that Endeavour Energy's engagement was initially slow to pivot and incorporate this changed 'lived experience'. We believe that it would be useful for future comprehensive 'lived experience' engagement to be

undertaken so that Endeavour Energy can have confidence its proposal will continue to meet the Handbook requirements and its Early Signal Pathway commitments.

#### **4. Reframing the concept of affordability through the lens of value for money**

Inflation and inflation expectations are increasing across the economy and are particularly driven by rising energy costs – petrol, electricity and gas. Inflation, rising interest rates and falling property prices are contributing to plummeting of consumer confidence. All economic signals point towards challenging economic times in the next few years.

Analysis by St Vincent de Paul shows that in July the average market offers for households consuming 7,200 kWh per annum have increased by 38% for Endeavour Energy customers<sup>6</sup>.

In NSW there are the unknown costs of the State Government’s energy initiatives such as the Electricity Infrastructure Roadmap and Hydrogen Strategy that will be passed on in Endeavour Energy’s part of the electricity bill from next year and potentially increase significantly over the 2024-29 reset period.

Most of these cost pressures along the electricity supply chain are beyond Endeavour Energy’s control. However, the ‘lived experience’ consumer engagement needs to understand their significance in assessing customer view of ‘value for money’ for spending proposals and to show customers that Endeavour Energy is *‘doing all it can, with the levers within its control, to reduce the upward pressure on prices.’* How is Endeavour Energy improving its efficiency and productivity, accepting more risk, and undertaking more innovation?

We see the discussion not just in affordability terms but also *value for money* terms. Transparency and openness in communication will be needed to find the true *compromise* between changing consumer needs and expectations in resilience, a low carbon future and greater demands on electricity reliability with the pressure to keep energy prices low in an environment of upward price pressure. We look forward to the next stage of engagement exploring questions like:

*“Do you still support the proposed expenditure you supported in earlier engagement even given the changes in the external environment since you expressed those views?”*

and

*“Are you confident that Endeavour Energy can provide value for money to achieve the outcomes like improved in resilience and expanded DER enablement?”*

#### **5. Delivering on a challenging target for the Draft Plan and initial revenue proposal**

Endeavour Energy is to be commended on the high-level numbers in the Preliminary Proposal that show opex and capex forecasts for 2024-29 below forecast levels for the current 2019-24 period, consistent with the Better Resets Handbook expectations. The challenge will be to continue that trajectory with the Draft Proposal and revenue proposal in the external context of rising costs and consumers’ expectations as refined in the next stage of engagement.

Any departure from the expectations of the Better Resets Handbook requirements and amendments to Endeavour Energy’s position in its’ Preliminary Proposal will need to be supported by clear evidence and an explanation of how consumers will benefit in terms of improved value for money. Improved transparency on the actual amount of revenue that consumer engagement might influence would be helpful, as well as clearly identifying the elements of the proposal that are either controllable, inflexible, flexible or subject to variable investment needs.

We recommend two specific actions to be incorporated into the engagement program, being:

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<sup>6</sup> “NSW Energy Prices 2022, an update on the NSW tariff tracking project”; St Vincent de Paul Society and Alviss Consulting, August 2022

### **(a) A new version of the business narrative will be helpful to consider investment value**

The nuances of the consumer sentiment that frames some of the key messages supporting the Preliminary Proposal – particularly those of investment in increased resilience and greater DER enablement to support a low-carbon economy - needs to be re-tested in the context of the changing commercial and social influences in the community generally as well as the changes in the energy sector.

Following RRG comments the version used in the Preliminary Proposal included additional words around affordability. Developments since then suggest that a revised Business Narrative should be developed and discussed with the RRG. This revised narrative should consider how the impact of rising energy prices and wider economy cost pressures shape consumer views of the revenue proposal in terms of:

- affordability should be an additional external driver and discussed along with ‘value for money’
- its impact on customers insights be a key part of future engagement, and
- the impact of the engagement outcomes on investment themes should be explored in detail

### **(b) Ongoing engagement to evaluate the impact of external factors on consumer’s energy needs**

The engagement leading to the Preliminary Proposal was undertaken prior to the recent significant NEM and economy wide cost pressures discussed above had appeared and without any context on the potential costs from NSW jurisdictional schemes.

Recent engagement – the deliberative forums and Wave 2 - has started to highlight these electricity and wider cost pressures but not to the extent we would have expected. While the large price rises have received a lot of press, it may not be until the increased bills begin appearing that consumers recognise their impact. The existing Engagement Plan currently has no external engagement after publication of the Draft Plan with the focus only on internal ‘refining’ of the Draft for submission to the AER in January 2023. We recommend engagement across all customer groups continue after publication of the Draft Plan and then well in to 2023. This is required to give the Independent Members Panel confidence that Endeavour Energy will meet the AER consumer engagement requirements under the Better Resets Handbook.

## **2.3 Other factors to consider in the next stages of engagement and the proposal**

This advice is intended to assist Endeavour Energy in planning the next steps of their engagement. We recognise that several key issues will benefit from further consideration in the Prioritise and Refine stages of the engagement and preparation of their proposal. These issues include:

1. Developing robust plans with consumers that recognise the uncertainty prevailing over the transition to a new energy landscape, including influences from the ‘total of the bill’, the impact of government policies and the wider impact of changes to the cost of living.
2. As the environment is very dynamic, re-check key assumptions and understanding from consumers later in the process.
3. Tariffs and tariff reform remain difficult concepts for consumers and are subject to many competing influences. Endeavour Energy’s tariff planning will benefit from innovative and creative ways of engaging with consumers, including supporting an accelerated roll-out of smart metering services.
4. The resilience of the electricity supply is a significant matter for consumers, particularly in areas that are most vulnerable to increasingly frequent and intense storms, bushfires, floods and extreme heat events. Endeavour Energy needs to maintain a clear framework for analysing and responding to climate risks, including non-network initiatives such as an effective relationship with communities and other agencies.
5. Articulate and test proposed opex cost changes, including cybersecurity

6. Triage the issues for engagement and focus on those that are most likely to present changing consumer needs against a compromise of cost, including resilience and future networks.
7. Include, as best as possible, the impact of additional cost impacts across the energy chain in engagement with consumers
8. Facilitate regular ongoing engagement with councils regarding street and smart lighting, vegetation management, sustainability initiatives and enhanced services to communities.

## 3 THE PROPOSAL PROCESS

### 3.1 Purpose and intended audience

The Preliminary Proposal provided Endeavour Energy's consumers and stakeholders an insight into how the engagement to date has informed their thinking regarding the development of the regulatory proposal.

Therefore, the core purpose of this report from the Independent Members' Panel is to provide Endeavour Energy with feedback on the Preliminary Proposal and the most of the *Prioritise* phase (to end July 2022) from a consumer point of view, which covers:

- The development of, and consistency with, the engagement plan.
- The quality, extent and application of the consumer engagement to date.
- A triage of the key issues emerging from the Discover and Explore phases that will require further analysis and clarification.
- An initial response to the detail of the building blocks provided in the Preliminary Proposal.

The intent for this advice, along with any other feedback directly from Endeavour Energy's stakeholders, to inform and guide Endeavour Energy as they progress to the next stages of the reset process, to deliver engagement that is consistent with the *Involve* and *Collaborate* stages of the IAP2 engagement spectrum where consistent with the issues map in the engagement plan.

Three more reports will be forthcoming from the independent members of the RRG in relation to Endeavour's regulatory reset, including:

1. A response to the draft proposal (October 2022).

The Draft Proposal is part of the requirements of the Early Signal Pathway, informing the AER of the initial stages of the preparation of the regulatory proposal. The Draft Proposal report from the independent members of the RRG will be similar in form to this one, informing stakeholders and the AER of our view of the engagement and building blocks that underpin the draft proposal.

2. Advice to the AER accompanying Endeavour Energy's Regulatory Proposal, largely informing the AER of our view and participation in the preparation of the Regulatory Proposal (January 2023).
3. Advice to the AER covering Endeavour Energy's Revised Regulatory Proposal (late 2023).

Copies of the advice will be provided to the AER and the Consumer Challenge Panel, as well as placed on Endeavour Energy's public website.

### 3.2 Structure of this advice

The advice in the remainder of this report is structured as follows - Chapter 4 considers the engagement process to date, including the consistency with the published Engagement Plan (last revised January 2022, public document issued April 2022)<sup>7</sup>.

Chapter 5 provides a high-level review of the building block components of the Preliminary Proposal. We commend Endeavour for identifying the key controllable aspects of the revenue build-up early in the process, giving the RRG and stakeholders the opportunity to consider how Endeavour has interpreted the impact of engagement to date and highlight their commitments that will influence their pricing.

Chapter 6 highlights the changing external environment in which the reset takes place. We provide some recommendations and challenges to Endeavour for consideration as the engagement proceeds and the

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<sup>7</sup> [https://yoursay.endeavourenergy.com.au/your-power-your-say-your-future/news\\_feed/customer-engagement-plan](https://yoursay.endeavourenergy.com.au/your-power-your-say-your-future/news_feed/customer-engagement-plan)

formal regulatory proposal is prepared. Each section provides our answers to the questions posed by Endeavour Energy in their Preliminary Proposal.

### 3.3 The Early Signal Pathway

Endeavour Energy is undertaking the *Early Signal Pathway* (ESP) process for its regulatory proposal, and as such will produce another milestone document in the form of the *Draft Proposal* which it has agreed to submit to the AER in October 2022. Despite not being a requirement of the ESP process, Endeavour Energy has, with the RRG's support, chosen to publish a Preliminary Proposal to provide an early indication of the direction of the engagement and thinking to date and function as a substantial starting point for the next stages of their engagement.

We, the RRG Independent Members Panel, support this action, as it provides an especially useful checkpoint in the engagement process, allowing Endeavour Energy to articulate "*what have we heard so far, and how Endeavour has interpreted that advice from consumers?*" It will then provide a platform for further focus and efficiency in the engagement process, by asking:

- Gap analysis – 'what is missing?'
- Triage - what is not clear, and requires further, deeper engagement to understand?
- Emerging issues - have we seen any 'surprises' that will require addressing either directly or in the form of contingency planning?

Consistent with the requirements of the Better Resets Handbook, it is our intention for the remaining engagement process to continue to focus on the following features:

- a) Engagement practice
  - Sincerity
  - Consumers as partners
  - Accountability
  - Breadth and depth
  - Channels of engagement
  - Clearly evidenced impact
  - Independent consumer support
- b) Building blocks
  - Expectations on capex
  - Expectations on Operating expenditure
- c) Revenue and pricing
  - Expectations on tariff structures
  - Outcomes of trials and tests
  - Innovation and creativity in engaging consumers and retailers
  - Flexibility and engagement plans

## 4 THE ROLE OF THE RRG IN SHAPING THE PROPOSAL

We commend the preliminary report as being reflective of the very intensive and wide-ranging engagement in the first phases of the overall proposal, which has been undertaken with significant investment in time and resources by Endeavour Energy. The early co-design set a useful framework for engagement by establishing an engagement plan that identified and focused what actions Endeavour Energy could take in response to consumer needs and advice, and adhered well to the principles of high involvement, iterative and responsive, informed and well-resourced and open to robust challenge.

Key in the operation of the RRG is the requirement articulated in the Better Resets Handbook:

*“.. to allow consumers to have a greater influence over the development of regulatory proposals by network businesses and, more importantly, ensure network businesses deliver outcomes valued by consumers.”*

### 4.1 The role and function of the RRG

#### **Organisation and operation**

While the RRG comprises both representatives of Endeavour Energy and independent consumer advocates, the consumer advocates maintained their independence by forming an Independent Members Panel of the Regulatory Reference Group (RRG) about 4 months into the reset process, coinciding with the formulation of the agreed engagement plan.

For the past twelve months, the RRG independent members have regularly held their own meetings interspersed with the regular full RRG meetings to review Endeavour Energy’s engagement plans and detail of the engagement before it takes place. Many of these meetings have formal agendas for discussion and minutes taken. In most circumstances, Endeavour Energy has provided opportunity for the RRG independent members to provide feedback, advice and occasionally robust criticism of the plans before they are undertaken.

This approach, with frequent opportunities to discuss the nature of the engagement, means the Independent Members Panel RRG has been able to continuously influence the evolution of Endeavour Energy’s thinking. We consider this has led to a more fruitful and functional relationship compared to previous resets, where engagement design and execution was left until later stages, often requiring much greater divergences in views be resolved.

Endeavour Energy has established a well-funded working budget for the operation of the RRG, including administrative support when requested. The budget has allowed for face-to-face discussions when necessary and prudent under current public health policies. Included in that budget is an allowance for independent research. Using this allowance has been considered but not seen as necessary to date.

Endeavour Energy has made available a moderate budget for the RRG to conduct independent studies or information gathering. To date, we have had no need to call on that facility.

#### **Working relationship with the full RRG and Endeavour Energy generally**

This function of ‘robust challenge’ is undertaken in a professional and collegiate environment, with feedback actively sought by Endeavour Energy and the agreed advice is incorporated into the engagement planning. Meeting minutes well reflect these many joint decisions.

Endeavour Energy mostly provides full meeting information before the date and occasionally provides specific early briefings for the RRG on key issues and engagement, allowing time for independent members to consider the issues and respond in a timely manner. The RRG meetings are well resourced and attended, with most members of the independent panel and key executive staff attending all meetings.

The commitment by Endeavour Energy to the RRG function has been outstanding. Executive staff on the RRG include not only the regulatory responsibility but also the Chief Customer Officer, the Chief Financial Officer, Chief Operating and Asset Manager as well as other safety, engineering planning and investment and customer communication functions of the business. The Chief Executive Officer attends and is actively involved in the majority of the RRG meetings. This has allowed fulsome and constructive conversation on key issues of not only the regulatory proposal but the broader role of Endeavour Energy in the community as well. Senior staff are with accountability for the subject areas being discussed at the meetings also attend.

For significant planning or outcomes workshops, the Endeavour Energy's Chair and other directors have attended. On occasion, members of the Independent Members Panel have been invited to attend a board or executive meeting to discuss the engagement progress and aspects of Endeavour Energy's customer focus.

The RRG formally reports and seeks input at every meeting of the Peak Customer & Stakeholder Committee (PCSC).

Endeavour Energy is outstanding in providing the RRG with the background information and discussion material prior to the actual workshops or events. If we were to have a criticism, at times that there is 'too much' information for members of the RRG to meaningfully consider before the meetings. There is a large amount of rich data accompanied by questions and requests for feedback in relation to the material. At times, the demands for the information and sheer volume of information to absorb exceeds the time available and sometimes the expertise of the RRG members. Often, the volume and detail of the information results in limited opportunities for the RRG members to adequately provide meaningful feedback before the meetings themselves.

We have raised this issue with Endeavour Energy and trust that more focused and explicit information can be provided in the future.

### **Co-design and independence**

Endeavour Energy's choice to undertake a co-design process raises several important points in the assessment of the engagement and role of the RRG. Essentially, it is critical that the Independent Members Panel demonstrates its independence throughout the process, and shows that the role of the independent members:

- a) Does not suggest any form of 'capture' or undue influence by Endeavour Energy, and
- b) Can clearly demonstrate where Endeavour Energy has accepted and integrated - or at least actively considered and explained any exception - the advice, recommendations and challenges raised by the RRG in fulfilling their role as independent consumer representatives.

### **Governance**

The Independent Members Panel operates both as part of the total RRG and independently with its own meetings and discussions.

- a) *Regular meetings with almost all RRG working group members present in each meeting*

Attendance at the usually fortnightly meetings have been close to 100%. One member, Bruce McClelland, has only able to participate in a limited number of occasions due to workload constraints, however his colleague Simon Moore has provided input on behalf of Business Western Sydney in his absence. The NSW Public Interest Advocacy Centre (PIAC) has been represented consistently, albeit with three members over time. Elisabeth Ross, a consumer representative with extensive experience in the energy consumer environment, joined the independent members team in May 2022.

### *b) Conflicts of interest*

Conflicts of interest are self-assessed at each independent member's meeting. Initial discussions at the formation and formalisation of the RRG identified a potential conflict of interest with government member Sophie Vincent's membership of the RRG and she moved to an advisory role.

A potential conflict exists with Mike Swanston being a member of both the RRG and the AER's Consumer Challenge Panel (CCP), although not CCP25 (NSW reset). This is managed through the AER Conflict of Interest guideline, including limited engagement with CCP colleagues on matters that affect Endeavour.

### *c) Representation of Independent RRG members at consumer engagement sessions*

There has been good representation of RRG members as either participants or observers across the entire range of engagement activities - Customer Forum, deep dives, Council sessions, CALD and large customers.

### *d) Maintaining a collegial, respectful and effective relationship with Endeavour Energy*

The independent members generally meet fortnightly without the Endeavour Energy executive team to discuss specific engagement issues, consider Endeavour Energy's proposals and prepare responses to these initiatives. Endeavour Energy supports this arrangement.

All formal RRG meetings carry a formal agenda that has been circulated to all members beforehand and is agreed. The independent members are provided many opportunities to engage with Endeavour Energy in these meetings. Pre-reading, agendas and minutes of all RRG meetings are held on the Your Say website. Perhaps the only concern we have is with the volume of information provided by Endeavour Energy. We often do not have enough time to review it all to the level we would wish.

### *e) Future consideration – independent chair*

We would recommend for next reset is for the RRG independent member's panel to have a person who is not a PCSC member, appointed as a formal independent Chair to lead meetings and provide additional administrative support rather than that role being filled by one of the Independent RRG members.

*Consumer stakeholder conflicts of interest dealt with during the engagement process*

## 4.2 The Your Say website



Endeavour Energy, like other utilities undergoing their regulated resets, has established a [Your Say Endeavour Energy](#) website for the purpose of presenting engagement materials and receiving any feedback.

Endeavour Energy has used the Your Say platform to communicate broadly with stakeholders via a public page dedicated to the revenue reset, and a closed site specifically for the RRG and AER and CCP observers. The site is well maintained and provides timely updates on the key progress of the reset engagement for respective audiences. As a confirmation, the latest post by Endeavour Energy is only 3 weeks ago and contains the details of the first Deep Dive that included invitations to a range of Endeavour Energy's customers.

The details of the engagement and all the materials, minutes and feedback have been well documented and reported through the RRG section of the Endeavour website. In our observation, this collection all the engagement materials are some of the most effective, comprehensive and well-populated libraries we have seen.

We also note the commitment Endeavour Energy has made by presenting early costings, forecasts and commercial expectations in their Preliminary Proposal. Our experience has been that few, if any, utilities have 'shown their hand' so early in the regulatory process, therefore providing a more concrete baseline for further engagement. This is a commendable step by Endeavour Energy, and whilst we fully understand it will be subject to change, it indicates their commitment to open and transparent engagement that provides yet another avenue for challenge and detailed discussion.



*b) Was the RRG involved in the design of the engagement strategy? If so, how?*

The RRG was deeply involved in the design of the engagement plan, along with Endeavour Energy directors, executive leaders and members of the broader PCSC committee. A full day workshop was held with directors, staff, PCSC and RRG members to co-design the engagement plan, establishing the view:

*“To undertake engagement that delivers our vision of powering communities for a brighter future by delivering a revenue proposal that balances the needs of:*

- The priorities, preferences, diversity and current and future needs of our customers*
- Provides sustainable returns to shareholders and can be considered prudent and efficient by the Australian Energy Regulator.*

This means ensuring customers pay no more than is necessary for a safe, reliable and secure electricity supply and quality service. “Our engagement approach is designed to allow customers to influence a broad range of clearly identified topics for engagement, reflecting the feedback from our customers and learnings from our peers and the AER consumer engagement framework.

- Collaborative influence – working with customers to achieve common goals where appropriate across the Public Participation (IAP2) Spectrum.*
- Iterative and responsive – to stakeholder and customer needs and preferences for the types, timing and issues of engagement*
- Led from the top – appropriate CEO, Executive and Board representation to ensure access to key decision makers.*
- Joint engagement – joint engagement with other networks where possible to support aligned topics and simplification of process.*
- Multiple channels – feeding into the deliberations of each other and supporting culturally and linguistically diverse communities.*
- Informed and resourced – present information and proposals in a clear and accessible manner that can be understood and challenged and appropriate supported and resourced to do so.*
- Robust challenge capability –able to test the assumptions and strategies that underpin the proposal and adequately resourced to do so.*

Following the establishment of the co-designed plan, the RRG provided ongoing and regular feedback, advice and challenge to EE concerning the specifics of the reset engagement strategy and activities. This was particularly evident as initial engagement activities progressed, with detailed feedback on a wide range of issues provided by members of the RRG.



Figure 3: Stakeholder identification for engagement (Source: Endeavour Energy)

*c) Which additional stakeholders joined RRG and how does this reflect the diversity of the customer base? Which customer stakeholders are not represented in the RRG?*

The Independent Members Panel was established to represent a range of consumer demographics, including residential consumers, small and large commercial and industrial, business consumers, councils, and vulnerable consumers. Through the direct involvement of the Ethnic Communities Council of NSW, a heavy focus is placed on meeting the needs of those with a non-English speaking background, with 49.4 percent of people in Western Sydney born overseas.

RRG membership changes since April 2021:

- Energy Consumers Australia (ECA) indicated that their member on the PCSC (Jacqueline Crawshaw) would not be joining the EE reset process and would not join the RRG.
- Participation by PIAC has undergone some changes due to changes in their staffing and do not anticipate further change at this stage.
- Sophie Vincent moved from membership of the RRG to an advisory role due to a possible conflict of interest as she is employed by the NSW Dept of Planning.
- Elisabeth Ross (Elisabeth Ross Consulting) joined the RRG in May 2022 to bring extensive experience in regulatory policy focussing on consumer impacts.

*d) How has the actual engagement correlated with the co-designed engagement plan and what has worked well/not so well so far?*

Engagement activities have by and large mirrored the broad plan established during the co-design workshops. Excellent facilitation by SEC Newgate has mostly avoided the challenges that have been evident in other engagement during the pandemic.

### **Breadth of engagement**

Extensive consultation and engagement have occurred across a wide group of customer segments, including:

- Residential customers – both in the initial focus groups in 2021 and the larger Customer Panel workshops in 2022
- Small to medium enterprises
- Local Councils in the Endeavour Energy network
- Commercial and Industrial customers
- CALD consumers including domestic (Vietnamese and Assyrian) and SMEs (Assyrian)
- Retailers
- Other NSW DNSPs (collaborating on Framework and Approach, Resilience, CALD engagement activities and calendar synchronisation to avoid conflicts in engagement and meetings).

Endeavour Energy and SEC Newgate exercised great care to match customer demographics for the nearly ninety consumers who participated in the Customer Panel sessions to Endeavour Energy's wide customer base. They were successful in equipping, recruiting and maintaining the attendance and participation figures during those workshops.

### **Depth of engagement**

The Customer Panel process allowed time to build capacity within the participant groups and explore various issues in detail allowing participants to have access to a wider range of views and greater depth of knowledge which enhanced their decision-making ability overall and ultimately led to more informed consumer preferences.

The engagement strategy also allowed for deep dive engagement across a range of specific areas of interest, including tariffs, growth, future choice and reset building blocks. Deep dives (both mini and more detailed) have been undertaken with participants.

There were some challenges:

- Low numbers in the initial focus groups (2021), exacerbated by challenges with online meetings and the Covid pandemic, while providing valid responses from participants required the greater spread and higher participation numbers of the Customer Panel (2022) process to provide the necessary reliability of customer opinion.
- There has been no targeted engagement with First Nations communities. This is something which could be addressed initially in the next stage of Endeavour Energy's reset engagement program. It would fit neatly into Endeavours Reconciliation Action Plan.

The RRG anticipates it is highly likely for shifts to occur in the preferences and priorities expressed by customers throughout the engagement process, as changes in the wholesale and retail energy market, coupled with cost-of-living pressures mount and are seen in consumer electricity bills and the broader economic environment. These issues and suggested actions by Endeavour Energy are addressed in detail in Section 6 below.

## Engaging with cultural and linguistically diverse (CALD) consumers

Historically, engagement with CALD consumers by DNSPs across the NEM has been problematic. There have been some encouraging developments during the last Jemena Gas Network reset (2019-2024) and during the last round of revenue resets in the Victorian jurisdiction, well documented elsewhere.

The reasons for the limited engagement by DNSPs of CALD consumers are manifold and often hinge on a lack of knowledge of successful methods of consultation for CALD communities, the necessity to undertake consultation in-language and in culturally appropriate ways, and of course the cost of such undertakings. These are compounded by shortfalls in data about the actual demographics of a DNSPs customer base – who they are, what language and communication preferences they have, where they live, what they do for a living. Approximately 40% of small businesses in NSW have a CALD background and have been especially challenging to engage.

It has been very encouraging to observe the intent and commitment of Endeavour Energy to engage meaningfully with its CALD customer base. Endeavour Energy has embarked on a range of approaches to CALD consumers in both domestic and SME areas and has taken advice willingly from CALD-focussed agencies and presented a limited, but targeted program to gauge CALD consumer opinions.

Notwithstanding the challenges of undertaking consultation and engagement in-language, coupled with budget considerations and the difficulties of engaging during the Covid pandemic, Endeavour Energy has been able to ascertain the views of two language groups, one established community (Vietnamese) and one emerging community (Assyrian). This work is ongoing and will continue post the Draft Proposal.

Endeavour Energy has also collaborated with Ausgrid in undertaking its CALD initiatives so that the collective results of engagement can be used to extrapolate across the wider CALD community sector.

### 4.5 The content and form of the preliminary proposal

The Preliminary Proposal is, to a significant extent, in the form of a ‘preliminary regulatory proposal.’ In hindsight, this is not unexpected, as it is a form that utilities are comfortable with. Even the title – Preliminary Proposal – suggests that this is the first in a sequence of regulatory proposal-like documents, each a refinement of the previous.

However, as the primary purpose of the preliminary proposal is to summarise and draw conclusions from the first two stages of the engagement, we believe that the report could have better articulated the findings and interpretation of the first stages of the engagement. This would involve highlighting the diversity of responses, its ‘surprises’ (or otherwise), successes and shortcomings and other things that, in retrospect, could have been done differently.

A summary can be drawn by examining the very extensive reports and notes on the *YourSay* website, but a single point of reference would be especially useful. We recommend a detailed summary of the engagement to date – findings, diversity, range of responses, demographic alignment – would greatly assist the next stages of the reset pathway.

We also believe the report could have better explained the link between the outcomes of the engagement and Endeavour Energy’s preliminary positions. While Endeavour Energy reported on “the customer’s priority,” “what we have heard so far on why it matters to them” and “Endeavour Energy’s approach so far”, there was not always a clear logic to how consumer views influenced Endeavour Energy’s approach.

Whilst we agree with the conclusions Endeavour Energy have drawn, we believe that a greater transparency to how Endeavour Energy has ‘joined the dots’ from engagement to identifying the priority issues would assist in communicating the logic and identifying any nuances or variations in the data.

Delivering on evolving customer needs and expectations			
	The customer's priority	What we have heard so far on why it matters to them	Endeavour Energy's approach so far
<b>1</b>  <b>Providing reliable supply</b>	Providing a reliable supply of electricity to all customers by building, maintaining and managing the substations, poles and wires, underground cables and other equipment.	Customers want to be confident they can turn on their lights, use their heating and cooling, stay connected with family and friends, and have the choice to work and learn from home.	New threats and opportunities to network reliability are emerging from climate events, cyber security events and emerging technologies. An increased investment focus on network resilience, justified by appropriate evidence, is required as part of our continued focus on long-term reliability.

Figure 4: Identifying engagement priorities and linking to action (Source: Endeavour Energy)

Chapter 5 provides further commentary on specific elements of the Preliminary Proposal.

#### 4.6 Engagement since the Preliminary Proposal

While this report primarily responds to the Preliminary Proposal, due to the timing of this report we also consider it worthwhile commenting on engagement since the Preliminary Proposal was published, up until the end of June 2022.

In addition to ongoing engagement with the RRG, Endeavour Energy has established two further channels of engagement.

##### Customer Panel

Endeavour established a Customer Panel, representing a diverse range of household and small business customers across its network. Two waves of engagement have been held so far. This has involved upskilling the customers and presenting them with a series of questions. This engagement was necessarily held virtually due to the COVID-19 pandemic.

The engagement has not been without its challenges. Engagement through virtual channels has its upsides and challenges. Notably, the Customer Panel experienced no attrition, retaining its 89-member Panel over multiple engagements across May and June 2022. This highlights the interest and commitment by the panel members to exploring Endeavour Energy's operation. There was considerable verbatim support from the panel members to the process. The importance of 'closing the loop' and keeping these members engaged, feeding back outcomes and supporting the further engagement of this panel must be a priority for Endeavour Energy.

With the panel, the ability to explain and inform complex concepts can be difficult. We found this particularly around pricing and tariffs. Newgate, as the engagement partners, brought skill and experience in the engagement process, and took reasonable steps to ensure the community was well represented across a range of consumer demographics.

As noted elsewhere in this report, there are several challenges ahead for Endeavour Energy in interpreting the data and using it to inform the draft proposal. Further, we are aware that Endeavour Energy is considering ways to continue to engage with its Customer Panel following the end of the formal engagement plan. Given the hard work from Endeavour Energy in upskilling this group, and the efforts of the customers themselves, we encourage Endeavour Energy to continue to use the panel to finalise its proposal and potentially beyond, to embed this kind of consumer engagement into its BAU decision-making processes.

##### Local Government workshops

Endeavour Energy held two Local Government workshops, one for the Illawarra, Southern Highlands & South Coast Councils (25 May 2022) which was online, and the other (2 June 2022) for the Western Sydney Councils conducted in-person at Penrith Panthers.

The workshops provided Councils the opportunity to engage with Endeavour Energy directly to help shape the development of their Regulatory Proposal on key issues, including:

- What Endeavour Energy is doing well and where they could improve their services to Local Government
- Streetlighting – LED streetlighting upgrades, smart nodes, and tariffs
- Vegetation management – network safety, issue management and public amenity, and
- Sustainability initiatives (EV charging and community batteries) and Council expectations.

These workshops, a first, were much appreciated and well attended by Councils. The opportunity to provide positive feedback and constructive viewpoints were taken up by Councils and Endeavour Energy was pleased to receive the frank input. All parties agreed that such workshops should continue and not just in the development phase of the current Revenue Regulatory Proposal in train.

Chapters 5 and 6 provide further commentary on engagement to date, where relevant to specific topics.

#### 4.7 Assessment and Key Result Areas to be discussed in the next report on Draft Proposal

In our response to the Draft Proposal, we will consider the following:

- a) The timeliness in establishing the RRG and undertaking the key aspects of the engagement – Did stakeholder engagement specifically relating to the Reset commence on time? Were there relevant engagement activities prior to this date?
- b) How the matters to consult on were selected
- c) IAP2 intent and outcome so far
- d) The effectiveness and quality of the engagement approach and representation
- e) Endeavour Energy's reset narrative, and how it reflects the corporate objectives
- f) How the narrative will be reviewed and maintained in times of rapid change
- g) What improvement opportunities are identified
- h) Regarding the engagement - what has worked well, what not
- i) Examples of clearly evidenced impact where consumer need or preference has influenced the proposal

In addition, the effectiveness of the RRG and engagement will be assessed by:

- j) The design of the RRG - Which stakeholders are represented and how does this reflect the diversity of the customer base? Which customer stakeholders are not represented in the RRG?
- k) Co-design of the engagement plan – how the process has unfolded and how the was RRG involved in the design of the engagement strategy
- l) Consistency with the commitments of the Early Signals Pathway, including the requirements of the Better Resets Handbook
- m) Reflecting how the engagement process and customer expectations have influenced the Proposal, highlighting areas of agreement and disagreement and
- n) Influence of the RRG - how Endeavour Energy responded to the challenges that arose during the reset process.

#### 4.8 Alignment with AER expectations (Better Reset Handbook)

Our assessment of the engagement and consequential work in the context of the requirements of section 3 of the Better Resets Handbook is noted in the table below.

Expectations	Comments
<p><b>3.2 Nature of engagement:</b></p> <ul style="list-style-type: none"> <li>• Sincerity</li> <li>• Consumers as partners</li> <li>• Equipping consumers</li> <li>• Accountability</li> </ul>	<p>Genuine co-design of the engagement plan, which has set a strong framework not only for the reset but as a longer-term influence on Endeavour Energy’s consumer focus. Elements of the Reset engagement plan are to be retained as BAU practice by Endeavour Energy.</p> <p>Genuine commitment led by the Board and Senior Executives to thoroughly engage with consumers following development of the plan. The evidence from the various consumer sessions indicates that they have confidence in the engagement process.</p> <p>Consumers were treated as ‘partners’ in the process, though sometimes the issues Endeavour Energy sought feedback on were complex and difficult to get an informed view on from a relatively short engagement period during a particular session. Trade-off questions were presented in a particularly complex way.</p> <p>Endeavour has been open to a relatively wide agenda for discussion at their RRG and have allowed the RRG to review and refine planned engagement Terms of Reference and questions or to dive deeper into selected matters on request. We expect this to continue.</p> <p>We would like to see more transparency in how what Endeavour Energy has heard is translated into the proposal.</p>
<p><b>3.3 Breadth and depth of engagement</b></p> <ul style="list-style-type: none"> <li>• Accessible clear and transparent</li> <li>• Consultation on desired outputs then inputs</li> <li>• Multiple channels</li> <li>• Consumers influence on the proposal</li> </ul>	<p>Extensive consultation has occurred over a wide group of customers with particular care used in selection of customer class, geographic location and demographic characteristics.</p> <p>There has been effective use of deliberative forums, focus groups and deep dives on issues that emerge during the forums.</p> <p>Targeted engagement with specific customer demographics, such as local government, businesses and CALD consumers. We will be keen to see how effectively this targeted engagement feeds though into Endeavour Energy’s proposal and ongoing objectives.</p> <p>It is still early days on the level of consumer influence, and this will be a key point of focus for the Independent Members Panel as the proposal develops.</p>

<p><b>3.4 Clearly evidenced impact</b></p> <ul style="list-style-type: none"> <li>• Proposal linked to consumer preferences</li> <li>• Independent consumer support for the proposal</li> </ul>	<p>Early days so far so we await further details in the Draft Plan. High-level details suggest proposal is heading in the right direction.</p>
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#### 4.9 Response to specific feedback questions

Endeavour Energy have raised several specific questions in the Preliminary Proposal. We have responded to them below.

<p><b>Who we are</b></p>	<p><i>1. Have we clearly communicated Endeavour Energy’s business and purpose?</i></p> <p>Yes, but this is more complex issue than appears on the surface. Customers are better informed of the role of the distributor in the energy supply chain, however there are more subtle influences on consumers such as the interplay between the network and the retailer on tariff and pricing, the connection impacts of demand and generation (solar) consumers and the role in setting connection obligations or options for new loads such as electric vehicles parked on streets.</p> <p>Similarly, the role and obligations (and, importantly, the boundaries of their role) of Endeavour Energy in societal and community contexts, particularly in events such as floods and bushfires, remains ‘grey’ and will require further refinement as the engagement progresses.</p> <p>These matters will need to be more transparent in future engagement.</p> <p><i>2. Do you understand your relationship to Endeavour Energy (as a residential customer, business customer, customer advocate or stakeholders)?</i></p> <p>Yes. See our answer to (1) above and further discussion in section 4.2.</p> <p><i>3. Does your understanding of who we are and how we relate to you enable you to provide informed feedback about our plans for our customers’ energy future?</i></p> <p>Yes, the Independent Members Panel of the RRG is uniquely placed to provide feedback to Endeavour Energy.</p>
<p><b>Australia’s changing energy landscape</b></p>	<p><i>4. Have we identified the key emerging priorities and trends within the Australian energy landscape?</i></p> <p>We recommend the addition of a sixth external driver around cost increases in other parts of the energy supply chain in the context of general inflationary pressures in the economy. See further discussion in chapter 6.3 where we recommend a further revision to the Business Narrative.</p> <p><i>5. To what extent will external forces such as population growth, extreme weather events and the renewable energy transformation, impact your expectations of Endeavour Energy?</i></p> <p>Endeavour Energy must be flexible and adaptable and continue to adjust its plans to meet its customers’ expectations on these issues, now and in the future.</p>

	<p><i>6. How should Endeavour Energy be responding to these changes?</i></p> <p>We look forward to continuing to engage with Endeavour Energy on these issues as further information is made available, including how your climate change modelling translates into various aspects of the Draft Plan and revenue proposal.</p>
<p><b>Customer insights and engagement</b></p>	<p><i>7. Are we engaging with the right people, at the right time about the right issues?</i></p> <p>Endeavour Energy has conducted wide-ranging engagement across large and small customers, local councils and the CALD community as well as engaging with customer representatives. On balance, we consider this engagement has been on the right issues. However, we recommend Endeavour Energy continues to develop and evolve its engagement materials to ensure they are pitched at the right level as external factors change.</p> <p>As discussed in chapter 6, we also recommend Endeavour Energy extends its engagement post Draft Plan and into 2023 to evaluate the findings from its engagement to date due to the notable change in external circumstances.</p> <p><i>8. Is there anything missing from the feedback we have gathered, the way we are using it in developing this proposal?</i></p> <p>It will be useful to be clearer about the link between the engagement findings and Endeavour Energy’s proposals.</p>
<p><b>Proposed 2024-29 revenue &amp; average customer bills</b></p>	<p><i>9. What are the outcomes that matter most to you or the customers you represent?</i></p> <p>The RRG represents a wide range of customers and their interests.</p> <p>However, common to all is that, based on the engagement so far, consumers feel that Endeavour Energy’s services provide them with value for money, and their voice and lived experience is reflected in Endeavour Energy’s regulatory proposal in a meaningful way.</p> <p>Endeavour Energy’s focus on safety, service levels, cost of service, a low carbon future and resilience to increasing climate impacts has been appropriate and reflects the advice from the RRG, the Independent Members Panel and wider consumer engagement. The Panel will continue to work with Endeavour Energy to inform consideration of trade-offs amongst these priorities as Endeavour Energy continues its engagement process in the dynamic wider social and commercial environment.</p> <p>We continue to pursue Endeavour Energy’s commitments made and obligations in its application to the AER for the Early Signal Pathway.</p> <p><i>10. Does this Preliminary Proposal reflect priorities and outcomes that are in customers’ long-term interests, while suitably balancing reliability, affordability, and safety?</i></p> <p>We look forward to continuing to engage with Endeavour Energy on these issues as the draft proposal develops.</p>

## 5 ENDEAVOUR ENERGY'S PRELIMINARY PROPOSAL

### 5.1 Introduction and Summary

This section comments on the early forecasts for the various 'building blocks' presented in Chapter 6 of the Preliminary Proposal – opex, capex, return on capital (WACC), return of capital (depreciation), incentives, pricing structure and alternative control services, in particular public and smart lighting. In doing so it provides the RRG's progress view on the AER's expectations for these expenditures in an early signal pathway.

We consider the Proposal well reflects consumer engagement in both the 'Discover;' and 'Explore' phases.

#### **Endeavour Energy's commitments in its application for the early signal pathway - the prioritise phase**

This engagement had a particular focus in the capex discussions on 'trade-offs' between level of service and dollar amounts with implications for the preferred capex spend. Initially the RRG sought to understand how the numbers in the trade-off discussions, which seems to be relatively precise such as the decrease in minutes of interruptions for \$x/year, were calculated. A high-level analysis helped us understand their source, but we believe there were still limitations in the way they were expressed, for instance, the improvement in reliability was not grounded in whether what is happening now is acceptable or not.

#### **Trade-off questions**

Then we sought to understand the purpose of the specific trade-off questions. There is a difficult balance in this type of engagement between the level of assumed knowledge, the information provided and the way the results are interpreted. Our observations of the deliberative forums led us to conclude that the participants interpreted the questions as 'willingness to pay' and we challenged Endeavour Energy on the extent to which they might use the results to support expenditure proposals. Endeavour Energy eventually clarified that they were not using the results as 'willingness to pay' but to indicate the 'direction' consumers wanted them to take. However, our observations suggest that this distinction was not clear in the minds of the participants from the start of the deliberative forums.

We do support trade-off questions with dollar amounts in consumer engagement that is seeking information on 'direction'. We just think there should be further refinements to reduce any confusion and improve the relevance of the results.

#### **'Value for money' context**

There may be merit in considering a more explicit focus on 'value for money' lens that focusses on outcomes. It allows increased expenditure if consumers can be convinced that this expenditure offers value for money – even in the context of rapidly increasing electricity prices and wider inflationary expectations in the economy. Many of Endeavour Energy's consumers have recently suffered terribly from floods, bushfires and extreme heat events. They may still be willing to support increased resilience expenditure if they think it offers an acceptable level of protection against future weather-related events, noting that it is not guaranteed.

Section 6 discusses our suggestions for additional engagement over and above what is set out in the January 2022 Engagement Plan that could explore this issue further. Given the notable change in the external context – inflation, rising interest rates and energy market turmoil - we are not confident that the 'prioritise' phase engagement undertaken so far will fully reflect these changes. We think that additional engagement is required to give confidence that the AER's expectations will still be met at the time of proposal submission in January 2023.

Endeavour Energy provides some data on its network performance in the Preliminary Plan, and we begin our discussion in this section with this and provide some additional AER data as context for our

expenditure discussion. We then move on to a discussion of the extent of consumer influence on total revenue – concluding that it is relatively small, but still particularly important.

In this section, all dollar amounts are \$FY24 real unless noted otherwise.

## 5.2 Network Performance

The Preliminary Proposal (pp 21-23) provides some information on Endeavour Energy’s recent performance including overall productivity (4<sup>th</sup> of 13 DNSPs), at or near to the lowest \$/MWh charges for any DNSP, expenditure efficiencies, improved reliability (excluding major events) and reduced RAB per customer and improved asset utilisation.

The following tables provide additional information published by the AER<sup>8</sup>. While there may be legitimate debate on the usefulness of these measures e.g. increased DER lowers asset utilisation, newer assets take time to be fully utilised, influence of obligation to connect, they are published by the AER as independent measures to inform consumers about network performance.

The first table shows more detail on comparative network utilisation (measured by the ability of network assets to meet maximum demand). While Endeavour Energy’s utilisation has improved in recent years it is still well below the level at the start of the data collection – as is the case with most DNSPs.

	2006	2015	2021
<b>Endeavour</b>	<b>0.65</b>	<b>0.44</b>	<b>0.49</b>
Ausgrid	0.53	0.29	0.32
Jemena	0.57	0.53	0.50
United	0.65	0.57	0.56
Energex	0.50	0.39	0.41
<b>DNSP average</b>	<b>0.57</b>	<b>0.45</b>	<b>0.45</b>

Table 1: Comparative network utilisation (Source: AER)

The next table shows regulatory service life of major equipment categories:

	Overhead lines <33Kv (wires and poles)		Distribution substations and transformers		Zone substations and transformers	
	2006	2021	2006	2021	2006	2021
<b>Endeavour</b>	<b>12</b>	<b>14</b>	<b>7</b>	<b>112</b>	<b>13</b>	<b>9</b>
Ausgrid	14	15	23	16	21	15
Jemena	32	28	21	28	28	23
United	14	15	14	15	36	39
Energex	24	13	14	13	22	19
<b>DNSP av</b>	<b>25</b>	<b>26</b>	<b>23</b>	<b>21</b>	<b>25</b>	<b>24</b>

Table 2: Regulatory service life of major equipment (Source: AER)

<sup>8</sup> See <https://www.aer.gov.au/networks-pipelines/electricity-network-performance-report-2022>

This data suggests that Endeavour Energy has an average utilisation of a relatively younger asset base, no doubt contributed to by the recent growth in Western Sydney. It does suggest a relatively higher level of resilience than the average DNSP and scope (even given the expansion of DER) for driving assets harder to improve capex efficiency as demand continues to expand.

The next table provides more detail on Endeavour Energy’s relative productivity performance<sup>9</sup> on overall multilateral total factor productivity (MTFP) in the sample of 13 DNSPs.

	2020 Rank	2019 Rank	Change (2020)	Change (2006-2020)	Change (2012-2020)
<b>Endeavour</b>	<b>4</b>	<b>6</b>	<b>2.0%</b>	<b>-0.5%</b>	<b>0.6%</b>
Ausgrid	13	13	1.6%	0.0%	1.5%
Jemena	9	10	5.6%	0.1%	0.2%
United	5	4	0.0%	0.2%	1.9%
Energex	7	7	1.3%	-0.1%	0.6%

Table 3: Relative productivity performance (Source: AER)

Longer term trends are more indicative of performance. 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 Energy’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 Energy was fourth in opex productivity (10<sup>th</sup> in 2016) and fifth in capex productivity (4<sup>th</sup> in 2016).

### 5.3 Building blocks and consumer engagement influence

The table below summarises the major building block components of proposed total revenue and comments on the level of influence consumers have in the current engagement.

Component	\$FY24 m	Comment
Opex	1,410	Largely ‘recurrent;’ forecast expenditure based on the ‘base year’ (2022/23) that is subject to an efficiency test by the AER; consumer engagement centres around step changes and level of productivity improvement beyond 0.5% per year.
Capex	1,825	Level of ‘recurrent’ expenditure means consumer influence is at the margins e.g. major projects like IT and new/expanding categories like resilience and DER; discussion on level of customer contributions to new connections
Return on capex (WACC)	1,598	This is set externally under a binding AER Guideline with the 2022 version (finalised in December 2022) to apply to Endeavour Energy
Return of capex (depreciation)	1,080	This is set based on past capex, proposed 2024-29 capex and the depreciation profile

<sup>9</sup> See <https://www.aer.gov.au/system/files/Distribution%20-%20Report%20-%20AER.pdf>

Incentive schemes	102	This is set based on performance in the current period against AER approved capex and opex allowances
Corporate tax allowance	41	This is set based on AER methodology
<b>Total Revenue</b>	<b>4,238</b>	<b>Total of column 2 excluding capex</b>

Table 4: Endeavour Energy proposed total revenue components (Source: Endeavour Energy)

As the Preliminary Proposal notes (p.45):

*“As a capital-intensive business capital and asset costs are the primary driver of our revenue. This means a large portion of our forecast revenue relates to the recovery of previously installed assets that are currently providing a service to customers.*

*Our opening asset base for the 2024-29 period is forecast to be \$7.4 bn (FY24). This means approximately 62% of our forecast revenue will relate to recovering costs associated with past investments and 38% will relate to costs we forecast to incur over the 2024-29 period.”*

Of the 38%, opex is 87% with most of the remainder return of and on capex in the 2024-29 period. In summary the actual amount of revenue consumer engagement might influence is probably ~5%.

#### 5.4 Operating Expenditure

The proposed opex of \$1,411m is 13% or \$219m below forecast expenditure in the current period is very welcome and reflects the work Endeavour Energy has put in over recent years to improve its opex productivity. The Preliminary Proposal highlights the drivers - increased use of ICT to drive productivity, workforce re-structuring, review of procurement processes and increase in unregulated activities reducing overheads allocated to regulated services.

*Base year* – we expect the AER to confirm Endeavour Energy’s view that the base year is ‘not materially inefficient.’

*Step changes* – Endeavour Energy has proposed five:

	Amount (\$M)	Comments
Increased insurance premiums	20	Increased insurance premiums are occurring across all industries with risks relating to increased weather-related events
Security of critical infrastructure (cyber)	3	<i>Awaiting more information</i>
Software as a service accounting treatment change	8	Agree with following accounting regulations
DER enablement	13	<i>Awaiting more information</i>
Demand management contracts related to non-network options to delay or avoid network investment	10	<i>Awaiting more information</i>
Amended GSL scheme	2	Government driven changes
<b>Total</b>	<b>56</b>	

Table 5: Endeavour Energy proposed step changes (Source: Endeavour Energy)

We look forward to more detailed engagement on these step changes.

*Trend* – the assumptions and methodology used follow the AER guidelines. Our focus will be on challenging Endeavour Energy to improve productivity beyond the mandated 0.5% given the improvements in recent years and the significant the capex spend (e.g. ICT) in recent years designed to improve opex productivity. Why shouldn't consumers get 100% of the benefits of this capex spend though a higher productivity factor than 0.5% per year rather than 70% through EBSS that comes with productivity improvements above 0.5%? Aren't consumers effectively paying twice?

Alignment with AER expectations:

Expectations	Comments
Opex forecasting approach	Endeavour Energy is using the 'base step trend' approach according to the Expenditure Forecast Assessment Guideline
Base opex	Using the latest AER opex benchmarking data for 2020 and Endeavour Energy's forecasts for the proposed base year of 2022-23, base year opex appears to have an efficiency score greater than 0.75 and hence is 'not materially efficient'
Trend	We await further detail in the Draft Proposal; Endeavour Energy has indicated they will adopt the AER approach to output, price and productivity growth
Step changes are limited to a few 'well justified ones, or none at all'	<i>We await further engagement on the details</i>
Category specific forecasts limited to the same categories in previous AER decisions	No category specific forecasts aside from debt raising costs
Genuine consumer engagement on forecasts	While there has been no specific engagement on the opex \$ level (though the capex engagement discussed below would have opex implications e.g. DER opex), we expect the proposed significant reduction will be supported by consumers; yet to consult in any detail on step changes and accounting changes that move capex into opex

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

## 5.5 Capital expenditure

### Endeavour Energy's challenge

Greater Western Sydney is one of the fastest growing regions in Australia - Western Sydney Aerotropolis and the North-west, South-west and Greater Macarthur Growth areas. Large residential sub-divisions and large commercial developments such as data centres and warehousing are being built and planned across the region. The RRG saw this firsthand in their recent site visit. This creates challenges, for example:

- when should infrastructure be built (ahead of time or just in time) given uncertainty on the pace of development?
- how to facilitate the large expansion of DER in new residential and industrial estates to give consumers choice and so costs and benefits are shared in a fair and equitable manner?

Following concerns expressed by the AER during its evaluation of the proposed 2019-24 capex, Endeavour Energy has undertaken significant and welcome improvements in its capex governance framework. These improvements include:

- a) alignment with AER Guidelines e.g. Value of Customer Reliability, the value of rooftop solar exports curtailed (Customer Export Curtailment Value), repex, Distributed Energy Resources (DER)
- b) a new value framework with a focus on quantified risk measures
- c) more rigorous CBA framework and consideration of non-network solutions e.g. deferral of the South Penrith sub-station
- d) greater use of post implementation reviews, and
- e) improved governance through an Investment Management Committee including compliance with AS/ISO55001 (asset management) 33001 (risk management) standards as well as environmental and regulatory management system methodologies and certification.

Shortly after the last determination process, Endeavour Energy embarked on a significant transformation of asset replacement decision making, which is focused on a data-driven, quantified benefits approach. Their processes and tools were developed to align with the guidance and expectations of their customers and the AER. Investment in ICT, digital platforms, system overhauls and capability uplifts have allowed Endeavour Energy to develop robust cost-benefit analysis at an asset level that we believe aligns with best industry standards of practice.

These improvements, plus the current capital contributions policy that requires substantial contributions from connecting customers (e.g. residential sub-division developers and large customers),<sup>10</sup> have contributed to Endeavour Energy's proposed 6% reduction in capex to \$1,825m for 2024-29 compared with a forecast \$1,936m and AER allowance of \$1,944m in 2019-24. This report focuses on high level aspects of the capex plan with detailed comments on the individual components left to our report on the Draft Proposal. The RRG looks forward to undertaking more analysis of other capex categories prior to publication of the Draft Proposal.

#### **An example of robust analysis in repex methodology**

Repex is a balance between proactive and reactive asset interventions. Endeavour Energy's 'quantified risk' approach to both reactive and proactive replacement decisions has changed the priority and mix of investments during the current regulatory control period, and this experience is carried over into forecasts for 2024-29 and the new approach continues to mature.

The RRG's high level review of the repex methodology is summarised in the following slide. It is based on a combination of 'top down' analysis (to provide a network wide overview of the forecasted asset replacement volumes and expenditure) and 'bottom up' analysis (applying the AER repex guidelines and the Endeavour Energy value and risk framework through rigorous cost benefit analysis to better understand what is required in each asset class). 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.

Endeavour Energy sees the Preliminary Proposal of \$575m as an appropriate balance drawing on customer feedback. Our initial high-level view is to agree with this assessment. We leave it to the AER's application of its repex model to assess whether it meets their guidelines.

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<sup>10</sup> Noting that this policy has been the subject of consultation with consumers and stakeholders.

# REPEX TRANSFORMATION

THE JOURNEY



Figure 5: Endeavour Energy Capital investment approach (source: Endeavour Energy)

## 5.6 Consumer engagement

Here we make some comments on the ‘prioritise’ engagement with residential and SME customers undertaken after publication of the Preliminary Proposal and the trade-off questions asked.

- Service levels - should Endeavour Energy have a lower service level/lower cost (-\$17/year; or maintain current service levels at no cost increase; or increase service levels at increased cost (+\$10/year)? – two thirds preferred increased service levels at increased cost
- Resilience - what should Endeavour Energy’s response be to major weather events – more proactive (+\$7.50/year) or more responsive (unchanged bill)? - ~75-80% supported the former
- Expansion timing - should Endeavour Energy build well in advance of growth (+\$6/year), just in advance of growth (no change in cost) or build only when certain growth is needed (-\$4/year)? - 75% choose just in advance
- Who should pay for new connections – everyone pays (existing customers subsidise new customers – +\$32/year); beneficiary pays (no cross subsidy to existing consumers – +\$13/year) or causer pays (current situation) – the second and third options each attracted 40-45% support.

The RRG expressed some concern about the research methodology used in the trade-off discussions and engaged closely with Endeavour Energy to better understand the approach. We are unclear whether ‘consumers’ in some of these trade off discussions were end use energy consumers or others with an interest in the Endeavour Energy process, such as developers.

We were skeptical of how the annual consumer dollar amounts and improvements in service levels were arrived at and how they were expressed – it was not clear what assumptions were used and initial expression was just in terms of a \$/year ‘in the next 5 years’ without explicitly saying that \$/year amount extended beyond the next 5 year reset given the investment include long asset life investment.

## How should Endeavour Energy best meet customer expectations for a safe, reliable and affordable electricity supply?

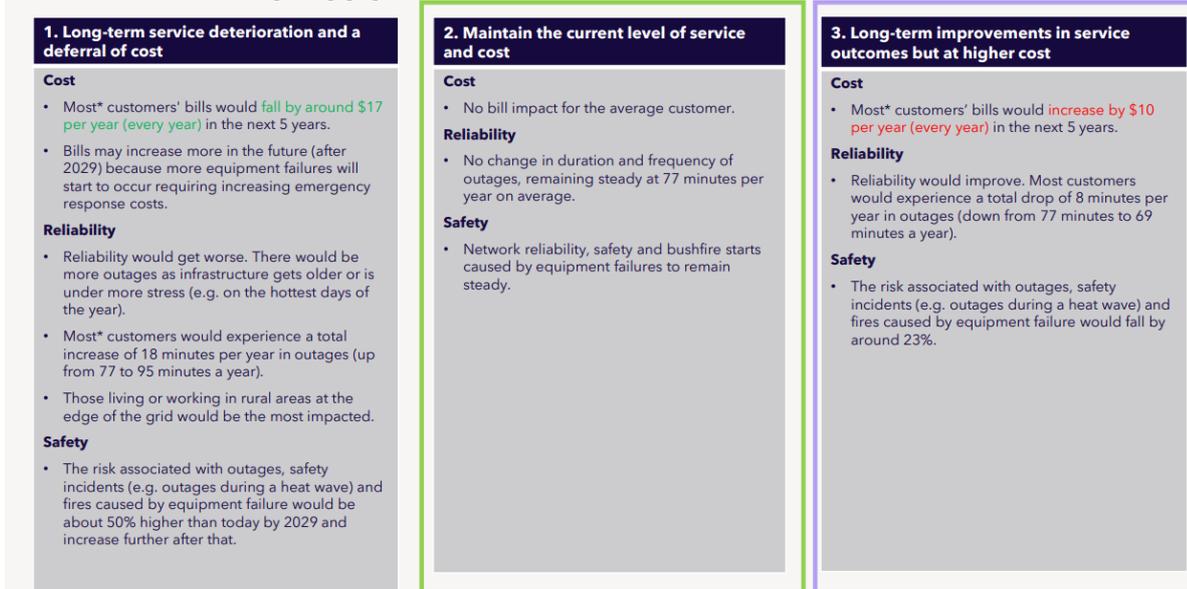


Figure 6: Investment tradeoff process example (source: Endeavour Energy)

Further discussions with Endeavour Energy led to an understanding of the basis of these assumptions, but we felt that the high level of precision preciseness of the numbers was not appropriate. In the case of the reliability numbers, no context was given around whether the current level (average of 77 minutes outages/year across all Endeavour customers) was acceptable or not by consumers and how it related to the minimum IPART standards.

The role of quantitative measures in consumer engagement is looming large in the context of the engagement expected in the Better Resets Handbook. Our overall conclusion is that there is benefit in providing some quantitative measure in consumer engagement but the way the results of the engagement will be used by Endeavour Energy should have been made clear from the start of engagement. The RRG's observations of the deliberative forums led us to believe the participants interpreted the trade-off questions as 'willingness to pay' questions. Following discussion with Endeavour Energy on this issue, they said the intention was to get 'direction' consumers wanted them to take, not explicit 'willingness to pay'.

It seems that it was only in the Wave 1, although the part 2 forums in mid-May clarified some of these matters.

- These preferences show us the direction you are leaning in regards to key aspects of your service

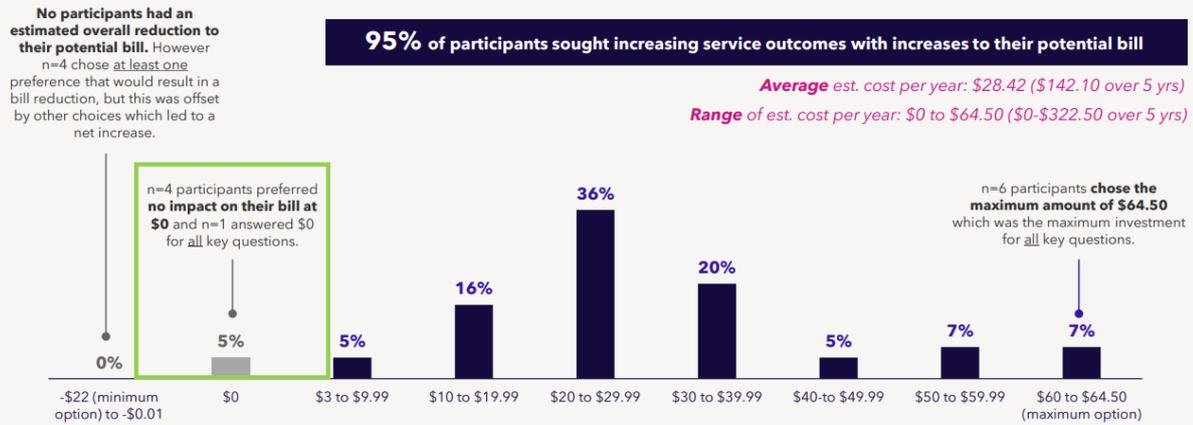
That is, not used to support a particular level of expenditure. We support this approach.

But it was unclear whether participants fully understood the nuance. In the final part of the deliberative forums, participants were asked to select their preferences from the various trade-off questions and then calculate a total cost where they were given scope for that total to be less than the sum of the parts. This gave the following results:

## Service and cost impact of preferred options

At the end of the second forum, participants were again asked to select their final preferences. The total cost of the investments associated with each of the key questions and the totals are shown below.

### Cost of final preferences: Calculated total bill impact per year



From our observations of this process it was difficult to accept that the participants saw the process as anything other than some form of willingness to pay.

In section 6 below we make recommendations around changes to engagement in Wave 3 and beyond to account for any changes to consumer views, given the changes in the external environment in the last few months.

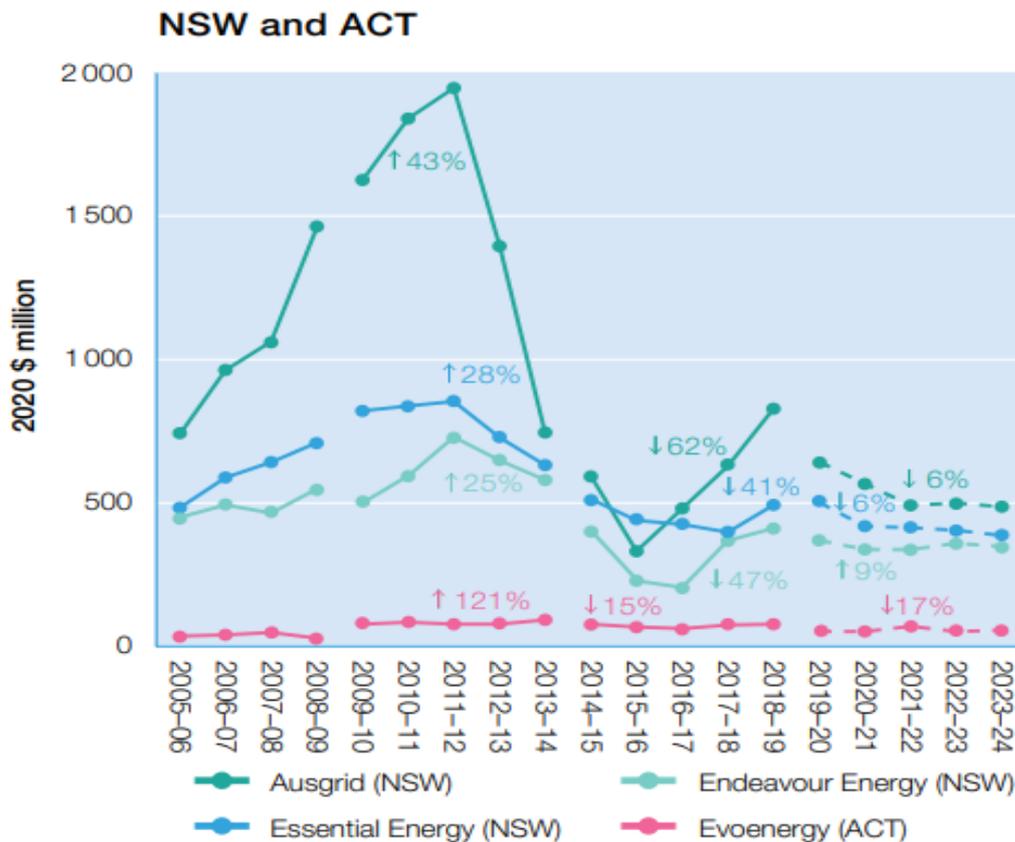
The RRG would like to engage more deeply with Endeavour Energy on how we should judge capital productivity.

While there is clear improvement in the process for evaluating new capex, the RRG would like to engage with Endeavour Energy over what metrics could be used to monitor and improve productivity for all capital, not just new capex in a regulatory period. Unlike opex, there is no mandated 0.5% per year productivity improvement. The network's incentive to improve productivity is left to the Capital Expenditure Sharing Scheme (CESS). The AER considers that the revealed costs basis to opex productivity is not applicable to capex because capex is less recurrent.

It is difficult to agree on specific indicators for measurement of current capex performance that are not overly influenced by the legacy of past investment decisions for long lived assets. This was driven by the tighter NSW State based reliability standards that led to 'gold plating' from around 2008-2014. The resulting higher capex spend, shown in the following figure<sup>11</sup>, was less for Endeavour Energy than Ausgrid reflecting the then smaller customer numbers and size.

<sup>11</sup> See Figure 3.14 p 140

[https://www.aer.gov.au/system/files/State%20of%20the%20energy%20market%202020%20-%20Full%20report%20A4\\_0.pdf](https://www.aer.gov.au/system/files/State%20of%20the%20energy%20market%202020%20-%20Full%20report%20A4_0.pdf)



Then there is the interaction between capex and opex productivity e.g.:

- the substitutability of opex and capex in particular areas such as in-house (capex) vs third party (opex) ICT and cyber along with changing accounting rules on what is opex and what is capex
- current period ICT capex to improve opex productivity in the next and subsequent periods
- more productive maintenance practices could mean lower capex required in the next period as plant and equipment will last longer
- A move to more cost reflective pricing to improve asset utilisation.

Why should the 0.5% productivity factor apply to opex overheads and not capex overheads? What is the difference between the same central office person having part of their costs as opex and part of their cost as capex?

Further the RRG would like to engage with Endeavour Energy on how to allocate risk between ex ante capex and ex post opex. In theory the higher the level of resilience capex the lower the probability of a pass-through event above the 1% MAR or the cost of a pass-through event being lower than otherwise. But theory may not apply in practice e.g. the resilience capex may be spent in the locations away from where the weather-related events impacted. This is a discussion around how to allocate capex vs opex risk and what impact that will have on opex productivity (e.g. lower resilience capex, support for factor closer to 0.5%) and capex productivity (higher resilience capex, support for factor higher than 0.5% as it reduces costs for event that do not meet the 1% MAR hurdle?).

We would like to explore this issue further with Endeavour Energy now that the more detailed climate modelling is available.

## An increase in capex in the Draft Plan?

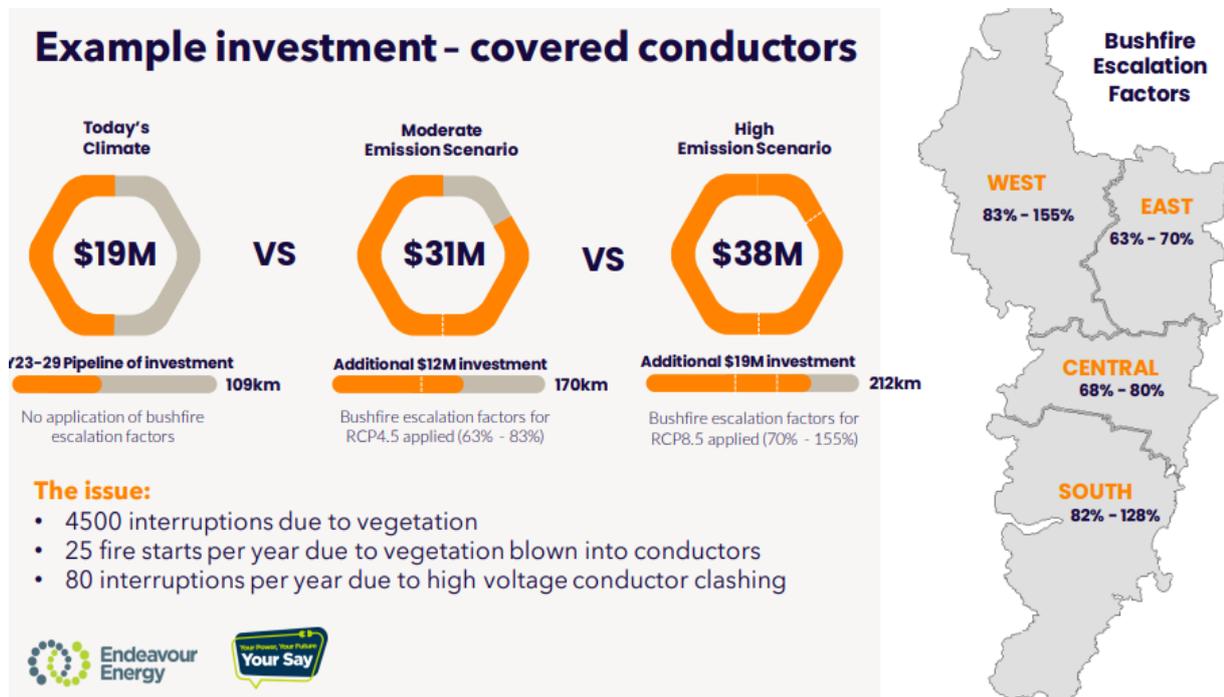
Discussions on weather related risks that have taken place after the publication of the *Preliminary Proposal* have drawn on the initial results of the climate modelling Endeavour Energy commissioned. These discussions suggest that Endeavour Energy may foresee a case for a net increase in total capex from its preliminary position based on an increase in resilience related capex, without a fully offsetting reduction in capex in other categories. In doing so, Endeavour Energy would have to meet the AER's following expectation of the In Early Signal Pathway<sup>12</sup>:

*"... we expect businesses to demonstrate that forecast total capital expenditure is not materially above current period actual spend."*

Endeavour Energy's response to the RRG's questions on this matter has been through the RRG Feedback Loop:

<b>Better resets commitment and the capital constraint</b>	Does the feedback we are receiving impact commitments Endeavour Energy made to the AER Better Resets Handbook	Our commitment has not altered, we had always flagged the potential for change based on customer feedback or current period forecast impacts (e.g. caused by covid). However, we maintain that reprioritisation of investment will occur in the first instance prior to considering whether (at all) the capital constrain applied should be lifted further.
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We look forward to more detailed information on the weather-related risks for the 2024-29 period and consumer engagement on the 'direction' they wish Endeavour Energy to take in the context of the changed external environment. The data presented so far relates to modelled changes between now and 2090 which has little relevance to the question – what are the risks Endeavour Energy customers are likely to face in the next say 15-20 years and what should Endeavour Energy do in the 2024-29 period to best address those risks? For example, we agree there is a role for covered conductors to reduce bushfire risk, but we look forward to more detail on how an additional \$12m or \$19m is justified by the climate modelling.



<sup>12</sup> See p. 20 <https://www.aer.gov.au/system/files/Better%20Reset%20Handbook%20-%20December%202021.pdf> and Endeavour's commitment at p. 57 <https://www.aer.gov.au/system/files/Endeavour%20Energy%20-%20Early%20Signal%20Pathway%20Expression%20of%20Interest%20-%20January%202022.pdf>

*Alignment with AER expectations:*

Expectations	Comments
Top-down testing of the total capital expenditure forecast and at the category level	Proposed total capex is ~ current period forecast (\$'24); any increase in one category is expected to be offset by a fall in another category; RRG planning more capex deep dives with Endeavour Energy prior to publication of Draft Plan
Evidence of prudent and efficient decision-making on key projects and programs	Current evidence suggests this to be the case though we await further discussions on resilience capex
Evidence of alignment with asset and risk management standards	Current evidence suggests this to be the case
Genuine consumer engagement on capital expenditure proposals	That was the case up to the <i>Preliminary Proposal</i> ; in Section 6 below we recommend more comprehensive future engagement to ensure this expectation continues to be met given the change in the external environment

## 5.7 Regulatory depreciation

In the current period Endeavour Energy moved from the previous period's Weighted Average Remaining Life (WARL) method to calculating the remaining life of assets to a period-by-period approach. This approach better matches the depreciation allowance to the economic life of the asset rather than its technical life. Endeavour Energy is considering moving to a period-by-period approach to a 'year by year' tracking approach which is currently used by ten of the 14 networks. The *Preliminary Proposal* says (p. 65) that the move will have a minimal impact on 2024-29 revenue (~\$0.5m/year).

Given the large customer growth forecast and the customer contributions policy, it is not surprising that RAB per customer is forecast to reduce from \$6,850 per customer at the end of the 2019-24 period to \$6,051 per customer by the end of the 2024-29 period.

Endeavour Energy has considered limited accelerated depreciation over 2024-29 for \$8.5m of transformer assets that need to be replaced early due to solar uptake, but their preliminary assessment is to not do so. The RRG does not support accelerated depreciation for an electricity network outside of a specific consequence of Government legislation or regulation.

*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 await further detailed engagement on this topic. So far it seems the AER's expectations will be met.

## 5.8 Incentive schemes

We support the application of the various incentive schemes under the AER Guideline. We await further detailed engagement on the role of a CSIS to replace the customer service component of STPIS. Members

of the RRG have had experience in developing a CSIS with other networks so we look forward to what specific measures Endeavour Energy proposes to engage on given they can be very network specific.

## 5.9 Tariffs

All DNSPs have been moving over the current reset period to more cost reflective tariffs. Initially opt-in approaches to end-use customer assignment were included in Tariff Structure Statements but this results in a slow uptake compared with assignment (e.g. new connection, changed connection, installation of a smart meter) with the option to opt out. The AER is now supporting mandatory assignment or default assignment with the option to opt-out for customers with smart meter technologies installed. This is expected to materially increase the number of customers who pay a cost reflective tariff while taking account of the impacts on vulnerable customers.

The RRG supports these moves to cost reflective tariffs. Endeavour Energy’s ability to make progress is driven by:

- the level of smart meter installation, and
- the level of customers with smart meters that are on cost reflective tariffs

On the former, the figures below show that in 2021 it is still relatively low at ~25% of residential and non-residential customers, but they are increasing off a low base only a few years ago<sup>13</sup>. Endeavour Energy has advised that ~30% of its customers now have smart meters. Hopefully, the recent restart of the AEMC review of the metering regulatory framework<sup>14</sup> will quickly lead to accelerated deployment.

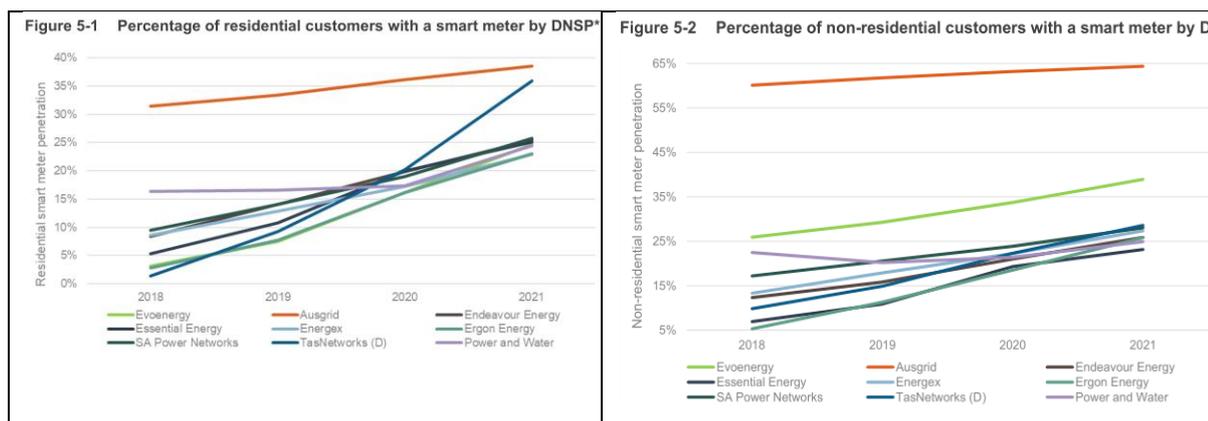


Figure 7: Percentage of smart meters by DNSP (Source: AER)

On the latter, this is generally much lower for residential than non-residential, and Endeavour Energy is close to the bottom of the pack for both customer categories (the arrows show the Endeavour Energy results):

- The second lowest proportion for residential customers
- The third lowest proportion for non-residential customers (~43% when all others excluding Victoria are ≥ 62%)<sup>15</sup>.

<sup>13</sup> The data excludes Victorian that has near 100%; see pp 35-6

<https://www.aer.gov.au/system/files/2022%20Electricity%20network%20performance%20report%20-%20July%202022.pdf>

<sup>14</sup> See <https://www.aemc.gov.au/market-reviews-advice/review-regulatory-framework-metering-services>

<sup>15</sup> Op cit pp 37-38

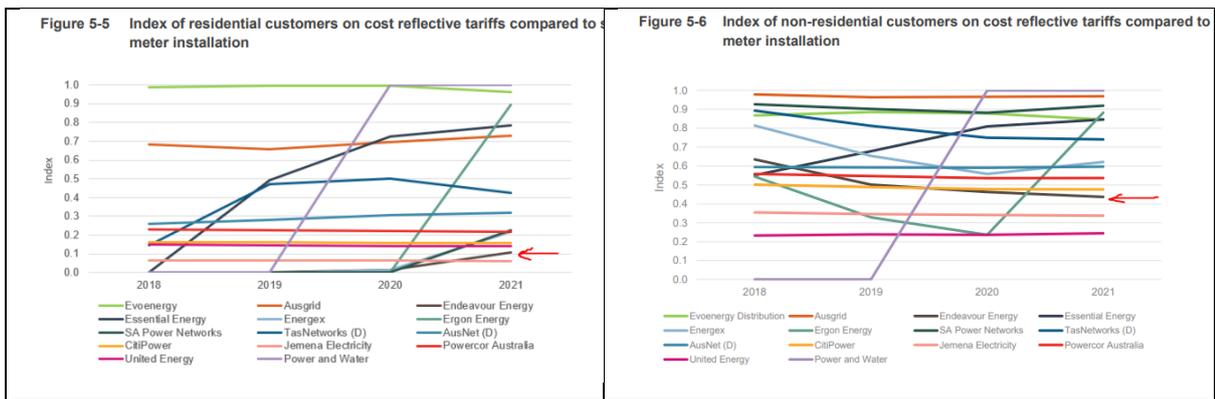


Figure 8: Residential customers on cost relative tariffs (by meter installation) (Source: AER)

This low proportion has been driven by cost reflective tariff assignment policy. Prior to the current 2019-24 TSS period, the tariff assignment policy was ‘opt-in’ for residential and small non-residential customers. This led to effectively a zero uptake for residential customers. The change in 2019-20 to ‘opt-out’ for new and upgrading customers has brought the increase in the current period. The 11 out of 100 customers in 2021 is now ~22 out of 100 customers in April.

The decline in the non-residential ratio is a result of customers included in the AER’s analysis and Endeavour Energy’s assignment policy between small and larger non-residential customers.

The RRG supports Endeavour Energy’s engagement with retailers to increase the number of customers on cost reflective tariffs where the current ‘opt-out’ assignment policy allows retailers to control the speed of network tariff reform on behalf of customers. Endeavour Energy is exploring options to strengthen their assignment policy for the 2024-29 TSS to accelerate cost reflective take-up e.g. mandating cost reflective tariffs for customers with new or upgraded connections and we look forward to that engagement.

There are significant challenges in engaging with customers on complex issues such as tariff design. Overall, the RRG considers Endeavour Energy’s engagement with its Customer Panel on tariffs meets the requirements under the Rules and expectations set by the AER. Responses from the Customer Panel on questions of tariff design suggest that the majority understood the concepts. However, there were clearly some who struggled, and Endeavour Energy will need to carefully consider how responses should be interpreted. We note that Endeavour Energy picked up on a specific area in relation to a "solar soak" tariff that consumers clearly did not understand and sought to clarify this in a subsequent deliberative forum. Endeavour Energy will be able to build on these types of lessons in conducting future engagement.

For future resets, the RRG would encourage Endeavour Energy to consider how issues around tariff design can best be framed and explored. For example, to date Endeavour Energy has focused on using tariffs to incentivise behaviour change. The RRG has some concerns with the framing of requiring consumers to change the way they use energy to fit in with system requirements. Tariff design also fundamentally goes to issues of fairness, as different approaches will impose more or fewer costs on different consumers. More clearly drawing out these points in discussions with the Customer Panel would build a better understanding of the issues and more context for customers in considering their responses.

We support detailed engagement on Endeavour Energy’s proposed tariffs – dynamic off-peak, EV fast charging that vary by time of day, community battery, grid battery and embedded network. We look forward to the results of the various tariff trials e.g. solar soak and solar export (cost and reward) that are being undertaken.

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	This is clearly Endeavour Energy's intent; remains to be seen how ambitious they will be depending on retailer reaction, tariff trials and consumer impact analysis
Incorporation of its tariff strategy in its overall business plan	We await further engagement on this
Demonstration of significant stakeholder engagement and broad stakeholder support	Endeavour Energy has established a Retailer Reference Group; has sought views from the Customer Forum and is conducting deep dives on tariffs with different customer groups
Insight into and management of any adverse customer impacts.	We await the results of the tariff trials and customer impact analysis

### 5.10 Response to specific feedback questions

Operating expenditure	<p><i>11. Does our operating expenditure proposal address our customers' priorities?</i></p> <p>This is difficult to say because opex is set by the base, step, trend approach that requires little consumer input; consumer priorities can only influence a small % of opex – step changes and perhaps the productivity factor</p> <p><i>12. Are there specific aspects of our proposed operating expenditure that you support, oppose, or want more information about?</i></p> <p>We await more information on step changes and further discussions on why proposed productivity is not more than 0.5% per year</p>
Capital expenditure	<p><i>13. Does our capital expenditure proposal address our customers' priorities?</i></p> <p>Yes, based on our limited review and engagement up to the time of the <i>Preliminary Proposal</i>. This will need to be confirmed by further consumer engagement prior to submission to the AER in January 2023 given the changed external context.</p> <p><i>14. Are there specific aspects of our proposed capital expenditure that you support, oppose or want more information about?</i></p> <p>We look forward to undertaking a deep dive on a representative range of specific capex projects across different components</p> <p><i>15. How do you feel about current resilience and reliability service levels and what is required in the years ahead from networks?</i></p> <p>The AER data suggests that the Endeavour Energy grid should have a relatively high level of resilience to those weather events it can prepare for e.g. it may be more straightforward to prepare for bushfires and extreme heat days than floods</p> <p><i>16. What feedback do you have in relation to our approach to servicing growth across our network? Who should fund the costs of new connections?</i></p>

	<p>We agree with the current ‘causer pays’ approach.</p>
DER enablement	<p><i>17. How do you feel about our approach to supporting the types of energy choices customers may want now and in the future?</i></p> <p>We agree with supporting consumers having future energy choices e.g. to export or not export rooftop solar, but this should only occur in a cost reflective pricing framework to avoid cross subsidies.</p> <p><i>18. How proactive should Endeavour Energy be in trialling and adopting modern technologies and solutions?</i></p> <p>Endeavour Energy should be proactive to the extent required for characteristics of its grid e.g. the SAPS trial at Bawley Point; it should work collaboratively with other DNSPs to share research and avoid ‘re-inventing the wheel’. We support the concept of an innovation fund subject to certain conditions.</p> <p><i>19. How should customers contribute to upgrading the network to support solar exports?</i></p> <p>We agree with the principle of charging export tariffs. We await the outcomes of the tariff trials to comment further.</p>
Rate of return & depreciation	<p><i>20. Is the June 2022 AER update of its Rate of Return Instrument the most appropriate approach for this proposal?</i></p> <p>As the AER guideline is binding, there is no alternative.</p> <p><i>21. Do you have any preferences for straight-line, period-by-period, or year-by-year depreciation? Why?</i></p> <p>Based on information provided so far, the difference is immaterial. Given year-by-year depreciation is currently used by most networks and it is approved by the AER, at this stage we would support the move. We await further consultation.</p>
Incentives	<p><i>22. Is our proposal to apply the AER’s incentive schemes in line with the guidelines appropriate?</i></p> <p>Yes</p> <p><i>23. Do you have any views about which measures of customer services should be included in an incentive scheme?</i></p> <p>We look forward to working with Endeavour Energy on developing the details of the proposed CSIS.</p>
Pricing structures	<p><i>24. To what extent should tariffs reflect the costs different customers impose on the network?</i></p> <p>We agree with the AER’s approach.</p> <p><i>25. Are there specific aspects of our proposed tariff structure that you support, oppose or want more information about?</i></p> <p>Where new services are developed e.g. EVs, it is important that the tariffs are truly cost reflective from the start. We wish to avoid a repeat of what has happened with embedded network tariffs when tariffs were allowed to develop historically that provided an inefficient cross-subsidy to embedded network customers and efforts to reverse them are difficult and take considerable time.</p>

Alternative control services

*26. Is this the right approach to supporting the Local Government transition to energy efficient lighting and emerging technologies?*

Of particular interest to Local Government is how street and smart lighting technology can improve the lives and well-being of their communities.

The current trials of community batteries at Kiama and Blacktown should be evaluated as quickly as practicable as other Councils in the Endeavour Energy region are keen to embrace this technology in their communities. Like many organisations, NSW Councils all have Sustainability Plans that strive to achieve Net Zero Emissions by various milestone dates. Having Endeavour Energy utilise innovative technology is supported by Councils to reduce emissions and enhance network resilience.

## 6 A RESET IN A CHALLENGING ENVIRONMENT

Endeavour Energy engagement reflected in the Preliminary proposal was undertaken in a quite different economy and energy market. In December 2021, the AEMC forecast<sup>16</sup> that average household bills in NSW would decrease 4% in NSW over the period to 2023/24 driven by a fall in wholesale prices as renewables expanded. During the Federal election campaign, both major parties were promising significant falls in residential electricity prices.

On 25<sup>th</sup> May the AEMC issued an Addendum to their December 2021 report saying<sup>17</sup>:

*“The forecast contained in the 2021 price trends report should therefore be treated with caution given it does not reflect these recent events and the impact they have had on the cost of energy in the near term and over contracting timeframes.”*

The changes since publication of the Preliminary Proposal have been significant. International and domestic developments have contributed to rapidly rising inflationary pressures, central banks responding with interest rate rises and rising concerns about a possible slowdown in the Australian economy. Events in Ukraine plus local factors in the National Electricity Market (NEM) have contributed to significant rises in electricity and gas prices for Endeavour customers and further increases are likely in the next 1-2 years. Cost of living pressures are very much centre of mind now for all customers small and large and the Panel expects that to continue throughout the remainder of Endeavour Energy’s 2024-29 reset process.

The existing Engagement Plan currently has no external engagement between publication of the Draft Plan on 31<sup>st</sup> October and Endeavour’s submission to the AER in January 2023. The focus in this period will be on internal ‘refining’ with the RRG of the Draft.

STAGE 1 – DISCOVER	STAGE 2 – EXPLORE	STAGE 3 – PRIORITISE	STAGE 4 – REFINE
Apr 2021 – Sept 2021	Oct 2021 – Apr 2022	May 2022 – Oct 2022	Nov 2022 – Jan 2023
A research period to better understand customer and stakeholder needs, preferences to help shape our engagement approach	A period of deeper exploration of key issues to help inform development of our preliminary proposal	Broad and deep engagement on our preliminary proposal, identifying aspects of greatest importance to customers	Developing and refining our final proposal using insights from the previous stage

Figure 9: stages of the 2024-29 reset engagement plan (Source: Endeavour Energy)

We recommend engagement across all customer groups continue after publication of the Draft Plan and then well in to 2023 following submission to the AER in January 2023. This is required to give the Independent RRG confidence that Endeavour Energy will meet the AER consumer engagement requirements under the Better Resets Handbook. The impacts of rising interest rates, inflation and energy price rises are just starting to flow through to Endeavour Energy’s consumers as the effects of the COVID stimulus in savings are starting to run down. It will take some months for the increased costs to be fully reflected in what consumers pay rather than what the press headlines say they are likely to pay. Consumer engagement needs to be occurring then.

As Endeavour Energy says (p. 4):

*“... we also consider our Engagement Plan to be a “living document” that is subject to change when new insights show how we can improve.”*

We expect that the changed external context for engagement will lead to many new insights. We maintain the view that the engagement plan has a fundamentally sound structure. Our suggestions here are to

<sup>16</sup> See [https://www.aemc.gov.au/sites/default/files/2021-11/2021\\_residential\\_electricity\\_price\\_trends\\_report.pdf](https://www.aemc.gov.au/sites/default/files/2021-11/2021_residential_electricity_price_trends_report.pdf)

<sup>17</sup> See [https://www.aemc.gov.au/sites/default/files/2022-05/Addendum%202022\\_05\\_25.pdf](https://www.aemc.gov.au/sites/default/files/2022-05/Addendum%202022_05_25.pdf)

ensure Stages 3 and 4 (and that there is a Stage 5 for engagement after proposal submission in January 2023) continue to provide a robust response to the AER's expectations.

It is also about looking to focus on value for money. As we noted above in Section 5, many Endeavour Energy customers have suffered terribly in recent floods and bushfires – and so may still be willing to pay for increased resilience expenditure even with all the other cost pressures that they are facing. That needs to be assessed in more detailed consumer engagement.

We begin this section with a discussion of this changed external environment and then make recommendations about adapting the Business Narrative and Engagement Plan to ensure that the January 2023 proposal and the December 2023 revised regulatory proposal continue to meet and exceed the AER's expectations in the Better Resets Handbook.

## 6.1 A lot is happening in the wider economy and electricity and gas markets in particular

### Wider economy trends

The Reserve Bank of Australia's (RBA) latest Statement on Monetary Policy<sup>18</sup> pointed to the many cost and supply chain pressures in the economy. The RBA forecasts inflation to peak at 7.75% by the end of 2022 and then decline to around the top of the 2-3% target range by 2024. Domestic retail gas and electricity prices are expected to increase by 10–15 per cent over the second half of 2022. The RBA suggests that if inflation expectations and general inflation psychology shift, it could mean higher inflation is more persistent. The report also highlights the tightness of the domestic labour market supporting strong wages growth (though less than inflation) and the impact of falling house prices having a wealth effect on reducing domestic consumption.

There are several other indicators of the recent notable change in the pressures facing Endeavour Energy customers:

- The most recent Westpac Melbourne Institute of Consumer Sentiment published on 9<sup>th</sup> August 2022 showed that sentiment fell by 3% from 83.8 in July to 81.2 in August<sup>19</sup>; this is like the lows during the COVID-19 pandemic and the Global Financial Crisis; what is noteworthy is how quickly it has fallen – since the recent peak in November 2021 the Index has fallen every month for a cumulative decrease of 22.9%.

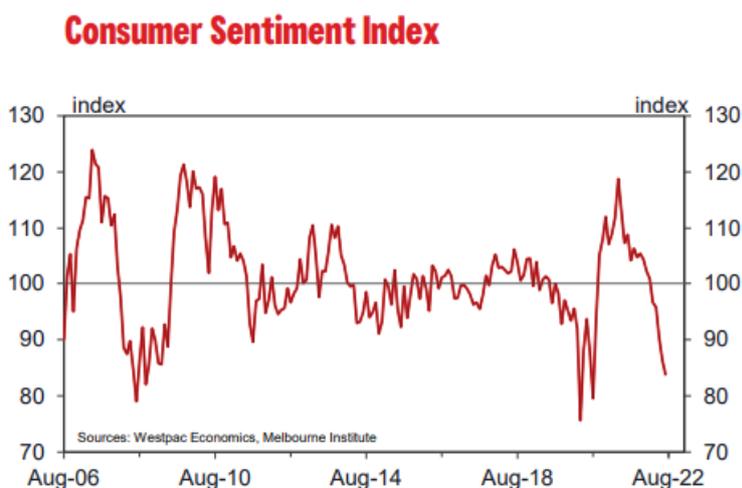


Figure 10: Westpac Consumer Sentiment Index (Source: Westpac, August 2022)

<sup>18</sup> <https://www.rba.gov.au/publications/smp/2022/aug/overview.html>

<sup>19</sup> "Consumer Sentiment takes another tumble" 9<sup>th</sup> August 2022.

<https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/economics-research/er20220809BullConsumerSentiment.pdf>

- The most recent ABS (June 2022) Business Conditions and Sentiments survey<sup>20</sup> reported that:
  - 31% of businesses are having difficulty finding suitable staff
  - nearly half (46%) of all businesses experienced increases in their operating expenses; and
  - more than two in five businesses (41%) faced supply chain disruptions. This has remained steady since it peaked in January 2022 (47%).
- Banks, drawing on their credit card data, are reporting that they are starting to see reduced discretionary spending in areas such as recreation, eating out and household goods to enable households to pay for essentials e.g. transport, utilities, food and mortgages<sup>21</sup>.

## Energy market trends

There are many changes going on in energy markets outside of Endeavour Energy's control that are having, and will have, significant impacts on the energy prices all Endeavour Energy customers will pay. Here is some more detail on how these measures affect different customer classes.

### *a) Large Commercial and industrial customers*

The impact of recent events on C&I customers will be particularly acute with timing depending on the term of their current hedges. For those looking for new contracts now, prices could treble or quadruple compared with prices in 2020-21. Apart from the impact of increased wholesale prices, there are potentially significant costs<sup>22</sup> arising from the market disruption in June-July. These include:

- RERT – C&I customers across NSW are currently receiving bills for \$79m for RERT costs in June
- AEMO directions compensation
- AEMO compensation during the market suspension
- AEMC compensation for the Administered Pricing Period

with the last three categories costs to appear in C&I invoices over the next 6-9 months<sup>23</sup>. These costs are not explicitly passed on to residential and small business customers. The costs of the [Peak Demand Reduction Scheme](#)<sup>24</sup> to be introduced from 1<sup>st</sup> November, which will add \$0.2448/MWh only to large customer bills.

Those C&I customers who use gas are facing a doubling or trebling of their gas costs when existing contracts finish.

### *b) Small business and residential customers*

These customers are either on regulated Default Market Offer (DMO) tariffs set by the AER or unregulated retail tariffs.

The Default Market Offer<sup>25</sup> (DMO) was introduced a few years ago as a cap on the price paid by residential and small business consumers who do not shop around for the best offer. Across NSW 9.8% of residential

<sup>20</sup> <https://www.abs.gov.au/statistics/economy/business-indicators/business-conditions-and-sentiments/latest-release>.

<sup>21</sup> See <https://www.afr.com/policy/economy/consumer-slowdown-may-have-already-begun-20220805-p5b7jp>

<sup>22</sup> Press reports suggest over \$1b <https://www.afr.com/companies/energy/compensation-bill-for-energy-grid-chaos-to-top-1b-20220717-p5b274>

<sup>23</sup> See <https://aemo.com.au/-/media/files/electricity/nem/data/mms/2022/june-2022-nem-events-compensation-update-12-july-2022.pdf?la=en>

<sup>24</sup> <https://www.energy.nsw.gov.au/government-and-regulation/energy-security-safeguard/peak-demand-reduction-scheme>

<sup>25</sup> See p. 7

<https://www.aer.gov.au/system/files/AER%20-%20Default%20Market%20Offer-%20Price%20determination%202022-23%20-%20Final%20Determination%20-%202026%20May%202022.pdf>

and 17.8% of small business customers are on the DMO. The components are network (45%), wholesale (32%), retail (10%), environmental, including RERT (10%) and retail margin (3%). The 2022-23 DMO announced in late May shows increases of 14-20% from 1<sup>st</sup> July 2022 (this included increases of ~5% for Endeavour tariffs)<sup>26</sup>.

Distribution zone		Residential without CL	Residential with CL	Small business without CL
Endeavour (NSW)	DMO price	\$1,836	\$2,383	\$3,782
	for annual usage of	4,900 kWh	Flat rate 5,200 kWh + CL 2,200 kWh	10,000 kWh
	Change y-o-y	+\$227 (14.1%)	+\$369 (18.3%)	+\$1,130 (19.7%)
	Change y-o-y (real)	+\$139 (8.2%)	+\$258 (12.1%)	+\$815 (13.5%)

The NSW DMO for Endeavour Energy customers was based on a forecast flat rate wholesale cost of \$124.24/MWh in 2022-23 using data up to mid-May<sup>27</sup>. Wholesale prices have increased significantly since then<sup>28</sup>.

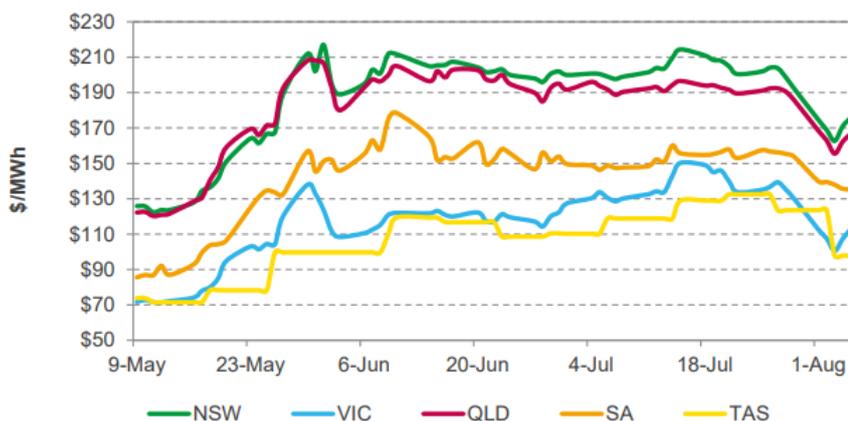


Figure 11: Wholesale energy price 2022

While the DMO is scheduled to be an annual adjustment, there may be pressure from retailers to have another adjustment prior to 1<sup>st</sup> July 2023, particularly second and third tier retailers that do not have their own generation. Some smaller retailers have already left the market and more may leave as there may be a trade-off between retail competition and DMO level.

In the UK, the DMO equivalent is increased at six monthly intervals. It increased 12% in September 2021 and 54% in April 2022. In the year to February, 29 retail energy companies had exited the UK market or been put into administration<sup>29</sup>. It is now considering quarterly adjustment of the energy price cap 'to make the market fairer and more resilient.'<sup>30</sup>

As an indication of the price rises for those Endeavour Energy customers not on the DMO, Energy Australia's increase for the 1<sup>st</sup> of August were for electricity is 17.9% for residential customers and 12.9%

<sup>26</sup> Ibid p. 18

<sup>27</sup> Ibid p. 29

<sup>28</sup> Schneider Weekly Outlook 11 August 2022

<sup>29</sup> See <https://www.ofgem.gov.uk/publications/price-cap-increase-ps693-april>

<sup>30</sup> See <https://www.ofgem.gov.uk/publications/ofgem-backs-consumers-price-cap-update>

for small business; gas prices are up 8.9%<sup>31</sup>. As noted above, research by St Vincent de Paul shows retail offers for Endeavour customers consuming 7,200kWh per annum increased 38% in July. The ability for customers to get a discount has narrowed significantly with some customers being charged above the DMO<sup>32</sup>.

Then there is the uncertain cost of jurisdictional and ISP projects to be added for all customers.

On the former, the NSW Government has two major policy initiatives that are expected to bring considerable costs to consumers in the next 5-7 years before the claimed benefits start to appear – the Electricity Infrastructure Roadmap<sup>33</sup> and the Hydrogen Strategy<sup>34</sup>. The limited modelling released with the announcement of the roadmap’s benefits in November 2020<sup>35</sup> showed wholesale prices of ~\$50/MWh from 2022 – showing the caution with which modelling should be used to sell a government policy.

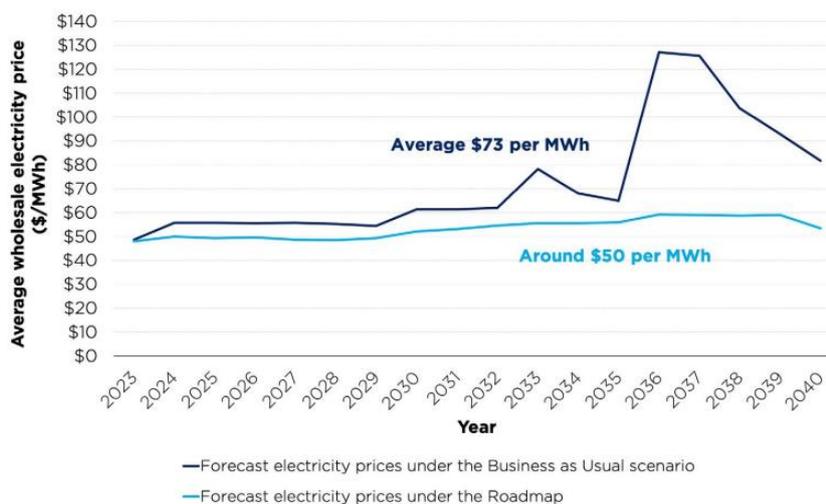


Figure 12: Modelling of average wholesale price of energy (Source: NSW government)

The jurisdictional scheme costs to be passed on to consumers through DNSPs charges include costs associated with the contracts for difference for Long Term Energy Service Agreements, REZ infrastructure costs, administrative costs for several entities and management of the liquidity facility of the Scheme Financial Vehicle. Retailers will not be required to show these costs separately in a customer’s bill. In February 2023, the AER will publish the roadmap cost for 2023-24 only and it is unknown when estimated costs for 2024-29 will be known. The RRG looks forward to the presentation it will receive on the Roadmap at the PCSC meeting in August.

On the latter, the Final Integrated System Plan released by AEMO on 30 June 2022, has most of the ‘actionable’ projects in the Development Path (ODP) in NSW. Federal and State energy ministers have committed to the timing and scope of these projects. The indicative costs for these projects, together with the committed Project Energy Connect are summarised in the table. Given current evidence of significant cost blowouts in major projects and the difficulty of gaining social license on the preferred route, the total

<sup>31</sup> See <https://www.energyaustralia.com.au/about-us/media/news/energyaustralia-announces-rate-changes-1-august-2022>

<sup>32</sup> See <https://www.afr.com/companies/energy/origin-hits-customers-with-power-prices-above-safety-net-20220610-p5aswt>

<sup>33</sup> See <https://www.energy.nsw.gov.au/government-and-regulation/electricity-infrastructure-roadmap>

<sup>34</sup> See [https://www.energy.nsw.gov.au/sites/default/files/2021-10/govp1334-dpie-nsw-hydrogen-strategy-fa2\\_accessible\\_final.pdf](https://www.energy.nsw.gov.au/sites/default/files/2021-10/govp1334-dpie-nsw-hydrogen-strategy-fa2_accessible_final.pdf)

<sup>35</sup> See pp 42ff <https://www.energy.nsw.gov.au/sites/default/files/2020-12/NSW%20Electricity%20Infrastructure%20Roadmap%20-%20Detailed%20Report.pdf>

cost for NSW electricity consumers could be over \$11b in the 2024-29 reset period. This compares to the total forecast Endeavour regulated asset base of \$7.57b as of 30<sup>th</sup> June 2024.

	2022 ISP Date of commissioning	AER approved (Transgrid portion)	AEMO Estimate of NSW portion
Project Energy Connect	July 2026	\$1.82b	
Humelink	July 2026		\$3.32B (-15% to +50%)
New England REZ	July 2027		\$1.90B (±50%)
Sydney Ring	July 2027		\$0.88B (±50%)
VNI West			\$1.65B for Option 1 (±30% with an 80% accuracy) <sup>a</sup>
<b>Total</b>		<b>\$1.82b</b>	<b>\$7.75-11.42B</b>

- a. VNI West PADR July 2022 p.38 [https://aemo.com.au/-/media/files/electricity/nem/planning\\_and\\_forecasting/49ictorian\\_transmission/vni-west-rit-t/vni-west-project-assessment-draft-report.pdf?la=en](https://aemo.com.au/-/media/files/electricity/nem/planning_and_forecasting/49ictorian_transmission/vni-west-rit-t/vni-west-project-assessment-draft-report.pdf?la=en)

Transgrid’s revenue proposal for 2023-28 that is currently with the AER excludes the impact of these projects<sup>36</sup>. The only indication Ausgrid has of these costs is the recent AER decision on Humelink early works. Much of this cost impact will be in the current 2019-24 regulatory period<sup>37</sup>.

**Table 1 HumeLink contingent project – Assessment of forecast expenditure, revenues and bill impact**

	Determination
Incremental revenue to be recovered from customers over 2024–25 to 2027–28 (\$ nominal)	\$71.4 million
Indicative increase in residential electricity bills over 2024–25 to 2027–28	\$3 p.a.
Forecast capex to be commissioned for HumeLink Stage 1 (\$2017–18)	\$321.9 million
Unrecovered revenue within the 2018–23 period to be carried over and recovered over 2023–28 (\$2017–18)	\$4.1 million

Figure 13: HumeLink expenditure forecasts (source: Transgrid, 2022)

Endeavour Energy has the prerogative as to how jurisdictional costs imposed on it are allocated among tariff classes across its customer base in the Tariff Structure Statement (TSS) for 2024-29. The RRG is in the initial stages of its consultation with Endeavour Energy on its TSS. A TSS without a full understating of likely jurisdictional costs renders customer engagement on tariff trials and customer impact modelling less useful and runs the risk of a more inequitable TSS once jurisdictional costs are known and allocated. Finally, there are the costs of the significant grid augmentation to be undertaken as part of the AEMO ISP. A substantial part of this expansion is in NSW. We look forward to understanding the assumptions used by Transgrid in the TUOS costs it proposes for Endeavour Energy in 2024-29.

<sup>36</sup> See <https://www.aer.gov.au/system/files/Transgrid%20-%202023-28%20Revenue%20Proposal%20-%2031%20Jan%202022%20-%20PUBLIC%20-%20NEW.pdf> at p.96.

<sup>37</sup> See p. iv <https://www.aer.gov.au/system/files/AER%20-%20Determination%20-%20HumeLink%20-%20August%202022.pdf>

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