

Endeavour Energy Response

NSW electricity distribution businesses public forum participant questions -May 2023

Questions

1. You've mentioned the 'indirect subsidy for embedded networks'. In what way does an embedded network NMI represent greater costs to the DNSP compared to a single large customer. If the concern is the availability or profitability of the business model of embedded network operators, is that not a question for our regulators, not our regulated businesses.

Endeavour Energy wants embedded networks to be created because they are efficient and benefit the customers within them, not because those customers benefit – at the expense of other customers – by making a lower contribution to recovering the cost of our existing network.

This inappropriately low contribution ('indirect subsidy') arises because, at present, embedded networks are treated as a single customer that pays a single, low fixed charge. However, absent that embedded network, each individual customer in the embedded network would contribute to recovering the cost of our existing network (residual) through the payment of a fixed charge.

Just like all our other customers, customers within an embedded network benefit significantly from the reliability and service quality provided by our existing network. They should therefore make a fair contribution to the cost of this existing network.

Endeavour Energy considers the current, inequitable outcome is not consistent with the Rules.¹

There are a range of network benefits – and so network tariff savings – that can be obtained by an embedded network, in comparison to directly connected customers. Some of these savings reflect the lower costs imposed on the network by an embedded network while others result from taking advantage of our current tariff design, as presented in the table below:

Table: Non-network cost savings of embedded networks

Potential network benefits from embedded networks	
Diversified demand	<i>The coincident maximum demand of the aggregate embedded network is lower than the sum of maximum demand for each connection. This results in a lower demand-based charge for the embedded network.</i>
Behind-the-meter generation	<i>Load can be sourced locally from any excess generation within the embedded network, hence avoiding costs on the rest of the network.</i>
Competition efficiency	<i>Connections within an embedded network can invest in CER to provide benefits in the embedded network.</i>

¹ See the Rules, clauses 6.18.3(d) and 6.18.4(2).

Savings that do not reflect the costs avoided by embedded networks

Residual cost recovery avoidance

Customers in an embedded network contribute less to residual cost recovery than similar customers that are not within an embedded network.

Any proposed solution to the issues presented by embedded networks should address the unfair savings associated with embedded networks without infringing on any of legitimate benefits of an embedded network.

As the prevalence of embedded networks continues to increase over time, this inequitable allocation of residual costs will result in relatively higher costs for those customers that are not connected within an embedded network. In this sense, our existing treatment of embedded networks is creating systematic inequities between customers within an embedded network, and similar customers that are not within an embedded network.

It follows that there is a need to consider whether embedded networks are charged differently from other network connections, to ensure the consistent treatment of similar customers, consistent with the requirements of the Rules.²

2. What flexibility is being considered during the 5-year period. While 5 year reg periods made sense in a one-way energy system (esp. for distribution) - but this is not the case anymore. We need to have the ability to be dynamic - especially if we are to gain the benefits of developing technologies like Dynamic Operation Envelopes (DOE) and the rapidly developing IoT/Matter, Home Energy Management Systems (HEMS) that enable Demand Management and consumers/customers to truly participate for their, and the Community's benefit.

The Australian Regulatory Framework for distribution networks is an ex-ante incentive-based approach. That is, the AER approve an overall ex-ante revenue requirement that includes an assessment what the AER find to be prudent and efficient costs. This provides networks, like Endeavour Energy with the flexibility to prioritise its expenditure given circumstances over the course of the regulatory period. Whilst forecasts on the prevalence of new customer technology are included within Endeavour Energy's proposal, with a focus on improving export services (against a "do nothing" approach), the actual uptake rate will likely be different to these assumptions and investment re-prioritised accordingly.

Further, any major policy change not forecast as part of the proposal may also be subject to a cost-pass-through event mechanism where it is consistent with the Rules and the proposed pass-through-nomination criteria.

3. The AEMC is currently undertaking a Review of the Power of Choice (Metering) Reform - though its largely through the lens of accelerating the rollout (with a new object of 100% by 2030). This seems to ignore that the biggest impediment to rollout is a lack of consumer benefits. The current control of metering data by FRMPs is totally unacceptable and blocks consumers access to their data BTM and networks to it so they can assist consumers. Does the AER, and the DNSPs, strongly support that customers should have unfettered access to their/all meter data in real time and that they can support Realtime distribution of that data (using their broadband internet connections) to their agents (innovators) and to networks so that DOE and DSM technologies can maximise consumer/customer benefits?

² The Rules, Clause 6.18.4(2).

Endeavour Energy made its submission to the AEMC Metering Review in February 2023 [\[link\]](#) strongly supporting improved access to smart meter data for customers and market participants in order to improve customer choice, network service management and efficient network utilisation. We support the mandatory provision of 'basic' power quality data to customers and DNSPs in a standardised format. However, in the absence of competitive tension in the market for data provision, we remain concerned that data access charges will continue to be inefficiently priced. Without a workably competitive market or any corrective regulatory controls, the challenges encountered in obtaining data critical to customer choices and the efficient management of the network on reasonable commercial terms will persist.

4. NSW has a unique environment with ASPs building the overwhelming majority of assets for new and upgraded customer connections. The ASP fraternity need to be included as a specific specialised partner in the delivery of new customer connections. Will the AER and/or DNSPs work directly with ASPs and their member associations to help them better understand what the impacts of these Reg Resets will have on costs to do business and to connect customers, transition arrangements to allow existing projects to proceed without being impacted by cost increases.

Endeavour Energy engages regularly with ASP's, developers and other key stakeholders to ensure its processes, programs and costs are delivered in an efficient and equitable way. When we engaged with ASP's we identified several priorities:

- Engagement – An ongoing and regular program of engagement is already being implemented and will continue.
- Innovation – We have since released a Connections Digital Uplift program, which is designed to remove red tape, unnecessary manual process and deliver a more seamless digital experience for the connections process. Phase 1 was implemented by September 2022, with ongoing improvements to come.
- Products and Services – We commenced a pilot program to fast-track simple projects and compress the connection process (from application to site being energised) with goal to improve efficiency. Feedback received through the pilot will be incorporated into final program for full roll out in 2023.
- Feedback loops – Feedback on our engagement with ASPs continues to be sought regularly through feedback loops, surveys, workshops and other means as programs roll out. ASPs and Developers continue to be a key component of the ongoing Reprtrak Reputation study with key findings presented to our Peak Customer Stakeholder Committee (PCSC) and our Board.

5. What is the view of the AER - and the DNSPs - on making Network Tariffs mandatory passthrough and transparent (and retailers adding a margin if they want)?

Endeavour Energy has proposed the removal of the 'opt-out' provision for cost-reflective tariffs (for customers with the enabling technology) and the use of transitional arrangements and education to support customer choice, control and allow more efficient delivery of energy services by networks. We see the role of retailers continues to be to develop products and services that customers have choice in, which may or may not include the direct pass-through of the distribution tariff structure in its entirety. This proposed approach ensures the incentive for cost-reflectivity on retailers exists, but customer choice and competition should drive structures that retailers ultimately offer.