

19 September 2018



Mr Sebastian Roberts
General Manager, Network Expenditure
Australian Energy Regulator
GPO Box 520
MELBOURNE VIC 3001

By email to: NSW2019-24@aer.gov.au

Dear Mr Roberts,

Endeavour Energy – Revised 2019-24 Capital Forecast

PIAC writes regarding the letter from Endeavour Energy to the AER dated 30 August 2018. In that letter, Endeavour Energy sought to revise the 2019-24 capital expenditure (capex) forecast contained in its April 30 regulatory proposal from \$2.16 billion to \$1.7 billion. PIAC supports a reduction in forecast capex by Endeavour Energy. However, we contend that specific numbers included in the revised forecast should still be subject to an AER assessment process consistent with the National Electricity Rules.

Endeavour Energy’s stakeholder engagement

PIAC supports the approach Endeavour Energy has taken to stakeholder engagement since submissions were made to the AER’s issues paper. Through this process, Endeavour Energy has engaged constructively with PIAC, other consumer groups and the AER on their capex revisions, rate of return and opex productivity. Effectively, Endeavour Energy has taken steps to engage early on its revised proposal. We welcome this as good engagement practice.

Revision process

PIAC notes the distinction between engaging on revisions to a proposal by a business and negotiating the outcome of a determination by the AER. The current regulatory framework does not recognise a role for negotiation about the contents of draft and final determinations outside of the formal regulatory process.¹

In the absence of a new framework, PIAC considers that the AER’s role as an expert regulator remains unchanged, and that its assessment of proposals should be the basis for draft and final determinations. Therefore, we recommend the AER treats engagement with Endeavour Energy and other stakeholders as constructive and productive contributions to a revised proposal that can give the regulator and other stakeholders confidence that consumers have been consulted through the process of its development.

¹ PIAC supports the AER/ECA/ENA NewReg process investigating options to address this.

Capital reforecast

PIAC welcomes the direction Endeavour Energy has taken with their proposed revisions to their capex forecast. As outlined in our submission the AER's issues paper, PIAC is concerned that Endeavour Energy's original proposal did not adequately reflect consumers' need for affordable distribution services. High levels of capex in one period result in high distribution charges for both current and future consumers through high regulatory asset bases. Clearly, \$1.70 billion in forecast capex is more affordable than \$2.16 billion.

However, PIAC is not in a position to determine the efficiency of a \$1.7 billion forecast over, say, a \$1.6 billion forecast. As noted above, we contend that the revised forecast should be subject to a rigorous AER assessment process consistent with the National Electricity Rules. In our issues paper submission and attached evaluation of Endeavour Energy's original capex proposal, we noted a number of areas that require detailed analysis by the AER. We maintain these positions.

Rate of return

In addition to revising its capex forecast, Endeavour Energy has engaged with stakeholders on the rate of return and opex productivity. PIAC contends that all NSW DNSPs should accept the application of the revised 2018 rate of return guideline to their 2019-24 regulatory determinations. It appears from the August 30 letter that Endeavour Energy will now accept the application of the 2018 guideline to its 2019-24 determination. PIAC supports this position.

Opex productivity

Finally, Endeavour Energy discussed the issue of ongoing opex productivity with PIAC and other stakeholders. PIAC supports the inclusion of some explicit opex efficiencies in the Endeavour Energy proposal. However, as noted in our issues paper submission, PIAC does not agree with the AER's current practice of assuming zero productivity growth for DNSPs over the course of a regulatory period. We maintain that a positive productivity factor should be applied in all distribution determinations and welcome the upcoming AER review into this matter.

Continued engagement

We look forward to continued engagement with the AER and Endeavour Energy. Please contact Tim Harrison should you wish to discuss any of these matters further.

Yours sincerely,

Tim Harrison

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