

ENDEAVOUR ENERGY REGULATORY REFERENCE GROUP (RRG) INDEPENDENT MEMBERS PANEL

Report 3
Advice to Endeavour Energy following the submission of their Regulatory Proposal

March 2023

CONTENTS

1. Introduction and summary	3
<i>The context of this report in Endeavour Energy's reset process.....</i>	<i>3</i>
<i>Engagement</i>	<i>3</i>
<i>The Better Resets Handbook</i>	<i>4</i>
<i>What is next?.....</i>	<i>4</i>
2. Panel comments on the revenue proposal.....	5
3. Addressing the issues from Report 2	7
<i>Affordability.....</i>	<i>7</i>
<i>Resilience</i>	<i>8</i>
<i>Innovation Fund.....</i>	<i>9</i>
<i>Cyber Security.....</i>	<i>10</i>
<i>Opex step changes.....</i>	<i>10</i>
<i>Opex productivity</i>	<i>11</i>
<i>Capex productivity.....</i>	<i>11</i>
<i>Integrating consumer energy resources.....</i>	<i>11</i>
<i>Tariffs and tariff strategy</i>	<i>12</i>
4. Recommendations for the <i>confirm</i> phase	19

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 SUMMARY

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

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

Our first report in August 2022 followed the release of Endeavour Energy's *Preliminary Proposal* and subsequent engagement in the *Prioritise* phase of the development of their regulatory position. We provided detailed feedback on the early financials and outcomes of the engagement, including a request to prepare an Engagement Summary Report to encapsulate the extensive engagement to date and draw a clear connection between the engagement outcomes and the positions taken by Endeavour Energy in their Draft Proposal.

In November 2022, our second report provided detailed feedback on Endeavour Energy's *Draft Proposal* published in October 2022. In that report, we assessed Endeavour Energy's engagement process against the requirements of the Australian Energy Regulator's (AER) Better Resets Handbook and provided further feedback on the details of the Draft Proposal itself. We identified several key issues that we believed Endeavour Energy should address in the *Refine* phase of their engagement and in the final Regulatory Proposal submitted to the AER.

In this third report, we consider the work undertaken by Endeavour Energy in the *Refine* phase, and review the action taken regarding our recommendations raised in the second report, as well as how those recommendations have been considered in the Regulatory Proposal. In particular, we consider the approach to energy affordability and its significant impact on the community. We also address outstanding issues that were not addressed comprehensively in our second report, namely our response to the proposed tariff structures.

We also acknowledge and support the findings of the independent review of Endeavour Energy's regulatory engagement conducted by Clare Petre Consulting.

Engagement

This report covers the “Refine” phase of Endeavour Energy’s engagement program. The purpose of this phase was to develop and refine the final Proposal using insights from the “Prioritise” phase. As such, there was less engagement than in previous phases. Nonetheless, there were some important engagement milestones.

For example, Endeavour Energy provided a summary of changes to the Draft Proposal that were made in response to feedback at a Regulatory Reference Group (RRG) meeting on 14 December 2022. This approach meant that the Independent Members Panel had visibility of the amendments being made, including in response to our feedback. We also had a last opportunity to provide comments on how the feedback was being addressed.

The *Refine* phase also included specific and detailed engagement by Endeavour Energy on several initiatives of interest to the RRG. This work included:

- A stakeholder ‘sense check’ survey
- The release of the draft Resilience Strategy for comment
- The Innovation Investment Program Draft Framework

- The Tariff Structure Explanatory Statement (TSES)
- An independent review of the engagement
- A retailer 'roadshow'

We have now entered the "Confirm" phase, which was added in response to feedback from the Independent Members Panel.

The Better Resets Handbook

Our second report provided a comprehensive assessment of Endeavour Energy's Draft proposal against the expectations of the framework set out in the Australian Energy Regulator's (AER's) Better Resets Handbook. For completeness, we briefly touch on these expectations in respect of the "Refine" phase of engagement.

Expectations	Comments
Nature of engagement	<p>Continued genuine commitment led by the Board and Senior Executives to engage with, listen to, and take on board feedback from consumers, their representatives and other stakeholders.</p> <p>This is evidenced by the decision to add a final "Confirm" phase, continue meeting regularly with the RRG throughout 2023, and the decision to reconvene the Customer Panel. Endeavour Energy have also continued to use the Feedback Loop Register to capture and respond to feedback, which helps maintain accountability as well as demonstrates how the Independent Members Panel has influenced the development of the Proposal.</p>
Breadth and depth of engagement	<p>While most of the engagement occurred during the "Prioritise" phase, Endeavour Energy have continued to seek feedback from key stakeholders following the release of the draft proposal. This includes via the stakeholder 'sense check' survey and a retailer roadshow.</p>
Clearly evidenced impact	<p>As described in section 3 of this report, Endeavour Energy responded to the feedback from the Independent Members Panel set out in our second report in finalising its Proposal.</p>

Table 1: Refine phase engagement – Alignment with the Better Resets Handbook

What is next?

The Independent Members Panel looks forward to continuing to work closely with the Endeavour Energy team as we enter the final phases of the regulatory reset process. We support Endeavour Energy's decision to continue convening the RRG throughout 2023. This is an appropriate forum in which to discuss the final issues to be resolved following our feedback in this report. This includes:

- Refinements to Endeavour Energy's approach to resilience
- The impacts of complying with the Security of Critical Infrastructure (SOCI) requirements for cyber security and, in particular, any subsequent impact on opex step changes
- The Tariff Structure Statement.

2. PANEL COMMENTS ON THE REVENUE PROPOSAL

Endeavour Energy submitted its proposal to the AER on 31 January 2023. Our key take-outs from the final proposal are:

- There were no big surprises. The Proposal faithfully kept to the draft, except for changes made to respond to feedback or to incorporate up to date information. This “no surprises” approach has been a key feature of Endeavour Energy’s engagement throughout the development of the Proposal and contributes to our high assessment of the sincerity of Endeavour Energy’s engagement.
- The Regulatory Proposal explicitly responded to feedback on the Draft Proposal, including from the Independent Members Panel. This approach clearly highlights how Endeavour Energy’s customers, stakeholders and the Independent Members Panel have influenced the proposal.
- There are several areas that we consider should continue to be monitored, including resilience and affordability. These issues are discussed further in section 3.
- There are a few areas, mainly tariffs, where we had not provided substantive feedback prior to Endeavour Energy submitting its proposal to the AER. Our feedback on tariffs and tariff structures is a core focus of this report.

The Proposal also acknowledged the independent role of the Independent Members Panel. Our independence was also confirmed via a separate, independent assessment of Endeavour Energy’s engagement program conducted by Clare Petre Consulting. As noted in that report:¹

The Independent members of the RRG have provided feedback in their report: Endeavour Energy Regulatory Reference Group (RRG) Advice to Endeavour Energy following the Release of their Draft Proposal 4 November 2022. This feedback is from an experienced, independent robust group of consumer advocates. These members were clear that they were not ‘captured’ by the process, and that they have provided a comprehensive critical assessment of the customer engagement process.

That same report, drawing on interviews with Endeavour Energy Board members and staff, SEC Newgate staff and the chair of the AER’s Consumer Challenge Panel, noted that the Independent Members Panel “were seen as informed, robust, unafraid to push back, and challenging”².

In this context, we are pleased to be able to provide our overall support for Endeavour Energy’s Proposal. Endeavour Energy has approached the development of its proposal in an honest, open and genuine way. Throughout the process, Endeavour Energy has listened to, taken on board and responded to feedback from the Independent Members Panel as well as its Customer Panel and other stakeholders. As a result, we support the process that Endeavour Energy has undergone to develop its Proposal and we consider that the Proposal generally reflects consumer perspectives. We leave it to the AER to assess whether the proposed expenditure is prudent and efficient.

¹ Clare Petre Consulting, *Independent assessment of Endeavour Energy’s consumer engagement supporting the development of its 2024-29 regulatory proposal*, November 2022, p. 3.

²Ibid, p. 17.

In this report we:

- Recommend that Endeavour Energy maintain a watching brief on affordability and, if necessary, amend its approach to take into account the increasingly challenging environment that many customers are facing.
- Recommend that Endeavour Energy continue to evolve its approach to resilience. While we support the proposed level of capital expenditure, we consider that Endeavour Energy will need to take a much more future-focussed and shared community view of meeting the increased risks of climate change.
- Provide our considered feedback on the Tariff Structure Statement for the first time in this report. We note that Endeavour Energy has not yet had an opportunity to respond, and we are therefore yet to finalise a position on our support for Endeavour Energy's approach to tariffs.

3. ADDRESSING THE ISSUES FROM REPORT 2

This section sets out the key areas where the Independent Members Panel provided feedback on the Draft Proposal and assesses how that feedback was addressed in the final proposal. Where relevant we also refer to areas that were highlighted by the Consumer Challenge Panel (CCP) in their assessment of Endeavour Energy's Proposal.

Affordability

“...continue to monitor the external environment and reflect any changes in both the Revenue Proposal that it submits to the AER in January 2023 as well as its ongoing engagement plan.”
(p.9 RRG)

Our second report commended Endeavour Energy for committing to staying within the parameters of the early signal pathway agreed with the AER, and its focus on affordability and providing customers with services they value. However, we also noted that there will likely be increasing pressure to find additional cost reductions wherever possible to help restrain overall bill increases given the wider market context. For this reason, we encouraged Endeavour Energy to continue its engagement into 2023 to ensure consumers are fully informed and supportive of its proposal.

In response to recommendations from the Independent Members Panel, Endeavour Energy has committed to reassembling its Customer Panel in late May/early June. The purpose of re-engaging with the Customer Panel to provide a sense check of potentially changing customer preferences, particularly in light of affordability concerns.

The external environment continues to be challenging, with concerns over the cost of living continuing to grow. SEC Newgate's most recent Mood of the Nation found that “nearly half of Australians (45%) predict their standard of living will deteriorate in 2023”.³ Further, 76% are either “extremely” or “quite concerned” about their electricity bills.

For businesses, the outlook is similarly bleak. In a recent survey of NSW businesses, energy costs were cited as the number one cost concern.⁴

These surveys were conducted before the AER announced its draft changes to the Default Market Offer, which would see retail prices for residential customers in Endeavour Energy's area without controlled load rise by 22.2% in nominal terms. For small businesses, the draft DMO would increase prices by 19.9%.⁵

We also note there are several factors that are outside Endeavour Energy's control that are likely to escalate its costs and therefore the outturn price for consumers. For example, the cost of capital over the next five years is an area of significant uncertainty with large potential impacts for customers. Similarly, while the NSW Electricity Infrastructure Roadmap costs have been released for 2023-24, costs for the upcoming five year

13. Concerns about business costs

- #1** Energy costs
- #2** Insurance costs
- #3** Taxes, levies (& other government charges)
- #4** Wages
- #5** Supplier costs
- #6** Transport costs (including toll charges)
- #7** Rent
- #8** Loan repayments

Business NSW, NSW Business Conditions, February 2023, p.28

³ See [SEC Newgate Mood of the Nation – February 2023](#).

⁴ See [Business NSW, NSW Business Conditions, Pre-election special edition, February 2023](#).

⁵ See AER, [Default market offer prices 2023024, Draft Determination](#), March 2023, p. 6.

regulatory period are still uncertain. We expect Endeavour Energy's annual contribution to increase significantly from the \$48.86m allocated for the next financial year⁶, which consists only of administrative costs and the minimum prudent cash balance required for the Scheme Financial Vehicle to meet its liabilities under the Electricity Infrastructure Investment Act. There are yet to be any costs related to scheme costs for Long-term Energy Service Agreements or Renewable Energy Zones. The most recent Infrastructure Investment Objectives (IIO) Report shows that these costs will be significant in the 2024-29 period.

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	total
Scheme cost (LTESA) (\$B)	0.09	0.13	0.09	0.11	0.05	0.12	0.15	0.16	0.24	0.15	1.29
Scheme cost (Transmission) (\$B)	0.00	0.00	0.16	0.16	0.28	0.32	0.32	0.24	0.25	0.25	1.98

The NSW Government's next IIO report, due to be released in the next couple of months, will provide a further update that can be incorporated into stakeholder consultation during 2023.

We agree with Endeavour Energy's decision to replace the initially proposed Customer Panel survey with a meeting to facilitate a dialogue with customers. Hearing directly from consumers and providing opportunities for both consumers and Endeavour Energy to ask questions will provide richer information. It will also promote better understanding of the issues that are at the top of customers' minds when it comes to the electricity bills and the impact of further price rises – including those that are not within Endeavour Energy's control.

Endeavour Energy has indicated that they will involve the RRG in developing the agenda and materials for the Customer Panel meeting. We look forward to working closely with the team to ensure the agenda and materials are fit-for-purpose. We recommend that Endeavour Energy also be clear on what it can and can't do to reduce costs further in the event that its customers raise significant concerns about affordability.

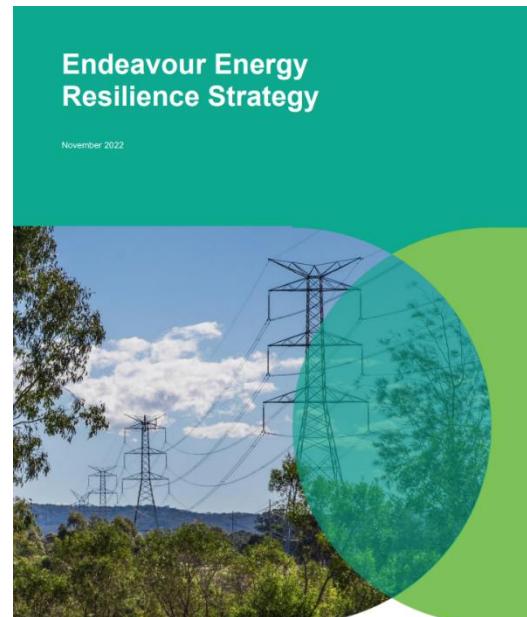
Resilience

“...effectively understand and refine the approach to emerging consumer needs for resilience”
(p.5 RRG)

Resilience is clearly a critical issue for Endeavour Energy. Throughout the development of its Regulatory Proposal, on the ground Endeavour Energy was addressing widespread power outages as a result of extreme weather. Only last month, more than 40,000 homes and businesses lost power as a result of a severe thunderstorm.

Engagement with customers and stakeholders clearly promoted a role for Endeavour Energy to actively support the empowerment of customers through an equitable transition to renewable and decentralised energy whilst managing the increasing risks of climate change to network and community resilience.

Endeavour Energy have taken a highly targeted and relatively low-key approach to community energy resilience, based largely on the recent experiences of the Blue Mountains and South Coast bushfires, the repeated flooding of the Nepean and Hawkesbury Rivers and the Major Event Days that are often excluded from reliability reporting.



⁶ See <https://www.aer.gov.au/communication/aer-releases-the-first-contribution-determination-under-nsw-roadmap>

As a result of learning from these long-duration events that significantly disrupted local communities, Endeavour Energy is proposing a relatively modest increase in capital expenditure of \$28m to improve network and community resilience through network asset upgrades. This will be invested in targeted initiatives that deliver value to impacted communities, including the replacement of 212km of bare conductor in bushfire prone areas; raising powerlines in flood-prone areas of the Hawkesbury Nepean catchments; and providing back-up power to critical infrastructure at community hubs in times of emergency.

We support the modest capital expenditure increase of \$28m, noting that resilience will also be achieved through ongoing network maintenance. Over time, Endeavour Energy will need to take a more future-focussed and shared community view of meeting the increased risks of climate change. Greater post-event involvement may be necessary, including meeting the expectation of local councils who have indicated a willingness to partner with Endeavour Energy on managing severe weather, particularly extreme heat; improving community resilience; and accelerating the transition to renewable energy. The Bawley Point microgrid is a good example of working with a local community to develop a fit-for-purpose solution.

The Endeavour Energy Resilience Strategy is a useful start as a framework for the climate change risk analysis and response planning that will be needed over the next five years. We support the development of this strategy to include local area resilience plans that consider the role and accountability of the many authorities – including councils, telecommunications, water supply, roads and health support - that have a part to play in major climate-related disturbances. In addition, the development of performance indicators and targets such as the number of customers with interruptions greater than 24 hours or other long-duration interruption indicators would be useful.

While the exact challenges of climate change are yet to play out, Endeavour Energy can make a start by demonstrating its ability to adapt and be agile in its approach to investing in its network.

Innovation Fund

“...more detail should be provided in the Revenue Proposal on the governance structure for the fund.” (p.23 RRG)

Endeavour Energy presented an Innovation Investment Proposal to the RRG in early December 2022. That document reflected strong consumer support for the utility to play a pivotal role in the energy transition. Based on this support, Endeavour Energy propose to establish a \$25m Innovation Fund, which will have oversight from a new customer reference group. The Innovation Fund will be invested in technology trials to open up opportunities for customers to participate in new energy markets to maximise the value of the energy they generate, and the distribution of customer generated resources on the grid.

In our last report, we provided support for both the concept of an Innovation Fund and the proposed amount of expenditure. However, we noted that additional detail was required to explain the governance arrangements to ensure the funding is directed to appropriate projects. In response, we note that Endeavour Energy developed five governance principles to apply to the fund. These principles were tested with the RRG on 14 December 2022. The principles were included in the proposal, and are:⁷

- Continuity of engagement
- Transparency of plans, findings and failures
- Enhanced customer value
- Clear and adaptable objectives

⁷ Endeavour Energy, *Regulatory Proposal 2024-29*, January 2023, p. 147-149.

- Responsibility and accountability.

A key factor in our support for the Innovation Fund is the establishment of an Innovation Reference Group, which includes members from the PCSC, to ensure proposals for innovation are focused on delivering consumer benefits. Endeavour Energy also responded to our feedback that the Innovation Reference Group should include external industry experts, including academics. We support this approach.

Cyber Security

“...how Endeavour Energy proposes to address cyber security” (p.5 RRG)

“Cyber security is the most dynamic of these topics [opex step changes] and so likely to benefit from further consideration in 2023.” (p. 13 CCP)

In our second report we noted that it is difficult to determine how influential engagement may be on Endeavour Energy’s position in respect of cyber security. Endeavour Energy is in the early stages of complying with the SOCI requirements, not all of which have been finalised yet. However, we note that Endeavour Energy has “committed to assessing the impacts and working transparently with stakeholders”.⁸

Endeavour Energy have informed us that they will return to the RRG at the April 2023 meeting with detailed analysis of cyber security investment and SOCI response settings.

As discussed further below, Endeavour Energy has not proposed to include an opex step change for SOCI at this time. While the impact of SOCI on expenditure is unclear at this stage, we are confident that Endeavour Energy will continue to engage with us on the appropriateness of any costs that Endeavour Energy proposes to pass through to customers. We are also conscious that Endeavour Energy will need to meet the AER’s expectations on cyber security. We look forward to these ongoing consultations.

Given the complexity of the cyber issue, we think the best approach would be for Governments to mandate requirements and then the AER to assess whether a network’s proposed cyber expenditure (capex and opex) is prudent and efficient.

Opex step changes

“Each of the opex step changes are candidates for targeted review.” (p.13 CCP)

Endeavour Energy has proposed an overall top-down constraint on its opex step changes of \$60m, down from \$65m in its Draft Proposal. The \$5m reduction is from the solar soak/off-peak conversion initiative, where Endeavour Energy has reduced and accelerated support payments for accelerating the smart meter roll-out following the release of the AEMC’s draft report for its metering review.⁹

As discussed in our second report, we consider the proposed step changes appear reasonable and we are confident that the proposed changes have been well considered, but leave it to the AER to assess whether the proposed costs are ‘prudent and efficient’.

There are two identified potential cost changes that have had no costs allocated against them in the proposal: increased penalty payments to customers associated with the new NSW Guaranteed Service Levels (GSL) scheme and SOCI. We understand from Endeavour Energy that any additional costs associated with the GSL scheme will be managed outside of the opex step change. If this position changes, we expect Endeavour Energy to reconsult with the Independent Members Panel.

⁸ Endeavour Energy, *Regulatory Proposal 2024-29*, January 2023, p. 238.

⁹ AEMC, *Review of the regulatory framework for metering services*.

As noted above, we expect to engage with Endeavour Energy further in April 2023 on the SOCI costs. This may also be an issue to discuss further with the Customer Panel when it is re-engaged.

Opex productivity

“The one area that Endeavour (and other DNSPs) can seriously consider in response to rising costs is operating cost productivity.” (CCP, p.13)

There appears to have been significant productivity gains in operating expenditure judging by Endeavour Energy's performance in the 2019-24 period. Endeavour Energy is expecting its actual operating expenditure in the 2019-2024 period to be 19% below the AER allowance. This means that the proposed 6% increase in opex allowance for the 2024-29 period still leaves a forecast opex that is substantially below the 2019-24 allowance. With ongoing growth in customer numbers, this means that operating costs per customer are also continuing to fall.

In addition to the above, we note there are implicit productivity improvements in the conservative assumptions on labour and materials cost increases. Endeavour Energy has “not included real price escalation in the materials component of [their] opex (and capex) forecast for the 2024-29 period”.¹⁰ This approach will, given the operation of Efficiency Benefit Sharing Scheme, shield customers from 30% of any additional costs over allowed costs being passed through in higher prices.

As such, we support Endeavour Energy's approach to opex productivity.

Capex productivity

During our engagement we proposed that Endeavour Energy include the same 0.5% annual productivity factor for capitalised overheads. We saw these costs as conceptually no different to overhead opex costs. Following further information provided by Endeavour Energy, we are comfortable that while a productivity factor has not explicitly been applied to capex overheads, in effect a productivity factor has implicitly been incorporated into the overall capex allowance. This includes by using a constrained estimate approach to capitalised overheads and labour escalation, rather than adopting the AER's model.

Integrating consumer energy resources

“We look forward to further engagement on the DER business case, in particular any expansion of the customer export curtailment value (CECV) from the AER’s approach that would include environmental benefits and avoided network investment.” (p.18 RRG)

The Commonwealth Government has been consulting on legislation to amend the national energy objectives to include an emissions reduction objective. The amendment is intended, in part, to “send a clear signal to wider industry, market participants, investors and the public, of the governments’ commitment to achieve a decarbonised, modern and reliable grid”.¹¹ This amendment, if made, will impact the way in which Endeavour Energy invests in its network to assist in delivering a “decarbonised, modern and reliable grid”.

The Independent Members Panel is particularly interested in how the inclusion of an emissions reduction objective may impact:

- the customer export curtailment value (CECV) used to justify additional network investment to support greater levels of exports; and/or

¹⁰ Endeavour Energy, *Regulatory Proposal 2024-29*, January 2023, p. 244.

¹¹ Incorporating an emissions reduction objective into the national energy objectives – Proposed legislative package to give effect to an emissions reduction.

- the design of network tariffs.

In our second report we noted that Endeavour Energy had adopted the AER's CECV guidelines, with some caveats¹², and that this is also a very dynamic area of regulation that includes possible benchmarking of export services¹³. As per our previous comments, should Endeavour Energy change their current position, we expect engagement will be undertaken to assess consumer sentiment regarding the value of curtailed exports.

We also noted in our second report that there is an opportunity for Endeavour Energy to further clarify the integration of the many components of CER work, including the relationship with tariff incentives for customers that focus on the optimal utilisation of the energy network.

In its proposal, Endeavour Energy highlighted the role of new tariffs in helping to manage hosting capacity and enable ongoing investment in consumer energy resources. This includes, for example, a “solar soak” incentive and a “prosumer” tariff.

Tariffs and tariff strategy

“...seeing the tariff strategy in its entirety, so that we can understand and comment on the implications and interrelationships of the many initiatives with matters such as capital investment, distributed energy resources, customer incentives and choice and demand response.” (p.5 RRG)

Endeavour Energy provided a draft version of its Tariff Structure Explanatory Statement to the Independent Members Panel on 2 December 2022, after we delivered our second report. We had limited time to carefully review the document (which was over 100 pages), and we did not see a draft version of the Tariff Structure Statement before it was submitted to the AER.

Cost reflective network tariffs are a complex and challenging area on which to engage customers and seek their feedback. While we recognise that DNSPs are required to consult with customers on their Tariff Structure Statement, they are not necessarily the best positioned actor to undertake such engagement given they do not share a direct relationship with consumers and their tariffs do not and should not target consumers directly. This is further complicated by the different roles of network and retail tariffs under a choice framework. Consumer preference for ‘opt-in’ cost reflective network tariffs should be taken as a strong endorsement of further oversight and potentially regulation to ensure consumer choice of retail prices (including flatter prices), in conjunction with more efficient, mandatory cost-reflective network tariffs at a network level.

We noted in our second report that we consider for the next revenue reset more thought can be given both on how best to present the options to customers and on the appropriate approach for the Revenue Proposal and Tariff Structure Statement.

Below we provide comments on specific aspects of the Tariff Structure Statement relating to shifting all customers to cost reflective tariffs, the ‘prosumer’ tariff, potential tariff trials and the importance of a coordinated approach to engaging with consumers.

Seasonal time of use tariffs

Tariff assignment policy

We agree with Endeavour Energy’s strategy to move all customers to seasonal time of use tariffs once they have the enabling technology installed. We also agree with not permitting a customer’s retailer to

¹²[Endeavour Energy - Incentivising and measuring export service performance - September 2022.pdf \(aer.gov.au\)](https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/incentivising-and-measuring-export-service-performance)

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

opt out of a time of use energy tariff, other than to a more cost reflective time of use demand tariff. The shift to cost reflective network pricing continues to be a critical element in the overall strategy to smooth demands on the distribution network and so help manage the cost of the additional infrastructure that would otherwise be required to supply increasingly peaky evening demand and reduced demand in the middle of the day.

As discussed further below in the context of engaging with customers, we consider additional action could be taken by Endeavour Energy to invest in measures to encourage customers to shift their behaviour. These measures would complement the network price signals that customers will face through their energy charges.

Transitional tariff

We note the AEMC's draft proposal that customers will be required to have a 12-month grace period once they have smart meter installed, before they are shifted onto a time of use tariff. However, Endeavour Energy has proposed to have a further 12-month transitional period where a customer would be allocated to a time of use network tariff with muted signals to minimise bill impact.

While we understand Endeavour Energy has proposed this approach in response to feedback from the Customer Panel, we have some concerns that a transitional tariff unnecessarily delay the transition to cost reflective tariffs and will create more confusion for customers.

While initially supporting cost-reflective tariffs, over time the Customer Panel's preferences shifted away from mandating the take-up of cost-reflective tariffs for all customers with the necessary technology towards allowing customers to opt-in to cost reflective tariffs where they want to.¹⁴ Stakeholders also had quite varied views, but mandated cost reflective tariffs received the most support (46% of respondents).¹⁵

To explore this shift in preference, Endeavour Energy engaged SEC Newgate to conduct a Tariff Knowledge Review. SEC Newgate examined publicly available literature on customer behaviour in respect of time of use tariffs, and conducted interviews with 20 experts including some members of the Independent Members Panel. Endeavour Energy indicated it would consider the results in finalising its tariff design, as well as to engage with the wider industry and stakeholders on these issues.

We are concerned that customers do not have a clear understanding of the difference between a network tariff and a retail price, and therefore that customer preferences in relation to tariffs could be misinterpreted. The role of network tariff is to provide an efficient signal of the costs of energy usage at a connection point to the retailer responsible for that connection. Retailers are then responsible for packaging that tariff with wholesale energy and other costs. While this may involve directly passing through the network tariff structure, a retailer may choose to offer a suite of different retail price structures. In theory, competitive pressures in the retail market should deliver customers a range of retail pricing options to suit different customers' needs. Endeavour Energy cannot, and should not seek to, determine the final retail price structure that consumers face.

For this reason, we consider customers should be shifted onto cost reflective network tariffs as quickly as possible, or at least the appropriate assignment of a customer should be subject to a review process rather than shifting to a transitional tariff. Further, a transitional tariff could simply create more confusion for customers if they face multiple changes in their bills. We also note concern from retailers that a transitional tariff would imply an additional change in their billing systems – a cost that will be passed through to consumers.

¹⁴ SEC Newgate Australia and Endeavour Energy, *Endeavour Energy Customer Panel, Revenue Reset (2024-2029) Final Report – Waves 1, 2 and 3, October 2022*, p96.

¹⁵ SEC Newgate Australia and Endeavour Energy, *Endeavour Energy Stakeholder Deep Dives*, August 2022, p21.

Finally, we note that shifting customers directly to time of use network tariffs following the proposed 12-month grace period will create alignment across the three NSW DNSPs. This will also serve to minimise any confusion for customers.

Charging windows

Endeavour Energy has maintained a four-hour window for peak charging that is consistent across the year. We agree with this approach. Four hours, from 4-8pm is workable for both residential and business customers to be able to change their aspects of their energy use. Anything longer is unlikely to result in a meaningful or sustained behaviour change. A consistent peak window across the year is less confusing for customers.

Endeavour Energy has indicated it will maintain the flexibility to extend the peak window to 9pm “if EV uptake and consumption profiles exceed our expectations and prove to have a material impact on demand, and therefore our future costs”.¹⁶ We encourage Endeavour Energy to explore additional, innovative tariffs that are more targeted toward EVs, as discussed further below, rather than extending the peak charging window. We also note that the peak window does not have to capture every peak, just the majority of peaks.

We support Endeavour Energy’s move to include a “solar soak” signal within the seasonal time of use tariff.

Two-way tariff

We have comments on four aspects of Endeavour Energy’s “prosumer” tariff.

Justification for export pricing

The AER’s Export Tariff Guidelines require distributors to justify the introduction of two-way pricing to demonstrate its need.

We consider Endeavour Energy could make its case for two-way pricing more strongly by providing evidence (i.e. substation heat maps) to support the claim that rooftop PV exports are likely to cause material costs to the network in 2024-29. Endeavour Energy could then explain how it is attempting to mitigate the problem via available low-cost solutions that do not involve charging solar owners for their exports to the grid. If Endeavour Energy can show that despite implementing such solutions, the problem persists, it should set out a pathway to an export tariff which is cost reflective, by targeting areas where and when this problem exists, and by fairly rewarding users who are able to mitigate the problem, especially via peak time battery exports.

Locational approach to export pricing

We expect that different parts of the network will face different pressures in terms of the impact of rooftop PV exports, and that two-way pricing may not be justified across the whole network. However, we acknowledge that Endeavour Energy’s billing system may not be sufficiently sophisticated to enable a locational approach to export charging so the impact of the export charge in the next regulatory period will be constrained by the timetable for implementation of the new billing system. Nevertheless, we see significant benefits in establishing an efficient two-way tariff structure from the start of the reset period even if it is not implemented until the billing system is able to do so. It is much a much easier process getting it right from the start rather than having to amend in the future.

In the longer term, we encourage Endeavour Energy to consider a more granular approach to assessing the need for, and quantum of, two-way prices.

¹⁶ Endeavour Energy, *Tariff Structure Explanatory Statement*, p. 59.

Ability to opt out

Endeavour Energy has proposed that existing customers will be able to opt-in to two-way pricing, and new customers after 1 July 2025 will be automatically assigned a two-way price but will be able to opt-out.

We note the Customer Panel preference for two-way tariffs to be optional. However, for reasons discussed above in respect of a transitional tariff, we consider all customers should be shifted onto cost reflective pricing as quickly as possible with no ability to opt out. Consumer choice should be maintained at a retail level and there is absolutely no need (or even desirability) to ensure retailers pass on a pure network signal. This includes shifting customers onto two-way prices, where these prices are justified. As above, we note that the export charge is expected to be relatively low in the next regulatory period.

Demand based approach

We support Endeavour Energy's approach to the structure of the export charge as a demand-based approach rather than charging on a kilowatt hour basis. This approach is more reflective of the costs being imposed on the network.

Tariff trials

There may be an opportunity for tariff trials to address at an early stage issues associated with the anticipated demand on the network. In particular we would encourage Endeavour Energy to consider EV tariff trials.

Endeavour Energy has taken a technology neutral approach to the design of its tariffs. However, in practice, most customers without electric vehicles or batteries will have limited ability to shift their energy usage. More could be done to strengthen the price signals for EV owners to charge their vehicles at off-peak times, either in the middle of the day or overnight. For example, Ausgrid is trialling a “super off-peak” tariff with an extended evening peak window but a much lower tariff overnight.

Several market developments could complement the introduction of more innovative network tariffs. For example, the Australian Energy Market Commission is currently considering the introduction of “flexible trading arrangements” that would allow customers to separate their controllable and non-controllable loads and face different tariffs for each. The availability of vehicle-to-grid and vehicle-to-home technology is also expected to increase and would need to be considered in designing tariff trials.

Embedded networks

We support Endeavour Energy's approach to network tariffs for embedded network customers that unwind historical cross-subsidies to these customers.

Public lighting

Our views on public lighting were comprehensively addressed in our second report and we have no further comments here.

Coordinated approach to communicating with customers

As noted above, it is retailers that will ultimately decide how to pass through network tariff structures and, in doing so, it will be their role to manage customer communications and understanding. Consumer understanding is critical for two reasons:

- from a consumer perspective, to understand how they are being charged and how to manage their bills; and
- from a network perspective, if the price signals are to translate into effective peak load management.

At this stage it is not clear how retailers will translate the network tariff strategy into their own retail pricing strategy. These are complex issues which are potentially going to put a lot of burden on the retail market, comparison services and others to ensure customers are allocated to an appropriate network tariff and select an appropriate retail plan.

There is potential that if things go wrong that customers will look to the network, rather than the other actors in the system, with any complaints and when looking to remedy their situation. Endeavour Energy should have processes in place to manage this as re-assignment to cost-reflective tariffs become more widespread.

Endeavour Energy could reduce any adverse impacts on both customers and its own processes by pre-empting some of these issues through supporting retailers and others in rolling out the new network tariffs. A coordinated and consistent, industry-wide approach to managing customer communications and understanding would assist in managing outcomes. We acknowledge that Endeavour Energy is only one of many actors in this space. However, we encourage Endeavour Energy to build on the learnings from the Tariff Knowledge Review to spearhead a cooperative approach.

The Tariff Structure Statement suggests that Endeavour Energy will also review the assignment of customers to a tariff, for example where a customer's connection or load connection may no longer appropriate for a particular tariff.¹⁷ Endeavour Energy also suggested they "will be constantly reviewing the outturn bill impacts of the tariff reassignment of these existing customers to ensure that unacceptable outcomes are avoided".¹⁸ While this approach should assist in reducing adverse impacts on customers, and we support these principles, it wasn't clear from the Tariff Structure Statement how these reviews would be conducted or what the remedies may be.

An important aspect of the approach to communicating with customers will be understanding how best to engage with customers – what language to use, and how this might change with different customer segments. For example, CALD communities, SMEs and councils may all require a unique approach to communication both to aid understanding and to encourage behaviour change.

We agree with the findings from the Tariff Knowledge Review that encouraging behaviour change is not just about communicating the bill impacts of time of use tariffs. More can be done to encourage customers to shift their energy usage through messaging and framing, such as highlighting the positive environmental impacts, as well as through other behavioural insights such as social norms.

As noted in a recent report on encouraging flexible energy use in households:¹⁹

Many people want to help make the energy system work better, to enable a cleaner, cheaper and more reliable electricity supply. However, it is becoming increasingly clear that price signals alone won't achieve the levels of engagement needed – trust, fairness, agency and a stake in the system are needed to unlock their participation.

While the responsibility for building customer trust, fairness and agency is not only the responsibility of Endeavour Energy, it could play an important role in taking the first step in this process.

¹⁷ Endeavour Energy, *Tariff Structure Explanatory Statement*, p. 8.

¹⁸ Endeavour Energy, *Tariff Structure Explanatory Statement*, p. 35.

¹⁹ Mike Roberts, Centre for Energy & Environmental Market, UNSW Sydney, [Engaging households in electricity flexibility – insights from the UK](#), January 2023.

Interaction with capex/consumer energy resources

Endeavour Energy has recognised the way tariffs play a significant role in impacting energy demand, and hence the capital requirements in meeting network capacity. Peak demand growth, whilst subdued when compared to previous regulatory periods, will be impacted by the time-of-use tariff structure, energy export incentives and the continuation of demand response (scheduled load) offerings.

Minimum demand, a significant matter for both distribution and transmission networks, will benefit from the proposed tariffs.

In addition, we note the continuing discussion regarding electric vehicle charging tariff options that are intended to minimise the need for significant network augmentation.

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	The Tariff Structure Statement progresses Endeavour Energy towards more cost reflective pricing. We recommend further accelerating this progress by removing the transitional seasonal TOU tariff and removing the ability of customers with solar PV to opt out of a two-way price.
Incorporation of its tariff strategy in its overall business plan	To the extent that we have visibility, elements of the TSS and business plan appear aligned. The tariff strategy should clearly affirm the different role of networks tariffs (vis-à-vis retail prices) and the finding from both engagement and the knowledge review that consumers expressed a strong and consistent preference for more cost-reflective tariffs at a network level while maintaining consumer choice at a retail level.
Demonstration of significant stakeholder engagement and broad stakeholder support	Endeavour Energy conducted significant and wide-ranging engagement in developing its proposal, which we have assessed in more detail in our second report. The views of the Customer Panel were taken into account by Endeavour Energy, as were the views of stakeholders through the Deep Dive sessions. However, we caution that tariffs are a complex area, particularly in the way they relate to retail prices and the final pricing structure seen by the customer. For this reason, we consider the Customer Panel results should be interpreted with caution. Similarly, stakeholders in the Deep Dives were asked to vote on the principles around network tariff structures after a relatively short explanation. While these stakeholders are more knowledgeable than the average customer, they are not necessarily well versed in tariff-related issues. This is not to detract from the good engagement Endeavour Energy has conducted, including the initiative to conduct the Tariff Knowledge Review. Rather, we consider the results should be interpreted with caution.

Insight into and management of any adverse customer impacts	We support the approach of using customer personas to demonstrate the impacts on different customer types. This clearly identifies the types of customers that will be most affected by Endeavour Energy's tariff strategy. Some of the most significant changes will be to embedded network customers. We note Endeavour Energy's intention to smooth the impact over two years.
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Table 2: Alignment of the Tariff Structure Statement with AER expectations – Tariffs (Better Resets Handbook)

4. RECOMMENDATIONS FOR THE CONFIRM PHASE

As set out in our second report, we have the following recommendations for the remainder of the 2024-29 reset:

- a) Continue to implement the engagement plan as agreed with the Independent Members Panel.
 - o We support Endeavour Energy's plan to re-engage with its Customer Panel later in the year and look forward to working with the team on the appropriate issues to test.
- b) Monitor the external environment for changes that may impact customer and stakeholder views on the Draft Proposal and consider whether the engagement plan needs to be consequently amended. This includes issues that may impact customers' energy bills, such as wholesale costs and the NSW Roadmap, as well as economy-wide issues that may impact customers' ability to pay their bills, such as rising interest rates and general cost-of-living pressures.
- c) Consider the impact of the AER's draft Default Market Offer, with the draft published on 15 March and the final due to be published by 26 May 2023.
- d) Continue to discuss the evolution of the engagement plan with the Independent Members Panel.

The second report also provides recommendations for the next regulatory reset as well as its business-as-usual engagement.

As discussed in section 3, there are several issues that we consider require further consideration and engagement with the Independent Members Panel. These are:

- Any amendments to the Regulatory Proposal as a result of external changes impacting affordability
- The approach to resilience
- The impacts of complying with the SOCI requirements for cyber security and, in particular, any subsequent impact on opex step changes
- Potential amendments to the Tariff Structure Statement.

We look forward to continuing to work closely with the Endeavour Energy team.