Draft Decision

Endeavour Energy
Electricity Distribution
Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Attachment 1
Annual revenue requirement

September 2023

AUSTRALIAN ENERGY REGULATOR

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Contents

1 Annual revenue requirement

This attachment sets out our draft decision on Endeavour Energy's (Endeavour) annual revenue requirement (ARR) and expected revenues for the provision of standard control services (SCS) over the 2024–29 regulatory control period. Specifically, it sets out our draft decision on:[1]

- the ARR (unsmoothed), which are the sum of annual building block costs
- the total revenue requirement, which is the sum of the ARRs
- the annual expected revenues (smoothed)
- the X factors.

We determine Endeavour's ARR using a building block approach. We determine the X factors by smoothing the ARR over the 2024–29 period. The X factor is used in the CPI–X methodology to determine the annual expected revenue (smoothed).

1.1 Draft decision

We determine a total ARR of $5,579.6 million ($ nominal, unsmoothed) for Endeavour over the 2024–29 period. This amount reflects our draft decision on the various building block costs and represents a reduction of $5.1 million (0.1%) to Endeavour's proposed total ARR of $5,584.7 million. This reduction is largely driven by the lower return on capital and revenue adjustments building blocks determined in this draft decision, which have been partially offset by increases to other building blocks such as regulatory depreciation and cost of corporate income tax.

We determine the annual expected revenue (smoothed) and X factor for each regulatory year of the 2024–29 period by smoothing the ARR. For the 2024–29 period, our draft decision is to approve total expected revenues of $5,597.8 million ($ nominal, smoothed) for Endeavour.

At the time of making this draft decision, we have used placeholder values for certain components such as the rate of return and expected inflation. We will make further updates for these values as part of our final decision. It is for this reason that we expect the total expected revenues approved in our final decision to be different to this draft decision.

Table 1.1 sets out our draft decision on the building block costs, the ARR, annual expected revenue and X factor for Endeavour over the 2024–29 period.

[1] NER, cll. 6.3.2(a)(1), 6.5.9(a) and 6.5.9(b)(1)–(2).

Table 1.1 AER's draft decision on Endeavour's ARR, annual expected revenue and X factor for the 2024–29 period ($million, nominal)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Return on capital	479.1	493.9	512.6	530.7	551.8	2,567.9
Regulatory depreciation[a]	278.9	235.4	221.3	195.6	195.6	1,126.8
Operating expenditure[b]	295.8	311.4	324.0	340.6	358.2	1,630.0
Revenue adjustments[c]	56.8	22.1	38.2	33.2	2.8	153.2
Cost of corporate income tax	27.1	20.1	19.2	17.6	17.6	101.7
Annual revenue requirement (unsmoothed)	1,137.7	1,082.9	1,115.2	1,117.8	1,126.0	5,579.6
Annual expected revenue (smoothed)	**1,010.7**	**1,133.7**	**1,142.4**	**1,151.1**	**1,159.9**	**5,597.8**
X factor[d]	n/a[e]	–9.11%	1.98%	1.98%	1.98%	n/a

Source: AER analysis.

(a) Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening regulatory asset base (RAB).

(b) Includes debt raising costs.

(c) Includes revenue adjustments from the efficiency benefit sharing scheme (EBSS), the capital expenditure sharing scheme (CESS), shared asset adjustment and the demand management innovation allowance mechanism (DMIAM).

(d) The X factors will be revised to reflect the annual return on debt update. Under the CPI–X framework, the X factor measures the real rate of change in annual expected revenue from one year to the next. A negative X factor represents a real increase in revenue. Conversely, a positive X factor represents a real decrease in revenue.

(e) Endeavour is not required to apply an X factor for 2024–25 because we set the 2024–25 expected revenue in this decision. The expected revenue for 2024–25 is around 9.1% higher than the approved total annual revenue for 2023–24 in real terms, or 12.2% higher in nominal terms.

1.2 Endeavour's proposal

Endeavour proposed a total expected revenue (smoothed) of $5,602.7 million ($ nominal) for the 2024–29 period. Table 1.2 shows Endeavour's proposed building block costs, the ARR, expected revenue and X factor for each year of the 2024–29 period.

Table 1.2 Endeavour's proposed ARR, annual expected revenue and X factor for the 2024–29 period ($million, nominal)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Return on capital	428.8	497.5	516.1	534.2	555.3	2,585.9
Regulatory depreciation[a]	275.4	231.5	217.1	191.2	191.1	1,106.2
Operating expenditure[b]	296.0	311.8	324.7	341.6	359.5	1,633.6
Revenue adjustments[c]	58.7	23.9	40.2	35.2	4.2	162.2
Cost of corporate income tax	25.9	19.2	18.3	16.7	16.7	96.8
Annual revenue requirement (unsmoothed)	1,138.9	1,083.9	1,116.3	1,118.8	1,126.8	5,584.7
Annual expected revenue (smoothed)	**1,057.9**	**1,088.4**	**1,119.6**	**1,151.8**	**1,184.9**	**5,602.7**
X factor	n/a[d]	0.00%	0.00%	0.00%	0.00%	n/a

Source: Endeavour Energy, *0.04 Post-Tax Revenue Model*, January 2023.
(a) Regulatory depreciation is straight-line depreciation net of the inflation indexation on the opening RAB.
(b) Includes debt raising costs.
(c) Includes revenue adjustments from EBSS, CESS, shared asset adjustment and DMIAM.
(d) Endeavour is not required to apply an X factor for 2024–25 because we set the 2024–25 expected revenue in this decision.

1.3 Assessment approach

In this section, we describe the building block approach used to determine the ARR and expected revenue for Endeavour for each year of the 2024–29 period.[2]

1.3.1 The building block approach

The ARR is calculated using the post-tax revenue model (PTRM).[3] For the applicable control mechanism (Attachment 13) applying to SCS, the revenue to be earned by the distributor (expected revenues) for the regulatory control period must be equal to the net present value (NPV) of the total revenue requirement.[4] The total revenue requirement is the sum of the ARRs for the regulatory control period. In turn, the ARR must be determined using a building block approach.[5] Therefore, we adopt a building block approach when making our decision on Endeavour's total ARR and expected revenue for each regulatory year of the regulatory control period. Under this approach, we determine the value of the building block costs that make up the ARR for each regulatory year. The ARR for each year is the sum of the building block costs. These building block costs are set out in section 1.3.2.

2 NER, cll. 6.3.2(a)(1), 6.5.9(b)(2).
3 NER, cl. 6.4.2.
4 NER, cl. 6.5.9(b)(3)(i).
5 NER, cl. 6.4.3.

We developed the PTRM, which brings together the various building block costs and calculates the ARR for each year of the regulatory control period.[6] The PTRM also calculates the X factors required under the CPI–X methodology[7] which is used to escalate the expected revenue for each year (other than the first year) of the regulatory control period.[8] Using the X factors and ARR, the annual expected revenue (smoothed) is forecast for each year of the regulatory control period. Endeavour's proposal must be prepared using our PTRM.[9]

The ARR can be lumpy over the regulatory control period. To minimise price shocks, revenues are smoothed within a regulatory control period while maintaining the principle of cost recovery under the building block approach. Smoothing requires diverting some of the cost recovery to adjacent years within the regulatory control period so that the NPV of the annual expected revenue (smoothed revenues) is equal to the NPV of the ARR (unsmoothed revenues). That is, a smoothed profile of the expected revenue is determined for the regulatory control period under the CPI–X methodology.

The expected revenue for the first year is generally set equal to the ARR for the first year of the regulatory control period. At times, it may be more appropriate to set the expected revenue for the first year to align with the revenue from the last year of the previous regulatory control period to avoid any large revenue variation between periods (or P_0).[10]

In this determination for Endeavour, we first calculate the ARR for each year of the 2024–29 period. To do this we consider the various costs facing Endeavour and the trade-offs and interactions between these costs, service quality and across years. This reflects our holistic assessment of Endeavour's proposal.

We understand the trade-offs that occur between building block costs and test the sensitivity of these costs to their various driver elements. These trade-offs are discussed in the interrelationships section of the various attachments to this draft decision and are reflected in the calculations made in the PTRM.[11] Such understanding allows us to exercise judgement in determining the final inputs into the PTRM and the ARR that result from this modelling.

Having determined the total revenue requirement for the 2024–29 period, we smooth the ARR for each regulatory year across that period. This step reduces revenue variations between years, and calculates the expected revenue and X factor for each year.[12] The X

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6 NER, cl. 6.4.2.

7 NER, cl. 6.2.6(a).

8 NER, cl. 6.5.9.

9 NER, cl. 6.3.1(c).

10 The expected revenue for year 1 of the next regulatory control period may include adjustments for the performance incentive that applied during the previous regulatory control period, and under or over recovery adjustments from previous regulatory years.

11 There are trade-offs that are not modelled in the PTRM but are reflected in the inputs to the PTRM. For example, service quality is not explicitly modelled in the PTRM, but the trade-offs between service quality and price are reflected in the forecast capital expenditure and operating expenditure inputs to the model. Other trade-offs are obvious from the calculations in the PTRM. For example, while it may be expected that a lower RAB would also lower revenues, the PTRM shows that this will not occur if the reduction in the RAB is due solely to an increase in the depreciation rate. In such circumstances, revenues increase as the increased depreciation more than offsets the reduction in the return on capital caused by the lower RAB.

12 NER, cl. 6.5.9(a).

factors equalise (in net present value terms) the total expected revenues to be earned by Endeavour with the total revenue requirement for the 2024–29 period.[13] The X factor profile must also minimise, as far as reasonably possible, the variance between the expected revenue and ARR for the last regulatory year of the period.[14] By minimising this divergence, it helps to manage the prospect of a significant revenue change (and consequently prices) between the last year of the 2024–29 period, and first year of the following 2029–34 period. We consider a divergence of up to 3% between the expected revenue and ARR for the last year of the regulatory control period is reasonable if this can promote smoother price changes across the regulatory control periods.

The building block costs (and the elements that drive those costs) used to determine the unsmoothed ARR are set out in section 1.3.2.

1.3.2 Building block costs

The efficient costs to be recovered by the distributor can be thought of as being made up of various building block costs. Our draft decision assesses each of the building block costs and the elements that drive these costs. The building block costs are approved reflecting trade-offs and interactions between the cost elements, service quality and across years.

Table 1.3 shows the building block costs that form the ARR for each year and where discussion on the elements that drive these costs can be found within this draft decision.

Table 1.3 Building block costs

Building block costs	Attachments where elements are discussed
Return on capital	Regulatory asset base (Attachment 2) Rate of return (Attachment 3) Capital expenditure (Attachment 5)
Regulatory depreciation (return of capital)	Regulatory asset base (Attachment 2) Regulatory depreciation (Attachment 4) Capital expenditure (Attachment 5)
Operating expenditure	Operating expenditure (Attachment 6)
Estimated cost of corporate income tax	Corporate income tax (Attachment 7)
Other revenue adjustments	
Adjustments for shared assets	Annual revenue requirement (Attachment 1)
Operating efficiency benefits/penalties	Efficiency benefit sharing scheme (Attachment 8)

13 NER, cl. 6.5.9(b)(3)(i). The X factors represent the real revenue path over the 2024–29 period under the CPI–X framework.

14 NER, cl. 6.5.9(b)(2).

Building block costs	Attachments where elements are discussed
Capital efficiency benefits/penalties	Capital expenditure sharing scheme (Attachment 9)
Demand management innovation allowance	Demand management incentive scheme and Demand management innovation allowance mechanism (Attachment 11)

1.4 Reasons for draft decision

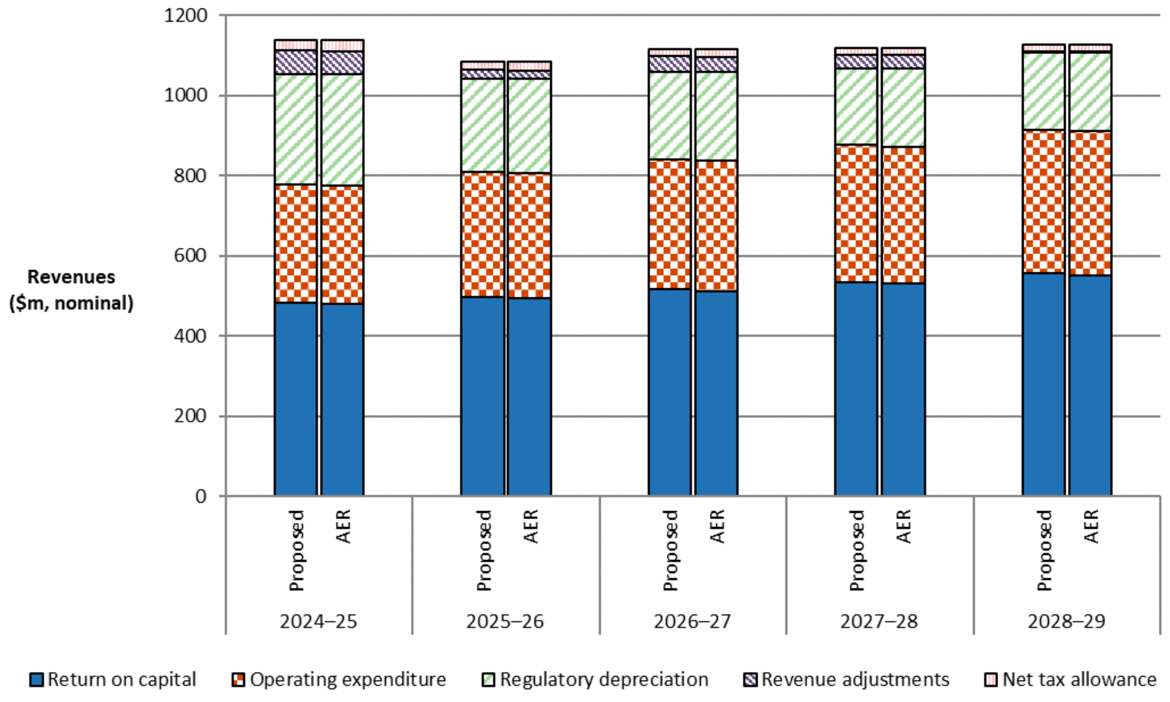
We determine a total ARR of $5,579.6 million ($ nominal, unsmoothed) for Endeavour over the 2024–29 period. This is a reduction of $5.1 million (0.1%) to Endeavour's proposed total ARR of $5,584.7 million for this period. This reflects the impact of our draft decision on the various building block costs.

The changes we made to Endeavour's proposed building blocks include (in nominal terms):

- a reduction in the return on capital of $18.0 million (0.7%) (Attachments 2, 3 and 5). This is driven primarily by a lower opening RAB value as at 1 July 2024 determined in our draft decision due to updates for actual/estimated inflation rates
- an increase in the regulatory depreciation of $20.6 million (1.9%) (Attachments 2, 4 and 5). This is driven primarily by the lower expected inflation rate in our draft decision than at the time of Endeavour's proposal, which reduces the indexation adjustment to regulatory depreciation
- a reduction in the operating expenditure (opex) forecast of $3.7 million (0.2%). This is due to the lower expected inflation rate applied in this draft decision compared to Endeavour's proposal. Our draft decision has accepted Endeavour's proposed total opex in real 2023–24 dollar terms (Attachment 6)
- an increase in the cost of corporate income tax of $5.0 million (5.1%) (Attachment 7). This is driven primarily by a higher regulatory depreciation amount determined in this draft decision compared to Endeavour's proposal
- a reduction in the revenue adjustments of $9.0 million (5.5%) (Attachments 8, 9 and 11). This is due the lower revenue adjustments from EBSS and CESS in this draft decision compared to Endeavour's proposal. Our draft decision also does not accept Endeavour's proposed revenue adjustment for an innovation fund.

Figure 1.1 shows the building block components from our determination that make up the ARR for Endeavour, and the corresponding components from its proposal.

Figure 1.1 AER's draft decision and Endeavour's proposed ARR ($million, nominal)



Source: AER analysis; Endeavour Energy, *0.04 Post-tax Revenue Model*, January 2023.
Note: Revenue adjustments include EBSS, CESS, shared asset adjustment and DMIAM amounts. Opex includes debt raising costs.

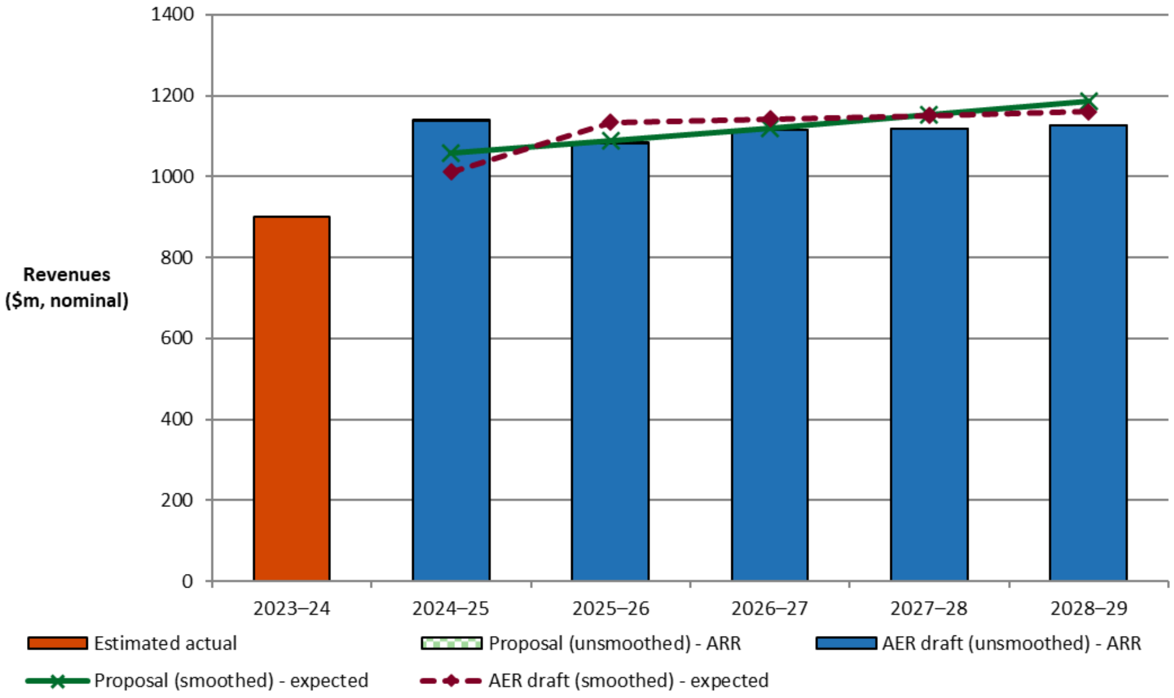
1.4.1 X factor and annual expected revenue

For this draft decision, we determine an X factor for Endeavour of –9.11% for the second year of the regulatory control period for 2025–26. This is followed by an X factor of 1.98% per annum for the remaining three years of the period from 2026–27 to 2028–29.[15] The NPV of the ARRs is $4,708.3 million ($ nominal) as at 1 July 2024. Based on this NPV and applying the CPI–X framework, we determine that the expected revenue (smoothed) for Endeavour is $1,010.7 million in 2024–25 increasing to $1,159.9 million in 2028–29 ($ nominal). The resulting total expected revenue is $5,597.8 million for the 2024–29 period.

Figure 1.2 shows our draft decision on Endeavour's annual expected revenue (smoothed revenue) and the ARR (unsmoothed revenue) for the 2024–29 period.

15 Endeavour is not required to apply an X factor for 2024–25 because we set the 2024–25 expected revenue in this decision.

Figure 1.2 AER's draft decision on Endeavour's revenue for the 2024–29 period ($million, nominal)



Source: AER analysis; Endeavour Energy, *0.04 Post-tax Revenue Model*, January 2023.
Note: Our draft decision ARR per annum is not materially different to Endeavour's proposal.

To determine the profile of expected revenue for Endeavour over the 2024–29 period, we have set the expected revenue for the first regulatory year at $1,010.7 million ($ nominal). This is $126.9 million lower than the ARR for that first year. We then apply an expected inflation rate of 2.80% per annum and a profile of X factors to determine the expected revenue in subsequent years.[16] We consider that our profile of X factors results in an expected revenue in the last year of the regulatory control period that is as close as reasonably possible to the ARR for that year.[17] We will review this smoothing profile for the final decision.

Our draft decision results in an average increase of 5.2% per annum ($ nominal) in the expected revenue over the 2024–29 period.[18] This consists of initial increases of 12.2% per annum in 2024–25 and 2025–26, followed by average annual increases of 0.8% during the remainder of the 2024–29 period.[19]

16 NER, cl. 6.5.9(a).

17 NER, cl. 6.5.9(b)(2). We consider a divergence of up to 3% between the expected revenue and ARR for the last year of the regulatory control period is appropriate if this can promote smoother price changes for users across the regulatory control periods. In the present circumstances, based on the X factors we have determined for Endeavour, this divergence is around 3.0%.

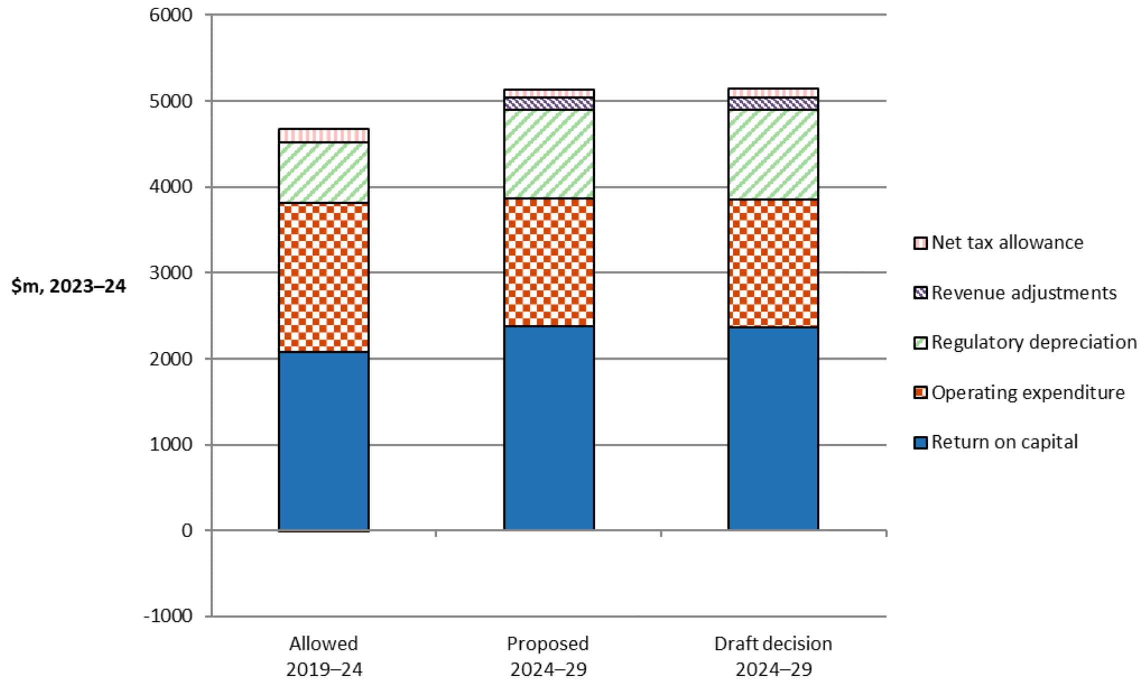
18 In real 2023–24 dollar terms, our approved expected revenue for Endeavour results in an average increase of 2.3% per annum over the 2024–29 period.

19 In real 2023–24 dollar terms, this consists of initial increases of 9.1% per annum in 2024–25 and 2025–26, followed by annual decreases of 2.0% during the remainder of the 2024–29 period.

Our draft decision also results in an increase of 10.0% in real terms ($2023–24) to Endeavour's total ARR relative to that in the 2019–24 period. This outcome is largely due to higher return on capital, regulatory depreciation and revenue adjustment amounts determined in this draft decision for the 2024–29 period than those approved in the 2019–24 determination.

Figure 1.3 compares our draft decision building blocks for Endeavour's 2024–29 period with its proposal for the same period, and the approved unsmoothed revenue for the 2019–24 period.

Figure 1.3 Total revenue by building block components ($million, 2023–24)



Source: AER analysis.

1.4.2 Shared assets

Distributors, such as Endeavour, may use assets to provide both the SCS we regulate and unregulated services, for example by the stringing of telecommunications cables on the electricity network poles for the provision of telecommunication services. These assets are called 'shared assets'.[20] If the revenue from shared assets is material, 10% of the unregulated revenues that a distributor earns from shared assets will be used to reduce the distributor's revenue for SCS.[21]

The shared asset principles establish that use of shared assets should be material before cost reductions are applied.[22] The National Electricity Rules (NER) do not define materiality in this context. Our approach to what constitutes a material use of shared assets is that unregulated use of shared assets in a specific regulatory year is material when a distributor's

[20] NER, cl. 6.4.4.

[21] AER, *Shared asset guideline*, November 2013, Appendix A, p. 15.

[22] NER, cl. 6.4.4(c)(3).

annual average unregulated revenue from shared assets is expected to be greater than 1% of its expected revenue for that regulatory year.[23]

Endeavour submitted that it would receive $53.5 million ($2023–24) in shared asset revenues over the 2024–29 period.[24] These additional revenues exceed the AER's materiality threshold of 1% of Endeavour's annual expected revenues and is therefore subject to a shared asset adjustment.[25] Accordingly, 10% of these additional revenues will be shared with customers through a revenue adjustment in the PTRM.

We consider Endeavour's forecast unregulated revenues from shared assets for the 2024–29 period are reasonable as they are comparable with its historical unregulated revenues from shared assets.[26] However, Endeavour's forecast unregulated revenues must be compared to the regulated revenues we determine, rather than those proposed by Endeavour. Our draft decision sets a lower total expected revenue than Endeavour's proposal for the 2024–29 period. However, we estimate that the unregulated revenues will still be greater than 1% of the expected revenues in each year of the 2024–29 period. Therefore, the materiality threshold is met in each year of the 2024–29 period and we apply a shared asset revenue adjustment over this period.[27]

For this draft decision, we determine a shared asset revenue adjustment as shown in Table 1.4. The adjustment will see $5.3 million ($2023–24) shared with customers across the 2024–29 period.

Table 1.4 AER's draft decision on Endeavour's shared asset revenue adjustment ($million, 2023–24)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Endeavour's proposal	–1.1	–1.1	–1.1	–1.1	–1.1	–5.3
AER draft decision	–1.1	–1.1	–1.1	–1.1	–1.1	**–5.3**

Source: AER analysis; Endeavour Energy, *0.04 Post-tax Revenue Model*, January 2023.

1.4.3 Indicative average distribution price impact

Our draft decision on Endeavour's expected revenues ultimately affects the prices consumers pay for electricity. There are several steps required in translating our revenue decision into indicative distribution price impacts.

We regulate Endeavour's SCS under a revenue cap form of control. This means our draft decision on Endeavour's expected revenues does not directly translate to price impacts. This is because Endeavour's revenue is fixed under the revenue cap form of control, so changes in the consumption of electricity will affect the prices ultimately charged to consumers.

23 AER, *Shared asset guideline*, November 2013, pp. 8–9.

24 Endeavour Energy, *0.01 Regulatory Proposal*, January 2023, p. 150.

25 AER, *Shared asset guideline*, November 2013, p. 8.

26 AER analysis; Endeavour Energy, *RIN0.02 Reset RIN Workbook 2 – Historical – Public*, January 2023.

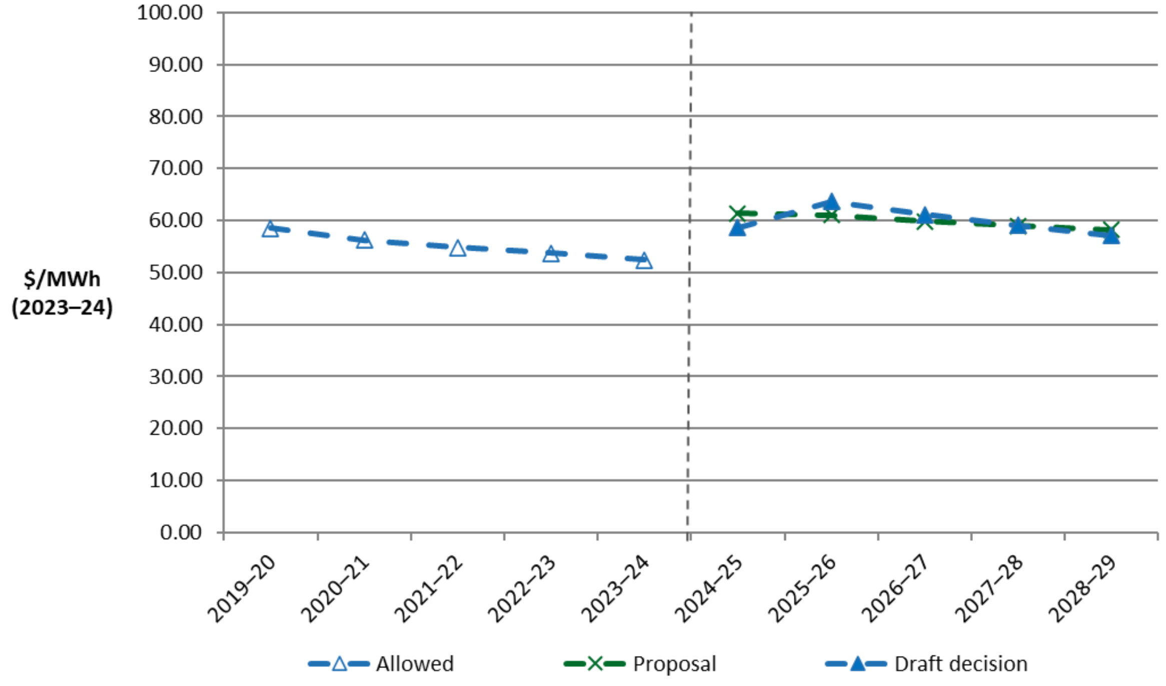
27 We will reassess the materiality of the forecast shared asset unregulated revenues for our final decision.

We are not required to establish the distribution prices for Endeavour as part of this determination. However, we will assess Endeavour's annual pricing proposals before the commencement of each regulatory year within the 2024–29 period. In each assessment we will administer the pricing requirements set in this distribution determination.

For this draft decision, we have estimated some indicative average distribution price impacts flowing from our determination on the expected revenues for Endeavour over the 2024–29 period. In this section, our estimates only relate to SCS (that is, the core electricity distribution charges), not alternative control services (such as metering charges). These indicative price impacts assume that actual energy consumption across the 2024–29 period matches Endeavour's forecast energy consumption, which we have adopted for this draft decision. We also have not factored in any changes arising from incentive scheme amounts, cost pass throughs or unders/overs reconciliation that usually occur in the annual pricing process to come up with the total allowed revenue.

Figure 1.4 shows Endeavour's indicative average price path over the period from 2019–20 to 2028–29 in real 2023–24 dollar terms based on the expected revenues established in our draft decision compared to Endeavour's proposed revenue requirement. The indicative price path is estimated using the approved expected revenue and dividing by forecast energy consumption for each year of the 2019–24 period.

Figure 1.4 Indicative distribution price path for Endeavour ($/MWh, 2023–24)



Source: AER analysis.

We estimate that our draft decision on Endeavour's annual expected revenue will result in an increase to average distribution charges by about 1.3% per annum over the 2024–29 period in real 2023–24 dollar terms.[28] This compares to the real average increase of approximately 1.6% per annum proposed by Endeavour over the 2024–29 period.[29] These high-level estimates reflect the aggregate change across the entire network and do not reflect the particular tariff components for specific end users.

Table 1.5 displays in nominal terms the comparison of the revenue and price impacts of Endeavor's proposal and our draft decision.

Table 1.5 Comparison of revenue and price impact of Endeavour's proposal and the AER's draft decision ($ nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29
AER draft decision						
Revenue ($m, nominal)	901.1	1010.7	1133.7	1142.4	1151.1	1159.9
Price path ($/MWh)	53.65	60.34	67.28	66.47	65.97	65.61
Revenue (change %)	–	12.2%	12.2%	0.8%	0.8%	0.8%
Price path (change %)	–	12.5%	11.5%	–1.2%	–0.7%	–0.6%
Endeavour proposal						
Revenue ($m, nominal)	901.1	1057.9	1088.4	1119.6	1151.8	1184.9
Price path ($/MWh)	53.65	63.16	64.59	65.15	66.01	67.03
Revenue (change %)	–	17.4%	2.9%	2.9%	2.9%	2.9%
Price path (change %)	–	17.7%	2.3%	0.9%	1.3%	1.5%

Source: AER analysis; Endeavour Energy, *0.04 Post-tax Revenue Model*, January 2023.
(a) The price path is in nominal terms and is constructed by dividing nominal expected revenue for SCS by forecast energy consumption for each year of the regulatory control period.

1.4.4 Expected impact of draft decision on electricity bills

The annual electricity bill for customers in Endeavour's network reflects the combined cost of all the electricity supply chain components—wholesale energy generation, transmission, distribution, metering, and retail costs. This draft decision primarily relates to the distribution charges for Endeavour's SCS, which represent approximately 25% on average for residential customers' and 21% on average for small business customers' annual electricity bills in Endeavour's network area.[30]

We estimate the expected bill impact by varying the distribution charges in accordance with our draft decision in this attachment, while holding all other components—including the

[28] In nominal terms we estimate average distribution charges to increase by 4.1% per annum. This amount reflects an expected inflation rate of 2.80% per annum as determined in this draft decision.

[29] In nominal terms Endeavour's proposal would increase distribution charges by 4.6% per annum. This amount reflects an expected inflation rate of 2.87% per annum as proposed by Endeavour in its proposal.

[30] AER analysis; Endeavour Energy, *2023-24 - Annual ACS pricing model*, 12 April 2023; AER, *Default Market Offer Prices 2023–24: Final Determination*, May 2023, p. 6.

metering component—constant.[31] This approach isolates the effect of our draft decision on the core distribution charges only for Endeavour. However, this does not imply that other components will remain unchanged across the regulatory control period.[32]

Based on this approach, we expect that our draft decision on the distribution component will increase the average annual residential electricity bill in 2028–29 by about $122 ($ nominal) or 5.5% from the 2023–24 total bill level. By comparison, had we accepted Endeavour's proposal, the expected change in the distribution component would increase the average annual residential electricity bill in 2028–29 by about $136 ($ nominal) or 6.1% from the 2023–24 total bill level.

Similarly, we expect that our draft decision will result in the distribution component of the average annual electricity bill for a small business customer in 2028–29 to increase by about $214 ($ nominal) or 4.7% from the 2023–24 total bill level. By comparison, had we accepted Endeavour's proposal, the expected change in the distribution component would increase the average annual small business electricity bill in 2028–29 by about $240 ($ nominal) or 5.2% from the 2023–24 total bill level.

Our estimated bill impact is based on the typical annual electricity usage of 4,913 kWh and 10,027 kWh for residential and small business customers in Endeavour's network, respectively.[33] Therefore, customers with different usage will experience different changes in their bills. We also note that there are other factors, such as metering, wholesale and retail costs, which affect electricity bills.

Table 1.6 shows the estimated impact of our draft decision and Endeavour's proposal on the average annual electricity bills for residential and small business customers in its network over the 2024–29 period.

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31 We also have not factored in any changes arising from incentive scheme amounts, cost pass throughs or unders/overs reconciliation that usually occur in the annual pricing process to come up with the total allowed revenue.

32 It also assumes that actual energy consumption will equal the forecast adopted in our draft decision. Since Endeavour operates under a revenue cap, changes in energy consumption will also affect annual electricity bills across the 2024–29 period.

33 AER, *Default market offer prices 2023–24: Final determination*, May 2023, p. 6.

Table 1.6 Estimated impact of Endeavour's proposal and AER's draft decision on annual electricity bills for the 2024–29 period ($ nominal)

	2023–24	2024–25	2025–26	2026–27	2027–28	2028–29
AER draft decision						
Residential annual electricity bill	2228	2296	2367	2359	2354	2350
Annual change	–	68 (3.1%)	71 (3.1%)	–8 (–0.4%)	–5 (–0.2%)	–4 (–0.2%)
Small business annual electricity bill	4598	4718	4842	4828	4819	4812
Annual change	–	120 (2.6%)	124 (2.6%)	–15 (–0.3%)	–9 (–0.2%)	–7 (–0.1%)
Endeavour proposal						
Residential annual electricity bill	2228	2325	2339	2345	2354	2364
Annual change	–	97 (4.3%)	15 (0.6%)	6 (0.2%)	9 (0.4%)	10 (0.4%)
Small business annual electricity bill	4598	4768	4794	4804	4820	4838
Annual change	–	170 (3.7%)	26 (0.5%)	10 (0.2%)	16 (0.3%)	18 (0.4%)

Source: AER analysis; AER, *Default market offer prices 2023–24: Final determination*, May 2023, p. 6.

(a) AER, *Default market offer prices 2023–24: Final determination*, May 2023, p. 6.

(b) Annual change amounts and percentages are indicative. They are derived by varying the distribution component of the 2023–24 bill amounts in proportion to yearly expected revenue divided by forecast energy as provided by Endeavour. Actual bill impacts will vary depending on electricity consumption and tariff class.

Shortened forms

Term	Definition
AER	Australian Energy Regulator
ARR	annual revenue requirement
capex	capital expenditure
CESS	capital expenditure sharing scheme
CPI	consumer price index
DMIAM	demand management innovation allowance mechanism
DMO	default market offer
EBSS	efficiency benefit sharing scheme
NER	national electricity rules
NPV	net present value
opex	operating expenditure
PTRM	post-tax revenue model
RAB	regulatory asset base
RFM	roll forward model
SCS	standard control services