Draft Decision

Endeavour Energy Electricity Distribution Determination 2024 to 2029

(1 July 2024 to 30 June 2029)

Overview

September 2023

AUSTRALIAN ENERGY REGULATOR

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1.0	28 September 2023	47

Invitation for submissions

Endeavour Energy has the opportunity to submit a revised proposal in response to this draft decision by **30 November 2023.**

Interested stakeholders are invited to make a submission on both our draft decision and Endeavour Energy's revised proposal (once submitted) by **19 January 2024.**

Submissions should be sent to: AERresets2024-29@aer.gov.au

Alternatively, submissions can be sent to:

Arek Gulbenkoglu
General Manager
Australian Energy Regulator
GPO Box 1313
Canberra ACT 2601

Submissions should be in Microsoft Word or another text readable document format.

We prefer that all submissions be publicly available to facilitate an informed and transparent consultative process. We will treat submissions as public documents unless otherwise requested.

Parties wishing to submit confidential information should:

1. Clearly identify the information that is the subject of the confidential claim.
2. Provide a non-confidential version of the submission in a form suitable for publication.

All non-confidential submissions will be published on our website.

Pre-determination conference

Consumer engagement is a valuable input to our determination. We encourage all interested stakeholders to join us and the New South Wales (NSW) distribution businesses (Ausgrid, Endeavour Energy and Essential Energy) at an online public forum on Monday, **9 October 2023**. Details of how to register for this forum are available on our website and through Eventbrite (external link).

List of attachments

This attachment forms part of our draft decision on the distribution determination that will apply to Endeavour Energy for the 2024–29 period. It should be read with all other parts of the draft decision.

The draft decision includes the following attachments:

Executive summary

The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable, and affordable energy future for Australia as it transitions to net zero emissions. The regulatory framework governing electricity transmission and distribution networks is the National Electricity Law and Rules (NEL and NER). Our work is guided by the National Electricity Objective (NEO) as one of the National Energy Objectives.

A regulated network business must periodically apply to us to determine the maximum allowed revenue it can recover from consumers for using its network. On 31 January 2023 we received a revenue proposal from NSW electricity distribution network service provider Endeavour Energy, for the period 1 July 2024 to June 2029 (2024–29 period). This is our draft decision on that proposal. This is our draft decision on that proposal.

Ensuring consumers pay no more than necessary for safe and reliable energy while supporting the energy transition

Our draft decision comes at a challenging time for energy consumers and the sector more broadly. It seeks to balance affordability with necessary expenditure required to support the energy transition.

Consumers are facing a cost-of-living pressures and affordability is a key issue. In SEC Newgate's Mood of the Nation report June 2023[1], the number one issue among the Australian public is reducing cost increases for household bills and 84% of Australians are extremely or quite concerned about electricity bills. Energy Consumers Australia (ECA) similarly noted in a June 2023 energy consumer sentiment survey[2] that Australian consumers are increasingly worried about the affordability of rising energy costs, with more than 50% concerned about being able to pay electricity bills.

Cost of living pressures are high in NSW. The NSW Council of Social Service (NCOSS) said in its August 2023 cost of living in NSW report that most households on low incomes are exceeding their budgets, with almost half of low-income households being unable to afford essentials[3]. Low-income households ranked utilities as the area of expenditure put most under pressure in the past 12 months due to rising living costs[4]. Our analysis shows that Endeavour's distribution network charges make up around 21% of its residential customers electricity bills.

At the same time, the energy sector is undergoing a significant decarbonisation and electrification transition requiring expenditure to enable additional utility-scale and distributed

1 SEC Newgate Australia, *SEC Newgate Mood of the Nation*, June 2023.

2 Energy Consumers Australia, *June 2023 - Energy Consumer Sentiment Survey*, June 2023.

3 NCOSS, *Barely Hanging On: The Cost-of-Living Crisis in NSW*, August 2023.

4 NCOSS, *Barely Hanging On: The Cost-of-Living Crisis in NSW*, August 2023.

renewables and storage connections. The June 2023 sentiment survey by ECA[5] also revealed that 27% of households think Australia should transition to a 100% renewable energy market by 2030, while a further 16% of households think this should happen by 2040.

Many households are actively investing in consumer energy resources (CER) such as solar, batteries and electric vehicles (EVs). While these investments will provide benefits to individual households and the overall energy system, their integration into the existing energy network will require increased expenditure by network businesses.

On 31 August 2023, the Australian Energy Market Operator (AEMO) released its annual *Electricity Statement of Opportunities* (ESOO)[6]. The report highlights that 'Australia's National Electricity Market (NEM) is perched on the edge of one of the largest transformations since the market was formed over 20 years ago.'[7] The ESOO flags that the 'scale of opportunity to meet an imminent and growing need for firm capacity, new forms of energy production and significant consumer energy investments is unparalleled in Australia's energy history'[8]. The sentiments of the report are timely for our draft decision and assessment of how to move towards the future.

Tariff reform and greater flexibility of networks is required to support the energy transition, particularly around CER such as EVs. Appropriately structured tariffs can enable growth in the value of and number of people with CER, while creating investment signals that limit the level of network investment required and resulting price increases for consumers. For example, export reward tariffs are now being proposed to deal with two-way flows on networks and contingent tariff adjustments are being proposed to deal with uncertainty about the rate of change in uptake of CER. We are also encouraging network businesses to explore additional tariff options to deal with increasing EV numbers.

These changes are occurring at the same time as networks are needing to increase expenditure in order to address important emerging issues such as network cybersecurity, climate resilience and digitalisation.

In making this draft decision, we have sought to balance the need for efficient and prudent investments in new and emerging areas that support the energy transition, while ensuring consumers facing cost-of-living pressures pay no more than necessary for electricity services that meets their current and future needs. We recognise and support the need for innovative approaches to help drive an affordable energy transition.

Our assessment of Endeavour's proposal

The priority of Endeavour's proposal has been to develop a proposal that delivers the outcomes that customers want and value in the most affordable away.[9] Endeavour stated

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5 Energy Consumers Australia, *June 2023 - Energy Consumer Sentiment Survey*, June 2023.

6 AEMO, *Electricity Statement of Opportunities*, August 2023.

7 AEMO, *Electricity Statement of Opportunities*, August 2023. p.3

8 AEMO, *Electricity Statement of Opportunities*, August 2023. p.3

9 Endeavour, *0_01 Regulatory proposal*, January 2023, p. 7.

that it has strived to improve the efficiency and robustness of its engagement process, for itself, its customers, stakeholders and the AER. [10] Endeavour said its proposal is planning for the critical investments required in the long term that can support its regions, and facilitating the energy transition.[11] Endeavour notes it is facilitating this transition 'while responding to economic volatility and cost of living pressures our customers are currently facing.' [12] Endeavour's plan also actively supporting the NetZero economy, it acknowledges the network will need to 'evolve through investment and strategic partnerships that allows for two-way energy flows and active market participation from customers and third parties.'[13]

This draft decision allows Endeavour to recover an estimated $5,597.8 million ($nominal, smoothed) from consumers over the 2024–29 period. Our draft decision is a 0.1% reduction from Endeavour's proposal. The small reduction in overall revenue in this draft decision compared to the Endeavour proposal is mainly driven by revenue adjustments smaller than Endeavour's proposal and a lower return on capital, driven primarily by a lower opening regulatory asset base (RAB) value. These reductions are partly offset by a higher regulatory depreciation amount, driven primarily by the lower expected inflation rate in our draft decision. For illustrative purposes only, we estimate that this draft decision will result in an average increase of $24 per annum in the average annual electricity bill, as it is today, for Endeavour's residential customers over the 2024–29 period.

This draft decision marks the first-time businesses have gone through the Better Reset Handbook's (the Handbook) early signal pathway. As outlined in our Issues Paper, we supported pre-lodgement engagement discussions with Endeavour, and its consumers. We provided targeted feedback during this process to enable Endeavour to prepare a proposal that meets the expectations outlined in the Handbook in key topic areas such as consumer engagement, capital and operating expenditure (capex, opex), depreciation and tariff structure statements. [14] Our Issues Paper highlighted elements of Endeavour's proposal that had met our expectations through the early signal pathway assessment. It also identified areas for targeted review, e.g. a small proportion of capex, two opex step changes, and new and emerging issues such as resilience, CER and cybersecurity.[15]

Endeavour has provided a high-quality proposal, which it developed through an extensive, genuine and high-quality engagement process. Endeavour has also engaged constructively with us through information requests to allow us to better understand the drivers of its proposal and to close gaps in its supporting information. We have accepted much of Endeavour's proposal, including its total capex and opex forecasts. The main areas of difference between our draft decision and Endeavour's proposal are the minor revenue adjustments from the Efficiency Benefit Sharing Scheme (EBSS) and the Capital Expenditure Sharing Scheme (CESS), which are smaller than Endeavour's proposal.

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[10] Endeavour, *0_01 Regulatory proposal*, January 2023, p. 7.

[11] Endeavour, *0_01 Regulatory proposal*, January 2023, p. 6.

[12] Endeavour, *0_01 Regulatory proposal*, January 2023, p. 6.

[13] Endeavour, *0_01 Regulatory proposal*, January 2023, p. 7.

[14] AER, *Issues paper - Endeavour Energy – 2024–29 distribution revenue proposal*, March 2023.

[15] AER, *Issues paper – Endeavour Energy – 2024–29 distribution revenue proposal*, March 2023.

In assessing its expenditure proposal, we found that Endeavor satisfied almost all expenditure expectations of the Better Resets Handbook at the Issues Paper stage. This meant that we could be confident that the majority of its expenditure forecast was likely to be prudent and efficient. We undertook a targeted review of new and emerging expenditure areas, relating to CER integration, resilience-related capex, and cybersecurity ICT. We also undertook a targeted review of the investment timing and demand forecasts on key augex projects given that these were major investments in the forecast period. Having regard to all the information before us, we consider that Endeavour's total expenditure forecasts reasonably reflect prudent and efficient expenditure in the 2024–29 period.

For some areas of expenditure such as CER integration and the Innovation Fund, we assessed the forecast investment to be not sufficiently justified, or not consistent with prudent and efficient decision-making. However, we found these category level adjustments to be relatively immaterial in the context of overall expenditure, such that our alternative expenditure forecasts at the total capex and opex level are not materially different from Endeavour's forecasts. We also place weight on Endeavour's forecast capex being 8% lower than its expected gross capex in the 2019–24 period, and the opex efficiencies achieved by Endeavour in this period.

As discussed above, uncertainty, the evolving threat around cybersecurity, climate risk, and the transitioning energy market have been central considerations for all businesses in developing their current proposals. Similar to other businesses, Endeavour has proposed investments in the new and emerging areas of CER integration, climate resilience, and cybersecurity. We recognise the need for investments in these important areas.

We acknowledge the significant work businesses have undertaken to understand these new and challenging areas of expenditure and the considerable and genuine efforts to engage with customers to understand their preferences. We have set out areas of improvement in our draft decision for Endeavour to consider in future processes. In doing so, we have been mindful that our assessment approaches in these areas are also evolving.

We commend Endeavour for submitting one of the best tariff structure statements that we have observed to date. It provides for a transition to tariffs that support efficient use of its network, while including appropriate measures to manage adverse impacts to consumers. Endeavour has changed its default cost reflective residential and small business tariff from the demand to the time-of-use tariff, in response to stakeholder feedback. It has also proposed cost-reflective tariffs that support the energy transition, facilitating the growth of CER while sending price signals to mitigate network investment. We consider that a handful of relatively minor changes to the tariff structure statement are required to achieve compliance with the NER pricing principles. In particular, we require Endeavour to consult further on its embedded network tariff because we want to hear a broader range of stakeholder views. We also encourage Endeavour to consider minor improvements in its revised tariff structure statement, including worked examples of the application of its export reward tariff and supporting information on its proposed contingent tariff adjustment and residential and small business assignment policy. We also think that Endeavour should consider further tariff options to help manage potential network impacts from uncontrolled EV charging.

We also commend Endeavour on the significant step-up taken relation to engagement with its stakeholders on issues such as public lighting. Endeavour openly and genuinely engaged on matters raised by stakeholders responding to its initial public lighting proposal in order to seek resolution on them for our draft decision. We commend Endeavour in its engagement approach to deliver outcomes valued by its stakeholders.

In making our draft decision on metering we took into consideration the outcomes of the Australian Energy Market Commission's (AEMC's) metering review. Amongst other changes we set price caps to encourage distributors to recover costs from all low voltage customers except those who have never had a legacy meter. The aim of this change is to ensure that potentially vulnerable customers are protected from rising costs. It also ensures a more equitable contribution to the roll out of smart meters by all customers, since all customers benefit from the transition. Because of this change we are open to the reclassification of legacy metering services from alternative control services (ACS) to standard control services (SCS) in the final proposals (and all future regulatory proposals) to better socialise these costs and recognise the network benefits of this transition.

In this Overview and the accompanying detailed attachments, we have set out the assessment approaches applied, and enquiries made, as part of our review, with the benefit of which we have been able to arrive at this draft decision.

This draft decision is the mid-point in our assessment of Endeavour's proposal. Endeavour now has the opportunity to respond in a revised proposal that incorporates the substance of the changes required by, and addresses matters raised in, this draft decision.

Consumers at the centre of proposals

In December 2021, we released the Handbook for the purpose of encouraging networks to better engage and have customers preferences drive the development of regulatory proposals.[16] The principles for considering consumer engagement in network revenue determinations is set out in the Handbook, with the objective stating:

> Networks that engage in genuine engagement with consumers are likely to result in better quality proposals being submitted to the AER. Proposals that reflect consumer preferences, and meet our expectations, are more likely to be largely or wholly accepted at the draft decision stage, creating a more effective and efficient regulatory process for all stakeholders.[17]

The Handbook provides guidance on our expectations for how a network business can engage with consumers, and importantly for our expectations (consistent with the NER framework) in topic areas such as capex, opex, regulatory depreciation, and tariff structure statements, which tend to have the most significant impact on consumers.[18]

Consumer engagement is an important facet of our assessment; however, we are still required to ensure we are satisfied that the proposed forecast reasonably reflects prudent and efficient costs and a realistic expectation of future demand and cost inputs. We are

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16 AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 1.

17 AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 3.

18 The expectations being for electricity distribution businesses only. AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p.4.

looking to see how consumer values and preferences are shaping engagement. When assessing a proposal, we should be able to see how a business has linked customer preferences to the expenditure proposed. Where consumer views on an issue are diverse, a business needs to set out those views and explain how they have balanced the divergence of preferences. Diversity of views will always be prevalent between stakeholders and a business should seek to find mutually acceptable solutions where there are divergent consumer views.[19]

Our role in understanding consumer engagement is not to validate or invalidate the engagement undertaken by a business. All network businesses are distinct, and the engagement undertaken should reflect the purposes and needs identified for that business. We recognise that consumer engagement is dynamic, involving continuous improvements to business practices.

We also acknowledge the different roles stakeholders will play in developing a business's engagement process and that this is an evolving space. The nature of how a network engages with its consumers may include examples such as: an advisory panel, or a representative peoples panel. How a business undertakes this engagement is not prescribed in the Handbook, but it asks that engagement is undertaken sincerely with consumers to understand and reflect their preferences in proposals.[20] The AER's Consumer Challenge Panel may also have a role in a business' engagement, for example in specific circumstances of a pre-lodgement engagement process or the observation of a specific, unique piece of engagement.

Endeavour was selected to participate in the Handbook's early signal pathway. We have engaged extensively with Endeavour throughout the early signal process in receiving early access to data and information relevant to the expectations set out in the Handbook. We have also provided feedback, with the Consumer Challenge Panel, sub-panel 26 (CCP26), through two formal check-ins and signalled areas where we planned to undertake further assessment as part of our targeted review.

We observe that Endeavour has demonstrated a significant step-up in consultation with customers and stakeholders, in accordance with Handbook expectations. There has been broad and deep engagement with customers and stakeholders across the reset process that has genuinely influenced the proposal through a co-design process. This has been acknowledged by a variety of stakeholders and their representatives, including the Regulatory Reference Group (RRG) independent advisory panel of experts appointed by Endeavour, an independent engagement expert appointed by Endeavour as part of the Handbook process, the Endeavour Customer Panel, and the CCP26. Endeavour's consumer engagement has been a material factor in our decision to accept most of Endeavour's proposal.

The RRG says that Endeavour has addressed issues raised by it, including increased focus on affordability and consumer valued services. It also states that Endeavour has made

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19 AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 16.

20 AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 12.

efforts to limit cost increases for customers by taking a balanced approach to expenditure in new and emerging areas such as DER and climate change resilience. The RRG has concluded that Endeavour has met the expectations in the Handbook in the development and execution of its engagement process. The independent engagement expert has supported the view that the RRG is providing a comprehensive critical assessment of the customer engagement process.

The CCP26 has said that the early signal pathway has been of considerable value and enabled progress and concerns to be explored and challenged on a regular basis. This included Endeavour's response on affordability.

We all continue to learn and develop throughout the process of applying the Handbook, and we will look to reflect with the businesses on how engagement is providing the greatest value in understanding the long-term interests of consumers.

The amended NEO and the current regulatory determination resets

A new emissions objective has been added to the existing economic efficiency framework in all three energy objectives, including the NEO. The long-term interests of consumers will extend to the achievement of Commonwealth, State and Territory targets for reducing Australia's greenhouse gas emissions, or that are likely to contribute to reducing Australia's greenhouse gas emissions. This is based on the *National Energy Laws Amendment (Emissions Reduction Objectives) Act* which passed the South Australian Parliament in September 2023. The Act states that the amended NEO applies to the revenue determinations for Ausgrid, Endeavour, Essential Energy, Evoenergy, TasNetworks Distribution, TasNetworks Transmission and Power and Water Corporation (NT), for the 2024–29 period.

We published final guidance on the amended national energy objectives in September 2023. This guidance included how we will operationalise the amended NEO, and applies only to the affected network service providers for the 2024–29 regulatory determinations.

We think inclusion of emissions reduction in the NEO is a significant reform in how energy markets are governed and will be invaluable to progressing the energy transition. As the independent regulator, the NEO guides our work to promote the long-term interests of consumers with respect to achieving emission reduction targets, alongside our existing considerations including price, quality, safety and reliability of energy supply.

We recognise that the transition to net zero and emissions reduction has been a feature of Endeavour's engagement with consumers to date and is already a key driver in its proposal. We have considered this consumer feedback in our assessment of Endeavour's proposal.

If Endeavour's revised proposal includes material new expenditure items because of the amended NEO, we would expect it to demonstrate that the expenditure aligns with consumer preferences and the criteria for prudent and efficient expenditure, consistent with the Better Resets Handbook. We will continue to work with the affected network service providers as they prepare and consult on their revised regulatory proposals.

Contents

1 Our draft decision

Our draft decision would, if implemented, allow Endeavour Energy (Endeavour) to recover a total revenue of $5,597.8 million ($ nominal, smoothed) from its consumers from 1 July 2024 to 30 June 2029.

In the sections below we briefly outline what is driving Endeavour's revenue, and the key differences between our draft decision revenue and the $5,602.7 million in Endeavour's proposal.

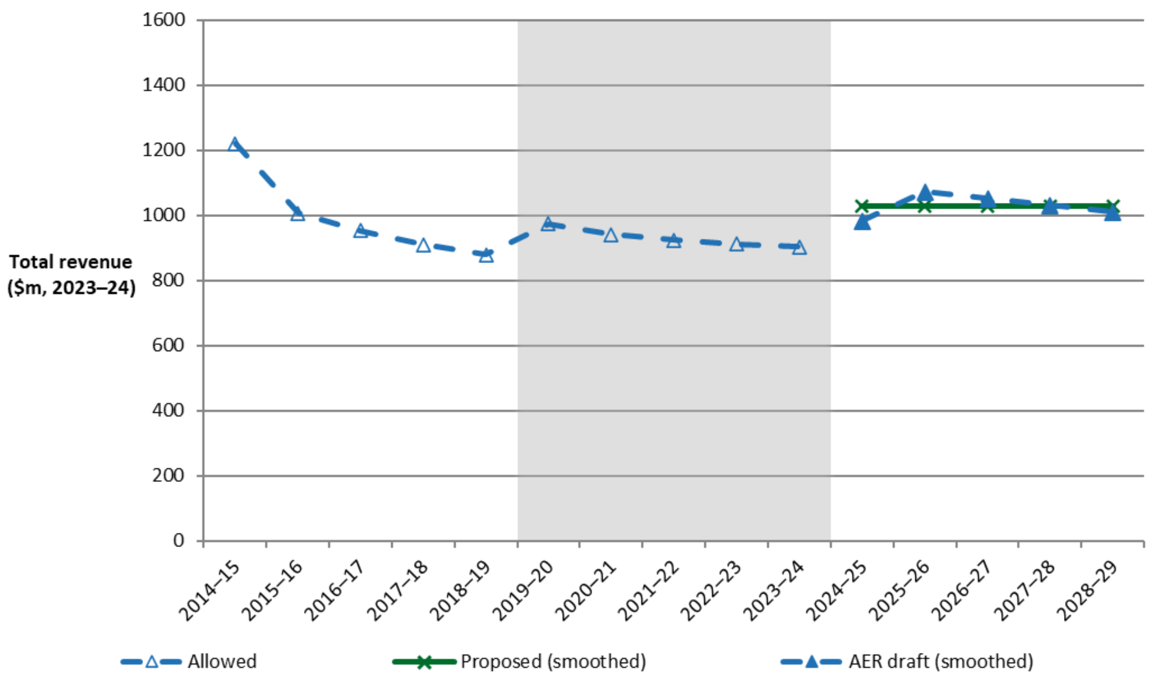
1.1 What is driving revenue?

Revenue is driven by changes in real costs and inflation. We assess costs (such as capex and opex) in real terms.

Over time, inflation impacts the spending power of money. To compare revenue from one period to the next on a like-for-like basis, in this section we use 'real' values based on a common year (2023–24) that have been adjusted for the impact of inflation instead of the nominal values above.

In real terms, this draft decision would allow Endeavour to recover $5,148.6 million ($2023–24, smoothed) from consumers over the 2024–29 period. This is 10.6% higher than our decision for the current (2019–24) period. Changes in Endeavour's revenue over time are shown in Figure 1.

Figure 1 Changes in regulated revenue over time ($ million, 2023–24)



Source: AER analysis.

In real terms, this draft decision would allow Endeavour to recover a total building block revenue of $5,139.7 million ($2023–24, unsmoothed) over the 2024–29 period. Figure 2 highlights the key drivers of the change between the revenue approved for Endeavour for the

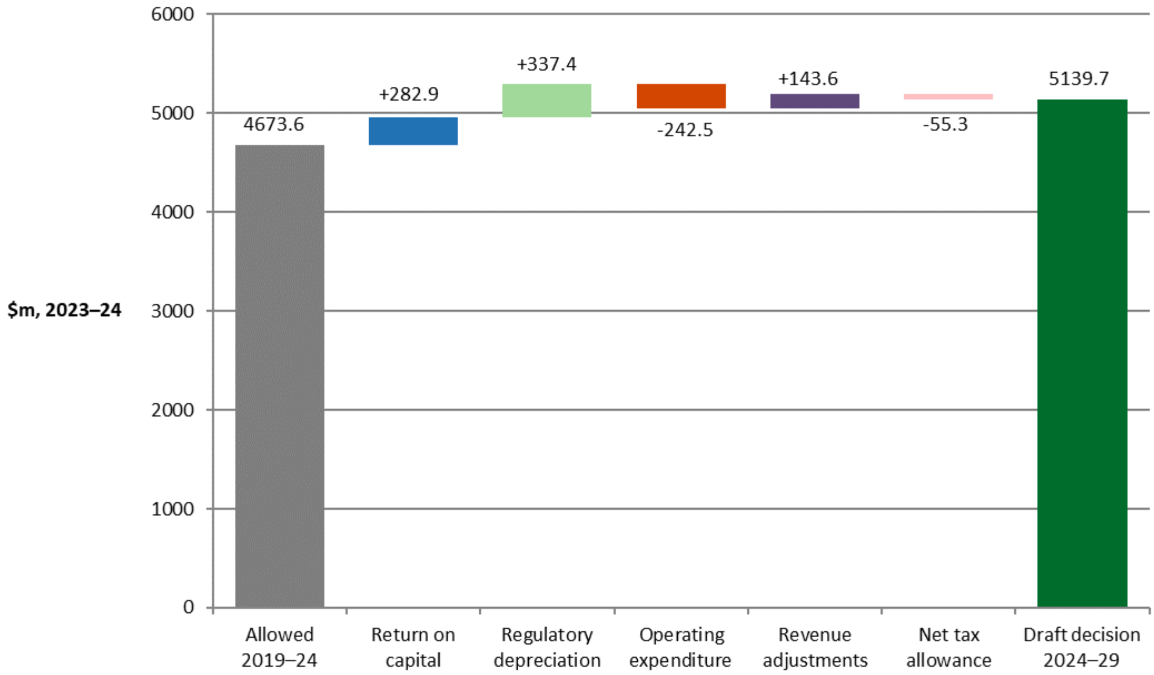
2019–24 period and in this draft decision for the 2024–29 period. It shows that our draft decision provides for reductions in the building blocks for:

- opex, which is $242.5 million (13.9%) lower than the forecast we approved for the 2019–24 period, primarily due to lower actual opex in the current period and Endeavour constraining its proposed step changes and output growth.
- net tax allowance, which is $55.3 million (37.0%) lower than the 2019–24 period, primarily due to the exclusion of gifted assets from the calculation of the estimated cost of corporate income tax in the 2024–29 period. It is also due to a higher tax depreciation determined in this draft decision compared to 2019–24 period.

Figure 2 also shows that our draft decision provides for increases in the building blocks for:

- return on capital, which is based on the opening regulatory asset base (RAB), capex and rate of return. This is $282.9 million (13.6%) higher than the 2019–24 period, driven by an increase in the RAB and a higher rate of return being applied in the 2024–29 period, in accordance with the 2022 Rate of Return Instrument
- return of capital (regulatory depreciation), which is $337.4 million (47.8%) higher than the 2019–24 period, driven primarily by a significant increase in capex spent on short lived assets and a higher opening RAB as at 1 July 2024 compared to the value we determined in the 2019–24 determination
- revenue adjustments, which are $143.6 million higher than the 2019–24 period, mainly due to the inclusion of a one-off large negative revenue adjustment for 2014–19 remittal decision in the 2019–24 determination.

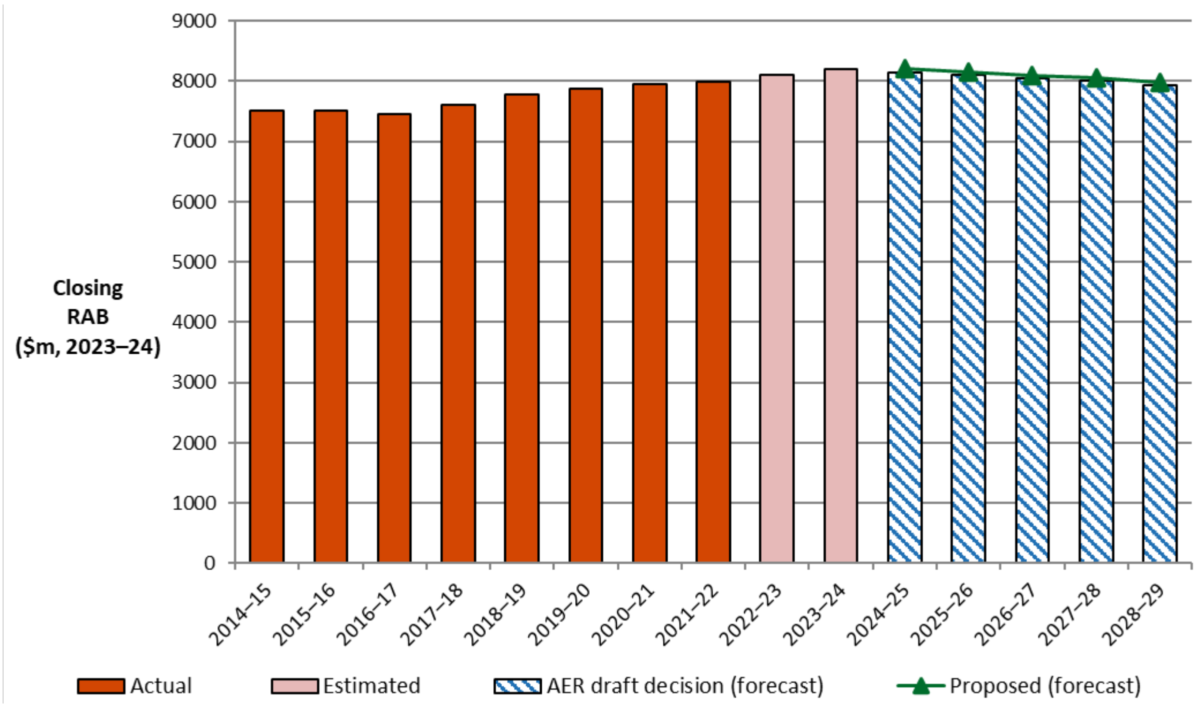
Figure 2 Changes in total revenue between 2019–24 period and 2024–29 period ($ million, 2023–24, unsmoothed)



Source: AER analysis.
Note: This comparison is based on converting 2019–24 forecast opex for inflation to 2023–24 dollar terms using lagged CPI.

Figure 3 shows the value of Endeavour's RAB over time. After RAB growth of 5.3% over the 2019–24 period, our draft decision results in a forecast reduction of the RAB by $266.4 million ($2023–24) or 3.3% over the 2024–29 period. This reduction is mainly driven by lower forecast capex and higher forecast depreciation over the 2024–29 period.

Figure 3 Endeavour's RAB value over time ($ million, 2023–24)



Source: AER analysis.

1.2 Key differences between our draft decision and Endeavour Energy's proposal

Our draft decision accepts much of Endeavour's proposal, including its total capex forecast and total opex forecast. The main areas of difference between our draft decision and Endeavour's proposal are the revenue adjustments from EBSS and CESS which are lower than Endeavour's proposal. Our draft decision also does not accept the proposed revenue adjustment for an innovation fund.

Movements in some market variables such as updates to actual/estimated inflation for 2022–23 and 2023–24 have also led to revenue outcomes that are lower in our draft decision than in Endeavour's proposal. Our draft decision includes a lower return on capital, which is driven primarily by a lower opening RAB value as at 1 July 2024 adopted in our draft decision due to updates for the actual/estimated inflation rates.

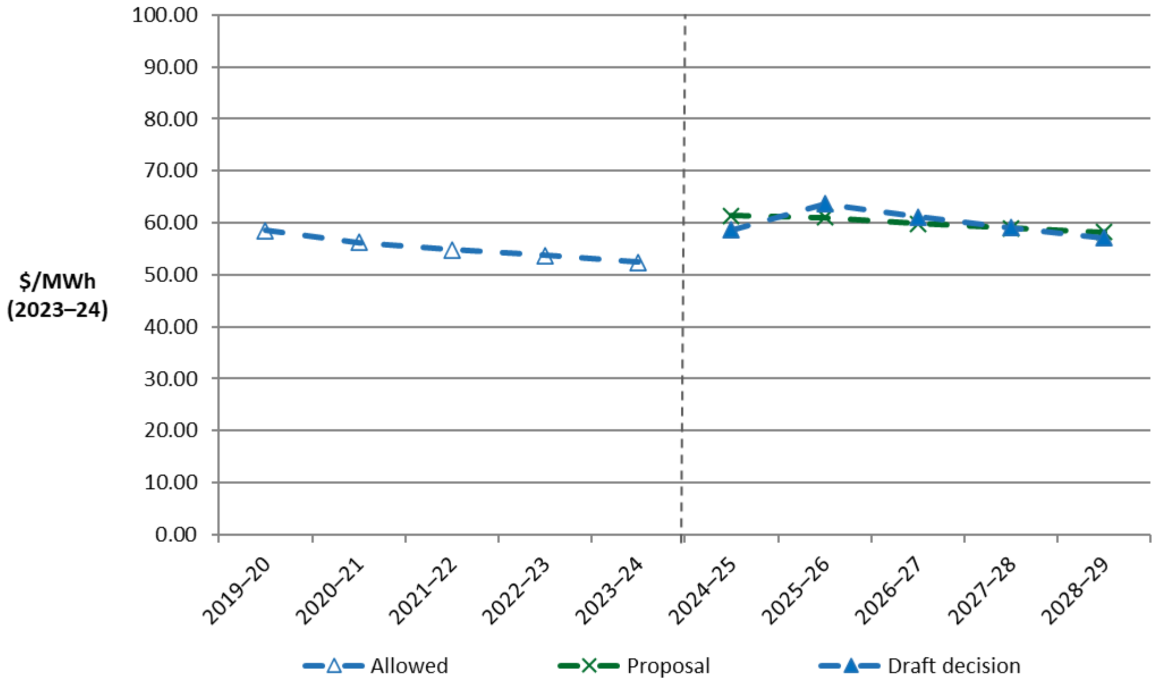
This reduction is partly offset by a higher regulatory depreciation amount, driven primarily by the lower expected inflation rate in our draft decision than at the time of Endeavour's proposal. This higher regulatory depreciation amount in turn leads to an increase to the estimated cost of corporate income tax amount.

1.3 Expected impact of our draft decision on electricity bills

Endeavour recovers its regulated revenue through distribution charges, set annually by reference to the tariff structure statement and pricing formulae approved by us as part of this decision.

For illustrative purposes only, we estimate the modelled impact of this draft decision would be a total increase to average distribution charges of around 6.5% in real terms by 2028–29 compared to 2023–24 levels, or an average increase of 1.3% per annum. This estimate is subject to ongoing revenue adjustments and changes in consumer energy consumption. Figure 4 compares this indicative price path for the 2024–29 period to the 2019–24 period.

Figure 4 Change in indicative charges for 2019–24 to 2024–29 ($2023–24, $/MWh)



Source: AER analysis.

Potential bill impact

Endeavour's distribution network charges make up around 25% of its residential customers' electricity bills and 21% of its small business customers' electricity bills. Other components of the electricity supply chain—the cost of purchasing energy from the wholesale market, transmission network charges, environmental schemes and the costs and margins applied by electricity retailers in determining the prices they will charge consumers for supply—also contribute to the prices ultimately paid by consumers.[21] These sit outside the decision we are making here but will also continue to change throughout the period.

This is a draft decision, and final decision outcomes are likely to change. In nominal terms, which include the impact of expected inflation, the impact of this draft decision would be an increase to the distribution component of customers' energy bills. For illustrative purposes only, the modelled impact of our draft decision on the average annual electricity bill for a residential customer in Endeavour's network area, as it is today, would be an increase of $122 (5.5%) by 2028–29, or an average of $24 per annum. For small business customers, the impact would be an increase of $214 (4.7%), or an average of $43 per annum.

Our decision on Endeavour's proposal will set the revenue allowance that forms the major component of its network charges for the next 5 years. It provides a baseline or starting point for that period.

Over the 2024–29 period there are several additional mechanisms under the NER that may operate to increase or decrease those charges. These may include cost pass through events defined in the NER. They may also include additional cost pass through events proposed by Endeavour and approved in this draft decision. The triggers we have set out for these projects and events in this decision will, if met, allow Endeavour to apply for additional revenue for these projects throughout the period, at which point proposed costs will be subject to further consultation and assessment.

1.4 Endeavour Energy's consumer engagement

Endeavour is a natural monopoly supplying an essential service. As already outlined in the executive summary, the 2024–29 determinations are the first cohort of decisions to be made since we published the Handbook. We believe that genuine, high quality consumer engagement by Endeavour is important to ensuring that its proposal is driven by consumer preferences, supports delivery of services that meet the needs of its consumers, and does so at a price that is affordable and efficient.

1.4.1 Early signal pathway

As discussed in the executive summary, Endeavour was selected to participate in the Handbook's early signal pathway. Under the Handbook, the early signal pathway:

> …offers an alternative process for networks to engage with us, allowing them to get earlier formal feedback on aspects of their regulatory proposal – such as at the Issues Paper stage, in exchange for certain commitments.[22]

Endeavour acknowledged in its proposal that it is the longest and most comprehensive engagement that it has undertaken to support a regulatory reset.[23] Stakeholders agreed that

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21 AEMC, *Data Portal, Trends in NSW supply chain components* 2023/24.

22 AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 5.

Endeavour's 2024–29 reset was a 'a world away from the previous more adversarial and defensive reset experiences.'[24]

Endeavour states that the proposal and the engagement that has supported it has been co-designed with its Regulatory Reference Group (RRG), an independent panel of experts representing a diverse set of stakeholder views.[25] Endeavour states that:

> …(its proposal) has been heavily influenced by broad and deep engagement with our customers and stakeholders over the last few years. This Proposal demonstrates the sincere and significant uplift in our commitment to best practice customer engagement. It therefore sets out our understanding of their expectations for the services we deliver and the network charges they pay.[26]

Endeavour is one of the first business following the early signal pathway and these draft decisions are the culmination of early signal pathway process. Through this early signal pathway process, we have engaged extensively with Endeavour in receiving early access to data and information relevant to the expectations set out in the Handbook. We have also provided feedback, with the CCP26, through formal check-ins in July and September 2022, as well as signalling at the Issues Paper areas where we planned to undertake further assessment as part of our targeted review.[27] Endeavour also appointed an independent engagement consultant (Clare Petre) to assess Endeavour as part of their Handbook process. This report was submitted as part of the proposal submission.[28]

Endeavour has responded to the feedback received from the AER during the development of its proposal, and outlines in its proposal how this has led to a proposal that it considers satisfies the requirements of the Handbook.[29]

1.4.2 Endeavour's engagement on its proposal

Our Issues Paper for Endeavour outlined its extensive consultation undertaken regarding the nature, breadth and depth, and the impact of its consumer engagement. The CCP26, in its advice, noted that Endeavour's customer engagement had been very broad, with a commitment to identifying topics which consumers could have the most impact on and exploring these in detail.[30] CCP26 stating:

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23 Endeavour Energy, 5.*01 Engagement summary report, October 2022*, p.7.

24 Endeavour Energy - Clare Petre Consulting, *5.17 Independent assessment of consumer engagement*, November 2022, p. 3.

25 Endeavour Energy, *0_01 Regulatory proposal*, January 2023, p. 14.

26 Endeavour Energy, *0_01 Regulatory proposal*, January 2023, p. 14.

27 AER, *Issues paper – Endeavour Energy – 2024–29 distribution revenue proposal*, March 2023.

28 Endeavour Energy - Clare Petre Consulting, *5.17 Independent assessment of consumer engagement*, November 2022.

29 Endeavour Energy, *0_01 Regulatory proposal*, January 2023, p. 11.

30 CCP26, *Advice to the AER – 2024–29 Electricity Determination – Endeavour*, May 2023, p. 4.

> The early mapping of projects that could be most effectively influenced and a commitment to engage at 'collaborate' and 'empower' levels on these topics is exemplary. The intent of the Handbook has been genuinely applied.[31]

Endeavour had an extensive collaboration with its RRG in developing its proposal.[32] The RRG, acted in advisory capacity, performing its role in accordance with the follow Terms of Reference:

- representing the long-term interests of Endeavour customers
- co-designing of the engagement program
- participating as key stakeholders in the Revenue Proposal engagement
- challenging Endeavour throughout the development on both its proposal and the engagement program.'[33]

Endeavour's Customer panel was also a key element of its engagement program. It comprised 89 participants and its purpose was to 'to deeply engage with a broad and representative cross-section of residential and small business customers through an extended deliberative process to inform' Endeavour's draft proposal.'[34]

In the RRG's Independent members panel report on Endeavour's draft proposal, it outlined in detail the extensive feedback that it provided on Endeavour's preliminary proposal in April 2022 and how the business has responded.[35] For example, it noted that Endeavour had addressed each issue raised in the RRG's August report, which included 'increased focus on affordability and options that provide customers with value for money, and the need to adapt engagement to reflect a fast-changing social environment and increasing energy costs.'[36]

The RRG's November report, also recognised the challenge the current environment brought to the reset process. It commended Endeavour for its continued focus on affordability and providing consumers with services that were clearly seen as valued.[37] The RRG said:

> We have observed the efforts made by Endeavour Energy to limit cost increases for its customers through a clear commitment to maintain an investment forecast that is lower than that allowed in the current period. In some instances Endeavour Energy has instead opted for its shareholders to bear the cost, or risk of cost increases, such as its approach on materials costs and insurance. We also note that Endeavour Energy has taken a balanced

31 CCP26, *Advice to the AER – 2024–29 Electricity Determination – Endeavour*, May 2023, p. 4.

32 AER, *Issues paper – Endeavour Energy – 2024–29 distribution revenue proposal*, March 2023, p. 9.

33 Endeavour Energy's RRG, *5.13 RRG report on Preliminary proposal*, August 2022, p. 50.

34 Endeavour Energy, *0_01 Regulatory proposal*, January 2023, p. 70.

35 Endeavour Energy's RRG, *5.15 RRG report on Draft proposal*, November 2022, p. 3.

36 Endeavour Energy's RRG, *5.15 RRG report on Draft proposal*, November 2022, p. 3.

37 Endeavour Energy's RRG, *5.15 RRG report on Draft proposal*, November 2022, p. 4.

> approach to justifying expenditure in some instances, such as in relation to distributed energy resources and the resilience of the network to the impact of climate change. [38]

In Clare Petre's Independent report, it noted that the feedback provided by the RRG in its November report was from experienced, independent, and robust group of consumer advocates.[39] The report further said that the RRG members interviewed had been clear they had not been captured by the process, and that they provided a comprehensive critical assessment of the customer engagement process.[40] Finally noting:

> As a result, this further review might be seen as unnecessary, but as it is the first major customer engagement process for Endeavour Energy, an additional independent assessment might provide comfort to all parties that Endeavour Energy is on the right path of consumer preferences driving the development of their regulatory proposals.[41]

Clare Petre's report interviewed 25 key stakeholders, and noted that the there was agreement that the co-design engagement had been successful and the following are key points of areas that stakeholders strongly agreed on and include, but are not limited to:

- 'Customer engagement was genuine, authentic, sincere, active, and positive. The codesign model was successful, although this could not have been achieved without Endeavour engaging an external partner.'[42]
- 'It was remarkable that the Customer Panel started with 89 participants and ended with 89 participants, with no customers dropping out over many months of engagement. Endeavour Energy has a very large footprint and diverse customer base, but the range of its customers was well represented on the Customer Panel'. [43]
- ''The involvement of Board members, the CEO, and executives and senior staff in the engagement sessions had a significant positive impact, with customers reporting that they felt listened to and respected.' [44]

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38 Endeavour Energy's RRG, *5.15 RRG report on Draft proposal*, November 2022, p. 4.

39 Endeavour Energy - Clare Petre Consulting, *5.17 Independent assessment of consumer engagement*, November 2022, p. 3.

40 Endeavour Energy - Clare Petre Consulting, *5.17 Independent assessment of consumer engagement*, November 2022, p. 3.

41 Endeavour Energy, 5*.01 Engagement summary report, October 2022*, p.11.

42 Endeavour Energy - Clare Petre Consulting, *5.17 Independent assessment of consumer engagement*, November 2022, p. 4.

43 Endeavour Energy - Clare Petre Consulting, *5.17 Independent assessment of consumer engagement*, November 2022, p. 4.

44 Endeavour Energy - Clare Petre Consulting, *5.17 Independent assessment of consumer engagement*, November 2022, p. 4.

- 'There was no single major change in the proposal, instead it was a longitudinal series of waves, with a pattern of inform, listen, adapt, re-present, listen, adapt etc.' [45]

The RRG's November report summarised its overall assessment on whether Endeavour had met the guideline of the Handbook and said:

> Overall, we consider Endeavour Energy has met the guidelines of the AER's Handbook in the development and execution of its engagement process. This observation results from our extensive involvement in the development of the Draft Proposal to date, but more importantly reflects our first-hand observation of Endeavour Energy's commitment to an accessible, wide-ranging, clear and transparent engagement process and their willingness to share information early on and to listen and respond to feedback.[46]

1.4.3 What we've heard from stakeholders

In our Issues Paper, we asked stakeholders to consider whether Endeavour's consumer engagement had met the expectations set out in the Handbook in delivering a consumer centric proposal.[47] We received a number of submissions on Endeavour's proposal as outlined at Section 6 of this decision. A significant number of the submissions raised issues in relation to Endeavour's tariff structure statements including an additional demand charge to embedded networks currently on the large low voltage tariffs[48], export tariffs, controlled loads, solar exports, flexible exports, DER, public lighting and EVs.[49] We also received 455 form-based submissions from individuals commenting on the NSW businesses' solar export changes.[50]

The Public Interest Advocacy Centre (PIAC) submission said that 'Endeavour had made great strides in the scope and quality of its engagement, a step-change which should broadly give the AER confidence that consumer preferences have meaningfully shaped.'[51]

The Urban Development Institute of Australia (UDIA) submitted that it thought that overall, the AER should accept Endeavour's proposal.[52] On the question of whether Endeavour had met the consumer engagement expectations in the Handbook, it said that it believed the engagement undertaken had enabled a proposal that 'accurately account for the needs of

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45 Endeavour Energy - Clare Petre Consulting, *5.17 Independent assessment of consumer engagement*, November 2022, p. 4.

46 Endeavour Energy's RRG, *5.15 RRG report on Draft proposal*, November 2022, p. 3.

47 AER, *Issues paper – Endeavour Energy – 2024–29 distribution revenue proposal*, March 2023, p. 11.

48 See submissions from the Caravan & Camping Industry Association NSW, Compliance Quarter, Energy Intelligence, Energy Locals, Energy and Water Ombudsman NSW, Network Energy Services, Origin

49 See the relevant submissions available on the AER website.

50 A sample of these form-based submissions is available on the AER website.

51 PIAC, *Submission – 2024–29 Electricity Determination – NSW*, June 2023, p. 4.

52 Urban Development Institute of Australia (NSW), *Submission - 2024–29 Electricity Determination - Endeavour Energy*, May 2023, p. 1.

households and of housing providers, presenting a balanced and consumer-centric forward approach.' [53] UDIA provides an example of Endeavour's acknowledgment of housing affordability as a key pillar in its decision making as evidence of its consumer-centric model.[54]

In relation to the early signal pathway CCP26 states:

> We had some concerns early in the process, which were the subject of some careful exploration. We then observed a highly functioning and extensive engagement process that was the subject of regular, frank and honest review. The result is a regulatory proposal that has been widely supported as capable of acceptance at draft determination stage.[55]

The CCP26's observations, identifying similar themes as identified in the Clare Petre Independent report, that no single major change was observed in the development of the proposal, but rather a gradual iteration of change. The CCP26 observed that the early signal pathway provided them, and others, the opportunity to challenge Endeavours' engagement as it unfolded.[56]

In the CCP26's progress reports provided during the early signal pathway to Endeavour, it noted challenged a number of issues including, but not limited to: responding to affordability; that focussing the breadth in the final months of engagement might prove difficult (which the CCP26 noted was however achieved); the extent to which issues identified at the empower spectrum were being engaged on, particularly on-line; and how Endeavour used the significant data being generated through its engagement activities.[57]

The CCP26 also said:

> the regular review of the engagement program and the decision to add a fifth phase, "confirmation" have been excellent examples of Endeavour' realisation that energy markets and socio-economic conditions are far from static. [58]

PIAC observed that Endeavour was less willing to make dynamic adjustments to its engagement program, for example from adjusting engagement sessions from one to another

53 Urban Development Institute of Australia (NSW), *Submission - 2024–29 Electricity Determination - Endeavour Energy*, May 2023, p. 1.

54 Urban Development Institute of Australia (NSW), *Submission - 2024–29 Electricity Determination - Endeavour Energy*, May 2023, p. 1.

55 CCP26, *Advice to the AER - 2024–29 Electricity Determination – Endeavour*, May 2023, p. 4.

56 CCP26, *Advice to the AER - 2024–29 Electricity Determination – Endeavour*, May 2023, p. 10.

57 CCP26, *Advice to the AER - 2024–29 Electricity Determination – Endeavour*, May 2023, p. 10.

58 CCP26, *Advice to the AER - 2024–29 Electricity Determination – Endeavour*, May 2023, p. 10.

during the same phase.[59] Noting Endeavour has taken the approach, that consistency should be maintained between sessions in the same phase. PIAC state, for example:

> …this made it difficult to adjust questions being put to consumers to better reflect the input being sought and ensure that meaningful preferences could be expressed. While this is valid reasoning, PIAC considers that changes should be made at the earliest possible opportunity, with any impact of that change to be noted and considered regardless of when it occurs. [60]

PIAC also notes that Endeavour conducted its engagement primarily online, and while this decision may have contributed to the high rate of retention of participants throughout the program, PIAC does consider there are qualitative differences between what can be achieved in person and online.[61] It has encouraged Endeavour to take the lessons taken from its online engagement 'which could further promote full participation during in-person sessions.' [62]

We received a number of submissions[63] from stakeholders raising concerns about Endeavour's proposed introduction of a low voltage embedded network tariff that includes an additional demand charge to their standard demand-based tariff. Submissions raised concerns about the potential impacts that new and existing users (using greater than 160MWh per annum) would incur if assigned to this tariff during the two year-transition period.[64] . We also seek feedback from a broad range of stakeholders on the impacts and benefits of this tariff.

On public lighting, our Issues Paper noted that it was our understanding that stakeholders supported Endeavour's public lighting proposal. Noting stakeholder support, and following our initial review, we considered its public lighting proposal capable of acceptance at the draft decision. During our submission process we received submissions from a number of council representatives raising concerns with Endeavour's public lighting proposal.[65] Endeavour openly and genuinely engaged on matters raised by stakeholders responding to its initial public lighting proposal in order to seek resolution on them for our draft decision. We commend Endeavour in its engagement approach to deliver outcomes valued by its stakeholders.

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59 PIAC, *Submission – 2024–29 Electricity Determination – NSW*, June 2023, p. 4.

60 PIAC, *Submission – 2024–29 Electricity Determination – NSW*, June 2023, p. 4.

61 PIAC, *Submission – 2024–29 Electricity Determination – NSW*, June 2023, p. 4.

62 PIAC, *Submission – 2024–29 Electricity Determination – NSW*, June 2023, p. 4.

63 See submissions from the Caravan & Camping Industry Association NSW, Compliance Quarter, Energy Intelligence, Energy Locals, Energy and Water Ombudsman NSW, Network Energy Services, Origin

64 Caravan & Camping Industry Association NSW, *Submission – 2024–29 Electricity Determination – Endeavour,* May 2023, p. 2.

65 See Western Sydney Regional Organisation of Councils Limited and Wollondilly Shire Council's submission.

Endeavour acknowledges that this is not the end of its engagement journey, and has said in response from advice it has received from the RRG and others, it will continue to engage as part of this reset process on external environments that might influence customer proprieties.[66] More importantly, it says:

> …through this process, the value of putting our customers at the centre of what we do every day has been clearly demonstrated and that will be part of a newly strengthened approach to BAU engagement at Endeavour Energy for years to come.[67]

We support the continued and ongoing work of Endeavour to reflect engagement in its everyday culture. We also acknowledge the trust, and significant work that Endeavour has undertaken in working with us on the early signal pathway. We believe it has been an important learning process, for which we will continue to refine and grow to ensure the long-term interest of consumers.

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66 Endeavour Energy, 5.*01 Engagement summary report, October 2022*, p.11.

67 Endeavour Energy, 5.*01 Engagement summary report, October 2022*, p.11.

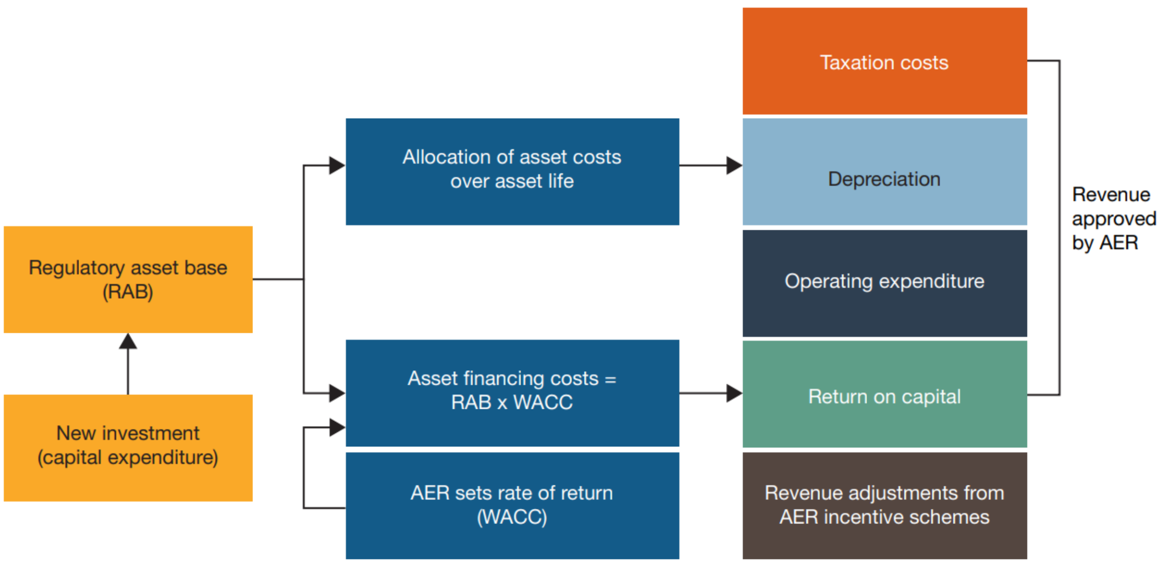
2 Key components of our draft decision on revenue

The foundation of our regulatory approach is a benchmark incentive framework to setting maximum revenues: once regulated revenues are set for a five-year period, a network that keeps its actual costs below the regulatory forecast of costs retains part of the benefit. This provides an incentive for service providers to become more efficient over time. It delivers benefits to consumers as efficient costs are revealed and drive lower cost benchmarks in subsequent regulatory periods. By only allowing efficient costs in our approved revenues, we promote delivery of the NEO and ensure consumers pay no more than necessary for the safe and reliable delivery of electricity.

Endeavour's proposed revenue reflects its forecast of the efficient cost of providing distribution network services over the 2024–29 period. Its revenue proposal, and our assessment of it under the Law and Rules, are based on a 'building block' approach which looks at five cost components (see Figure 5):

- return on the RAB – or return on capital, to compensate investors for the opportunity cost of funds invested in this business
- depreciation of the RAB – or return of capital, to return the initial investment to investors over time
- forecast opex – the operating, maintenance and other non-capital expenses, incurred in the provision of network services
- revenue increments/decrements – resulting from the application of incentive schemes, such as the EBSS and CESS
- estimated cost of corporate income tax.

Figure 5 The building block model to forecast network revenue



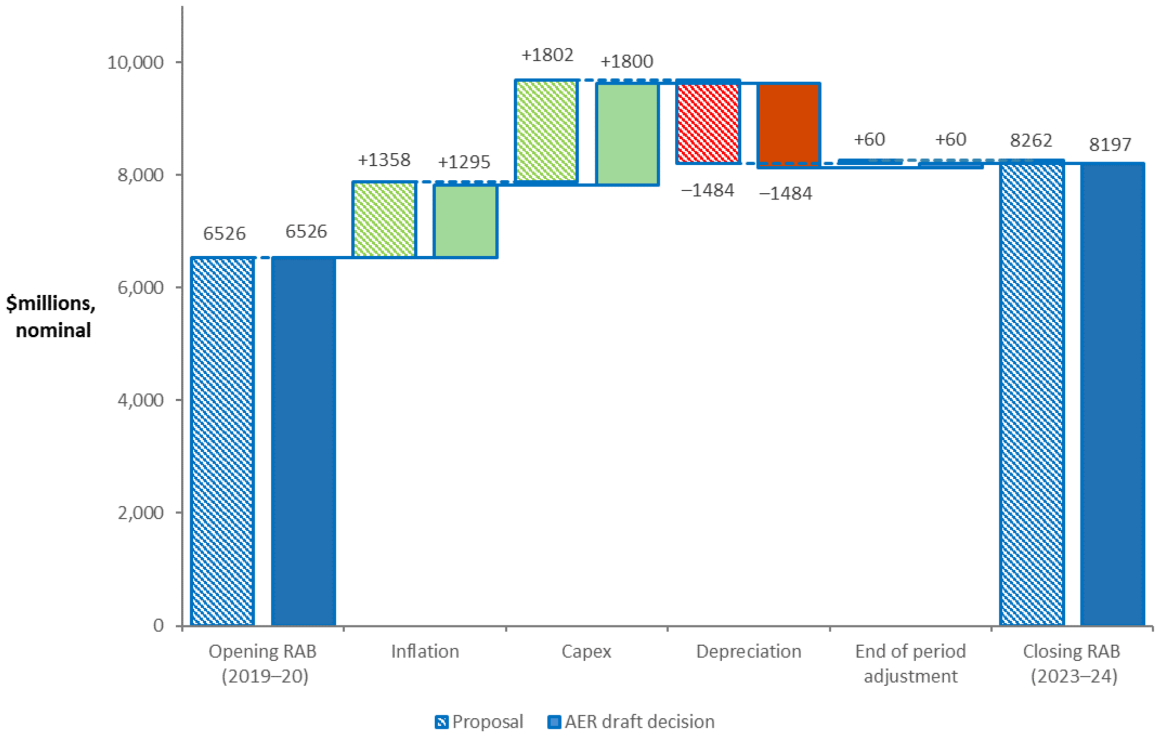
Source: AER.

2.1 Regulatory asset base

The RAB accounts for the value of regulated assets over time. To set revenue for a new regulatory period, we take the opening value of the RAB from the end of the last period and roll it forward year-by-year by indexing it for inflation, adding new capex and subtracting depreciation and other possible factors (such as disposals). This gives us a closing value for the RAB at the end of each year of the regulatory period. The value of the RAB is used to determine the return on capital and regulatory depreciation building blocks. It substantially impacts Endeavour's revenue requirement, and the price consumers ultimately pay. Other things being equal, a higher RAB would increase both the return on capital and regulatory depreciation components of the revenue determination.

For this draft decision, we have determined an opening RAB value of $8,196.9 million ($ nominal) as at 1 July 2024. This value is $65.2 million (0.8%) lower than Endeavour's proposed opening RAB value of $8,262.1 million. This reduction is largely due to the updates we made to the consumer price index (CPI) inputs for 2022–23 and 2023–24 in the roll forward model (RFM) to reflect more up-to-date values. Figure 6 shows the key drivers of the change in Endeavour's RAB over the 2019–24 period compared to its proposal.

Figure 6 Key drivers of changes in the RAB over the 2019–24 period – proposal compared with AER's draft decision ($million, nominal)



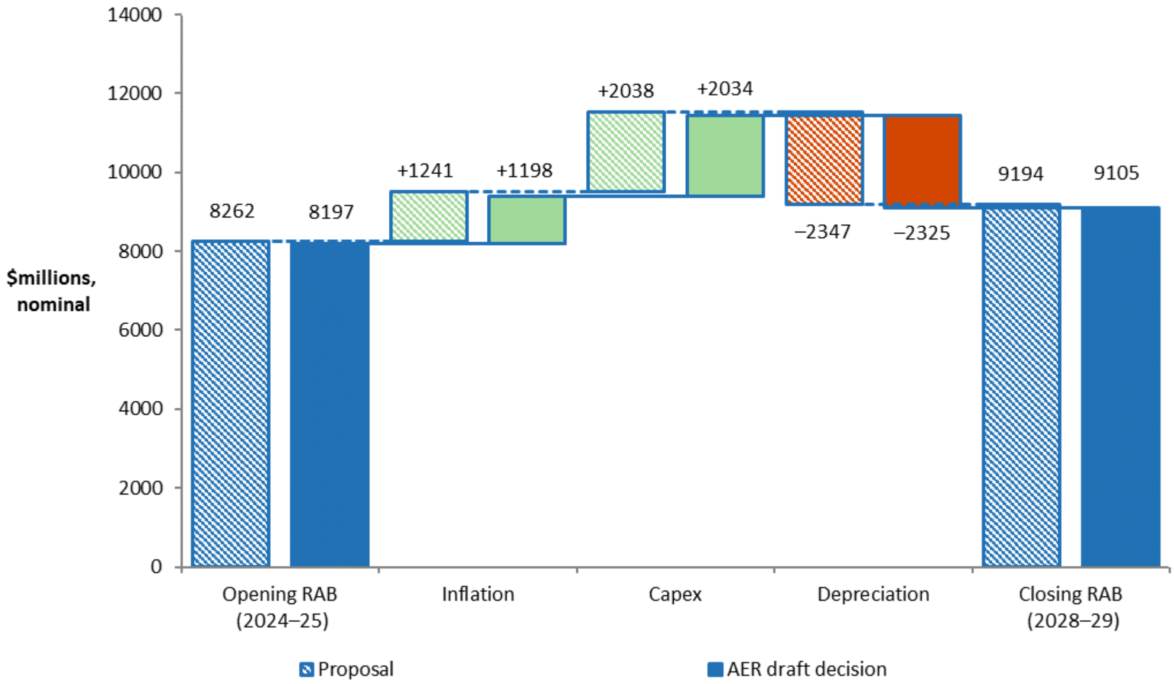
Source: AER analysis.

Note: Capex is net of disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the RFM.

Figure 7 likewise, shows the key drivers of the change in Endeavour's forecast RAB over the 2024–29 period compared to its proposal. Our draft decision projects an increase of $907.7 million (11.1%) to the RAB by the end of the 2024–29 period compared to the

$931.7 million (11.3%) increase in Endeavour's proposal. We have determined a projected closing RAB of $9,104.6 million ($ nominal) as at 30 June 2029, which is $89.3 million (1.0%) lower than Endeavour's proposed $9,193.9 million. This lower value is mainly due to our draft decision on the opening RAB as at 1 July 2024. It also reflects our draft decisions on the expected inflation rate, forecast depreciation and forecast capex (discussed in the sections below).

Figure 7 Key drivers of changes in the RAB over the 2024–29 period – proposal compared with AER's draft decision ($million, nominal)



Source: AER analysis.
Note: Capex is net of forecast disposals and capital contributions. It is inclusive of the half-year WACC to account for the timing assumptions in the PTRM.

2.2 Rate of return and value of imputation credits

The return each business receives on its capital base (the 'return on capital') is a key driver of proposed revenues. We calculate the regulated return on capital by applying a rate of return to the value of the capital base. We estimate the rate of return by combining the returns of two sources of funds for investment – equity and debt. The allowed rate of return provides the business with a return on capital to service the interest rate on its loans and gives a return on equity to investors.

Endeavour's proposal applied our 2018 Rate of Return Instrument to estimate the rate of return.[68] This draft decision applies the new 2022 Rate of Return Instrument:[69]

- Our draft decision applies a rate of return of 5.84% for the first year of the regulatory period. Updates to the return on debt, the risk-free rate, and the market risk premium in the 2022 Instrument have resulted in the same first year placeholder rate of return of 5.84% used in Endeavour's proposal.
- Our draft decision applies a value of imputation credits (gamma) of 0.57 as set out in the 2022 Instrument,[70] compared to 0.585 in the 2018 Instrument.[71]

Our estimate of expected inflation for the purposes of this draft decision is 2.80% per annum. It is an estimate of the average annual rate of inflation expected over a five-year period based on the approach adopted in our 2020 Inflation Review[72] and the forecast from the Reserve Bank of Australia's August 2023 Statement on Monetary Policy.[73] This is lower than the estimate used in Endeavour's proposal (2.87%), which was taken from an earlier Statement on Monetary Policy.

Figure 8 isolates the impact of expected inflation from other parts of our draft decision, to illustrate its impact on the return on capital and regulatory depreciation building blocks and the total revenue allowance. Other elements held constant, lower expected inflation reduces the return on capital but increases regulatory depreciation.

68 AER, *Rate of return Instrument*, December 2018. See https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/rate-of-return-guideline-2018/final-decision

69 The 2022 Rate of Return Instrument was amended in August 2023. See https://www.aer.gov.au/publications/guidelines-schemes-models/rate-of-return-instrument-2022/final-decision

70 AER, *Rate of return Instrument, Explanatory Statement*, February 2023, pp. 240–250.

71 AER, *Rate of return Instrument, Explanatory Statement*, December 2018, pp. 307–382.

72 AER, *Final position – Regulatory treatment of inflation*, December 2020.

73 RBA, *Statement on Monetary Policy*, August 2023, Table 1: Forecast Table. See https://www.rba.gov.au/publications/smp/2023/aug/forecasts.html

Figure 8 Inflation components in draft decision revenue building blocks ($million, nominal)

Source: AER analysis.

2.3 Regulatory depreciation (return of capital)

Depreciation is a method used in our decision to allocate the cost of an asset over its useful life. It is the amount provided so capital investors recover their investment over the economic life of the asset (otherwise referred to as 'return of capital'). When determining total revenue, we include an amount for the depreciation of the projected RAB. The regulatory depreciation amount is the net total of the straight-line depreciation less the indexation of the RAB.

Our draft decision determines a regulatory depreciation amount of $1,126.8 million ($ nominal) for the 2024–29 period. This is an increase of $20.6 million (1.9%) from Endeavour's proposal of $1,106.2 million.

This increase is primarily due to our draft decision on the expected inflation rate for the 2024–29 period, which affects the projected RAB over this period. The lower expected inflation rate applied in the draft decision reduces the indexation of the RAB that is offset against straight-line depreciation in determining regulatory depreciation. Forecasts of expected inflation and components that make up the projected RAB will be updated again in Endeavour's revised proposal and our final decision.

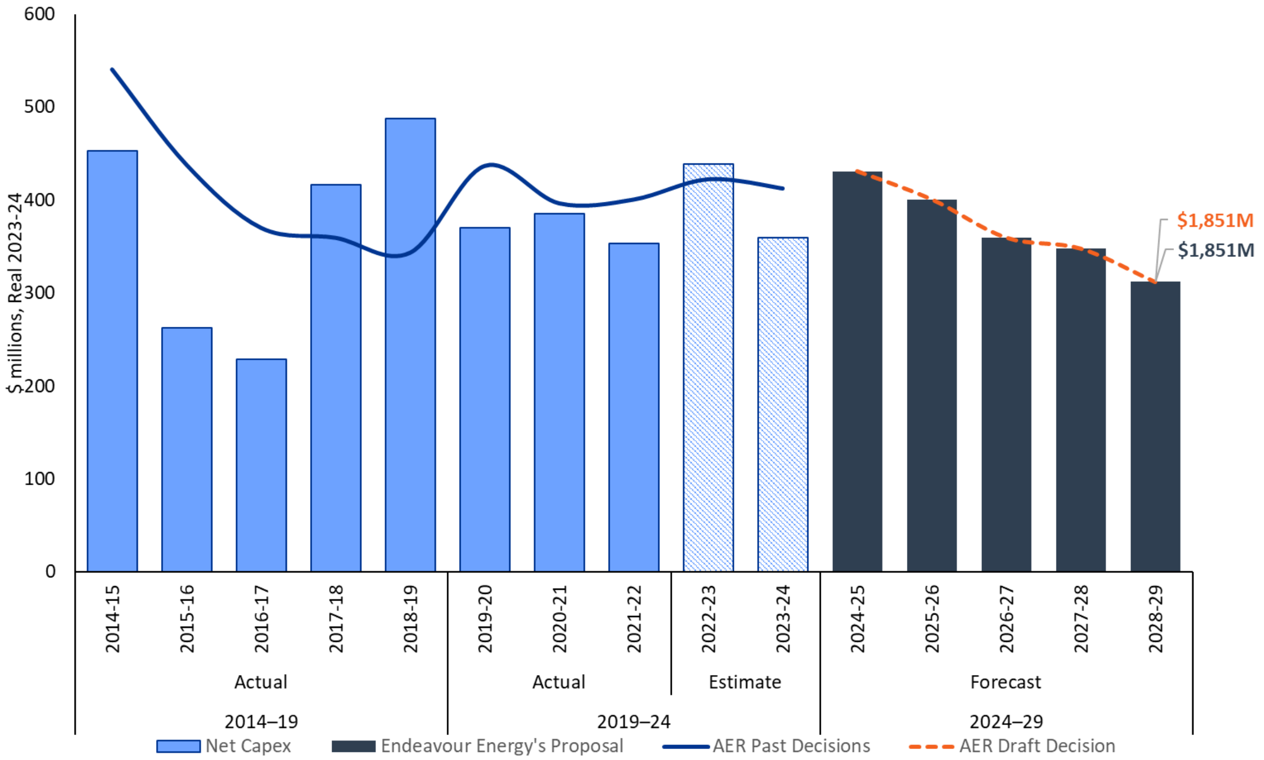
2.4 Capital expenditure

Capital expenditure—the capital costs and expenditure incurred to provide network services— mostly relates to assets with long lives, the costs of which are recovered over several regulatory control periods. Capex is added to Endeavour's RAB, which is used to determine the return on capital and return of capital (regulatory depreciation) building block allowances. All else being equal, higher forecast capex will lead to a higher projected RAB value and higher return on capital and regulatory depreciation allowances.

Our draft decision is to accept Endeavour Energy's forecast total capex of $1,850.9 million ($2023–24) for the 2024–29 period. Having regard to all the information before us, we have assessed Endeavour's total capex forecast to be within the bounds of a prudent and efficient forecast.

Figure 9 depicts Endeavour's historical capex trend, its proposed forecast for the 2024–29 period, and our draft decision. Endeavour's forecast compares well against its current period spend, being 8% below current period actual and estimated spend. Its current period spend also tracks closely to the AER current period forecast.

Figure 9 Endeavour Energy's historical and forecast capex ($2023–24, million)



Source: AER analysis. Capex is net of asset disposals and capital contributions.

In considering the scope of our review we had regard to how Endeavour has performed against the Handbook expectations for capex. At the Issues Paper stage, we found that Endeavour performed very well against the capex expectations, satisfying almost all expectations. Our Issues Paper indicated that we would undertake a targeted review on a small proportion of capex, approximately 15% of Endeavour's total capex forecast and that it may be capable of acceptance at the draft decision stage. In coming to this position, we note that Endeavour performed well against top-down testing of its total capex forecast with credible top-down constraints which we were able to verify. At the pre-lodgement phase, Endeavour was very responsive to our requests for information and data on a large sample of business cases we requested to assess for prudency and efficiency of decision-making. Most of the feedback we provided has been incorporated into Endeavour's proposal.

Our targeted review involved:

- examining the investment timing and demand forecasts related to key drivers of Endeavour Energy's augex; and
- an assessment of CER integration and resilience-related capex and information and communications technology (ICT) cybersecurity, because these are new and emerging areas relevant to a number of current regulatory proposals.

For all other categories not subject to targeted review, we undertook a broad high-level review of the main business cases driving the forecast to determine whether there are any material or systematic issues that might lead to over-forecasting. We did not find any material issues with all other categories of capex.

On the investment timing and demand forecasts for augex, we found these to be reasonable, based on a review of a sample of large augmentation projects associated with the Western Sydney Aerotropolis as well as other major growth areas. Based on our review of North Kemp, Austral and West Dapto new substation projects (comparing the business case against its proposed capex), we observed instances where Endeavour applied further constraints by pushing out projects where investment timing and costs are less certain to the backend of the 2024–29 period and beyond.

For some expenditure such as CER, we assessed the forecasted investment to not be consistent with prudent and efficient decision-making. But we also found that our alternative forecast at the total capex level to not be materially different from Endeavour's total forecast. We have set out areas of improvement in our draft decision for Endeavour to consider in future processes.

We note the following findings on the new and emerging areas of capex:

- Climate resilience capex ($28.0 million) – Endeavour provided some of the evidence set out in our guidance note on network resilience to support prudency and efficiency of its climate resilience investment. In particular, it has provided sufficient options analysis to support the prudency and efficiency of its investments. We also found that Endeavour's proposed investments to mitigate bushfire and flood risk is reasonable as it is a continuation of its current business-as-usual programs to address safety and reliability of its network. While Endeavour was not able to demonstrate a causal link of the network impact from an expected increase in bushfire and flood events, we acknowledge that these reliability and safety-related investments will also result in a more resilient network that can better withstand the impact from the increasing risk of climate change. We also consider that Endeavour has engaged well with its customers about its resilience proposal as noted in submissions from Western Sydney Regional Organisation of Councils (WSROC) and PIAC. We appreciate the challenges to engage with consumers on the network impacts from climate change and acknowledge Endeavour's efforts to better understand its customer's preferences for resilience-related expenditure.

- CER integration ($50.0 million[74]) – We consider that Endeavour has demonstrated there is a need for some level of investment based on its hosting capacity analysis, and it has considered a reasonable range of investment options to integrate CER. However, our analysis and our consultant EMCa's review found issues with its modelling and we have noted areas of improvement for Endeavour to consider in future processes.
- ICT cybersecurity ($16.3 million) – We note EMCa's advice that Endeavour's forecast capex is reasonable for a DNSP of its level of 'medium' criticality. Its alternative forecast was also not materially different from Endeavour's. In coming to our position on Endeavour's ICT cybersecurity proposal, we were cognisant of the importance of cybersecurity investment to support a reliable and secure electricity network, and we have had regard to the compliance obligations in legislation and licence conditions.

2.5 Operating expenditure

Operating expenditure is the operating, maintenance and other non-capital expenses incurred in the provision of Endeavour's prescribed distribution services.

Our draft decision is to accept Endeavour's proposed opex forecast of $1,497.6 million ($2023–24) for the 2024–29 period. Our alternative estimate of $1,525.0 million ($2023–24) is not materially different ($27.4 million, $2023–24, or 1.8% higher) from Endeavour's total opex forecast proposal. Therefore, we are satisfied that Endeavour's total opex forecast reasonably reflects the opex criteria.[75]

Our draft decision, which is the same as Endeavour's proposed total opex forecast, is:

- $119.7 million (or 8.7%) higher than Endeavour's actual (and estimated) opex in the 2019–24 period
- $261.8 million (or 14.9%) lower than the opex forecast we approved in our final decision for the 2019–24 period.[76]

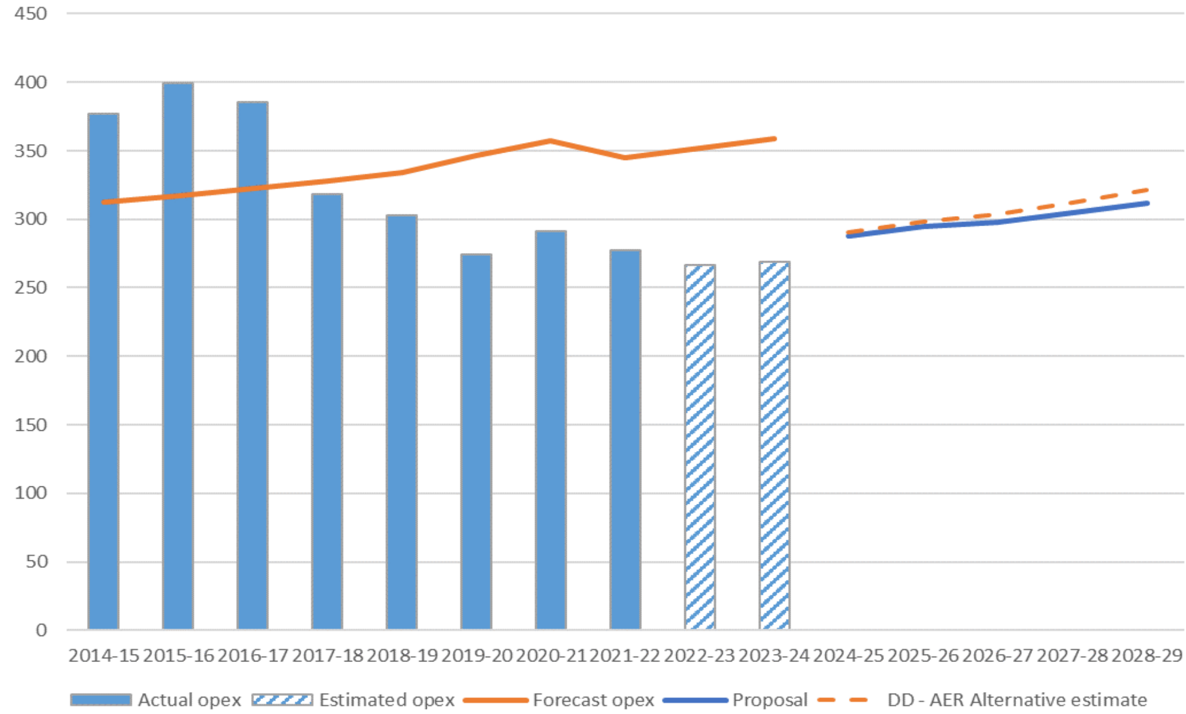
In Figure 10 we compare our alternative estimate of opex to Endeavour's proposal for the next regulatory control period. We also show the forecasts we approved for the last two access arrangement periods and Endeavour's actual and estimated opex over these periods.

74 Including $5.0 million for CER-related ICT

75 NER, cl. 6.5.6(c).

76 The $261.8 million difference is calculated using our opex allowance for the five year 2019–24 period converted to real 2023–24 dollars using unlagged inflation. The difference of $242.5 million ($2023–24) stated in section 1.1 has been calculated using lagged inflation.

Figure 10 Endeavour's historical and forecast opex ($2023–24)



Source: Endeavour, *Economic benchmarking – Regulatory Information Notice response 2009–22*; AER, *Final decision PTRM 2009–14*; AER, *Final decision 2014–19 PTRM*; AER, *Final decision 2019–24 PTRM* and *Opex model*; Endeavour, *Endeavour - 11.01 Opex Model - January 2023 - Public*, January 2023; AER analysis.

Note: Reported and forecast opex including debt raising costs but excluding movements in provisions.

As part of the early signal pathway process, Endeavour provided us with early access to data and information relevant to our expectations for opex as set out in the Handbook. In turn, we provided feedback through check-ins prior to Endeavour submitting its regulatory proposal indicating where the Handbook expectations were likely to be met, or where adjustments were needed to meet these expectations.

Endeavour applied our standard base-trend-step forecasting methodology to forecast opex for the 2024–29 period, and largely applied inputs and approaches consistent with our Handbook expectations. We undertook a targeted review of Endeavour's proposed step changes relating to CER integration costs and, while we identified some modelling issues and areas of improvement for future processes, made only minor adjustments for our alternative estimate. We consider Endeavour has restrained new expenditures for the 2024–29 period, which is important in ensuring that opex efficiencies achieved in the 2019–24 period are shared with consumers. For example, Endeavour constrained its proposed step change costs and forecast output growth.

While there is not a material difference between our alternative estimate of total opex and Endeavour's proposed opex, we have arrived at our alternative estimate in a different way to Endeavour. The key difference between Endeavour's opex proposal, which we have accepted, and our alternative estimate is due to the rate of change, specifically output growth. This is further discussed in Attachment 6. We have included a higher forecast for output growth in our alternative estimate ($99.0 million), consistent with our standard approach, compared to that proposed by Endeavour ($65.7 million).

2.6 Corporate income tax

Our determination of the total revenue requirement includes the estimated cost of corporate income tax for 2024–29 period. Under the post-tax framework, this amount is calculated as part of the building blocks assessment using our post-tax revenue model (PTRM).

Our draft decision determines an estimated cost of corporate income tax amount of $101.7 million ($ nominal) for Endeavour over the 2024–29 period. This is an increase of $5.0 million (5.1%) from Endeavour's proposal of $96.8 million. This increase is primarily due to our draft decision on a higher regulatory depreciation amount, which in turn increased the estimated taxable income for Endeavour and therefore the cost of corporate income tax. This increase is partially offset by our draft decision on a lower return on equity amount.

2.7 Revenue adjustments

Our calculation of Endeavour's total revenue includes adjustments for incentive schemes that applied in its determination for the current period, such as EBSS and CESS that applied in its determination for the current period. These mechanisms provide a continuous incentive for Endeavour to pursue efficiency improvements in opex and capex, and a fair sharing of these between Endeavour and its users.

Our draft decision includes:

- A revenue adjustment of $12.61 million ($2023–24) for the CESS. This is from the application of the CESS in the 2019–24 period and the corresponding CESS carryover true-up for 2018–19. Our draft decision is $1.21 million less than Endeavour's proposed increment of $13.82 million, due to modelling adjustments and a correction of the true-up calculation.
- A revenue adjustment (reward) of $131.2 million under the EBSS. This is lower than Endeavour proposed reflecting our use of the most recent inflation figures (not available at the time Endeavour submitted its proposal) to convert amounts into 2023–24 dollars.
- An allowance of $5.09 million ($2023–24) for the Demand Management Innovation Allowance Mechanism (DMIAM). In each year of the 2024–29 period, Endeavour will submit demand management projects for approval under the DMIAM. Any part of the $5.09 million that is not spent on an approved project will be returned to consumers in the subsequent period.
- A shared asset adjustment of –$5.3 million ($2023–24) to be shared with customers across the 2024–29 period.

The combined effect of these revenue adjustments is a positive $143.6 million ($2023–24) revenue adjustment building block in this draft decision compared to a positive $151.6 million in Endeavour's proposal.

Endeavour also proposed an innovation fund of $25 million ($20 million capex, $5 million opex) to trial and invest in innovative solutions and technologies to support the energy transition and community resilience.[77] The opex component of this fund was not included in Endeavour's total forecast opex, but rather as a revenue adjustment in Endeavour's PTRM. This treatment means these costs would not be included in future base opex, or subject to the ex-ante incentive regime. Our draft decision is to not include this proposed adjustment in the PTRM and our decision is discussed in Attachment 5 and 6.

77 Endeavour Energy, 0.*01 Regulatory Proposa*l, January 2023, pp. 78 and 225; Endeavour Energy, *0.04 Post-Tax Revenue Model - January 2023 - Public*, 31 January 2023.

3 Incentive schemes

Incentive schemes are a component of incentive-based regulation and complement our approach to assessing efficient costs. They provide important balancing incentives under network determinations, encouraging businesses to pursue expenditure efficiencies while maintaining the reliability and overall performance of the network. Our draft decision on the application of these schemes and allowances is consistent with the position taken in our Framework and Approach paper and is set out in Attachments 8-12 of this draft decision.

Our draft decision is that the following incentive schemes will continue to apply to Endeavour in the 2024–29 period:

- Efficiency benefit sharing scheme (EBSS). This provides a continuous incentive to pursue efficiency improvements in opex and provide for a fair sharing of these between networks and network users. Consumers benefit from improved efficiencies through lower opex in regulated revenues for future periods.
- Capital expenditure sharing scheme (CESS). This incentivises efficient capex throughout the period by rewarding efficiency gains and penalising efficiency losses, each measured by reference to the difference between forecast and actual capex. Consumers benefit from improved efficiencies through a lower RAB, which is reflected in regulated revenues for future periods. We have not accepted Endeavour's proposal to exclude innovation from the CESS in the 2024–29 period as we consider this is not consistent with the intended application of the CESS and there are alternatives to achieving the desired outcome than pre-determining an exclusion. Our reasoning behind these positions is outlined in further detail in Attachment 9.
- The Service target performance incentive scheme (STPIS) balances a business' incentive to reduce expenditure with the need to maintain or improve service quality. It achieves this by providing financial incentives to businesses to maintain and improve service performance and not by simply reducing costs at the expense of service quality. Once improvements are made, the benchmark performance targets will be tightened in future years. The parameters that will apply to each component of the STPIS have been published as part of this draft decision.
- Demand Management Incentive Scheme (DMIS) and Demand Management Innovation Allowance Mechanism (DMIAM). The DMIS provides network service providers with financial incentives for undertaking efficient demand management activities. The DMIAM funds research and development in demand management projects that have the potential to reduce long term network costs.

Since our last determination for Endeavour, we have introduced two new incentive schemes:

- A Customer Service Incentive Scheme (CSIS), which is designed to encourage electricity distributors to engage with their customers, identify (through customer engagement) the customer services their customers want improved, and then set targets to improve those services based on their customers' preferences and support.

  Our draft decision is that a CSIS will apply because Endeavour has met the incentive design of the scheme.

- An Export Services Incentive Scheme (ESIS), which allows distributors to propose bespoke incentives related to export services based on their network circumstances, customer preferences and evidence-based performance data. The scheme is a product of our consultation with stakeholders on incentivising and measuring export service performance, which considered appropriate incentive arrangements for export services to balance existing incentive schemes related to consumption services, as well as the introduction of network performance reporting on export service performance metrics. The ESIS was first published in June 2023, and was not available at the time of Endeavour's proposal. Our draft decision is that an ESIS will not apply.

4 Tariff structure statement

Endeavour's 2024–29 proposal includes its third tariff structure statement. Its current tariff structure statement applies to 30 June 2024.

The requirement on distributors to prepare a tariff structure statement stemmed from significant reforms in 2014 to the rules governing distribution network pricing. The purpose of the reforms is to empower customers to make informed choices by:

- providing better price signals—tariffs that reflect what it costs to use electricity at different times so that customers can make informed decisions to better manage their bills
- transitioning to greater cost reflectivity—requiring distributors to explicitly consider the impacts of tariff changes on customers, and engaging with customers, customer representatives and retailers in developing network tariff proposals over time
- managing future expectations—providing guidance for retailers, customers and suppliers of services such as local generation, batteries and demand management by setting out the distributor's tariff approaches for the 5-year regulatory control period.

It is important to note that distributors charge retailers for the network services they provide to the retailer's customers (end-customers). There is no obligation on retailers or energy service providers to pass the network tariff structure through to their end-customers. The structure of retail offers is determined by retailers responding to consumer preferences and competitive pressures, while also deciding how best to manage the network price signals. A retailer may choose to pass on the network price signals exactly or repackage them into their retail offers (including in insurance style flat rate retail offers).

Network tariff reform aims to help distributors charge retailers in a manner which more closely reflects the cost of providing electricity network capacity to their end customers and can support the energy transition currently underway. Where price signals are passed through and if customers are well placed to respond to these price signals, appropriately structured tariffs can enable growth in the value and number of people with CER. At the same time, this response to price signals can reduce network constraints and limit the level of network investment required, resulting in lower prices for all consumers.

The tariff structure statement must set out a number of matters. These include tariff classes, proposed tariffs and the structures and charging parameters, the strategy for introduction of export tariffs, and the approach to setting tariff levels in each year of the regulatory control period.[78] The policies and procedures it will use to assign customers to tariffs or reassign customers from one tariff to another must also be outlined.

[78] NER, cl. 6.18.1A(a).

In this determination we decide the structure of tariffs that will form the basis of annual pricing proposals throughout the 2024–29 period.[79] We are also required to decide the policies and procedures for assigning or re-assigning customers to tariff classes.[80] While an indicative pricing schedule must accompany the tariff structure statement, the tariff levels for each tariff for each year of the 2024–29 period are not set as part of this determination.[81]

Tariff levels for the regulatory year commencing 1 July 2024 will be subject to a separate approval process in May 2024, after we have made our final revenue determination in April 2024. Tariffs for the four years from 1 July 2025 will also be approved on an annual basis.[82]

We commend Endeavour for submitting one of the best tariff structure statements that we have seen. It provides for a transition to tariffs that support efficient use of its network, while including appropriate measures to manage adverse impacts to consumers. We have given weight to the involvement of consumers in developing Endeavour's tariff structure statement, as well as the submissions we have received. We also provided Endeavour Energy with feedback on the direction of its tariff structure statement while it was in development through the early signal pathway.

Endeavour's proposed tariff structure statement has significantly accelerated its tariff reform by removing the ability of customers with smart meters to opt-out of cost reflective tariffs. It has changed its default cost reflective residential and small business tariff from the demand to the time-of-use tariff, in response to stakeholder feedback. It also proposed cost-reflective tariffs that support the energy transition, facilitating the growth of CER while sending price signals to mitigate network investment. These include a secondary export reward tariff, grid-scale battery tariffs, and charging parameters that encourage energy use during the day.

We encourage Endeavour to consider minor improvements in its revised tariff structure statement, including providing worked examples of how its export reward tariff applies in practice and supporting information on its proposed contingent tariff adjustment. We also encourage Endeavour to include supporting information on a further change to its assignment policy that it communicated to AER staff after submission of the proposed tariff structure statement (to shorten the transition period from 24 months to 12 months). Further, given the current and anticipated uptake of EVs in NSW and associated charging load, we think that Endeavour should consider further tariff options to help manage potential network impacts from uncontrolled EV charging.

We further consider that one aspect of Endeavour's tariff structure statement requires further consultation to achieve compliance with the NER pricing principles. We require Endeavour to:

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79 NER, cl. 6.12.1(14A).

80 NER, cl. 6.12.1(17)

81 NER, cl. 6.8.2(d1).

82 NER, cl. 6.18.2 and cl. 6.18.8.

- provide further analysis and supporting information on its proposed network tariff for low voltage embedded networks consuming over 160MWh per annum.

In Attachment 19 we describe in further detail these changes that we consider necessary for us to approve Endeavour Energy's tariff structure statement proposal.

5 Metering

Smart meters are foundational to a more connected, modern, and efficient energy system and one mechanism to ensure that future technologies, services, and innovations are supported. The Australian Energy Market Commission (AEMC) has been considering the transitioning of legacy meters and in December 2020, initiated a review of the regulatory framework for metering services.

In our final Framework and approach (F&A) for the NSW distributors[83], and Issues Paper for Endeavour,[84] we signalled that the outcomes of the AEMC's review may require different classification and price/revenue control settings in our draft or final decisions.

5.1 The AEMC's final decision

The AEMC's draft report noted that smart meters provide whole-of-system benefits which should be realised as soon as possible.[85] The AEMC's final decision was released on 30 August 2023,[86] and confirms that it will target a 100% replacement of distribution network owned accumulation meters with smart meters offered by other parties by 30 June 2030.[87]

We consider the AEMC's final decision constitutes a material change in circumstances for Endeavour which justifies departure from the classification of legacy meter services in the F&A[88]. However, due to the proximity of the release of our draft decision, we have not had the opportunity to fully incorporate the findings into this decision. In preparation for the AEMC's decision, we have been working with the affected distribution businesses to identify a proposed approach that ensures customers are not inequitably impacted from rising costs in the transition to realising the benefits the smart meters provide.

5.2 Material change in circumstances

For Endeavour to achieve the AEMC's targets it will be required to develop a legacy metering retirement plan (LMRP) in consultation with retailers, metering parties, and other stakeholders. It is envisaged that a LMRP will schedule bulk meter replacements (replace legacy meters with smart meters) on a geographical basis to leverage economies of scale. Customers may have little choice as to when their meter will be replaced as the replacement cycle will be determined by the distributors and other providers.

Under the F&A regulatory settings, Endeavour's customers with meters replaced later in the LMRP implementation will be charged inequitably higher costs for metering services than

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83 AER, *Final framework and approach for Ausgrid, Endeavour Energy and Essential Energy,* July 2023.

84 AER, *Issues Paper - Ausgrid – 2024–29 Distribution revenue proposal*, March 2023.

85 AEMC, *Review of the regulatory framework for metering services draft report*, 3 November 2022, pp. ii.

86 AEMC, *Final Report: Review of the regulatory framework for metering services*, August 2023.

87 AEMC *Final Report: Review of the regulatory framework for metering services,* August 2023.

88 Clause 6.12.3(b) of the NER

customers with meters replaced earlier, even though there is no change in the service they receive.

5.3 Proposed approach

Our proposed approach and guidance for legacy meter services, is set out in Attachment 20 – Metering. Due to timing of the AEMC's final decision, we have retained the classification for metering services as ACS and socialise over a subset of customers. However, our view is that a reclassification of legacy meter services to SCS is likely to be more appropriate. This approach will result in the benefit of socialising Endeavour's metering services costs across a wider customer group during the smart meter transition and maintain compliance with the pricing principles in the NER[89].

We have engaged with all impacted distribution networks on this proposed approach. However, we have had limited opportunity to engage with other stakeholders to date on the proposed socialisation of costs and change in classification. When submitting its revised proposal, we encourage Endeavour to have regard to and consider the AEMC's final decision of targeting the 100% replacement by 2030, and anything else relevant. Our draft decision has also applied accelerated depreciation to wind up legacy meter asset bases within the 2024–29 period.

89 Clause 6.18.5 of the NER.

6 Constituent decisions

Our draft decision on Endeavour Energy's distribution determination for the 2024–29 regulatory control period includes the following constituent components:

Constituent component
In accordance with clause 6.12.1(1) of the NER, the AER's draft decision is that the classification of services set out in Attachment 13 will apply to Endeavour Energy for the 2024–29 regulatory control period.
In accordance with clause 6.12.1(2)(i) of the NER, the AER's draft decision is to not approve the annual revenue requirement set out in Endeavour Energy's building block proposal. Our draft decision on Endeavour Energy's annual revenue requirement for each year of the 2024–29 regulatory control period is set out in Attachment 1.
In accordance with clause 6.12.1(2)(ii) of the NER, the AER's draft decision is to approve Endeavour Energy's proposal that the regulatory control period will commence on 1 July 2024. Also in accordance with clause 6.12.1(2)(ii) of the NER, the AER's draft decision is to approve Endeavour Energy's proposal that the length of the regulatory control period will be five years from 1 July 2024 to 30 June 2029.
The AER did not receive a request for an asset exemption under clause 6.4B.1(a)(1) and therefore has not made a decision in accordance with clause 6.12.1(2A) of the NER.
In accordance with clause 6.12.1(3)(i) and acting in accordance with clause 6.5.7(c) of the NER, the AER's draft decision is to accept Endeavour Energy's proposed total forecast capital expenditure of $1,850.9 million ($2023–24). This is discussed in Attachment 5.
In accordance with clause 6.12.1(4)(i) and acting in accordance with clause 6.5.6(c) of the NER, the AER's draft decision is to accept Endeavour Energy's proposed total forecast operating expenditure, inclusive of debt raising costs and exclusive of DMIAM of $1,497.6 million ($2023–24). This is discussed in Attachment 6.
Endeavour Energy did not propose any contingent projects and therefore the AER has not made a decision under clause 6.12.1(4A) of the NER.
In accordance with clause 6.12.1(5) of the NER and the 2022 Rate of Return Instrument, the AER's draft decision is that the allowed rate of return for the 2024–25 regulatory year is 5.84% (nominal vanilla) as set out in Attachment 3. The rate of return for the remaining regulatory years of the 2024–29 period will be updated annually because our decision is to apply a trailing average portfolio approach to estimating debt which incorporates annual updating of the allowed return on debt.
In accordance with clause 6.12.1(5A) of the NER and the 2022 Rate of Return Instrument, the AER's draft decision on the value of imputation credits as referred to in clause 6.5.3 is to adopt a value of 0.57. This is set out in Attachment 3.
In accordance with clause 6.12.1(6) of the NER, the AER's draft decision on Endeavour Energy's regulatory asset base as at 1 July 2024 in accordance with clause 6.5.1 and schedule 6.2 is $8,196.9 million ($ nominal). This is discussed in Attachment 2.
In accordance with clause 6.12.1(7) of the NER, the AER's draft decision on Endeavour Energy's estimated cost of corporate income tax is $101.7 million ($ nominal) for the 2024–29 regulatory control period. This is discussed in Attachment 7 and the amount for each regulatory year of the 2024–29

Constituent component
regulatory control period is set out in the table below.

($million, nominal)	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Tax payable	63.1	46.8	44.7	41.0	40.9	236.5
Less: value of imputation credits	36.0	26.7	25.5	23.4	23.3	134.8
Net cost of corporate income tax	**27.1**	**20.1**	**19.2**	**17.6**	**17.6**	**101.7**

In accordance with clause 6.12.1(8) of the NER, the AER's draft decision is to not approve the depreciation schedules submitted by Endeavour Energy. Our draft decision substitutes alternative depreciation schedules that accord with clause 6.5.5(b). The regulatory depreciation amount approved in this draft decision is $1,126.8 million ($ nominal) for the 2024–29 regulatory control period. This is discussed in Attachment 4.

In accordance with clause 6.12.1(9) of the NER the AER makes the following draft decisions on how any applicable efficiency benefit sharing scheme (EBSS), capital expenditure sharing scheme (CESS), export services incentive scheme (ESIS), service target performance incentive scheme (STPIS), demand management incentive scheme (DMIS), demand management innovation allowance mechanism (DMIAM) or small-scale incentive scheme (customer service incentive scheme) is to apply:

- We will apply version 2 of the EBSS to Endeavour Energy in the 2024–29 regulatory control period. This is discussed in Attachment 8
- We will apply the CESS as set out in the Capital Expenditure Incentives Guideline to Endeavour Energy in the 2024–29 regulatory control period. This is discussed in Attachment 9.
- We will not apply the ESIS for the 2024–29 regulatory control period.
- We will apply our STPIS version 2 to Endeavour Energy for the 2024–29 regulatory control period. This is discussed in Attachment 10.
- We will apply the DMIS and DMIAM to Endeavour Energy for the 2024–29 regulatory control period. This is discussed in Attachment 11.
- We will apply the customer service incentive scheme (CSIS) to Endeavour Energy for the 2024–29 regulatory control period. This is discussed in Attachment 12.

In accordance with clause 6.12.1(10) of the NER, the AER's draft decision is that all other appropriate amounts, values and inputs are as set out in this draft determination including attachments.

In accordance with clause 6.12.1(11) of the NER and our framework and approach paper, the AER's draft decision on the form of control mechanisms (including the X factor) for standard control services is a revenue cap. The revenue cap for Endeavour Energy for any given regulatory year is the total annual revenue calculated using the formula in Attachment 14, which includes any adjustment required to move the Distribution Use of Service (DUoS) unders and overs account to zero. The reasons for our draft decision are set out in Attachment 14.

In accordance with clause 6.12.1(12) of the NER and our framework and approach paper, the AER's draft decision on the form of the control mechanism for alternative control services is to apply price caps for all alternative control services. The reasons for our draft decision are set out in Attachment 14.

Constituent component
In accordance with clause 6.12.1(13) of the NER, to demonstrate compliance with its distribution determination, the AER's draft decision is that Endeavour Energy must maintain a DUoS unders and overs mechanism. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our draft decision are set out in Attachment 14.
In accordance with clause 6.12.1(14) of the NER the AER's draft decision is to apply the following nominated pass through events to Endeavour Energy for the 2024–29 regulatory control period in accordance with clause 6.5.10: • Insurance coverage event • Insurer's credit risk event • Terrorism event • Natural disaster event The definitions of these events, and the reasons for our draft decision, are set out in Attachment 15 of the draft decision.
In accordance with clause 6.12.1(14A) of the NER, the AER's draft decision is to not approve the tariff structure statement proposed by Endeavour Energy. The reasons for our draft decision are set out in Attachment 19.
In accordance with clause 6.12.1(15) of the NER, the AER's draft decision is that the negotiating framework as proposed by Endeavour Energy will apply for the 2024–29 regulatory control period. The reasons for our draft decision are set out in Attachment 17.
In accordance with clause 6.12.1(16) of the NER, the AER's draft decision is to apply the negotiated distribution services criteria published in February 2023 to Endeavour Energy. The reasons for our draft decision are set out in Attachment 17.
In accordance with clause 6.12.1(17) of the NER, the AER's draft decision on the procedures for assigning retail customers to tariff classes for Endeavour Energy is set out in Attachment 19.
In accordance with clause 6.12.1(18) of the NER, the AER's draft decision is that the depreciation approach to be used to establish the RAB at the commencement of Endeavour Energy's regulatory control period as at 1 July 2029 is to be based on forecast capex. The reasons for our draft decision are set out in Attachment 2.
In accordance with clause 6.12.1(19) of the NER, the AER's draft decision on how Endeavour Energy is to report to the AER on its recovery of designated pricing proposal charges and account for the under and over recovery of designated pricing proposal charges is the unders and overs mechanism. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our draft decision are set out in Attachment 14.
In accordance with clause 6.12.1(20) of the NER, the AER's draft decision on how Endeavour Energy is to report to the AER on its recovery of jurisdictional scheme amounts and account for the under and over recovery of jurisdictional scheme amounts is the unders and overs mechanism. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our draft decision are set out in Attachment 14.
In accordance with clause 6.12.1(21) of the NER, the AER's draft decision is to not approve the connection policy proposed by Endeavour Energy. Our draft decision is to amend Endeavour Energy's proposed connection policy as set out, and for the reasons given, in Attachment 18.

7 List of submissions

We received 17 submissions in response to Endeavour Energy's revenue proposal, as well as 455 from individuals via 'formbuilder'. These are listed below.[90]

Submissions from
Caravan & Camping Industry Association NSW
Compliance Quarter
Consumer Challenge Panel, sub-panel 26
Energy Intelligence
Energy Locals
EnergyAustralia
Evie Networks
Energy & Water Ombudsman NSW (EWON)
Hugh Saddington
Network Energy Services
NSW stakeholders – 455 from individuals via 'formbuilder' on the NSW distributors proposed solar export charges[91]
Origin Energy
Public Interest Advocacy Centre
Red Energy & Lumo Energy
Urban Development Institute of Australia
Solar Citizens
Wollondilly Shire Council
Western Sydney Regional Organisation of Councils (WSROC)

90 Submissions are available on the AER website at https://www.aer.gov.au/networks-pipelines/determinations-access-arrangements/endeavour-energy-determination-2024%E2%80%9329/proposal#step-86591

91 A sample of some of the submissions received are available on the AER website at https://www.aer.gov.au/system/files/NSW%20stakeholders%20-%20Sample%20of%20submissions%20-%20NSW%20DNSP%27s%20proposed%20solar%20export%20charges%20-%20May%202023_1.pdf.

Shortened forms

Terms	Definition
ACS	alternative control services
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
ASP	Accredited Service Provider
AUGEX	augmentation capital expenditure
CAPEX	capital expenditure
CCP26	Consumer Challenge Panel, sub-panel 26
CESS	capital expenditure sharing scheme
CER	Consumer energy resources
CSIS	customer service incentive scheme
DER	Distributed Energy Resources
DMIAM	demand management innovation allowance mechanism
DMIS	demand management incentive scheme
DNSP or distributor	Distribution Network Service Provider
DUoS	Distribution Use of System Charges
EBSS	efficiency benefit sharing scheme
ECA	Energy Consumers Australia
ESB	Energy Security Board
F&A	framework and approach
ICT	information and communication technologies
LMRP	Legacy metering retirement plan
NEL	National Electricity Laws
NEM	National Electricity Market
NEO	National Electricity Objectives
NER	National Electricity Rules
OPEX	operating expenditure
PIAC	Public Interest Advocacy Centre
RAB	regulated asset base
REPEX	replacement expenditure
SAPS	stand-alone power systems
SCS	standard control service
STPIS	service target performance incentive scheme