

Final Decision

Endeavour Energy Electricity Distribution Determination 2024 to 2029 (1 July 2024 to 30 June 2029)

Overview

April 2024

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This Overview forms part of the AER's final 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 final decision.

As a number of issues were settled at the draft decision stage or required only minor updates, we have not prepared all attachments. In these circumstances, our draft decision reasons form part of this final decision. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision.

The final decision includes the following documents:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 7 – Corporate income tax

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

Attachment 15 – Pass through events

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Attachment 19 – Tariff structure statement

Attachment 20 – Metering Services

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).

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 New South Wales (NSW) electricity distribution network service provider Endeavour Energy, for the period 1 July 2024 to 30 June 2029 (2024–29 period).

This final decision is the conclusion of over two and half year's work to determine what Endeavour Energy can recover from its customers in the 2024–29 period.

On 29 October 2021, Endeavour Energy formally requested we revise its Framework and approach (F&A) paper. The F&A is responsible for determining which services we will regulate, and why, and the broad nature of the regulatory arrangement. Our final decision on Endeavour Energy's F&A was published in July 2022.

In March 2022, we accepted Endeavour Energy as one of the first two businesses on the Better Resets Handbook's (the Handbook) early signal pathway. As part of this process, we had the opportunity to engage extensively and receive early access to data and information relevant to the expectations set out in the Handbook.

Endeavour Energy submitted its initial proposal on 31 January 2023, which we acknowledged was a very high-quality proposal, and developed through an extensive, genuine and engagement process.

In March 2023, our Issues paper outlined that we, based on our assessment as part of the early signal pathway process, had only identified a few aspects of Endeavour Energy's proposal that we wanted to undertake further assessment of as part of our targeted review. For example, we considered that Endeavour Energy had performed very well against the capital expenditure (capex) expectations and proposed to undertake a targeted review of only 15% of total forecast capex.¹ We also highlighted that additional factors impacting the Australian economy may affect Endeavour Energy's total revenue for 2024–29 period. In particular, that there has been increases in interest rates and inflation over the 2019–24 period.

We held a public forum in April 2023, to assist stakeholders in their consideration of Endeavour Energy's proposal and received a number of submissions prior to publishing our draft decision on 28 September 2023.

¹ AER, *Issues Paper - Endeavour Energy – 2024–29 Distribution revenue proposal*, March 2023

Our draft decision accepted much of Endeavour Energy’s proposal, including its total capex and operating expenditure (opex) forecasts. We acknowledged that Endeavour Energy’s engagement was a material factor in our decision to accept most of its proposal.

Endeavour Energy responded to our draft decision in its revised proposal, submitted 30 November 2023. Interested stakeholders were invited to provide submissions on our draft decision and Endeavour Energy’s revised proposal.

Our assessment has been balanced so that consumers only pay for what is necessary and in their long term interests. When we undertake our expenditure assessments, we consider whether or not we are satisfied that proposed expenditure reasonably reflects prudent and efficient costs and a realistic expectation of future demand and cost inputs (the capex and opex criteria).² We must make our decision in a manner that will, or is likely to, deliver efficient outcomes in terms of the price, quality, safety, reliability and security of supply, and to achieve targets for reducing Australia’s greenhouse gas emissions that benefit consumers in the long term (as required under the NEO).³

In practice, this has involved us applying our various analytical tools, such as the replacement capital expenditure (repex) model and our economic benchmarking for opex, scrutinising the business cases and supporting information provided by the businesses, and having regard to the advice provided by our expert consultants. In addition, our findings have been informed by the various stakeholder submissions we received, and the information on consumer preferences and priorities elicited through the consumer engagement processes of the businesses and from our Consumer Challenge Panel.

We have assessed that the majority of expenditure Endeavour Energy has proposed is likely to deliver these efficient outcomes and is therefore in the long term interests of consumers.

Our final decision on Endeavour Energy’s revised proposal

Our final decision is that Endeavour Energy can recover \$5,710.4 million (\$ nominal, smoothed) from consumers over the 2024–29 period. This is \$53.4 million (0.9%) more than Endeavour Energy’s revised proposal, and \$112.5 million (2.0%) more than our draft decision. The increase in overall revenue in this final decision compared to Endeavour Energy’s revised proposal is mainly driven by updates in data related to external economic factors, such as a lower expected inflation rate which increases the regulatory depreciation building block.

We consider that Endeavour Energy’s revised proposal maintains the balance between affordability for its customers, while delivering on its expectations set out in its proposal.

For illustrative purposes, we estimate that the total revenue from this final decision would result in an average increase of \$26 per annum to the typical electricity bill for Endeavour Energy’s residential customers over the 2024–29 period. For small business customers, the impact would be an increase on average of \$46 per annum.

Endeavour Energy’s commitment to the early signal pathway has been genuine. Both its proposal and revised proposal were of a very high-quality, informed, and supported by its consumers and stakeholders. Throughout the early signal pathway process,

² National Electricity Rules (NER), cl.6.5.6(c) and cl. 6.5.7(c).

³ National Electricity Law (NEL), ss. 7, 16(1)(a).

Endeavour Energy has engaged constructively with us and other stakeholders and responded meaningfully to feedback provided through two formal check-ins, as well as early signalling at the Issues paper stage.

Our final decision accepts Endeavour Energy’s revised total capex forecast of \$1,850.9 million (\$2023–24) for the 2024–29 period and its revised total opex forecast of \$1,496.6 million (\$2023–24), including debt raising costs, for the 2024–29 period. We continue to be satisfied from our draft decision that Endeavour Energy’s expenditure reflects its prudent and efficient costs.

Affordability and value for money for its customers has been a central theme throughout Endeavour Energy’s proposal. For its revised proposal, it outlined that it continued to adopt a constrained approach to investment in the delivery of priority customer services. Endeavour Energy noted for example, that it has identified a further \$100 million of investment as part of its augmentation expenditure (augex) portfolio required due to economic challenges and increased demand.⁴ Endeavour Energy indicated it will continue to reprioritise its capex to respond as required, rather than include this potential expenditure in its revised proposal.

Similarly for Endeavour Energy’s opex, it constrained new expenditure in its January 2023 proposal in relation to step changes and output growth. Its revised proposal also further identified expected increases in costs that it has not included in its forecast opex, such as a \$9 million step change associated with ongoing cyber security compliance costs. Endeavour Energy’s approach reflects its commitment throughout this process to constraining cost increases and providing customers value for money.⁵

Our draft decision commended Endeavour Energy for submitting one of the best tariff structure statements that we had observed to date. We considered it provided a transition to tariffs that supports efficient use of its network, while including appropriate measures to manage adverse impacts to consumers. Our draft decision did request Endeavour Energy to make or consider minor improvements for its revised tariff structure statement, including further consultation on embedded network tariffs and simplifying its two-way tariff.

Endeavour Energy largely addressed our draft decision feedback, and our final decision approves its revised tariff structure statement with minor amendments to its two-way and storage tariffs. On embedded network tariffs, Endeavour Energy responded by providing further analysis to support this tariff, as well as reducing the embedded network tariff demand charge. In response to submissions received on this issue, we have further amended Endeavour Energy’s revised tariff structure statement to extend the transition period over which its embedded network tariffs are gradually introduced.

Our final decision accepts Endeavour Energy’s revised proposal to reclassify metering as a standard control service. Following the metering review final decision by the Australian Energy Market Commission (AEMC), our draft decision asked businesses to consider reclassifying legacy metering services to standard control services. We outlined that this approach would result in the benefit of socialising Endeavour Energy’s legacy metering

⁴ Endeavour Energy, [Revised Proposal - 0.01 Revised Regulatory Proposal](#), November 2023, p.36.

⁵ Endeavour Energy, [Revised Proposal - 0.01 Revised Regulatory Proposal](#), November 2023, p.35.

services costs across a wider customer group and mitigate inequitable price impacts during the smart meter transition.

Ensuring consumers pay no more than necessary while supporting the future energy network transition

Our draft decision reflected that the 2024–29 revenue determinations had been developed during a challenging time for energy consumers and the sector more broadly. Economy wide factors have resulted in higher inflation and interest rates, and cost-of-living pressures and affordability concerns continue to be important to consumers.

Energy Consumers Australia’s recent sentiment survey observed that 54% of households believe having affordable energy prices is the most important issue for the future energy system (up 5%).⁶ While consumers note current cost-of-living pressures and the challenges ahead for the energy system in terms of the importance of affordable energy prices for all Australians, they are also considering the importance of the energy transition and the pace at which this should be occurring.⁷

Our final decisions for the 2024–29 businesses continue to seek the balance of affordability, with necessary expenditure required to support the energy transformation, and to address important emerging issues such as network cyber security, climate resilience, integration of consumer energy resources (CER), and digitalisation.

Our draft decision noted the role distributors could play in the energy transition. We also note that the Australian Energy Market Operator’s (AEMO’s) recent Draft Integrated System Plan states that the lowest cost way to supply electricity throughout Australia’s transition to a net zero economy is with new transmission and modernised distribution networks. These will connect a diverse mix of utility-scale renewables, rooftop solar and distributed solar, and firming technologies such as energy storage to consumers.⁸ AEMO’s draft 2024 Forecasting Assumptions update also outlines that electric vehicle (EV) uptake is forecast to increase from the 2023 yearly projections under all scenarios.⁹

AEMO’s Optimal Development Path (Step Change) includes a forecast of a four-fold increase in rooftop solar capacity by 2050, representing almost a third of the total generation capacity. It also includes facilitating consumer-owned batteries and coordinated CER via Virtual Power Plants to deliver flexible demand response to the National Electricity Market, representing almost half of the total dispatchable capacity.

Given these ongoing developments, we maintain that flexibility in response to a rapidly changing energy industry is important. We consider the national regulatory framework can adapt to changes in technology, emerging business models and evolving customer preferences.

⁶ Energy Consumers Australia, *Sentiment Survey*, December 2023. See <https://ecss.energyconsumersaustralia.com.au/sentiment-survey-dec-2023/>.

⁷ Energy Consumers Australia, *Challenges ahead for the energy system’ and ‘Speed of transition*, December 2023. See <https://ecss.energyconsumersaustralia.com.au/sentiment-survey-dec-2023/featured-content-household-sentiment-dec-2023/>.

⁸ AEMO, *Draft 2024 Integrated System Plan (ISP)*, 17 January 2024, pp. 9-11.

⁹ AEMO, *Draft 2024 Forecasting Assumptions Update*, December 2023, p. 24

Alongside the transitioning energy market, the current environment has several uncertainties that network businesses are required to consider, including evolving threats around cyber security and climate risk. These issues have been central considerations for all businesses in developing their 2024–29 proposals. All businesses have proposed, to varying extents, investments in new and emerging areas of CER integration, climate resilience, and cyber security.

We recognise the continuing need for investments in these important areas. We have provided efficient levels of funding to enable the businesses to continue to respond prudently to the cyber security risks and climate change-related risks that their networks face.

In addition, our decisions provide both necessary funding for export service levels so customers with rooftop solar may export their excess electricity to the grid, and appropriate price signals to optimise network capacity. Where network tariff price signals are passed through in a retail offer, and customers are well placed to respond, appropriately structured network tariffs can enable growth in the value and number of people with CER, particularly rooftop solar. Energy storage operating in line with the right price signals will direct more renewables to peak evening periods when fossil fuel generation still dominates supply.

Similarly for the forecast increase in electricity demand from a continued uptake of EVs, the right mix of investment and price will facilitate new, clean, forms of transport at least cost to electricity customers.

Innovation will assist customers who are able to respond with greater opportunities to reduce their bills. The accelerated roll-out of smart meters to customers, flagged by the AEMC's metering review, is a critical enabler for the energy transition, including the integration of CER work programs. Our decisions facilitate cost recovery of old legacy network-delivered meters in the quickest, least cost way to all customers.

Some of our 2024–29 final decisions provide for dedicated innovation expenditure – this will enable the businesses to test new and unproven technologies and ways of managing their networks, to benefit consumers. We also outline guidance on what factors we will consider in assessing future innovation expenditure proposals.

The amended National Electricity Objective and the current regulatory determination resets

The NEL requires us to make our decision in a manner that contributes, or is likely to contribute, to achieving the NEO. The focus of the NEO is on promoting efficient investment in, and operation and use of, electricity services (rather than assets) in the long term interests of consumers. This is not delivered by any one of the NEO's factors in isolation, but rather by balancing them in reaching a regulatory decision.

Prior to the emissions objective rule change, the 2024–29 businesses' proposals were already considering the challenges faced by the energy transition, including the steps needed to deliver net zero.

Many of the businesses have been proactive in considering the impact of emissions reduction as part of their regulatory proposals. In considering customer and stakeholder engagement provided as part of the regulatory resets, many of these network service providers noted that stakeholders were advising that climate change mitigation was a priority to them and should be incorporated or prioritised accordingly in regulatory proposals.

We have had regard to the recently published interim value of emissions reduction in these final decisions where relevant. In the 2024–29 regulatory determinations, only a limited number of businesses used a quantitative value in their initial and revised regulatory proposals, and it was related to a relatively small component of the proposed overall expenditure, such as in the case of certain CER-related expenditure. In those cases, we have considered the interim value of emissions reduction in assessing whether to accept or reject specific programs as part of our final decisions.

Consumers at the centre of proposals

As outlined in our draft decision, consumer engagement is an important facet of our assessment; together with ensuring we are satisfied that the proposed forecast reasonably reflects prudent and efficient costs and a realistic expectation of future demand and cost inputs. Genuine engagement with consumers is resulting in better quality proposals.

Since the release of the Handbook we have seen a strong commitment from all 2024–29 businesses to engage with customers and have their preferences considered and reflected in their revenue proposals.¹⁰

We consider that Endeavour Energy has utilised its engagement with its customers and stakeholders, to take full advantage of the early signal pathway process. The Consumer Challenge Panel, sub-panel 26 (CCP26) also commented that they thought the early signal process had ‘been very effective for Endeavour Energy’s regulatory process, and the intent of the Handbook well applied with consumers receiving a responsive and constructive outcome.’¹¹

Endeavour Energy’s engagement program continued to evolve following the submission of its initial proposal. It augmented its engagement program to include an additional phase to confirm the findings of its engagement during pre-lodgement. This phase was included in response to concerns from its Regulatory Reference Group (RRG) Independent members panel that customer views may have materially shifted during the course of the determination.¹²

CCP26 has highlighted that ongoing engagement is likely to deliver considerable benefits. Consumer engagement is likely to reduce the volume of bespoke reset-related engagement activities that are needed to adequately inform regulatory proposals, through businesses having a better understanding of the long term insights from their consumers.¹³

Following this decision, we encourage Endeavour Energy to build on the work undertaken during this process to ensure consumer engagement becomes a sustainable and continuous business-as-usual process.

The 2024–29 final decisions mark the completion of the first businesses whose proposals have been developed using the expectations and guidance in the Handbook. We have heard

¹⁰ AER, *Better Resets Handbook – Towards consumer centric network proposals*, December 2021, p. 13.

¹¹ CCP26, *Advice to AER - 2024–29 Revised Electricity Determination and Draft Decision – Endeavour Energy*, January 2024, p.12.

¹² Endeavour Energy, *Revised Proposal - 0.01 Revised Regulatory Proposal*, November 2023, p.24.

¹³ Consumer Challenge Panel 26, *Advice to AER – 2024–29 Revised Electricity Determination and Draft Decision - Endeavour Energy* January 2024, p. 10.

from consumer stakeholders, that while the guidance of the Handbook has been valuable, there should be consideration of the application of the Handbook and early signal pathway.

The Handbook not only sets important expectations on how network businesses engage with consumers, but outlines our expectations for capex, opex, regulatory depreciation and tariff structure statements. These aspects are important to ensure we continue to encourage networks to develop high quality proposals through genuine engagement with consumers and that meet our expectations to constrain cost increases.

We acknowledge the importance of seeking insights and learning from this process for future regulatory determinations. We are not undertaking a formal review of the Handbook at this stage; however, we are capturing the feedback already provided and have been refining our process in response. We will continue to develop the successful application of the Handbook as we work with the businesses on current and upcoming determinations.

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1 Our final decision

Our final decision allows Endeavour Energy to recover a total revenue of \$5,710.4 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 Energy’s revenue, and the key differences between our final decision revenue compared to the \$5,597.8 million in our draft decision, and the \$5,657.0 million in its revised proposal.

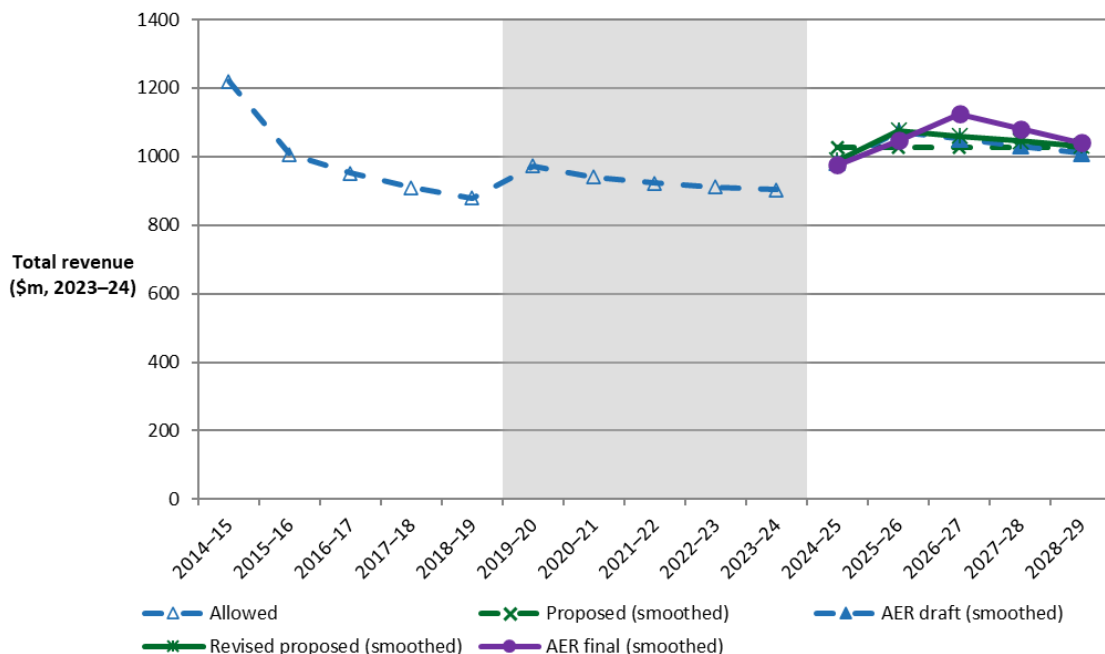
1.1 What is driving revenue?

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 final decision would allow Endeavour Energy to recover \$5,270.1 million (\$2023–24, smoothed) from consumers over the 2024–29 period. This is 13.3% higher than our decision for the current (2019–24) period. Changes in Endeavour Energy’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 final decision would allow Endeavour Energy to recover a total building block revenue of \$5,253.8 million (\$2023–24, unsmoothed) over the 2024–29 period. Figure 2 highlights the key drivers of the change between the revenue approved for

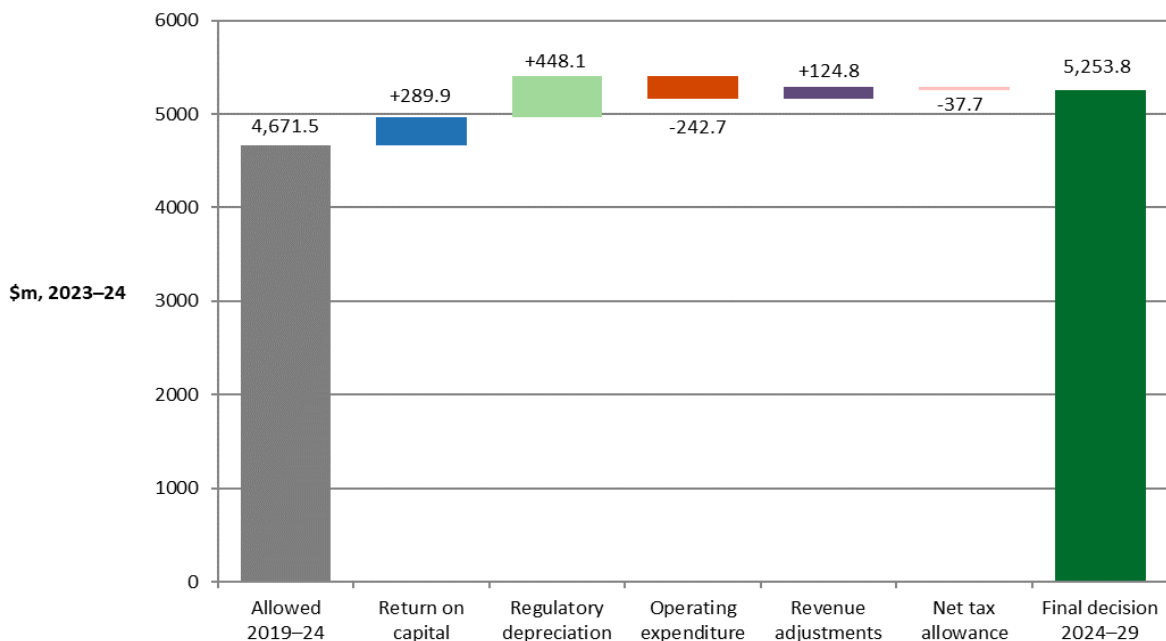
Endeavour Energy for the 2019–24 period and in this final decision for the 2024–29 period. Similar to our observations in the draft decision, it shows that our final decision provides for reductions in the building blocks for:

- opex, which is \$242.7 million (14.0%) lower than the forecast we approved for the 2019–24 period, primarily due to lower actual opex in the current period and Endeavour Energy constraining its proposed step changes and output growth.
- net tax allowance, which is \$37.7 million (25.3%) 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 final decision compared to 2019–24 period.

Figure 2 also shows that our final 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 \$289.9 million (14.0%) higher than the 2019–24 period, driven by an increase in the RAB due in part to higher actual inflation in that period, 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 \$448.1 million (63.5%) higher than the 2019–24 period, driven primarily by a significant increase in capex spent on short lived assets and a higher opening RAB value as at 1 July 2024 compared to the value we determined in the 2019–24 determination
- revenue adjustments, which are \$124.8 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)

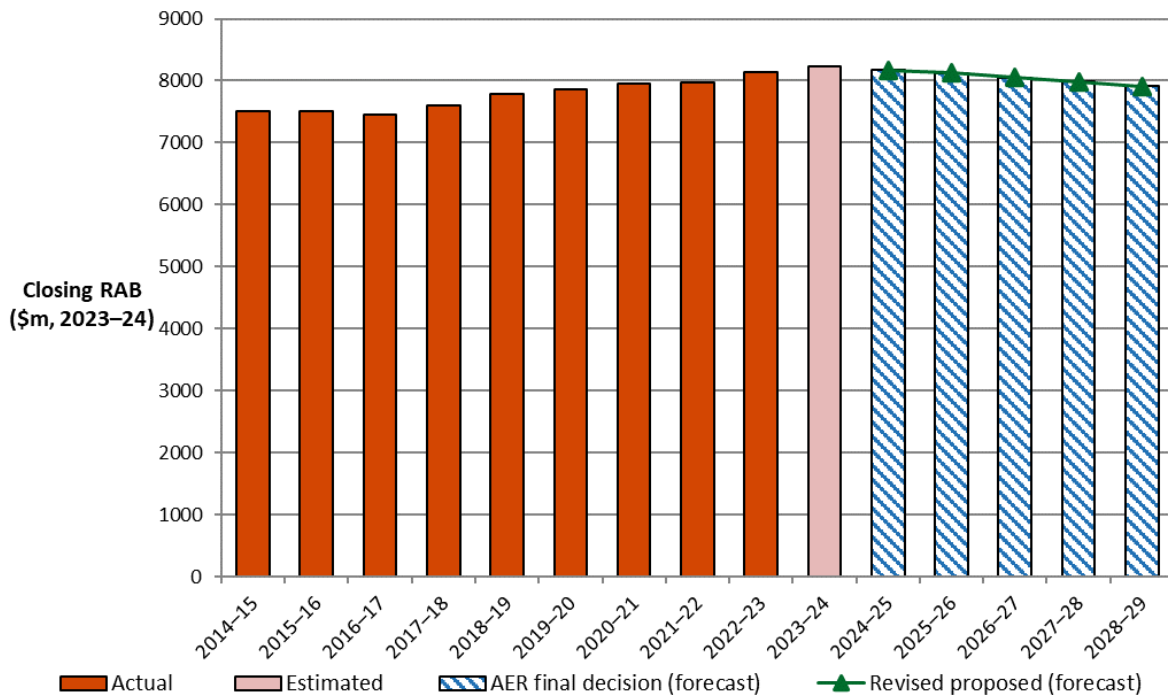


Source: AER analysis.

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 Energy’s RAB over time. After a RAB growth of 5.8% in real terms over the 2019–24 period, our final decision results in a forecast reduction of the RAB by \$323.8 million (\$2023–24) or 3.9% over the 2024–29 period. This reduction is mainly driven by lower forecast capex and higher forecast straight-line depreciation over the 2024–29 period compared to the 2019–24 period.

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



Source: AER analysis.

1.2 Key differences between our final decision and Endeavour Energy’s revised proposal

Our draft decision accepted much of Endeavour Energy’s proposal, including its total capex and opex forecasts. Endeavour Energy’s revised proposal accepted our draft decision with minor updates to reflect the latest available inputs and made mechanistic updates to revenue requirements.

Our final decision determines a total unsmoothed revenue that is \$63.6 million (1.2%) (\$2023–24) higher than Endeavour Energy’s revised proposal. This is primarily due to a higher regulatory depreciation amount, driven by a lower expected inflation rate applied in our final decision than at the time of Endeavour Energy’s revised proposal. This higher regulatory depreciation amount in turn leads to a higher estimated cost of corporate income tax amount.

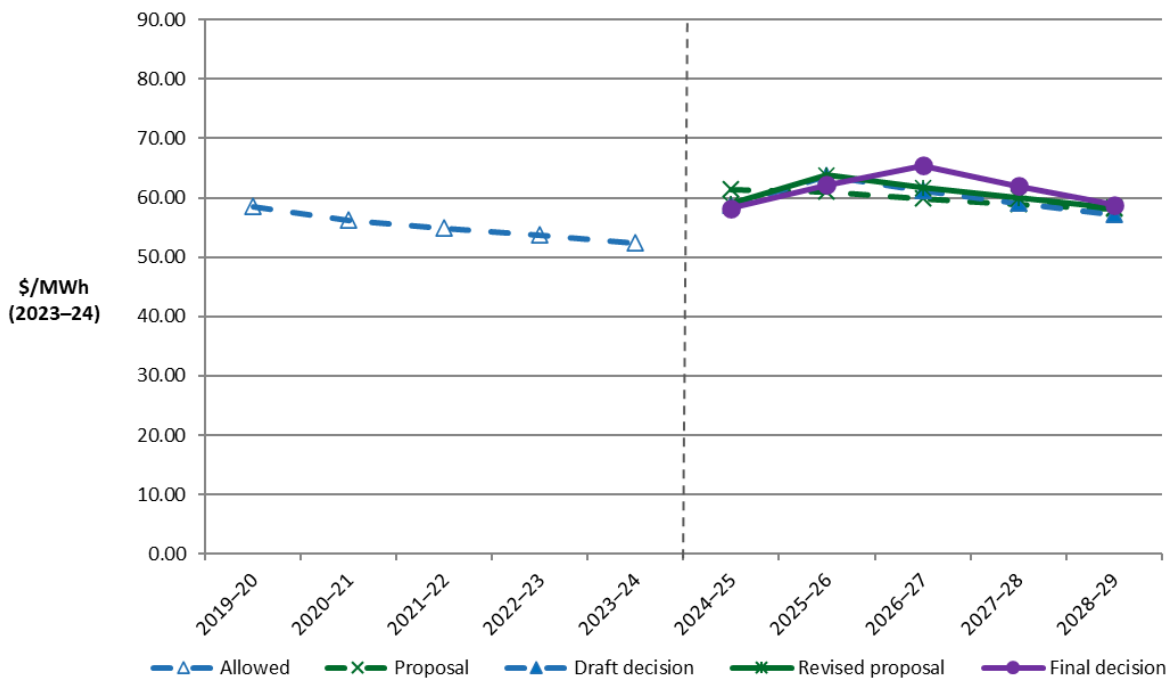
Endeavour Energy’s revised proposal responded to our draft decision guidance in relation to managing legacy metering services following the final decision of the Metering review by the AEMC. As a result, Endeavour Energy’s legacy metering costs will move to standard control services.

1.3 Expected impact of our final decision on electricity bills

Endeavour Energy 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 impact of this final decision would be a total increase to Endeavour Energy’s distribution charges of around 8.7% in real terms by 2028–29 compared to 2023–24 levels, or an average increase of 1.7% per annum.¹⁴ This estimate will be 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.

1.3.1 Potential bill impact

Endeavour Energy’s distribution 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, core 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

¹⁴ The average increase to indicative distribution charges of 1.7% (\$2023–24) per annum reflects two components: 1) The final decision smoothed revenue average increase of 2.7% per annum (\$2023–24); and 2) The forecast energy delivered in Endeavour’s distribution network area which is expected to increase on average by 1.0% per annum.

contribute to the prices ultimately paid by consumers.¹⁵ These sit outside the decision we are making here and will also continue to change throughout the period.

In nominal terms, which include the impact of expected inflation, the impact of this final decision would be an increase to Endeavour Energy’s distribution component of customers’ energy bills. For illustrative purposes only, we estimate the impact of our final decision on the average annual electricity bill for a customer in Endeavour Energy’s network area, as it is today, would be:

- an increase of \$131 (5.9%) by 2028–29, or an average of \$26 per annum for a residential customer
- an increase of \$231 (5.0%) by 2028–29, or an average of \$46 per annum for a small business customer.¹⁶

Our decision on Endeavour Energy’s revised 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 include cost pass through events approved in this final decision. The triggers we have set out for these events in this decision will, if met, allow Endeavour Energy 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 Consumer Engagement

Our draft decision set out Endeavour Energy’s journey as one of the first businesses to be considered under the Handbook’s early signal pathway.¹⁷ We acknowledged that Endeavour Energy had demonstrated a significant step-up in consultation with customers and stakeholders in accordance with the Handbook’s expectation.

In Endeavour’s additional confirm phase, it engaged participants to inform them of the outcome of proposal, and to understand, for example whether its proposal still represented customers priorities.¹⁸ The results from its Customer Panel indicated that 96% of customers still considered that the January 2023 proposal reflects their priorities and preferred outcomes and is in the long term interest of consumers.¹⁹

¹⁵ AEMC, *Data Portal*, [Trends in NSW supply chain components 2023/24](#).

¹⁶ Our estimated bill impact is based on the typical annual electricity usage of 4,913 kWh and 10,027 kWh for residential and small business customers in Endeavour’s network area, respectively. This is based on the 2023–24 final decision default market offer.

¹⁷ AER, *Overview – Draft decision – Endeavour Energy distribution determination 2024–29*, September 2023, pp 6-12.

¹⁸ Endeavour Energy, [Revised Proposal - SEC Newgate - 0.02 Customer Panel - Final report - Wave 4](#), June 2023, p.2.

¹⁹ Endeavour Energy, *Revised Proposal - 0.01 Revised Regulatory Proposal*, November 2023, p.24.

A summary of the feedback from the Customer Panel noted that:

While there was elevated concern about cost-of-living pressures and a stronger focus on affordability, most felt Endeavour Energy had listened carefully to what the Panel had told them about their long-term service priorities and felt the Regulatory Proposal had struck the right balance between delivering on these and keeping costs down.²⁰

Endeavour Energy noted most customers and stakeholders identified growing concerns about cost-of-living pressures. It has responded to these concerns by continuing to adopt a constrained approach to investment, and since the submission of its proposal has identified additional implementation costs that it has absorbed.²¹

CCP26 observed that Endeavour Energy has continued to engage meaningfully with its customers. The post-lodgement confirm phase ensured Endeavour Energy was aware of the substantial cost of living impacts being faced for its customers. CCP26 highlights the work undertaken by Endeavour Energy to respond to customers' significant concerns regarding affordability in its revised proposal, stating it is a major thread through the whole document. For example, CCP26 highlights Endeavour Energy adjusted its forecast expenditure for the latest information and unit costs where the forecasts were equal or lower to our draft decision.²²

The Regulatory Reference Group's (RRG's) submission provided its support for Endeavour Energy's revised proposal, and noted it was pleased that Endeavour Energy had largely accepted the findings of the confirm phase of engagement, which included: placing a high priority on the need for affordable energy and value for money; a faster transition to cost-reflective tariffs, and supporting a cost-sharing arrangement during the metering transition.²³

Submissions in response to our draft decision and Endeavour Energy's revised proposal were largely focused on concerns regarding its embedded network tariffs. These submissions were from embedded network operators or retailers concerned that these tariffs could impact the viability of embedded networks. Some acknowledged that Endeavour Energy responded to submissions (to an extent) by reducing its demand charges. A smaller number of submissions raised concerns regarding other elements of its tariff structure statements, including two-way tariffs.²⁴

²⁰ Endeavour Energy, *Revised Proposal - SEC Newgate - 0.02 Customer Panel - Final report - Wave 4*, June 2023, p.4.

²¹ Endeavour Energy, *Revised Proposal - 0.01 Revised Regulatory Proposal*, November 2023, p.25. Endeavour Energy note that it has quantified additional SOCI implementation related expenditure and CER hosting spend. Noting it remains committed to absorbing and managing these cost pressures.

²² CCP26, *Advice to AER - 2024–29 Revised Electricity Determination and Draft Decision – Endeavour Energy*, January 2024, p.8.

²³ RRG Independent Members panel, [Submission on Endeavour Energy's revised proposal and draft decision 2024–29](#), January 2024, p. 2.

²⁴ See submissions from Active Utilities, CCIA, Compliance Quarter, Energy Locals, EWON, Network Energy Services on embedded network tariffs. See submissions from Evie Networks, stakeholder submission, Origin Energy, Red and Lumo Energy, IPART, and Tesla for general tariff issues.

The Public Interest Advocacy Centre (PIAC) submission observed:

Endeavour has done well to reflect consumer preferences in its proposal, further improvements could be made to fine-tune the balance between consistency and adaptability in their consumer engagement. This is especially the case in novel or more complex areas of engagement (such as resilience or pricing) where adjustments between sessions are crucial to integrate learnings and adapt to consumer feedback.

Endeavour Energy has demonstrated an ongoing, responsive, and considered engagement program, that has developed over the course of its 2024–29 proposal. CCP26 have observed that they consider Endeavour’s revised proposal is capable of acceptance based on feedback from customers, the RRG Independent Member Panel, and their own observations of the engagement process.²⁵

The RRG’s support for the engagement process in its submission outlines:

Based on our close involvement through the latter stages of the regulatory proposal process, we are pleased to provide our support for Endeavour Energy’s Revised Regulatory Proposal. Endeavour Energy has seamlessly maintained their transparent and consultative engagement approach beyond the lodgement of their Regulatory Proposal early in 2023, through to the preparation of the Final Proposal, and into the function of the ongoing Peak Customer and Stakeholder Committee.²⁶

Endeavour Energy has confirmed consumer engagement will continue, for example through the oversight of a renewed Peak Customer and Stakeholder Committee.²⁷

²⁵ CCP26, *Advice to AER - 2024–29 Revised Electricity Determination and Draft Decision – Endeavour Energy*, January 2024, p.9.

²⁶ RRG Independent Members panel, *Submission on Endeavour Energy’s revised proposal and draft decision 2024–29*, January 2024, p. 2.

²⁷ RRG Independent Members panel, *Submission on Endeavour Energy’s revised proposal and draft decision 2024–29*, January 2024, p. 2.

2 Key components of our final decision on revenue

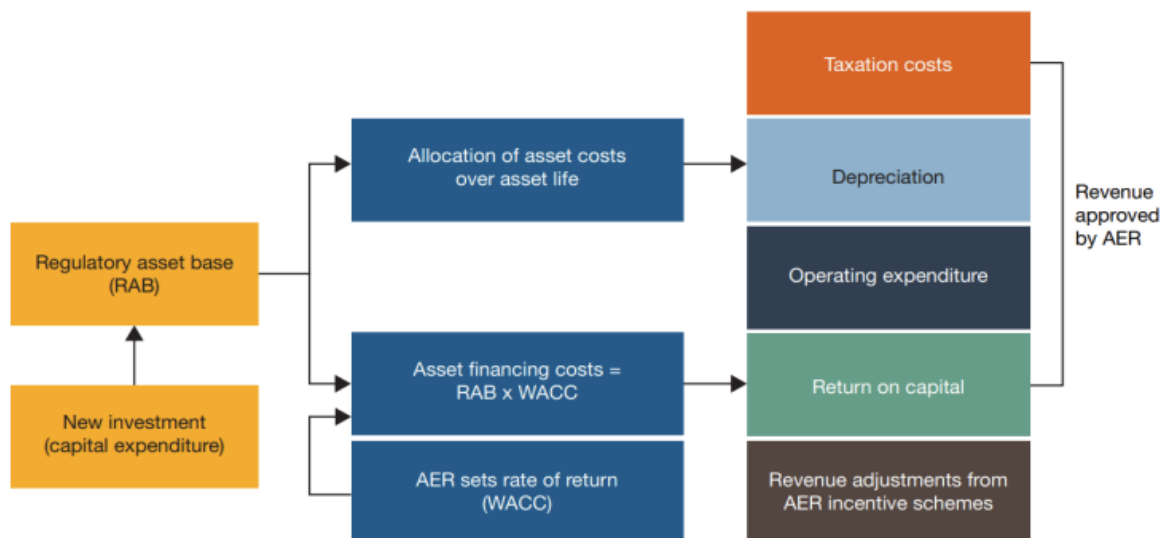
Building block approach

The foundation of our regulatory approach is a benchmark incentive framework to setting maximum revenues: once regulated revenues are set for a 5-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 Energy’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 NEL and NER, 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 cost 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 Efficiency Benefit Sharing Scheme (EBSS) and Capital Expenditure Sharing Scheme (CESS)
- estimated cost of corporate income tax.

Figure 5 The building block model to forecast network revenue



Source: AER.

Following the AEMC’s metering review, Endeavour Energy’s revised proposal took up our draft decision recommendation to recover metering charges as standard control services and proposed to recover through a flat per customer charge. This issue is discussed further at section 5.1.

As a result of this change in classification, all building block components for Endeavour Energy have been affected by the moving of legacy metering services from alternative control services to standard control services.

The revenue smoothing profile determined for Endeavour Energy’s final decision is based on standard control services, without the inclusion of metering.

For the purpose of our decision, the associated impacts of the metering revenue have been triaged out for consistency and are discussed in attachment 20.

Revenue smoothing

Our final decision includes a determination of Endeavour Energy’s annual revenue requirement (ARR) (unsmoothed revenue) and annual expected revenue (smoothed revenue) across the 2024–29 period. The expected revenues we set in this final decision are the amounts that Endeavour Energy will target for its annual pricing purposes and recover from its customers for the provision of standard control services for each year of the 2024–29 period.²⁸

The ARR is the sum of the various building block costs for each year of the regulatory control period, which can be lumpy over the period. To minimise price shocks, revenues are smoothed within a regulatory control period while maintaining the principle of cost recovery under the building block approach. As such, revenue smoothing requires diverting some of the cost recovery to adjacent years within the regulatory control period.

Revenue smoothing also helps to minimise any potential large revenue variance (and thus price shocks) at the commencement of the 2029–34 period. Our standard approach has been to keep a divergence of up to +/-3% between the smoothed and unsmoothed revenues for the last year of the regulatory period, if this can achieve smoother price changes across the regulatory control periods.

For this final decision, we approved higher revenues than in the draft decision and Endeavour Energy’s revised proposal. This is mainly driven by external economic factors, which involves updating data to reflect a lower expected inflation rate, which increases the regulatory depreciation building block.

Endeavour Energy’s unsmoothed revenue for the first year of the 2024–29 period (2024–25) is about 28.7% (nominal) higher than its approved revenue for the last year of the 2019–24 period (2023–24). We are mindful that the magnitude of this increase in revenue would have a significant impact on network charges for Endeavour Energy’s customers.

²⁸ Our final decision expected revenues have not factored in any changes arising from incentive scheme amounts, cost pass throughs or unders/overs reconciliation that usually occur in the annual pricing process to come up with the total allowed revenue.

Consequently, we have smoothed the increase in expected revenues over the first 3 years of the 2024–29 period for Endeavour Energy. We have also relaxed our standard approach to the final year difference between the smoothed and unsmoothed revenue being kept to +/-3%, to further help ease the price increases for customers in the earlier years of the 2024–29 period. In the present circumstances, we have determined that the final year revenue difference is about 5%.

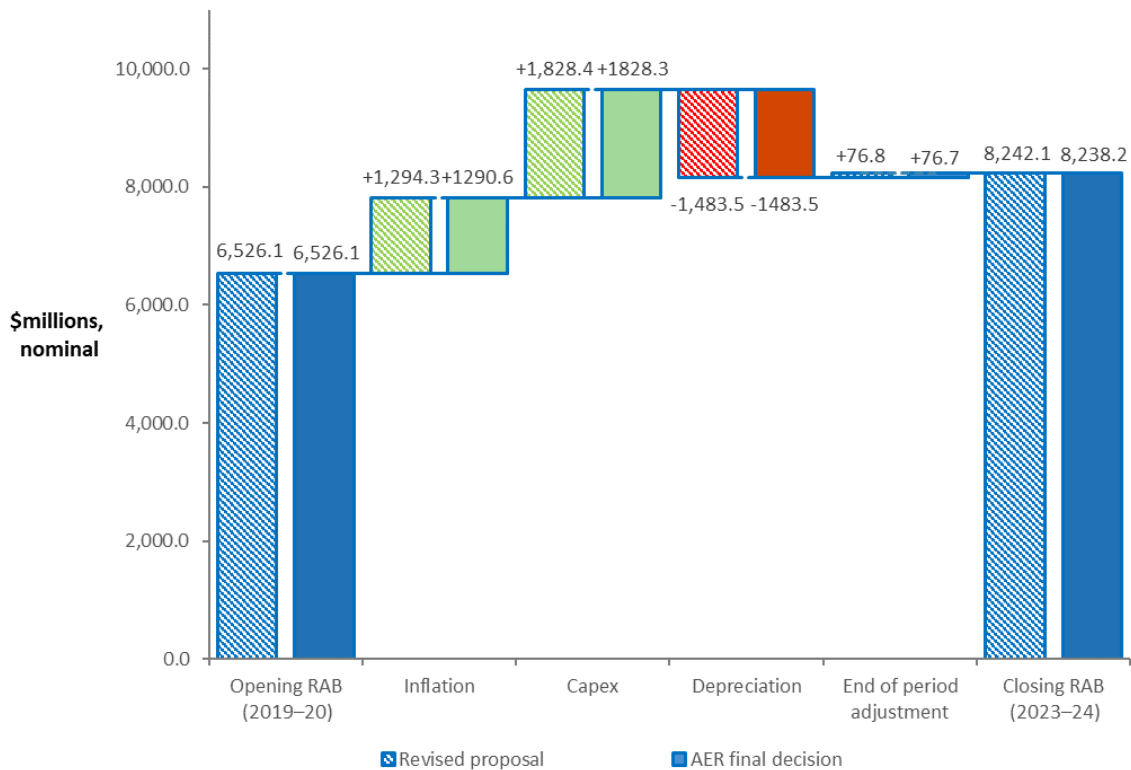
Our final decision results in increases of 10.2% per annum (nominal) to the smoothed revenues in the first 3 years of the 2024–29 period (2024–25 to 2026–27), followed by decreases of 1.3% per annum over the remaining 2 years of the 2024–29 period (2027–28 and 2028–29).

2.1 Regulatory asset base

The RAB accounts for the value of regulated assets over time. To set the value of the RAB 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 Energy's revenue, 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 final decision, we have determined an opening RAB value of \$8,238.2 million (\$ nominal) as at 1 July 2024. This value is \$3.9 million (0.05%) lower than Endeavour Energy's revised proposed opening RAB value of \$8,242.1 million. This reduction is largely due to the updates we made to the consumer price index (CPI) input for 2023–24 to reflect the actual outcome in the roll forward model (RFM). Figure 6 shows the key drivers of change in Endeavour Energy's RAB over the 2019–24 period compared to its revised proposal.

Figure 6 Key drivers of change in the RAB over the 2019–24 period – revised proposal compared with AER’s final decision (\$ million, nominal)

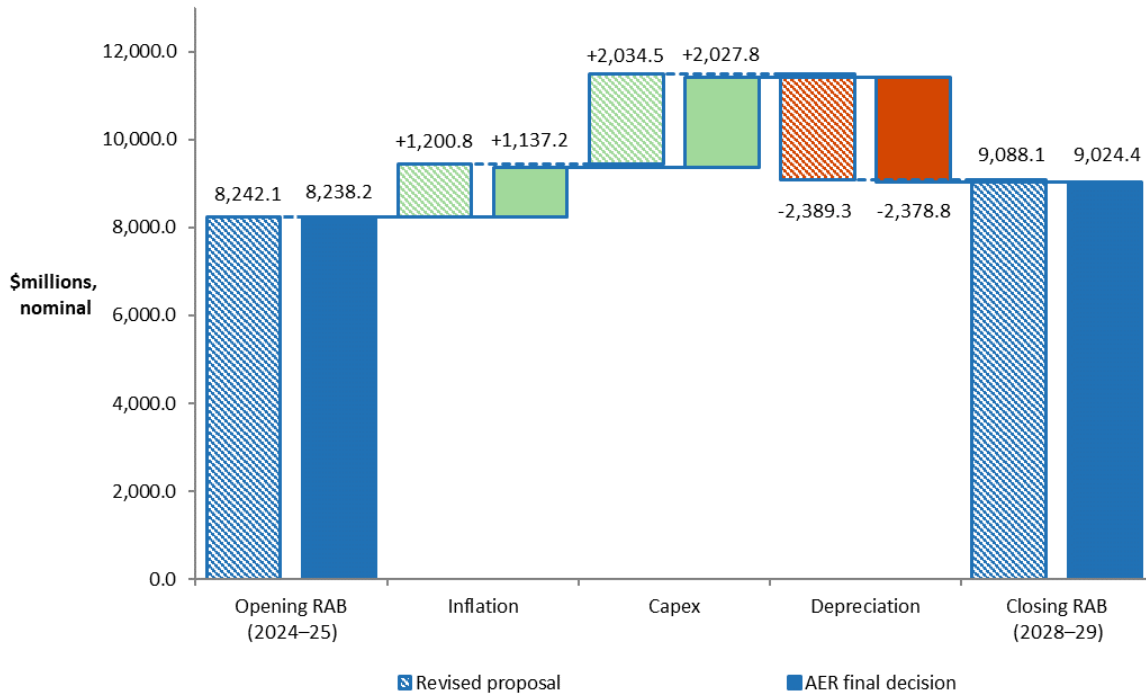


Source: AER analysis.

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 change in Endeavour Energy’s RAB over the 2024–29 period compared to its revised proposal. Our final decision projects an increase of \$786.2 million (9.5%) to the RAB by the end of the 2024–29 period compared to the \$846.1 million (10.3%) increase in Endeavour Energy’s revised proposal. We have determined a projected closing RAB of \$9,024.4 million (\$ nominal) as at 30 June 2029, which is \$63.7 million (0.7%) lower than Endeavour Energy’s revised proposal of \$9,088.1 million. This lower value is mainly due to a lower expected inflation rate applied in our final decision compared to Endeavour Energy’s revised proposal. It also reflects our final decision on opening RAB as at 1 July 2024, forecast capex and forecast depreciation (discussed in the sections below).

Figure 7 Key drivers of change in the RAB over the 2024–29 period – revised proposal compared with AER’s final 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 PTRM.

2.2 Rate of return and value of imputation credits

The return each business is to receive on its RAB (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 RAB.

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 give a return on equity to investors.

The estimate of the rate of return is important for promoting efficient prices in the long term interests of consumers. If the rate of return is set too low, the network business may not be able to attract sufficient funds to be able to make the required investments in the network and reliability may decline. Conversely, if the rate of return is set too high, the network business may seek to spend too much and consumers will pay inefficiently high tariffs.

The NEL requires us to apply the 2022 Rate of Return Instrument (Instrument)²⁹ to estimate the rate of return for Endeavour Energy.³⁰

²⁹ AER, *Rate of return Instrument (version 1.2)*, February 2023. See <https://www.aer.gov.au/publications/guidelines-schemes-models/rate-of-return-instrument-2022/final-decision>.

³⁰ NEL, ss 18V and 18H.

Endeavour Energy’s revised proposal adopted the 2022 Instrument.³¹ The 5.91% (nominal vanilla) rate of return in this final decision is higher than the 5.84% placeholder in the revised proposal, principally due to an increase in interest rates.

Our calculated rate of return in Table 1 would apply to the first year of the 2024–29 period. A different rate of return may apply for the remaining years of the 2024–29 period. This is because we will update the return on debt component of the rate of return each year, in accordance with the 2022 Instrument, to use a 10-year trailing average portfolio return on debt that is rolled-forward each year. Hence, only 10% of the return on debt is calculated from the most recent averaging period, with 90% from prior periods.

Our final decision accepts Endeavour Energy’s proposed risk-free rate³² and debt averaging periods³³ because they were consistent with the 2022 Instrument.³⁴ For this final decision, we adopt the confidential appendix setting out the averaging periods issued with our draft decision.

Table 1 Final decision on Endeavour Energy’s rate of return (nominal)

	AER’s draft decision (2024–29)	Endeavour Energy’s revised proposal (2024–29)	AER’s final decision (2024–29)	Allowed return over the regulatory control period
Nominal risk-free rate	3.95%	3.95%	4.19% ^a	
Market risk premium	6.20%	6.20%	6.20%	
Equity beta	0.6	0.6	0.6	
Return on equity (nominal post-tax)	7.67%	7.67%	7.91%	Constant (%)
Return on debt (nominal pre-tax)	4.63%	4.63%	4.57% ^b	Updated annually
Gearing	60%	60%	60%	Constant (60%)
Nominal vanilla WACC	5.84%	5.84%	5.91% ^c	Updated annually for return on debt
Expected inflation	2.80%	2.80%	2.66%	Constant (%)

Source: AER analysis; AER, *Draft Decision Attachment 3 - Rate of return - Endeavour Energy – 2024–29 Distribution revenue proposal*, 28 September 2023, p. 2; Endeavour Energy, *Revised Proposal - 0.07 Main SCS Post-Tax Revenue Model*, 30 November 2023.

³¹ Endeavour Energy, *Revised Proposal - 0.01 Revised Regulatory Proposal*, 30 November 2023. p. 34.

³² AER - *Draft Decision Appendix A - CONFIDENTIAL Appendix to Attachment 3 - Rate of return – Endeavour Energy Distribution revenue proposal*, September 2023, p. 1.

³³ AER - *Draft Decision Appendix A - CONFIDENTIAL Appendix to Attachment 3 - Rate of return – Endeavour Energy Distribution revenue proposal*, September 2023, p. 2.

³⁴ AER, *Rate of return Instrument (version 1.2)*, February 2023, cll 7–8, 23–25.

- (a) Calculated using Endeavour Energy’s actual nominated risk-free rate averaging period from 2 February 2024 to 29 February 2024.
- (b) Calculated using Endeavour Energy’s actual nominated return on debt averaging period.
- (c) Applied to the first year of the 2024–29 regulatory control period.

Debt and equity raising costs

In addition to providing for the required rate of return on debt and equity, we provide an allowance for the transaction costs associated with raising debt and equity. We include debt raising costs in the opex forecast because these are regular and ongoing costs, and equity raising costs in the capex forecast because these costs are incurred once and would be associated with funding particular capital investments. Our approach to forecasting capital raising costs is set out in more detail in our draft decision.³⁵

Endeavour Energy has proposed to use our approach to estimate equity raising costs.³⁶ We have updated our estimate for the 2024–29 regulatory control period based on the benchmark approach using updated inputs. This results in zero equity raising costs.

Our final decision accepts Endeavour Energy’s revised opex proposal therefore we do not provide substitute estimates of its debt raising cost using our benchmark approach.³⁷

Imputation credits

Our final decision applies a value of imputation credits (gamma) of 0.57 as set out in the 2022 Instrument.³⁸ Endeavour Energy’s revised proposal has also adopted the value of gamma set out in the 2022 Instrument.³⁹

Expected inflation

As set out in Table 2, our estimate of expected inflation is 2.66%. It is an estimate of the average annual rate of inflation expected over a five-year period based on the outcome of our 2020 inflation review.⁴⁰

Endeavour Energy’s revised proposal adopted our current approach for estimating expected inflation.⁴¹

Table 2 Final decision on Endeavour Energy’s forecast inflation (%)

	Year 1	Year 2	Year 3	Year 4	Year 5	Geometric average
Expected inflation	3.10%	2.60%	2.57%	2.53%	2.50%	2.66%

³⁵ AER - Draft Decision - Attachment 3 - Rate of return – Endeavour Energy – 2024–29 Distribution revenue proposal, September 2023, pp. 4-6.

³⁶ Endeavour Energy, Revised Proposal - 0.07 Main SCS Post-Tax Revenue Model, 30 November 2023.

³⁷ Endeavour Energy, Revised Proposal - 0.07 Main SCS Post-Tax Revenue Model, 30 November 2023.

³⁸ AER, Rate of return Instrument (version 1.2), February 2023, cll. 27.

³⁹ Endeavour Energy, Revised Proposal - 0.01 Revised Regulatory Proposal, 30 November 2023. p. 34.

⁴⁰ AER, Final position, Regulatory treatment of inflation, December 2020.

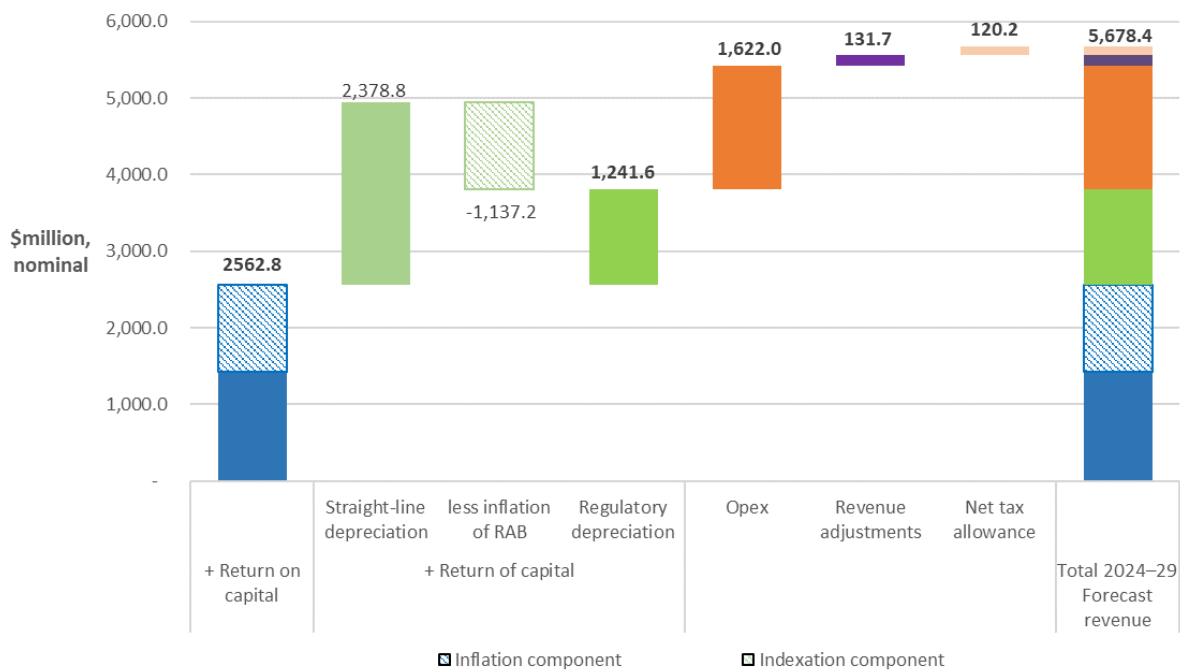
⁴¹ Endeavour Energy, Revised Proposal - 0.01 Revised Regulatory Proposal, 30 November 2023. p. 34.

Source: AER Analysis; RBA, Statement on Monetary Policy, February 2024, Table 3.1: Detailed Forecast Table. See <https://www.rba.gov.au/publications/smp/2024/feb/outlook.html#table31>

Our final decision uses the Reserve Bank of Australia’s (RBA) February 2024 Statement of Monetary Policy (SMP) which contains a CPI forecast for the year-ending June 2024 and June 2025. This means the first two years of the 2024–29 period are based on RBA forecasts and, thereafter, a linear glide-path from year three to the mid-point of the RBA’s inflation target band of 2.5% in year 5.

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

Figure 8 Inflation components in final 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 final decision determines a regulatory depreciation amount of \$1,241.6 million (\$ nominal) for the 2024–29 period. This is an increase of \$53.2 million (4.5%) from Endeavour Energy’s revised proposal of \$1,188.4 million.

This increase is primarily due to our final 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 this final decision reduces the indexation of the RAB that is offset against straight-line depreciation in determining regulatory depreciation. The reasons for our decision are discussed in attachment 4.

2.4 Capital expenditure

Our final decision approves total forecast capex of \$1,850.9 million (\$2023–24) for the 2024–29 period. This is equivalent to Endeavour Energy’s revised proposal taking into consideration updated inflation and real wage escalation. As in our draft decision, we accept Endeavour Energy’s revised proposal for capex and remain satisfied that it reasonably reflects the capex criteria.

Endeavour Energy submits in its revised proposal that recent economic challenges and accelerating development activity has meant that its augex requirements have increased by approximately \$100 million since its initial proposal. However it remains committed to constraining its expenditure proposal in providing value for money to its customers during a cost-of-living crisis and will re-prioritise its capex within the period.⁴²

Submissions from CCP26 and the RRG also refer to the focus in Endeavour Energy’s revised proposal on its customers’ concerns with cost-of-living/cost of energy concerns and considers its proposal to be a high quality, and capable of acceptance.

Table 3 sets out our final decision for Endeavour Energy by capex category.

Table 3 AER’s final decision by capex category (\$million, 2023–24)

Category	Endeavour’s proposal and AER final decision
Replacement	574.5
Augmentation	412.6
Non-system assets ^(a)	225.7
Connections	119
Capitalised overheads	452.4
CER integration ^(b)	50.0
Resilience	28
Innovation Fund	20
Total capex (excluding capital contributions)	1882.2
Disposals	31.1
Net capex	1850.9

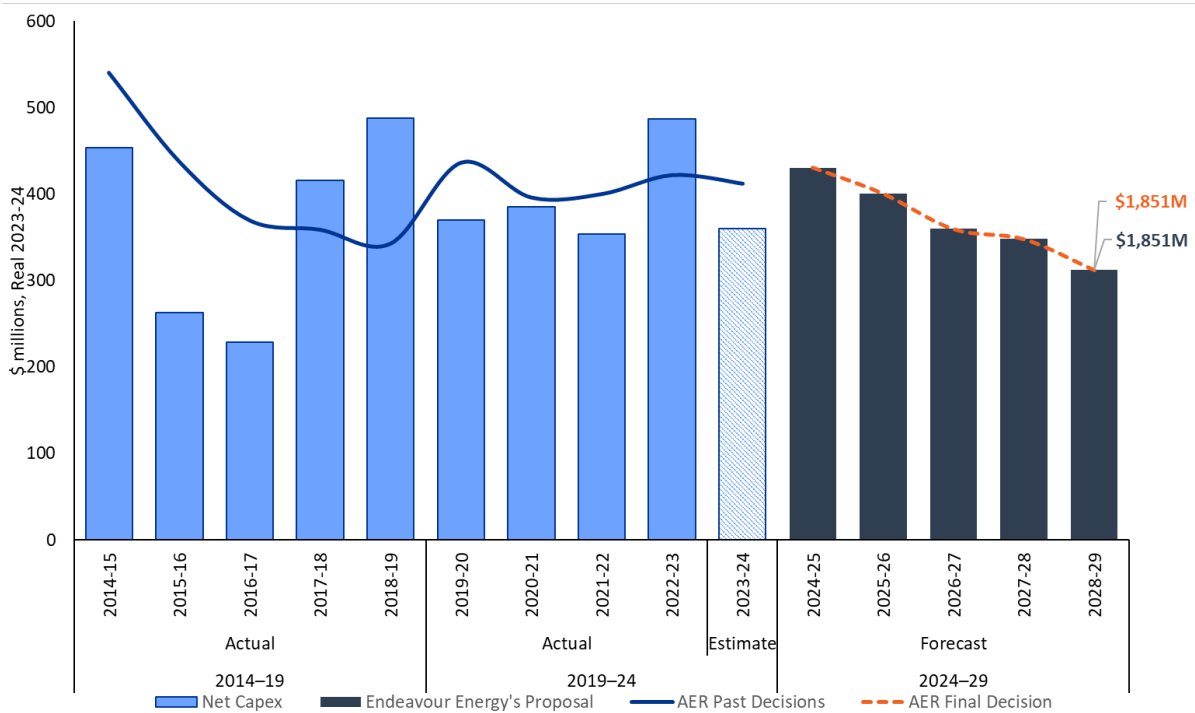
Source: Endeavour capex model and AER analysis.

Note: (a) includes ICT, Motor Vehicles, Capitalised leases, Building and Property and Other Non-system
(b) includes CER-related ICT. This amount has been subtracted from Non-system assets.

Figure 9 shows Endeavour Energy’s historical capex trend, its revised proposed forecast for the 2024–29 period, and our draft and final decision.

⁴² Endeavour Energy, *Revised Regulatory Proposal*, November 2004, p. 36.

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



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

Endeavour Energy’s forecast compares well against its current period spend, being 10% below current period actual and estimated spend excluding disposals. Its current period spend also tracks closely to the AER forecast in the current period. In the current period, Endeavour Energy has underspent in some categories, notably repex and augex, which has been offset by overspends in other categories; in particular, in Information Communication Technology (ICT) capex.

As already noted, Endeavour Energy was one of the businesses on the early signal pathway. It performed well at the Issues paper stage, satisfying almost all capex expectations such that we indicated a targeted review of 15% of its total capex proposal. At the draft decision stage, our targeted review involved some key augex projects as well as new and emerging capex common to a number of current regulatory proposals, these being in CER integration, resilience-related capex, ex-ante innovation funding and cyber security ICT.

For some expenditure such as CER and ex-ante innovation funding, we assessed the forecasted investments to not be consistent with prudent and efficient decision-making. However, when we considered the total of these category level alternative estimates we found that our alternative forecast at the total capex level was not materially different from Endeavour Energy’s total forecast. We also place weight on Endeavour Energy’s forecast being 8% lower than its expected gross capex in the 2019–24 period.

2.5 Operating expenditure

Our final decision is to accept Endeavour Energy’s revised total opex forecast of \$1,496.6 million (\$2023–24)⁴³, including debt raising costs, for the 2024–29 period.⁴⁴ Our alternative estimate of \$1,523.6 million, including debt raising costs, is \$27.0 million or 1.8% higher than Endeavour Energy’s revised proposal of total forecast opex. We consider this is not materially different to Endeavour Energy’s revised proposal. Consequently, we consider that Endeavour Energy’s total opex forecast reasonably reflects the opex criteria.⁴⁵

Endeavour Energy accepted our draft decision approach for opex, but applied mechanical updates to reflect actual, audited opex for the base year 2022–23, and the latest available data on output measures (e.g. forecast Wage Price Index (WPI) growth).⁴⁶

The difference between our alternative estimate and Endeavour Energy’s revised proposal is due to us:

- applying our standard approach for forecast output growth, specifically forecast maximum demand. We have relied on Endeavour Energy’s Reset RIN maximum demand forecast in our alternative estimate. In contrast, Endeavour Energy applied a restrained forecast of output growth to constrain costs.⁴⁷
- updating inflation to reflect forecast inflation based on the 6 February 2024 *Statement on Monetary Policy* from the Reserve Bank of Australia.
- updating forecast input price growth to reflect the most up-to-date forecast WPI from our consultant (KPMG).⁴⁸

Table 4 shows Endeavour Energy’s opex forecast over the 2024–29 period, which we have accepted as our final decision.

Table 4 Endeavour Energy’s opex for the period 2024–29 (\$million, 2023-24)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Total Opex, excluding debt raising costs	283.5	290.3	293.9	300.8	307.8	1,476.4
Debt raising costs	4.1	4.1	4.1	4.0	4.0	20.2
Total Opex, including debt raising costs	287.6	294.4	297.9	304.8	311.8	1,496.6

⁴³ All dollars unless otherwise indicated are in \$2023–24.

⁴⁴ Endeavour Energy, *2024–29 Revised Regulatory Proposal*, November 2023, p. 34; Endeavour Energy, *0.12 Opex Model*, November 2023.

⁴⁵ The opex criteria are set out in cl. 6.5.6(c) of the NER.

⁴⁶ Endeavour Energy, *2024–29 Revised Regulatory Proposal*, November 2023, p. 34.

⁴⁷ Endeavour Energy applied a similar approach in its initial proposal. In our draft decision we recognised Endeavour Energy had adopted this approach to respond to concerns raised by its customers about costs. However, we applied our standard approach to forecast output growth for our alternative estimate. We have maintained the same approach in this final decision. See: AER, *Draft Decision – Endeavour Energy distribution determination 2024–29 – Attachment 6 – Operating expenditure*, September 2023, pp. 21-24.

⁴⁸ KPMG, *Wage Price Index Forecasts Report 4*, 8 April 2024, p. 10.

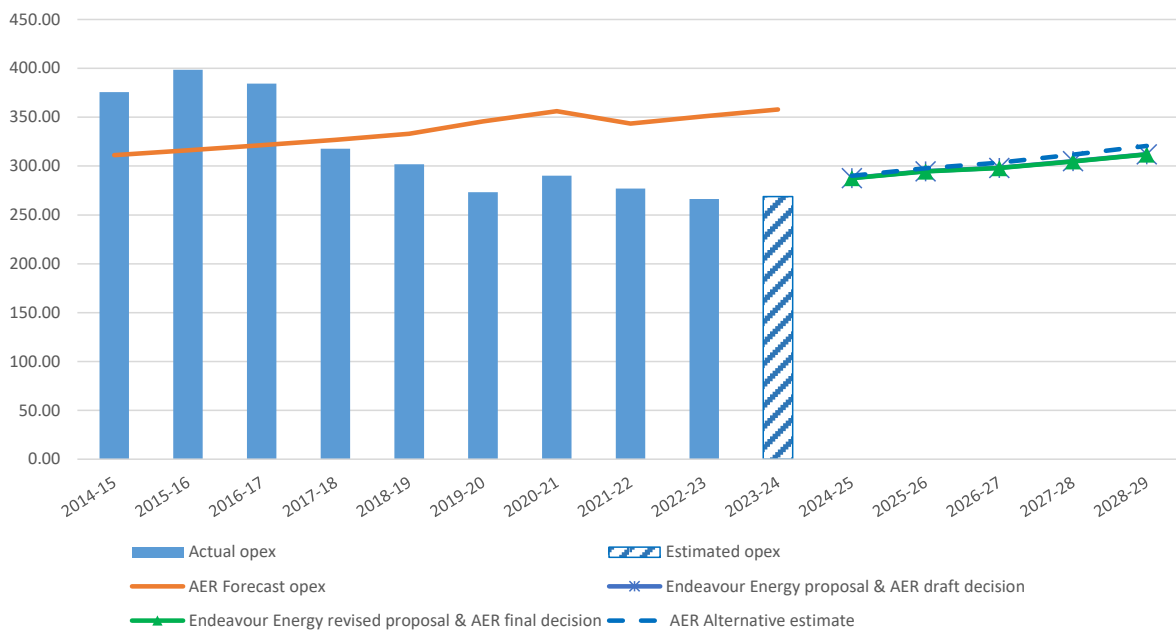
Source: Endeavour Energy, *0.12 Opex Model*, November 2023.
 Note: Numbers may not add up to totals due to rounding.

Figure 10 compares our final decision total opex forecast for the 2024–29 period, which is the same as Endeavour Energy’s revised proposal (the orange dashed line) to Endeavour Energy’s actual and estimated opex in the previous and current regulatory control period (the blue bars). We have also included the forecasts we approved in past decisions (the orange solid line), Endeavour Energy’s initial proposal for the 2024–29 period, which is the same as our draft decision (the blue dashed line with marker), and our alternative estimate for the final decision (the blue dashed line).

Figure 10 shows that our final decision opex forecast (Endeavour Energy’s revised forecast) of \$1,496.6 million is:

- \$257.7 million, or 14.7% lower than the opex forecast we approved in our final decision for the 2019–24 period⁴⁹
- \$121.3 million, or 8.8% higher than Endeavour Energy’s actual (and estimated) opex in the 2019–24 period
- \$1.0 million, or 0.1% lower than Endeavour Energy’s initial proposal (our draft decision).

Figure 10 Endeavour Energy’s historical and forecast opex (\$million)



Source: Endeavour Energy, *Regulatory accounts 2014–15 to 2021–22*; Endeavour Energy, *11.01 Opex Model*, January 2023; AER, *Endeavour Energy revenue determination, PTRM (multiple periods 2014–19, 2019–24, 2024–29)*; Endeavour Energy, *0.12 Opex Model*, November 2023; AER analysis.

Note: Includes debt raising costs and movements in provisions.

⁴⁹ Difference is calculated using our opex allowance for the 5 year 2019–24 period converted to real 2023–24 dollars using unlagged inflation. The difference of \$242.7 million (\$2023–24) stated in section 1.1 has been calculated using lagged inflation.

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 final decision determines an estimated cost of corporate income tax amount of \$120.2 million (\$ nominal) for Endeavour Energy over the 2024–29 period. This is an increase of \$13.5 million (12.6%) from Endeavour Energy’s revised proposal of \$106.8 million.

This increase is primarily due to our final decision on a higher regulatory depreciation amount and a higher return on equity amount (see sections 2.2 and 2.3). Regulatory depreciation and return on equity are both components of revenue for tax purposes. Therefore, higher regulatory depreciation and higher return on equity will increase the estimated taxable income for Endeavour Energy, thereby increasing the estimated cost of corporate income tax.

2.7 Revenue adjustments

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

- A revenue adjustment of –\$1.32 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 final decision is \$5.96 million less than Endeavour Energy’s revised proposed increment of \$7.28 million, due to modelling adjustments and a correction of the true-up calculation.
- A revenue adjustment of \$123.0 million (\$2023–24) from the application of the EBSS in the 2019–24 regulatory period. This is a \$0.4 million (\$2023–24) decrease compared to Endeavour Energy’s proposed carryover amount of \$123.4 million (\$2023–24). This is lower than Endeavour Energy proposal reflecting our use of the most recent inflation figures (not available at the time Endeavour Energy submitted its proposal) to convert amounts into 2023–24 dollars.
- An allowance of \$5.18 million (\$2023–24) for the Demand Management Innovation Allowance Mechanism (DMIAM). In each year of the 2024–29 period, Endeavour Energy will submit demand management projects for approval under the DMIAM. Any part of the \$5.18 million that is not spent on an approved project will be returned to consumers in the subsequent period.
- A shared asset adjustment of –\$2.1 million (\$2023–24) to be shared with customers across the 2024–29 period.

The combined effect of these revenue adjustments is a positive \$124.8 million (\$2023–24) revenue adjustment building block in this final decision compared to the positive \$128.3 million in Endeavour Energy’s revised proposal.

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

3.1 Capital Expenditure Sharing Scheme

The CESS mechanism was updated in April 2023. The changes to the CESS only apply to its application in the 2024–29 period and onwards.⁵⁰

Our final decision is to apply a CESS revenue adjustment (decrement) of \$1.32 million 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 final decision on the revenue impact of the application of the CESS in the 2019–24 period and the corresponding CESS carryover true-up 2018–19 is summarised in Table 5. The CESS calculation takes account of \$54 million (\$2023–24) in deferred system capex, which we accepted in our draft decision.⁵¹

Table 5 CESS revenue increments in 2024–29 (\$ million, 2023–24)

Revenue Adjustments	2024–25	2025–26	2026–27	2027–28	2028–29	Total
CESS revenue increments as per NER 6.4.3(a)(5)	0.81	0.81	0.81	0.81	0.81	4.03
CESS carryover true-up for 2018-19	-1.07	-1.07	-1.07	-1.07	-1.07	-5.36
AER final decision CESS	-0.26	-0.26	-0.26	-0.26	-0.26	-1.32

Source: AER analysis; Endeavour Energy, *Revised Proposal – 0.14 CESS Model*, 30 November 2023.

Note: Numbers may not sum due to rounding.

Endeavour Energy’s revised proposal adjusted its actual/estimate capex for the current regulatory period, resulting in a reduction in CESS benefit of \$8.60 million.⁵² This adjustment has increased the overspend from our draft decision and resulted in a CESS total decrement of \$1.32 million. The reasoning for our final decision is consistent with our draft decision.

⁵⁰ That is, for CESS revenue increments based on spending in the 2019–24 regulatory period, we follow this guideline: AER, AER capital expenditure incentive guideline - November 2013, November 2013. However, in applying the CESS in the 2024–29 period, we refer to this guideline: AER, AER - Final decision - Capital expenditure incentive guideline - 28 April 2023, April 2023.

⁵¹ AER, *Draft Decision Attachment 09 – Capital expenditure sharing scheme – Endeavour Energy – 2024–29 Distribution revenue proposal – September 2023*, 28 September 2023. p. 5.

⁵² Endeavour Energy, *Revised Proposal – 0.14 CESS Model*, November 2023.

In its revised proposal, Endeavour Energy also accepted our decision not to exclude its Innovation Fund from the CESS model.⁵³

3.2 Efficiency Benefit Sharing Scheme

Our final decision is to include EBSS carryover amounts totalling \$123.0 million (\$2023–24) from the application of the EBSS in the 2019–24 regulatory period. This is a \$0.4 million (\$2023–24) decrease compared to Endeavour’s proposed carryover amount of \$123.4 million (\$2023–24).⁵⁴ This difference reflects adjustments we made to account for the most recent inflation figures (not available at the time Endeavour Energy submitted its proposal) to convert amounts into 2023–24 dollars.

We set out our final decision on Endeavour’s EBSS carryover amounts in Table 6.

Table 6 EBSS carryover amounts in 2024–29 (\$ million, 2023–24)

	2024–25	2025–26	2026–27	2027–28	2028–29	Total
Endeavour Energy’s proposal	54.8	20.5	40.4	7.6	0.0	123.4
AER final decision	54.7	20.4	40.3	7.6	–	123.0
Difference	–0.2	–0.1	–0.1	–0.0	–	–0.4

Source: AER analysis, Endeavour Energy, *Revised Proposal – 0.13 EBSS Model*, 30 November 2023.

Note: Numbers may not sum due to rounding.

We will continue to apply version 2 of the EBSS to Endeavour Energy in the 2024–29 period consistent with our draft decision.

3.3 Service Target Performance Incentive Scheme (STPIS)

Endeavour Energy accepted our draft decision to apply STPIS 2.0 for the 2024–29 period without the customer service parameter (telephone answering parameter).

Endeavour Energy is applying the Customer Service Incentive Scheme (CSIS) in lieu of the STPIS customer service component.

Endeavour Energy also updated its STPIS incentive rates, reliability performance targets and historical reliability performance to take into account its actual performance in FY23.⁵⁵

Our final decision is to apply the STPIS 2.0⁵⁶, consistent with our draft decision, albeit with changes to reliability targets, incentive rates and value of customer reliability as a result of

⁵³ Endeavour Energy, *Revised Proposal – 0.01 Revised Regulatory Proposal – November 2023*, 30 November 2023, p. 7.

⁵⁴ Endeavour Energy, *Revised Proposal – 0.13 EBSS model*, November 2023.

⁵⁵ Endeavour Energy, *Revised revenue proposal*, 30 November 2023, p. 7.

⁵⁶ AER, *Electricity distribution network service providers—service target performance incentive scheme version 2.0*, November 2018.

updates to the final revenue numbers and the CPI.⁵⁷ The reasoning behind our decision is outlined in our draft decision.⁵⁸

Further, Endeavour Energy must continue to report on the telephone answering parameter in the upcoming regulatory 2024–29 period.

Our final decision on each of these parameters is contained in Table 7, Table 8 and Table 9. The parameters that will apply to each component of the STPIS are also published as part of this final decision.

Table 7 Final decision - STPIS reliability targets for Endeavour Energy for the 2024– 29 period

	Urban	Short rural
SAIDI (minutes) ⁵⁹	51.2607	147.9944
SAIFI (interruptions) ⁶⁰	0.5377	1.1523

Source: AER analysis.

Table 8 Final decision - STPIS incentive rates for Endeavour Energy for the 2024–29 period

	Urban	Short rural
ir - SAIDI	0.0654	0.0264
ir – SAIFI	4.1547	2.2562

Source: AER analysis.

Note: ir is the incentive rate (expressed in a percentage per unit of the parameter).

Table 9 Value of customer reliability (VCR) (\$/MWh)

Feeder types	Urban	Short rural
VCR	49,333	49,333

Source: AER analysis.

⁵⁷ AER, *Draft Decision Attachment 10 - Service target performance incentive scheme -Endeavour Energy – 2024–29 Distribution revenue proposal*, September 2023.

⁵⁸ AER, *Draft Decision Attachment 10 - Service target performance incentive scheme -Endeavour Energy – 2024–29 Distribution revenue proposal*, September 2023, p. 2.

⁵⁹ System Average Interruption Duration Index (SAIDI).

⁶⁰ System Average Interruption Frequency Index (SAIFI).

3.4 Demand Management Incentive Scheme (DMIS) and DMIAM

Our final decision is to apply the DMIS and DMIAM to Endeavour Energy in the 2024–29 period. This approach is consistent with Endeavour Energy’s revised proposal⁶¹ and our draft decision on DMIS and DMIAM.⁶²

The RRG’s submission outlined that the DMIAM allowance is insufficient to support the level of innovation that consumers are prepared to fund.⁶³ We acknowledge the concern raised by the RRG about the level of DMIAM allowance. However, our revenue determination on the DMIAM is to decide in accordance with NER clause 6.12.1(9) whether any applicable incentive scheme is to apply to a distributor. Consideration about the scheme’s design as it relates to allowances is not within scope of our DMIAM decision and can only be considered if the scheme is reviewed.

The DMIAM allowance for Endeavour Energy for the 2024–29 period, based on the final PTRM for Endeavour Energy, is contained in section 2.7.

3.5 Customer Service Incentive Scheme (CSIS)

Our final decision is that a CSIS will apply because Endeavour Energy’s incentive design meets the requirements of the scheme. This is consistent with our draft decision and Endeavour Energy’s revised revenue proposal.⁶⁴

The reasoning behind our position is explained in the draft decision.⁶⁵

Table 10 and Table 11 present our final decision on the applicable performance targets, revenue at risk and incentive rates that will apply to Endeavour Energy for the 2024–29 period.

Table 10 Final decision - CSIS management of planned outage parameters

Measure	Baseline target	Incentive rate	Revenue at risk
Planned Outage Start Time	26.33%	0.03%	± 0.125%
Planned Outage Finish Time	21.50%	0.03%	± 0.125%

Source: AER analysis.

⁶¹ Endeavour Energy, *Revised revenue proposal*, 30 November 2023, p. 7.

⁶² AER, *Draft Decision Attachment 11 - DMIS and DMIAM - Endeavour Energy – 2024–29 Distribution revenue proposal*, September 2023, p. 1.

⁶³ Regulatory Reference Group, *Endeavour Energy Regulatory Draft Decision and Revised Proposal 2024–29*, January 2017, p. 3.

⁶⁴ AER, *Draft Decision Attachment 12 - Customer Service Incentive Scheme - Endeavour Energy – 2024–29 Distribution revenue proposal*, September 2023; Endeavour Energy, *Revised Regulatory Proposal 2024–29*, November 2023, p. 7.

⁶⁵ AER, *Draft Decision Attachment 12 - Customer Service Incentive Scheme - Endeavour Energy – 2024–29 Distribution revenue proposal*, September 2023, pp. 5–10.

Table 11 Final decision - CSIS customer satisfaction parameters

Measure	Baseline target	Incentive rate	Revenue at risk
Planned Outage CSAT ⁶⁶	6.519	0.09%	± 0.083%
Unplanned Outage CSAT	5.214	0.09%	± 0.083%
Enquiry CSAT	7.928	0.16%	± 0.083%

Source: AER analysis.

Ongoing compliance with this determination

To comply with this determination, Endeavour Energy must submit the annual CSIS compliance model (provided as part of its proposal) used to calculate the annual revenue adjustment for the CSIS (H-factor). Robust data oversight is a vital component of the CSIS. The data used to populate the annual CSIS compliance model must be audited in accordance with our explanatory statement on CSIS⁶⁷ and/or the assurance requirements of our regulatory information order.

⁶⁶ Customer satisfaction.

⁶⁷ AER, *CSIS Explanatory Statement*, July 2020, p. 13.

4 Tariff structure statement

Endeavour Energy’s revised 2024–29 regulatory proposal includes its third tariff structure statement. This 2024–29 tariff structure statement will apply from 1 July 2024 and remain in effect for the 2024–29 period.

Our final decision is to approve Endeavour Energy’s revised 2024–29 tariff structure statement with amendments that:

- change references to ‘battery’ tariffs to ‘storage’ tariffs to reflect that these tariffs should be applicable to storage technologies with similar connections and load profiles.
- extend the transition period for customers assigned to the embedded network tariff from 2 years to 3 years
- change the basic export level (BEL) to 2,920 kWh per annum.

These amendments complement the changes Endeavour Energy already made in its revised tariff structure statement to align with our draft decision. These changes included:

- adding information on the triggers for its contingent tariff adjustments
- an adjustment to its assignment policy that it had communicated to AER staff after submission of the proposed tariff structure statement (to shorten the transition period from 24 months to 12 months)
- an explanation of how Endeavour Energy will give effect to the *Electricity Supply (General) Amendment (Green Hydrogen Limitation) Regulation* (network tariff exemptions for approved green hydrogen producers) through individually calculated tariffs.

On energy storage, the amendment was discussed with Endeavour Energy after our draft decision was published. It is intended to ensure that Endeavour Energy’s tariffs are consistent with cl. 6.18.4(a)(2) of the NER (retail customers with a similar connection and distribution service usage profile should be treated on an equal basis).

As already noted, we received significant feedback from stakeholders on its embedded network tariff. Our final decision is to amend the transition period for Endeavour Energy’s embedded network tariffs from 2 years to 3 years. This responds to stakeholder submissions on the bill impact of the higher demand charges of the embedded network tariffs relative to the current tariffs faced by embedded network operators. We consider a 3-year transition period will better mitigate the impact of bill increases for embedded network operators and customers within embedded networks while progressively reducing the extent to which non-embedded network customers cross-subsidise embedded networks.

The amendment to Endeavour Energy’s basic export level reflects discussions between the AER and Endeavour Energy on the most appropriate method of converting a kW-based basic export level to a kWh-based basic export level.

In Attachment 19 we describe our assessment of Endeavour Energy’s revised tariff structure statement and explain our final decision to approve it.

5 Other price terms and conditions

In this section, we consider the other aspects of our determination, which include the classification of the services, the application of the AEMC metering review and Endeavour Energy’s connection policy and negotiated services.

5.1 Metering services

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. Throughout the 2024–29 regulatory determinations we signalled that the AEMC’s final decision on the transitioning of legacy meters may require us to consider different classification and/or price/revenue control settings for the businesses.

The key objective of the AEMC’s final decision, released in August 2023, is to target a 100% replacement of distribution network owned accumulation meters with smart meters offered by other parties by 30 June 2030.⁶⁸ Our draft decision indicated this would constitute a material change in circumstances, which would justify departure from the classification of legacy meter services in the Framework and approach (F&A).⁶⁹

We had identified concerns that customers whose meters are replaced later in the replacement program would incur inequitably higher prices than those whose meters are replaced earlier. While socialisation of metering costs generally occurs at the retail level, we were concerned that retailer’s ability to socialise differs based on a number of settings, so socialisation at the network level would produce more consistent outcomes for customers.

Our draft decisions asked businesses to consider whether reclassification of legacy meter services to standard control services was likely to be more appropriate, as this would result in the socialisation of metering costs across a wider customer group.

Since the publication of our draft decision, we have engaged with the businesses on the most appropriate outcome to ensure customers are not inequitably impacted from rising costs in the transition and prevented from realising the benefits the smart meters provide.

While we looked to maintain consistency of approach to legacy metering services across the 2024–29 businesses, further consideration of the individual circumstances of the businesses identified that a tailored approach would be required to ensure we are providing an outcome that is in the long term interest of consumers.

For Endeavour Energy, our final position is to accept its revised proposal to reclassify legacy metering services as a standard control service.

The reasons for our decision are set out in attachment 20. Outcomes relating to service classification to support the AEMC’s intention are discussed at attachment 13.

⁶⁸ AEMC, [Final Report: Review of the regulatory framework for metering services](#), August 2023.

⁶⁹ AER, *Draft Decision Attachment 20 – Metering services – Endeavour Energy – 2024–29 Distribution revenue proposal*, September 2023.

5.2 Classification of services

As discussed in section 5.1, the AEMC’s final decision on metering resulted in a material change of circumstance to justify a departure from final F&A.⁷⁰ Our final decision for Endeavour Energy is to accept the majority of changes proposed to support the transition of legacy meters under the AEMC’s final decision.

In addition, Endeavour Energy also proposed changes to include new unregulated distribution services, submitting that a material change of circumstance had occurred as a result of the continued growth and path of the energy transition. The NSW businesses all raised concerns that during this transition period they will be required to play an expanded role in providing services in the contestable market.

We have considered the concerns raised, and note that these issues were also extensively consulted on during the development of the F&A. Following consideration of the new services proposed for classification by the businesses in their revised proposal, our final position is to maintain our final F&A decision and not classify the new support services proposed, except for including a clarifying example of the leasing space on electricity infrastructure for EV charging.

Details of our reasoning and the final list of classified services for Endeavour Energy are set out in attachment 13 to this decision.

5.3 Negotiating framework and criteria

In our draft decision, we approved Endeavour Energy’s proposed distribution negotiating framework for the 2024–29 period.⁷¹ We did not receive any objections or submissions on our draft decision. Our final decision maintains the decision to approve Endeavour Energy’s negotiating framework.

We are also required to decide on the Negotiated distribution service criteria for the distributor. Our final decision is to retain the Negotiated distribution service criteria published for Endeavour Energy in February 2023 for the 2024–29 period.⁷² Details of Negotiated distribution service criteria are set out in attachment 17 of our draft decision.⁷³

5.4 Connection policy

In our draft decision, we did not approve Endeavour Energy’s proposed connection policy for the 2024–29 period. We modified its connection policy to the extent necessary to enable it to be approved in accordance with the NER requirements.⁷⁴

⁷⁰ AER, [Final framework and approach for Ausgrid, Endeavour Energy and Essential Energy for the 2024–29 regulatory control period](#), July 2022.

⁷¹ AER, [Attachment 17 - Negotiated services framework and criteria | Draft decision - Endeavour Energy distribution determination 2024–29](#), September 2023.

⁷² AER, [Proposed Negotiated Distribution Service Criteria 2024–29 for Endeavour Energy](#), February 2023.

⁷³ AER, [Attachment 17 - Negotiated services framework and criteria | Draft decision - Endeavour Energy distribution determination 2024–29](#), September 2023, pp. 4-6.

⁷⁴ NER, Part DA of chapter 6; AER, [Draft Decision Attachment 18 - Connection policy - Endeavour Energy – 2024–29 Distribution revenue proposal](#), September 2023.

In its revised proposal, Endeavour Energy accepted all changes made to the initial connection policy. The approved connection policy for Endeavour Energy 2024–29 period is appended to attachment 18 of our final decision.⁷⁵

⁷⁵ Endeavour Energy, *Revised revenue proposal*, 30 November 2023, p. 43.

6 Constituent decisions

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

Constituent component
<p>In accordance with clause 6.12.1(1) of the NER, the AER's final decision is that the classification of services set out in Attachment 13 will apply to Endeavour Energy for the 2024–29 regulatory control period, for the reasons set out in that attachment.</p>
<p>In accordance with clause 6.12.1(2)(i) of the NER, the AER's final decision is to not approve the annual revenue requirement set out in Endeavour Energy’s building block proposal.</p> <p>Our final decision on Endeavour Energy’s annual revenue requirement for standard control services other than metering services (main standard control services) for each year of the 2024–29 regulatory control period is set out in Attachment 1.</p> <p>Our final decision on Endeavour Energy’s metering annual revenue requirement for each year of the 2024–29 regulatory control period is set out in Attachment 20.</p>
<p>In accordance with clause 6.12.1(2)(ii) of the NER, the AER's final 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 final 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.</p>
<p>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.</p>
<p>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 final decision is to accept Endeavour Energy’s proposed total net capital expenditure forecast.</p> <p>For main standard control services, this amount is \$1,850.9 million (\$2023–24). This is set out in section 2.4 of this overview.</p> <p>For metering, we do not accept Endeavour Energy’s revised proposal forecast capex of \$2.04 million (\$2023–24) and replace it with a forecast of \$2.05 million (\$2023–24). This is set out in Attachment 20.</p>
<p>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 final decision is to not accept Endeavour Energy’s revised proposed total forecast operating expenditure.</p> <p>For main standard control services, we accept Endeavour Energy’s proposed total forecast operating expenditure, inclusive of debt raising costs and exclusive of DMIAM, of \$1,496.6 million (\$2023–24). This is discussed in section 2.5 of this overview.</p> <p>For metering, we do not accept Endeavour Energy’s proposed total forecast operating expenditure forecast of \$66.9 million (\$2023–24) and replace it with a forecast of \$66.7 million (\$2023–24), reflecting latest labour cost escalation and inflation forecasts. This is set out in Attachment 20.</p>
<p>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.</p>

Constituent component

In accordance with clause 6.12.1(5) of the NER and the 2022 Rate of Return Instrument, the AER's final decision is that the allowed rate of return for the 2024–25 regulatory year is 5.91% (nominal vanilla) as set out in section 2.2 in the overview. 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 final 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 section 2.2 in this Overview.

In accordance with clause 6.12.1(6) of the NER, the AER's final decision on Endeavour Energy's main standard control services regulatory asset base as at 1 July 2024 in accordance with clause 6.5.1 and schedule 6.2 is \$8,238.2 million (\$ nominal). The reasons for our final decision are set out in Attachment 2.

The AER's final decision on Endeavour Energy's metering regulatory asset base as at 1 July 2024 is \$13.9 million (\$ nominal). This is discussed in Attachment 20.

In accordance with clause 6.12.1(7) of the NER, the AER's final decision on Endeavour Energy's estimated cost of corporate income tax for main standard control services is \$120.2 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 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	69.8	55.2	54.3	52.1	48.1	279.6
Less: value of imputation credits	39.8	31.5	31.0	29.7	27.4	159.4
Net cost of corporate income tax	30.0	23.7	23.4	22.4	20.7	120.2

The AER's final decision on Endeavour Energy's cost of corporate income tax for metering is \$2.3 million (\$ nominal) for the 2024–29 regulatory control period.

In accordance with clause 6.12.1(8) of the NER, the AER's final decision is to not approve the depreciation schedules submitted by Endeavour Energy.

For main standard control services, our final decision substitutes alternative depreciation schedules that accord with clause 6.5.5(b). The regulatory depreciation amount approved in this final decision is \$1,241.6 million (\$ nominal) for the 2024–29 regulatory control period. This is discussed in Attachment 4.

For metering, our final decision substitutes alternative depreciation schedules amounting to regulatory depreciation for the 2024–29 period of \$15.7 million (\$ nominal). This is discussed in Attachment 20.

In accordance with clause 6.12.1(9) of the NER the AER makes the following final 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 to Endeavour Energy:

Constituent component
<ul style="list-style-type: none"> • We will apply version 2 of the EBSS to Endeavour Energy in the 2024–29 regulatory control period. Our reasons are set out in Attachment 8 of our draft decision and section 3.2 of this Overview. • We will apply the CESS as set out in the Capital Expenditure Incentives Guideline to Endeavour Energy in the 2024–29 regulatory control period. Our reasons are set out in Attachment 9 of our draft decision and section 3.1 of this Overview. • We will not apply the ESIS for the 2024–29 regulatory control period as set out in the Overview of our draft decision. • We will apply the STPIS version 2 to Endeavour Energy for the 2024–29 regulatory control period for the reasons set out in section 3.3 of this Overview. • We will apply the DMIS and DMIAM to Endeavour Energy for the 2024–29 regulatory control period for the reasons set out in section 3.4 of this Overview. • We will apply the customer service incentive scheme (CSIS) to Endeavour Energy for the 2024–29 regulatory control period for the reasons set out in section 3.5 of this Overview.
<p>In accordance with clause 6.12.1(10) of the NER, the AER's final decision is that all other appropriate amounts, values and inputs are as set out in this final determination including attachments.</p>
<p>In accordance with clause 6.12.1(11) of the NER and our framework and approach paper, the AER's final 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 formulae 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 final decision are set out in Attachment 14.</p>
<p>In accordance with clause 6.12.1(12) of the NER and our framework and approach paper, the AER's final 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 final decision are set out in Attachment 14 and Attachment 16.</p>
<p>In accordance with clause 6.12.1(13) of the NER, to demonstrate compliance with its distribution determination, the AER's final decision is that Endeavour Energy must maintain both DUoS and metering unders and overs mechanisms. It must provide information on these mechanisms to us in its annual pricing proposal. The reasons for our final decision are set out in Attachment 14.</p>
<p>In accordance with clause 6.12.1(14) of the NER the AER's final 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:</p> <ul style="list-style-type: none"> • Insurance coverage event • Insurer's credit risk event • Terrorism event • Natural disaster event <p>The definitions of these events, and the reasons for our final decision, are set out in Attachment 15 of the final decision.</p>

Constituent component
<p>In accordance with clause 6.12.1(14A) of the NER, the AER's final decision is to approve the tariff structure statement proposed by Endeavour Energy with amendments. The reasons for our final decision and amendments are set out in Attachment 19.</p>
<p>In accordance with clause 6.12.1(15) of the NER, the AER's final decision is that the negotiating framework as proposed by Endeavour Energy will apply for the 2024–29 regulatory control period. The reasons for our final decision are set out in section 5.3 of overview and Attachment 17 of our draft decision.</p>
<p>In accordance with clause 6.12.1(16) of the NER, the AER's final decision is to apply the negotiated distribution services criteria published in February 2023 to Endeavour Energy. The reasons for our final decision are set out in section 5.3 of overview and Attachment 17 of our draft decision.</p>
<p>In accordance with clause 6.12.1(17) of the NER, the AER's final decision on the procedures for assigning retail customers to tariff classes for Endeavour Energy is set out in Attachment 19 of the draft decision.</p>
<p>In accordance with clause 6.12.1(18) of the NER, the AER's final 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 final decision are set out in Attachment 2.</p>
<p>In accordance with clause 6.12.1(19) of the NER, the AER's final decision on how Endeavour Energy is to report to the AER on its recovery of designated pricing proposal charges, and how it must account for the under and over recovery of designated pricing proposal charges, is that it must use the unders and overs mechanism described in Attachment 14. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our final decision are set out in Attachment 14.</p>
<p>In accordance with clause 6.12.1(20) of the NER, the AER's final decision on how Endeavour Energy is to report to the AER on its recovery of jurisdictional scheme amounts, and how it must account for the under and over recovery of jurisdictional scheme amounts, is that it must use the unders and overs mechanism described in Attachment 14. It must provide information on this mechanism to us in its annual pricing proposal. The reasons for our final decision are set out in Attachment 14.</p>
<p>In accordance with clause 6.12.1(21) of the NER, the AER's final decision is to approve the connection policy proposed by Endeavour Energy, as set out in section 5.4 of this Overview and Attachment 18.</p>

7 List of submissions

We received 15 submissions in response to Endeavour Energy’s revised revenue proposal and our draft decision. These are listed below⁷⁶.

Submissions from
Active Utilities
Caravan and Camping Industry Association NSW
Compliance Quarter
Consumer Challenge Panel, sub-panel 26
Energy and Water Ombudsman NSW
Energy Locals
Evie Networks
Independent Pricing and Regulatory Tribunal (IPART)
Origin Energy
Network Energy Services
Public Interest Advocacy Centre (PIAC)
Red and Lumo Energy
Regulatory Reference Group (RRG) independent members panel
Stakeholder submission
Tesla

⁷⁶ Submissions are available on the AER website at:
<https://www.aer.gov.au/industry/registers/determinations/endeavour-energy-determination-2024-29/consultation-submissions-draft-decision-and-revised-proposal>.

Shortened forms

Term	Definition
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulatory
ARR	annual revenue requirement
augex	augmentation capital expenditure
capex	capital expenditure
CCP26	Consumer Challenge Panel, sub-panel 26
CER	consumer energy resources
CESS	capital expenditure sharing scheme
CPI	consumer price index
CSAT	Customer satisfaction
CSIS	customer service incentive scheme
DMIAM	demand management innovation allowance mechanism
DMIS	demand management incentive scheme
DNSP or distributor	Distribution Network Service Provider
EBSS	efficiency benefit sharing scheme
EV	electric vehicle
F&A	framework and approach
(the) Handbook	Better Resets Handbook
ICT	information and communication technologies
NEL	National Electricity Law
NEO	National Electricity Objectives
NER	National Electricity Rules
opex	operating expenditure
PIAC	Public Interest Advocacy Centre
PTRM	post-tax revenue model
RAB	regulated asset base
RBA	Reserve Bank of Australia
repex	replacement capital expenditure
RRG	Regulatory Reference Group

Term	Definition
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SCS	standard control service
SMP	Statement on Monetary Policy
STPIS	service target performance incentive scheme
WACC	Weighted average cost of capital
WPI	Wage Price Index