

# Final Decision

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

### Attachment 2 Regulatory asset base

April 2024

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#### **Amendment record**

<b>Version</b>	<b>Date</b>	<b>Pages</b>
1	30 April 2024	13

## List of attachments

This attachment 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. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision. In these circumstances, our draft decision reasons form part of this final 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

Attachment 16 – Alternative control services

Attachment 18 – Connection policy

Attachment 19 – Tariff structure statement

Attachment 20 – Metering services

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## 2 Regulatory asset base

Our distribution determination includes Endeavour Energy's (Endeavour) opening regulatory asset base (RAB) value as at 1 July 2024 and the projected RAB value for the 2024–29 regulatory control period (period).<sup>1</sup> The value of the RAB substantially impacts Endeavour's revenue requirement, and the price consumers ultimately pay. Other things being equal, a higher RAB would increase both the return on capital and return of capital (depreciation) components of the distribution determination.<sup>2</sup> This final decision sets out:

- the opening RAB value as at 1 July 2024
- the forecast closing RAB value as at 30 June 2029
- that depreciation based on forecast capital expenditure (capex) is to be used for establishing the RAB as at the commencement of the 2029–34 period.<sup>3</sup>

### 2.1 Final decision

#### 2.1.1 Opening RAB as at 1 July 2024

Our final decision is to determine an opening RAB value of \$8,238.2 million (\$ nominal) as at 1 July 2024 for Endeavour. This amount is \$3.9 million (0.05%) lower than Endeavour's revised proposed opening RAB value of \$8,242.1 million (\$ nominal) as at 1 July 2024.<sup>4</sup> It reflects our update to the roll forward model (RFM) for actual consumer price index (CPI) for 2023–24. This final decision is \$41.3 million (0.5%) higher than our draft decision value for Endeavour's opening RAB of \$8,196.9 million (\$ nominal).<sup>5</sup>

To determine the opening RAB value as at 1 July 2024, we have rolled forward the RAB over the 2019–24 period to arrive at a closing RAB value at 30 June 2024 in accordance with our RFM. This roll forward includes an adjustment at the end of the 2019–24 period to account for the difference between actual 2018–19 capex and the estimate approved in the 2019–24

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<sup>1</sup> National Electricity Rules (NER), cl. 6.12.1(6).

<sup>2</sup> The size of the RAB also impacts the benchmark debt raising cost allowance. However, this amount is usually relatively small and therefore not a significant determinant of revenues overall.

<sup>3</sup> NER, cl. 6.12.1(18).

<sup>4</sup> Endeavour Energy, *0.08 Main SCS Roll Forward Model*, November 2023.

<sup>5</sup> This is mainly driven by the updates to the capex for 2022–23 to reflect actual values, which has resulted in an increase to the opening RAB value by about \$48.4 million (0.6%) compared to the draft decision, all else being equal. This is also due to a higher revised capitalised leases amount being added to the opening RAB compared to the amount approved in our draft decision. These increases are partially offset by a lower revised actual capex for 2021–22.

determination.<sup>6</sup> All other adjustments are applied as part of the final year adjustments at 30 June 2024 to establish the opening RAB value at 1 July 2024.<sup>7</sup>

Table 2.1 sets out our final decision on the roll forward of Endeavour’s RAB for the 2019–24 period.

**Table 2.1 AER’s final decision on Endeavour’s RAB for the 2019–24 period (\$ million, nominal)**

	2019–20	2020–21	2021–22	2022–23	2023–24 <sup>a</sup>
Opening RAB	6,526.1	6,719.3	6,847.4	7,104.3	7,816.4
Net capex <sup>b</sup>	337.7	353.4	312.1	467.2	357.9
Indexation on opening RAB	120.1	57.8	239.5	556.4	316.7
Less: straight-line depreciation <sup>c</sup>	264.6	283.2	294.7	311.5	329.5
Interim closing RAB	6,719.3	6,847.4	7,104.3	7,816.4	8,161.5
Difference between estimated and actual capex in 2018–19	-	-	-	-	11.3
Return on difference for 2018–19 capex	-	-	-	-	4.2
Final year asset adjustment <sup>d</sup>	-	-	-	-	61.3
<b>Closing RAB as at 30 June 2024</b>	-	-	-	-	<b>8,238.2</b>

Source: AER analysis.

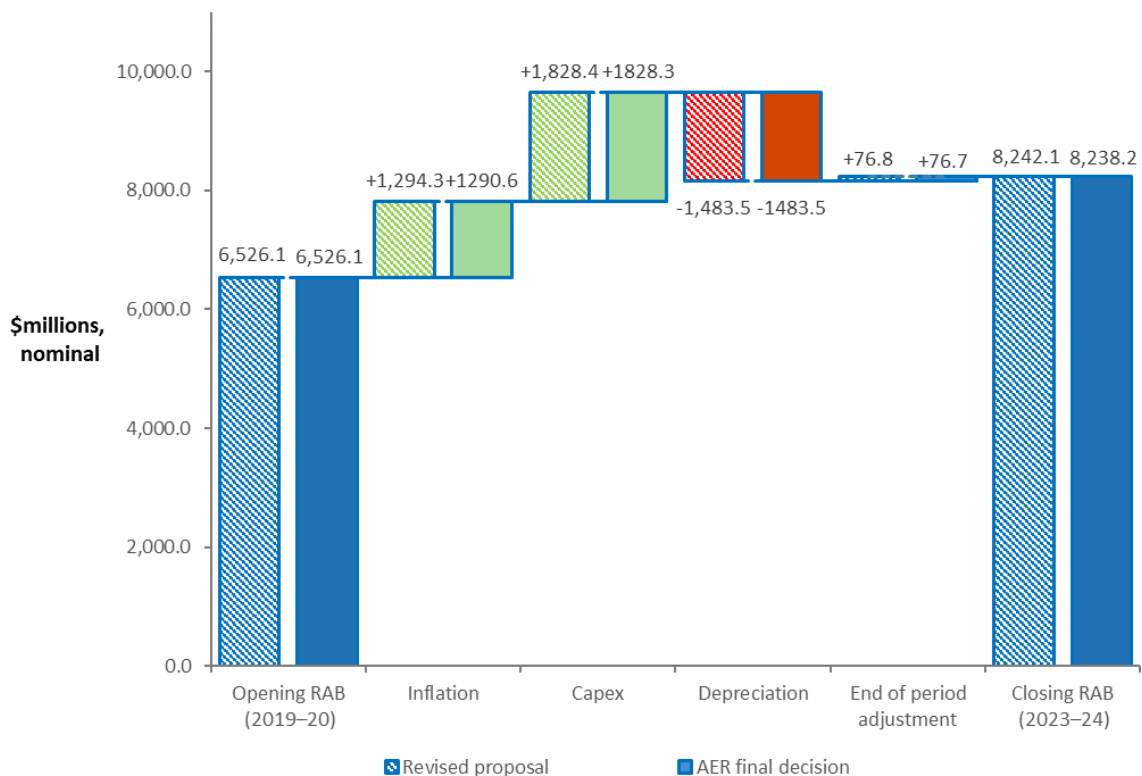
- (a) Based on estimated capex provided by Endeavour. We will true-up the RAB for actual capex at the next distribution determination.
- (b) Net of disposals and capital contributions, and adjusted for actual CPI and half-year weighted average cost of capital (WACC).
- (c) Adjusted for actual CPI. Based on forecast capex.
- (d) Reflects capitalised lease costs as at 30 June 2024 associated with existing leases.

Figure 2.1 shows the key drivers of change in Endeavour’s RAB value over the 2019–24 period for this final decision. Overall, the closing RAB value at the end of the 2019–24 period is 26% higher than the opening RAB value at the start of that period, in nominal terms. New capex increases the RAB value by 28%, while inflation indexation increases it by 20%. End of period adjustments also increase the RAB value by 1%, while depreciation on the other hand, reduces the RAB value by 23%.

<sup>6</sup> The end of period adjustment will be positive (negative) if actual capex is higher (lower) than the estimate approved at the 2019–24 determination. See NER, cl. S6.2.1(e)(3).

<sup>7</sup> These end of period adjustments are applied at the end of the final year of the roll forward period which in this case is 30 June 2024. For Endeavour, this adjustment is for capitalised lease costs associated with existing leases. This adjustment was accepted in our draft decision with updates for CPI and WACC. Endeavour’s revised proposal updated the capitalised lease costs to reflect a change in payment arrangement with its lessor. Our final decision accepts the revised proposal subject to CPI update for 2023–24.

**Figure 2.1 Key drivers of change in the RAB over the 2019–24 period — Endeavour’s revised proposal compared with the 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.

In the draft decision, we reduced Endeavour’s proposed opening RAB value as at 1 July 2024 by \$65.2 million (0.8%). This reduction was largely due to the updates we made to the CPI inputs for 2022–23 and 2023–24 in the RFM to reflect more up-to-date values. We also amended the following inputs which also contributed to the overall decrease to the opening RAB value:<sup>8</sup>

- We updated the nominal vanilla weighted average cost of capital (WACC) for 2023–24, equity raising costs and the forecast straight-line depreciation inputs to be consistent with the values in our 2023–24 return on debt updated post-tax revenue model (PTRM).
- We reduced the lease costs being rolled into the RAB at the end of the 2019–24 period. We accepted Endeavour’s proposal to capitalise its costs for existing leases from the start of the 2024–29 period due to a change in accounting standards. However, we updated the amount being rolled into the RAB to reflect more up-to-date CPI and WACC values.

<sup>8</sup> AER, *Draft decision: Endeavour Energy distribution determination 2024–29 – Attachment 2 – Regulatory asset base*, September 2023, p. 2.

We noted the roll forward of Endeavour's RAB included estimated capex for 2022–23 and 2023–24, and estimated inflation for 2023–24, because the actual values for these inputs were not yet available at the time of the draft decision.<sup>9</sup>

In its revised proposal, Endeavour adopted all of our draft decision changes. In addition, Endeavour has updated the following inputs in its revised proposed RFM:<sup>10</sup>

- the estimated capex for 2022–23 with actuals
- the actual capex for 2020–21 and 2021–22 due to corrections made to capitalised movements in provisions for these years
- the amount of capitalised leases being rolled into the RAB due to a change in payment arrangement with its lessor. The revised amount is about \$16.9 million (\$ nominal) higher compared to the amount approved in our draft decision.

For this final decision, we have checked the actual capex for 2020–21, 2021–22 and 2022–23 in Endeavour's revised proposed RFM. We are satisfied that these capex inputs reconcile with the values presented in Endeavour's re-submitted annual reporting Regulatory Information Notices (RINs) for 2020–21 and 2021–22, and the annual reporting RIN for 2022–23.

We also accept the 2023–24 capex estimate of \$357.9 million (\$ nominal) for this final decision.<sup>11</sup> This amount is the same as Endeavour's initial proposal and our draft decision. In its response to our information request, Endeavour confirmed that the unchanged estimated capex for 2023–24 remain appropriate for its revised proposal.<sup>12</sup> We note that the financial impact of any difference between actual and estimated capex for 2023–24 will be accounted for at the next distribution determination.

We received no submissions on our approach to calculating the opening RAB. Our position in the final decision is limited to updates for more recent data in the RFM. This includes updating the 2023–24 estimated inflation input with actual CPI of 4.05% based on the December 2023 CPI from the Australian Bureau of Statistics (ABS), which became available after Endeavour submitted its revised proposal.

We accept Endeavour's revised proposal for a higher final year asset adjustment for capitalised lease costs. Endeavour stated that it had previously anticipated to receive a discount from its lessor, but instead has received an upfront payment for capex associated with fitting out and upgrading new office space. Therefore, the increased capitalised lease costs have been offset by an equivalent reduction in Endeavour's 2022–23 actual capex.<sup>13</sup>

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<sup>9</sup> AER, *Draft decision: Endeavour Energy distribution determination 2024–29 – Attachment 2 – Regulatory asset base*, September 2023, pp. 1 and 3.

<sup>10</sup> Endeavour Energy, *0.01 Revised Regulatory Proposal*, November 2023, pp. 33–35; Endeavour Energy, *0.08 Main SCS Roll Forward Model*, November 2023.

<sup>11</sup> This amount is net of disposals and capital contributions, and includes a half-year WACC allowance to compensate for the six-month period before capex is added to the RAB. It reflects the updated actual inflation rate for 2023–24 in our final decision.

<sup>12</sup> Endeavour Energy, *Response to AER information request #043 – 2023–24 estimated capex inputs in the RFM*, dated 18 December 2023.

<sup>13</sup> Endeavour Energy, *0.01 Revised Regulatory Proposal*, November 2023, pp. 33–34.



As such, this change does not affect the total opening RAB value, all else being equal. However, for this final decision, we have reduced the total capitalised lease amount to be rolled into the RAB by \$0.03 million to reflect actual CPI for 2023–24.

### 2.1.2 Ex post review of 2017–22 capex

We also consider the extent to which our roll forward of the RAB to 1 July 2024 contributes to the achievement of the capex incentive objective.<sup>14</sup> The review period of past capex for this distribution determination is over 2017–18 to 2021–22.<sup>15</sup> As discussed in the draft decision, we consider that the capex incurred in those years are consistent with the capex criteria and can therefore be included in the RAB.<sup>16</sup>

For this final decision, we have included Endeavour's actual capex for 2022–23 and estimated capex for 2023–24 in the RAB roll forward to 1 July 2024. At the next distribution determination, the actual capex for 2022–23 and 2023–24 will form part of the review period for whether past capex should be excluded for inefficiency reasons.<sup>17</sup> Our RAB roll forward applies the incentive framework approved in the previous distribution determination, which included the use of a forecast depreciation approach in combination with the application of the capital expenditure sharing scheme (CESS).<sup>18</sup> As such, we consider that the 2019–24 RAB roll forward contributes to an opening RAB (as at 1 July 2024) that includes capex that reflects prudent and efficient costs, in accordance with the capex criteria.<sup>19</sup>

### 2.1.3 Forecast closing RAB as at 30 June 2029

Once we have determined the opening RAB value as at 1 July 2024, we roll forward that value by adding forecast capex and inflation, and reducing it by depreciation to arrive at a forecast closing value for the RAB as at the end of the 2024–29 period.<sup>20</sup>

For this final decision, we determine a forecast closing RAB value at 30 June 2029 of \$9,024.4 million (\$ nominal) for Endeavour. This is \$63.7 million (0.7%) lower than Endeavour's revised proposal of \$9,088.1 million (\$ nominal). This is mainly due to a lower expected inflation rate applied in our final decision compared to Endeavour's revised proposal (section 2.2 of the Overview to this final decision). Our final decision on the forecast closing RAB also reflects the amended opening RAB as at 1 July 2024, and our final

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<sup>14</sup> NER, cl. 6.12.2(b) and 6.4A(a).

<sup>15</sup> NER, cl. S6.2.2.A(a1).

<sup>16</sup> NER, cl. S6.2.1(f); AER, *Draft decision: Endeavour Energy distribution determination 2024–29 – Attachment 2 – Regulatory asset base*, September 2023, p. 14; Endeavour has revised the 2020–21 and 2021–22 actual capex in its revised proposal. While the revised actual capex 2020–21 is slightly higher than the amount approved in our draft decision, the revised actual capex for 2021–22 is much lower. Therefore, these revisions do not change our conclusion of the ex post review for 2017–22 from the draft decision.

<sup>17</sup> Here, 'inefficiency' of past capex refers to three specific assessments (labelled the overspending, margin and capitalisation requirements) detailed in NER, cl. S6.2.2A. The details of our ex-post assessment approach for capex are set out in AER, *Capital expenditure incentive guideline*, April 2023, pp. 12–19.

<sup>18</sup> AER, *Final decision: Endeavour Energy distribution determination 2019–24 – Attachment 2 – Regulatory asset base*, April 2019, pp. 9–10.

<sup>19</sup> NER, cl. 6.4A(a), 6.5.7(a), 6.5.7(c) and 6.12.2(b).

<sup>20</sup> NER, cl. S6.2.3.

decisions on forecast depreciation (Attachment 4) and forecast capex (section 2.4 of the Overview to this final decision).<sup>21</sup>

Table 2.2 sets out our final decision on the forecast RAB for Endeavour over the 2024–29 period.

**Table 2.2 AER’s final decision on Endeavour’s RAB for the 2024–29 period (\$ million, nominal)**

	2024–25	2025–26	2026–27	2027–28	2028–29
Opening RAB	8,238.2	8,385.8	8,555.5	8,704.5	8,872.9
Net capex <sup>a</sup>	449.0	428.8	395.4	392.8	362.0
Indexation on opening RAB	219.1	223.0	227.6	231.5	236.0
Less: straight-line depreciation	520.5	482.1	473.9	455.9	446.4
<b>Closing RAB</b>	<b>8,385.8</b>	<b>8,555.5</b>	<b>8,704.5</b>	<b>8,872.9</b>	<b>9,024.4</b>

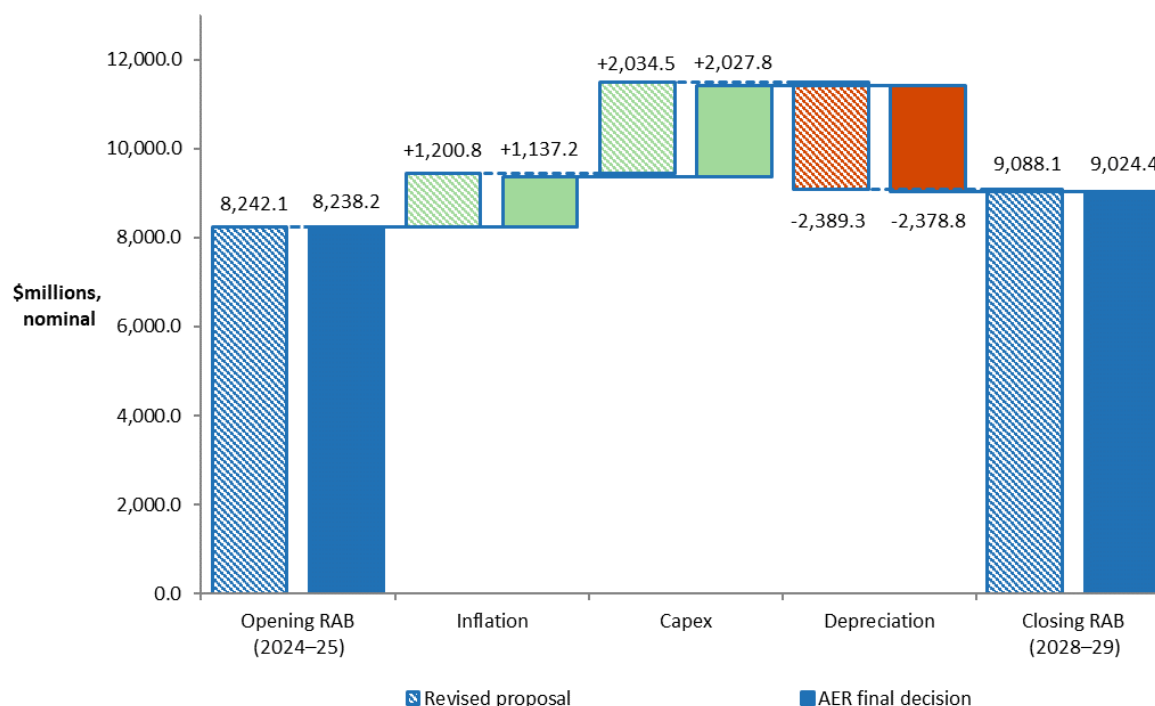
Source: AER analysis.

(a) Net of forecast disposals and capital contributions. In accordance with the timing assumptions of the PTRM, the capex includes a half-year WACC allowance to compensate for the six-month period before capex is added to the RAB for revenue modelling.

Figure 2.2 shows the key drivers of change in Endeavour's RAB value over the 2024–29 period for this final decision. Overall, the closing RAB value at the end of the 2024–29 period is forecast to be 10% higher than the opening RAB value at the start of that period, in nominal terms. The approved forecast net capex increases the RAB value by 25%, while expected inflation increases it by 14%. Forecast depreciation, on the other hand, reduces the RAB value by 29%.

<sup>21</sup> Capex enters the RAB net of forecast disposals. It includes equity raising costs (where relevant) and the half-year WACC to account for the timing assumptions in the PTRM. Therefore, our final decision on the forecast RAB also reflects our amendments to the rate of return for the 2024–29 period (section 2.2 of the Overview to this final decision).

**Figure 2.2 Key drivers of change in the RAB over the 2024–29 period—Endeavour’s revised proposal compared with the AER’s final decision (\$ million, nominal)**



Source: AER analysis.

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

Forecast net capex is a significant driver of the increase in the RAB. In our final decision, we confirm our position to approve Endeavour’s revised proposed forecast net capex of \$1,850.9 million (\$2023–24)<sup>22</sup> for the 2024–29 period as we are satisfied that this amount reasonably reflects the capex criteria. This is consistent with our draft decision, which was adopted by Endeavour in its revised proposal. Refer to section 2.4 of the Overview to this final decision for the discussion on forecast capex.

### 2.1.4 Application of depreciation approach in RAB roll forward for the next distribution determination

When we roll forward Endeavour’s RAB for the 2024–29 period at the next distribution determination, we must adjust for depreciation. For this final decision, we determine that the depreciation approach to be applied to establish Endeavour’s opening RAB at the commencement of the 2029–34 period will be based on the depreciation schedules (straight-line) using forecast capex at the asset class level approved for the 2024–29 period.<sup>23</sup> This approach is consistent with our draft decision. Further, this approach is consistent with our

<sup>22</sup> This amount is net of forecast disposals and capital contributions, and excludes the half-year WACC adjustment.

<sup>23</sup> NER, cl. 6.12.1(18).

*Framework and approach.*<sup>24</sup> Endeavour's revised proposal did not raise any issues with this approach.

As discussed in section 3 of the Overview to this final decision, we will also apply the CESS to Endeavour for the 2024–29 period. We consider that the CESS will provide sufficient incentives for Endeavour to achieve capex efficiency gains over that period. We are satisfied that the use of a forecast depreciation approach in combination with the application of the CESS and our other ex post capex measures are sufficient to achieve the capex incentive objective.<sup>25</sup>

## 2.2 Assessment approach

We did not change our assessment approach for the RAB from our draft decision. Attachment 2 (section 2.3) of our draft decision details that approach.<sup>26</sup>

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<sup>24</sup> AER, *Framework and approach: Ausgrid, Endeavour Energy and Essential Energy (New South Wales), Regulatory control period commencing 1 July 2024*, July 2022, p. 53.

<sup>25</sup> Our ex-post capex measures are set out in the capital expenditure incentive guideline. This guideline also sets out how all our capex incentive measures are consistent with the capex incentive objective. AER, *Capital expenditure incentive guideline for electricity network service providers*, April 2023, pp. 12–21.

<sup>26</sup> AER, *Draft decision: Endeavour Energy distribution determination 2024–29 – Attachment 2 – Regulatory asset base*, September 2023, pp. 6–11.

## Shortened forms

Term	Definition
ABS	Australian Bureau of Statistics
AER	Australian Energy Regulator
capex	capital expenditure
CESS	capital expenditure sharing scheme
CPI	consumer price index
NER	National Electricity Rules
PTRM	post-tax revenue model
RAB	regulatory asset base
RFM	roll forward model
RIN	regulatory information notice
WACC	weighted average cost of capital

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