

Key Assumptions underlying capital and operating expenditure forecasts

1.0 Key Assumptions

The National Electricity Rules (the rules) require the AER to make a constituent decision on whether to accept, or reject and substitute, the forecast capital expenditure (capex) and forecast operating expenditure (opex) that Endeavour Energy sets out in its building block proposal for standard control services. To enable the AER to make its constituent decision, Endeavour Energy's building block proposal must include the total forecast capex and forecast opex for the relevant regulatory control period which the Distribution Network Service Provider considers is required in order to achieve the capital and operating expenditure objectives.

Schedule 6.1.1 and Schedule 6.1.2 of the Rules require a DNSP's building block proposal to contain information and matters relating to capital expenditure and operating expenditure respectively. The purpose of this document is to meet the requirements of Schedule 6.1.1(4) and (5) relating to forecast capital expenditure, and Schedule 6.1.2 (5) and (6) relating to operating expenditure by identifying the key assumptions that underlie the capital and operating expenditure forecasts. We note that the certification of the reasonableness of the key assumptions by the directors of Endeavour Energy is an appendix to this attachment titled, "Directors' certification of key assumptions".

The term 'key assumption' is not a defined term in the Rules. Accordingly, we reviewed previous regulatory proposals submitted by DNSPs and regulatory determinations of the AER. Our review process indicated that there was a diverse range of approaches used to identify key assumptions. Our view is that a 'key assumption' could be best defined as a small number of high level assumptions relating to facts or circumstances, the truth or correctness of which underpins or is highly material to the expenditure forecasts.

Based on this reasoning, we have identified the following assumptions which we consider are highly material to our expenditure forecasts.

	Assumption
1	The Legal Entity, Ownership and Organisational Structure are those in place at the time forecasts are finalised.
2	The capital program has been prepared on the basis of the NSW Licence Conditions in place at the time forecasts are finalised.
3	Capex programs have been developed using a strategic management framework that prioritises expenditures for maintaining a safe, reliable and sustainable network.
4	Growth capital expenditure forecasts are derived from the spatial demand and customer connection forecasts adopted for the Regulatory Proposal.
5	Forecast internal labour costs and wage rate increases have been set based on the advice provided by an expert independent consultant BIS Oxford Economics provided to Endeavour Energy (on 29 September 2017)
6	The opex year 2017-18 has been adopted as the efficient base year for deriving a forecast of recurrent opex.
7	Endeavour Energy has engaged with stakeholders in developing its Regulatory Proposal in accordance with the stakeholder engagement process outlined in the National Electricity Rules and the AER's Customer Engagement Guideline.

2.0 Director Certification

Certification under clauses S6.1.1(5) and S6.1.2(6) of the National Electricity Rules

Directors Certification Statement

The undersigned *directors* certify that:

- In accordance with clause S6.1.1(5) of the *Rules* the key assumptions that underlie the capital expenditure forecast¹ set out in Section 1.0 of this document that forms part of Endeavour Energy's regulatory proposal to the AER are reasonable.
- In accordance with S6.1.2(6) of the *Rules*, the key assumptions that underlie the operating expenditure forecast² set out in Section 1.0 of this document that forms part of Endeavour Energy's regulatory proposal to the AER are reasonable.

Signed in accordance with the resolution of *directors*:



Kieran Zubrinich

19 APRIL 2018
Dated



Michael Cummings

24 APRIL 2018
Dated

¹ The key assumptions with respect to the capital expenditure forecasts are restated in Chapter 10.3.2 of the Regulatory Proposal (30 April 2018).

² The key assumptions with respect to the operating expenditure forecasts are restated in Chapter 11.3.2 of the Regulatory Proposal (30 April 2018)