AUSTRALIAN ENERGY REGULATOR

Final decision: Endeavour Energy 2019–24

We have made a final revenue determination for Endeavour Energy, the electricity distribution network operator for Sydney's greater west, the Blue Mountains, Southern Highlands, the Illawarra and South Coast. Our final decision allows Endeavour Energy to recover $4,201.2 million ($ nominal) in revenue from its customers over five years, from 1 July 2019 to 30 June 2024.

Estimated impact on customer bills ($ nominal)

The distribution network tariffs that will be set by reference to our final decision are only one contributor to electricity bills, and make up around 30 per cent of the total retail electricity bills Endeavour Energy's customers pay.

Under our final decision, the average annual electricity bill for a residential or small business customer on Endeavour Energy's network is estimated to be around 1.3 per cent lower by 30 June 2024 compared to the current 2018–19 level, holding all other components of the bill constant.

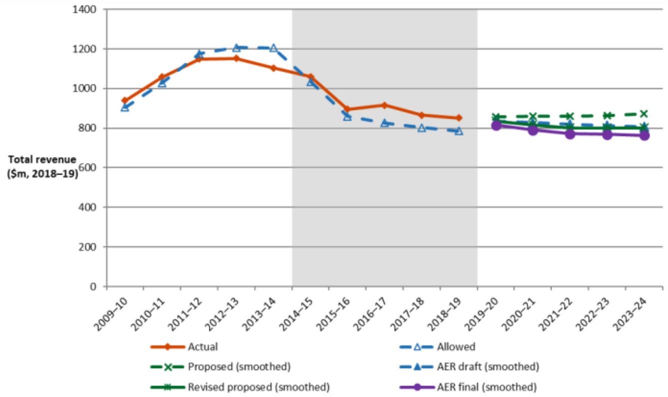
This suggests that the average annual electricity bill for a residential and small business customer on Endeavour Energy's network is estimated to be around $24 and $44 lower, respectively, by the end of the 2019–24 period.

Overview

The Australian Energy Regulator (AER) regulates Endeavour Energy's revenue by setting the total revenue it may recover from its customers.

Our final decision allows for a 9.3 per cent real reduction in Endeavour Energy's total revenue from the current period.

Endeavour Energy's past and proposed total revenue and AER final decision revenue allowance ($ million, 2018–19)



Our final decision is $211.7 million ($ nominal) lower than our draft decision, and $160.3 million ($ nominal) lower than Endeavour Energy's revised proposal.

Having assessed Endeavour Energy's revised regulatory proposal, we consider our final decision is justified as it:

- builds on the operational efficiencies Endeavour Energy has achieved in response to our lower approved revenues for the current period and locks in ongoing efficiency gains for future periods for the benefit of customers
- is balanced against the additional costs associated with servicing the high residential and infrastructure growth regions of Endeavour Energy's distribution area.

As well as increasing efficiency to drive lower costs, Endeavour Energy has improved its approach to consumer engagement. Its 2019–24 initial regulatory proposal was made following a period of engagement with consumers on how best to address the consumer priorities of affordability, reliability and safety. This engagement included a series of expenditure 'deep dive' workshops. However, some areas of contention identified by consumer groups in the course of this engagement remained once the initial proposal was lodged.

After its initial proposal was submitted to us, Endeavour Energy continued to engage with key stakeholders and us to understand and address concerns with its forecast increase in capital expenditure for the 2019–24 period. This culminated in Endeavour Energy submitting new information in response to that engagement, which included a reduced capital expenditure forecast in the weeks prior to our draft decision. We adopted this additional information in our draft decision as it better reflects the efficiency gains Endeavour Energy has achieved in the 2014–19 period.

Our final decision also incorporates the revenue impact of our 2014–19 remade final decision for Endeavour Energy (remittal). We remade our decision in September 2018, following receipt of Endeavour Energy's remittal proposal. Under that decision, Endeavour Energy will return to customers from 1 July 2019 approximately $242.3 million ($2018–19) over the 2019–24 period.

Rate of return and gamma

In December 2018, the National Electricity Law and National Gas Law were amended to require us to make a binding rate of return instrument (2018 Instrument). As a binding instrument, it sets out the methodology for calculating the rate of return. The method must be capable of automatic application to all regulated network service providers without the exercise of discretion.

The 2018 Instrument specifies the return on debt as a formula, being the trailing average portfolio approach, and requires a business that is not already using a trailing average to transition to it over a 10-year period that is in the future.

As required under the National Electricity Rules, we have applied the 2018 Instrument and estimate an allowed rate of return of 5.73 per cent (nominal vanilla). Our final decision also applies a gamma value (imputation credits) of 0.585, as per the 2018 Instrument.

Endeavour Energy's revised proposal adopted the 2018 Instrument.

Capital expenditure (capex)

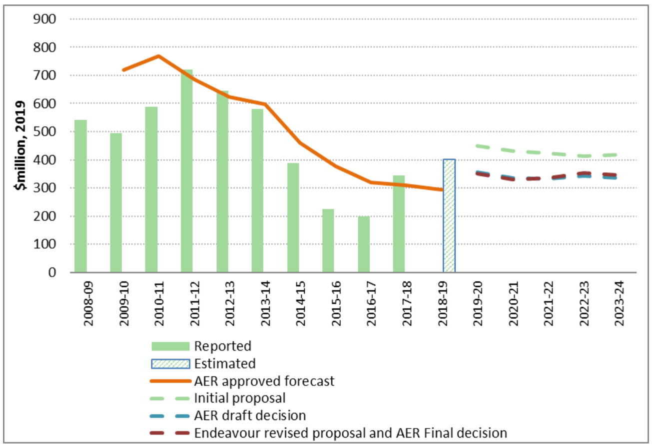
Capex — the capital costs and expenditure incurred in the provision of network services — mostly relates to assets with long lives, the costs of which are recovered over several regulatory periods.

Capex is added to Endeavour Energy's regulatory asset base (RAB), which is used to determine the return on capital and regulatory depreciation (return of capital) 'building block' allowances. All else being equal, higher forecast capex will lead to a higher projected RAB value and higher return on capital and regulatory depreciation allowances.

Our final decision on Endeavour Energy's revenue includes a total net capex forecast of $1,715.1 million ($2018–19) for 2019–24. This is 10 per cent higher than Endeavour Energy's actual and estimated net capex over the current period.

Our final decision accepts Endeavour Energy's revised total net capex forecast. We are satisfied that Endeavour Energy's revised total net capex forecast reasonably reflects the capex criteria and is consistent with the efficient costs that a prudent operator would incur in the 2019–24 period.

Endeavour Energy's past and proposed capex, and AER final decision capex allowance ($ million, 2018–19)



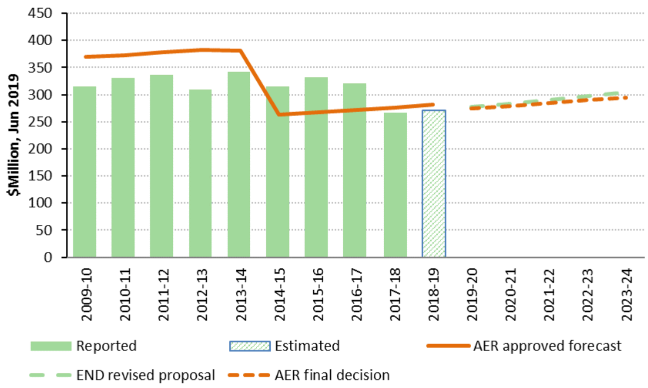
Operating expenditure (opex)

Opex refers to the operating, maintenance and other non-capital expenses incurred in the provision of network services.

Our final decision on Endeavour Energy's revenue includes a total forecast opex of $1,437.5 million ($2018–19) for 2019–24. This is 2.2 per cent lower than Endeavour Energy's revised proposal.

Our final decision did not accept Endeavour Energy's revised opex forecast as it did not include the minimum 0.5 per cent per year forecast opex productivity growth that we apply in our determinations.

Endeavour Energy's past and proposed opex, and AER final decision opex allowance ($ million, 2018–19)



For more information:

More information on our 2019–24 final decision and Endeavour Energy's revised proposal is on our website: www.aer.gov.au.