Certified Key Assumptions

2024-29 Regulatory Proposal

Endeavour Energy

POWER together

1. Key assumptions

The National Electricity Rules (NER) 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 2024-29 regulatory control period which we consider is required to achieve the capital and operating expenditure objectives.

Schedule 6.1.1 and Schedule 6.1.2 of the NER 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.

The term 'key assumption' is not a defined term in the NER. Accordingly, we reviewed previous regulatory proposals submitted by other 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 capex and opex assumptions which we consider are highly relevant and material to our expenditure forecasts.

1.1. Key capex assumptions

Key assumption	Description
Structure & ownership	Our capex forecasts are based on our current company structure and ownership arrangements.
Compliance requirements	Our capex forecast is based on achieving compliance with our legislative and regulatory obligations including the requirements set out in our NSW Ministerially imposed licence conditions which apply at the time of submitting our regulatory proposal.
Service classification	We will apply the service classification in the AER's Framework and Approach (F&A) paper and the current ring-fencing arrangements will not change materially.
Stakeholder and customer engagement	We have engaged with stakeholders and customers in developing our opex forecast in accordance with the AER's *Better Resets Handbook*. The preferences and expectations of participants revealed through our co-designed stakeholder engagement program accurately reflect those of our customers generally. Our capex forecasts have particular regard to the affordability of our services and appropriately respond to these concerns.
Service reliability	Our capex forecast reflects requirements to maintain the current average level of service reliability performance (which is distinct from resilience) across the network.
Asset management	Capex programs have been developed using a strategic risk-based value framework which optimises investment expenditure and timing to maximise value to our customers and communities. The scope of works selected for each capex category are appropriate to meet the capital expenditure objectives outlined in the NER.

Key assumption	Description
Growth capex	Our spatial demand forecasts provides an appropriate basis for our augmentation capex forecast and are adjusted to account for weather, energy efficiency improvements and the expected impacts of customer energy resources (CER). Forecast growth for residential and commercial connections has been prepared by the National Institute of Economic and Industry Research (NIEIR) and provides an appropriate basis for determining our connection capex forecast.
Replacement capex	Our approach to asset replacement conforms to the guidance on efficient and prudent asset retirement and de-rating decisions as detailed in the AER's *Asset replacement industry practice application note*. We have applied the AER's current approach of setting the Repex model threshold equal to the higher of the 'cost scenario' and the 'lives scenario'.
VCR and VaDER	Our cost benefit analysis applies the AER's latest Value of Customer Reliability (VCR) estimates. For export-related capex, we have applied the Value of Distributed Energy Resources (VaDER) methodology as guided by the AER's *DER integration expenditure guidance note*.
Unit costs	The unit rates and project costs applied in developing our capex forecast are representative of the efficient costs that will be incurred in the next regulatory period.
Price escalation	Our capex forecast does not include any real price increases for materials consistent with the AER's accepted approach.
Inflation	Our inflation forecasts have been derived by applying the AER's preferred approach as outlined in its *Regulatory treatment of inflation final position paper*.
Cost allocation	Our capex forecast is consistent with our capitalisation policy and our existing Cost Allocation Methodology (CAM) which provides the basis for attributing and allocating forecast capex to standard control services and other services.
Connections Policy	The AER will approve, and we will apply our Connections Policy.
Managing uncertainty	The AER will approve our nominated pass-through events, and we will not have any contingent projects.

1.2. Key opex assumptions

Key assumption	Description
Structure & ownership	Our opex forecasts are based on our current company structure and ownership arrangements.
Compliance requirements	Our opex forecast is based on achieving compliance with our legislative and regulatory obligations including the requirements set out in our NSW Ministerially imposed licence conditions which apply at the time of submitting our regulatory proposal.
Service classification	We will apply the service classification in the AER's Framework and Approach (F&A) paper and the current ring-fencing arrangements will not change materially.

Key assumption	Description
Stakeholder and customer engagement	We have engaged with stakeholders and customers in developing our opex forecast in accordance with the AER's *Better Resets Handbook*. The preferences and expectations of participants revealed through our co-designed stakeholder engagement program accurately reflect those of our customers generally. Our opex forecasts have particular regard to the affordability of our services and appropriately respond to these concerns.
Service reliability	Our opex forecast reflects requirements to maintain the current average level of service reliability performance (which is distinct from resilience) across the network.
Base year	We have applied the AER's revealed cost base-step-trend method to forecast opex that meets the operating expenditure objectives in the NER. 2022-23 has been adopted as the efficient base year with adjustments made to ensure it is representative of recurrent prudent and efficient future opex requirements. We will update our base year opex forecast for actual opex in our revised proposal consistent with the standard approach.
Trend factors	Our forecast changes in output growth are reasonable and reflect the trend in future opex given our adjusted base year. We have applied a productivity adjustment consistent with the AER's *Forecasting productivity growth for electricity distributors* final decision paper.
Price escalation	Our opex forecast does not include any real price increases for materials consistent with the AER's accepted approach. We have applied real cost escalation for labour based on the advice provided by expert independent consultant BIS Oxford Economics.
Inflation	Our inflation forecasts have been derived by applying the AER's preferred approach as outlined in its *Regulatory treatment of inflation final position paper.*
Cost allocation	Our opex forecast is consistent with our capitalisation policy and our existing Cost Allocation Methodology (CAM) which provides the basis for attributing and allocating forecast capex to standard control services and other services.
Managing uncertainty	The AER will approve our nominated pass-through events, and we will not have any contingent projects.

2. Director certification

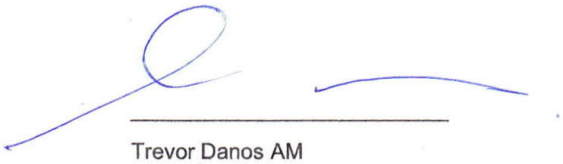
Certification under clauses S6.1.1(5) and S6.1.2(6) of the National Electricity Rules.

The undersigned Directors certify that:

- In accordance with clause S6.1.1.(5) of the NER, the key assumptions that underlie the capital expenditure forecast set out in section 1.1 of this document that forms part of Endeavour Energy's 2024-29 regulatory proposal to the AER are reasonable.
- In accordance with clause S6.1.2.(6) of the NER, the key assumptions that underlie the operating expenditure forecast set out in section 1.2 of this document that forms part of Endeavour Energy's 2024-29 regulatory proposal to the AER are reasonable.

Signed in accordance with the resolution of Directors:

David Bartholomew



Trevor Danos AM

Kieran Zubrinich

Bopha Ly

endeavourenergy.com.au

Endeavour Energy

POWER together