

# Endeavour Energy Cost Allocation Method

AER Final Decision

March 2025

© Commonwealth of Australia 2022

This work is copyright. In addition to any use permitted under the *Copyright Act 1968* all material contained within this work is provided under a Creative Commons Attributions 3.0 Australia licence with the exception of:

- the Commonwealth Coat of Arms
- the ACCC and AER logos
- any illustration diagram, photograph or graphic over which the Australian Competition and Consumer Commission does not hold copyright but which may be part of or contained within this publication.

The details of the relevant licence conditions are available on the Creative Commons website as is the full legal code for the CC BY 3.0 AU licence.

Inquiries about this publication should be addressed to:

Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601  
Tel: 1300 585 165

AER reference: #14436715

# Contents

<b>Shortened forms.....</b>	<b>4</b>
<b>1 Introduction .....</b>	<b>5</b>
1.1 Summary .....	5
1.2 Background.....	5
<b>2 Rule requirements and assessment.....</b>	<b>7</b>
2.1 Rule requirements.....	7
2.2 Assessment process .....	7
<b>3 Consistency with our Cost Allocation Guidelines .....</b>	<b>9</b>
3.1 Endeavour Energy CAM assessment.....	10

## Shortened forms

Table text heading	
AER	Australian Energy Regulator
CAM	Cost Allocation Method
Distributor, DNSP	Distribution Network Service Provider
NEL	National Electricity Law
NEM	National Electricity Market
Rules, NER	National Electricity Rules
Guidelines, Cost Allocation Guidelines	Distribution Cost Allocation Guidelines

# 1 Introduction

## 1.1 Summary

On 27 February 2025 Endeavour Energy submitted a Cost Allocation Method (CAM) to the AER for approval — see Appendix A to this paper. Endeavour Energy provides electricity distribution services in New South Wales (NSW). A CAM is used to separately account for the costs of providing electricity distribution services, including from other services the distributor might provide.

We have determined Endeavour Energy's proposed CAM:

- accords with the requirements of the National Electricity Law (NEL) and National Electricity Rules (the rules)
- gives effect to and is consistent with our Distribution Cost Allocation Guidelines (our guidelines).

Accordingly, we have approved Endeavour Energy's proposed CAM under clause 6.15.4(c) of the rules.

## 1.2 Background

The AER is responsible for regulating revenues of the electricity distribution businesses in NSW in accordance with the NEL and the rules. Chapter 6 of the rules provides further details on the economic regulation of electricity distribution services in NSW.

Cost allocation concerns attributing a regulated business' costs, or allocating shared costs, between distribution service categories and non-regulated business sections. The different services provided by Distribution Network Service Providers (DNSPs) are defined in the NEL and the rules. They are:

- direct control services, comprising:
  - standard control services
  - alternative control services
- negotiated distribution services
- unclassified, or unregulated, services.

In our distribution determinations we classify distributor services to the above categories based on factors specified by the rules. The prices DNSPs charge for the different categories of distribution services depend on the costs incurred in providing those services. It is therefore important that cost allocation between service classifications accurately and fairly represents costs incurred in providing those services. We rely upon historical and forecast costs allocated in accordance with an approved CAM to determine prices charged, or revenues raised, by distributors such as Endeavour Energy.

Distribution regulatory proposals, or the regulatory arrangements proposed by DNSPs to us for a particular regulatory control period, must comply with an approved CAM. The CAM subject to this decision paper will be used by Endeavour Energy to develop its distribution

regulatory proposals. Endeavour Energy will also use its CAM to report to us annually for its regulated distribution business.

Following our approval, Endeavour Energy's approved CAM will remain relevant to its regulatory accounts, reporting and regulatory proposals until we approve a further CAM variation.

## 2 Rule requirements and assessment

### 2.1 Rule requirements

For DNSPs:

- Clause 6.15.4(a) of the rules requires a DNSP to submit to us for approval a document setting out its proposed CAM.
- Clause 6.15.4(b) requires that a CAM give effect to and be consistent with our distribution guidelines.
- Clause 6.15.4(c) provides for us to approve or refuse to approve a CAM submitted under paragraph (a).
- Clause 6.15.4(f) provides for a DNSP to amend its CAM from time to time, subject to our approval.

### 2.2 Assessment process

Endeavour Energy informally submitted to the AER a draft of its amended CAM in early February 2025 for AER staff comment. Having reviewed Endeavour Energy’s amended CAM informally, AER staff advised Endeavour Energy that it may be formally submitted.

Amendments to Endeavour Energy’s CAM are limited to descriptive information about its ownership structure, and updates to its internal account keeping terminology and processes. An approved CAM is required by the NER to set out these details. From time to time, ownership or internal process changes occur and mean that an approved CAM can become out of date. Endeavour Energy’s amended CAM updates these details to ensure its approved CAM accurately reflects its actual circumstances.

For example, the amended CAM describes Endeavour Energy’s costs being recorded by “cost centre”, replacing “organisational unit”.<sup>1</sup> The amended CAM re-names divisions of Endeavour Energy as “safety and operations, business services and finance”, replacing “network services, customer and corporate services or finance”.<sup>2</sup>

The amended CAM updates references to “Ellipse Financial Management ... Enterprise Reporting Platform”, with “SAP is Endeavour Energy’s Enterprise Resources Planning (ERP) System”.<sup>3</sup>

The amended CAM also updates Endeavour Energy teams and staff positions responsible for CAM compliance. For example, responsibility for management review of several reporting areas is described as “head of group financial control”, replacing “financial controller”.<sup>4</sup>

Endeavour Energy did not propose changes to the CAM’s cost allocators, or cost drivers. This means the amended CAM will not impact time series data. There is no need for

---

<sup>1</sup> Endeavour Energy, amended CAM, February 2025, p.9.

<sup>2</sup> Endeavour Energy, amended CAM, February 2025, p.9.

<sup>3</sup> Endeavour Energy, amended CAM, February 2025, pp.9, 12.

<sup>4</sup> Endeavour Energy, amended CAM, February 2025, p.14.

Endeavour Energy to update any previously submitted information. The amended CAM will not affect our assessment of Endeavour Energy's future regulatory proposals.



### **3 Consistency with our Cost Allocation Guidelines**

This section sets out our assessment of Endeavour Energy’s proposed CAM against the requirements of our Cost Allocation Guidelines.

### 3.1 Endeavour Energy CAM assessment

The format and content of Endeavour Energy's CAM are regulated by NER chapter 6 and clause 3.2(a) of our Cost Allocation Guidelines. Table 1 compares Endeavour Energy's proposed CAM against the requirements of NER chapter 6 and clause 3.2(a).

**Table 1 CAM assessment table**

#### General obligations

Rules	Guidelines	Requirements	Addressed
<b>6.15.4(a)</b>	1.5, 3.1(a)	DNSP must develop a proposed CAM for submission to the AER	Compliant
<b>6.15.4(b)</b>	1.5, 3.1(b)	DNSP's proposed CAM must give effect to and be consistent with the CAG	Compliant
	5.4	DNSP must maintain current copy of approved CAM on its website	Compliant

#### Contents of Cost Allocation Method

Guidelines	Requirements	Addressed
<b>3.2(a)(1)</b>	Version number	Page 2
<b>3.2(a)(2)</b>	DNSP's commitment to history and date of issue	Page 2
<b>3.2(a)(3)</b>	Statement of nature, scope and purpose of document and way it is to be used	Sections 1.3 & 1.4
<b>3.2(a)(3)A</b>	Accountabilities for implementation	Section 3
<b>3.2(a)(3)B</b>	Responsibilities for updating, maintaining and applying document and for internally monitoring and reporting its application	Section 3
<b>3.2(a)(4)</b>	Description of corporate and operational structure	Sections 1.1 & 1.2
<b>3.2(a)(5)</b>	Specification of service categories and types of persons to whom services provided	Section 2.1

Guidelines	Requirements	Addressed
<b>3.2(a)(6)</b>	Principles and policies for attributing costs to, and allocating costs between, categories of distribution services in accordance with clause 2.2 of CAG	Appendix: Allocators
<b>3.2(a)(7)</b>	Description of how will maintain records of attribution and allocation	Section 3.3
<b>3.2(a)(8)</b>	Description of how will monitor compliance with CAM and Guidelines	Section 3.3
<b>3.2(a)(9)</b>	Commencement date	Page 4

### Cost allocation principles and policies

Rules	Guidelines	Requirements	Addressed
<b>6.15.2(1)</b>	2.2.1(a)	Include sufficiently detailed principles and policies for attributing costs to, and allocating costs between, categories of distribution services to enable: AER to replicate reported outcomes DNSP to demonstrate that it is meeting requirements	Compliant
	2.2.1(b)(1)	Include specified information on directly attributable costs to enable AER to replicate reported outcomes	Compliant
	2.2.1(b)(2)	Include specified information on shared costs to enable AER to replicate reported outcomes	Compliant
<b>6.15.2(2)</b>	2.2.2	Attribute costs directly to, or allocated costs between, categories of distribution services based on substance of underlying transaction or event not legal form	Compliant
<b>6.15.2(3)(i)</b>	2.2.3	Only directly attribute costs to categories of distribution services if they are directly attributable to the provision of the service	Compliant
<b>6.15.2(3)(ii)</b>	2.2.4	Allocate shared costs between categories of distribution services using an appropriate causal allocator, except to the extent that: Shared cost is immaterial Causal relationship cannot be established without undue cost or effort in which case may use non-causal allocator in specified circumstances	Compliant
<b>6.15.2(4)</b>		Clearly describe the cost allocation method, the reason for using it and the numeric quantity (if any) of the chosen allocator	Compliant

Rules	Guidelines	Requirements	Addressed
<b>6.15.2(5)</b>	2.2.5	Do not allocate the same cost more than once	Compliant
<b>6.15.2(6)</b>	2.2.6	Detailed principles, policies and approach used to attribute costs directly to, or allocated costs between, categories of distribution services must be consistent with the Distribution Ring Fencing Guidelines	Compliant
<b>6.15.2(7)</b>	2.2.7	Costs that have been attributed or allocated costs to distribution services must not be reattributed or reallocated to another service during the regulatory control period	Compliant