

# **Final Decision**

**Energex Electricity**

**Distribution Determination**

**2025 to 2030**

**(1 July 2025 to 30 June 2030)**

**Attachment 16**

**Alternative control services**

**April 2025**

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Inquiries about this publication should be addressed to:

Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601  
Email: [aerinquiry@aer.gov.au](mailto:aerinquiry@aer.gov.au)  
Tel: 1300 585 165

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### Amendment record

Version	Date	Pages
1	30 April 2025	10

# List of attachments

This attachment forms part of the Australian Energy Regulator's (AER's) final decision on the distribution determination that will apply to Energex for the 2025–30 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. Where an attachment has not been prepared, our draft decision reasons form part of this final decision. The final decision attachments have been numbered consistently with the equivalent attachments to our draft decision.

The final decision includes the following attachments:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 4 – Regulatory depreciation

Attachment 5 – Capital expenditure

Attachment 6 – Operating expenditure

Attachment 7 – Corporate income tax

Attachment 8 – Efficiency benefit sharing scheme

Attachment 13 – Classification of services

Attachment 14 – Control mechanisms

**Attachment 16 – Alternative control services**

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## 16 Alternative control services

This attachment sets out our final decision on prices Energex is allowed to charge customers for the provision of the following alternative control services: ancillary network services (ANS) and public lighting.

Alternative control services are customer specific, or customer requested services and so the full cost of the service is attributed to a particular customer, or group of customers, benefiting from the service.

We set service specific prices to provide a reasonable opportunity to the distributor to recover the efficient cost of each service from customers using that service. This is in contrast to standard control services where costs are spread across the general network customer base.

The final decision price lists can be found within the ANS and public lighting pricing models, consistent with our approach in the draft decision. Specifically in:

- Final Decision – Energex – 11.07 – Standardised ANS Model - April 2025 – Public
  - Refer to tabs – ‘AER Final Decision – Labour’ and ‘AER Final Decision – Services’
- Final Decision – Energex – 11.07a – ACS Security lighting pricing model - April 2025 – Public
  - Refer to tabs – ‘EGX – Security Lighting Services’
- Final Decision – Energex – 11.05 – ACS – Public Lighting Pricing Model – April 2025 – Public.
  - Refer to tab – ‘AER Final Decision’
- AER Final Decision - Energex - 11.05a - ACS Smart control pricing model - 2025-30 – public
  - Refer to tab – ‘AER Final Decision’

We also make a final decision on metering, which consistent with the draft decision is classified as a standard control service, in Attachment 20.

### 16.1 Ancillary network services

Ancillary network services are non-routine services provided to individual customers as requested. Our Framework and Approach (F&A) paper outlines several types of services that meet this broad definition.<sup>1</sup>

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<sup>1</sup> See AER, *Final framework and approach – Ergon and Energex 2025-30, July 2023*, p.8. Our F&A paper outlines several types of services that can be considered as meeting this broad definition such as network ancillary services, basic connection services and non-routine metering services.

Ancillary network services are charged to customers on a user-pays approach, and are charged on either a fee or quotation basis, depending on the nature of the service.

We determine price caps for fee-based services for the 2025–30 period as part of our determination, based on the cost inputs and the average time taken to perform each service. These services tend to be homogenous in nature and scope and can be costed in advance of supply with reasonable certainty, such as disconnections and special meter reads.

By comparison, prices for quoted services are based on the quantities of labour and materials required, with the quantities dependent on a particular task. Prices for quoted services are determined at the time of a customer's enquiry and reflect the individual requirements of the customer's service request. For this reason, it is not possible to list prices for quoted services in our decision. However, our final decision sets the maximum labour rates to be applied to quoted services.

### **16.1.1 Final decision**

Our final decision does not accept Energex's proposed prices for ancillary network services in the 2025-30 period, although we consider Energex's proposal (which largely accepted our draft decision, other than updates it made to its quoted service labour category rates) is largely reasonable. Our final decision makes mechanical updates to our draft decision, such as to account for actual inflation as of December 2024, as we noted we would do at the time of making our draft decision. It also amends Energex's proposed prices to address concerns we have with some of the proposed quoted service labour category rates.

#### **16.1.1.1 Fee-based and quoted services**

Our final decision does not accept Energex's proposal as submitted. Based on our analysis and updated inputs, our final decision is to:

- Not accept Energex's proposal to increase its labour rates for the following labour categories and to substitute them with our maximum efficient labour rate benchmarks:
  - Administrative (business hours and after hours)
  - Administrative (Quoted) (business hours and after hours)
  - Professional & Managerial (Quoted) (business hours)
  - Technical Service Person (Quoted) (business hours)
  - Supervisor (Quoted) (business hours)
  - Para Professional (Quoted) (business hours)
  - System Operator (Quoted) (business hours).
- Accept all other proposed labour rates, updated for inflation and labour escalators, given they are below our maximum efficient labour rates.
- Substitute Energex's proposed year one (2025–26) prices for fee-based services with our final decision prices for 2025–26, including for security lighting services (see our final decision ANS models).
- Substitute Energex's proposed X factors with our final decision X factors, including for security lighting services, which reflect our updated labour price growth forecasts (see our final decision ANS models).

- Not accept Energex’s proposal to change its service classification for supply abolishment services from alternative control services to standard control services and retain the associated fee-based charges.

#### **16.1.1.2 Form of control for ancillary network services and X factors**

Our final decision is to maintain our final F&A position to apply price caps to ancillary network services as the form of control.

Under a price cap form of control, we set a schedule of price caps for fee-based services and maximum labour rates for quoted services for the first year of the regulatory control period, 2025–26. For each year thereafter, we adjust the price caps and maximum labour rates for inflation, the X factor<sup>2</sup>, and any relevant adjustments. This mechanism is set out in greater detail in section 14.5.2 of Attachment 14 – Control mechanisms.

As ancillary network services have a high share of labour and labour-related inputs, we use labour price growth forecasts as the ancillary network services X factor. Consistent with our previous decisions, we derived the X factor by averaging wage price index growth forecasts from Deloitte (provided by the AER) and BIS Oxford Economics (provided by the distributor).<sup>3</sup>

Our final decision X factors for ancillary network services are set out in our final decision ANS models. As noted above, they reflect our updated labour price growth forecasts.

#### **16.1.2 Energex’s revised proposal**

Energex accepted our draft decision on fee-based services including security lighting in full.<sup>4</sup> It will no longer offer new security lighting installations from 1<sup>st</sup> July 2025.

Energex accepted our draft decision labour rates for fee-based services, but proposed adjustments to labour rates for its quoted services.<sup>5</sup>

Energex proposed to increase its labour category rates for quoted services to incorporate the results from its Enterprise Bargaining Agreement and other general employment conditions. Energex stated this was not reflected in the labour rates in its initial proposal. It noted an average increase of 15% relative to our draft decision base labour rates.<sup>6</sup>

Energex did not accept our draft decision that its supply abolishment services should remain as alternative control services. It maintained its view, proposed post the initial proposal, that the service classification for simple supply abolishment services should be changed to standard control services. It submitted this was for public safety reasons and to align with

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<sup>2</sup> Under the CPI–X framework, the X factor can be a measure of the real rate of change in prices from one year to the next. For ancillary network services, the X factor is the change in wage prices given that labour is the primary cost input for providing these services.

<sup>3</sup> For more detail on the reasons for this decision, see the discussion in section 6.4.2 of Attachment 6 – – *Final Decision Attachment 6 - Operating expenditure - Ergon Energy - 2025-30 Distribution revenue proposal - April 2025*.

<sup>4</sup> Energex, *2025-30 Revised Regulatory Proposal – November 2024*, p.108.

<sup>5</sup> Energex, *2025-30 Revised Regulatory Proposal – November 2024*, p.108.

<sup>6</sup> Energex, *2025-30 Revised Regulatory Proposal – November 2024*, p.108.

similar classification decisions that apply to distributors in Victoria and Tasmania.<sup>7</sup> Further detail on Energex’s proposal can be found in Attachment 13 – Classification of services.

### 16.1.3 Assessment approach

The regulatory framework for assessing alternative control services is less prescriptive than for standard control services. That is, there is no requirement to apply the building block model exactly as prescribed in Part C of the National Electricity Rules (NER).

On this basis, our approach involves an assessment of the efficient costs of providing ancillary network services. Labour costs are the major input in the cost build-up of prices for ancillary network services. Therefore, our assessment largely focuses on comparing Energex’s proposed labour rates against AER’s maximum total labour rates which we consider efficient.

Where Energex’s proposed labour rates exceed our maximum efficient labour rates, we apply our maximum efficient labour rates to determine prices. We follow this assessment process for services provided on a fee or quotation basis.

We also consider relevant stakeholder feedback raised throughout the consultation process and benchmark Energex’s proposed ancillary network services prices against its prices for the 2020–25 period and the prices of other distributors.

Where necessary, we seek further information from Energex to reconcile specific cost drivers and often benchmark these against other distributors.

We also make further adjustments to Energex’s ancillary network services prices where we consider it appropriate to do so.

### 16.1.4 Reasons for final decision

As stated above, we do not accept aspects of Energex’s revised proposal, namely Energex’s proposal to increase its labour rate for quoted services above our maximum efficient labour rate benchmarks. However, other than this, and some mechanical updates, we consider Energex’s revised proposal is largely reasonable. We note that for the 2025-30 regulatory period, we have escalated the prices for existing security lighting services by using CPI and an X factor.<sup>8</sup>

Section 16.1.4.1 discusses Energex’s proposal to increase its labour rates for its quoted service and our reasons for our final decision to not accept all of the proposed rates.

Section 16.1.4.2 discusses our final decision for Energex’s proposed service reclassification for supply abolishment services.

#### 16.1.4.1 Labour rates for quoted services

We do not accept Energex’s proposed changes to all of its labour rates for quoted services, as some of the labour rates are above our maximum efficient benchmark labour rates. For our final decision, we have adjusted Energex’s proposed labour rates for quoted services to

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<sup>7</sup> Energex, *2025-30 Revised Regulatory Proposal – November 2024*, p.113.

<sup>8</sup> Energex, *2025-30 Revised Regulatory Proposal – November 2024*, p.108.



our benchmark labour rates where the proposed rates are above our maximum efficient rates.

In its revised proposal, Energex updated its labour rate for all quoted services to include changes to wages and employment conditions under Energex's Enterprise Bargaining Agreement. Energex stated these cost inputs were not in its proposed base rates in its initial proposal.<sup>9</sup> Energex also applied a 52% labour on-cost factor for its labour rate for quoted services (compared to 46.5% for its labour rates for fee-based services) in its revised ANS model.<sup>10</sup> We calculated an average increase of 26% from our approved draft decision labour rates to these proposed quoted services labour rates (15.61% increase for all labour categories).

In response to our information request, Energex stated it was not prudent to factor in its potential Enterprise Bargaining Agreement increases to its labour cost in its initial proposal as it was still in the preliminary negotiating stage.<sup>11</sup>

We note Energex's explanation for its proposed increases in its labour rates for quoted services and that these were not included in its initial proposal as its Enterprise Bargaining Agreement had not been finalised. Our approach to examining these increases is to compare the proposed labour rates to our benchmarks rather than to examine the specific drivers.

We also note some of Energex's revised labour rates for its quoted services exceed our maximum efficient benchmark labour rates. We consider our maximum efficient benchmark labour rates are appropriate as they draw wage data from the energy sector where Energex operates.<sup>12</sup> Therefore, we do not accept Energex's proposed labour rates for quoted services that exceed our benchmark rate.

Specifically, for our final decision, we do not accept Energex's proposed labour rates for the following labour categories for quoted services and substitute them with our maximum benchmark labour rates:

- Administrative (business hours and after hours)
- Administration (Quoted) (business hours and after hours)
- Professional & Managerial (Quoted) (business hours)
- Technical Service Person (Quoted) (business hours)
- Supervisor (Quoted) (business hours)
- Para Professional (Quoted) (business hours)
- System Operator (Quoted) (business hours).

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<sup>9</sup> Energex, *2025-30 Revised Regulatory Proposal – November 2024*, p.108.

<sup>10</sup> Energex, *Energex – 11.07 ACS Ancillary Services Model 2025-30 – November 2024 – Public*, 'Input\Indirect Cost Rates'D11.

<sup>11</sup> Energex, *Information Request EGX#056 – Increase in labour rate on-costs for quoted services*, received 12 December 2024

<sup>12</sup> For more details on how we develop our maximum benchmark labour, see section 16.1.4.1 of our draft decision: *Draft Decision – Energex Electricity Distribution Determination 2025 to 2030*

For all other labour categories for quoted services, we accept the proposed labour rates as they are below our maximum benchmark labour rates.

We note there is an average decrease of 3.68% in Energex's final decision labour rates compared to its revised proposal, after adjusting the price caps and maximum labour rates for inflation, the X factor<sup>13</sup>, and any relevant adjustments.

We also note that there is an average increase of 8.69% in Energex's final decision labour rates (all labour categories) compared to the draft decision rates. This in part reflects the Enterprise Agreement changes incorporated in the revised proposal by Energex in the quoted labour rates (which we have benchmarked against our maximum efficient rates).

#### **16.1.4.2 Supply abolishment services**

Our final decision is not to accept Energex's proposed change to its supply abolishment service classification from alternative control services to standard control services. This is because we do not consider Energex has sufficiently demonstrated that there has been a material change in circumstances since the final F&A. This decision and our reasons are set out in Attachment 13 – Classification of services. As a result, we have retained the associated fee-based charges for supply abolishment services and included these in the ANS pricing model.

## **16.2 Public lighting**

Public lighting services include the provision, construction, and maintenance of public lighting assets. This definition includes new technologies such as energy-efficient light emitting diode (LED) luminaires and emerging public lighting technologies such as smart-enabled luminaires.<sup>14</sup>

The main customers of public lighting services are local government councils and jurisdictional main roads departments.

There are a number of different tariff classes and prices for public lighting services. Factors influencing prices for a particular installation include which party is responsible for capital provision, and which party is responsible for maintaining and/or replacing installations.

### **16.2.1 Final decision**

Our final decision is to not accept Energex's revised proposal prices for public lighting services in the 2025-30 period as submitted. However, we consider Energex's public lighting proposal, which made various updates, including to reflect actual capital expenditure (capex), is largely reasonable. Our final decision makes mechanical updates to our draft decision and Energex's revised proposal, such as to account for actual inflation as of December 2025 and to update for actuals, as we noted we would do at the time of making our draft decision.

We have updated our draft decision, and Energex's revised proposal, to apply our final decision inputs on labour price growth, the weighted average cost of capital (WACC) and

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<sup>13</sup> Under the CPI-X framework, the X factor can be a measure of the real rate of change in prices from one year to the next. For ancillary network services, the X factor is the change in wage prices given that labour is the primary cost input for providing these services.

<sup>14</sup> AER, *Final Framework and Approach - Ergon and Energex 2025-30*, July 2023, p. 36.

inflation / consumer price index (CPI). These are updated, amongst other reasons, for consistency with other aspects of our final decision on Energex’s regulatory proposal (see section 16.2.4.1 where these updates are outlined). We applied these updated inputs into the public lighting models, resulting in minor adjustments to Energex’s revised proposal public lighting prices. We also examined Energex’s proposal to update its capex for 2022–23 and 2023–24 to reflect actual capex and considered this was reasonable.

Our final decision public lighting prices for 2025–26 and X factors are set out in the final decision public lighting model (except for smart controls which are set out in a separate model and are discussed below).<sup>15</sup> The final decision prices for 2025–26 are on average 7.85% higher than the draft decision and 1.43% higher than Energex’s revised proposal prices. For subsequent years of the regulatory control period, prices are updated by the X factor and CPI following the control mechanism formula.<sup>16</sup>

Our final decision does not include prices for smart controls for 2025–26 because this service will not be introduced until 2026–27. However, we have set a price cap in our annual pricing proposal for the year 2025–26. We will determine Energex’s smart control prices for 2026–27 during our annual pricing proposal process using the final decision prices (the price cap for 2025–26) in the smart lighting model after updating for actual CPI.<sup>17</sup> Our final decision sets the X factor at zero for smart controls for the 2025–30 period.

## 16.2.2 Energex’s revised proposal

Energex’s revised proposal updated its public lighting prices by applying the most recent rate of return, labour rates and actual information for capex in 2022–23 and 2023–24.<sup>18</sup>

In its revised proposal, Energex updated its public lighting models by updating its capex actuals for 2022–23 and 2023–24. Energex identified the public lighting models submitted in its initial proposal did not include 2022–23 actual capex but rather used its forecast capex for the year.<sup>19</sup>

Energex noted its actual 2022–23 capex significantly exceeded its forecast capex due to the acceleration of the conversion of mercury vapour lights to LEDs, which continued into 2023–24. Further, Energex noted that the higher than forecast spend increased its projected opening public lighting asset base and consequently impacted Energex’s revised proposed prices for public lighting.<sup>20</sup>

However, Energex also noted these increases in prices were partially offset by its revised WACC and labour rates.

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<sup>15</sup> AER, *Final Decision - Energex - 11.05 - ACS Public lighting pricing model 2025 -30 – Public*, ‘AER Final Decision’!C4:E4 and ‘AER Final Decision’!C10:C23.

<sup>16</sup> The prices are determined by a price cap control mechanism that adjusts prices for inflation, an X factor and any relevant adjustments.

<sup>17</sup> See our final decision excel workbook: AER Final Decision - *Energex - 11.05a - ACS Smart control pricing model 2025 - 30 – public*, ‘AER Final Decision’!D5:G5.

<sup>18</sup> Energex, *2025-30 Revised Regulatory Proposal – November 2024*, p.106.

<sup>19</sup> Energex, *2025-30 Revised Regulatory Proposal – November 2024*, p.106.

<sup>20</sup> Energex, *2025-30 Revised Regulatory Proposal – November 2024*, p.106.

Overall, it estimated the impact of these changes was an increase of 15% in prices for 2025–26 followed by an average annual 3% decrease for the remaining four years of the 2025–30 control period.<sup>21</sup>

### 16.2.3 Assessment approach

To determine efficient prices for Energex’s public lighting services we assess its public lighting models, consider historical data, and benchmark proposed costs against other distributors, and against independent data and information as relevant. Specifically, we assess proposed labour price growth rates, other input assumptions and stakeholder submissions.

We also engage Energex through information requests to clarify and potentially resolve outstanding issues.

We update model parameters where appropriate after taking the factors described above into consideration.

We also benchmark Energex’s proposed prices against the prices of the other distributors in the NEM.

### 16.2.4 Reasons for final decision

Our final decision is to not accept Energex’s revised proposal for public lighting. While we accept most aspects of Energex’s public lighting proposal, we updated the labour price growth escalators, the rate of return and inflation inputs. These update its revised proposal prices to maintain consistency with other aspects of the final decision on Energex’s revised proposal.

We also accept Energex’s proposal to update its 2022–23 capex and 2023–24 capex to actuals in its public lighting models. The actual capex Energex included in its revised proposal public lighting model reflects its actual capex as reported in its annual Regulatory Information Notices.

#### 16.2.4.1 Labour escalators, rate of return and inflation

We updated the following inputs into Energex’s public lighting model. These updates are consistent with our final decision on other relevant aspects of Energex’s revised regulatory proposal.

##### Labour Escalators

Our final decision substitutes the labour escalators in Energex’s revised proposal public lighting model with those consistent with our final decision on Energex’s opex (see Attachment 6).

##### Rate of Return

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<sup>21</sup> Energex, *2025-30 Revised Regulatory Proposal – November 2024*, p.106.

Our final decision substitutes the rate of return (WACC) inputs in Energex’s revised proposal public lighting model to be consistent with our final decision on Energex’s rate of return (see Attachment 3).

### **Inflation**

Our final decision substitutes the forecast inflation input for the 2025–26 year in Energex’s revised proposal public lighting model with the ABS actual inflation for December 2024,<sup>22</sup> consistent with our final decision on Energex’s control mechanisms (see Attachment 14).

#### **16.2.4.2 Introducing new services during a regulatory control period**

Our final decision, consistent with our draft decision, is that Energex must price any new public lighting services it introduces during the 2025–30 period according to the control mechanism for quoted services. Energex should only introduce new services because customers want them (i.e. they should be customer driven). In proposing new services, we require that Energex demonstrates customer support for such prices and services. This applies to Energex’s proposal to introduce smart lighting as a quoted service for the 2025–30 period.

We consider this is consistent with our previous distribution determinations. We stated new alternative control services introduced during a regulatory control period with characteristics that are the same or essentially the same as other alternative control services should be priced as a quoted service until the next regulatory control period (see Attachment 14 section 14.5.3).

It is worth considering that quoted services generally apply to one-off services. The control mechanism poses no administrative issues where, for example, a council agrees to pay for the installation of new technologies up-front.

However, some councils may prefer to pay for new technologies over their economic or useful life. We consider this is possible under the control mechanism for quoted services.

This could involve determining the up-front costs based on the control mechanism formula as a first step. The distributor would then calculate an annual fee using a method appropriate to the service. We consider a building block approach using Energex’s public lighting model is reasonable for this purpose.

Further information about quoted services and introducing new prices within the 2025–30 period is set out in see Attachment 14 section 14.5.3.

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<sup>22</sup> <https://www.abs.gov.au/statistics/economy/price-indexes-and-inflation/consumer-price-index-australia/latest-release#data-downloads> (accessed April 2025)

## Shortened forms

Term	Definition
ACS	Alternative Control Services
AER	Australian Energy Regulator
ANS	Ancillary network services
Capex	Capital expenditure
CPI	Consumer Price Index
Distributor	Distribution Network Service Provider
EQL	Energy Queensland
F&A	Framework and Approach
LED	Light Emitting Diode
NER or the rules	National Electricity Rules
Opex	Operating and maintenance expenditure
PTRM	Post-Tax Revenue Model
RAB	Regulatory Asset Base
RBA	Reserve Bank of Australia
RIN	Regulatory Information Notice
WACC	Weighted Average Cost of Capital