FINAL DECISION
Ergon Energy determination 2015–16 to 2019–20

Attachment 14 – Control mechanisms

October 2015

AUSTRALIAN ENERGY REGULATOR

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Note

This attachment forms part of the AER's final decision on Ergon Energy's 2015–20 distribution determination. It should be read with all other parts of the final decision.

The final decision includes the following documents:

Overview

Attachment 1 – Annual revenue requirement

Attachment 2 – Regulatory asset base

Attachment 3 – Rate of return

Attachment 4 – Value of imputation credits

Attachment 5 – Regulatory depreciation

Attachment 6 – Capital expenditure

Attachment 7 – Operating expenditure

Attachment 8 – Corporate income tax

Attachment 9 – Efficiency benefit sharing scheme

Attachment 10 – Capital expenditure sharing scheme

Attachment 11 – Service target performance incentive scheme

Attachment 12 – Demand management incentive scheme

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Attachment 14 – Control mechanism

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Attachment 17 – Negotiated services framework and criteria

Attachment 18 – Connection policy

Contents

Shortened forms

Shortened form	Extended form
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
augex	augmentation expenditure
capex	capital expenditure
CCP	Consumer Challenge Panel
CESS	capital expenditure sharing scheme
CPI	consumer price index
DRP	debt risk premium
DMIA	demand management innovation allowance
DMIS	demand management incentive scheme
distributor	distribution network service provider
DUoS	distribution use of system
EBSS	efficiency benefit sharing scheme
ERP	equity risk premium
Expenditure Assessment Guideline	Expenditure Forecast Assessment Guideline for electricity distribution
F&A	framework and approach
MRP	market risk premium
NEL	national electricity law
NEM	national electricity market
NEO	national electricity objective
NER	national electricity rules
NSP	network service provider
opex	operating expenditure
PPI	partial performance indicators

Shortened form	Extended form
PTRM	post-tax revenue model
RAB	regulatory asset base
RBA	Reserve Bank of Australia
repex	replacement expenditure
RFM	roll forward model
RIN	regulatory information notice
RPP	revenue and pricing principles
SAIDI	system average interruption duration index
SAIFI	system average interruption frequency index
SLCAPM	Sharpe-Lintner capital asset pricing model
STPIS	service target performance incentive scheme
TAR	total annual revenue
WACC	weighted average cost of capital

14 Control mechanisms for standard control services

A control mechanism imposes limits over the prices of direct control services and/or the revenues that a distribution network service provider can recover from customers. For standard control services, the NER requires the control mechanism be of the prospective CPI–X form (or some incentive-based variant).[1]

This attachment sets out the revenue cap formulae as the control mechanism for Ergon Energy's standard control services for the 2015–20 regulatory control period. It discusses:

- how we will apply the revenue cap
- how we will determine compliance with the price controls[2]
- the mechanism through which Ergon Energy will recover distribution use of system (DUoS) charges—including adjustments for revenue under or over recovery—in the 2015–20 regulatory control period[3]
- how Ergon Energy must report to us on its recovery of designated pricing proposal charges and jurisdictional scheme amounts[4]
- the procedures Ergon Energy must apply for assigning or reassigning retail customers to tariff classes.[5]

The control mechanisms applying to Ergon Energy's alternative control services are set out separately in attachment 16.

14.1 Final decision

Our final decision for Ergon Energy is as follows:

- The control mechanism for standard control services is a revenue cap.[6]
- Section 14.4.5 contains the revenue cap formulae that give effect to the control mechanism for standard control services.[7] The revenue cap for any given regulatory year is the total annual revenue, or TAR, for standard control services calculated using the formula in Figure 14.1.

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1 NER, cl. 6.2.6(a).
2 NER, cl. 6.12.1(13).
3 NER, cl. 6.12.1(11).
4 NER, cll. 6.12.1(19), 6.12.1(20).
5 NER, cl. 6.12.1(17).
6 AER, *Final framework and approach for Energex and Ergon Energy: Regulatory control period commencing 1 July 2015*, April 2014, p. 52, Ergon Energy, *Regulatory proposal (revised) 2015 to 2020*, 3 July 2015, p. 38. (Ergon Energy, *Revised regulatory proposal*, July 2015).
7 NER, cl. 6.12.1(11).

- The side constraints applying to the price movements of each Ergon Energy tariff class must be consistent with the formula in Figure 14.2.
- Ergon Energy must demonstrate compliance with the control mechanism for standard control services in accordance with Figure 14.1—including adjustments for DUoS revenue under or over recovery in accordance with appendix A of this attachment.
- Ergon Energy must submit as part of its annual pricing proposal, a record of the amount of revenue recovered from designated pricing proposal charges and associated payments in accordance with appendix B of this attachment.[8]
- Ergon Energy must report to us its jurisdictional scheme amounts recovery in accordance with appendix C of this attachment.
- Appendix D of this attachment specifies the procedures Ergon Energy must apply in assigning retail customers to tariff classes or reassigning retail customers from one tariff class to another.

14.2 Ergon Energy's revised proposal

Ergon Energy did not accept our preliminary decision on the control mechanism for standard control services.[9] It disagreed with the:

- revenue cap formula
- revenue under and over recovery mechanism for DUoS charges, including the preliminary decision not to apply tolerance limits
- approach for recovering jurisdictional scheme amounts
- principles for assigning and reassigning customers to tariff classes.[10]

With respect to the application of the revenue cap formulae, Ergon Energy considered the:[11]

- rewards or penalties associated with its performance under the service target performance incentive scheme should be included as an amount in the I factor
- B factor include DUoS revenue under or over recovery adjustments
- C factor include a provision to address any 'other' one-off revenue adjustments that may occur during the regulatory control period.

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8 We referred to this as the 'TUoS unders and overs account' in previous distribution determinations. In this final decision, we use the term 'designated pricing proposal charges' to reflect the wording of the NER (cl 6.12.1(19)).

9 Ergon Energy, *Revised regulatory proposal*, July 2015, pp. 38–47.

10 Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, pp. 24–25.

11 Ergon Energy, *Revised regulatory proposal: 04.01.00–Compliance with control mechanisms*, July 2015, pp. 7–10; Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, pp. 25, 29–32.

14.3 AER's assessment approach

Our final framework and approach (final F&A) set the control mechanism for standard control services as a revenue cap.[12] The basis of the revenue cap must be of the prospective CPI–X form (or some incentive based variant).[13]

In determining the control mechanism for standard control services, we considered the factors in clause 6.2.5(c) of the NER for each revenue adjustment mechanism and its application.

Our final F&A set out a generic formula to give effect to the control mechanism for standard control services.[14] The generic formula requires parameters that need to be specified with more precision in order to be implemented. This final decision clarifies our position regarding the control mechanism formula and its respective parameters.

14.4 Reasons for final decision

This section discusses the reasons for our final decision for each component of the revenue cap control mechanism, including the reporting on designated pricing proposal charges and jurisdictional scheme amounts.

14.4.1 Application of the revenue cap

Total annual revenue

The revenue cap for any given regulatory year is the total annual revenue (TAR) for standard control services. Figure 14.1 contains the revenue cap formulae.

Intra-period adjustment to the weighted average cost of capital

As per our preliminary decision, changes to the TAR resulting from the trailing average cost of debt update will be implemented through annual revisions to the X factors. Further discussion on this adjustment can be found in attachment 3—rate of return—which discusses the WACC annual adjustment and attachment 1—annual revenue requirement—which details issues relating to X factors.

Incentive scheme adjustments (I factor)

The I factor will include the final carryover amount from the conclusion of the demand management incentive scheme (DMIS) applied to Ergon Energy in the 2010–15

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12 AER, *Final framework and approach for Energex and Ergon Energy: Regulatory control period commencing 1 July 2015*, April 2014, p. 74.

13 NER, cl. 6.2.6(a).

14 AER, *Final framework and approach for Energex and Ergon Energy: Regulatory control period commencing 1 July 2015*, April 2014, pp. 91–92.

regulatory control period.[15] This amount is not known at the time of making the final decision and must therefore be applied via the control mechanism. Specifically, the DMIS adjustment includes:

- any amount of the allowance unspent or not approved by the AER over the period
- the time value of money accrued or lost as a result of the expenditure profile selected by the distributor.[16]

This adjustment will be calculated by Ergon Energy using the method set out in the DMIS and added or deducted from the TAR in its 2016–17 pricing proposal. We will approve these amounts as part of our assessment of that pricing proposal.

However, we do not accept Ergon Energy's proposal to include in the I factor any amount related to service target performance incentive scheme rewards or penalties.[17] Although Ergon Energy considered that adjusting revenue by a dollar amount is administratively simple,[18] this approach is inconsistent with the service scheme. The scheme states that the TAR will be adjusted by an S factor, expressed as a *percentage change* in revenue, which is incorporated into the control mechanism.[19] Specifically, it states:

> The *s-factor* is added to the control mechanism in the following way. The *s-factor* is incorporated into the general form of a control mechanism as another multiplier, alongside the *CPI* minus X adjustments to the revenue…[20]

Therefore, consistent with the scheme, our final decision is to include an S factor in the revenue cap formulae such that a percentage adjustment, rather than a dollar adjustment, will be made to the total annual revenue.[21]

Ergon Energy also considered there was some uncertainty in how the true-up of revenue adjustments from the service scheme would be accounted for across regulatory years.[22] This was part of Ergon Energy's reasoning for including a one-off

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15 AER, *Preliminary decision: Ergon Energy determination 2015–16 to 2019–20: Attachment 14–Control mechanism*, April 2015, p. 8; Ergon Energy, *Revised regulatory proposal*, July 2015, pp. 39–40; Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing,* 24 July 2015, p. 31.

16 AER, *Demand management incentive scheme: Energex, Ergon Energy and ETSA Utilities 2010–15*, October 2008, p. 17.

17 Ergon Energy, *Revised regulatory proposal*, July 2015, pp. 39–40; Ergon Energy, *Revised regulatory proposal: 04.01.00–Compliance with control mechanisms*, July 2015, pp. 8–9; Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, pp. 25, 30–32.

18 Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, p. 30.

19 AER, *Electricity distribution network service providers: Service target performance incentive scheme: Appendix C*, November 2009, p. 32.

20 AER, *Electricity distribution network service providers: Service target performance incentive scheme: Appendix C*, November 2009, p. 32.

21 AER, *Preliminary decision: Ergon Energy determination 2015–16 to 2019–20: Attachment 14–Control mechanism*, April 2015, p. 8.

22 Ergon Energy, *Revised regulatory proposal*, July 2015, pp. 39–40; Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, p. 25.

adjustment component in the C factor—discussed below. However, the service scheme's method for calculating the S factor already accounts for true-up adjustments from one regulatory year to the next, including across regulatory control periods. Therefore, no additional adjustment of the kind sought by Ergon Energy is required to address service scheme related adjustments.

The service target performance incentive scheme applying to Ergon Energy in the 2015–20 regulatory control period is discussed in attachment 11 ─ STPIS.

The Queensland Farmers' Federation stated we should specifically investigate Ergon Energy's proposed carryovers from incentive schemes.[23] We consider our ongoing assessment of the distributors' performance against the schemes already includes an appropriate level of investigation. We also consider our final decision on the application of the I factor and S factor will provide stakeholders with transparency of carryover amounts which will be included in Ergon Energy's annual pricing proposals.

Annual adjustments (B factor)

As per our preliminary decision, the B factor will include adjustments to true-up any under or over recovery of revenues in respect of capital contributions and shared assets in 2013–14 and 2014–15.[24] We note this adjustment relates to obligations under the transitional rules.[25]

We have also amended the B factor since our preliminary decision to include the true-up of any under or over recoveries of revenue related to DUoS charges. However, we do not accept Ergon Energy's contention that tolerance limits should also apply to this adjustment. Nor do we accept its proposed alternative method to calculate this adjustment if we do not accept the proposed inclusion of tolerance limits. These issues are discussed below.

We have also amended the method to calculate the DUoS unders and overs account due to its outcomes being included in the B factor and no application of tolerance limits. The amended DUoS unders and overs account is detailed in appendix A of this attachment.

DUoS revenue under and over recovery adjustments

Our preliminary decision to exclude the DUoS revenue under and over recovery in the B factor was to ensure consistency with the approach in the 2010–15 regulatory control

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23 Queensland Farmers' Federation, *Submission to Australian Energy Regulator (AER) on the Ergon Energy regulatory proposal (revised) 2015–2020*, 24 July 2015, p. 3.

24 AER, *Preliminary decision: Ergon Energy determination 2015–16 to 2019–20: Attachment 14–Control mechanism*, April 2015, p. 9.

25 Ergon Energy, *Regulatory proposal 2015-20: Attachment 04.01.00: Compliance with Control Mechanisms,* 31 October 2014, pp. 8, 19–20; NER, cll 11.16.10, 11.16.3.

period.[26] However, we acknowledge this approach potentially reduces transparency in the process for setting prices. This occurs because the calculated TAR is not the total amount of revenue Ergon Energy is allowed to recover from customers. In practice the total amount of revenue would be determined by the calculated TAR *plus* an adjustment for the amount calculated in the DUoS unders and overs account. Such an approach can mislead customers and stakeholders, as it is not transparent as to why Ergon Energy is allowed to recover more revenue than the TAR. We note the Queensland Farmers' Federation indicated a desire for greater transparency in the recovery of under or over recovered revenues from DUoS charges.[27]

To overcome this issue, we requested Ergon Energy to include an additional DUoS factor in the revenue cap formula in its 2015–16 pricing proposal to make this adjustment to the TAR.[28] However, for our final decision we consider a more transparent approach is to include the amount calculated in the DUoS unders and overs account in the TAR via the B factor. Because the latter is a subset of the former, this ensures the published TAR is the total amount of revenue Ergon Energy is allowed to recover from its customers.[29]

Wrapping the DUoS revenue under and over recovery into the B factor mechanism is consistent with our final F&A.[30] Appendix A of this attachment sets out the method in which to calculate the under or over recovery amount to be included in the B factor.

Tolerance limits

As per our preliminary decision, we do not accept Ergon Energy's proposal to apply tolerance limits in the DUoS unders and over account in the 2015–20 regulatory control period.[31] We consider the risks of applying tolerance limits (delayed price shocks and reduced cost reflectivity in prices) outweigh the benefits (potentially smoother prices).

Tolerance limits are boundaries may apply within the DUoS unders and overs account. They determine how much under or over recovered revenue can be immediately passed through to customers in a regulatory year and how much can be deferred to be recovered in a later year/s. Tolerance limits potentially smooth price shocks that may occur due to volume risk and may also offer flexibility to attain price stability.

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26 AER, *Final decision: Queensland distribution determination 2010–11 to 2014–15*, May 2010, pp. 26–27.

27 Queensland Farmers' Federation, *Submission to Australian Energy Regulator (AER) on the Ergon Energy regulatory proposal (revised) 2015–2020*, 24 July 2015, p. 3.

28 AER, Letter to Ergon Energy: Response to letter 8 May 2015 in regard to our recent preliminary decision for Ergon Energy, 20 May 2015.

29 The TAR is published in the annual pricing proposal.

30 AER, *Final framework and approach for Energex and Ergon Energy: Regulatory control period commencing 1 July 2015*, April 2014, p. 74.

31 Ergon Energy, Revised regulatory proposal, July 2015, p. 43; Ergon Energy, *Revised regulatory proposal: 04.01.00–Compliance with control mechanisms*, July 2015, p. 13; Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, pp. 26–27.

However, tolerance limits can result in large under or over recoveries accumulating during the regulatory control period. This can lead to large end-of-period adjustments to eliminate or reduce the account balance. This occurred in Queensland where the consistent under recovery led to hundreds of millions in the account balance.

This outcome is undesirable because of the material flow on effects in future regulatory years where the under recovered revenues must eventually be recovered from customers—via higher prices. Therefore, we have adopted our final decision approach for the following reasons.

First, the application of tolerance limits have not eliminated price shocks but merely delayed them. Our final decision has made provision in the Queensland distributors' annual revenue requirement over the 2015–20 regulatory control period to allow them to recoup accumulated under recoveries totalling hundreds of millions of dollars. Given the materiality of this under recovery and the subsequent increase in revenue, customers will incur higher tariffs over the 2015–20 regulatory control period than if the tolerance limits had not previously applied.[32]

Second, as per our preliminary decision, we consider that tolerance limits reduce the cost reflectivity of tariffs. Ergon Energy stated that cost reflectivity of tariffs should be considered over the long term and not necessarily the cost of supply in each individual year.[33] It considered the application of tolerance limits allows this long term cost reflectivity. However, we consider the application of tolerance limits reduces the cost reflectivity of tariffs both in the short term and the long term.

Cost reflective tariffs allow more reliable price signals to be sent to customers about their use of the network. That is, customers when faced with appropriate price signals can make more informed decisions about how they use the network. However, the greater distortion in price signals lessens customers' ability to make these informed decisions. As stated in our preliminary decision, this outcome is not consistent with the NER requirement that tariffs minimise distortions to price signals for efficient usage.[34]

In the short term, the cost reflectivity of tariffs is reduced as they include more than the cost of supply Ergon Energy requires for operating its network over the 2015–20 regulatory control period. This occurs because a distributor's revenues and subsequently its tariffs are based on the sum of the building block costs for each year of a regulatory control period. However, the tariffs over the 2015–20 regulatory control period will also include some of the building block costs from the 2010–15 regulatory control period in the form of the under recovered revenues. Given the materiality of the under recovered revenues, the distortion in the tariffs of Ergon Energy's cost of supply for operating its network over the 2015–20 regulatory control period is considerable.

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[32] In the absence of tolerance limits, customers would have paid higher tariffs over 2010–15, the period in which the under recoveries were built up.

[33] Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, p. 26.

[34] NER, cl. 6.18.5(g)(3).

Further, if tolerance limits continue to apply then the accumulation of under recovered revenues may continue into the future, necessitating large revenue recovery beyond the 2015–20 regulatory control period. This repetition would distort the cost reflectivity of tariffs in the long term. Removing tolerance limits reduces this undesirable outcome.

Approach to unders and overs

We do not accept Ergon Energy's proposed alternative method to calculate the DUoS unders and overs account. Ergon Energy proposed an alternative method should we not accept the continuation of tolerance limits.[35] The alternative method includes a true–up for estimated under or over recovery of revenues for regulatory year t–1 in addition to the under or over recovery true-up for regulatory year t–2. We consider the alternative method introduces additional administrative burden, additional forecasting error and reduces transparency compared to the method set out in appendix A.

Additional administrative burden is imposed on Ergon Energy as it would be required to calculate an additional year of revenue. Their alternative method would also impose additional administrative burden on us as we would be required to analyse whether the estimated revenue is reasonable. The method in appendix A will eliminate this unnecessary burden.

Ergon Energy's alternative method also introduces additional forecasting error. This occurs because the consumption forecast for year t–1 would only be based on part year results because Ergon Energy must submit its pricing proposal to us three months before the end of year t–1.[36] Since revenues are a function of charging parameters and consumption volumes, inaccuracies in the latter would create errors in the estimated under or over recovery for year t–1. Therefore year t revenues —which account for the estimated under or over recovery for year t–1—would always be higher or lower than they should be due to the forecasting error. This would mean that customers would be constantly under or over charged. We consider these burdens can be avoided by not including the true-up for year t–1.

Finally, Ergon Energy's proposed method also reduces transparency in the process for setting prices. As noted, the inaccuracy of the estimated revenues for year t–1 means that the charging parameters customers incur in year t will always be higher or lower than they otherwise would be. This distortion reduces the cost reflectivity of the charging parameters customers face. Also, the difference between the estimate for year t–1 and the actual outcome could be significant which would also reduce the transparency of the likely future revenue and price impacts. We consider this lack of transparency created by including the true-up of estimates for year t–1 is undesirable. Moreover, it is easily avoided without detriment to the customer or their distributor.

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[35] Ergon Energy, *Revised regulatory proposal*, April 2015, pp. 39–40; Ergon Energy, *Revised regulatory proposal: 04.01.00–Compliance with control mechanisms*, July 2015, p. 14; Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, p. 27.

[36] NER, cl. 6.18.2(a).

We consider that by comparison, the method detailed in appendix A which does not include adjustments for year t–1 is administratively simpler, removes additional forecasting error and is more transparent in the process for setting prices.

Ergon Energy proposed to apply the same alternative method to the under or over recovery of revenue related to its designated pricing proposal charges and jurisdictional scheme amounts, should we not accept the tolerance limits.[37] For the reasons above, we do not accept Ergon Energy's alternative methods. Instead we will apply the methods detailed in appendices B and C of this attachment, which mimic those in attachment A.

Annual adjustments (C factor)

As per our preliminary decision, the C factor will include:

- feed-in tariff pass through amounts relating to the 2013–14 and 2014–15 regulatory years
- any AER approved cost pass through amounts during 2015–20 regulatory control period.

However, we do not accept Ergon Energy's proposal to include an 'other' one-off revenue adjustment parameter in the C factor.[38] Ergon Energy considered it should be added:

- to true-up any adjustments between the preliminary decision and final decision, where the other parameters of the revenue cap formulae are unable to do so. Ergon Energy noted as an example the true-up of any service scheme related adjustments.
- to address any future errors, changes and omission without the administrative burden of revoking and substituting the final decision.[39]

We do not accept the inclusion of the 'other' one-off parameter as we consider our final decision—including the control mechanism—accounts for any true-up adjustments to be made post the preliminary decision. Therefore no additional component is required. As noted above, the service scheme already accounts for true-up adjustments from one regulatory year to the next, including across regulatory control periods. In the instance where the final decision is revoked and substituted, our final decision control mechanism will be able to address any necessary adjustments.

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37 Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, p. 34.

38 Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, pp. 25–26.

39 Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, p. 34.

Ergon Energy raised two instances during the 2010–15 regulatory control period it was directed by the Queensland Government to forgo revenue as a reason why we should include this 'other' one-off parameter.[40] However, in both of these instances the control mechanism—including the DUoS unders and overs account—was able to accommodate these issues, without need for the kind of amendments Ergon Energy now proposes.

Our preliminary decision also observed that a general 'catch-all' parameter in the control mechanism formulae is not consistent with incentive regulation. A distributor should manage one-off events as part of its normal business practice, unless they come within the pass-through regime which is used for more exceptional cases. Incentive regulation is not intended to account for all events that may occur during a regulatory control period.

Calculation of the consumer price index escalation

The method for calculating the consumer price index (CPI) escalation is based on the annual movement between the Australian Bureau of Statistics' (ABS) published December quarter data. The application of this calculation is set out in Figure 14.1.

14.4.2 Reporting on designated pricing proposal charges

We must decide how Ergon Energy will report on the recovery of designated pricing proposal charges for each year of the 2015–20 regulatory control period and how to account for any under or over recovery of revenue associated with those charges.[41] Continuing the preliminary decision method, we will apply an under and over recovery mechanism to facilitate this reporting and account for the true-up of under and over recovery of revenue. This approach is consistent with the DUoS revenue under and over recovery mechanism and requirements of the NER.[42] The operation of this method is detailed in appendix B.

As per our preliminary decision, Ergon Energy will also recover, as part of designated pricing proposal charges, charges levied on it for the use of the Chumvale and Powerlink lines.[43] Ergon Energy accepted this approach.[44]

The presentation of the under and over recovery mechanism for designated pricing proposal charges has been improved since our preliminary decision to be consistent with its application in other jurisdictions and to be more transparent. It also includes an

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40 Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, p. 34.

41 NER, cl. 6.12.1 (19).

42 NER, cll. 6.12.1(19), 6.18.7.

43 AER, *Preliminary decision: Ergon Energy determination 2015–16 to 2019–20: Attachment 14–Control mechanism*, April 2015, p. 13.

44 Ergon Energy, *Revised regulatory proposal*, July 2015, p. 45; Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, p. 34.

adjustment for avoided transmission use of system charges which was erroneously omitted from our preliminary decision.

14.4.3 Reporting on jurisdictional scheme amounts

We must decide how Ergon Energy will report on the recovery of jurisdictional scheme amounts for each year of the 2015–20 regulatory control period and how to account for any under or over recovery of revenue of those charges.[45] Continuing the preliminary decision method, we will apply an under and over recovery mechanism to facilitate this reporting and account for the true-up of under and over recovery of revenue.[46] This approach is consistent with the DUoS revenue under and over recovery mechanism and requirements of the NER.[47] The operation of this method is detailed in appendix C.

Consistent with our preliminary decision, we do not accept Ergon Energy's proposed method to recover jurisdictional scheme amounts.[48] This would result in Ergon Energy earning zero revenues from jurisdictional scheme amounts in the year it incurs costs for those amounts. It would then pass on the full amount after two years.

Our final decision is that Ergon Energy will earn revenues from jurisdictional scheme amounts in the year it incurs those amounts, with a true-up of any under or over recovered revenues occurring on a two year lag. This true-up method is detailed in appendix C which is consistent with the methods and approaches applied to Ergon Energy's DUoS charges and designated pricing proposal charges. This method is also consistent with that applied to distributors across jurisdictions.[49]

Ergon Energy noted clause 6.18.7A of the NER was amended to give the AER greater flexibility in determining the method to true-up the under or over recovery of jurisdictional scheme amounts.[50] It considered the intention of the amendments was to enable a distributor the flexibility to propose and have approved any method for determining how the true-up adjustments would apply.

However, we note the Australian Energy Market Commission in making these amendments also considered a need for a consistent approach.[51] Our final decision creates a consistent approach across Ergon Energy's DUoS charges, designated

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45 NER, cl. 6.12.1 (20).

46 AER, *Preliminary decision: Ergon Energy determination 2015–16 to 2019–20: Attachment 14–Control mechanism*, April 2015, p. 14–15.

47 NER, cl. 6.18.7A.

48 Ergon Energy, *Regulatory proposal: Attachment 04.01.02 – Jurisdictional schemes*, October 2014, pp. 6–7; Ergon Energy, *Revised regulatory proposal*, July 2015, p. 46; Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, pp. 28–29.

49 The method in appendix C is also applied to the distributors in South Australia and Victoria and is generally consistent with the method applied to the distributors in New South Wales and Tasmania.

50 Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, p. 28.

51 Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, p. 28; AEMC, *Rule determination: DNSP recovery of transmission-related charges*, 24 March 2011, pp. 37–38.

pricing proposal charges and jurisdictional scheme amounts. This approach is also consistent across jurisdictions.

14.4.4 Side constraints

Figure 14.2 sets out the side constraints formula. For each year after the first year of a regulatory control period, side constraints will apply to the weighted average revenue to be raised from each tariff class. In accordance with the NER, the permissible percentage increase is the greater of CPI–X plus 2 per cent or CPI plus 2 per cent.[52] Recovery of certain revenues, such as those to accommodate pass throughs, is disregarded in deciding whether the permissible percentage has been exceeded.[53]

We do not accept Ergon Energy's proposed revisions to the side constraint formula.[54] These revisions reflected Ergon Energy's proposal to include:

- the rewards or penalties associated the service scheme in the I factor
- DUoS revenue under or over recovery adjustments through the B factor
- an 'other' one-off revenue adjustment in the C factor.

We have noted earlier that these parameters will not form part of the side constraints formula.

We reiterate that we have also amended the side constraints formula from our preliminary decision to include DUoS unders and overs account adjustments in the B factor. Therefore we have removed the DUoS factor that applied in the preliminary decision side constraints formula.

14.4.5 Control mechanism formulae

Ergon Energy must submit annual pricing proposals to us with proposed tariffs and charging parameters.[55] To the extent possible, Ergon Energy's pricing proposals should publicly disclose the separate charging parameters relating to DUoS, designated pricing proposal charges and jurisdictional scheme amounts.

That is, for each tariff and charging parameter element, Ergon Energy must show the breakdown of the DUoS, designated pricing proposal charges and jurisdictional scheme amounts separately—not just in combination.

This presentation style has been a common practice of distributors in other jurisdictions. It enables regulators, retailers, policy makers and consumers to see the varied pricing impacts and effects of the different charging parameter elements.

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52 NER, cl. 6.18.6(c).

53 NER, cl. 6.18.6(d).

54 Ergon Energy, *Revised regulatory proposal*, July 2015, p. 17; Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, p. 28.

55 NER, cl. 6.18.2.

Ergon Energy's revenues must be consistent with the total annual revenue formulae and side constraint formulae set out below.

Figure 14.1 Revenue cap formulae

1. $TAR_t \geq \sum_{i=1}^{n} \sum_{j=1}^{m} p_t^{ij} q_t^{ij}$ i=1,..,n and j=1,..,m and t=1,..,5

2. $TAR_t = AR_t + I_t + B_t + C_t$ t = 1,2,…,5

3. $AR_t = AR_{t-1}(1 + \Delta CPI_t)(1 - X_t)(1 + S_t)$

where;

TAR_t is the total annual revenue in year t.

p_t^{ij} is the price of component 'j' of tariff 'i' in year t.

q_t^{ij} is the forecast quantity of component 'j' of tariff 'i' in year t.

AR_t is the annual smoothed expected revenue for regulatory year t. For the first year of the 2015–20 regulatory control period, this amount will be equal to the smoothed revenue requirement for 2015–16 set out in the PTRM.

I_t is the final carryover amount from the application of the DMIS from the 2010–15 distribution determination. This amount will be calculated using the method set out in the DMIS and deducted from/added to allowed revenue in the 2016–17 pricing proposal.

B_t is the sum of:

- any under or over recoveries relating to capital contributions and shared assets from 2013–14 and 2014–15
- any under or over recovery of actual revenue collected through DUoS charges in regulatory year t–2 as calculated using the method in appendix A.

C_t is the sum of adjustments related to:

- feed-in tariff pass through amounts relating to the 2013–14 and 2014–15 regulatory years
- any AER approved cost pass through amounts during 2015–20 regulatory control period.

ΔCPI_t is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities[56] from the December quarter in year t–2 to the December quarter in year t–1, calculated using the following method:

The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in regulatory year t–1

divided by

The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in regulatory year t–2

minus one.

For example, for the 2015–16 year, t–2 is December quarter 2013 and t–1 is December quarter 2014 and in the 2016–17 year, t–2 is December quarter 2014 and t–1 is December quarter 2015 and so on.

X_t is the X factor for each year of the 2015–20 regulatory control period as determined in the PTRM, and annually revised for the return on debt update in accordance with the formula specified in attachment 3—rate of return—calculated for the relevant year.

S_t is the s-factor determined in accordance with the service target performance incentive scheme (STPIS) for regulatory year t.[57]

Figure 14.2 Side constraints

$$\frac{(\sum_{i=1}^{n}\sum_{j=1}^{m} d_t^{ij} q_t^{ij})}{(\sum_{i=1}^{n}\sum_{j=1}^{m} d_{t-1}^{ij} q_t^{ij})} \leq (1+\Delta CPI_t)\times(1-X_t)\times(1+2\%)\times(1+S_t)+I_t^{'}+B_t^{'}+C_t^{'}$$

where each tariff class has "n" tariffs, with each up to "m" components, and where:

d_t^{ij} is the proposed price for component ‘j’ of tariff 'i' for year t.

d_{t-1}^{ij} is the price charged for component ‘j’ of tariff 'i' in year t–1.

q_t^{ij} is the forecast quantity of component ‘j’ of tariff 'i' in year t.

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[56] If the ABS does not, or ceases to, publish the index, then CPI will mean an index which the AER considers is the best available alternative index.

[57] In the formulas in the STPIS attachment, the $AR_{(t+1)}$ is equivalent to AR_t in this formula. Calculations of the S factor adjustment are to be made accordingly.

ΔCPI_t is the annual percentage change in the ABS CPI All Groups, Weighted Average of Eight Capital Cities[58] from the December quarter in year t–2 to the December quarter in year t–1, calculated using the following method:

The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in regulatory year t–1

divided by

The ABS CPI All Groups, Weighted Average of Eight Capital Cities for the December quarter in regulatory year t–2

minus one.

For example, for the 2015–16 year, t–2 is December quarter 2013 and t–1 is December quarter 2014 and in the 2016–17 year, t–2 is December quarter 2014 and t–1 is December quarter 2015 and so on.

X_t is the X factor for each year of the 2015–20 regulatory control period as determined in the PTRM, and annually revised for the return on debt update in accordance with the formula specified in attachment 3—rate of return—calculated for the relevant year. If X>0, then X will be set equal to zero for the purposes of the side constraint formula.

S_t is the s-factor determined in accordance with the STPIS for regulatory year t.[59]

$I_t^{'}$ is the annual percentage change from the final carryover amount from the application of the DMIS from the 2010–15 distribution determination. This amount will be deducted from/added to allowed revenue in the 2016–17 pricing proposal.

$B_t^{'}$ is the annual percentage change from the sum of:

- any under or over-recoveries relating to capital contributions and shared assets from 2013–14 and 2014–15
- any under or over recovery of actual revenue collected through DUoS charges in regulatory year t–2 as calculated using the method in appendix A.

$C_t^{'}$ is the annual percentage change from the sum of adjustments related to:

- feed-in tariff pass through amounts relating to 2013-2014 and 2014-2015

[58] If the ABS does not, or ceases to, publish the index, then CPI will mean an index which the AER considers is the best available alternative index.

[59] In the formulas in the STPIS attachment, the $AR_{(t+1)}$ is equivalent to AR_t in this formula. Calculations of the S factor adjustment are to be made accordingly.

- amounts relating to the occurrence of any of the prescribed and nominated cost pass through events.

With the exception of the CPI, X factor and S factor, the percentage for each of the other factors above can be calculated by dividing the incremental revenues (as used in the total annual revenue formula) for each factor by the expected revenues for regulatory year t–1 (based on the prices in year t–1 multiplied by the forecast quantities for year t).

A DUoS unders and overs account

To demonstrate compliance with the distribution determination applicable to it during the 2015–20 regulatory control period, Ergon Energy must maintain a DUoS unders and overs account in its annual pricing proposal.[60]

Ergon Energy must provide the amounts for the following entries in their DUoS unders and overs account for the most recently completed regulatory year (t–2) and the next regulatory year (t):

1. The amount of revenue recovered/to be recovered from DUoS charges, less the TAR for the regulatory years t–2 and t.
2. The calculated under/over recovery of revenue for regulatory years t–2 and t.
3. An interest charge for two years on the under/over recovery of revenue for regulatory year t–2. This adjustment is to be calculated using the respective approved nominal weighted average cost of capital (WACC) for each intervening year between regulatory year t–2 and year t.[61] The WACC applied for each year will be that approved by the AER for the relevant year.
4. Sum of items 2–3 to derive a closing balance for regulatory year t–2.
5. Opening balance in regulatory year t which is the closing balance in item 4.
6. Offsetting under/over recovery of revenue amount in item 5 to derive a closing balance as close as practicable to zero for regulatory year t. This amount will become the approved DUoS revenue under/over recovery for regulatory year t.

Ergon Energy must provide details of calculations in the format set out in Table 14.1. Amounts provided for the most recently completed regulatory year (t–2) must be audited. Amounts provide for the next regulatory year (t) will be regard as a forecast.

In proposing variations to the amount and structure of DUoS charges, Ergon Energy is expected to achieve a closing balance as close as practicable to zero in its DUoS unders and overs account in each forecast year in its annual pricing proposals during the 2015–20 regulatory control period.

The proposed prices for each year t are based on the TAR for year t.

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60 NER, cl. 6.18.2(b)(7).

61 For clarity, two WACC adjustments are applied: one for a year of interest between year t–2 and year t–1; and a second for a year of interest between year t–1 and year t. The WACC for each year will be that approved by the AER for the respective year, such that rolling WACC's are applied.

Table 14.1 Example calculation of DUoS unders and overs account ($'000, nominal)

	Year t–2 (actual)	Year t (forecast)
(A) Revenue from DUoS charges	**46 779**	**40 306**
(B) Less TAR for regulatory year =	**43 039**	**40 306**
+ Annual revenues (AR_t)	34 820	44 393
+ DMIS carryover amount (I_t)	1013	0
+ Sum of under or over recoveries (B_t) =	5394	–4123
+ Capital contributions/shared assets	*25*	*0*
+ DUoS revenue under/over recovery approved	*5369*[a]	*–4123*[c]
+ Sum of pass through adjustments (C_t) =	1812	36
+ Feed-in tariff cost pass throughs	*–12*	*36*
+ Approved pass through amounts	*1824*	*0*
(A minus B) Under/over recovery of revenue for regulatory year	**3740**	**0**
DUoS unders and overs account		
Nominal WACC t–2 (per cent)	5.00%	
Nominal WACC t–1 (per cent)	5.00%	
Opening balance	n/a[b]	4123
Under/over recovery of revenue for regulatory year	3740	–4123[c]
Interest on under/over recovery for 2 regulatory years	383	n/a
Closing balance	**4123**	**0**[d]

Notes: (a) Approved DUoS revenue under/over recovery for regulatory year t–2.

(b) In this example and going forward there should be no opening balance in year t–2 due to no application of tolerance limits. However, should it be required to close out previous carryovers, an opening balance adjustment and interest can be accounted for.

(c) Amount should offset the closing balance for DUoS unders and overs account for year t–2.

(d) Ergon Energy is expected to achieve a closing balance as close to zero as practicable in its DUoS unders and overs account in each forecast year in its annual pricing proposals in the 2015–20 regulatory control period.

B Designated pricing proposal charges unders and overs account

To demonstrate compliance with the distribution determination applicable to it during the 2015–20 regulatory control period, Ergon Energy must maintain a designated pricing proposal charges unders and overs account its annual pricing proposal.[62]

Ergon Energy must provide the amounts for the following entries in its designated pricing proposal charges under and overs account for the most recently completed regulatory year (t–2) and the next regulatory year (t):

1. The amount of revenue recovered/to be recovered from designated pricing proposal charges, less the amount of designated pricing proposal charges related payments for the regulatory years t–2 and t.
2. The calculated under/over recovery of revenue for regulatory years t–2 and t.
3. An interest charge for two years on the under/over recovery of revenue for regulatory year t–2. This adjustment is to be calculated using the respective approved nominal weighted average cost of capital (WACC) for each intervening year between regulatory year t–2 and year t.[63] The WACC applied for each year will be that approved by the AER for the relevant year.
4. Sum of items 2–3 to derive a closing balance for regulatory year t–2.
5. Opening balance in regulatory year t which is the closing balance in item 4.
6. Offsetting under/over recovery of revenue amount in item 5 to derive a closing balance as close as practicable to zero for regulatory year t. This amount will become the approved designated pricing proposal charges revenue under/over recovery for regulatory year t.

Ergon Energy must provide details of calculations in the format set out in Table 14.2. Amounts provided for the most recently completed regulatory year (t–2) must be audited. Amounts for the next regulatory year (t) will be regarded as a forecast.

In proposing variations to the amount and structure of designated pricing proposal charges, Ergon Energy is expected to achieve a closing balance as close to zero as practicable in its designated pricing proposal charges unders and overs account in each forecast year in its annual pricing proposals during the 2015–20 regulatory control period.

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62 NER, cll. 6.18.2(b)(6), 6.12.1(19).

63 For clarity, two WACC adjustments are applied: one for a year of interest between year t–2 and year t–1; and a second for a year of interest between year t–1 and year t. The WACC for each year will be that approved by the AER for the respective year, such that rolling WACC's are applied.

Table 14.2 Example calculation of designated pricing proposal charges unders and overs account ($'000, nominal)

	Year t–2 (actual)	Year t (forecast)
(A) Revenue from designated pricing proposal charges (DPPC)	**40 077**	**32 967**
(B) Less DPPC related payments for regulatory year =	**34 846**	**32 967**
+ DPPC charges to be paid to TNSP	33 793	38 000
+ Avoided TUoS payments	560	700
+ Inter–distributor payments	12	34
+ DPPC revenue under/over recovery approved	481[a]	–5767[b]
(A minus B) Under/over recovery of revenue for regulatory year	**5231**	**0**
DPPC unders and overs account		
Nominal WACC t–2 (per cent)	5.00%	
Nominal WACC t–1 (per cent)	5.00%	
Opening balance	n/a	5767
Under/over recovery of revenue for regulatory year	5231	–5767[b]
Interest on under/over recovery for 2 regulatory years	536	n/a
Closing balance	**5767**	**0**[c]

Notes: (a) Approved DPPC revenue under/over recovery for regulatory year t–2.

(b) Amount should offset the closing balance for DPPC unders and overs account for year t–2.

(c) Ergon Energy is expected to achieve a closing balance as close to zero as practicable in its DPPC unders and overs account in each forecast year in its annual pricing proposals in the 2015–20 regulatory control period.

C Jurisdictional scheme amounts unders and overs account

To demonstrate compliance with the distribution determination applicable to it during the 2015–20 regulatory control period, Ergon Energy must maintain a jurisdictional scheme amount unders and overs account in its annual pricing proposal.[64]

Ergon Energy must provide the amounts for the following entries in its jurisdictional scheme unders and overs account for the most recently completed regulatory year (t–2) and the next regulatory year (t):

1. The amount of revenue recovered/to be recovered from jurisdictional schemes, less the amount of jurisdictional scheme related payments for the regulatory years t–2 and t.
2. The calculated under/over recovery of revenue for regulatory years t–2 and t.
3. An interest charge for two years on the under/over recovery of revenue for regulatory year t–2. This adjustment is to be calculated using the respective approved nominal weighted average cost of capital (WACC) for each intervening year between regulatory year t–2 and year t.[65] The WACC applied for each year will be that approved by the AER for the relevant year.
4. Sum of items 2–3 to derive a closing balance for regulatory year t–2.
5. Opening balance in regulatory year t which is the closing balance in item 4.
6. Offsetting under/over recovery of revenue amount in item 5 to derive a closing balance as close as practicable to zero for regulatory year t. This amount will become the approved jurisdictional scheme amounts revenue under/over recovery for regulatory year t.

Ergon Energy must provide details of calculations in the format set out in Table 14.3. Amounts provided for the most recently completed regulatory year (t–2) must be audited. Amounts for the next regulatory year (t) will be regarded as a forecast.

In proposing variations to the amount and structure of jurisdictional scheme charges, Ergon Energy is expected to achieve a closing balance as close to zero as practicable in its jurisdictional schemes unders and overs accounts in each forecast year in its annual pricing proposals during the 2015–20 regulatory control period.

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64 NER, cll. 6.12.1(20), 6.18.2(b)(6A).

65 For clarity, two WACC adjustments are applied: one for a year of interest between year t–2 and year t–1; and a second for a year of interest between year t–1 and year t. The WACC for each year will be that approved by the AER for the respective year, such that rolling WACC's are applied.

Table 14.3 Example calculation of jurisdictional scheme amounts unders and overs account ($'000, nominal)

	Year t–2 (actual)	Year t (forecast)
(A) Revenue from jurisdictional schemes	**19 777**	**22 050**
(B) Less jurisdictional scheme payments for regulatory year =	**20 767**	**22 050**
+ Jurisdictional scheme 1 payments	14 159	13 954
+ Jurisdictional scheme 2 payments	6113	7005
+ Jurisdictional scheme amounts revenue under/over recovery approved	495[a]	1091[b]
(A minus B) Under/over recovery of revenue for regulatory year	**–990**	**0**
Jurisdictional scheme amount unders and overs account		
Nominal WACC t–2 (per cent)	5.00%	
Nominal WACC t–1 (per cent)	5.00%	
Opening balance	n/a	–1091
Under/over recovery of revenue for regulatory year	–990	1091[b]
Interest on under/over recovery for 2 regulatory years	–101	n/a
Closing balance	**–1091**	**0**[c]

Notes: (a) Approved jurisdictional scheme amount revenue under/over recovery for regulatory year t–2.
(b) Amount should offset the closing balance for jurisdictional amount unders and overs account for year t–2.
(c) Ergon Energy is expected to achieve a closing balance as close to zero as practicable in its jurisdictional scheme amount unders and overs account in each forecast year in its annual pricing proposals in the 2015–20 regulatory control period.

D Assigning retail customers to tariff classes

We are required to decide on the principles governing assignment or reassignment of retail customers (customers) to or between tariff classes.[66] Our decision on the principles that Ergon Energy is to adhere to in assigning and reassigning customers to tariff classes is outlined below.

D.1 AER's assessment approach

We apply the principles set out in the NER when formulating provisions which Ergon Energy must apply with assignment or reassignment of customers to tariff classes.[67] A distributor's decision to assign a customer to a particular tariff class or to reassign a customer from one tariff class to another should be subject to an effective system of assessment and review.

D.2 Reasons for the final decision

Ergon Energy stated that it accepted many aspects of our preliminary decision principles governing its assignment or reassignment of customers to or between tariff classes.[68] However, Ergon Energy stated that the following issues required further consideration:

- Clarification on who it should notify when a tariff class assignment or reassignment is expected to occur.
- Remove the Energy and Water Ombudsman Queensland as an entity to resolve tariff assignment or reassignment dispute resolution as it is not within its jurisdictional powers.
- Adjustments to a customer's tariffs should occur at the next network bill if an objection to a tariff assignment or reassignment is upheld.
- Principles for assigning or reassigning customers to alternative control services.

Our consideration on these issues is discussed below.

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66 NER, cl 6.12.1(17).

67 NER, cl 6.18.4.

68 Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, p. 34.

D.2.1 Approach of notifying retailers instead of the affected customer

Ergon Energy considered there was some confusion in our preliminary decision on whether the customer or the customer's retailer should be notified regarding tariff class reassignments.[69] It proposed that the customer's retailer should be notified.

Consistent with the approach in our final decisions for the New South Wales distributors we accept that the customer's retailer should be notified.[70] We note that notifying both the customer and the customer's retailer may impose an additional cost on distributors. Further, notification sent by distributors to customers may also add a level of confusion. That is, the final bill paid by a customer will depend on the offer made by the retailer to that customer and not those applied by Ergon Energy. As such, correspondence about network tariff class changes may cause confusion to the customer about their retail electricity bill.

D.2.2 Energy and Water Ombudsman Queensland powers

Our preliminary decision stated that any customers may be able to escalate its objection to an assignment or reassignment with the Energy and Water Ombudsman Queensland if their objection had not been satisfactorily resolved by Ergon Energy.[71] Ergon Energy's revised proposal considered that this type of dispute resolution is not within the jurisdictional powers of the Energy and Water Ombudsman Queensland.[72]

However, we contacted the Energy and Water Ombudsman Queensland which confirmed that it does have jurisdictional powers to resolve this type of dispute for small scale customers only. This type of dispute resolution for large customers is not within its jurisdictional powers. Therefore, we have amended our final decision to make this clarification.

As noted below, all customers are still entitled to seek a decision of the AER via the dispute resolution process available under Part 10 of the NEL.

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69 Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, pp. 34–36.

70 See for example: AER, *Final Decision: Ausgrid distribution determination 2015–16 to 2018–19: Attachment 14: Control mechanism for standard control services*, April 2015, Appendix D, p. 29.

71 AER, *Preliminary decision: Ergon Energy determination 2015–16 to 2019–20: Attachment 14–Control mechanism*, April 2015,Appendix D, pp. 27–28.

72 Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, p. 36.

D.2.3 Adjustments to retail customers tariffs if objection is upheld

We accept Ergon Energy's proposal that if a customer's objection to an assignment or reassignment is upheld by an external dispute resolution body, that tariff adjustments are made at the time of the next network bill after the date of effect.[73]

Our preliminary decision considered this adjustment should be made at the next annual review of prices.[74] However, we agree with Ergon Energy that is better for customers and is administratively simpler to make tariff adjustments as soon as possible after the date of effect.[75]

D.2.4 Principles for assigning or reassigning retail customers to alternative control services

We accept Ergon Energy's proposal that the requirement to provide written notification to a customer's retailer for each tariff class assignment or reassignment for alternative control services is not practical.[76] We agree that customers or customer's retailers essentially assign themselves to a tariff class when requesting the alternative control service they require.

We note that Ergon Energy proposed amendments to the principles for assigning or reassigning customers to tariff classes to specifically address alternative control services.[77] We have accepted these additions for this final decision.

D.3 Procedures for assigning or reassigning retail customers to tariff classes

The procedure outlined in this section applies to direct control services.

Assignment of existing retail customers to tariff classes at the commencement of the 2015–20 regulatory control period

1. Ergon Energy's customers will be taken to be "assigned" to the tariff class which Ergon Energy was charging that customer immediately prior to 1 July 2015 if:

   (a) they were an Ergon Energy customer prior to 1 July 2015, and

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[73] Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, pp. 36–37.

[74] AER, *Preliminary decision: Ergon Energy determination 2015–16 to 2019–20: Attachment 14–Control mechanism*, April 2015, Appendix D, p. 28.

[75] Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, p. 37.

[76] Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, p. 37.

[77] Ergon Energy, *Submission to the AER on its preliminary decision: SCS building blocks, control mechanism and pricing*, 24 July 2015, p. 38.

(b) they continue to be a customer of Ergon Energy as at 1 July 2015.

Assignment of new retail customers to a tariff class during the forthcoming regulatory control period

2. If, from 1 July 2015, Ergon Energy becomes aware that a person will become a customer of Ergon Energy, then Ergon Energy must determine the tariff class to which the new customer will be assigned.
3. In determining the tariff class to which a customer or potential customer will be assigned, or reassigned, in accordance with paragraphs 2 or 5, Ergon Energy must take into account one or more of the following factors:
   (a) the nature and extent of the customer's usage
   (b) the nature of the customer's connection to the network[78]
   (c) whether remotely-read interval metering or other similar metering technology has been installed at the customer's premises as a result of a regulatory obligation or requirement.
4. In addition to the requirements of paragraph 3 above, Ergon Energy, when assigning or reassigning a customer to a tariff class, must ensure:
   (a) customers with similar connection and usage profiles are treated equally
   (b) customers who have micro-generation facilities are not treated less favourably than customers with similar load profiles without such facilities.

Reassignment of existing retail customers to another existing or a new tariff class during the 2015–20 regulatory control period

5. Ergon Energy may reassign an existing customer to another tariff class in the following situations:
   (a) Ergon Energy receives a request from the customer or customer's retailer to review the tariff to which the existing customer is assigned; or
   (b) Ergon Energy believes that:
      i. an existing customer's load characteristics or connection characteristics (or both) have changed such that it is no longer appropriate for that customer to be assigned to the tariff class to which the customer is currently assigned, or
      ii. a customer no longer has the same or materially similar load or connection characteristics as other customers on the customer's existing tariff, then Ergon Energy may reassign that customer to another tariff class.

[78] We interpret 'nature' to include the installation of any technology capable of supporting time based tariffs.

In determining the tariff class to which a customer will be reassigned, Ergon Energy must take into account paragraphs 3 and 4 above.

Notification of proposed assignments and reassignments and rights of objection for standard control services

6. Ergon Energy must notify the customer's retailer in writing of the tariff class to which the customer has been assigned or reassigned, prior to the assignment or reassignment occurring.
7. A notice under paragraph 6 above must include advice informing the customer's retailer that they may request further information from Ergon Energy and that the customer or customer's retailer may object to the proposed reassignment. This notice must specifically include:
   (a) a written document describing Ergon Energy's internal procedures for reviewing objections, if the customer or customer's retailer provides express consent, a soft copy of such information may be provided via email
   (b) that for small scale customers if the objection is not resolved to the satisfaction of the customer or customer's retailer under Ergon Energy's internal review system within a reasonable timeframe, then, to the extent resolution of such disputes are within the jurisdiction of the Energy and Water Ombudsman Queensland, or like officer, the customer or customer's retailer is entitled to escalate the matter to such a body
   (c) that if the objection is not resolved to the satisfaction of the customer or customer's retailer under Ergon Energy's internal review system in paragraph 7(a) and/or the body noted in paragraph 7(b) within a reasonable timeframe, then the customer or customer's retailer is entitled to seek a decision of the AER via the dispute resolution process available under Part 10 of the NEL.
8. If, in response to a notice issued in accordance with paragraph 6 above, Ergon Energy receives a request for further information from a customer or a customer's retailer, then it must provide such information within a reasonable timeframe. If Ergon Energy reasonably claims confidentiality over any of the information requested, then it is not required to provide that information. If the customer or customer's retailer disagrees with such confidentiality claims, he or she may have resort to the dispute resolution procedures referred to in paragraph 7 above, (as modified for a confidentiality dispute).
9. If, in response to a notice issued in accordance with paragraph 6 above, a customer or customer's retailer makes an objection about the proposed assignment or reassignment, Ergon Energy must reconsider the proposed assignment or reassignment. In doing so Ergon Energy must take into consideration the factors in paragraphs 3 and 4 above, and notify the customer or customer's retailer in writing of its decision and the reasons for that decision.

10. If an objection to a tariff class assignment or reassignment is upheld by the relevant body noted in paragraph 7 above, then any adjustment which needs to be made to tariffs will be done by Ergon Energy as part of the next network bill.
11. If a customer or customer's retailer objects to Ergon Energy's tariff class assignment Ergon Energy must provide the information set out in paragraph 7 above and adopt and comply with the arrangements set out in paragraphs 8, 9 and 10 above in respect of requests for further information by the customer or customer's retailer and resolution of the objection.

Notification of proposed assignments and reassignments and rights of objection for alternative control services

12. Ergon Energy must make available information on tariff classes and dispute resolution procedures referred to in paragraph 7 above to retailers operating in Ergon Energy's distribution area.
13. If Ergon Energy receives a request for further information from a customer or customer's retailer in relation to a tariff class assignment or reassignment, then it must provide such information within a reasonable timeframe. If Ergon Energy reasonably claims confidentiality over any of the information requested, then it is not required to provide that information. If the customer or customer's retailer disagrees with such confidentiality claims, he or she may have resort to the dispute resolution procedures referred to in paragraph 7 above, (as modified for a confidentiality dispute).
14. If a customer or customer's retailer makes an objection to Ergon Energy about the proposed assignment or reassignment, Ergon Energy must reconsider the proposed assignment or reassignment. In doing so Ergon Energy must take into consideration the factors in paragraphs 3 and 4 above, and notify the customer or customer's retailer in writing of its decision and the reasons for that decision.
15. If an objection to a tariff class assignment or reassignment is upheld by the relevant body noted in paragraph 7 above, then any adjustment which needs to be made to tariffs will be done by Ergon Energy as part of the next network bill.

System of assessment and review of the basis on which a retail customer is charged

16. Where the charging parameters for a particular tariff result in a basis charge that varies according to the customer's usage or load profile, Ergon Energy will set out in its pricing proposal a method of how it will review and assess the basis on which a customer is charged.