

Workbook 2 – New Historical Category Analysis Basis of Preparation

2020-25

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1 OVERVIEW

1.1 Introduction

On 31 October 2018, the Australian Energy Regulator (AER) issued Energex Limited (Energex) with a Regulatory Information Notice (RIN) under Division 4 of Part 3 of the National Electricity (Queensland) Law. Paragraph 1.3 of Schedule 1 the RIN requires:

For all information, other than forecast information, provide in accordance with this notice and the instructions in Appendix E, a basis of preparation (BoP) demonstrating how Energex has complied with this notice in respect of the information in each regulatory template in the Microsoft Excel Workbooks attached at Appendix A.

This BoP relates to the information provided in the regulatory template 'EGX 17.047 2020 – 25 New historical Category Analysis RIN template JAN19 Public.xls'.

1.2 Structure

Each chapter of this document corresponds to a particular template. For each table within a particular template Energex have explained:

- how Energex have complied with the RIN requirements;
- the source of the information;
- the methodology and assumptions used to calculate the information; and
- whether the information used is estimated or actual based on the RIN definitions.

2 BOP Template 2.5 – Connections

2.1 Table 2.5.2 – Cost metrics by connection classification

The AER requires Energex to provide the following information for new historical CA RIN Table 2.5.2 – Cost metrics by connection classification:

- Expenditure for Standard Control Services (SCS) relating to residential, commercial/industrial, subdivision and embedded generation across a number of simple connection LV, complex connection LV, complex connection HV and complex connection sub-transmission sub-classifications.
- Expenditure for SCS Capital Contributions relating to residential, commercial/industrial, subdivision and embedded generation across a number of simple connection LV, complex connection LV, complex connection HV and complex connection sub-transmission sub-classifications.

2.1.1 Consistency with RIN Requirements

Requirements	Consistency with the RIN requirements
General consistency with RIN requirements.	<p>All variables for cells shaded yellow have been populated as required by the RIN.</p> <p>All historical information provided is in nominal dollars, unless otherwise specified.</p>
Energex must ensure that the data provided for connection services reconciles to internal planning models used in generating Energex's proposed revenue requirements.	This requirement is not relevant to information that has been backcast.
Energex is not required to distinguish expenditure for connection services as either capex or opex in new historical CA RIN Table 2.5.2.	No distinction was made between opex and capex.
Energex must only report connection services expenditure in relation to standard control services for each regulatory year in new historical CA RIN Table 2.5.2, sub table EXPENDITURE – STANDARD CONTROL SERVICES. This expenditure is a net amount and should not include customer contributions.	Only SCS connection services expenditure was reported. This was a net amount, exclusive of SCS customer contributions.
Connections expenditure in relation to customer contributions for each regulatory year is to be reported in new historical CA RIN Table 2.5.2 sub table EXPENDITURE – STANDARD CONTROL SERVICES – CAPITAL CONTRIBUTIONS.	<p>Only SCS capital contributions expenditure was reported.</p> <p>SCS capital contributions was reported for regulatory years (RY) 2011-2018. Estimation was required to split into connection categories based on the average ratio split for the other years.</p>
Energex must report data for non-contestable, regulated <i>connection services</i> . This includes work performed by third parties on behalf of Energex.	Only data for regulated services was reported.
Energex must not report data in relation to negotiated <i>connection services</i> or <i>connection services</i> which have been classified as contestable by the AER.	No contestable data was reported and no gifted assets were included.
The definitions of complex connections in Appendix F provide guidance on the types of <i>augmentation</i> works which must be reported as <i>connection services</i> , as cost metrics for new historical CA RIN Table 2.5.2.	The figures provided in the worksheet are consistent with the definitions.

Requirements	Consistency with the RIN requirements
<p>Energex must only report augmentation for connections in new historical CA RIN 2.5.2 relating to customer connection requests, as per the definition of connection expenditure in Appendix F. Energex must not double count <i>augmentation</i> requirements by twice reporting augmentation data in Workbook 1 – Regulatory determination, <i>regulatory templates</i> 2.3 and 2.5.</p>	<p>The figures provided in the worksheet are consistent with the definitions.</p> <p>Connection data has not been duplicated across the Regulatory Templates 2.3 and 2.5.</p>
<p>The instructions provided in paragraph 2.31 to 2.42 for Workbook 1 – Regulatory determination, regulatory template 2.5, are to apply as instructions for Workbook 2 – new historical CA template 2.5 for Tables 2.5.2 and 2.5.3</p>	<p>Relevant instructions have been included in this table and addressed above.</p>

2.1.2 Source of information

Variable	Source
<p>Previously audited/reviewed historical connections expenditure data submitted to the AER</p>	<p>Energex - QLD - RESET RIN 2015-20 - Consolidated Public - October 2014 – Regulatory Template 2.5, Table 2.5.2</p> <p>Energex 2015-16 - Category Analysis RIN - Templates – Regulatory Template 2.5, Table 2.5.2</p> <p>Energex 2016-17 - Category Analysis RIN - Templates – Regulatory Template 2.5, Table 2.5.2</p> <p>Energex 2017-18 - Category Analysis RIN - Templates – Regulatory Template 2.5, Table 2.5.2</p>
<p>Previously audited/reviewed historical connections bases of preparation submitted to the AER</p>	<p>Energex – Reset RIN – October 2014 (BoP 2.5.2 – Connections)</p> <p>Energex 2015-16 - Category Analysis RIN (BoP 2.5.2 – Connections)</p> <p>Energex 2016-17 - Category Analysis RIN (BoP 2.5.2 – Connections)</p> <p>Energex 2017-18 - Category Analysis RIN (BoP 2.5.2 – Connections)</p>
<p>SCS connections expenditure</p>	<p>GL transactions across RY15, RY17 and RY18</p> <p>Energex’s Distribution Monitoring Analytics (DMA) solution</p>

Variable	Source
SCS capital contributions	GL transactions across RY09 -18, includes all gifted assets

2.1.3 Methodology

Assumptions

The following key assumptions have been made in preparing the data provided in the regulatory template “Workbook 2 – new historical Category Analysis (CA) – Template 2.5 Connections”:

- The AER accepts Energex’s previously audited/reviewed and reported historical connections expenditure data (identified in the Source of Information table above) as the starting point for preparing the new historical CA RIN connections expenditure data.

Expenditure – Standard Control Services

- The proportion of Standard Control Services (SCS) as compared to all expenditure is relatively consistent across each RY.

Expenditure – Standard Control Services – Capital Contributions

- The average SCS capital contributions split across connection categories in RY10 to RY18 is acceptable as a proxy for the split of expenditure across connection categories for RY08 and RY09.

Approach / methodology

Step 1: Identify source information and sample years for backcasting purposes

- Due to the evolution of changes and systems over the reportable period, Energex determined that to re-calculating SCS connections expenditure for each RY would produce inconsistent results.
- Energex therefore relied on connections expenditure data from three previously audited/reviewed and reported RYs (the sample years) as a basis for undertaking the analysis required to backcast SCS connections expenditure and SCS capital contributions from total connections expenditure. Energex identified RY18, RY17 and RY15 for this purpose.
- RY18 and RY17 represent the two most recently audited CA RINs submitted to the AER, and the expenditure data is captured in Energex’s DMA solution. The DMA solution was not in place prior to this time.
- The DMA solution uses source general ledger (GL) transactions, project activity codes and planning approval reports to enable connections expenditure data to be reported in accordance with RIN template connections classifications.
- RY17 was used as a basis for backcasting across RY16.
- RY15 year was selected as a proxy for previous years because it was the last year prior to classification of services changes for the 2015-2020 regulatory control period.

Expenditure – Standard Control Services

Step 2: Disaggregate the SCS connections expenditure from previously reported information

- Energex must only report connection services expenditure in relation to standard control services. This required ACS expenditure for each RY to be extracted from the previously

reported information. This must be a net amount, exclusive of SCS customer contributions, which are reported in a separate table (refer to Step 3 below).

- Energex identified the relevant ACS GL transaction elements and extracted these from the total connections expenditure for the sample years. This allowed Energex to identify the proportion of ACS to SCS connection expenditure for those sample years, which was then applied to previous years on the basis that the proportion of ACS to SCS connections expenditure has remained relatively consistent across years.
- For RY18 and RY17, this was identified using the DMA solution. The proportion of ACS expenditure identified in RY17 was applied to RY16 to extract the ACS expenditure and produce an estimate of SCS expenditure.
- For RY15, this was identified manually using GL transaction elements. The proportion of ACS expenditure identified in RY15 was applied to the historical years (i.e. RY09 to RY14) to extract the ACS operating expenditure and produce an estimate of SCS expenditure.

Expenditure – Standard Control Services – Capital Contributions

Step 3: Identify the SCS capital contributions expenditure

- Energex must report SCS capital contribution expenditure in a separate table to SCS connection expenditure.
- To identify SCS capital contributions expenditure, Energex identified relevant transactions from the GL across the RY11 to RY18.
- SCS capital contributions were not identifiable at an activity level from GL transactions for RY09 and RY10 due to the way in which they were reported in the GL for those years. To estimate the SCS capital contributions for these two years, Energex took the average ratio split of SCS capital contributions expenditure across RY11 to RY18 and applied the average ratio to the figures in RY09 and RY10.
- Note that there are a number of negative amounts included in the SCS capital contributions expenditure table. Energex is required to transfer excess capital contributions revenue to the balance sheet as ‘unearned revenue’. This amount is reversed back into revenue on the balance sheet for projects under construction which re-enter in the following years.

Step 4: Account for proposed classification of service (CoS) changes

- Energex was required to backcast connections expenditure to account for proposed CoS changes for the forthcoming regulatory control period. Two CoS changes are relevant to connection services:
 - Extensions – Major Customer Connections likely to be shared in future – which will change from ACS to SCS
 - Augmentations – Major Customer Connections – which will change from ACS to SCS.
- Energex determined that no backcasting was required to account for these CoS changes due to Energex’s treatment of these services in practice (refer to Energex Reset RIN Workbook 3 & 4 – Materiality Assessment BoP).
- The effect of Energex’s treatment of these services means that the connections expenditure will not change on the basis of the AER’s classification for the forthcoming regulatory control period.

Step 5: Account for proposed cost allocation method (CAM) changes

- Energex was required to backcast the connections expenditure to account for proposed CAM changes for the forthcoming regulatory control period. One CAM change is relevant to connection services:
 - Fleet – which will change from being an on-cost under the current CAM to an indirect cost under the 2020 CAM.
- Energex determined that no backcasting was required to account for this CAM change due to Energex’s treatment of Fleet in practice (refer Energex Reset RIN Workbook 3 & 4 – Materiality Assessment BoP).
- The effect of Energex’s treatment of Fleet costs (i.e. Energex has not historically allocated Fleet costs to its direct connections expenditure) means that the connections expenditure will not change on the basis of the 2020 CAM.

2.1.4 Estimated information

Justification for estimated information

Energex’s previously audited/reviewed and reported historical connections expenditure for the sample years includes actual/estimated information, as explained in relevant BoPs. As outlined in the approach / methodology above, however, estimation was required to enable backcasting across the historical regulatory years.

Basis for estimated information

In order to prepare the data for new historical CA RIN Table 2.5.2, Energex adopted an apportionment approach. That is, Energex calculated the proportion of SCS and ACS connections expenditure through identification of relevant ACS codes from GL transactions across the sample years. Energex then applied this proportion across the previously audited/reviewed and reported information. This approach was used as it represents a fair and valid calculation for identifying the proportion of SCS historical connections expenditure.

For SCS capital contributions, Energex took the average of SCS capital contributions expenditure split across RY11 to RY18 and applied the same ratio split to the figures in RY09 and RY10. This approach was considered reasonable as SCS capital contributions expenditure was not available at the GL activity level for RY09 and RY10.

2.2 Table 2.5.3 – Volumes by connection classification

The AER requires Energex to provide the following information for new historical CA RIN Table 2.5.3 – Volumes by connection classification:

- New connections for Standard Control Services (SCS) relating to residential, commercial/industrial, subdivision and embedded generation across a number of simple connection LV, complex connection LV, complex connection HV and complex connection sub-transmission sub-classifications.

2.2.1 Consistency with RIN Requirements

Requirements	Consistency with the RIN requirements
General consistency with RIN requirements	All variables for cells shaded yellow have been populated as required by the RIN.
Energex must ensure that the data provided for connection services reconciles to internal planning models used in generating Energex's proposed revenue requirements.	This requirement is not relevant to information that has been backcast.
Energex must report data for non-contestable, regulated <i>connection services</i> . This includes work performed by third parties on behalf of Energex.	Only data for regulated services was reported.
Energex must not report data in relation to negotiated <i>connection services</i> or <i>connection services</i> which have been classified as contestable by the AER.	No contestable data was reported.
The definitions of complex connections in Appendix F provide guidance on the types of <i>augmentation</i> works which must be reported as <i>connection services</i> , as cost metrics for new historical CA RIN Table 2.5.2.	The figures provided in the worksheet are consistent with the definitions.
Energex must only report augmentation for connections in new historical CA RIN 2.5.2 relating to customer connection requests, as per the definition of connection expenditure in Appendix F. Energex must not double count <i>augmentation</i> requirements by twice reporting augmentation data in Workbook 1 – Regulatory determination, <i>regulatory templates</i> 2.3 and 2.5.	The figures provided in the worksheet are consistent with the definitions Connection data has not been duplicated across the Regulatory Templates 2.3 and 2.5.
The instructions provided in paragraph 2.31 to 2.42 for Workbook 1 – Regulatory determination, regulatory template 2.5, are to apply as instructions for Workbook 2 – new historical CA template 2.5 for Tables 2.5.2 and 2.5.3.	Relevant instructions have been included in this table and addressed above.

2.2.2 Source of information

Variable	Source
Previously audited/reviewed historical connections volume data submitted to the AER	Energex - QLD - RESET RIN 2015-20 - Consolidated Public - October 2014 – Regulatory Template 2.5, Table 2.5.3 Energex 2015-16 - Category Analysis RIN - Templates – Regulatory Template 2.5, Table 2.5.3

Variable	Source
	Energex 2016-17 - Category Analysis RIN - Templates – Regulatory Template 2.5, Table 2.5.3 Energex 2017-18 - Category Analysis RIN - Templates – Regulatory Template 2.5, Table 2.5.3
Previously audited/reviewed historical connections basis of preparation submitted to the AER	Energex – Reset RIN – October 2014 (BoP 2.5.3 – Connections) Energex 2015-16 - Category Analysis RIN (BoP 2.5.3 – Connections) Energex 2016-17 - Category Analysis RIN (BoP 2.5.3 – Connections) Energex 2017-18 - Category Analysis RIN (BoP 2.5.3 – Connections)
SCS connections volumes	GL transactions across RY15, RY17 and RY18 Energex’s DMA solution

2.2.3 Methodology

Assumptions

The following key assumptions have been made in preparing the data provided in the regulatory template “Workbook 2 – new historical Category Analysis (CA) – Template 2.5 Connections”:

- The AER accepts Energex’s previously audited/reviewed and reported historical CA RIN connections volume data as identified in the Source of Information table above as the starting point for preparing the new historical CA RIN connections volume data.

Approach/ methodology

New Connections – Standard Control Services

Step 1: Identify the source information and sample years for backcasting purposes

- Due to internal accounting changes over the reportable period and limitations in Energex’s systems, it would be extremely time consuming to collate SCS connections volumes for each regulatory year.
- Energex therefore relied on connections volume data from three previously audited/reviewed and reported regulatory years (the sample years) as a basis for undertaking the analysis required to disaggregate SCS connections volumes. Energex identified RY18, RY17 and RY15 for this purpose.
- RY18 and RY17 represent the two most recently audited CA RINs submitted to the AER, and the expenditure data is captured in Energex’s DMA solution. The DMA solution was not in place prior to this time.
- The DMA solution uses source general ledger (GL) transactions, project activity codes and planning approval reports to enable connections expenditure data to be reported in accordance with RIN template connections classifications.

- RY17 was used as a basis for backcasting across RY16.
- RY15 year was selected as a proxy for previous years because it was the last year prior to classification of services changes for the 2015-2020 regulatory control period.

Step 2: Disaggregate the SCS connections volumes from previously reported information

- Energex must only report connections volumes in relation to standard control services. This required ACS volumes for each regulatory year to be extracted from the previously reported volumes.
- Energex has captured all previously audited/reviewed and reported connections RIN data in its DMA solution. This solution allows Energex to filter by GL elements and project activity codes to identify volumes by service classification, and to classify volumes into relevant RIN template connections categories.
- Energex identified the relevant ACS GL elements and extracted these from the total connections volumes for the sample years. This allowed Energex to identify the proportion of ACS to SCS connections volumes for those sample years, which was then applied to previous years on the basis that the proportion of ACS to SCS connections volumes has remained relatively consistent across years.
- For RY18 and RY17, this was identified using the DMA solution. The proportion of ACS volumes identified in RY17 was applied to RY16 to extract the ACS volumes and produce an estimate of SCS volumes.
- For RY15, this was identified manually using GL transaction elements. The proportion of ACS volumes identified in RY15 was applied to the historical years (i.e. RY09 to RY14) to extract the ACS volumes and produce an estimate of SCS volumes.

2.2.4 Estimated information

Justification for estimated information

Energex's previously audited/reviewed and reported historical connections expenditure for the sample years includes actual/estimated information, as explained in relevant BoPs. As outlined in the approach / methodology above, however, estimation was required to enable backcasting across the historical regulatory years.

Basis for estimated information

In order to prepare the data for new historical CA RIN Table 2.5.3, Energex adopted an apportionment approach. That is, Energex calculated the proportion of SCS and ACS connections volumes through identification of relevant ACS codes from GL transactions across the sample years. Energex then applied this proportion across the previously audited/reviewed and reported information. This approach was used as it represents a fair and valid calculation for identifying the proportion of SCS historical connections volumes.

3 BOP Template 2.6 – Non-network

3.1 Table 2.6.4 – Information and communication technology – Capex by purpose

The AER requires Energex to provide capex incurred in the delivery of ICT services for Standard Control Services, categorised as:

- ICT capability growth
- ICT asset extensions
- ICT asset remediation, and
- ICT asset replacement.

3.1.1 Consistency with RIN requirements

Requirements	Consistency with the RIN requirements
General consistency with RIN requirements	All variables for cells shaded yellow have been populated as required by the RIN. All historical information provided is in nominal dollars, unless otherwise specified.
If expenditure is directly attributable to a non-network expenditure category it is a direct cost.	Expenditure reported is exclusive of Sparq overheads incurred in directly providing services.
Report ICT capex by purpose and asset category in table 2.6.4 on a per project category basis (for example Business Analytics, Document and record management and Regulatory reporting systems), in accordance with the definitions in Appendix F.	Capex by purpose and asset category is reported on a project category basis, as categorised by the Artemis database at the time. This is set out in further detail below.
The AER has defined ICT capability growth as the acquisition, development and implementation of new ICT assets to meet a business purpose or capacity requirement.	Energex interpreted the AER definition to mean significant business improvement or transformational initiatives supporting the business's strategy and enabled through the deployment of new ICT capability.
The AER has defined ICT asset extensions as the extension of existing ICT assets to broaden its functionality.	Energex interpreted the AER definition to mean continuous improvement and enhancements to existing ICT assets to support ongoing alignment to business and market requirements.

Requirements	Consistency with the RIN requirements
The AER has defined ICT asset remediation as the correction or optimisation of the performance of existing ICT assets that are not performing to the required service performance requirement.	Energex interpreted the AER definition to mean ICT changes and repairs to remedy operational issues, including functional corrections, performance issues and data rectifications.
The AER has defined ICT asset replacement as the replacement of an existing ICT asset with its modern equivalent where the asset has reached the end of its economic life. This capex has a primary driver of replacement if the factor determining the expenditure is the existing ICT asset has an inability to efficiently maintain its service performance requirement.	Energex interpreted the AER definition to mean cyclic renewals and upgrades aligned with EQ ICT Asset Management Guidelines to ensure the ongoing security, sustainability and supportability of ICT assets.

3.1.2 Source of information

Variable	Source
2010/11 - 2017/18 Capex project description and expenditure	Artemis Ellipse The allocation of projects by ICT subject matter experts ICT End User Devices data
2008/09 – 2009/10 Capex project description and expenditure	Sparq GL data The allocation of projects by ICT subject matter experts ICT End User Devices data Energex (audited) report to QCA [Financials Breakdown- EX ICT- 200809-201314 valued]

3.1.3 Methodology

For the period 2008/09 to 2017/18, Energex's ICT service provider, Sparq Solutions (Sparq), performed all capex projects for Energex. From 2010/11, project-level financial data for projects capitalised between the regulatory years 2010 and 2017 were captured by Artemis. Prior to this information was not captured at the project level by Artemis and therefore cannot be assigned to AER ICT categories at the project level. Sparq GL data is therefore the source for 2008/09 and 2009/10.

Each of the projects were assigned to one of the four categories required by the AER, being:

- ICT Capability Growth
- ICT Asset Extensions
- ICT Asset Remediation
- ICT Asset Replacement.

Assumptions

It was assumed that:

- The portion of overheads against overall expenditure is a proxy for overheads allocated to projects i.e. the overhead applied is a consistent rate.
- The percentage allocation of expenditure to standard control service in the regulatory years 2008/09 to 2015/16 is based on the 15/16 rates derived applying the 2015-20 CAM as this represents a reasonable proxy for cost allocation prior to the establishment of EQL.
- The percentage allocation of expenditure to standard control service in the regulatory years 2016/17 and 2017/18 are based on the 16/17 rates derived applying the 2015-20 CAM as this represents a reasonable proxy for cost allocation under the EQL corporate structure.
- For the regulatory years 2010/11 and 2011/12 project level data did not match general ledger data as it was business practice to not record expenditure related to minor projects in Artemis
- End User devices are unknown in 2008/09 and 2009/10 and have been estimated as a proportion of the overall ICT Capital using the same proportion as was in 2010/11.

Approach/ methodology

The following approach was developed to extract data for 2010/11 to 2017/18:

- Sparq project data from 2010/11 to 2017/18 was extracted from Artemis. This comprises all Energex ICT capex, with the exception of ICT End User devices.
- End User devices were extracted from the Energex General Ledger for the years 2010/11-2017/18.

The following approach was developed to estimate data for 2008/09 and 2009/10 as Artemis was not used to capture project data for the first two years of the backcast period, and the General Ledger did not maintain data at a sufficiently disaggregated level to identify end-used devices:

- Sparq capex transactions were extracted from the Ellipse system for each of the years
- The estimate of the End User devices was added to the Ellipse system data to give a total estimated ICT spend in each of those years.
- 2008/09 and 2009/10 financial data was apportioned to AER categories and the subcategories based on the average percentage allocation of all subsequent years.
- For 2008/09 and 2009/10 the General Ledger did not maintain data at a sufficiently disaggregated level to identify end-user devices. Therefore data was sourced from an audited/reviewed report submitted to the Queensland Competition Authority (QCA).
- This reported End User devices as part of ICT spend for Energex and included Energex Capital for ICT programs and ICT Capital for other network programs.
- On the basis of both General Ledger transactions showing the cost of End User devices and the total audited cost of Energex's ICT for 2010/11, Energex determined the proportion of End User devices as compared to overall internal ICT spend in that year.

Energex then used the proportion constituted by End User devices as a part of the overall internal ICT spend as a proxy for the 2008/09 and 2009/10 years.

ICT subject matter experts analysed the Artemis project data to:

- Identify capex ICT projects that were directly attributable to the Energex corporate group, and those that were jointly shared with the Ergon Energy corporate group.
- Identify, for any capex ICT projects that were directly attributable to the Energex corporate group, any items directly attributable to the Energex distribution business (as opposed to any other entities, such as Metering Dynamics (which is now part of Yurika).
- Allocate, for any projects that were jointly shared with the Ergon Energy corporate group, 50% to the Energex corporate group.
- Assign each item to one of the four AER categories based on the review of project descriptions and applying historical business knowledge of the projects.
- Further assign each project to an Artemis based category. These project sub-categories were:

- Asset Renewal
- Comply
- Continuous Improvement
- Continuous Improvement / Comply
- Enhance
- Explore
- ICTWR
- New Capability
- Replacement
- Sustain
- Transform
- Upgrade
- Upgrade / Replacement
- Value Add.

- The above sub-categories were used to aggregate project data within each of the four AER categories.
1. The Artemis project data was reconciled to the Sparq General Ledger through data drawn from Ellipse as a check to ensure completeness.
 - 1.1. In years 2012/13 to 2015/16 the Artemis project data was not substantially different to General Ledger data. However there were differences in 2010/11 (9.6%) and 2011/12 (2.3%) and 2016/17 (.04%) and 2017/18 (2%). For 2010/11 and 2011/12, it was assumed that this expenditure related to minor projects and was assigned to the four categories on a pro-rata basis, based on expenditure for that year.
 - 1.2. In 2016/17 and 2017/18 the gap between Artemis data and General Ledger data was assumed to arise from an incorrect allocation of overheads. Similar to the above, this was assigned to the four categories on a pro-rata basis, based on expenditure for that year.
 2. The raw project data drawn from the Artemis system contained a number of negative values. These represent project expenditure where management considered it prudent to expense. To reflect project expenditure when incurred these values were transferred to prior years within that project where expenditure was sufficient to cover the value.
 - 2.1. To account for these corrections those negative figures were deducted from the most recent year in which there was expenditure.
 - 2.2. For example the project entitled “Energex GIS Replacement” recorded a figure of \$13.187M in corrections in 2017/18. The 2016/17 listed figure for that project was \$8.103M which was insufficient to account for the correction, therefore the negative balance was transferred to the 2015/16 balance. As a result 2017/18 and 2016/17 do not report a figure and 2015/16 shows a reduced figure.
 - 2.3. Negative figures against projects in the 2010/11 spend were summarised by the category of spend and prorated across those categories for the 2009/10 and 2008/09 years as applicable.
 3. Overheads, which were included in the Artemis financial data, were extracted out using the following approach:
 - 3.1. The total capitalised overhead for Sparq for each year from 2010/11 to 2017/18 was extracted from the General Ledger.
 - 3.2. Total overheads were drawn from the General Ledger for those years.
 - 3.3. The portion of total capitalised overhead as a proportion of total capital expenditure was calculated, and the percentage subtracted from all reported expenditure within that year.
 - 3.4. The average of the percentages for those 8 years was then applied to the 2008/09 and 2009/10 years to remove overheads from the reported expenditure in those years.
 4. Once overheads were removed, capex was then allocated to standard control services in accordance with the 2020 CAM, using percentages derived for 2015/16 and 2016/17. This meant that capex was allocated to Energex standard control services on the basis of ordinary time labour cost.
 - 4.1. 2015/16 percentage allocations were used to backcast data for 2008/09 to 2015/16 as this was deemed to be a proxy for pre-EQL allocations.

- 4.2. 2016/17 percentage allocations were used to backcast data for 2016/17 and 2017/18 as this was deemed to be a proxy for post-EQL allocations.
- 4.3. For 2008/09 and 2009/10 values, those years in which there was no project data, the values were split into Energex distribution business and Energex corporate values reflecting the average split for projects in the years for which data was available. The distribution business values and the corporate values were then allocated to standard control services in accordance with RIN directions.

3.1.4 Estimated information

All information within RIN table 2.6.4 is estimated.

Justification for estimated information

Assignment into AER prescribed categories

Capex incurred by Sparq was not historically captured by each of the four categories required by the AER, therefore analysis of the project data has been necessary based on business knowledge and assumptions based on project descriptors.

Extraction of overheads

Capex captured through Artemis automatically attracted overheads. As it was not possible to determine the specific amount of overhead that was allocated to a project (it was based on incurred labour), the total amount of overhead applied had to be calculated, and then extracted from the capex based on a percentage of expenditure applicable for that year.

Apportionment for minor projects

Artemis did not capture minor project expenditure in years 2010/11 and 2011/12/ and therefore this data is unavailable through Artemis. A reconciliation to GL transactions has been used to approximate expenditure on these projects.

2008/09 and 2009/10 data

Artemis was not used to capture project data for the first two years of the backcast period, therefore it was not possible to extract project-level capex financial data. Sparq GL transactions do not provide enough detail to make assignment to AER categories.

End User Devices

End User Devices were not separately accounted for in the Energex General Ledger prior to 2010/11.

Basis for estimated information

Assignment into four AER categories

As described above, subject matter experts within the business estimated the applicable AER ICT capex category based on historical experience and analysis of project descriptions.

Extraction of overheads

As described above, overheads have been stripped out of project costs by applying the proportion of overheads in each Regulatory year.

Apportionment for minor projects

As described above, minor projects which were not typically accounted for in the Artemis System in 2010/11 and 2011/12 have been classified as ICT works requests and assigned to the four categories on a pro-rata basis, based on expenditure for that year.

2008/09 and 2009/10 data

Total Sparq capex General Ledger transactions for each of the years was aggregated and then apportioned to AER categories based on the average percentage allocation of all subsequent years.

End User Devices

As outlined above, to estimate the data we have gained an audited report submitted to the QCA which reports End User devices as part of a broader number including other Energex Capital for ICT programs and ICT Capital for other network programs. Energex used both GL and audited/reviewed data for 2010/11 to calculate the proportion as a proxy for the 2008/09 and 2009/10 years.

4 BOP Template 2.10 – Network overheads

4.1 Tables 2.10.1 and 2.10.2 - Network overheads and Corporate overheads expenditure

The AER requires Energex to provide network overheads expenditure, and corporate overheads expenditure, allocated to opex and capex for Standard Control Services, Alternative Control Services and other distribution services (negotiated services and unregulated services).

4.1.1 Consistency with RIN requirements

Requirements	Consistency with the RIN requirements
Report overhead expenditure before it is allocated to direct expenditure. Report the total amounts allocated to opex and capex for standard control services and alternative control services, and report total amounts allocated to negotiated services and unregulated services in each regulatory year.	Overheads are representative of the portion allocated to each subcategory for each year, and have not been allocated to direct expenditure.
<p>If there is any overhead expenditure that is capitalised:</p> <p>(a) report the total amounts allocated to standard control services and alternative control services in each regulatory year;</p> <p>(b) explain in the basis of preparation, why it is capitalised;</p> <p>(c) if there is a material change in reported expenditures due to a change in capitalisation policy, identify the expenditure categories and quantum of capex and opex that are affected and explain this in the basis of preparation (for historical information)</p>	<p>Energex’s capitalisation policy explains that Energex’s core business is the construction, maintenance and operation of the electricity distribution network in South East Queensland. In the operation of its business, Energex incurs a range of support costs that are not directly attributable to individual distribution services or activities.</p> <p>As these costs support the direct activities associated with the construction, maintenance and operation of the electricity network, Energex has employed a rational and systematic approach to attribute these support costs to operating and capital activities, which is described in the 2020 Cost Allocation Methodology (CAM).</p> <p>In accordance with Energex’s 2020 CAM, regulated overheads are allocated to distribution services (capital and operating) based on direct spend incurred on each service as this reflects a strong correlation with the consumption of the underlying overhead expenditure.</p> <p>There is no change in capitalisation policy proposed in the forthcoming regulatory control period.</p>

4.1.2 Source of information

Variable	Source
2008/09 to 2014/15 and 2017/18 data	<p>Previously reported data</p> <p>Energex CA RINs:</p> <ul style="list-style-type: none">• CA RIN 2015 Regulatory Reset recast submission• CA RIN 2015/16• CA RIN 2016/17• CA RIN 2017/18 <p>ACS capex data was sourced from worksheet 2.1 and remaining data was sourced from worksheet 2.10.</p> <p>CAM and CoS change adjustments</p> <p>EQL Materiality Assessment spreadsheet</p>

4.1.3 Methodology

Assumptions

It is assumed that:

- For the CA RINs Network overheads worksheet 2.10, the percentage change between:
 - 2015/16 annual CA RIN data, and
 - 2015/16 2020 recast CA RIN data, modelled through remapping of 2015/16 GL transactions to reflect 2020 CoS and CAM changes,is representative of the percentage change between annual CA RIN data and 2020 recast CA RIN data in years 2008/09 to 2014/15. That is, if the change from annual to 2020 recast for the CA RIN represents a 5% increase in 2015/16, the 2020 recast also represents a 5% change in 2008/09.
- Similarly, for the CA RINs Network overheads worksheet 2.10, the percentage change between:
 - 2016/17 annual CA RIN data, and
 - 2016/17 2020 recast CA RIN data, modelled through remapping of 2016/17 GL transactions to reflect 2020 CoS and CAM changes,is representative of the percentage change between annual and 2020 CAM and CoS changes in 2017/18.
- For SCS and ACS corporate overhead, it was assumed that only the following comprised ACS corporate overhead capex:
 - Business Support Services
 - Business Operations & Performance

- Field Support Services
- Information Technology & Communications
- Property
- Fleet

Approach

Previously reported data was sourced from CA RINs as follows:

Item	Data point and approach
Network overheads – Opex - SCS	<p>In CA RIN 2.10.1 first table Energex previously reported total network overheads, both operating and capital for SCS. Accordingly, the capitalised component had to be removed to identify the opex portion.</p> <p>The percentage change due to the 2020 CAM and CoS was applied based on representative years, as per proportions calculated by the materiality assessment spreadsheet.</p> <p>Calculation: $[(\text{total reported network overheads for SCS}) - (\text{capitalised network overheads for SCS})] \times [1 + 2020 \text{ CAM and CoS } \% \text{ change}]$</p>
Network overheads – Opex - ACS	<p>In CA RIN 2.10.1 first table Energex previously reported total network overheads, both operating and capital for ACS. Accordingly, the capitalised component had to be removed to identify the opex portion.</p> <p>The percentage change due to the 2020 CAM and CoS was applied based on representative years, as per proportions calculated by the materiality assessment spreadsheet.</p> <p>Calculation: $[(\text{total reported network overheads for ACS}) - (\text{capitalised network overheads for ACS})] \times [1 + 2020 \text{ CAM and CoS } \% \text{ change}]$</p>
Network overheads – Capex - SCS	<p>Energex previously reported capitalised network overheads for SCS through CA RIN 2.10.1.</p> <p>This value was adjusted for the relevant 2020 CAM and CoS % change.</p> <p>Calculation: $(\text{total reported capitalised network overheads for SCS}) \times (1 + 2020 \text{ CAM and CoS } \% \text{ change})$</p>
Network overheads – Capex - ACS	<p>Energex previously reported total ACS capex capitalised network overheads through CA RIN 2.1.3. This was not disaggregated any further in the RIN therefore non-network overhead items could not be identified and excluded.</p> <p>Energex estimated a non-network overhead portion of network overheads capex ACS by applying the non-network overheads portion of total network overheads for ACS (i.e the pool including capex and opex). This portion was subtracted from the reported portion.</p> <p>Calculation: $(\text{total ACS capex capitalised network overheads}) \times (1 + 2020 \text{ CAM and CoS } \% \text{ change})$</p>
Network overheads – other distribution services	<p>Energex previously reported network overheads unregulated services through CA RIN 2.10.1. This value was used and adjusted for 2020 CAM and CoS % change.</p> <p>Calculation: $(\text{total unregulated services network overheads}) \times (1 + 2020 \text{ CAM and CoS } \% \text{ change})$</p> <p>Negotiated services were not provided and were populated with a nil response.</p>

Item	Data point and approach
Corporate overheads – Opex - SCS	<p>In CA RIN 2.10.2 second table Energex previously reported total corporate overheads, both operating and capital for SCS. Accordingly, the capitalised component had to be removed to identify the opex portion.</p> <p>In addition, shared non-network operating expenditures for fleet, tools, property and ICT were included as overheads. It is proposed that this expenditure be reported once only in 2.6. non-network template. As such these costs are required to be removed from the previously reported expenditure.</p> <p>The percentage change due to the 2020 CAM and CoS was applied based on representative years, as per proportions calculated by the materiality assessment spreadsheet. This percentage accounts for the removal of non-network costs so no additional adjustment is required.</p> <p>Calculation:</p> $[(\text{total reported corporate overheads for SCS}) - (\text{capitalised corporate overheads for SCS})] \times [1 + 2020 \text{ CAM and CoS } \% \text{ change}]$ <p>Supporting calculations are in the Egx 2.10 Overheads supporting workbook.</p>
Corporate overheads – Opex - ACS	<p>In CA RIN 2.10.2 second table Energex previously reported total corporate overheads, both operating and capital for ACS. Accordingly, the capitalised component had to be removed to identify the opex portion.</p> <p>Further, non-network overhead costs such as fleet, tools, property and ICT were included in these costs and were required to be stripped out.</p> <p>The percentage change due to the 2020 CAM and CoS was applied based on representative years, as per proportions calculated by the materiality assessment spreadsheet.</p> <p>Calculation:</p> $[(\text{total reported corporate overheads for ACS}) - (\text{capitalised corporate overheads for ACS})] \times (1 + 2020 \text{ CAM and CoS } \% \text{ change})$ <p>Supporting calculations are in the Egx 2.10 Overheads supporting workbook.</p>
Corporate overheads – Capex - SCS	<p>Non-network overhead costs such as fleet, tools, property and ICT were included in Corporate overheads capex SCS. Accordingly, the non-network components had to be removed to identify the corporate overheads portion.</p> <p>The percentage change due to the 2020 CAM and CoS was applied based on representative years, as per proportions calculated by the materiality assessment spreadsheet. This percentage accounts for the removal of non-network costs so no additional adjustment is required.</p> $(\text{Total reported corporate overheads capex for SCS}) \times (1 + 2020 \text{ CAM and CoS } \% \text{ change})$
Corporate overheads – Capex - ACS	<p>Energex previously reported total ACS capitalised corporate overheads through CA RIN 2.1.3. Non-network overhead costs such as fleet, tools, property and ICT were included in Corporate overheads capex SCS. Accordingly, the non-network components had to be removed to identify the corporate overheads portion.</p> <p>As previously reported ACS capitalised corporate overheads was not disaggregated, non-network overhead items could not be directly identified and excluded. However the percentage change calculated by the materiality model accounts for the removal of non-network costs so no additional adjustment is required.</p> $(\text{Total reported corporate overheads capex for ACS}) \times (1 + 2020 \text{ CAM and CoS } \% \text{ change})$
Corporate overheads – other distribution services	<p>Energex previously reported corporate overheads unregulated services through CA RIN 2.10.1. This value was used and adjusted for 2020 CAM and CoS % change.</p> <p>Calculation:</p> $(\text{total unregulated services corporate overheads}) \times (1 + 2020 \text{ CAM and CoS } \% \text{ change})$ <p>Negotiated services were not provided and were populated with a nil response.</p>

For 2015/16 and 2016/17, recast GL transactions for 2020 CAM and CoS changes were used to calculate values, as set out in the Basis of Preparation for the materiality assessment.

The above data was therefore adjusted to reflect the 2020 CAM and CoS changes, which was performed for each of the line items as follows:

- For 2008/09 to 2014/15, 2015/16 data was used to estimate the percentage change between:
 - 2015/16 annual CA RIN data, and
 - 2015/16 2020 recast CA RIN data
- For 2017/18, 2016/17 data was used to estimate the percentage change between:
 - 2016/17 annual CA RIN data, and
 - 2016/17 recast CA RIN data.

4.1.4 Estimated information

All information in this worksheet is estimated.

Justification for estimated information

2015/16 and 2016/17 data

The remapping of GL transactions for CoS changes required assumptions about the GL transactions that applied to those specific services where data was not historically recorded at the necessary level of granularity.

This impacted relative labour, other direct costs and revenue associated with those services, which in turn impacted the allocation percentages calculated under the 2020 CAM. Information impacted by CoS changes is expected to be 'estimated information' and includes Network overheads expenditure and Corporate overheads expenditure which has been allocated between service classifications using allocators that are dependent on the assumptions for the CoS changes (because it impacts relative revenue, labour and direct costs, which are used to calculate those percentages).

2008/09 to 2014/15 and 2017/18 previously reported data

Given the significant time and cost burden associated with remapping each year's GL transactions for 2020 CAM and CoS changes, it was not feasible to do so for all years and some method of estimating the impact was required. For example, remapping of the entire GL for just 2015/16 and 2016/17 required a team of external resources several weeks to complete. It involved analysing up to 30,000 line items against 2020 CAM business rules. Remapping of a further seven years was not considered feasible on this basis.

As above, the allocations between service classifications were driven by estimates of revenue, labour and direct costs arising out of assumptions made for CoS changes and are also estimates on this basis.

Basis for estimated information

For 2015/16 and 2016/17 data, business knowledge and assumptions had to be applied to determining the portion of expenditure and/or revenue associated with those service reclassifications. This is set out in further detail in the Materiality Assessment Basis of Preparation.

For 2008/09 to 2014/15 and 2017/18 previously reported data, the percentage change between annual and 2020 recast CA RIN data for each line item in the representative years, was used to estimate the adjustment to previously reported data.

5 Template 2.11 - Labour

5.1 Table 2.11.3 – Labour/Non-labour expenditure – SCS

The AER requires Energex to provide the following opex and capex categories relating to Labour / Non-labour Expenditure:

- In-house labour expenditure
- Labour expenditure outsourced to related parties
- Labour expenditure outsourced to unrelated parties
- Controllable non-labour expenditure
- Uncontrollable non-labour expenditure

5.1.1 Consistency with RIN requirements

Requirements	Consistency with the RIN requirements
Only costs allocated to the provision of standard control services should be reported in Workbook 2 – Regulatory determination, regulatory template 2.11.	Energex has reported Standard Control Services in accordance with the requirements and definitions specified by the AER.
Labour used in the provision of contracts for both goods and services, other than contracts for the provision of labour (i.e. labour hire contracts) must not be reported as labour in regulatory template 2.11.	<p>Energex has reported labour expenditure in accordance with the requirements and definitions specified by the AER.</p> <p>Total contractor costs are reported as labour expenditure outsourced to unrelated parties as they cannot be broken down into labour and non-labour costs.</p>
Energex must break down its labour data (both employees and labour contracted through labour hire contracts) into the categories provided in Workbook 2– Regulatory determination, regulatory template 2.11. Energex must explain how it has grouped workers into these categories.	See methodology below
Quantities of labour and labour expenditure should not be reported multiple times across the regulatory templates. However, labour may be split between regulatory templates (for example, one worker could have half of their time allocated to corporate overheads and half of their time to network overheads).	The split between regulatory templates is dealt with by applying allocation percentages to relevant categories, such as corporate overhead and network overheads. For more detail on allocation percentage calculation, please refer to the rationale for estimates.

5.1.2 Source of information

Variable	Source
In-house labour expenditure	Direct costs are specifically identified via a segment (expense element) of the account code within the Ellipse General Ledger (GL) and mapped to this reporting category. Shared costs are allocated based on the nature of the raw costs identified via GL expense element. For further detail refer to the Methodology section below.
Labour expenditure outsourced to related parties	Direct costs are specifically identified via a segment (expense element) of the account code within the Ellipse General Ledger (GL) and mapped to this reporting category. Shared costs are allocated based on the nature of the raw costs identified via GL expense element. For further detail refer to the Methodology section below.
Labour expenditure outsourced to unrelated parties	Direct costs are specifically identified via a segment (expense element) of the account code within the Ellipse General Ledger (GL) and mapped to this reporting category. Shared costs are allocated based on the nature of the raw costs identified via GL expense element. For further detail refer to the Methodology section below.
Controllable non-labour expenditure	Direct costs are specifically identified via a segment (expense element) of the account code within the Ellipse General Ledger (GL) and mapped to this reporting category. Shared costs are allocated based on the nature of the raw costs identified via GL expense element. For further detail refer to the Methodology section below.
Uncontrollable non-labour expenditure	Direct costs are specifically identified via a segment (expense element) of the account code within the Ellipse General Ledger (GL) and mapped to this reporting category. Shared costs are allocated based on the nature of the raw costs identified via GL expense element. For further detail refer to the Methodology section below.

5.1.3 Methodology

Capitalisation of Regulated Overheads

Methodology for the Labour / Non Labour Expenditure Split reporting is detailed below.

Assumptions

Apportionment of the allocated / shared costs (i.e. regulated overhead, fleet and materials on-costs) to the five categories prescribed above used average rates calculated based on 2015/16 - 2017/18 data:

- Apportionment is based on the analysis of the raw / source costs, and proportions of the total costs are determined for each reporting category. This reflects the underlying nature of the transactions. However, average rates based on 2015/16 – 2017/18 were used to allocate these costs for 2008/09 to 2014/15. It was not considered practical to extract the underlying source data for these initial years due to system limitations.
- As such, the average rate is considered to be the most practical way to allocate overhead costs for this purpose. There is no indicator to show that using an average rate would be materially different to calculating percentages based on the raw / source costs.

Approach

A consistent approach to the preparation of the 2015/16 – 2017/18 AR RIN labour templates was applied when preparing the 2009/10 – 2014/15 data set, including mapping.

A significant portion of Energex’s external contractors are engaged based on a Schedule of Rates or Design and Construct (D&C) contract basis to deliver services. The Schedule of Rates or D&C contract include the total cost of the contractors’ labour, provision of plant and equipment, materials and overhead costs. This approach was acknowledged in the AER Preliminary decision Energex distribution determination Attachment 7 OPEX - April 2015 (pg 7-280) – “This is because the contract is for the provision of a service at a set price rather than for the provision of a unit of labour”. The established rate may also include volume discounts. Consequently invoices provided by contractors do not differentiate between labour and other costs.

To differentiate would require the contractor to implement or modify processes and systems to explicitly capture their costs at a detailed level and provide invoices incorporating a breakdown of costs by category. Energex’s accounts payable processes and corporate financial systems would also need to be modified to capture contractor costs at this more detailed level. Imposing a requirement on all contractors to modify their processes and systems to facilitate cost category breakdown is unrealistic and would impose significant additional costs. In some circumstances, particularly for smaller contractors, this additional cost may cause financial hardship especially in a competitive tendering market. Additional costs incurred would need to be incorporated into the contractors costs charged to Energex and ultimately would be borne by electricity customers.

Energex’s corporate financial system has not been structured to capture and differentiate contractor costs at a cost category level as Energex does not manage contractor expenditure for operating programs at this detailed level. Management of contractor costs are generally at the market tender phase where the Schedule of Rates are assessed and analysed for prudence and efficiency. For capital programs a significant proportion of contractor spend is for D & C projects, where the contractor is responsible for all phases of the project. Imposing additional requirements on contractors and modifying Energex’s financial systems and processes would ultimately impose significant additional costs on electricity customers to enable this RIN reporting capability.

Due to the inability to differentiate contractor costs as described above, Energex has included total contractor costs in the ‘Labour expenditure outsourced to unrelated parties’ category.

In 2016/17 and 2017/18

- Sparq labour will continue to be reported as related party labour on the basis that the DNSPs contract with EQL (i.e. a related party) for the provision of ICT services.
- EQL labour will continue to be reported as related party labour.

In 2015/16 and prior years

- Consistent with previous AR RIN reporting, EQL labour will not be reported as related party on the basis that EQL was not established in these years and this labour sat within the relevant DNSP. This is consistent with AER instructions that, “in year prior to EQL being established, corporate costs incurred directly by each DNSP must be attributed and allocated in accordance with each DNSP’s CAM. We note this would mean that for the allocation of corporate overheads in the new CAM only step 3 would be applied”
- Sparq labour will continue to be reported as related party labour on the basis that the 2020 CAM ICT costs sit in EQL. Although EQL was not established in these years, the CAM envisages ICT labour as sitting in a related entity and it is appropriate that it continues to be treated this way. Reporting Sparq labour as in-house labour in these years would misrepresent the fact that ICT always has been, and for 2020 will continue to be, a service provided to Energex by a related party.

5.1.4 Estimated information

Justification for estimated information

Refer assumptions section above.

Basis for estimated information

Refer assumptions section above.