

# Workbook 3 – Recast Category Analysis Basis of Preparation

2020-25

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# 1. OVERVIEW

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## 1.1. Introduction

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

Paragraph 1.3 in Schedule 1 of the the Notice requires, for all information, other than forecast information, provide in accordance with this notice and the instructions in Appendix E, a basis of preparation demonstrating how Energex has complied with this notice in respect of paragraph 1.2.

Paragraph 1.2 requires that if:

- a) Energex's cost allocation method has changed during the current regulatory control period;
- b) Energex's service classifications have changed from the current regulatory control period;
- c) Energex proposes to divert from the service classifications set out in the relevant framework and approach paper; or
- d) Energex proposes to change its cost allocation method for the forthcoming regulatory control period;

such that there would be material changes to information previously submitted to the AER, Energex must use the regulatory templates in Workbook 3 – Recast category analysis and Workbook 4 – Recast economic benchmarking attached at Appendix A of the Notice to submit revised historical information.

Energex's classification of services (CoS) for the forthcoming regulatory control period have changed from the current regulatory control period, and Energex's cost allocation method (CAM) was amended for the forthcoming regulatory control period, so is impacted by requirements b) and d) above.

This Basis of Preparation (BoP) relates to the materiality assessment undertaken to determine the scope of recast information required for regulatory templates 'EGX 17.047 2020 – 25 Recast Category Analysis RIN template JAN19 PUBLIC.xls' (Workbook 3 – Recast category analysis) and 'EGX 17.049 2020 – 25 Recast Economic Benchmarking RIN template JAN19 PUBLIC.xls' (Workbook 4 – Recast economic benchmarking).

## 1.2. Structure

The following chapters detail the overall approach Energex adopted for the materiality assessment and the specific approaches for the CAM changes and the CoS changes. . For this, Energex has explained:

- how Energex have complied with the RIN requirements of the Notice;

- 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 definitions outlined in Appendix F of the Notice.

## 2. Materiality assessment

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### 2.1. Materiality requirements

#### 2.1.1. Requirement for materiality assessment

The AER requires Energex to perform a materiality assessment on the changes to the previously reported information as a result of Energex's proposed changes to the CoS and CAM for the forthcoming regulatory control period. These changes will impact financial data previously provided by Energex.

As agreed with the AER through email correspondence dated 21 August 2018 (with further clarification provided on 19 November 2018), the materiality assessment was based on the 2015/16 and 2016/17 regulatory years.

#### 2.1.2. Consistency with RIN Requirements

All calculations are made in accordance with the requirements of the Notices and further email correspondence with the AER dated 21 August 2018.

Schedule 1 of the Notice requires Energex to assess whether there would be any material changes to the information previously submitted to the AER as a result of proposed changes to the CoS and / or CAM. As agreed with the AER (email dated 21 August 2018), Energex has used the (audited/reviewed) category analysis (CA) and economic benchmarking (EB) RINs for 2015/16 and 2016/17 as the "information previously submitted to the AER" for the purposes of the materiality assessment.

The materiality assessment and supporting information on which the assessment is based are provided in the "181103 3 EQL Materiality Assessment.xlsx" and supporting spreadsheets.

### 2.2. Overarching approach

The materiality assessment considers the cumulative impacts from both the proposed changes to the CAM and the proposed CoS changes. This section details the overall approach to the materiality assessment. The subsequent sections detail the approaches to capturing the CAM and CoS changes in the data used in this assessment. Whilst this BoP is specifically for Workbook 3 Recast Category Analysis, the approach documented was applied to both the Recast Category Analysis and the Recast Economic Benchmarking information.

## 2.2.1. Source of information

The following table sets out the sources from which Energex obtained the required information required to estimate the materiality of the CAM and CoS changes.

| Variable                                   | Source  |
|--|---|
| Previously submitted information (various) | Energex – CA RIN Response 2015/16<br>Energex – EB RIN Response 2015/16<br>Energex – CA RIN Response 2016/17<br>Energex – EB RIN Response 2016/17  |
| Recast information for 2015/16 and 2016/17 | The recast information is the financial data previously reported, but adjusted for the proposed Cos and CAM changes.<br><br>The majority of the information was sourced from the General Ledger for the respective years, with the balance sourced from other business systems / databases, such as the fixed asset register..<br><br>Further details on the sources of information used for assessing the materiality of the CAM and CoS changes are provided in following sections. |

## 2.2.2. Methodology

### Assumptions

The following assumptions were made in determining the materiality of the proposed changes to the CAM:

- Materiality threshold set at 5%, based on regulatory precedent<sup>1</sup> and agreed with the AER (via email dated 21 August 2018).

Further assumptions specific to the CAM changes and the CoS change are set out in the following sections.

### Approach

As agreed with the AER, Energex assessed the cumulative impact of the proposed changes to the CoS and the CAM on information previously reported to the AER. “Information previously submitted” through CA RINs and EB RINs includes expenditure, revenue and other data of a financial and non-financial nature.

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<sup>1</sup> Based on KPMG advice to TasNetworks on the backcasting of the Economic Benchmarking and Category Analysis data. The KPMG report, which was dated 23 December 2015, is published on the AER website.

For expenditure, the CoS changes impact the values of the cost allocators used in the CAM. Hence, the impact of one change cannot be effectively assessed in isolation of the other changes.

The following general formula was used to assess the materiality of the CoS and CAM changes:

$$\begin{aligned} \text{Materiality \%} &= \frac{\text{Change in value of reported information}}{\text{Total value for reported information}} \times 100\% \\ &= \frac{\text{2020 recast value} - \text{Reported value}}{\text{Total value for reported information}} \times 100\% \end{aligned}$$

The change in the value of the previously reported information is the difference between:

- 2020 recast value, which is the value for the data point sourced from the General Ledger for 2015/16 and 2016/17, respectively, and applying the new CoS mappings and business rules supporting the final CAM approved by the AER in November 2018 (effective 1 July 2020) (the “2020 CAM”)
- The value for the specific data point reported in the 2015/16 and 2016/17 CA and EB RINS, respectively. The data point refers either a RIN template, RIN table or line item, as required by the AER in its email of 21 August. There were no adjustments made to the data previously reported to the AER.

The General Ledger mapping captures the changes resulting from both the CoS and CAM changes on a cumulative basis for revenue, direct costs and indirect costs. The mapping is set out in a series of supporting spreadsheets and the application of the materiality test is set out in the “20181103 3 EQL – Materiality Assessment.xlsx” spreadsheet.

For items not captured by the General Ledger (for example, asset values and volume data), the same formula is applied to determine the materiality, but the “2020 reset values” are sourced from other databases, such as the fixed asset register. Details of the specific sources of information used are provided below.

The materiality was generally determined on a template by template basis, with further disaggregated assessments as agreed with the AER. The following table summarises the agreed level of granularity for materiality assessments:

| Workbook template                     | Information reported   | Denominator for materiality calculation     |
|---------------------------------------|--|---|
| CA Expenditure Summary (Template 2.1) | Summary of recast individual templates   | Recast based on subsequent templates        |
| CA Augex (Template 2.3 (a) & (b))     | SCS Augex (direct only)  | Total Augex                                 |
| CA Connections (Template 2.5)         | Total connections (direct costs, ACS + SCS, opex + capex, including capital contributions) | SCS Connections as reported in Template 2.5 |

| Workbook template                    | Information reported  | Denominator for materiality calculation  |
|--------------------------------------|---|--|
| CA Non-Network<br>(Template 2.6)     | SCS Non-network expenditure, broken down by category and opex / capex.                        | Non-network sub-category: <ul style="list-style-type: none"> <li>• IT &amp; Communications</li> <li>• Motor Vehicles</li> <li>• Buildings and Property</li> <li>• Other</li> </ul> |
| CA Overheads<br>(Template 2.10)      | Total SCS (Capex + Opex, Network + Corporate)<br>Total ACS (Opex, Network + Corporate)        | Overheads by service classification (SCS / ACS) and type (network / corporate)   |
| CA Labour<br>(Template 2.11)         | Total Internal Labour (direct + indirect)   | Total labour costs   |
| Input Tables<br>(Template 2.12)      | Summary of recast individual templates, disaggregated by Labour /Materials /Contractor /Other | Recast based on subsequent templates   |
| CA Public Lighting<br>(Template 4.1) | Total ACS Public Lighting (Opex + Capex, direct only)   | Total public lighting  |
| CA Metering<br>(Template 4.2)        | Total ACS Metering (Opex + Capex, direct only)  | Total metering   |
| CA Quoted Services<br>(Template 4.4) | Total ACS Quoted Services (Opex + Capex, direct only)   | Total quoted services  |
| EB Revenue<br>(Template 3.1)         | Total ACS Revenue   | Total revenue  |
| EB Opex<br>(Template 3.2)            | Total ACS Opex (direct + indirects)   | Total opex   |

Given Quoted Services were only materially impacted by CoS changes for Sale of Inventory, Energex has only reported those material CoS changes in template 4.4. Management surmised that the changes in cost allocation methodology and fleet on-cost changes would not have a material impact on Quoted Services.

The materiality threshold was set at 5%, with historical recast data to be provided where the calculated materiality exceeded this threshold value.

## 2.3.1. Estimated information

### Justification for estimated information

The materiality assessments were performed for two years and then applied prospectively and retrospectively. Significant judgements and assumptions were applied during this process.

### Basis for estimated information

The basis for the estimated information used for the CoS changes is provided in following sections.

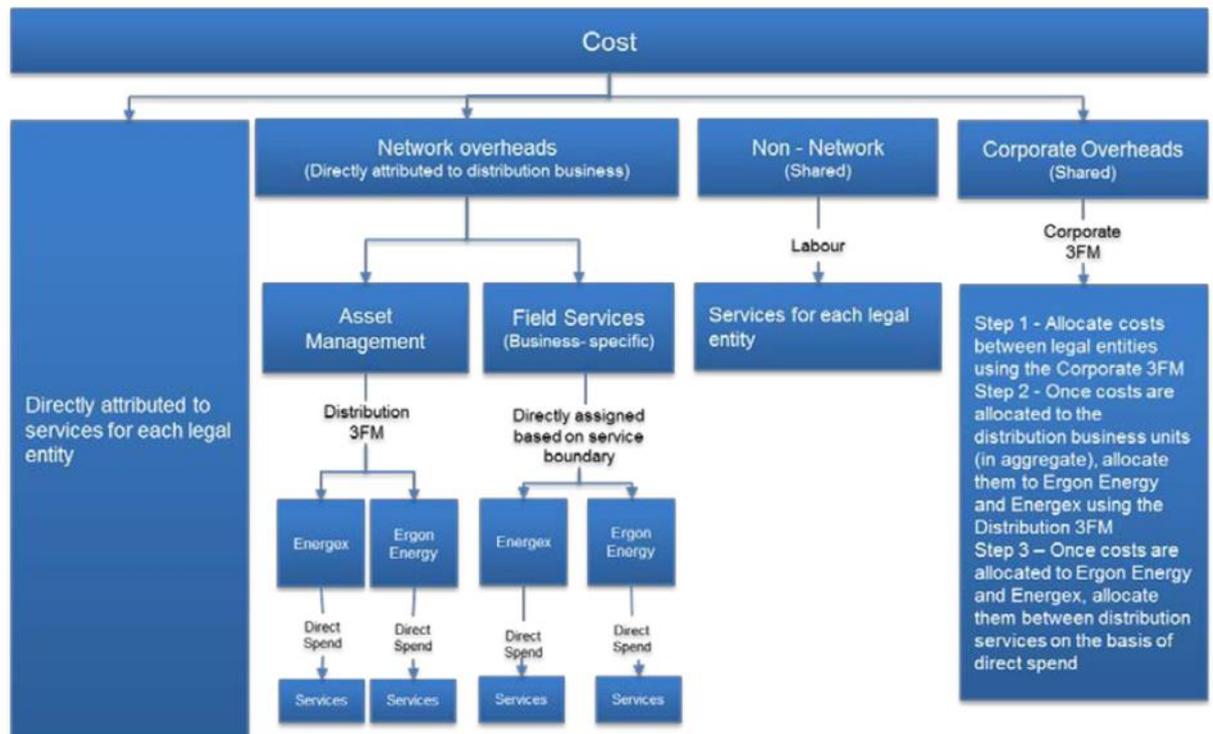
## 2.4. Cost allocation

The 2020 CAM changes the way that network, non-network and corporate overheads costs are allocated to services:

- Corporate overhead costs are allocated between the distribution businesses (Ergon Energy and Energex), Yurika and Retail using a Corporate Three Factor Method based on an average weighting of fixed asset value, revenue and labour.
  - The corporate overhead costs allocated to the distribution businesses are then allocated between Ergon Energy and Energex using the Distribution Three Factor Method based on an equal weighting of direct spend, customer numbers and supply system asset values.
  - Corporate overhead costs allocated to Energex are then allocated between services using direct spend as the allocator.
  - Corporate overheads allocated to each service are then allocated between opex and capex (capitalised overheads) in accordance with the 2020 CAM Business Rules.
- Network overheads, which are directly attributable to the network business, are allocated as follows:
  - Asset Management costs, which are indirect network costs that are common to both Ergon Energy and Energex, are allocated between the distributors using the Distribution Three Factor Method, and then to services using direct spend.
  - Field Services are directly allocated to each distributor based on service boundaries and then to services using direct spend.
  - Network overheads allocated to each service are then allocated between opex and capex (capitalised overheads) in accordance with the 2020 CAM Business Rules.
- Non-network overheads, such as Property, Tools and Equipment, ICT and Fleet, are allocated to the distributors, and then between services, on the basis of labour

spend. They are further allocated between opex and capex (capitalised overheads) in accordance with the 2020 CAM Business Rules.

The following diagram summarises the methodology in the 2020 CAM:



The 2020 CAM does not impact the methodology for the attribution of direct costs, which will continue to be attributed to activities using source documents, with the activities mapped to associated services. Direct cost categories include labour and related costs, inventory and materials, third party contractor costs and other costs that have a direct line of sight to a service. Labour and inventory/materials include on-costs for those respective categories.

The current CAM (version 2.a) treats fleet costs as direct costs, with the costs attributed to services based on the direct labour spend for each service. Under the 2020 CAM, fleet costs are treated as indirect Non-Network costs; however, they will continue to be allocated between services on the basis of direct labour.

The overall methodology is set out in the 2020 CAM, with further details for the application of the 2020 CAM set out in the Cost Allocation Method Business Rules (version 1, effective 1 July 2020) and the supporting mapping of the General Ledger in Energex's financial system.

## 2.4.1. Source of information

The following table sets out the sources from which Energex obtained the required information:

| Variable                                   | Source  |
|--|---|
| Previously submitted information (various) | <p>Energex – CA RIN Response 2015/16</p> <p>Energex – EB RIN Response 2015/16</p> <p>Energex – CA RIN Response 2016/17</p> <p>Energex – EB RIN Response 2016/17</p> <p>All values were taken directly from the RINs previously submitted to the AER, without any adjustments to the reported information.</p> |

### Recast data (for the purposes of calculating the materiality)

#### Corporate three factor method parameters

|  |   |
|--|---|
| Total Energex, Ergon Energy, Retail and Yurika fixed assets including property, plant and equipment and intangibles (including WIP)                                  | Based on the latest approved SCI/CP, as per the 2020 CAM Business Rules |
| Total Energex, Ergon Energy, Retail, and Yurika revenue excluding TUOS, government grants, interest, solar PV, gifted assets, dividends and intercompany SLA revenue | Historic audited general ledgers  |
| Total Energex, Ergon Energy, Retail and Yurika labour spend  | Based on Ordinary Time Labour Costs                                     |

#### Distribution Three Factor Method parameters

|  |  |
|--|--|
| Total Energex and Ergon Energy supply system assets including both SCS and ACS | Based on the latest approved SCI/CP, as per the 2020 CAM Business Rules.   |
| Total Energex and Ergon Energy customer numbers                                | Based on the figures contained within Energy Queensland Annual Report. A customer number is the count of unique national meter identifiers (NMIs) irrespective of the type of customer (ie. a residential NMI and commercial NMI both count as a single customer). |

| Variable  | Source  |
|---|---|
| Total Energex and Ergon Energy direct spend         | Direct spend includes SCS and ACS System Capex and Opex direct spend (excluding gifted assets) and was sourced from General Ledger reports for 2015/16 and 2016/17 which were downloaded and remapped using the 2020 CAM and 2020 CoS.  |
| <b>Allocation to legal entities based on labour</b> |   |
| Allocation to legal entities based on labour        | <p>The information for allocating non-network overheads (where the non-network assets are utilised) to legal entities was derived from General Ledger reports for 2015/16 and 2016/17 which were downloaded and remapped using the 2020 CAM and 2020 CoS.</p> <p>The report parameters for the denominator for property and ICT overheads and capex were as per the 2020 CAM Business Rules.</p>  |
| <b>Allocation to services</b>                       |   |
| Allocation to services based on Direct labour spend | <p>Non-network costs are subsequently allocated from each distribution entity to services based on Direct labour.</p> <p>The information for estimating the direct distribution labour spend was sourced from the Energex financial system (Ellipse). The General Ledger reports for 2015/16 and 2016/17 were downloaded and remapped using the 2020 CAM and 2020 CoS.</p> <p>The report parameters for the denominator (i.e. total spend for the distribution businesses) were as per the 2020 CAM Business Rules.</p> <p>The numerator is determined by the corresponding entity's direct labour spend on that service.</p> |
| Allocation to services based on Direct spend        | <p>The information for estimating the direct spend was sourced from the Energex financial system (Ellipse). The General Ledger reports for 2015/16 and 2016/17 were downloaded and remapped using the 2020 CAM and 2020 Services Classification.</p> <p>The report parameters for the denominator (i.e. total spend for the distribution businesses) were as per the 2020 CAM Business Rules.</p> <p>The numerator (i.e. direct spend for Energex) was determined using the same data set, filtered for only EGX1 districts.</p>  |

## 2.4.2. Methodology

### Assumptions

The following assumptions were made in determining the impact of the proposed changes to the CAM:

- 
- The relevant CAM for assessing the proposed changes is the final CAM approved by the AER in November 2018 (effective 1 July 2020) (the “2020 CAM”).

### Approach

The proposed changes to the 2020 CAM were applied to the 2015/16 and 2016/17 financial data through a two-step process:

1. Mapping of the General Ledger to the new CAM
2. Application of the new allocators to the shared costs.

The first step was to map the General Ledger codes used in 2015/16 and 2016/17, respectively, to the methodology set out in the 2020 CAM and the 2020 CAM Business Rules (Version 1.0 effective 01 July 2020). The revised mapping, which also took into consideration the changes resulting from the proposed service classification changes (as detailed in the following section), was then applied to the General Ledger reports for 2015/16 and 2016/17, respectively.

The following table details the General Ledger mapping changes applied to capture the CAM changes.

| Cost category   | Mapping changes   |
|-----------------|---|
| Fleet (Energex) | <p>Fleet is treated as a direct cost on-cost under the current CAM (version 2.a), which was attributed to services via a standard rate applied to the direct labour spend. The fleet costs included on-costs.</p> <p>The 2020 CAM treats this as an indirect cost, with the fleet costs including on-costs.</p> <p>This change is reflected by mapping fleet costs (including on-costs, but excluding depreciation) to “Non-Network – Fleet”. This included remapping for the following responsibility centres:</p> <ul style="list-style-type: none"> <li>• 8631 – Fleet Assets &amp; Operations</li> <li>• 8632 – Plant Workshops</li> <li>• 8640 – Generator Services</li> </ul> |

| Cost category        | Mapping changes   |
|----------------------|---|
| Sparq / IT (Energex) | <p>Sparq/IT is treated as a corporate overhead in the current CAM (version 2.a).</p> <p>The 2020 CAM treats this as a Non-Network cost, which is then allocated between services using the methodology described above.</p> <p>This change is reflected by removing the Sparq transactions from the Energex General Ledger and replacing the costs with those from the Sparq General Ledger. These costs are then allocated to services using the methodology set out in the 2020 CAM.</p> <p>The elements removed from the Energex Ledger were:</p> <ul style="list-style-type: none"> <li>• 4940 – Sparq Contractor</li> <li>• 4941 – Sparq SLA</li> <li>• 4942 – Sparq Telco &amp; Pass-through Costs</li> <li>• 4945 – Contr – Sparq Asset Usage Fee</li> </ul> |

Once all relevant financial information had been mapped in accordance with the 2020 CAM (and proposed CoS), shared costs (i.e. Network Overheads, Non-Network Shared Costs and Corporate Overheads) were then allocated to services using the methodology set out in the 2020 CAM and the 2020 CAM Business Rules.

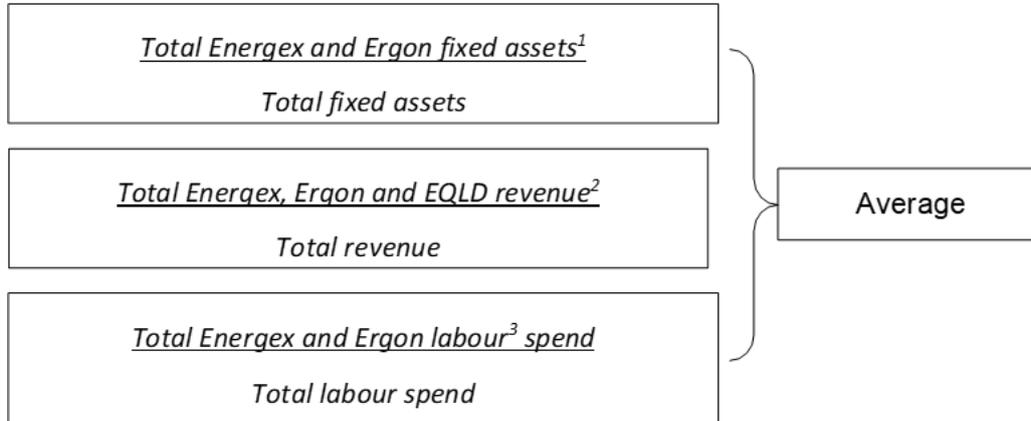
## Corporate Overhead Allocations

### Step 1: Corporate Three Factor Allocator

For the allocation of corporate overheads, the Corporate Three Factor Method (Step 1 in the 2020 CAM) and Distribution Three Factor Method (Step 2) are only applied to the 2016/17 data, as this is the first year that Energex was part of the EQL group. In 2015/16 (and prior years where information is required to be back cast), Step 3 of the corporate overhead allocation approach is applied to Energex's overhead cost pool for that year. This approach was agreed with the AER through email correspondence dated 21 August 2018.

**Step 1: Corporate Three Factor Allocator**

The Corporate Three Factor Method was applied in accordance with the CAM Business Rules. Under this method, the factor applicable to the distributors (i.e. Energex and Ergon Energy combined) is calculated as follows:



<sup>1</sup> Fixed assets include property, plant and equipment and intangibles (including WIP) and is based on the latest approved SCI/CP

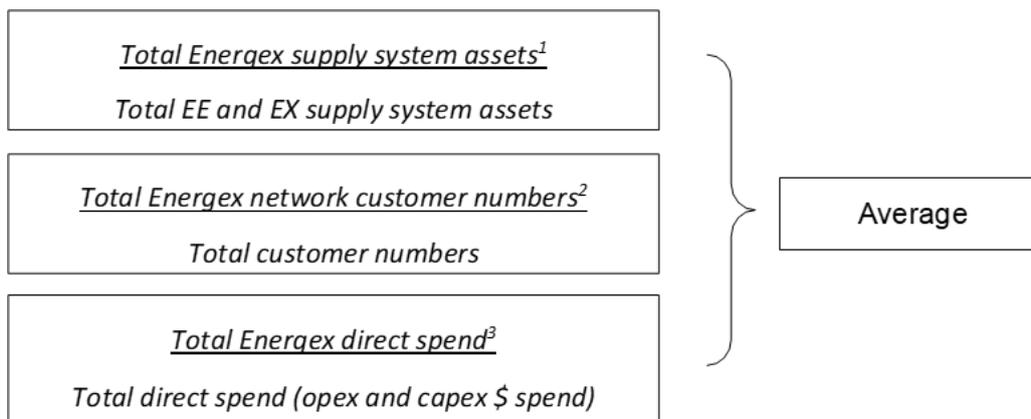
<sup>2</sup> Revenue excludes TUOS, government grant, interest, solar PV, gifted assets, dividends and intercompany SLA revenue

<sup>3</sup> Labour reflects labour spend and is defined in Appendix C of the CAM Business Rules.

The percentage calculated using this formula is applied to the total EQL corporate overhead to determine the corporate overhead for Energex and Ergon Energy combined. This is then further allocated between Energex and Ergon Energy using the Distribution Three Factor Method allocator (see below).

**Step 2: Distribution Three Factor Method Allocator**

The Distribution Three Factor Method was applied in accordance with the CAM Business Rules. Under this method, the factor applicable to Energex is calculated as follows:



<sup>1</sup> Supply system assets includes both SCS and ACS and is based on the latest approved SCI/CP

<sup>2</sup> A customer number is the count of unique national meter identifiers (NMIs) irrespective of the type of customer (ie. a residential NMI and commercial NMI both count as a single customer)

<sup>3</sup> Direct spend includes SCS and ACS System Capex and Opex direct spend (excluding gifted assets)

The percentage calculated using this formula is applied to the total Energex and Ergon Energy corporate overhead to determine the corporate overhead for Energex. This is then further allocated to specific services using direct spend.

**Step 3: Direct spend allocator**

The direct spend allocator is used to allocate Energex’s corporate overheads between services. Under this method, the allocation percentage applicable to each of the distribution services is calculated as follows:

|  |
|--|
| $\frac{\textit{Standard control services direct spend}}{\textit{Total Direct expenditure (opex and capex \$ spend)}^1}$  |
| $\frac{\textit{Alternative control services direct spend}}{\textit{Total Direct expenditure (opex and capex \$ spend)}}$ |
| $\frac{\textit{Unregulated direct spend}^2}{\textit{Total Direct expenditure (opex and capex \$ spend)}}$                |

<sup>1</sup> Total direct expenditure includes Standard Control Services, Alternative Control Services and Unregulated distribution services.

<sup>2</sup> Energex unregulated direct spend reflects property sub-leasing, sponsorship, stock write-offs, full salary sacrifice vehicles and other external unregulated costs (subject to change based on classification of services and ongoing organisational restructures).

**Step 4: Opex / capex allocator**

The capitalised component of the corporate overhead allocation to each of the services is then determined by applying the relative opex and capex proportions of the direct spend allocator to the non-opex component of the corporate overhead. The resultant non-capitalisable portion is added to the corporate overhead opex. The balance is capitalised corporate overhead.

**Network Overheads**

Network Overheads (Asset Management) costs are attributed directly to the combined distribution businesses (i.e. Ergon Energy and Energex), and are then allocated between the distribution businesses using the Distribution Three Factor Method allocator. The costs allocated to Energex are then allocated between services using the direct spend allocator.

These are the same allocators as used in Step 2 and 3 of the allocation of corporate overheads.

Network Overheads (Field Services) costs are attributed directly to each of the respective distributors (i.e. Ergon Energy and Energex) through operational boundaries. The costs attributable to Energex are allocated between services using the same direct spend allocator used for corporate overheads.

Total network overheads allocated to each service is then further allocated between opex and capex on the same basis as corporate overheads (see step 4 above).

## Non-Network Shared Costs

Non-network shared costs include Property, ICT, Fleet and Tools. These costs are allocated between the legal entities (i.e. distributors, Yurika and Retail) using labour spend, as follows:

- Ordinary time labour for Property and ICT
- Direct labour for Tools and Fleet.

The Non-Network Shared Costs allocated to Energex are then allocated between services using the following direct distribution labour allocators.

|  |
|--|
| <p style="text-align: center;"><u>Standard control services direct labour spend</u><br/>Total Direct labour expenditure</p>    |
| <p style="text-align: center;"><u>Alternative control services direct labour spend</u><br/>Total Direct labour expenditure</p> |
| <p style="text-align: center;"><u>Unregulated direct labour spend</u><br/>Total Direct labour expenditure</p>                  |

The calculation for the labour allocators for the purposes of the materiality assessment was consistent with Appendix C of the 2020 CAM Business Rules, which sets out the specific General Ledger activities, products and elements to include in the direct labour costs.

### 2.4.3. Estimated information

#### Justification for estimated information

The materiality assessments were performed for two years and then applied prospectively and retrospectively. Significant judgements and assumptions were applied during this process.

#### Basis for estimated information

The basis for the estimated information used for the CoS changes is provided in the following section.

## 2.5. Classification of services

Eight services will be reclassified on commencement of the forthcoming regulatory control period:

- From unregulated distribution services to ACS:
  - network related property services

- training to third parties for network related access
- security lights
- sale of approved materials or equipment (“sale of inventory”)
- From ACS to SCS:
  - extensions – major customer connections likely to be shared in future
  - augmentations – major customer connections
- From unregulated services to SCS
  - Emergency recoverable works
- From ACS to unregulated distribution services
  - Type 5 and 6 meter data management to other electricity distributors.

### 2.5.1. Source of information

The following table sets out the sources from which Energex obtained the required information.

| Variable   | Source         |
|--|----------------|
| Data for classification change for network related property services   | General Ledger |
| Data for classification change for Provision of Training to third parties for network related access   | General Ledger |
| Data for classification change for Security Lights   | General Ledger |
| Data for sale of Inventory (gifted back)   | General Ledger |
| Data for classification change for Extensions – Major Customers  | General Ledger |
| Data for classification change for Augmentation - Any shared network enlargement/enhancement undertaken by a distributor, which is not an extension, to facilitate: a new or altered major customer connection | General Ledger |
| Data for classification change for Emergency recoverable works   | General Ledger |
| Data for classification change for Type 5 and 6 meter data management to other electricity distributors  | General Ledger |

## 2.5.2. Network related property services

### Assumptions

It was assumed that:

- There is limited expense associated with network related property services where a customer accepts standard terms and conditions.

### Approach

Network related property services are defined by the AER as including “property tenure services relating to providing advice on, or obtaining: deeds of agreement, deeds of indemnity, leases, easements or other property tenure in relation to property rights associated with a connection or relocation. Conveyancing inquiry services relating to the provision of property conveyancing information at the request of a customer.”

These services are currently unregulated distribution services and have been reclassified for the forthcoming regulatory control period as ACS.

Energex’s approach to charging for these services during the relevant years is based on whether a customer accepts pro-forma terms and conditions for the above services. If a customer accepts terms and conditions of network related property services these are not charged for (as this involves limited effort from Energex staff in agreeing to the draft agreement). Where these are not accepted, Energex will pass on the costs of negotiation to the customer.

Conveyancing inquiry services are managed separately, through an external services provider, CITEC Confirm. CITEC Confirm provides this service independently of Energex. Energex receives fees from CITEC for the use of their data.

### *Expenditure*

There was no expenditure associated with network related property services provided by Energex in the relevant years because in 2015/16 and 2016/17 no customers negotiated terms and conditions for any property rights associated with a connection or relocation.

Similarly, a search of the General Ledger confirmed there were no expenses related to outsourced conveyancing work.

There was however costs associated with managing revenue received from CITEC Confirm which have been accounted for. For the purposes of this work Energex has drawn data from the General Ledger related to these revenue and costs. That data has been reclassified from unregulated to ACS for the purposes of this materiality assessment.

## *Revenue*

There was no revenue associated with network related property services provided by Energex in the relevant years because in 2015/16 and 2016/17 no customers negotiated terms and conditions for any property rights associated with a connection or relocation.

The revenue related to CITEC Confirm has been accounted for by drawing data from the 285128000P0500780 General Ledger Code.

### **2.5.3. Provision of Training to third parties for network related access**

#### **Assumptions**

It was assumed that:

- The portion of training provided to external learners is a proxy for Esitrain training expenditure attributable to external parties
- Revenue from training is wholly attributable to third parties as Esitrain does not levy a charge for internal training.

#### **Approach**

Under the F&A, training to third parties for network related access are those training services provided to third parties that result in a set of learning outcomes that are required to obtain distribution network access. These services are not currently classified by the AER and have been reclassified for the forthcoming regulatory control period as ACS. It should be noted that training services provided internally are classified as SCS.

Energex provides training to third parties to allow them to access the network through a business unit called Esitrain. Esitrain is a Registered Training Organisation (RTO) and exclusively provides training related to network access. No other business unit provides services which meet the AER's definitions of training to third parties.

Esitrain's training services are primarily focussed on the provision of internal training, with 9% of training provided to external learners in any month. Due to the limited focus on third parties, where training is provided to a mix of internal and external parties, trainers account for their time as though the class is fully internal.

## *Expenditure*

To determine the expenses, Energex accounted for the staff costs of providing training exclusively to third parties. Time was allocated for this training against two General Ledger Codes:

- 863545260P0213302
- 863545260P0213312.

As Energex does not have separate General Ledger codes to capture training which was mixed training, total expenses captured against 62020 (Technical Training) were apportioned to external party training using the estimated portion of training to external parties. That is 9% of the 62020 (Technical Training) was estimated as being for training to third parties for network related access.

#### *Revenue*

To determine the revenue associated with the provision of these services Energex extracted relevant data (863528000P0210780) from the General Ledger for each regulatory year.

This was fully attributable to third party training.

#### **Justification for estimated information**

Expenditure information for training services is not disaggregated between SCS and unregulated distribution services, therefore Energex has estimated this portion.

#### **Basis for estimated information**

Energex estimated the proportion of training services attributable to third party training on the basis of the proportion of external attendees at its training sessions.

## 2.5.4. Security Lights

### Assumptions

No assumptions have been made with respect to security lights.

### Approach

Under the F&A, security lights services include the “provision, installation, operation, and maintenance of equipment mounted on distribution equipment used for security services, e.g. nightwatchman lights.” Connection services are specifically excluded from this definition. These services are not currently classified and have been classified for the forthcoming regulatory control period as ACS. Connection services are specifically excluded from this definition.

This service is provided by Energex under the product title “Watchman Lights.”

### Expenditure

The expenses of providing these services was accounted for separately under the following codes which are wholly attributed to ACS:

- Responsibility Centre: 4650 – Distribution Co-ordination
- Activity: 45260 - Unregulated Services Expenses Other
- Product: P034 - Watchman Lights
- Elements: 3302 (Ordinary Time Proj Cost), 3312 (Overtime Proj Costed) and 4900 (Contractors – Operations)

### Revenue

There are two revenue streams associated with this service, being:

1. Service charges related to the installation of watchman lights:
  - Responsibility Centre: 4570 – SE Distribution Design Nth
  - Activity: 28000 – Unregulated Services Revenue Other
  - Product: P034 – Watchman Lights
  - Element: 0780 – Miscellaneous Revenue
2. Revenue passed through from retailers and constitutes a fixed charge:
  - Responsibility Centre: 1330 – Asset Owner
  - Activity: 28000 – Unregulated Services Revenue Other
  - Product: P034 – Watchman Lights
  - Element: 0780 – Miscellaneous Revenue

The above revenue was wholly attributed to ACS.

## 2.5.5. Sale of approved materials or equipment

### Assumptions

It was assumed that:

- Energex is well placed to undertake an assessment of the likely use of inventory sold as it has a strong understanding of both the end users and their business which enables us to provide this estimate.
- Sales of inventory to customers not operating on the Energex network should not be included in this service.

## Approach

Under the F&A, sale of inventory includes “the sale of approved materials/equipment to third parties for connection assets that are gifted back to become part of the shared distribution network.” These services are not currently classified and have been classified for the forthcoming regulatory control period as ACS.

Energex calculated a single weighted average of revenue attributable to the sale of approved materials or equipment to third parties for each of 2015/16 and 2016/17 and took an average value of 86% across both years.

### *Expenditure*

The approximate average value of 86% of inventory sales revenue was applied to the following General Ledger codes to determine the expenditure associated with these services:

- Responsibility Centre: 8626 – Material Sales
- Activity: 45000 – Sale of Inventory
- Product: P023 – Sale of Inventory
- Element: Various

### *Revenue*

The average value of 86% of inventory sales revenue was applied to the following General Ledger code to determine the expenditure associated with these services:

- Responsibility Centre: 8626 – Material Sales
- Activity: 20110 – Sale of Goods
- Product: P023 – Sale of Inventory
- Element: 0780 – Miscellaneous Revenue

## Justification for estimated information

In 2015/16 and 2016/17, Energex did not account separately for the sale of materials or equipment based on whether it was to become part of the shared distribution network, or whether it is gifted back.

## Basis for estimated information

All inventory sold by Energex to third parties is capable of forming part of the shared network. This means that Energex has had to analyse individual customers to estimate end use of inventory for the relevant years.

Energex undertook analysis of 2015/16 and 2016/17 customers and associated revenue to identify whether, based on Energex customer knowledge, the assets were likely to have been gifted back to Energex. For example revenue from sales to customers:

- operating on the Energex network were wholly included in this service
- not operating on the Energex network were not included in this service
- operating both on and off the Energex network were allocated a portion of sales revenue based on an Energex estimate of the extent to which the customer performs work on the network, expressed as a percentage of revenue.

### **2.5.6. Extensions – major customer connections likely to be shared in future**

#### Assumptions

No assumptions have been made with respect to extensions – major customer connections likely to be shared in future.

#### Approach

Under the F&A, these extension services relate to new or altered major customer connections “where the distributor considers there is a reasonable likelihood that the network extension will be used to supply another customer or customers within the time period set out in the distributor’s Connection Policy (i.e. will form part of the shared network).”

These services are currently classified by the AER as ACS and have been reclassified by the AER for the forthcoming regulatory control period as SCS.

In 2015/16 and 2016/17 Energex treated extensions in the following way:

- Extensions for major customers where the network is shared were deemed to be SCS on the basis that it was not possible to attribute costs wholly to that major customer, instead capital contributions were taken from the customer above a cost threshold (in line with the Energex Connections Policy). This is wholly attributable to General Ledger code C2550 (which is also used to capture augmentation expenditure deemed to be SCS).

- Extensions for major customers where the network is attributed to a single connection were deemed to be ACS. The asset is always returned to the network as a gifted asset (similar to if a third party had constructed the asset). This is wholly attributable to General Ledger code 42700.

#### *Expenditure*

The effect of the above treatment by Energex means that the attribution of connections expenditure will not change on the basis of the AER's classification for the forthcoming regulatory control period.

#### *Revenue*

The effect of the above treatment by Energex means that the attribution of connections revenue will not change on the basis of the AER's classification for the forthcoming regulatory control period.

## **2.5.7. Augmentations – major customer connections**

### **Assumptions**

No assumptions have been made with respect to augmentations – major customer connections.

### **Approach**

Under the F&A, these augmentation services relate to “any shared network enlargement/ enhancement undertaken by a distributor, which is not an extension, to facilitate a new or altered major customer connection”.

Energex's position is that any augmentation work associated with a major customer connection benefits the shared network. This work is therefore treated as SCS in all cases.

The cost of any work over a certain threshold must be met by the major customer through capital contributions in accordance with the Energex Connection Policy. These are treated as SCS.

#### *Expenditure*

The effect of the above treatment by Energex means that the attribution of connections expenditure will not change on the basis of the AER's classification for the forthcoming regulatory control period.

#### *Revenue*

The effect of the above treatment by Energex means that the attribution of connections revenue will not change on the basis of the AER's classification for the forthcoming regulatory control period.

## **2.5.8. Emergency recoverable works**

### **Assumptions**

No assumptions have been made with respect to emergency recoverable works.

### **Approach**

Under the F&A, emergency recoverable works are “the distributor's emergency work to repair damage following a person's act or omission, for which that person is liable (for example, repairs to a power pole following a motor vehicle accident)”. Emergency recoverable work is currently not classified and will be classified by the AER as SCS in the forthcoming regulatory control period.

#### *Expenditure*

General ledger codes capture expenses associated with this work. All general ledger codes with activity 45260 (Unregulated Services Expenses other) and Product P002 (Damage/Emergency Work) were all remapped to SCS.

#### *Revenue*

General ledger codes capture revenue associated with this work. All general ledger codes with activity 28000 (Unregulated Services Revenue other) and Product P002 (Damage/Emergency Work) were all reclassified to SCS.

## **2.5.9. Type 5 and 6 meter data management to other electricity distributors**

### **Assumptions**

No assumptions have been made with respect to type 5 and 6 meter data management to other electricity distributors.

### **Approach**

Energex did not provide type 5 and 6 meter data management services to other electricity distributors in 2015/16 or 2016/17 which means there is no expenditure or revenue to be transferred to reflect new service classifications.

# 3. General approach

## 3.1. Requirements for recast data

The AER requires Energex to provide recast data in Workbook 3 where a change in the cost allocation method (CAM) or classification of services (CoS) has resulted in a material change to previously reported information.

The analysis on the materiality of the changes from the data previously provided was completed for two regulatory years: 2015/16 (this being representative of prior years) and 2016/17 (this being representative of future years), as agreed by the AER (refer to email dated 21 August 2018). Energex’s Materiality Assessment spreadsheet sets out the results of the materiality assessment for the information provided in Workbook 3. The materiality assessment methodology is set out in the section titled Materiality Assessment.

As agreed with the AER on 28 November 2018, Energex has produced a secondary recast workbook containing only worksheets 2.1 & 2.12. These worksheets consolidate the recast data with previously reported data in the Category Analysis RIN in the relevant regulatory reporting year. The AER did not require this supporting workbook to be audited. As a result, Energex did not have the “EGX 17.048 Supporting Attachment – Recast Category Analysis JAN19 PUBLIC.xls” audited/reviewed.

## 3.2. Consistency with RIN Requirements

| Requirements                                  | Consistency with the RIN requirements   |
|---|---|
| General consistency with RIN Requirements     | <p>The information provided in Workbook 3 has been prepared in accordance with the Notice requirements, including the principles and requirements set out in Schedule 1, Appendix E and Definitions in Appendix F to the Notice.</p> <p>All variables for cells shaded yellow have been populated as required by the Notice, and where CoS and CAM changes have been assessed as having a material impact.</p> <p>All historical information provided is in nominal dollars, unless otherwise specified.</p> <p>Capex and associated data (such as asset volumes) reported are reported against the regulatory year on an as-incurred basis.</p> <p>Information for gifted assets has been included to comply with the clarification from the AER in the Issues Register.</p> |
| Recast versus previously provided information | Recast information has been provided for specific financial information where the materiality assessment demonstrated that the change in the value of that data is material relative to previously reported information.  |

### 3.3. Source of information

| Variable                            | Source   |
|-------------------------------------|--|
| Previously reported data            | <p>Energex – CA RIN Response 2015 Recast (08/09 to 13/14)</p> <p>Energex – CA RIN Response 2014-15</p> <p>Energex – CA RIN Response 2015/16</p> <p>Energex – CA RIN Response 2016/17</p> <p>Energex – CA RIN Response 2017/18</p>  |
| Recast data for 2015/16 and 2016/17 | <p>Sourced from the General Ledger reports for 2015/16 and 2016/17 respectively, which were downloaded and remapped using the proposed 2020 CAM and 2020 CoS.</p> <p>The recast values calculated to assess the materiality of the changes from the previously reported data are the recast values reported in Workbook 3. Further details on the methodology applied is set out in the section titled Materiality Assessment.</p> |
| Recast data for other years         | <p>Based on previously reported information and the recast data for 2015/16 and 2016/17 from the materiality assessment. That is, originally submitted RIN data with CAM and CoS changes applied.</p>  |

### 3.4. Methodology

#### Assumptions

Assumptions relating specifically to the recast data for 2015/16 and 2016/17 are set out in the section on the Materiality assessment.

#### Approach

##### Step 1: Recast data for 2015/16 and 2016/17

Energex estimated the recast data for 2015/16 and 2016/17 respectively, as part of the materiality assessment. These values were determined using the methodology set out in the section titled Materiality Assessment.

##### Step 2: Recast data for 2008-09 to 2014-15

Energex calculated the percentage differences between the previously reported data and recast data for 2015/16 as part of the materiality assessment.

For any data where the percentage change was found to be material (>5%) in 2015/16, the percentage changes calculated for 2015/16 have been applied to the information provided in prior years (i.e. 2008-09 to 2014-15) to calculate the recast data for those prior years. This is summarised in the following equation, which uses 2008-09 as an example:

$$2008-09 \text{ Recast Value} = 2008-09 \text{ Reported Value} \times (1 + 2015/16 \% \text{ Change})$$

The percentage changes applied to determine the recast data for 2008-09 through to 2014-15 for each of the templates in Workbook 4 is provided in Energex's Materiality Assessment spreadsheet.

### **Step 3: Recast data for 2017/18**

Energex calculated the percentage differences between the previously reported data and recast data for 2016/17 as part of the materiality assessment.

For any data that was found to be material in 2016/17, the percentage changes for 2016/17 were applied to the information provided in 2017/18 to determine the recast data for that year. This is summarised in the following equation:

$$2017/18 \text{ Recast Value} = 2017/18 \text{ Reported Value} \times (1 + 2016/17 \% \text{ Change})$$

## **3.5. Estimated information**

### **Justification for estimated information**

Energex estimated all recast data for the historical reporting period (2008-09 to 2017/18) as assumptions were applied to report information in the disaggregated category view in Workbook 2017/18

### **Basis for estimated information**

Energex determined the materiality of the proposed changes to the CAM and the CoS changes for:

- 2015/16 because this year is representative of the prior years (i.e. 2008-09 to 2014-15). These are the years prior to the formation of Energex's parent entity Energy Queensland (EQL); and
- 2016/17 because this year is the first year that EQL existed and is therefore representative of future years (i.e. 2017/18 onwards).

The materiality assessment resulted in recast data for 2015/16 and 2016/17 and the percentage changes from the previously reported data for those same two years. The use of the percentage changes for 2015/16 for estimating the recast data for the prior years (i.e. 2008-09 to 2014-15) is the best estimate available of the likely impact of the proposed 2020 CAM and CoS changes on the previously reported data as this year is representative of the prior years. Similarly, 2016/17 is the best estimate of the likely impact of the proposed 2020 CAM and CoS changes on the previously reported data for subsequent years (i.e. 2017/18) as this is representative of the future years.

## **4. BOP Table 2.6.1 – IT and Communications OPEX**

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This BOP relates to the following tables in the recast CA RIN, being Workbook 3:

- 2.6.1
- 2.12.1
- 2.12.2
- 2.12.3
- 2.12.4
- 2.12.5
- 2.12.6

## 4.1. Consistency with RIN Requirements

| Requirements                                  | Consistency with the RIN requirements  |
|---|--|
| General consistency with RIN Requirements     | <p>The information provided in Workbook 3 has been prepared in accordance with the Notice requirements, including the principles and requirements set out in Schedule 1, Appendix E and Definitions in Appendix F to the Notice.</p> <p>All variables for cells shaded yellow have been populated as required by the Notice, and where CoS and CAM changes have been assessed as having a material impact.</p> <p>All historical information provided is in nominal dollars, unless otherwise specified.</p> <p>Capex and associated data (such as asset volumes) reported are reported against the regulatory year on an as-incurred basis.</p> <p>Expenditures reported are direct costs only and exclude expenditures on overheads.</p> <p>Information for gifted assets has not been included.</p> |
| Recast versus previously provided information | <p>As requested by the Australian Energy Regulator recast information has been provided for ICT Operational Expenses and each of required components.</p> <p>For completeness, each table that has recast data also includes information previously reported to the AER, but which has not changed.</p>  |

## 4.2. Source of information

| Variable  | Source                                   |
|---|--|
| Opex expenditure<br>Metering cost metrics expenditure             | Extracts from the Energex General Ledger |
| Proportions of Labour, Contracts, Materials and Other Expenditure | Extracts from the Sparq General Ledger   |

## 4.3. Methodology

For the period 2008/09 to 2017/18, Energex extracted all data relating to ICT Operational Expenses from the Energex General Ledger, depreciation and financing costs were excluded as were oncosts. Costs relating to subcategories were then allocated out on the basis of proportions for 2016/17 and 2017/18. Values were then allocated to standard control services in accordance with the 2020 CAM using ordinary time labour cost.

Given the focus of the AER and customer groups on ICT expenditure, a more granular approach was undertaken to backcasting and analysing ICT opex than was applied to the backcast of Workbooks 3 and 4 based on the materiality assessment.

CA RIN ICT opex components included:

- Direct Materials (2.12.1)
- Direct Labour (2.12.2)
- Contract Expenditure (2.12.3)
- Other Expenditure (2.12.4)
- Related Party Contract Expenditure (2.12.5); and
- Related Party Contract Margin Expenditure (2.12.6)

#### **4.4. Assumptions**

It was assumed that:

- Percentage allocations between Labour, Contracts, Materials, Related Party Contract Expenditure and Related Party Contract Management Expenditure remained constant throughout each of the years.
- Averaging the percentage allocations between Labour, Contracts, Materials, Related Party Contract Expenditure and Related Party Contract Management Expenditure over 2016/17 and 2017/18 is representative of those allocations for previous years (i.e. 2008/09 to 2014/15) .

#### **4.5. Approach – ICT Opex**

Energex extracted all data relating to ICT opex from the Energex General Ledger. This data includes the following Responsibility Centres (RC):

- 1020
- 1025 for FY2010 to FY 2018
- 2310 and 2313 for FY2009.

Depreciation and financing costs were stripped from that figure using Element Code P452 and P453.

The oncost portion for the SLA was then stripped out by applying oncost rate for each year. Element P450 constitutes the total SLA including the oncost. For each year those figures were reduced by 15-25% depending on the oncost which was applied in each of the years.

This provides the ICT opex as recorded in the Energex Ledger.

The opex 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 opex was allocated to Energex standard control services on the basis of ordinary time labour cost.

*ICT opex RIN categories*

Energex then calculated values for the following ICT subcategories required by the CA RIN:

- Direct Materials
- Direct Labour
- Contract Expenditure
- Other Expenditure
- Related Party Contract Expenditure and
- Related Party Contract Margin Expenditure

An extract was drawn from the Sparq General Ledger for two years 2016/17 and 2017/18 of the relative proportions of each of those subcomponents, less oncosts. The average of those two years was used as a proxy for their proportions across previous years. The process of manually adjusting each of the components to remove oncosts is quite manually intensive due to accounting changes in historical years and it was not practical to undertake this work across all previous years.

Using these figures as a proxy was considered fair and reasonable due to the broadly consistent proportions of each of the above components across the two surveyed years and there was no evidence from internal subject matter experts that the proportions would have materially changed over the historical years.

The elements of the Sparq GL which were used do to so were:

| ELEMENT | COST CATEGORY            | RELATES TO   |
|---------|--------------------------|--|
| 0060    | LABOUR                   | Direct Labour  |
| 0100    | MATERIALS                | Direct Materials   |
| 0101    | CONTRACTORS              | Contract Expenditure   |
| 0102    | OTHER                    | Other  |
| 0103    | OVERHEADS                | These figures were stripped out to create a true proportion. |
| 0104    | EXCLUDE – CAPITALISATION |  |
| 0105    | CAPITALISED INTEREST     |  |

There were no Related Party Contract Expenditure and Related Party Contract Management Expenditure because Sparq was historically a Joint Venture between Ergon and Energex and services were provided via SLA.

**4.6. Justification for estimated information**

Proportions of each of the subcomponents

Energex’s accounting mechanisms do not readily allow for the separation of each of the components of the SLA into the components sought by the AER. That separation report requires comparison with

the Sparq GL which must also be adjusted to strip out overheads and separate the costs into component parts.

For this reason, this process was undertaken across two years and a proportion was applied against previous years.

## Basis for estimated information

Assignment into subcomponents

As described above, Energex has averaged the proportions of those expenses over the 2016/17 and 2017/18 years are a proxy for previous years (i.e. 2008/09 to 2014/15).

The information provided is all estimated data as set out in the table below.

| Variable                             | Actual Vs Estimated |
|--------------------------------------|---------------------|
| Recast data for 2008-09 to 2014-15   | Estimated           |
| Recast data for 2015-16 and 2016-17  | Estimated           |
| Recast data for 2017-18              | Estimated           |
| Previously reported data (all years) | Estimated           |

## Source of information

| Variable                            | Source  |
|-------------------------------------|---|
| Previously reported data            | <p>Energex – CA RIN Response 2015 Recast (2008/09 - 2013/14)</p> <p>Energex – CA RIN Response 2014-15</p> <p>Energex – CA RIN Response 2015-16</p> <p>Energex – CA RIN Response 2016-17</p> <p>Energex – CA RIN Response 2017-18</p>  |
| Recast data for 2015-16 and 2016-17 | <p>Sourced from the General Ledger reports for 2015-16 and 2016-17, respectively, which were downloaded and remapped using the proposed 2020 CAM and 2020 CoS.</p> <p>Further details on the methodology applied is set out in the section titled Materiality Assessment. The recast values calculated to assess the materiality of the changes from the previously reported data are the recast values reported in Workbook 3.</p> |
| Recast data for other years         | <p>Based on previously reported information and the recast data for 2015-16 and 2016-17 from the materiality assessment.</p>  |

## 4.7. Methodology

### Assumptions

The following assumptions were made in preparing the recast data for Workbook 3:

- The relevant CAM is the final CAM approved by the AER in November 2018 (effective 1 July 2020) (the “2020 CAM”); and
- The AER will adopt the classification of services set out in the final Framework and Approach (F&A) for the regulatory control period commencing 2 July 2020, dated July 2018.

Further assumptions relating specifically to the recast data for 2015-16 and 2016-17 are set out in the section titled Materiality Assessment.

### Approach

#### Recast data for 2008-09 to 2014-15

Energex calculated the percentage differences between the previously reported data and recast data for 2015-16 as part of the materiality assessment.

For any data that was found to be material in 2015-16, the percentage changes for 2015-16 have been applied to the information provided in prior years (i.e. 2008-09 to 2014-15) to determine the recast data for those prior years. This is summarised in the following equation, which uses 2008-09 as an example:

$$2008-09 \text{ Recast Value} = 2008-09 \text{ Reported Value} \times (1 + 2015-16 \% \text{ Change})$$

The percentage changes applied to determine the recast data for 2008-09 through to 2014-15 for each of the templates in Workbook 3 is provided in Energex’s Materiality Assessment spreadsheet.

#### Recast data for 2015-16 and 2016-17

Energex estimated the recast data for 2015-16 and 2016-17, respectively as part of the materiality assessment. These values were determined using the methodology set out in the section titled Materiality Assessment.

#### Recast data for 2017-18

Energex calculated the percentage differences between the previously reported data and recast data for 2016-17 as part of the materiality assessment.

For any data that was found to be material in 2016-17, the percentage changes for 2016-17 have been applied to the information provided in 2017-18 to determine the recast data for that year. This is summarised in the following equation:

$$2017-18 \text{ Recast Value} = 2017-18 \text{ Reported Value} \times (1 + 2016-17 \% \text{ Change})$$

The percentage changes applied to determine the recast data for 2017-18 for each of the templates in Workbook 3 is provided in Energex’s Materiality Assessment spreadsheet.

## 4.8. Estimated information

### Justification for estimated information

**The materiality assessments were performed for two years and then applied prospectively and retrospectively. Significant judgements and assumptions were applied during this process.**

**Basis for estimated information**  
Energex determined the materiality of the proposed changes to the CAM and the CoS changes for:

- 2015-16 because this year is representative of the prior years (i.e. 2008-09 to 2014-15). These are the years prior to the formation of Energy Queensland (EQL); and
- 2016-17 because this year is the first year that EQL existed and is therefore representative of future years (i.e. 2017-18 onwards).

The materiality assessment resulted in recast data for those two years and the percentage changes from the previously reported data for those same two years. The use of the percentage changes for 2015-16 for estimating the recast data for the prior years (i.e. 2008-09 to 2014-15) is the best estimate available of the likely impact of the proposed 2020 CAM and CoS changes on the previously reported data. Similarly, 2016-17 is the best estimate of the likely impact of the proposed 2020 CAM and CoS changes on the previously reported data for subsequent years (i.e. 2017-18).

## 5. Appendix 1

The following table details the nature of the recast data, broken down by template.

| Template                                 | Data  | Changes   | Information Disclosure |
|--|---|---|------------------------|
| Expenditure Summary<br>(CA Template 2.1) | SCS Capex<br>SCS Opex<br>ACS Capex<br>ACS Opex<br>SCS Cap Cons<br>SCS Capitalised Overheads | <p>Information reported in worksheet 2.1 is not required to be assessed for material impacts of the changes in CAM and CoS. This worksheet is only required to ensure 'summary' data that is consistent with the new recast data is captured.</p> <p>Note: summary data will not reconcile with information previously reported in the regulatory accounting statements, and there is no obligation to undertake this reconciliation as part of the recast exercise required by the Reset RIN (eg Solar is included in 2.1 and excluded in 2.10 due to differences in approach).</p> <p>Numbers that were recast in other templates were reflected directly in expenditure summary. Where numbers required further disaggregation that were not reflected in other recast templates, the required splits were obtained from previously submitted RIN templates and the applicable materiality percentages were applied. (eg Capitalised ACS Overheads).</p> | Estimated              |
| Augex<br>(CA Template 2.3)               | SCS Augex   | <p>These are direct costs, which are not impacted by CoS changes.</p> <p>No non-financial information has been recast as CAM and CoS</p>  | Estimated              |

| Template                         | Data  | Changes  | Information Disclosure |
|----------------------------------|---|--|------------------------|
|                                  |   | changes had no material impact.  |                        |
| Connections<br>(CA Template 2.5) | Total Connections<br>(SCS + ACS)<br><br>SCS Connections<br>(net of contributions)                     | Impacted by the CoS changes through reclassification of augmentation and extensions work.<br><br>Note: summary data will not reconcile with information previously reported in the regulatory accounting statements, and there is no obligation to undertake this reconciliation as part of the recast exercise required by the Reset RIN (eg due to differences in approach for backcasting).<br><br>Note that capital contributions component has not changed<br><br>No non-financial information has been recast as CAM and CoS changes had no material impact. | Estimated              |
| Non-network<br>(CA Template 2.6) | Non-network – ICT<br><br>Non-network – Fleet<br><br>Non-network – Property<br><br>Non-network – Other | Impacted by CoS changes to the extent that these have impacted the allocation percentages applied to each non-network cost category<br><br>No non-financial information has been recast as CAM and CoS changes had no material impact.   | Estimated              |
| Overheads<br>(CA Template 2.10)  | SCS Overhead<br><br>ACS Overhead  | Impacted by CoS changes to the extent that these have impacted the allocation percentages applied to each corporate overhead and network overhead cost category  | Estimated              |
| Labour<br>(CA Template 2.11)     | Total Internal Labour   | Impacted by CoS changes (to the extent that unregulated labour is now network labour). This is based on assumptions made for training and sale of inventory<br><br>No non-financial information has  | Estimated              |

| Template                             | Data   | Changes  | Information Disclosure |
|--------------------------------------|--|--|------------------------|
|                                      |  | been recast as CAM and CoS changes had no material impact.   |                        |
| Input Tables<br>(CA Template 2.12)   | Direct materials expenditure<br>Direct labour expenditure<br>Contract expenditure<br>Other expenditure | Information reported in worksheet 2.12 is not required to be assessed for material impacts of the changes in CAM and CoS. This worksheet is only required to ensure 'summary' data that is consistent with the new recast data is captured.<br><br>Note: summary data will not reconcile with information previously reported in the regulatory accounting statements, and there is no obligation to undertake this reconciliation as part of the recast exercise required by the Reset RIN. | Estimated              |
| Public Lighting<br>(CA Template 4.1) | Total ACS Public Lighting  | These are direct costs, which are not impacted by CoS changes.<br><br>The metrics in Table 4.1.3 have been recast based on the same materiality percentages applied for the financial information.<br><br>No non-financial information has been recast as CAM and CoS changes had no material impact.  | Estimated              |
| Metering<br>(CA Template 4.2)        | Total Metering   | These are direct SCS + ACS costs, which are not impacted by CoS changes.<br><br>No non-financial information has been recast as CAM and CoS changes had no material impact.  | Estimated              |
| Quoted Services<br>(CA Template 4.4) | Total ACS Quoted Services  | These are impacted by CoS changes, with some unregulated services now being classified as ACS. Sale of inventory services  | Estimated              |

| Template | Data | Changes  | Information Disclosure |
|----------|------|--|------------------------|
|          |      | <p>are identified by Product P023 and are based on the following assumptions:</p> <ul style="list-style-type: none"> <li>• 86.32% allocated to ACS and 13.68% to Unregulated</li> </ul> <p>These are direct costs, so also impacted by removal of fleet.</p> <p>Non-financial information for 2015/16 and 2016/17 was determined with an average ratio of non-financial to financial information. The average of these two years was applied to all years.</p> |                        |