

Workbook 2 – New Historical Category Analysis Basis of Preparation 2020-25

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2 Overview

1.1 Introduction

On 31 October 2018, the Australian Energy Regulator (AER) issued Ergon Energy Limited (Ergon Energy) with a Regulatory Information Notice (RIN) under Division 4 of Part 3 of the National Electricity (Queensland) Law. Clause 1.3 of 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 Ergon Energy has complied with this notice in respect of:

- a) the information in each regulatory template in the Microsoft Excel Workbooks attached at Appendix A; and

This Basis of Preparation relates to the information provided in the regulatory template “ERG 17.054 2020 – 2025 New historical Category Analysis RIN template JAN19 PUBLIC.xls”.

2.1 Structure

Each chapter of this document corresponds to a particular template. For each table within a particular template Ergon Energy has explained:

- how Ergon Energy has 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.

3 BOP Template 2.5 – Connections

3.1 BOP Table 2.5.2 – Cost metrics by connection classification

The AER requires Ergon Energy to provide expenditure for connection services for Standard Control Services.

- 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.

3.1.1 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>
Ergon Energy must ensure that the data provided for connection services reconciles to internal planning models used in generating Ergon Energy's proposed revenue requirements.	This requirement is not relevant to information that has been back cast.
Ergon Energy 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.
Ergon Energy 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.	Only data for regulated services was reported.
Ergon Energy must report data for non-contestable, regulated connection services. This includes work performed by third parties on behalf of Ergon Energy.	Only data for regulated services was reported.
Ergon Energy must not report data in relation to negotiated connection services or connection services which have been classified as contestable by the AER.	Complies.
The definitions of complex connections in appendix F provide guidance on the types of augmentation works which must be reported as connection services, as descriptor metrics for Table 2.5.1 and as cost metrics for Table 2.5.2.	The figures provided in the worksheet are consistent with the definitions.
Ergon Energy 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. Ergon Energy must not double count augmentation requirements by twice reporting augmentation data in Workbook 1 – Regulatory determination, regulatory templates 2.3 and 2.5.	The figures provided in the worksheet are consistent with the definitions

Requirements	Consistency with the RIN requirements
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.

3.1.2 Source of information

Variable	Source
Previously audited historical connections expenditure data submitted to the AER	<p>Ergon Energy CA RINs:</p> <ul style="list-style-type: none"> • CA RIN 2015 Reset RIN (for 2008-09 to 2013-14) • CA RIN 2014-15 (based on 2010-2015 CAM) • CA RIN 2015-16 • CA RIN 2016-17 • CA RIN 2017-18 <p>Regulatory Template 2.5, Table 2.5.2</p>
SCS connections expenditure	<p>GL transactions across the regulatory period</p> <p>Ergon Energy's Connections Build Model</p>
SCS capital contributions	GL transactions across regulatory years 2009-18
Fleet costs	GL transactions relating to connections projects across the regulatory period

3.1.3 Methodology

3.1.3.1 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 Ergon Energy's previously audited and reported historical CA RIN 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 consistent across each regulatory year.

- The proportion of Fleet expenditure on a connections project is relatively consistent across each regulatory year.

3.1.3.2 Approach/Methodology

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

- Due to internal accounting changes over the reportable period and limitations in Ergon Energy's systems, Ergon Energy determined that it would be extremely time consuming to collate actual SCS connections expenditure for each regulatory year.
- Ergon Energy therefore relied on connections expenditure data from the previously audited and reported regulatory years (the sample years) as a basis for undertaking the analysis required to back cast SCS connections expenditure and SCS capital contributions

Expenditure – Standard Control Services

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

- Ergon Energy must only report connection services expenditure in relation to standard control services. This required ACS expenditure for each regulatory year to be extracted from the previously reported expenditure. This must be a net amount, exclusive of SCS customer contributions, which are reported in a separate table (refer to Step 3 below).
- Ergon Energy has captured previously audited and reported connections RIN data for financial years 2017 and 2018 in its Connections Build Model. This allows Ergon Energy to filter by GL elements and project activity codes to identify expenditure by service classification, and to classify expenditure into relevant RIN template connections categories. Ergon Energy identified the relevant ACS GL elements and extracted these from the total connection services expenditure for those years.
- For financial years 2009 and 2010, there was no ACS activity yet introduced to the business.
- For the financial years 2011 – 2016, total ACS expenditure was identified through the Capex project ledger expenditure against ACS connection activities C2110 (Large Customer Connections) and C2260 (Real Estate Developments). As this is whole of program view the expenditure activities that are most likely to contain ACS expenditure for these types were identified.
 - Commercial/Industrial; Complex connection HV (customer connected at LV, upstream asset works)
 - Commercial/Industrial; Complex connection HV (customer connected at HV)).
 - Commercial/Industrial; Complex connection sub-transmission
 - All Subdivision categories
 - Embedded Generation; Complex connection HV (small capacity)
 - Embedded Generation; Complex connection HV (large capacity)

- Where ACS activity was identified for these categories, the appropriate program spend was distributed across those activities on a proportional basis. With remaining estimated SCS expenditure reported.
- Although ACS activities were introduced in financial year 2011, no ACS activity was reported for 2011 and 2012. The expenditure totals reported in the table indicate this.
- There is an increase in ACS spend indicated as the 2010-15 regulatory period progresses as ACS type projects are more complex and can progress over multiple years, therefore, projects in the categories most likely to have ACS expenditure would have SCS expenditure as the projects commenced prior to the 2010-15 regulatory period.

Expenditure – Standard Control Services – Capital Contributions

Step 3: Identify the SCS capital contributions expenditure

- Ergon Energy must report SCS capital contributions (including cash and non-cash) in a separate table to the net SCS connection expenditure.
- SCS capital contributions received by Ergon Energy are attributable to the following SCS capex activities:
 - C2060 residential extensions
 - C2070 commercial and industrial extensions
 - C2080 legacy real estate development.
- The capital contribution revenue extracted from the relevant revenue elements (0660 SCS Cash contributions, 0670 SCS Gifted assets and where applicable, 0671/0672 for LCCs and 0678/0679 for subdivisions) was then distributed on a proportional basis over the expenditures in each of the RIN categories that are attributable. This is the only appropriate methodology as Ergon Energy does not match revenue to expenditure on an individual project basis.
- These SCS capital contribution amounts were then deducted from estimated SCS connections expenditure for each financial year and separately reported to provide net SCS expenditure and net SCS capital contributions expenditure.

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

- Ergon Energy was required to make any adjustments to the 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 changed from ACS to SCS
 - Augmentations – major customer connections – which changes from ACS to SCS.

Extensions:

- Ergon Energy determined that no back casting was required to account for CoS changes relating to extensions due to Ergon Energy's treatment of these services in practice (refer to Ergon Energy Reset RIN Workbook 3&4 – Materiality Assessment BoP).
- As per the Materiality Assessment BoP, due to the decentralised nature of its network, Ergon Energy does not currently, nor does it intend to, provide extension services for major customers on an SCS basis, that is on the basis that there is a reasonable likelihood of the extension being used to supply another customer. This is because such a scenario is very rare on the Ergon Energy network.
- The effect of Ergon Energy's treatment of these services means that the connections expenditure will not change as a result of the AER's service classifications for the forthcoming regulatory control period.

Augmentations:

As per the Materiality Assessment BoP Augmentations for major customer connections is disaggregated as follows:

- Real estate and subdivision works, which are treated by Ergon Energy as ACS.
- Works for all other customers, which are treated by Ergon Energy as SCS.
- The effect of Ergon Energy's treatment of these services means that back casting was required to account for the CoS change relating to real estate and subdivision works, but not works for all other customers.
- To extract expenditure relating to real estate and subdivision works, Ergon Energy followed the procedure in step 2. The remaining SCS expenditure includes expenditure for upstream augmentation.

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

- Ergon Energy was required to make any adjustments to 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 has changed from being an on-cost under the current CAM to an indirect cost under the 2020 CAM.
- Ergon Energy determined that back casting was required to account for this CAM change due to Ergon Energy's treatment of Fleet (refer Ergon Energy Reset RIN Workbook 3&4 – Materiality Assessment BoP).
- To account for these CAM changes, Ergon Energy extracted the fleet expenditure attributed to the total connections spend from the general ledger using all relevant activities (C2060, C2070 and C2080, C2110 and C2260) with element 4600 internal transport costs. This was then distributed evenly over the connection sub-classifications for each historical year.

- The effect of Ergon Energy's treatment of Fleet costs means that the connections expenditure has been adjusted to account for 2020 CAM changes.

3.1.4 Estimated information

3.1.4.1 Justification for estimated information

Ergon Energy's previously audited and reported historical connections expenditure for the sample years includes estimated information for the 2009 – 2018 financial as explained in relevant BoPs. As outlined in the approach / methodology above, estimation was required to enable back casting across the historical regulatory years.

3.1.4.2 Basis for estimated information

In order to prepare the data for new historical CA RIN Table 2.5.2, Ergon Energy adopted an apportionment approach. That is, Ergon Energy calculated the proportion of SCS and ACS connections expenditure through identification of relevant ACS codes from GL transactions across the 2009 – 2016 financial years, however, actual ACS expenditure for 2017 and 2018 was identified and removed. Ergon Energy then applied this proportion across the previously audited and reported information 2009 – 2016. 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 the methodology is as per step 3.

Similarly for fleet the methodology is as per step 5.

3.2 BOP Table 2.5.3 – Volumes by connection classification

The AER requires Ergon 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. The volumes for each classification have been provided as consistent with the previously reported information (sourced from Peace and Facom prior to the introduction of Peace in 2016), adjusted for the gifted assets which have now been included in this template. Volumes have been determined proportionately to the change in expenditure.

Note that for some activities there is expenditure in a particular financial year, however, no volume. This is due to commitments on projects accruing in the financial year either previous or post the year the connection is made.

4 BOP Template 2.6 – Non-network

4.1 BOP Table 2.6.4 – Information and communication technology – Capex by purpose

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

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

4.1.1 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>
<p>Non-network IT and communications expenditure is all non-network expenditure directly attributable to IT and communications assets including replacement, installation, operation, maintenance, licensing, and leasing costs but excluding all costs associated with SCADA and network control expenditure that exist beyond gateway devices (routers, bridges etc.) at corporate offices.</p> <p>IT & communications expenditure includes:</p> <ul style="list-style-type: none">• costs associated with SCADA and network control that exist at the corporate office side of gateway devices (routers, bridges etc.). For example, this would include cost associated with SCADA master systems/control room and directly related equipment• IT & communications expenditure related to management, dispatching and coordination, etc. of network work crews (e.g. phones, radios etc.).• any common costs shared between the SCADA and network control expenditure and IT & communications expenditure categories with no dominant driver related to either of these	<p>The workbook is consistent with these requirements.</p>

Requirements	Consistency with the RIN requirements
<p>expenditure categories. For example, a dedicated communications link used for both corporate office communications and network data communications with no dominant driver for incurring the expenditure attributable to either expenditure category should be reported as IT & communications expenditure.</p> <ul style="list-style-type: none"> expenditure related to network metering recording and storage at non network sites (i.e. corporate offices/sites) <p>Sub categories of non-network IT& communications expenditure are:</p> <ul style="list-style-type: none"> Client devices expenditure Recurrent expenditure (excluding any client devices expenditure) <p>Non-recurrent expenditure (excluding any client devices expenditure).</p>	
<p>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.</p>	<p>Ergon Energy 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.</p>
<p>The AER has defined ICT asset extensions as the extension of existing ICT assets to broaden its functionality.</p>	<p>Ergon Energy interpreted the AER definition to mean continuous improvement and enhancements to existing ICT assets to support ongoing alignment to business and market requirements.</p>
<p>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.</p>	<p>Ergon Energy interpreted the AER definition to mean ICT changes and repairs to remedy operational issues, including functional corrections, performance issues and data rectifications.</p>
<p>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.</p>	<p>Ergon Energy 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.</p>

4.1.2 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 ICT End User Devices data Ergon Energy (audited) report to QCA [Financials Breakdown- EE ICT- 200809-201314 valued]

4.1.3 Methodology

For the period 2008-09 to 2017-18, Ergon Energy's ICT service provider, Sparq Solutions (Sparq), performed all capex projects for Ergon Energy. 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.

4.1.3.1 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 actual rates derived applying the 2020-25 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 actual rates derived applying the 2020-25 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 business practice was not to 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.

4.1.3.2 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 Ergon Energy ICT capex, with the exception of ICT End User devices.
- End User devices were extracted from the Ergon Energy 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 report submitted to the Queensland Competition Authority (QCA).
- This reported End User devices as part of ICT spend for Ergon Energy and included Ergon Energy Capital for ICT programs and ICT Capital for other network programs.
- On the basis of both General Ledger transactions showing the actual cost of End User devices and the total audited cost of Ergon Energy's ICT for 2010-11, Ergon Energy determined the proportion of End User devices as compared to overall internal ICT spend in that year.

Ergon Energy 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 (2010-11 to 2017-18):

- Identify capex ICT projects that were directly attributable to the Ergon Energy corporate group, and those that were jointly shared with the Energex Corporate Group.
- Identify, for any capex ICT projects that were directly attributable to the Ergon Energy corporate group, any items directly attributable to the Ergon Energy distribution business (as opposed to any other entities)
- Allocate, for any projects that were jointly shared with the Ergon Energy corporate group, 50% to the Ergon Energy corporate group.
- Assign each item to one of the four AER categories listed above based on the review of project descriptions and applying historical business knowledge of the projects. The project sub-categories are:
 - Asset Renewal
 - Comply

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

The above sub-categories were used to aggregate project data within each of the four categories.

1. The Artemis project data was reconciled to the Sparq General Ledger through data drawn from Ellipse as a check to ensure completeness. The table below shows the reconciliation between the Artemis capex data and the Sparq General Ledger

\$'000	2010/11	2011/12	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18	Total
Capex spend per Artemis	63,459	92,630	85,672	55,807	99,970	87,639	57,080	55,735	597,993
Capex per GL (WIP movement)	56,539	89,876	86,190	55,958	100,694	88,605	57,594	55,736	591,192
Difference	6,920	2,754	(518)	(151)	(724)	(965)	(514)	(1)	6,801

- 1.1. In years 2012-13 to 2017-18 the Artemis project data was not substantially different to General Ledger data. However there were differences in 2010-11 (12.2%) and 2011-12 (3.1%). 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 years was then applied to the 2008-09 and 2009-10 capex data 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 Ergon Energy 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 Ergon Energy distribution business and Ergon Energy 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 direction.

4.1.4 Estimated information

All information within RIN table 2.6.4 is estimated.

4.1.4.1 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 Ergon Energy General Ledger prior to 2010-11.

4.1.4.2 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 Ergon Energy Capital for ICT programs and ICT Capital for other network programs. Ergon Energy used both GL and audited data for 2010-11 to calculate the proportion as a proxy for the 2008-09 and 2009-10 years.

5 BOP Template 2.10 – Network overheads

5.1 BOP Table 2.10.1 – Network overheads expenditure

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

5.1.1 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) or elsewhere in materials submitted to the AER (for forecast information).</p>	<p>Ergon Energy's capitalisation policy explains that Ergon Energy's core business is the construction, maintenance and operation of the electricity distribution network in regional Queensland. In the operation of its business, Ergon Energy 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, Ergon Energy 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 Method (CAM).</p> <p>In accordance with Ergon Energy'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>

5.1.2 Source of information

Variable	Source
2008/09 to 2017/18 data	<p>Previously reported data</p> <p>Ergon Energy CA RINs:</p> <ul style="list-style-type: none"> • CA RIN 2015 Reset RIN (for 2008-09 to 2013-14) • CA RIN 2014-15 (based on the 2010-15 CAM) • 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>

5.1.3 Methodology

5.1.3.1 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 the CA RINs Corporate 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 Corporate 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.

5.1.3.2 Approach

Please note that values for 2008-09 to 2013-14 have been adjusted to account for the change in reporting requirements from \$000s to \$0s.

Overhead category	Methodology
Network overheads – Opex – SCS	In CA RIN template 2.10, table 2.10.1 [first table] Ergon Energy previously reported total operating network overheads for SCS. The only change to these previously reported numbers was to deduct solar feed in tariffs for 2010-11 to 2015-16 as this is a jurisdictional scheme and is no longer included in overheads in the CA RIN. The percentage change due to the 2020 CAM and CoS was then applied based on representative years, as per proportions calculated by the Materiality Assessment spreadsheet.
Network overheads – Opex – ACS	In CA RIN 2.10.1 [first table] Ergon Energy previously reported total operating network overheads for ACS. 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.
Network overheads – Capex – SCS	In CA RIN 2.10.1 [second table], Ergon Energy previously reported total capital network overheads for SCS. 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.

Overhead category	Methodology
Network overheads – Capex – ACS	In CA RIN 2.1.3 Ergon Energy previously reported total capital network overheads for ACS. 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.
Network overheads – other distribution services	In CA RIN 2.10.1 [first table] Ergon Energy previously reported total network overheads for unregulated services. 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.
Corporate overheads – Opex – SCS	In CA RIN 2.10.2 Ergon Energy previously reported operating corporate overheads for SCS. The reported value included shared non-network operating expenditures for fleet, tools, property and ICT. It was considered that this expenditure should only be reported once in 2.6. non-network template, and this treatment is reflected in the materiality assessment models. 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.
Corporate overheads – Opex – ACS	<p>In CA RIN 2.10.2 Ergon Energy previously reported operating corporate overheads for ACS. The reported value included shared non-network operating expenditures for fleet, tools, property and ICT. It was considered that this expenditure should only be reported once in 2.6. non-network template and this treatment is reflected in the materiality assessment models. 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>Note: CA RIN template 2.6 non-network includes SCS only.</p>

Overhead category	Methodology
Corporate overheads – Capex - SCS	In CA RIN 2.10.2 Ergon Energy previously reported capital corporate overheads for SCS. The reported value included shared non-network operating expenditures for fleet, tools, property and ICT. It was considered that this expenditure should only be reported once only in 2.6. non-network template and this treatment is reflected in the materiality assessment models. 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.
Corporate overheads – Capex - ACS	In CA RIN 2.1.3 Ergon Energy previously reported capital corporate overheads for ACS. The reported value included shared non-network operating expenditures for fleet, tools, property and ICT. It was considered that this expenditure should only be reported once in 2.6. non-network template and this treatment is reflected in the materiality assessment models. 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. Note: CA RIN template 2.6 non-network includes SCS only.
Corporate overheads – other distribution services	In CA RIN 2.10.2 Ergon Energy previously reported total corporate overheads for unregulated services. 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.

Materiality assessment

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 adjusted to reflect the 2020 CAM and CoS changes, by adjusting 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.

5.1.4 Estimated information

All information in this worksheet is estimated since the previously reported numbers are adjusted by the percentage calculated by the materiality assessment model which is at a less granular level and is an estimate in itself.

5.1.4.1 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.

5.1.4.2 Basis for estimated information

For 2015-16 and 2016-17 data, business knowledge and assumptions had to be applied to determine 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.

6 BOP Template 2.11 – Labour

6.1 BOP Table 2.11.3 – Labour/Non-labour expenditure split – SCS

The AER requires Ergon Energy 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

6.1.1 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.
Only costs allocated to the provision of standard control services should be reported in Workbook 1 – Regulatory determination, regulatory template 2.11.	Activities and elements in the General Ledger are manually mapped to Standard Control Services (SCS).
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 in regulatory template 2.11.	Labour expense incurred for goods and services are treated as cost of sales which has an activity code starts with 45xxx. Such activity code has been excluded from calculations standard control service.
Ergon Energy must break down its labour data (both employees and labour contracted through labour hire contracts) into the categories provided in Workbook 1 – Regulatory determination, regulatory template 2.11. Ergon Energy must explain how it has grouped workers into these categories.	See methodology below

Requirements	Consistency with the RIN requirements
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 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.

6.1.2 Source of information

Variable	Source
In-house labour expenditure	Ergon Energy General Ledger (Materiality assessment)
Labour expenditure outsourced to related parties	Sparq and Ergon Energy General Ledger
Labour expenditure outsourced to unrelated parties	Ergon Energy General Ledger
Controllable non-labour expenditure	CA RIN Data (Tables 2.1.1 and 2.1.2) (Materiality assessment)
Uncontrollable non-labour expenditure	N/A

6.1.3 Methodology

6.1.3.1 Assumptions

- All activities beginning with A, C, E and L have been excluded from the opex calculations.
- Capex calculations rely on activities beginning with C.
- Expenditure for elements 3400 (Ordinary Time Costed), 3410 (Overtime Costed) and 3420 (Labour Oncost Costed) are considered direct labour expenditure.
- The following assumptions are made based on the Materiality Assessment, refer to the Materiality Assessment for details on the methodology and the assumptions underlying that model:
 - The SCS portion of labour for 2015-16 is as per the Materiality Assessment and this has been applied to all historical years. The SCS portion of labour for 2016-17 as per the Materiality Assessment has been applied to 2016-17 and 2017-18.
 - It is assumed that Ergon Energy incurs 44.5% of Sparq costs for 2015-16, as per the Materiality Assessment. This has been applied to all historical years. For 2016-17 and 2017-18, the Ergon Energy portion of Sparq costs is 42.9%

- It is assumed that opex makes up 44.6% of labour expenditure and capex makes up 55.4% for 2015-16, as per the Materiality Assessment. This has been applied to all historical years. For 2016-17 and 2017-18, opex makes up 44.9% and capex 55.1% of labour expenditure.
- It is assumed that all intercompany labour, as identified previously through mapping of General Ledger codes, is related party labour. It is assumed that Sparq is included as related party labour.
- Where possible, our approach has been to use the Ergon Energy or Sparq General Ledger to calculate components of the RIN template.
- The approach for calculating the opex and capex tables are the same.

6.1.3.2 Approach/Methodology

In-house labour expenditure

- In-house labour expenditure includes directly costed labour expenditure and a portion of the labour overhead pool.
- In-house labour expenditure that has been directly costed was calculated using the Ergon Energy General Ledger codes.
 - We selected the direct labour related elements and opex related activities from the Ergon Energy General Ledger and applied the SCS proportion of Direct Distribution Labour Spend from the Materiality Assessment to calculate the direct SCS opex labour expenditure.
 - The same approach was applied to calculate the direct SCS capex labour expenditure.
- In-house labour expenditure including network or corporate overheads, was proportionally allocated to opex and capex SCS labour expenditure.
 - A portion of the labour overhead pool is added to the direct SCS labour values. This portion is calculated by subtracting direct costed opex and direct costed capex from the total payroll costing expenditure (all labour related elements including all elements beginning with 33** and element 4920 (labour hire)).
 - The labour overhead pool is applied to direct opex and capex labour costs using the opex and capex split calculated in the Materiality Assessment.

Labour expenditure outsourced to related parties

- 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 and Energex labour will 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 DNSP. AER has instructed that, "in years 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 2015-16 and prior years, the 2020 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 in the forthcoming regulatory control period will continue to be, a service provided by a related party.

- The intercompany related party labour expenditure is 6% of the total labour expenditure, as calculated for the 2017-18 AR RIN labour worksheet. This proportion is applied to the direct SCS labour expenditure (calculated for in-house labour expenditure) for 2016-17 and 2017-18.
- To calculate the Sparq related party labour expenditure, the Sparq General Ledger was used to select the direct labour related elements. According to the updated 2020 COS/CAM rules, the proportion of Sparq costs attributed to Ergon Energy was applied, and the proportion of SCS from the Ergon Energy labour related values was also applied.

Labour expenditure outsourced to unrelated parties

- Labour expenditure outsourced to unrelated parties was identified by General Ledger codes established to record contractor expenditure. As the cost structure of external contractors is commercially sensitive to the contractors concerned this information was not obtainable. Accordingly, all contractor expenditure has been reported as being labour.
- Contractor expenditure charged to opex activities and capex activities was extracted from the general ledger for 2015-16, 2016-17 and 2017-18 using elements 4900 to 4965 excluding 4920 (labour hire) as this element is included in internal labour, and excluding intercompany transactions if applicable. The SCS proportion of Direct Distribution Labour Spend was then applied to derive SCS contractor expenditure for those years.
- The proportion of contractors to direct labour spend was then calculated for these three years and averaged for opex and capex. This average was applied to SCS direct opex labour and SCS direct capex labour for all years prior to 2015-16.

Controllable non-labour expenditure

- Controllable non-labour expenditure is a balancing item for the remaining costs related to SCS expenditures. This calculation is total SCS opex or capex expenditure less labour expenditure apportioned above.
- The total opex and capex reported in the historical CA RIN tables 2.1.1 and 2.1.2 was firstly adjusted for the 2020 CAM and COS changes, and the in-house labour expenditure, labour expenditure outsourced to related parties and labour expenditure outsourced to unrelated parties was deducted from the adjusted total.
- An additional adjustment to the historical CA RIN SCS opex expenditure for 2009-10 to 2014-15 was required to remove solar feed-in tariffs as these are considered a jurisdictional scheme and not included in opex.

Uncontrollable non-labour expenditure

- **Uncontrollable non-labour expenditure** was all non-labour expenditure over which Ergon Energy has no control. Uncontrollable non labour expenditure is imposed by an independent (that is, not a related party to Ergon Energy) government body (federal, state or local). Ergon Energy has no ability to influence any amount of the expenditure incurred by the manner in which Ergon Energy operates its business. Ergon Energy currently and historically has reported no such expenditures.

6.1.4 Estimated information

6.1.4.1 Justification for estimated information

Refer assumptions section above.

6.1.4.2 Basis for estimated information

Refer assumptions section above.