

ERGON ENERGY



Annual Reporting Regulatory Information Notice

Submission (Audited)
1 July 2015 to 30 June 2016

31 October 2016

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CONTENTS

GLOSSARY	5
1. INTRODUCTION	7
2. CONFIDENTIAL INFORMATION	9
2.1 Requirement	9
2.2 Response.....	9
3. INFORMATION TEMPLATES	10
3.1 Requirement	10
3.2 Ergon Energy 2015-16 Annual Reporting RIN Templates	10
3.2.1 Completed RIN Templates	10
3.2.2 Key Information Systems Used	10
4. BASIS OF PREPARATION	15
4.1 Requirement	15
4.2 Basis of Preparation Applied By Ergon Energy	15
4.2.1 Addressing Minimum Requirements	15
4.2.2 Additional Requirements	16
5. REGULATORY ACCOUNTING PRINCIPLES AND POLICIES	19
5.1 Requirement	19
5.2 Response.....	19
5.2.1 Statement of Policy – Regulatory Accounting Principles and Policies.....	19
5.2.2 Material Changes in Statement of Policy – Regulatory Accounting Principles and Policies.....	19
6. COST ALLOCATION METHOD – STATEMENT OF POLICY	20
6.1 Requirement	20
6.2 Response.....	20
6.2.1 Statement of Policy – Cost Allocation Method	20
6.2.2 Material Changes in Statement of Policy – Cost Allocation Method	20
7. CAPEX AND OPEX - EXPLANATION FOR MATERIAL VARIANCES	21
7.1 Requirement	21
7.2 Response.....	21
7.2.1 Capex	21
7.2.2 Opex	22
8. STPIS PERFORMANCE MEASURES – EXPLANATION FOR MATERIAL VARIANCES	24
8.1 Requirement	24
8.2 Response.....	24
8.2.1 Reliability Parameters	24
9. CLASSIFICATION OF DISTRIBUTION SERVICES	26
9.1 Requirement	26

9.2	Response.....	26
10.	ARRANGEMENTS FOR NEGOTIATED SERVICES	27
10.1	Requirement.....	27
10.2	Response	27
11.	NEGATIVE CHANGE EVENTS	28
11.1	Requirement.....	28
11.2	Response	28
11.2.1	Process for identifying Negative Change Events	28
11.2.2	Materiality Threshold Applicable to Negative Pass through Events.....	29
12.	RING FENCING COMPLIANCE	30
12.1	Requirement.....	30
12.2	Response	30
13.	CHANGES IN TAX STANDARD ASSET LIVES	31
13.1	Requirement.....	31
13.2	Response	31
14.	GROUP CORPORATE AND ORGANISATIONAL STRUCTURES.....	32
14.1	Requirement.....	32
14.2	Response	32
15.	AUDIT AND REVIEW REPORTS	34
15.1	Requirement.....	34
15.2	Response	34
16.	STATUTORY DECLARATION	36
16.1	Requirement.....	36
16.2	Response	36
17.	APPENDIX A – LIST OF ATTACHMENTS	37

GLOSSARY

ACRONYM	GLOSSARY TERM
Ergon Energy 15-16 Annual RIN	Ergon Energy's 2015-16 Annual Reporting Regulatory Information Notice
ABS	Australian Bureau of Statistics
ACS	Alternative Control Services
AER	Australian Energy Regulator
AER FDD	AER's 2015-2020 Distribution Determination for Ergon Energy
CAC	Connection Asset Customers
CAM	AER approved Cost Allocation Method
Capex	Capital expenditure
CBD	Central business district
CICW	Customer Initiated Capital Works
CPI	Consumer Price Index
DM	Demand Management
DMIA	Demand Management Innovation Allowance
DMIS	Demand Management Incentive Scheme (AER)
DNSP	Distribution Network Service Provider
DUOS	Distribution Use of System
EDNC	Electricity Distribution Network Code
EECL	Ergon Energy Corporation Limited
EEQ	Ergon Energy Queensland Proprietary Limited
EG	Embedded Generator
EQL	Energy Queensland Limited
Ergon Energy	Ergon Energy Corporation Limited
Excel	Microsoft Excel
FACTS	Feedback and Claim Tracking System
FDRSTAT	FeederStat
FiT	Feed-in-tariff
GSL	Guaranteed Service Level
HV	High voltage
ICC	Individually Calculated Customer

ACRONYM	GLOSSARY TERM
IVR	Interactive Voice Recording
KM	Kilometre
kV	Kilovolt
LV	Low voltage
LR	Long Rural
MED	Major event day
MVA	Megavolt ampere
NEL	National Electricity Law
NER	National Electricity Rules
NERL	National Energy Retail Law
NMI	National Metering Identifier
Nominal	With respect to dollars – means dollar of the day
Notice	Regulatory Information Notice
Opex	Operating expenditure
PTRM	Post Tax Revenue Model
QTC	Queensland Treasury Corporation
Real	With respect to dollars – means constant dollars at a specific date.
RIN	Regulatory Information Notice
ROAMES	Remote Observation Advanced Modelling Economic Simulation
Rules	National Electricity Rules
SAC	Standard Asset Customer
SAIDI	System Average Interruption Duration Index
SAIFI	System Average Interruption Frequency Index
SCS	Standard Control Services
SPARQ	SPARQ Solutions Pty Ltd
SR	Short Rural
STPIS	Service Target Performance Incentive Scheme (AER)
UR	Urban
W	Watt
ZSS	Zone-Substation

1. INTRODUCTION

On 3 February 2016, the Australian Energy Regulator (AER) issued a Regulatory Information Notice (Notice) under Division 4 of Part 3 of the National Electricity Law (NEL) to Ergon Energy Corporation Ltd (ABN 50 087 646 062) (Ergon Energy).

The Notice requires Ergon Energy to provide and to prepare and maintain the information in the manner and form specified in the Notice.

Ergon Energy notes that the AER's Notice indicates that the AER require the information for the performance or exercise of its functions or powers conferred on it under the NEL or the National Electricity Rules (NER), namely to:

- monitor compliance with the distribution determination that applies to Ergon Energy for the regulatory control period that commenced on 1 July 2015;
- publish reports relating to the financial or operational performance of Ergon Energy; and
- prepare for the making of future distribution determination that will apply to Ergon Energy for the regulatory control period commencing on 1 July 2020; and
- assist the AER to determine whether it should exercise its powers to disclose information obtained under this Notice in respect of the distribution services provided by way of the electricity distribution network Ergon Energy operates in Queensland.

The Notice requires Ergon Energy to provide the information specified in Schedule 1, audited in accordance with Appendix D to the Notice in accordance with section 28M(e) of the NEL having prepared (and maintained) the information in the manner and form specified in Schedule 2 to the Notice. The information specified is required to be verified using the statutory declaration in Appendix C to the Notice, in accordance with section 28M(d).

Ergon Energy is required to deliver the said information electronically to AERInquiry@aer.gov.au, or the AER secure file transfer on or before 5:00 pm Australian Eastern Daylight Time on 31 October 2016 in respect of information for the 2015-16 regulatory year (1 July 2015 to 30 June 2016) (the 'Submission'). The submission is to be accompanied by the Audit and Review Report(s) and a signed Statutory Declaration over audited information.

It is also noted that the information provided in response to this Notice will constitute the provision of an annual report for the purposes of paragraph 3.1.4.1 of the AER, *Demand management incentive scheme for Ergon Energy (as set out in the 2015-20 Distribution Determination)*.

Formation of Energy Queensland Limited

In 2015 the Queensland Government commenced a range of electricity industry reforms, with significant impacts on Ergon Energy. The most significant has been the creation of a parent company Energy Queensland Limited (EQL) via the merger of Ergon Energy Corporation Limited, Energex Limited and SPARQ Solutions Pty Ltd effective 30 June 2016.

The aim of the merger is to place us in the best position to adapt to the changes underway in the electricity supply sector as a customer-oriented, efficient business. It is about delivering positive price outcomes for our local communities, as well as long-term, sustainable business returns to the Queensland Government, and ultimately the people of Queensland.

The obligation to respond to the Regulatory Information Notices (RINs) issued by the AER (including the Annual Reporting RIN) remains with the legal entity of Ergon Energy, as holder of a distribution authority, and Ergon Energy remains subject to the same regulatory framework as per that applicable prior to 30 June 2016.

Accordingly, Ergon Energy is pleased to submit this Submission (audited) in relation to the 2015-16 Regulatory Year (**Ergon Energy 2015-16 Annual Reporting RIN, Submission**), as made by:

Ergon Energy Corporation Limited

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2. CONFIDENTIAL INFORMATION

2.1 Requirement

In accordance with Schedule 1 of the Notice, if Ergon Energy makes a claim for confidentiality over any information provided in accordance with this Notice, Ergon Energy must:

- provide any details of a claim for confidentiality in accordance with the requirements of the AER's Better Regulation Confidentiality Guideline (19 November 2013)¹, as if it extended and applied to that claim for confidentiality;
- provide any details of a claim for confidentiality in response to the above, at the same time as making the claim for confidentiality; and
- confirm, in writing, that consent is given for the AER to disclose all other of Ergon Energy's information (provided in the submission) on the AER website, except the confidential version of information the subject of a confidentiality claim under paragraph 10.1.

The AER's Confidentiality Guidelines sets out the framework for how the AER will handle confidentiality claims and requirements for Ergon Energy.

A confidentiality claim, by itself, is insufficient to prevent disclosure. Both the NEL and the *Competition and Consumer Act 2010 (Cth)* provide for the AER to disclose confidential information in certain circumstances. In particular, section 28ZB of the NEL allows the AER to disclose information where:

- disclosure would not cause detriment to the information provider or the person from whom the information provider received the information; or
- public benefit in disclosing the information outweighs that detriment.

Making a confidentiality claim in the manner mentioned above will reduce the chance that the AER will exercise these powers. Ergon Energy notes the AER would provide notice and an opportunity to comment prior to exercising these powers.

The AER requires Ergon Energy to verify, by way of a statutory declaration the information provided in response to Schedule 1, which includes both the Templates, Basis of Preparation as well as any attachments provided in response to requirements.

2.2 Response

Ergon Energy notes that regard has been given to the AER's Confidentiality Guidelines in assessing confidentiality claims in preparation of its 2015-16 Annual Reporting RIN. Ergon Energy has not identified any claims for confidentiality in regards to its 2015-16 Annual Reporting RIN response.

Of note, Ergon Energy contacted its independent auditors (the Queensland Audit Office, and Parsons Brinkerhoff) to advise the AER's ability to disclose audit or review reports issued to Ergon Energy in respect of its 2015-16 Annual Reporting RIN, subject to any confidentiality claims made. Confirmation was obtained from the auditors agreeing to the release of audit or review reports / audit opinions.

¹ Available at: <http://www.aer.gov.au/node/18888>

3. INFORMATION TEMPLATES

3.1 Requirement

Schedule 1, paragraph 1.1 (a) of the Notice requires Ergon Energy to provide all information required in the Financial Information Templates, being the information required in the Microsoft Excel workbook attached as Appendix B to the Notice. Furthermore, Schedule 1 paragraph 1.1(b) of the Notice requires the provision of the information required in the Non-Financial Information Templates in the Microsoft Excel workbook attached at Appendix B to the Notice.

Schedule 2, paragraph 1.1 requires the Microsoft Excel workbooks to be prepared in a manner and form specified in the worksheets therein and reiterates that the principles and requirements of the Notice are to be adhered to. Of note,

- Data for cells in Regulatory Templates coloured grey, or containing formulae do not require input and must not be amended by Ergon Energy.
- Where *Actual Information* (defined term) cannot be provided, Ergon Energy is required to provide *Estimated Information* (defined term) and additional information in relation to *Estimated Information* is to be provided in accordance with Basis of Preparation requirements (refer section 4).

In relation to the 2015-16 Regulatory Year, the AER requires Ergon Energy to verify information provided in the templates by way of an Audit in accordance with Appendix D and a Statutory Declaration in accordance with Appendix C to the Notice.

3.2 Ergon Energy 2015-16 Annual Reporting RIN Templates

3.2.1 Completed RIN Templates

Ergon Energy's Submission of the completed 2015-16 Annual Reporting RIN templates (2015-16 AR RIN Templates), being the Microsoft Excel (Excel) workbooks at Appendix B to the Notice, are provided as attachments to this response as follows:

- Financial Information Templates, and
- Non-Financial Information Templates.

Refer to: Table 7-1: List of Attachments. Of note, there was no requirement to submit anything other than a consolidated set of Templates. However, Actual and Estimated information has been identified in the relevant Basis of Preparation.

3.2.2 Key Information Systems Used

The table below gives a listing and brief description, of key information systems that Ergon Energy currently uses to provide its Distribution Services and which have been utilised in providing the information required in the templates (referred to as relevant in Basis of Preparation responses provided in section 4).

It is emphasised that this is not an exhaustive list of all of the information systems that Ergon Energy uses. For further explanations of specific processes and systems used to report RIN requirements refer to section 3.2.2 of this document.

Table 3-2: Key Information Systems used by Ergon Energy

System	Description
Artemis 7	Manages investment portfolio including project planning, scheduling and tracking, program and project governance and financial and resource management
Customer Management System (CMS)	Used with FACOM to manage customer service delivery
CSA	Current state assessment database used to record transformer capacity data for planning purposes
DCOS Model	Distribution Cost of Supply (DCOS) Model is used in the network tariff setting process, where the output of the model is 'forecast revenue' for each customer group to be recovered via distribution tariffs. The DCOS Model output displays forecast revenues by geographic zones (East, West, Mount Isa) and customer categories (ICC, CAC, EG, SAC, UnMet&STL) with the Annual Charge disaggregated by Fixed Charge, Actual Demand Charge, Capacity Charge, and Volume Charge.
COGNOS	Budget planning modules
ECORP	<p>ECORPMAIN contains the network asset topology utilised by FeederStat, Connect, Switching Sheet Writer and reliability reporting apps. The ECORP model hierarchy is primarily manually maintained by Network Data Officers and Customer Connection Officers i.e. association of premises with substations.</p> <p>An automated process (GELO) exist which updates selected feeders (approx. 3 feeders) in ECORPMAIN from NETAPP-GISEP. The ECORPMAIN model contains network objects like substations and switches required to model network connectivity it does not contain other assets e.g. poles, conductors, streetlights etc.</p>
ESATS	Standing data repository containing extracted data in tables storing all mandated NMI standing data.
Ellipse	<p>Ellipse is a large Enterprise Resource Planning (ERP) application used to manage assets, works, finance, supply chain, logistics, human resources and payroll. This application represents the logical group of modules of the Ellipse application which support the Financial Management sub segment.</p> <p>Ellipse was commissioned on 4 September 2006 as the Management and Financial reporting tool. The chart of accounts structure includes a district code and four segments forming an account line of four alphabetic and seventeen numeric characters.</p> <ul style="list-style-type: none"> ▪ District: Separate legal entities of Ergon Energy consisting of parent entity and subsidiaries; ▪ Responsibility Centre: Business unit groups responsible for revenues, expenses for a function/ location; ▪ Activity: Type of work being undertaken. Also used for balance sheet classification: asset, liability, equity and Work in Progress (WIP); ▪ Product: Product or service being provided, for example High Load Escort; and

System	Description
	<ul style="list-style-type: none"> Element: the nature of the revenue received or expense incurred. <p>Each revenue, cost element, asset and liability that when combined constitute the sum of Ergon Energy activities, and any associated adjustment to these, must have its origin in an audited Statutory Accounts</p>
FACOM	<p>Ergon Energy's Customer Information System (CIS) which contains customer and premises data. Ergon Energy Queensland's (EEQ) retail customers (Tier 1) and Ergon Energy Corporation Limited's distribution only accounts for Tier 2 (market) customers are managed in FACOM. EEQ's retail customers are billed from FACOM.</p> <p>Information can be extracted from this database using Ergon Energy's ECORP or NetBill applications.</p> <p>Most of FACOM functions were replaced by PEACE. FACOM became 'read only' as of 14 March, 2016</p>
FeederStat	<p>Ergon Energy's outage management system. It pinpoints where a particular premise is located and what feeder or substation it is connected to. FeederStat is used when faults and outages are being analysed and facilitates the NCC logging fault related calls as they are received and providing information to customers on restoration times.</p> <p>FeederStat is the primary outage management system employed by Ergon Energy to capture, record, action and report: planned and unplanned outages. FeederStat was internally developed by Ergon Energy and is a common application used across all sites with access to Oracle which is used to both input and extract outage data and information</p>
Financial Asset Register (FAR)	Accounting asset register containing the RAB cost and life information
Lightmap	Lightmap is a geographical information system that provides information in relation to spatial location of public lighting assets and asset information. It is used as Public Lighting Management software.
NEMLink (MDP)	The Meter Data Provider's Market Gateway.
NetBill	Network Bill production for market and non-market customers.
Outage Management System (OMS)	Oracle-based system used to export information about individual unplanned outages
PEACE	<p>PEACE is a web based premise information and billing system and has been implemented to support Ergon Energy in a Full Retail Competition (FRC) environment.</p> <p>PEACE interacts with multiple systems, enabling data to be sent to and received by MSATS (Market Settlement and Transfer Solution).</p> <p>The two major components of PEACE are:</p> <ol style="list-style-type: none"> 1. PEACE Customer Information System (CIS) - which enables us to: <ol style="list-style-type: none"> a. Store and update customer premise details; b. Create and manage Network Tariffs, reads and invoices; c. View External References (specific data required by Ergon Energy to publish to the Market, such as NMI and FRMP);

System	Description
	<ul style="list-style-type: none"> d. Create and transition PEACE work requests (PTJs - Process Tracking Jobs); <p>2. PEACE Market Solution - which enables us to:</p> <ul style="list-style-type: none"> a. Validate Market Transactions from external parties via AEMO and business Rules; b. Publish mandatory data fields (Standing Data) in MSATS; c. Manage customer transfers, Service Orders and Change Requests and process these to PEACE CIS; d. Forward data to the relevant systems, e.g. MARS, PEACE CIS and MSATS. <p>PEACE replaced most of FACOM functions.</p>
PLUMS	Public lighting and unmetered supplies – intermediate system between Smallworld and PEACE for billing unmetered customers.
ROAMES	<p>Remote Observation Automated Modelling Economic Simulation (ROAMES) LiDAR program. ROAMES technology originally developed by Ergon Energy and partner organisations creates precise, 3D geo-spatial representations of network assets such as substations, poles and wire infrastructure to be displayed in a Google Earth-like database. The sheer size of Ergon Energy’s distribution area was a key motivator for finding smarter ways of managing the assets and the surrounding environment. It is anticipated that the information ROAMES provides will result in reduced maintenance and planning costs, while also increasing the safety and reliability of electricity supply for our customers and communities.</p> <p>The large volume of data captured during ROAMES flights is processed to enable reliable and precise measurement of Ergon Energy’s electricity network and surrounding objects such as buildings, terrain and vegetation. Information is then used to create a precise, virtual representation of Ergon Energy’s network infrastructure throughout Queensland, providing vital information for more effective and cost efficient vegetation maintenance and asset planning.</p> <p>From 1 March 2015, this capability is supplied via a Service Level Agreement from an unrelated corporation called ROAMES Asset Services Pty Limited.</p>
SCAMS	Substation Condition Assessment and Monitoring System used to manage assets and as a source of ZSS capacity data
Substation Investment Forecasting Tool (SIFT)	Used by planning team to plan substation augmentation and growth
Supervisory Control and Data Acquisition (SCADA)	While SCADA is a general term, it is used within Ergon Energy to refer specifically to the ABB system used for Network Operations.
Smallworld	A geographic information system used to manage the spatial location of assets.
Smallworld Oracle Replicated (SOREP) Spatial database.	Replicated version of Smallworld Electrical Data. Reference by Aires, Mapguide, Google Earth, Schematics etc.

System	Description
Statistical Metering Database (SMDB)	Consists of Access databases maintained by Ergon Energy Planning department to capture the history of Ergon Energy's interval data for demand and weather (sourced from the Bureau of Meteorology data).
Tree Management Database (TMD)	Database used by vegetation management contractors to record trees trimmed and dates work undertaken.

4. BASIS OF PREPARATION

4.1 Requirement

Schedule 1 paragraph 1.1 (d) of the Notice requires Ergon Energy to provide in accordance with the notice, and the Principles and Requirements in Appendix A, a Basis of Preparation demonstrating how Ergon Energy has complied with the Notice, in respect of for all information provided in Appendix B (being the Excel workbooks Financial Information Templates and Non-Financial Information Templates). Specifically, the Basis of Preparation must:

- demonstrate how the information provided is consistent with the requirements of the Notice;
- explain the source from which Ergon Energy obtained the information provided; and
- explain the methodology Ergon Energy applied to provide the required information, including any assumptions Ergon Energy made.

In circumstances where Ergon Energy cannot provide input for a Variable using Actual Information and therefore must provide input using Estimated Information, Ergon Energy must also comment as to:

- why an estimate was required, including why it was not possible to use Actual Information;
- the basis for the estimate, including the approach used, assumptions made and reasons why the estimate is a best estimate, given the information sought in the Notice; and
- what steps Ergon Energy is taking to ensure it can provide the information in the future.

Ergon Energy may provide additional detail beyond the minimum requirements if Ergon Energy considers it may assist a user to gain an understanding of the information presented in the regulatory templates.

When carrying out an audit or review as specified in Appendix D to the Notice, an auditor or assurance practitioner shall have reference to Ergon Energy's Basis of Preparation.

The AER requires Ergon Energy to verify, by way of a statutory declaration the information provided in response to Schedule 1, which includes both the Templates, Basis of Preparation as well as any attachments provided in response to requirements.

4.2 Basis of Preparation Applied By Ergon Energy

4.2.1 Addressing Minimum Requirements

The minimum requirements specified in the Notice are addressed for each of the variables or group of variables contained in the Annual Reporting RIN information templates (Financial Information and Non-Financial Information), in the Basis of Preparation documents prepared by Ergon Energy and provided as attachments (summarised in Table 17-1: List of Attachments).

Unless otherwise noted, the following general comments are made as relevant to all variables in addressing the minimum requirement:

- Ergon Energy has referred to Instructions provided and Definitions contained in Appendix F of the Notice.
- Financial inputs (monetary values) are presented in nominal terms unless otherwise stated.

- Information has been reported for service categories: Standard Control Services (SCS) (and where relevant – Network Services) and Alternative Control Services (ACS) in accordance with RIN requirements and with reference to the Instructions and Definitions.
- As relevant (and as noted in relevant sections herein, or as attachments provided), Ergon Energy has included any additional information required to be prepared in accordance with the requirements of the Notice (for example Schedule 1).
- Where relevant, regard has been given to ongoing clarifications provided by the AER to various Network Service Providers in its Issues Registers or separate correspondence, including as part of the release of amended templates.

4.2.2 Additional Requirements

The additional requirements noted in Table 4-1 were identified in the Notice issued to Ergon Energy, as being requirements that require provision of additional information or attachments over and above completed templates or Basis of Preparation.

Responses to these requirements are made as attachments to the applicable Basis of Preparation for templates as summarised in Table 17-1: List of Attachments.

Table 4-1: Additional Requirements (Attachments to Basis of Preparation)

Notice Reference Paragraph	Requirement	Attachment(s) to Template BOP
Schedule 1 Para 1.1(c)	<p>Provide a Microsoft Excel workbook or other information that reconciles and explains Adjustments between the Audited Statutory Accounts and the Financial Information Templates.</p> <p>Ergon Energy must separately list each Adjustment made to derive the Financial Information Templates. For each Adjustment made:</p> <ul style="list-style-type: none"> specify the amount of Adjustment; describe the nature and basis of each Adjustment 	<p>Reconciliation (Audited Statutory Accounts and Regulatory Accounting Statements)</p> <p>EE1516AR RECON</p>
Schedule 1 Para 1.1(f)	<p>Provide the Capitalisation Policy for the Relevant Regulatory Year. If Ergon Energy has previously provided the AER with the policies sought in paragraphs 1.1(f) it is not necessary for Ergon Energy to provide the policy again unless it identified a material change in response to paragraphs 5.1 (refer below).</p> <p>NOTE: Ergon Energy's capitalisation policy is incorporated in its two accounting policies 'Property Plant and Equipment' and 'Intangible Assets' which provide guidance in respect of:</p> <ul style="list-style-type: none"> Key criteria for recognition of an asset; and Clarification of accounting treatment in respect of initial recognition as an asset and subsequent expenditure, including refurbishment costs. <p>Although there are no material changes to these policies,</p>	<p>Capitalisation Policies: Intangible Assets, Property, Plant and Equipment</p> <p>EE1516AR IA</p> <p>EE1516AR PPE</p>

Notice Reference Paragraph	Requirement	Attachment(s) to Template BOP
	they have been disclosed as Attachments given this is the first year the AR RIN applies.	
Schedule 1 paragraph 3.1 – 3.4	<p>In respect of cost allocation to the distribution business Ergon Energy is to identify each expenditure or revenue item in Worksheet 8.1 (Income Statement) of the Financial Information Templates that is directly attributable to the Distribution Business.</p> <p>Furthermore, schedule 1 paragraph 3.2 requires identification of each Item that is not directly attributable in the <i>Financial Information Templates</i>:</p> <ul style="list-style-type: none"> ▪ but is allocated on a causation basis to the Distribution Business; else ▪ cannot be allocated on a causation basis to the Distribution Business. <p>For each of the items identified not directly attributable but is allocated on a causation basis to the Distribution Business, schedule 1 paragraph 3.3 requires information that:</p> <ul style="list-style-type: none"> ▪ states the amount of the Item that has been allocated; ▪ explains the method of allocation and reasons for choosing that method; and ▪ states the numeric amount of the allocator(s) used. <p>For each of the items identified as not directly attributable and that cannot be allocated on a causation basis to the Distribution Business, schedule 1 paragraph 3.3 requires information that</p> <ul style="list-style-type: none"> ▪ state its amount; ▪ state whether it was material; ▪ explain the method of allocation and reasons for choosing that method; and ▪ explain the reason(s) why it cannot be allocated on a causation basis. 	<p>Cost Allocation to the Distribution Business</p> <p>EE1516AR CADB</p>
Schedule 1 Para 4.1 – 4.4	<p>In relation to Ergon Energy's Service segments (refers to standard control services, ACS, negotiated services), identify each Item in the Financial Information Templates that is:</p> <ul style="list-style-type: none"> ▪ directly attributable from the Distribution Business to a service segment; and <ul style="list-style-type: none"> ○ state the amount of the <i>Item</i> that has been directly attributable to a service segment. ▪ not directly attributable but is allocated on a causation basis from the Distribution Business to a service segment; and 	<p>Cost Allocation to Service Segments</p> <p>EE1516AR CASS</p>

Notice Reference Paragraph	Requirement	Attachment(s) to Template BOP
	<ul style="list-style-type: none"> ○ state the amount of the Item that has been allocated; ○ explain the method of allocation and reasons for choosing that method; and ○ state the numeric amount of the allocator(s) used. ▪ not directly attributable and cannot be allocated on a causation basis from the Distribution Business to a service segment. <ul style="list-style-type: none"> ○ state the amount of the Item and whether it was material; ○ explain the method of allocation and reasons for choosing that method; and ○ explain the reason(s) why it cannot be allocated on a causation basis. 	
Schedule 1 Para 6	<p>Provide reporting in relation to Ergon Energy's Demand Management Incentive Allowance (DMIA).</p> <p>Note: Information provided in response to paragraph 6 of Schedule 1 to this Notice constitutes the provision of an annual report for the purposes of paragraph 3.1.4.1 of the Demand Management Incentive Scheme (DMIS) applying to Ergon Energy (as set out in the 2015-20 Distribution Determination).</p>	<p>Ergon Energy 1516 Demand Management Innovation Allowance (Annual Report)</p> <p>EE1516AR DMIA</p>

5. REGULATORY ACCOUNTING PRINCIPLES AND POLICIES

5.1 Requirement

Schedule 1 paragraph 1.1(e) of the notice requires Ergon Energy to provide its Regulatory Accounting Principles and Policies applicable for the Relevant Regulatory Year.

Furthermore, Ergon Energy is also required to identify in schedule 1 paragraph 1.2, all material changes between the Regulatory Accounting Principles and Policies provided for the Relevant Regulatory Year, and that provided for the previous regulatory year. For each change identified Ergon Energy must:

- explain the nature of and the reasons for the change; and
- quantify the effect of the change on information in the Financial Information Templates for the Relevant Regulatory Year.

Of note, Schedule 1 paragraph 1.4 suggests that if Ergon Energy has previously provided the AER with the policies it is not necessary to provide them again unless a material change is identified in response to paragraph 1.2.

The AER requires Ergon Energy to verify, by way of a statutory declaration the information provided in response to Schedule 1, which includes both the Templates, Basis of Preparation as well as any attachments provided in response to requirements.

5.2 Response

Ergon Energy's Statement of Policy is disclosed below.

5.2.1 Statement of Policy – Regulatory Accounting Principles and Policies

Financial Information Templates are derived from statutory accounts which comply with accounting standards and Ergon Energy's accounting policies (Property, Plant & Equipment and Intangible Assets) and the AER approved Cost Allocation Method (August 2014). They also comply with RIN instructions, definitions, principles and requirements and written AER clarifications where sought.

5.2.2 Material Changes in Statement of Policy – Regulatory Accounting Principles and Policies

Although this is the first year Ergon Energy's Statement of Policy (Section 5.2.1) has been disclosed, there have been no material changes between the current and prior regulatory year to the application of the Regulatory Accounting Principles and Policies in preparing the AR RIN.

6. COST ALLOCATION METHOD – STATEMENT OF POLICY

6.1 Requirement

Schedule 1 paragraph 1.1(g) of the Notice requires Ergon Energy to provide the statement of policy determining the allocation of overheads in accordance with the approved Cost Allocation Method (CAM) for the Relevant Regulatory Year.

Furthermore, schedule 1 paragraph 1.3 also requires Ergon Energy to identify material changes between the statement of the policy determining the allocation of overheads in accordance with the approved CAM, for the Relevant Regulatory Year and the previous regulatory year, and for each change identified:

- explain the nature of and the reasons for the change; and
- quantify the effect of the change on information in the Financial Information Templates for the Relevant Regulatory Year

Of note, under Schedule 1 paragraph 1.4, if Ergon Energy has previously provided the AER with the policy sought it is not necessary to provide it again annually, unless a material change is identified in response to paragraphs 1.3 of schedule 1.

The AER requires Ergon Energy to verify, by way of a statutory declaration the information provided in response to Schedule 1, which includes both the Templates, Basis of Preparation as well as any attachments provided in response to requirements.

6.2 Response

Ergon Energy's Statement of Policy is disclosed below.

6.2.1 Statement of Policy – Cost Allocation Method

Ergon Energy complies with the CAM, in accordance with Part F - Cost Allocation, Rule 6.15 Cost Allocation, clause 6.15.1 Duty to comply with CAM of the NER.

Where practical, costs are directly attributed to categories of distribution services and unregulated activities.

Shared costs are causally allocated where support services are provided across the Ergon Energy Group, prior to allocating the Regulated overheads in proportion to the Regulated direct costs incurred Ergon Energy's current approved CAM is available on the [AERs website](#).

6.2.2 Material Changes in Statement of Policy – Cost Allocation Method

There have been no material changes to Ergon Energy's Statement of Policy – Cost Allocation Method.

7. CAPEX AND OPEX - EXPLANATION FOR MATERIAL VARIANCES

7.1 Requirement

Schedule 1 paragraph 1.5 of the Notice requires Ergon Energy to identify each difference (where the difference is equal to or greater than ± 10 per cent) between the amount reported in the *Financial Information Templates* and the amount provided for in the *2015-20 Distribution Determination* for Opex and Capex reported in the response to paragraph 1.1(a) (being, information required in the *Financial Information Templates* in the Microsoft Excel workbook attached at Appendix B).

Paragraph 1.6 then requires Ergon Energy to explain all Material differences between the *Financial Information Templates* and the amount provided for in the *2015-20 Distribution Determination*.

The AER requires Ergon Energy to verify, by way of a statutory declaration the information provided in response to Schedule 1, which includes both the Templates, Basis of Preparation as well as any attachments provided in response to requirements.

7.2 Response

Of note, Ergon Energy has provided explanations to variances for SCS Capex in Table 8.2.2 – (Capex by Purpose - Material Difference Explanation), and SCS Opex in Table 8.4.3 – (Operating & Maintenance Expenditure - Explanation of Material Difference). Additional explanations for variances which are unable to be entered in these tables, are also set out below.

7.2.1 Capex

Table 7-1: Explanations to variances – Standard Control Services

Description	Reasons for material difference
Augmentation capex	Augmentation investment in 2015-16 has been lower than originally predicted due to softening demand on the network which has led to the re-assessment and cancellation of investments. Safety Net Criteria has also provided opportunities to revisit network constraints, facilitating scope changes or different/alternative solutions to be delivered. The investment in different/alternative solutions has impacted on the program and therefore contributed to the underspend. Some investments were completed under budget which also had some impact.
Metering	Delays to the insitu metering program are the reason for the underspend in this area. These programs were due to commence in the later part of the year but have not ramped up as expected due to meter availability and delays in the development of this program.
Non-network capex	Primarily driven by Ergon Energy delaying property projects until the finalisation of <i>2015-20 Distribution Determination</i> for confirmation of funding outcomes. Projects commenced after October 2016, therefore creating a 3-4 month delay in capex spend during 2015-16 for Buildings, Office Furniture etc.

Description	Reasons for material difference
Capitalised overheads	Overheads are applied to capex using a percentage apportionment based on direct cost by line of business. The reduction in overheads is driven by a lower direct regulated Capex spend against forecast, to which the percentage apportionment is applied.

Table 7-2: Explanations to variances – Alternative Control Services

Description	Reasons for material difference
Connections	Connection services such as Real Estate Developments and Large Customer Connections are subject to price regulation. As such, there are no approved capex forecasts to report against actuals.
Public Lighting	Public Lighting Installation and Public Lighting Replacement customer initiated capital works has slowed reflective of an economic slow-down in regional Queensland. Replacement Capex for Streetlighting has also reduced with less defects identified in Streetlights than the projections (based on historical figures).
Metering	Forecast new connections were anticipated to be 15,227 against actual installations of 9,675, reflective of an economic slow-down in regional Queensland. Another influencing factor for the decline in customer requested metering work is the reclassification of Type 5 & 6 meters from SCS to ACS from the 1 July 2015, where new or replacement meters are now required to be paid up front. In addition, meters now are also more likely to be 'solar ready' not requiring replacement when customers install Solar Photovoltaic panels. The final driver contributing to the variance arises by postponing the replacement of a significant number of meters under the Non-Compliant Meter Replacement Program to forthcoming years in the 2015-20 regulatory control period, to allow time for the migration of the meter asset and customer information systems from FACOM and Ellipse to MARS and PEACE.

7.2.2 Opex

Table 7-3: Explanations to variances – Standard Control Services

Description	Reasons for material difference
Preventative Maintenance	<p>Variance is attributable to a variety of factors including;</p> <ul style="list-style-type: none"> ▪ A trade off in the CPI adjusted forecast categories between preventive and corrective maintenance ▪ Some carry over expenditure from 2014/15 as claims were completed, rechecked and verified ▪ Higher levels of facility costs than forecast for substation and communication sites ▪ One minor subset of Asset Inspection, the Pole Top inspection program running and higher unit rates than forecast

Description	Reasons for material difference
Corrective Maintenance	Primarily driven by efficiencies in the vegetation management program reflective of improved processes, analysis and application of ROAMES information and management intervention. Also, a reduced number of non-compliance instances against acceptance criteria identified during the routine maintenance process resulting in less non-routine maintenance work across several asset classes.
Electricity Industry Levy	Clause 16 (Australian Energy Market Commission Levy) of Ergon Energy's Distribution Authority was amended on 22 March 2016 requiring Ergon Energy to pay the Energy Industry Levy which reflects a portion of the Queensland Government's funding commitments for the AEMC. No costs were forecast as the obligation arose after the publication of the <i>2015-20 Distribution Determination</i> . On 22 April 2016, the AER approved the Energy Industry Levy as a Jurisdictional Scheme.
Debt Raising Costs	<p>The key driver of the debt raising costs variance was the restructure of our debt as part of the energy industry merger to form Energy Queensland Limited on 30 June 2016. Under the Regulation our debt service payment and debt raising costs for the June quarter were transferred to the State of Queensland (for both Ergon Energy and Energex). Accordingly, we were not required to pay Queensland Treasury Corporation's (QTC) Administration Fees for April to June 2016.</p> <p>Other drivers for the variance relate to the differential between the rate charged by QTC and our AER allowance. QTC charged on average 7 basis points over the 2015-16 financial year, whereas the AER allowance was 8.27 basis points. In addition, Ergon Energy's actual debt balance at the start of the year with QTC was \$5,273 Million which increased to \$5,901 Million prior to the debt restructure compared to the AER 2015-16 debt balance at the start of the year of \$5,924 Million (using a 2.5% forecast inflation rate) and end of period balance of \$6,221 Million.</p>
Non-Network Alternatives	With lower customer demand, there was a reduced need for Non-Network Alternative solutions with uncompromised network capability.
Corporate Restructuring	Ergon Energy experienced significant organisational change during the year to transition workforce levels to align with <i>2015-20 Distribution Determination</i> forecasts. As such a voluntary retrenchment program was offered; resulting in redundancies exceeding AER approved forecasts, to achieve required support cost savings.
Not Proceeding Network Initiated Capital Works	The relaxation of security criteria changes and the drop in customer connection enquiries have significantly impacted the Network Initiated Augmentation Program, resulting in a number of projects written off as considered no longer necessary.

8. STPIS PERFORMANCE MEASURES – EXPLANATION FOR MATERIAL VARIANCES

8.1 Requirement

Schedule 1 paragraph 1.7 of the Notice requires Ergon Energy to identify each difference (where the difference is equal to or greater than ± 10 per cent) between the target performance measure specified in the *service target performance incentive scheme* and actual performance reported in the response to paragraph 1.1(b) (being, information required in the *Non-Financial Information Templates* in the Microsoft Excel workbook attached at Appendix B).

Paragraph 1.8 then requires Ergon Energy to explain all Material differences between the target performance measure specified in the STPIS and actual performance reported in the response to paragraph 1.7.

The AER requires Ergon Energy to verify, by way of a statutory declaration the information provided in response to Schedule 1, which includes both the Templates, Basis of Preparation as well as any attachments provided in response to requirements.

8.2 Response

Of note, Ergon Energy's Telephone Answering actual performance for 2015-16 was within 10% of the target performance measure specified in STPIS. Reliability performance is discussed below.

8.2.1 Reliability Parameters

Ergon Energy unplanned reliability performance for 2015-16 was favourable to 4 out of 6 STPIS targets with SAIDI and SAIFI for the Long Rural (LR) category the only measures to not outperform STPIS targets for 2015-16.

By comparison to 2014-15, Ergon Energy's Urban (UR) SAIDI and SAIFI improved by 3.9% and 3.3%, Short Rural (SR) SAIDI declined by 1.4% and SAIFI improved by 5.4% and LR SAIDI improved by 7.7% and SAIFI declined by 2.0%.

Variability in short term weather patterns continued to demonstrate a strong relationship to the reliability of supply outcomes for the Ergon Energy customers in rural and remote Queensland across 2015-16. From October to January periods of severe weather through the Central and Southern Highlands had a pronounced influence on the LR SAIDI and SAIFI performance. Reliability performance in the period after January did however stabilise and across the later period of the year approached the forecast performance for the feeder category.

For the year, 2 Major Event Days (MEDs) were identified associated with severe weather events. The exclusion of the interruptions occurring on MEDs provided an effective mechanism in managing performance variability in the UR and SR categories. However these exclusions had limited influence on the LR category performance reported this year.

Although there were no cyclones that impacted Ergon Energy's supply network in 2015-16, the LR network category was impacted by an early start to the summer storm season. The LR distribution network experienced a 19% increase in storm related supply interruption events in 2015-16 compared to the 5yr historical average. When compared to 2014-15, the LR feeder type experienced:

- 17% more unplanned supply interruption events,
- 2% more in unplanned customer interruptions; and
- 8% decrease in unplanned minutes of interrupted supply to customers

Achieving performance in the rural network segments that is consistently favourable to the STPIS targets is a challenge for Ergon Energy. The annual variability in supply interruptions occurring in the rural areas is influenced significantly by the severity of weather events and in general by longer term weather patterns. The duration of the supply interruption events in these areas is extended (by comparison to the urban areas) because of the vast geographical spread of assets serviced by the regional depots and the interruption exposure resulting from the predominantly radial arrangement of the supply chain in this network type.

For 2015-16 and beyond the focus of Ergon Energy's capital investment strategy is transitioning from reliability improvement to reliability maintenance. As a result the longer term and underlying reliability performance levels are expected to stabilise in line with the transition in investment approach. Annual reliability performance will however remain variable as a result of the strong link to weather pattern variation. The 2015-16, overall unplanned interruption duration and interruption frequency were comparable to 2014-15, with only a 1% improvement in average interruption duration and no change in average interruption frequency. Despite the change in investment strategy, Ergon Energy will continue to monitor, analyse and undertake the remedial action to ensure that underlying reliability performance levels are maintained and only improved where it is prudent to do so.

9. CLASSIFICATION OF DISTRIBUTION SERVICES

9.1 Requirement

In respect of the classification of services, Schedule 1 paragraph 2.1 of the Notice requires Ergon Energy to explain the procedures and processes used by Ergon Energy to ensure that the distribution services have been classified as determined in the AER's 2015-20 Distribution Determination.

The AER requires Ergon Energy to verify, by way of a statutory declaration the information provided in response to Schedule 1, which includes both the Templates, Basis of Preparation as well as any attachments provided in response to requirements.

9.2 Response

In the majority of instances, the classification of Ergon Energy services happens automatically as customers and retailers generally select the service they require. A listing and description of Ergon Energy services by service order type (with the associated product codes and prices) is provided in the "Price List for ACS" which is published on Ergon Energy's website. The Price List is developed in accordance with the classification of services (CoS) and Ergon Energy's AER-approved Pricing Proposal.

Customers can make requests for services through their retailer, or they can contact Ergon Energy's National Contact Centre (NCC). The NCC has a range of scripts and an Online Help System which informs operators about what steps should be taken to correctly identify a service and process a customer's request. A schedule of rates is also readily accessible to operators to determine on what basis fees will apply for the customer's requested service (no charge, standard fee, customer-specific quote required etc.).

Retailers make requests for Ergon Energy services through market systems in accordance with the National B2B Procedures. The Market Interface Management Services team manages requests from retailers, and has well established procedures in place to ensure services are correctly identified and processed appropriately through market systems.

Specialist business units within Ergon Energy have also been established to handle more complex service requests, and calculate prices for services requiring quotations (for example – new connections to the network, supply enhancements, rearrangement of network assets, design and construction of connection assets and street lights etc.). These business units have a range of procedures, work instructions and reference materials to ensure the service is correctly classified and appropriately priced. For example, in the case of large customer connections, Ergon Energy's Major Customer Connection Group has a manual to assist them to determine the classification of assets, and which components of a project will be required to be funded under the SCS revenue cap, and which components will be funded through ACS charges levied on customers.

Staff requiring further guidance about a service classification, can request specialist regulatory advice from Ergon Energy's Regulatory Affairs Group.

Customers and retailers also have avenues available to them to request a review of a service classification decision through Ergon Energy's Tariff Class Assignment and Re-assignment Procedures. These procedures are publicly available in Ergon Energy's Tariff Structure Statement.

10. ARRANGEMENTS FOR NEGOTIATED SERVICES

10.1 Requirement

Schedule 1 paragraph 2.2 of the Notice requires Ergon Energy to explain the procedures and processes used by Ergon Energy to ensure that the negotiated distribution service criteria, as set out in the AER's 2015-20 Distribution Determination, have been applied.

The AER requires Ergon Energy to verify, by way of a statutory declaration the information provided in response to Schedule 1, which includes both the Templates, Basis of Preparation as well as any attachments provided in response to requirements.

10.2 Response

Ergon Energy did not propose in its classification of services proposal that any of its Distribution Services be classified as Negotiated Distribution Services. As a result, Ergon Energy does not have a Negotiating Framework.

In accordance with the AER's final decision for Ergon Energy for the 2015-20 regulatory control period (29 October 2015), which accepted the list of services that Ergon Energy identified for each category of Distribution Services, Ergon Energy has no Negotiated Distribution Services.

11. NEGATIVE CHANGE EVENTS

11.1 Requirement

Schedule 1 paragraph 2.3 of the Notice requires Ergon Energy to discuss the process it has in place to identify negative change events under NER clause 6.6.1(f) and the threshold of materiality applied by Ergon Energy to these events.

The AER requires Ergon Energy to verify, by way of a statutory declaration the information provided in response to Schedule 1, which includes both the Templates, Basis of Preparation as well as any attachments provided in response to requirements.

11.2 Response

11.2.1 Process for identifying Negative Change Events

Ergon Energy's process for identifying negative change events involves the following actions:

- Recognising the identification and reporting of negative change events as an additional regulatory obligation within the business. In particular, Regulatory Affairs' work plan has included this as an obligation;
- The identification and reporting of negative change events is coordinated by Ergon Energy's Regulatory Affairs group. However other departments are involved as required;
- The relevant departments are responsible for reviewing relevant material, identification of possible negative change events, reporting of events to Regulatory Affairs (as coordinator) and ensuring the timely and accurate documentation of the process;
- The relevant departments are to identify and record the documents/web sites and any other resources intended to be reviewed in the search for negative change events. For example, Queensland government media statements, Commonwealth government media statements, AER publications/statements, financial reporting documents (or other relevant documents providing updates to tax policy);
- A communication protocol is to be established between the relevant departments and Regulatory Affairs and within the Regulatory Affairs department to ensure that the identification process is being actively conducted;
- The responsible person within Regulatory Affairs is required to notify the Regulatory Affairs Manager immediately where a possible negative change event is identified by any department;
- The Regulatory Affairs Manager is to confirm that the event meets the criteria of a negative change event;
- Once confirmed, Regulatory Affairs is to be responsible for the determination of estimated costs associated with the event in conjunction with relevant internal departments;
- In doing so, it is important to consider the distinction between under-expenditure resulting from deliberate business decisions or forecasting error and that resulting from a negative change event. In particular, the distinction between controllable and uncontrollable costs is critical. By nature, a negative change event must be an exogenous event beyond the control of Ergon Energy. By definition, all

management decisions by Ergon Energy regarding the investment in and operation of its network that subsequently result in cost savings cannot be treated as a negative pass-through event; and

- Regulatory Affairs is responsible for coordinating the preparation of pass-through applications and providing it to the AER as per requirements.

11.2.2 Materiality Threshold Applicable to Negative Pass through Events

The NER indicates that the AER will apply a materiality threshold to cost pass through events for a distribution determination where an event results in a change in costs exceeding 1% of the annual revenue requirement. Events include a regulatory change event, service standard event, tax change event, a retailer insolvency event and any other event specified in a distribution determination. Specified events for Ergon Energy include an insurance cap event, natural disaster event, and insurer's credit risk event.

12. RING FENCING COMPLIANCE

12.1 Requirement

Schedule 1 paragraph 2.4 of the Notice, requires Ergon Energy to discuss the process it has in place to monitor compliance with the *Queensland Competition Authority, Final Determination - Electricity Distribution: Ring Fencing Guidelines*, September 2000 (or any Ring fencing Guideline the AER may develop under clause 6.17.2 of the NER).

Ergon Energy is also required to list any instances of non-compliance, including the date of non-compliance event, reason for non-compliance, impact on customers, impact on competitors, and any remedial action taken in this regard.

The AER requires Ergon Energy to verify, by way of a statutory declaration the information provided in response to Schedule 1, which includes both the Templates, Basis of Preparation as well as any attachments provided in response to requirements.

12.2 Response

Ergon Energy currently operates under the *Queensland Competition Authority, Final Determination - Electricity Distribution: Ring Fencing Guidelines, September 2000* (the Guidelines). Of note, Section 16 of the Guidelines requires Ergon Energy to report annually on the measures taken by Ergon Energy to ensure compliance with its obligations under the Guidelines. In this regard, Ergon Energy's *2015-16 Annual Ring-Fencing Compliance Report (Annual Compliance Report)* was submitted to the AER on 31st October 2016.

On 15 August 2016 the AER confirmed that RIN requirements relating to Ring Fencing contained in the Annual Reporting RIN are meant to complement rather than replace existing reporting requirements. However, the AER also confirmed that Ergon Energy is able to reference its Annual Compliance report where it also addresses requirements of the Annual Reporting RIN.

In this regard, Section 15 of Ergon Energy's Annual Compliance Report describes the process Ergon Energy has in place to monitor compliance with the Guidelines, whereas Section 20 would outline any breaches of obligations under The Guidelines. It should be noted that Ergon Energy had no instances of non-compliance for the 2015-16 regulatory year.

13. CHANGES IN TAX STANDARD ASSET LIVES

13.1 Requirement

Schedule 1 paragraph 7 of the Notice, requires Ergon Energy to identify all tax standard asset lives applied to asset classes that differ from those contained in the AER approved PTRM for Ergon Energy's current regulatory control period. Explain the reasons for each difference identified including reasons for any departure from the ATO's most recent determination of effective life.

13.2 Response

Ergon Energy has identified all tax standard asset lives applied to asset classes that differ from those contained in the AER approved PTRM for Ergon Energy's current regulatory control period and explained the reasons for these differences in EE1516AR TAX – Changes in Tax Standard Asset Lives.

14. GROUP CORPORATE AND ORGANISATIONAL STRUCTURES

14.1 Requirement

Schedule 1, paragraph 8 of the Notice requires Ergon Energy to provide charts that set out the group corporate structure of which Ergon Energy is a part and the organisational structure for Ergon Energy.

The AER requires Ergon Energy to verify, by way of a statutory declaration the information provided in response to Schedule 1.

14.2 Response

As noted, in 2015 the Queensland Government commenced a range of electricity industry reforms, with significant impacts on Ergon Energy. The most significant has been the creation of a parent company Energy Queensland Limited (EQL) via the merger of Ergon Energy Corporation Limited, Energex Limited and SPARQ Solutions Pty Ltd effective 30 June 2016.

Figure 1 illustrates Ergon Energy's Group Structure as at 29 June 2016 (as relevant to the 2015-16 regulatory year being reported on). For the 2015-16 year, the Ergon Energy Group comprised a series of companies involved in the purchase, distribution and sale of electricity in Queensland, both within and outside the NEM.

Figure 1: Ergon Energy Group Structure

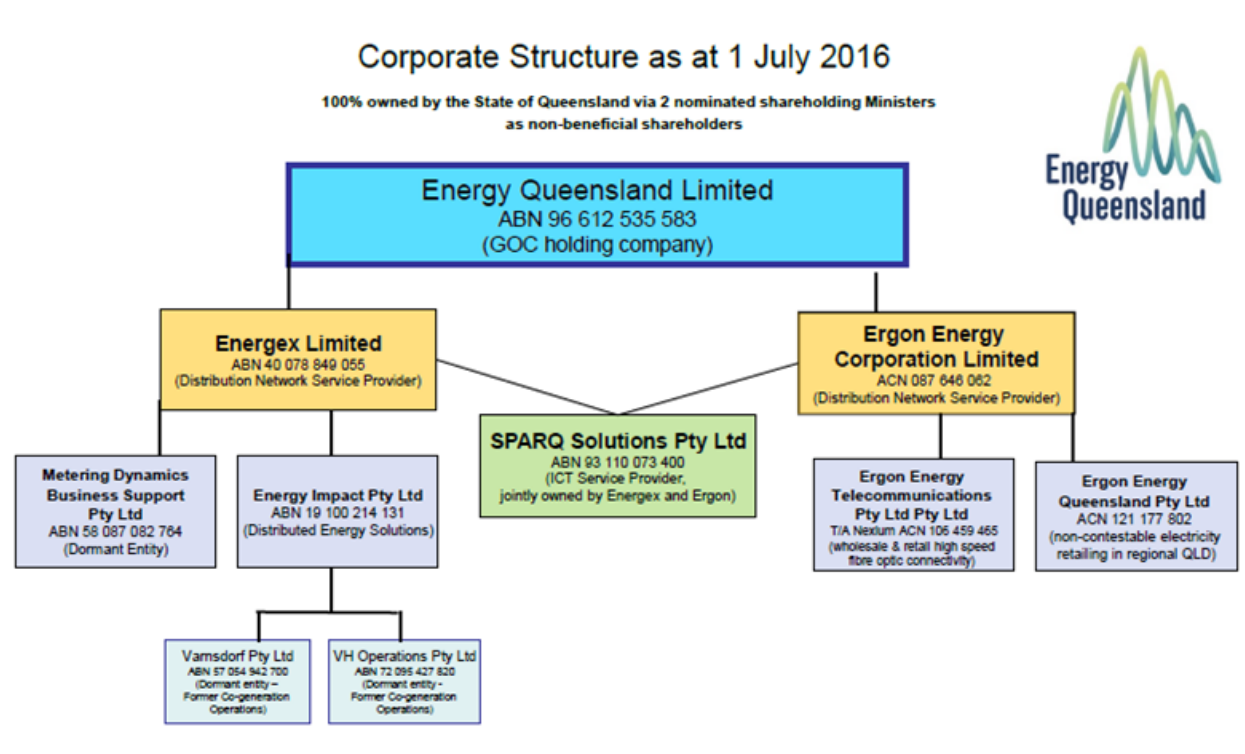
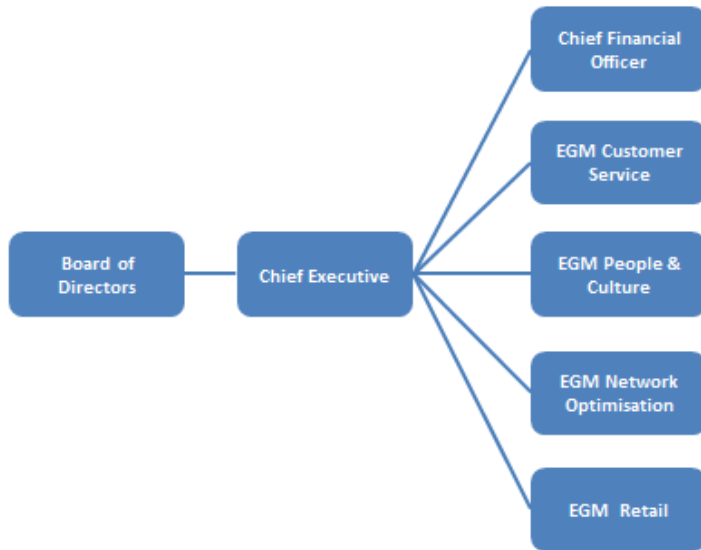


Figure 2 illustrates Ergon Energy's organisation structure. In particular, it shows the relationship between the Board of Directors, the Executive Management Team, and the various Business Units within Ergon Energy.

Figure 2: Ergon Energy Organisational Chart



15. AUDIT AND REVIEW REPORTS

15.1 Requirement

Schedule 1 paragraph 9.1 of the Notice requires the provision of Audit Report(s) (for Financial Information) and Review Report(s) (for Non-Financial Information) in accordance with the requirements of the Notice, Audit and Review at Appendix D.

Ergon Energy is required to prepare these reports using a person(s) who satisfies the requirements of paragraph 2 of Appendix D, in accordance with the requirements of the Notice and the Audit and Review.

In addition Appendix D, paragraph 3 requires that Audit and reviews must be conducted in compliance with Australian Auditing and Assurance Standards, as developed by the Auditing and Assurance Standards Board.

The audit of Financial Information in Excel Workbooks must comply with the Auditing Standard ASA 805 *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or items of a Financial Statement*. The Audit Report must include an opinion as to whether or not the Financial Information provided is presented fairly in accordance with the requirements of the Notice including the principles and requirements in Appendix A.

The review of the Non-financial Information in Microsoft Workbook must comply with the ASAE 3000 *Assurance engagements other than audits or reviews of historical financial information*. The Review Report must include a conclusion as to whether or not anything has come to the Auditor's attention that causes it to believe that the Non-Financial Information is not, in all material respects, presented fairly in accordance with the requirements of the Notice including the principles and requirements in Appendix A.

When carrying out an audit or review as specified in Appendix D to the Notice, an auditor or assurance practitioner shall have reference to Ergon Energy's Basis of Preparation.

15.2 Response

Ergon Energy notes the following auditors were appointed to audit its 2015-16 Annual Reporting RIN and associated templates (as appropriate):

- Auditor-General of Queensland to audit the Financial Information in accordance with the Audit scope at Appendix D paragraph 1.1(a) of the RIN, being
 - the Financial Information in the Excel worksheets 2.11, 4.1, 7.8, 7.10-7.13, 8.1-8.2, 8.4, 9.5, response to Schedule paragraph 1.1(a) (the *Financial Information Templates*) and (c) (the workbook or other information that reconciles and explains *Adjustments* between the *Audited Statutory Accounts* and the *Financial Information Templates*) - except if this information is :
 - (i) Audited Statutory Accounts;
 - (ii) forecast information;
 - (iii) estimated information;
 - (iv) explanations relating to material differences;
- Parsons Brinckerhoff (PB) to audit the Non-Financial information in accordance with the Audit scope at Appendix D paragraph 1.1(b) of the RIN, being:

- the *Non-Financial Information* in the Excel worksheets 6.2 and 6.6-6.9 provided in response to Schedule paragraph 1.1(b) (*Non-Financial Information Templates*).

As required, Ergon Energy provides the following results of the abovementioned audits as attachments to this submission, namely the Audit Report(s) by Queensland Audit Office and Parsons Brinckerhoff -:

- Audit Opinion (Financial Information Regulatory Accounting Statements) – Actual;
- Audit Report (Non-Financial Regulatory Templates) – Actual, Estimates

Refer to: Table 7-1: List of Attachments.

16. STATUTORY DECLARATION

16.1 Requirement

The AER requires Ergon Energy to verify specified information, by way of a statutory declaration by an Officer of the Company in accordance with Appendix D to the Notice. A pro forma Statutory Declaration appropriate for Ergon Energy's jurisdiction was provided by the AER in this regard.

The RIN requires Ergon Energy to verify, by way of a statutory declaration the information provided in response to Schedule 1, which includes both the Templates, Basis of Preparation as well as any attachments provided in response to requirements.

16.2 Response

Ergon Energy herein provides a Statutory Declaration signed by the Chief Executive of Ergon Energy Corporation Limited, as an attachment to this submission.

Refer to: Table 7-1: List of Attachments.

17. APPENDIX A – LIST OF ATTACHMENTS

Table 17-1: List of Attachments

Title	Attachment
EE1516AR CON	Ergon Energy 1516 Annual Reporting RIN Templates, Consolidated Information
EE1516AR RECON	Reconciliation (Audited Statutory Accounts and Regulatory Accounting Statements)
EE1516AR PPE	Capitalisation Policy: Property, plant and equipment
EE1516AR IA	Capitalisation Policy: Intangible Assets
EE1516AR CADB	Cost Allocation to Distribution Business
EE1516AR CASS	Cost Allocation to Service Segments
EE1516AR DMIA	Ergon Energy 1516 Demand Management Innovation Allowance (Annual Report)
EE 1516 AR RSUP	Supplementary Schedule to Template 8.1 Income Statement
EE1516AR TAX	Change in Tax Standard Asset Lives
EE1516AR PB NF	Parsons Brinckerhoff - Review Report (Non-Financial)
EE1516AR QAO F	Queensland Audit Office - Audit Opinion (Financial)
EE1516AR SDEC	Ergon Energy Corporation Limited, Statutory Declaration

Table 17-2: Basis of Preparation

	Template Name	BOP Attachment Name
2.1	Labour	EE1516AR T2.11 LBR
3.6	Quality of Service	EE1516AR T3.6 QOS
3.6.8	Network Feeders	EE1516AR T3.6.8 NWF
3.6.9	Network Reliability	EE1516AR T3.6.9 NWR
6.2	STPIS Reliability	EE1516AR T6.2 STPISR
6.6	STPIS Customer Service	EE1516AR T6.6 STPISCS
6.7	STPIS Daily Performance	EE1516AR T6.7 STPISDP
6.9	STPIS Guaranteed Service Levels	EE1516AR T6.9 STPISGSL
7.8	Avoided Transmission Use of System Payments	EE1516AR T7.8 AVTUOS
7.10	Jurisdictional Scheme	EE1516AR T7.10 JSCH
7.11	Demand Management Incentive Scheme / Allowance	EE1516AR T7.11 DMIS
7.13	Total Annual Retailer Charges	EE1516AR T7.13 TARC
8.1	Income	EE1516AR T8.1 INC
8.2	Capex	EE1516AR T8.2 CAPEX
8.4	Opex	EE1516AR T8.4 OPEX

Faults Only

13 22 96

24 hours a day, 7 days a week

Life-Threatening Emergencies Only

Triple zero (000) or 13 16 70

24 hours a day, 7 days a week

Ergon Energy Corporation Limited ABN 50 087 646 062



Annual Reporting RIN Basis of Preparation



Template 2.11 Labour
1 July 2015 to 30 June 2016



Version Control

Version	Date	Description
1.0	31/10/16	Final as submitted to AER on 31 October 2016

Foreword

In response to requirements of the Australian Energy Regulator's (AER) Annual Reporting Regulatory Information Notice (RIN), and specific to the information presented in Template 2.11 Labour of Ergon Energy's completed 2015-16 Annual Reporting RIN templates (15-16 AR RIN Templates), this Basis of Preparation document has been prepared by Ergon Energy with a view to:

- demonstrate how the information provided in relation to Template 2.11 Labour (and associated Tables and/or variables) is consistent with the requirements of this notice;
- explain the source from which Ergon Energy obtained the information provided in the template;
- explain the methodology Ergon Energy applied to provide the required information, including any assumptions Ergon Energy made.

In circumstances where Ergon Energy has provided input using Estimated information in relation to Template 2.11 Labour, Ergon Energy has made comment herein as to:

- why an estimate was required, including why it was not possible to use Actual Information;
- the basis for the estimate, including the approach used, assumptions made and reasons why the estimate is the best estimate, given the information sought in the Notice; and
- what steps Ergon Energy is taking to ensure it can provide the information in the future.

As relevant, Ergon Energy has provided additional detail beyond the minimum requirements if it was considered it may assist a user to gain an understanding of the information presented in the regulatory templates.

No additional requirements were identified as requiring provision of additional information or attachment/s over and above completed templates of Basis of Preparation, in regards to Template 2.11 Labour.

This Basis of Preparation document should be read in conjunction with the information presented in Template 2.11 Labour in Ergon Energy's completed 15-16 AR RIN Templates.

Enquiries or further communications should be directed to:

Jenny Doyle
 Group Manager Regulatory Affairs
 Email: jenny.doyle@ergon.com.au
 Phone: (07) 3851 6416
 Mobile: 0427 156 897

Template 2.11 Labour

Table 2.11.3.1 – Opex

Table 1 - Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared information provided in Template 2.11 table 2.11.3.1 Opex for Current Year in accordance with the Notice requirements, including the Principles and Requirements set out Appendix E and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p> <p>Ergon Energy notes that Reconciliations with Opex Worksheets – Standard Control Service (SCS) is greyed out and automatically populated.</p> <p>Ergon Energy has populated all variables to include all expenditure used to deliver SCS that is associated with people.</p> <p>Labour expenditure relates to:</p> <ul style="list-style-type: none"> ▪ full time, part time and casual employees; ▪ ongoing and temporary employment contracts; ▪ labour hire contracts. <p>Labour expenditure includes wages, salaries, overtime payments, bonuses, allowances, incentive payments, superannuation, contributions, taxes (e.g payroll and fringe benefits taxes), termination and redundancy payments, workers compensation, training and study assistance, purchase made on behalf of employees (e.g protective clothing).</p> <p>Non-labour expenditure are those other than Labour Expenditure.</p>
Population of Actual Information in templates	Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.
Source of Actual Information	Ergon Energy has sourced data from the Ellipse General Ledger and Project Accounting Module for the relevant regulatory year.
Methodology and assumption's applied in relation to Actual Information	<p>Opex</p> <p>In-house labour expenditure</p> <p>In-house directlycosted labour expenditure was calculated using general ledger codes. In addition, in-house labour expenditure included in network or corporate overheads was allocated to Opex and Capex proportionately with reference to the total allocation of network and corporate overheads.</p> <p>Labour expenditure outsourced to related parties</p> <p>These were identified by general ledger codes established to record labour expenditure. The SPARQ finance team then reviewed this</p>

Minimum Requirements	Ergon Energy Response
	<p>labour expenditure amount to help identify where the expenditure was incurred on Ergon Energy's behalf for specific opex projects. Other SPARQ labour costs are incurred pursuant to the service level agreement between Ergon Energy and SPARQ. This is treated as an overhead because the related labour costs are not readily identifiable as SCS opex.</p> <p>Labour expenditure outsourced to unrelated parties</p> <p>These were 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 been obtainable. Accordingly, all contractor expenditure has been reported as being labour.</p> <p>Controllable non-labour expenditure</p> <p>Controllable non-labour expenditure were confirmed to represent all non-labour expenditure that is not Uncontrollable non-labour expenditure. Such costs include materials and fuels, insurance and guaranteed service level (GSL) payments.</p> <p>Uncontrollable non-labour expenditure</p> <p>Uncontrollable non-labour expenditure were confirmed to represent 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) so Ergon Energy has no ability to influence any amount of the expenditure incurred by the manner in which Ergon Energy operates its business. Such costs include solar feed in tariff payments, jurisdictional levies/taxes and local government rates. Insurance costs and GSL payments are not uncontrollable.</p>
Population of Estimated Information in Templates	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
How Estimated Information has been produced.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Table 2.11.3.2 – Capex

Table 2- Addressing Minimum BOP requirements

Minimum Requirements	Addressing Basis of Preparation Requirements
Consistency with Notice requirements	<p>Ergon Energy has prepared information provided in Template 2.11 table 2.11.3.2 Capex for Current Year in accordance with the Notice requirements, including the Principles and Requirements set out Appendix E and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p> <p>Ergon Energy notes that Reconciliation with Capex and Opex Worksheets – SCS is greyed out and automatically populated.</p> <p>Ergon Energy has populated all variables to include all expenditure used to deliver standard control services that is associated with people.</p> <p>Labour expenditure relates to:</p> <ul style="list-style-type: none"> ▪ full time, part time and casual employees; ▪ ongoing and temporary employment contracts; ▪ labour hire contracts. <p>Labour expenditure includes wages, salaries, overtime payments, bonuses, allowances, incentive payments, superannuation, contributions, taxes (e.g payroll and fringe benefits taxes), termination and redundancy payments, workers compensation, training and study assistance, purchase made on behalf of employees (e.g protective clothing).</p> <p>Non-labour expenditure are those other than Labour Expenditure.</p>
Population of Actual Information in templates, including Source.	Refer to responses provided in relation to table 2.11.3.1 for source of information provided in response to Capex Labour.
Methodology and assumption's applied in relation to Actual Information	<p>Capex</p> <p>In-house labour expenditure</p> <p>In-house labour expenditure was calculated using general ledger codes that identify in-house labour expenditure. In addition, in-house labour included in network or corporate overheads was allocated to Opex and Capex proportionately with reference to the total allocation of network and corporate overheads.</p> <p>Labour expenditure outsourced to related parties</p> <p>Labour expenditure outsourced to related parties was calculated using general ledger codes that identify related party labour expenditure</p> <p>Labour expenditure outsourced to unrelated parties</p> <p>These were 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 has not been obtainable. Accordingly, all contractor expenditure has been reported as being labour.</p>

Minimum Requirements	Addressing Basis of Preparation Requirements
	<p>Controllable non-labour expenditure</p> <p>Controllable non-labour expenditure was all non-labour expenditure that was not Uncontrollable non-labour expenditure. Such costs include materials and fuels, insurance and GSL payments.</p> <p>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 has no such expenditures.</p>
Population of Estimated Information in Templates	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
How Estimated Information has been produced.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Annual Reporting RIN Basis of Preparation



Template 3.6 Quality of Service

1 July 2015 to 30 June 2016



Version Control

Version	Date	Description
1.0	31/10/16	Final as submitted to AER on 31 October 2016

Foreword

In response to requirements of the Australian Energy Regulator's (AER) Annual Reporting Regulatory Information Notice (RIN), and specific to the information presented in Template 3.6 Quality of Service of Ergon Energy's completed 2015-16 Annual Reporting RIN templates (15-16 AR RIN Templates), Schedule 1 paragraph 1.1 (d) of the Notice requires Ergon Energy to provide a Basis of Preparation which must for all information provided in Appendix B::

- demonstrate how the information provided in relation to Template 3.6 Quality of Service (and associated Tables and/or variables) is consistent with the requirements of this notice ;
- explain the source from which Ergon Energy obtained the information provided in the template;
- explain the methodology Ergon Energy applied to provide the required information, including any assumptions Ergon Energy made.

In circumstances where Ergon Energy has provide input using Estimated information in relation to Template 3.6 Quality of Service, Ergon Energy has comment herein as to :

- why an estimate was required, including why it was not possible to use Actual Information;
- the basis for the estimate, including the approach used, assumption made and reasons why the estimate is a best estimate, given the information sought in the Notice; and
- what steps Ergon Energy is taking to ensure it can provide the information in the future.

As relevant, Ergon Energy has provided additional detail beyond the minimum requirements if it was considered it may assist a user to gain an understanding of the information presented in the regulatory templates.

No additional requirements were identified as requiring provision of additional information or attachment/s over and above completed templates or Basis or Preparation, in regards to Template 3.6 Quality of Service.

The Basis of Preparation document should be read in conjunction with the information presented in Template 3.6 Quality of Service in Ergon Energy's completed 15-16 AR RIN Templates.

Enquiries or further communications should be directed to:

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Template 3.6 Quality of Service

Note - Ergon Energy has not populated information in **Table 3.6.5 – Quality of Supply Metrics** which is greyed out and not for completion under the currently issued Annual Reporting RIN.

Table 3.6.6 – Complaints-Technical Quality of Supply

Table 1- Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared the information provided in Template 3.6 Quality of Supply, Table 3.6.6 – Complaints – Technical Quality of Supply in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the Notice.</p> <p>Under the current issue Annual Reporting RIN, Ergon Energy is only required to populate “Number of complaints - technical quality of supply” in table 3.6.6.1, with the remainder of Table 3.6.6 Complaints, greyed out and not for completion.</p>
Population of Actual Information in templates	Where information is provided it is done so in accordance with the AER’s definitions and applying the assumptions and methodology that is described within the Basis of Preparation.
Source of Actual Information	Ergon Energy has sourced complaint numbers data from the FACTS application up to March 2016, and from the Cherwell application for the remainder of the financial year. Both of these applications are used for capturing all customer feedback, positive and negative.
Methodology and assumption’s applied in relation to Actual Information	<p>Ergon Energy has reported Customer Service complaints as sourced from the applicable systems stated above, for the below categories of disaggregation:</p> <ul style="list-style-type: none"> ▪ Complaint - reliability of supply ▪ Complaint - technical quality of supply ▪ Complaint - administrative process or customer service ▪ Complaint - connection or augmentation ▪ Complaint - other <p>For the purposes of reporting customer complaints at the dissemination required Ergon Energy has filtered on all negative complaints and has mapped the RIN categories from the existing FACTS subcategories.</p>
Population of Estimated Information in Templates	Not applicable, Ergon Energy has provided actual information in accordance with the AER’s definition.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide	Not applicable, Ergon Energy has provided actual information in accordance with the AER’s definition.

Minimum Requirements	Ergon Energy Response
the information in the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	
How Estimated Information has been produced.	Not applicable, Ergon Energy has provided actual information in accordance with the AER's definition.

Table 3.6.7 – Customer Service Metrics

Table 2- Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared the information provided in Template 3.6 Quality of Supply, Table 3.6.7 Customer Service Metrics in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p> <p>In accordance with the AER's clarification of the 23 February 2016, reporting in Table 3.6.7.2 Total Number of Streetlights has been reported as the total number of streetlights for which Ergon Energy has responsibility to maintain.</p> <p>Ergon Energy has not populated information in relation to Complaint – technical quality of supply (table 3.6.7.4) which is greyed out and not applicable to it for the regulatory control period.</p>
Population of Actual Information in templates	<p>Ergon Energy has provided actual information in Table 3.6.7 for the 2015-16 regulatory year for:</p> <p>3.6.7.1 Timely Provision of Services</p> <p>3.6.7.2 Timely repair of faulty street lights</p> <p style="padding-left: 40px;">- Total Number of Streetlights</p> <p>3.6.7.3 Call Centre Performance</p> <p>3.6.7.4 Number of Customer Complaints</p> <p>Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within the Basis of Preparation.</p>
Source of Actual Information in templates	<p>Ergon Energy has sourced data from:</p> <ul style="list-style-type: none"> ▪ FACTS is a database capturing all customer feedback (positive and negative) and enquiries regarding GSLs ▪ Cherwell replaced FACTS in March 2016 as the application

Minimum Requirements	Ergon Energy Response
	<p>capturing customer feedback (positive and negative).</p> <ul style="list-style-type: none"> ▪ (PLUMS database used to capture the entire number of unmetered connections (i.e. Streetlights) that are owned and maintained by Ergon Energy and third parties.
<p>Methodology and assumption's applied in relation to Actual Information</p>	<p>Timely Provisions of Services (3.6.7.1)</p> <p>In relation to <i>Number of connections made</i> and <i>Number of connections not made on or before agreed date</i> - data provided is as per that sourced from the GSL Reporting database for work completed before 13 March 2016. After this date, data provided is sourced from Peace.</p> <p>The GSL Reporting database stores the historical data for completed stages of services orders. The numbers provided directly relate the service order type of Initial Connection – Consumer (Type 1, subtype 1, stage 6). Those not made on agreed date are defined as having a completed date after the target date.</p> <p>Peace is our market transaction and process tracking system that, in this case, stores the service request data. Numbers provided relate specifically to New Connection service requests. Those not made on agreed date are defined as having a completion date after the obligation date.</p> <p>Timely Repair of Faulty Street Lights (3.6.7.2)</p> <p>In relation to Total number of Streetlights – data is provided from the PLUMS database for the total count of Ergon Energy Owned & Operated and Gifted and Ergon Energy Operated streetlights at the end of FY 2015/16.</p> <p>Call Centre Performance (3.6.7.3)</p> <ul style="list-style-type: none"> ▪ Calls to call centre fault line <p>Ergon Energy uses Telstra Corporation for some of its telephony services. Telstra provide reporting capability through an online tool called “Telstra Analyser”. This tool allows Ergon Energy employees to analyse call traffic for Ergon Energy inbound services such as 1300 and 13 numbers. It can be used to identify the number of telephone calls made to each telephone number. For the purposes of identifying the number of calls made to the Contact Centre’s fault line this tool provides the relevant totals. The tool is able to identify between fault line calls and customer service calls, the latter is excluded for this requirement. The total includes all calls made, irrespective of whether the customer decided to speak with an operator or terminated the call whilst within the IVR system. The call total can then be entered into the parameters listed in Table 3.6.7.3 of the RIN.</p> <ul style="list-style-type: none"> ▪ Calls to fault line answered within 30 seconds: <p>Ergon Energy provides a specific telephone line, which</p>

Minimum Requirements

Ergon Energy Response

receives calls on 132296 and 131670, for electricity outage related calls. From 1 July 2015 to 30 June 2016, Ergon Energy used a telephone platform supplied by Cisco to route telephone calls. This system provided a mechanism to distribute calls to Ergon Energy operators at the Customer Solutions Centre (CSC) and also enable reporting of call activity. Reportable items for both systems include but are not limited to:

- Recording volume of calls received at the call centre;
- Recording the length of time between a caller entering the system and the call answered by an operator; and
- Recording the length of time between a caller entering the system and the caller abandoning the call.

The Cisco platform data was extracted directly from the Cisco reporting system, Cisco Unified Intelligence Centre (CUIC). A report is run in this system on a daily basis which provides the number of calls presented to agents, including the number of calls answered within 30 seconds, with the output saved into a spreadsheet. The main spreadsheet (EE1516AR STPIS GOS 15-16.xlsx) then imports the call data via lookup formulas.

- **Calls to fault line – average waiting time before call answered:**

As per the description of Cisco telephony platform above, the reporting system is able to provide details of the length of time between a caller entering the system and the call being answered by an operator. The Cisco reporting system, CUIC, has been used to extract this information. Average waiting time before call answered is the average time in seconds from when calls enter the system (including that time when a call may be ringing unanswered) and the caller speaks to a human operator or is connected to an interactive service that provides the information requested. The calculation for average wait time is total number of time waiting divided by total number of calls answered.

- **Call centre – number of overload events:**

Following the implementation of new contact centre technology in May 2015 the provision of additional capacity for calls to be received in to the CISCO telephony platform was included in the design. This replaced the previous Telstra system which diverted calls to a message when capacity in the preceding telephony platform was reached which was defined as being an overload event. There will therefore no longer be any calls classified as being part of an overload event from 2015-16

Minimum Requirements	Ergon Energy Response
	<p>onwards.</p> <ul style="list-style-type: none"> ▪ Calls Abandoned – percentage: <p>As per the description of the Cisco telephony platform above which explains the reporting systems ability to provide details of the number of calls where the caller abandons the call. The Cisco system the reporting system, CUIC, has been used to extract this information. Calls abandoned includes all calls received and queued for a response by a human operator but are abandoned before being answered by the operator. This includes those calls abandoned prior to 30 seconds.</p> <p>The calculation for percentage of calls abandoned is total number of calls abandoned divided by total number of calls offered *100.</p> <p>Number of customer complaints (3.6.7.4)</p> <p>Ergon Energy has reported Customer Service complaints as sourced from the above stated systems, for the below categories of disaggregation:</p> <ul style="list-style-type: none"> ▪ Complaint - reliability of supply ▪ Complaint - technical quality of supply ▪ Complaint - administrative process or customer service ▪ Complaint - connection or augmentation ▪ Complaint - other ▪ Total number of complaints <p>For the purposes of reporting customer complaints at the dissemination required Ergon Energy has filtered on all negative complaints and has mapped the RIN categories from the existing FACTS & Cherwell subcategories.</p>
Population of Estimated Information in Templates	<p>Ergon Energy has provided actual information in Table 3.6.7 for the 2015-16 regulatory year for:</p> <p>3.6.7.2 Timely repair of faulty street lights</p> <ul style="list-style-type: none"> - Street lights - average monthly number "out" - Street lights - not repaired by "fix by" date - Street lights - average number of days to repair
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	<p>An external audit conducted on the above data sets concluded that a for where automated Close-out reporting was not utilised, there was a delay in the administrative close-out of Work Orders which caused sufficient error risk for the data not be be provided as actuals. Where it occurs, this error results in Streetlight faulty repair timeframes being extended beyond what they actually are. An audit and analysis of current administrative processes is to be conducted.</p>

Minimum Requirements	Ergon Energy Response
How Estimated Information has been produced.	<p data-bbox="639 181 1214 212">Timely Repair of Faulty Street Lights (3.6.7.2)</p> <p data-bbox="639 235 1422 483">Ergon Energy maintains several systems in regards to work request and work tracking through Ellipse (Work Requests and Work Orders) and the Field Force Automation device (FFA Tool). In relation to repair of of faulty street lights, all Work Orders, Work Requests and Field Force Automation (FFA) jobs created in 2015/16 were collated and cross referenced. Work Orders were cleansed where:</p> <ul data-bbox="687 510 1329 725" style="list-style-type: none"> • Start dates were before 01/07/15 • End dates still open at time of report run • Work Order not corrective streetlight maintenance • Work Order for multiple/ bulk repair / inspection • Work Order cancelled • Work Order duplicates existed <p data-bbox="639 750 1437 853">Work Order Start dates were calculated and cleansed by using a preference of: Work Request -Work Order – FFA Device as per the system processes.</p> <p data-bbox="639 878 1398 945">Work Order End dates were calculated and cleansed by using a preference of FFA -Work Order – Work Request.</p> <p data-bbox="639 969 1437 1072">In relation to Street lights - average monthly number "out", the total count of cleansed corrective streetlight maintenance work orders is divided by 12.</p> <p data-bbox="639 1097 1422 1200">In relation to Street lights - not repaired by "fix by" date, is a count of cleansed corrective streetlight maintenance work completed in greater than 5 days.</p> <p data-bbox="639 1225 1409 1328">In relation to Street lights - average number of days to repair, the average days to complete of cleansed corrective streetlight maintenance work orders was calculated.</p>

Annual Reporting RIN Basis of Preparation



Template 3.6.8 Network Feeders

1 July 2015 to 30 June 2016



Version Control

Version	Date	Description
1.0	31/10/16	Final as submitted to AER on 31 October 2016

Foreword

In response to requirements of the Australian Energy Regulator's (AER) Annual Reporting Regulatory Information Notice (RIN), and specific to the information presented in Template 3.6.8 Network Feeders of Ergon Energy's completed 2015-16 Annual Reporting RIN templates (15-16 AR RIN Templates), this Basis of Preparation document has been prepared by Ergon Energy with a view to:

- demonstrate how the information provided in relation to Template 3.6.8 Network Feeders (and associated Tables and/or variables) is consistent with the requirements of this notice;
- explain the source from which Ergon Energy obtained the information provided in the template;
- explain the methodology Ergon Energy applied to provide the required information, including any assumptions Ergon Energy made.

In circumstances where Ergon Energy has provided input using Estimated Information in relation to Template 3.6.8 Network Feeders, Ergon Energy has made comment herein as to :

- why an estimate was required, including why it was not possible to use Actual Information;
- the basis for the estimate, including the approach used, assumptions made and reasons why the estimate is a best estimate, given the information sought in the Notice; and
- what steps Ergon Energy is taking to ensure it can provide the information in the future.

As relevant, Ergon Energy has provided additional detail beyond the minimum requirements if it was considered it may assist a user to gain an understanding of the information presented in the regulatory templates.

No additional requirements were identified as requiring provision of additional information or attachment/s over and above completed templates or Basis of Preparation, in regards to Template 3.6.8 Network Feeders.

This Basis of Preparation document should be read in conjunction with the information presented in Template 3.6.8 Network Feeders in Ergon Energy's completed 15-16 AR RIN Templates.

Enquiries or further communications should be directed to:

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Template 3.6.8 Network Feeders

Table 3.6.8 – Network Feeder Reliability

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared the information provided in Template 3.6.8 Network Feeders, Table 3.6.8 – Network Feeder Reliability in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p> <p>Ergon Energy has not populated information in relation to Momentary Feeder outages (MAIFI) which is greyed out and not applicable to it for the regulatory control period.</p>
Population of Actual Information in templates	<p>Ergon Energy has provided actual information for all information in Table 3.6.8 for the 2015-16 regulatory year.</p> <p>Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.</p>
Source of Actual Information	<p>Ergon Energy has sourced data from its internal outage management and asset management systems for the relevant regulatory year.</p> <p>Consumption for the "Energy Not Supplied" was sourced from the Network billing systems Netbill, up to March 2016, & Peace from that time forward.</p>
Methodology and assumption's applied in relation to Actual Information	<p>As relevant Ergon Energy has also applied definitions and methodology as set out in the AER's <i>Electricity DNSPs, STPIS (November 2009)</i>, which remain applicable to Ergon Energy for the current regulatory control period.</p> <p>Feeder ID / Name is the unique ID as sourced from the FDRSTAT asset data.</p> <p>The interruptions data from FDRSTAT fits the following:</p> <ul style="list-style-type: none"> ▪ Financial Year 2015-16 (Between 1 July and 30 June) ▪ Include all distribution feeders that experienced completed sustained unplanned and planned interruptions (Interruptions greater that one minute) ▪ Include all active distribution feeders that did not experience any interruptions and that have customers attached to the feeder as at 30 June 2015 ▪ Feeder Classifications: Urban (UR), Short Rural (SR) & Long Rural (LR) <p>Description of the service area for the feeder is as per the Geographical location of Ergon Energy's legacy supply regions – i.e. FN (Far North), NQ (Northern Queensland), MK (Mackay), CA</p>

Minimum Requirements	Ergon Energy Response
	<p>(Capricornia), WB (Wide Bay), and SW (South West).</p> <p>Feeder classification are UR, SR or LR as per the definitions in Appendix A of the AER's Electricity DNSPs, STPIS (November 2009). Reporting is based on the feeder's classification the end of the regulatory year.</p> <p>Number of distribution customers on a feeder is calculated by adding the total of customers connected to the feeder at the beginning of the regulatory year (1 July) and the end of the regulatory year (30 June) and dividing the total by 2. If the feeder was only active for a short period throughout the year the customers were calculated by adding the total of customers connected to the feeder when the feeder became active in the regulatory year and when the feeder became inactive in the regulatory year and dividing the total by 2.</p> <p>A customer is defined as a premise having an assigned NMI. Customer numbers are held in the ECORP database.</p> <p>Length of HV distribution lines [overhead] contains the total length in km of Ergon Energy owned, as constructed overhead conductors for each feeder.</p> <p>Length of HV distribution lines [underground] contains the total length in km of Ergon Energy owned, as constructed underground conductors for each feeder.</p> <p>NOTE - It should be noted that the totals of the above two line length data have no bearing on the feeder classifications assigned to the distribution feeders for 2015-16 reliability performance reporting. The line length data set for above is sourced from the Asset Data system and represents the network as it was configured at the end of the relevant regulatory year. The line length data that was utilised to assign feeder classifications is based on network as it was configured at the beginning of the relevant regulatory year.</p> <p>The maximum demand values on a distribution feeder during the regulatory year are provided in MVA. This is provided by Ergon Energy's System Development Group through the Current State Assessment report for distribution feeders. These are the MVA values that were utilised to assign the feeder classifications for the relevant regulatory year. For one hundred and thirty six (136) of the reported active feeders (with greater than 20 customers connected), the Maximum Demand (MVA) data was not available. These feeders are either SR or LR classifications. 133 are classified based on confirmed line length data and the remaining .3 are assigned by default to SR due to a lack of confirmed line length or maximum demand data. Energy Not Supplied (unplanned and planned) has been calculated using data reported for Total unplanned/planned customer minutes off supply (Mins) (Column L and Q) multiplied by the average consumption by feeder (in minutes) sourced from NETBILL & Peace. This is in accordance with methodology (c) average consumption of customers on the feeder based on their billing history in the RIN definition for energy not supplied</p>

Minimum Requirements	Ergon Energy Response
	<p>(unplanned). The calculations are based on current connectivity by feeder and not connectivity at the time of the outage. For some feeders that no longer exist or have changed connectivity in the system ECORP the average consumption per minute over all feeders is used. The methodology adopted is irrespective of the time of day the outages occurred.</p> <p>Total number of unplanned outages records the total number of completed sustained unplanned interruptions that occurred on that distribution feeder during the relevant regulatory year, inclusive of exclusions in accordance with clauses 3.3(a) & (b).</p> <p>Unplanned customer minutes off-supply (SAIDI) (including excluded events and MEDs) represents SAIDI calculated by the summated feeder unplanned customer minutes on the feeder for the year divided by the average number of customers on the feeder for the relevant regulatory year, inclusive of all exclusions in accordance with clauses 3.3(a) & (b).</p> <p>Unplanned customer minutes off-supply (SAIDI) (after removing excluded events and MED) represents: SAIDI calculated by the summated feeder unplanned customer minutes on the feeder for the year divided by the average number of customers on the feeder for the relevant regulatory year, exclusive of all exclusions in accordance with clauses 3.3(a) & (b).</p> <p>Unplanned interruptions (SAIFI) (including excluded events and MEDs) represents: SAIFI calculated by the summated feeder unplanned customer interruptions on the feeder for the year divided by the average number of customers on the feeder for the relevant regulatory year , inclusive of all exclusions in accordance with clauses 3.3(a) & (b).</p> <p>Unplanned interruptions (SAIFI) (after removing excluded events and MEDs) represents: SAIFI calculated by the summated feeder unplanned customer interruptions on the feeder for the year divided by the average number of customers on the feeder for the relevant regulatory year , exclusive of all exclusions in accordance with clauses 3.3(a) & (b).</p> <p>Total number of planned outages records the total number of completed sustained planned interruptions that occurred on the distribution feeder during the relevant regulatory year, inclusive of all exclusions in accordance with clauses 3.3(a) & (b).</p> <p>Planned customer minutes off-supply (SAIDI) (including MEDs) represents: SAIDI calculated by the summated feeder planned customer minutes on the feeder for the year divided by the average number of customers on the feeder for the relevant regulatory year, inclusive of all exclusions in accordance with clauses 3.3(b).</p> <p>Planned customer minutes off-supply (SAIDI) (after removing MED) represents: SAIDI calculated by the summated feeder planned customer minutes on the feeder for the year divided by the average number of customers on the feeder for the relevant regulatory year, exclusive of all</p>

Minimum Requirements	Ergon Energy Response
	<p>exclusions in accordance with clauses 3.3(b).</p> <p>Planned interruptions (SAIFI) (including MEDs) represents: SAIFI calculated by the summated feeder planned customer interruptions on the feeder for the year divided by the average number of customers on the feeder for the relevant regulatory year , inclusive of all exclusions in accordance with clauses 3.3(b).</p> <p>Planned interruptions (SAIFI) (after removing MED) represents: SAIFI calculated by the summated planned feeder customer interruptions on the feeder for the year divided by the average number of customers on the feeder for the relevant regulatory year , exclusive of all exclusions in accordance with clauses 3.3(b).</p>
Population of Estimated Information in Templates	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
How Estimated Information has been produced.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Annual Reporting RIN Basis of Preparation



Template 3.6.9 Network Reliability

1 July 2015 to 30 June 2016



Version Control

Version	Date	Description
1.0	31/10/16	Final as submitted to AER on 31 October 2016

Foreword

In response to requirements of the Australian Energy Regulator's (AER) Annual Reporting Regulatory Information Notice (RIN), and specific to the information presented in Template 3.6.9 Network Feeder Reliability – Planned Outages of Ergon Energy's completed 2015-16 Annual Reporting RIN templates (15-16 AR RIN Templates), this Basis of Preparation document has been prepared by Ergon Energy with a view to:

- demonstrate how the information provided in relation to Template 3.6.9 Network Feeder Reliability – Planned Outages (and associated Tables and/or variables) is consistent with the requirements of this notice;
- explain the source from which Ergon Energy obtained the information provided in the template;
- explain the methodology Ergon Energy applied to provide the required information, including any assumptions Ergon Energy made.

In circumstances where Ergon Energy has provided input using Estimated Information in relation to Template 3.6.9 Network Reliability, Ergon Energy has made comment herein as to:

- why an estimate was required, including why it was not possible to use Actual Information;
- the basis for the estimate, including the approach used, assumptions made and reasons why the estimate is a best estimate, given the information sought in the Notice; and
- what steps Ergon Energy is taking to ensure it can provide the information in the future.

As relevant, Ergon Energy has provided additional detail beyond the minimum requirements if it was considered it may assist a user to gain an understanding of the information presented in the regulatory templates.

No additional requirements were identified as requiring provision of additional information or attachment/s over and above completed templates or Basis of Preparation, in regards to Template 3.6.9 Network Feeder Reliability – Planned Outages.

This Basis of Preparation document should be read in conjunction with the information presented in Template 3.6.9 Network Feeder Reliability – Planned Outages in Ergon Energy's completed 15-16 AR RIN Templates.

Enquiries or further communications should be directed to:

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Template 3.6.9 Network Feeder Reliability – Planned Outages

Table 3.6.9.1 – Planned Minutes off Supply (SAIDI)

Table 1 - Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared the information provided in Template 3.6.9 Network Feeder Reliability, Table 3.6.9.1 Planned Minutes of Supply (SAIDI) in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p> <p>Ergon Energy has not populated information in relation to CBD which is greyed out and not applicable to it for the regulatory control period.</p>
Population of Actual Information in templates	<p>Ergon Energy has provided actual information in Table 3.6.9.1 for the 2015-16 regulatory year.</p> <p>Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.</p>
Source of Actual Information	Ergon Energy has sourced data from its internal outage management and asset management systems for the relevant regulatory year.
Methodology and assumption's applied in relation to Actual Information	<p>3.6.9 - NETWORK FEEDER RELIABILITY - PLANNED OUTAGES 3.6.9.1 - PLANNED MINUTES OFF SUPPLY (SAIDI) SAIDI for each feeder classification are calculated based on the following criteria:</p> <ul style="list-style-type: none"> ▪ Financial Year 2015-16 (Between 1 July and 30 June) ▪ Completed unplanned sustained interruptions ▪ Feeder Classifications: Urban (UR), Short Rural (SR) & Long Rural (LR) ▪ SAIDI calculation - Customer minutes DIVDED BY average number of customers <p>Inclusive of the following exclusions</p> <ul style="list-style-type: none"> ▪ STPIS MED's (Exemption clause: 3.3 (b)) ▪ Generation (Exemption clause: 3.3 (a) (2 or 3)) ▪ Shared Transmission (Exemption clause: 3.3 (a) (5)) ▪ Jurisdictional obligation or right (Exemption clause: 3.3 (a) (7))
Population of Estimated Information in Templates	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Minimum Requirements	Ergon Energy Response
the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	
How Estimated Information has been produced.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Table 3.6.9.2 – Planned Interruptions to Supply (SAIFI)

Table 2 - Addressing Minimum BOP requirements

Consistency with Notice requirements	<p>Ergon Energy has prepared the information provided in Template 3.6.9 Network Feeder Reliability, Table 3.6.9.2 Planned Interruptions to Supply (SAIFI) in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p> <p>Ergon Energy has not populated information in relation to CBD which is greyed out and not applicable to if for the regulatory control period.</p>
Population of Actual Information in templates	<p>Ergon Energy has provided actual information in Table 3.6.9.2 for the 2015-16 regulatory year.</p> <p>Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.</p>
Source of Actual Information	Ergon Energy has sourced data from its internal outage management and asset management systems for the relevant regulatory year.
Methodology and assumption's applied in relation to Actual Information	<p>3.6.9 - NETWORK FEEDER RELIABILITY - PLANNED OUTAGES</p> <p>3.6.9.2 - PLANNED INTERRUPTIONS OFF SUPPLY (SAIFI)</p> <p>SAIFI for each feeder classification are calculated based on the following criteria:</p> <ul style="list-style-type: none"> ▪ Financial Year 2015-16 (Between 1 July and 30 June) ▪ Completed unplanned sustained interruptions ▪ Feeder Classifications: UR, (SR) & LR ▪ SAIDI calculation - Customer interruptions DIVDED BY average number of customers <p>Inclusive of the following exclusions</p> <ul style="list-style-type: none"> ▪ STPIS MED's (Exemption clause: 3.3 (b)) ▪ Generation (Exemption clause: 3.3 (a) (2 or 3)) ▪ Shared Transmission (Exemption clause: 3.3 (a) (5)) ▪ Jurisdictional obligation or right (Exemption clause: 3.3 (a) (7))

Population of Estimated Information in Templates	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
How Estimated Information has been produced.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Annual Reporting RIN Basis of Preparation



Template 6.2 STPIS Reliability

1 July 2015 to 30 June 2016



Version Control

Version	Date	Description
1.0	31/10/16	Final as submitted to AER on 31 October 2016

Foreword

In response to requirements of the Australian Energy Regulator's (AER) Annual Reporting Regulatory Information Notice (RIN), and specific to the information presented in Template 6.2 STPIS Reliability of Ergon Energy's completed 2015-16 Annual Reporting RIN templates (15-16 AR RIN Templates), this Basis of Preparation document has been prepared by Ergon Energy with a view to:

- demonstrate how the information provided in relation to Template 6.2 STPIS Reliability (and associated Tables and/or variables) is consistent with the requirements of this notice;
- explain the source from which Ergon Energy obtained the information provided in the template;
- explain the methodology Ergon Energy applied to prove the required information, including any assumptions Ergon Energy made.

In circumstances where Ergon Energy has provided input using Estimated Information in relation to Template 6.2 STPIS Reliability, Ergon Energy has made comment herein as to :

- why an estimate was required, including why it was not possible to use Actual Information;
- the basis for the estimate, including the approach used, assumptions made and reasons why the estimate is a best estimate, given the information sought in the Notice; and
- What steps Ergon Energy is taking to ensure it can provide the information in the future.

No additional requirements were identified as requiring provision for additional information or attachment/s over and above completed templates or Basis of Preparation, in regards to Template 6.2 STPIS Reliability.

The Basis of Preparation document should be read in conjunction with the information presented in Template 6.2 STPIS Reliability in Ergon Energy's completed 15-16 AR RIN Templates.

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Template 6.2 STPIS Reliability

Note: Ergon Energy has not populated information in relation to Unplanned Momentary Feeder outages (MAIFI) in table 6.2.3 which is greyed out and not applicable to it for the regulatory control period.

Table 6.2.1 – Unplanned Minutes off Supply (SAIDI)

Table 1 - Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared information provided in Template 6.2 table 6.2.1 unplanned minutes of supply for current year in accordance with the Notice requirement, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p> <p>Ergon Energy has not populated information in relation to CBD which is greyed out and not applicable to it for the regulatory control period.</p>
Population of Actual Information in templates	Ergon Energy has provided actual information in Table 6.2.1 for the 2015-16 regulatory year. Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.
Source of Actual Information	Ergon Energy has sourced data from its internal outage management and asset management systems for the relevant regulatory year.
Methodology and assumption's applied in relation to Actual Information	<p>Distribution Feeders are classified as UR, SR or LR as per the definitions in Appendix A of the AER's Electricity Distribution Network Service Providers (DNSPs), Service Target Performance Incentive Scheme (STPIS) (November 2009). Reporting is based on the feeder's classification at the end of the relevant regulatory year as at 30 June.</p> <p>An event caused by a customer's electrical installation or failure of that electrical installation which only affects supply to that customer is not deemed an interruption as defined, "A sustained interruption is any loss of electricity supply to a customer associated with an outage of any part of the electricity supply network" STPIS 2009 and CA RIN Appendix E 18.2]. These events have been confirmed through site inspection to have resulted from faults and failures within the customer's installation and as such are considered to be an event beyond the boundary of the electricity supply network and therefore excluded from Ergon Energy reported reliability performance under the STPIS.</p> <p>Exclusions are applied in accordance with clauses 3.3(a) & (b) of the AER's STPIS scheme for Electricity DNSPs (November 2009), being</p> <ul style="list-style-type: none"> ▪ STPIS MED's clause 3.3(b)

Minimum Requirements	Ergon Energy Response
	<ul style="list-style-type: none"> ▪ Generation (Exemption clause: 3.3 (a) (2 or 3)) ▪ Shared Transmission (Exemption clause: 3.3 (a) (5)) ▪ Jurisdictional obligation or right (Exemption clause: 3.3 (a) (7)) ▪ Customer Installation Faults/Failures which reside beyond the electricity supply network <p>Whole of Network statistics (in the absence of specification) were assumed to encompass the summation of Urban (UR), Short Rural (SR) & Long Rural (LR) (customer minutes, customer interruptions and customer numbers).</p> <p>6.2.1 - UNPLANNED MINUTES OFF SUPPLY (SAIDI) Total sustained minutes off supply SAIDI for each feeder classification are calculated based on the following criteria:</p> <ul style="list-style-type: none"> ▪ Financial Year 2015-16 (Between 1 July and 30 June) ▪ Completed unplanned sustained interruptions ▪ Feeder Classifications: UR, SR & LR ▪ Feeder Classification: Whole of network(summation of UR, SR & LR) ▪ SAIDI calculation - Customer minutes DIVDED BY average number of customers <p>Inclusive of the following exclusions</p> <ul style="list-style-type: none"> ▪ STPIS MED's (Exemption clause: 3.3 (b)) ▪ Generation (Exemption clause: 3.3 (a) (2 or 3)) ▪ Shared Transmission (Exemption clause: 3.3 (a) (5)) ▪ Jurisdictional obligation or right (Exemption clause: 3.3 (a) (7)) ▪ Customer installation faults/failures which reside beyond the electricity supply network <p>6.2.1 - UNPLANNED MINUTES OFF SUPPLY (SAIDI) Total of excluded events*see 3.3 of STPIS SAIDI for each feeder classification based on the following criteria:</p> <ul style="list-style-type: none"> ▪ Financial Year 2015-16 (Between 1 July and 30 June) ▪ Completed unplanned sustained interruptions ▪ Feeder Classifications: UR, SR & LR ▪ Feeder Classification: Whole of network(summation of UR, SR & LR) ▪ SAIDI calculation - Customer minutes DIVDED BY average number of customers <p>For the following Excluded Events</p> <ul style="list-style-type: none"> ▪ STPIS MED's (Exemption clause: 3.3 (b)) ▪ Generation (Exemption clause: 3.3 (a) (2 or 3)) ▪ Shared Transmission (Exemption clause: 3.3 (a) (5)) ▪ Jurisdictional obligation or right (Exemption clause: 3.3 (a) (7)) ▪ Customer installation faults/failures which reside beyond the electricity supply network

Minimum Requirements	Ergon Energy Response
	<p>6.2.1 - UNPLANNED MINUTES OFF SUPPLY (SAIDI) Total sustained minutes off supply after removing excluded events SAIDI for each feeder classification was calculated based on the following criteria:</p> <ul style="list-style-type: none"> ▪ Financial Year 2015-16 (Between 1 July and 30 June) ▪ Completed unplanned sustained interruptions ▪ Feeder Classifications: UR, SR & LR ▪ Feeder Classification: Whole of network(summation of UR, SR & LR) ▪ SAIDI calculation - Customer minutes DIVDED BY average number of customers <p>Exclusive of the following exclusions:</p> <ul style="list-style-type: none"> ▪ STPIS MED's (Exemption clause: 3.3 (b)) ▪ Generation (Exemption clause: 3.3 (a) (2 or 3)) ▪ Shared Transmission (Exemption clause: 3.3 (a) (5)) ▪ Jurisdictional obligation or right (Exemption clause: 3.3 (a) (7)) ▪ Customer installation faults/failures which reside beyond the electricity supply network
Population of Estimated Information in Templates.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
How Estimated Information has been produced.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Table 6.2.2 – Unplanned Interruptions to Supply (SAIFI)

Table 2 - Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared information provided in Template 6.2 table 6.2.2 Unplanned Interruptions to Supply (SAIFI) for Current Year in accordance with the Notice requirement, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p>

Minimum Requirements	Ergon Energy Response
	Ergon Energy has not populated information in relation to CBD which is greyed out and not applicable to it for the regulatory control period.
Population of Actual Information in templates	Ergon Energy has provided actual information in Table 6.2.2 for the 2015-16 regulatory year. Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.
Source of Actual Information	Ergon Energy has sourced data from its internal outage management and asset management systems for the relevant regulatory year.
Methodology and assumption's applied in relation to Actual Information	<p>Distribution Feeders are classified as UR, SR or LR as per the definitions in Appendix A of the AER's Electricity DNSPs, STPIS (November 2009). Reporting is based on the feeder's classification at the end of the relevant regulatory year as at 30 June.</p> <p>An event caused by a customer's electrical installation or failure of that electrical installation which only affects supply to that customer is not deemed an interruption as defined, "A sustained interruption is any loss of electricity supply to a customer associated with an outage of any part of the electricity supply network" STPIS 2009 and CA RIN Appendix E 18.2]. These events have been confirmed through site inspection to have resulted from faults and failures within the customer's installation and as such are considered to be an event beyond the boundary of the electricity supply network and therefore excluded from Ergon Energy reported reliability performance under the STPIS.</p> <p>Exclusions are applied in accordance with clauses 3.3(a) & (b) of the AER's Electricity DNSPs, STPIS (November 2009), being</p> <ul style="list-style-type: none"> ▪ STPIS MED's (Exemption clause: 3.3 (b)) ▪ Generation (Exemption clause: 3.3 (a) (2 or 3)) ▪ Shared Transmission (Exemption clause: 3.3 (a) (5)) ▪ Jurisdictional obligation or right (Exemption clause: 3.3 (a) (7)) ▪ Customer Installation Faults/Failures which reside beyond the electricity supply network <p>Whole of Network statistics (in the absence of specification) were assumed to encompass the summation of UR, SR & LR (customer minutes, customer interruptions and customer numbers).</p> <p>6.2.2 - UNPLANNED INTERRUPTIONS TO SUPPLY (SAIFI) Total sustained interruptions SAIFI for each feeder classification are calculated based on the following criteria:</p> <ul style="list-style-type: none"> ▪ Financial Year 2015-16 (Between 1 July and 30 June) ▪ Completed unplanned sustained interruptions ▪ Feeder Classifications: UR, SR & LR ▪ Feeder Classification: Whole of network(summation of UR, SR & LR) ▪ SAIDI calculation – Customer interruptions minutes DIVIDED BY

Minimum Requirements	Ergon Energy Response
	<p>average number of customers</p> <p>Inclusive of the following exclusions</p> <ul style="list-style-type: none"> ▪ STPIS MED's (Exemption clause: 3.3 (b)) ▪ Generation (Exemption clause: 3.3 (a) (2 or 3)) ▪ Shared Transmission (Exemption clause: 3.3 (a) (5)) ▪ Jurisdictional obligation or right (Exemption clause: 3.3 (a) (7)) ▪ Customer installation faults/failures which reside beyond the electricity supply network <p>6.2.1 - UNPLANNED INTERRUPTIONS OFF SUPPLY (SAIFI) Total of excluded events*see 3.3 of STPIS</p> <p>SAIFI for each feeder classification based on the following criteria:</p> <ul style="list-style-type: none"> ▪ Financial Year 2015-16 (Between 1 July and 30 June) ▪ Completed unplanned sustained interruptions ▪ Feeder Classifications: UR, SR & LR ▪ Feeder Classification: Whole of network(summation of UR, SR & LR) ▪ SAIDI calculation - Customer interruptions DIVDED BY average number of customers <p>For the following Excluded Events</p> <ul style="list-style-type: none"> ▪ STPIS MED's (Exemption clause: 3.3 (b)) ▪ Generation (Exemption clause: 3.3 (a) (2 or 3)) ▪ Shared Transmission (Exemption clause: 3.3 (a) (5)) ▪ Jurisdictional obligation or right (Exemption clause: 3.3 (a) (7)) ▪ Customer installation faults/failures which reside beyond the electricity supply network <p>6.2.1 - UNPLANNED INTERRUPTIONS OFF SUPPLY (SAIFI) Total sustained interruptions off supply after removing excluded events</p> <p>SAIFI for each feeder classification was calculated based on the following criteria:</p> <ul style="list-style-type: none"> ▪ Financial Year 2015-16 (Between 1 July and 30 June) ▪ Completed unplanned sustained interruptions ▪ Feeder Classifications: UR, SR & LR ▪ Feeder Classification: Whole of network(summation of UR, SR & LR) ▪ SAIDI calculation - Customer interruptions DIVDED BY average number of customers <p>Exclusive of the following exclusions:</p> <ul style="list-style-type: none"> ▪ STPIS MED's (Exemption clause: 3.3 (b)) ▪ Generation (Exemption clause: 3.3 (a) (2 or 3)) ▪ Shared Transmission (Exemption clause: 3.3 (a) (5)) ▪ Jurisdictional obligation or right (Exemption clause: 3.3 (a) (7)) ▪ Customer installation faults/failures which reside beyond the electricity supply network

Minimum Requirements	Ergon Energy Response
Population of Estimated Information in Templates	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
How Estimated Information has been produced.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Table 6.2.4 – Distribution Customer Numbers

Table 3 - Addressing Minimum BOP requirements

	Addressing Basis of Preparation Requirements
Consistency with Notice requirements	<p>Ergon Energy has prepared information provided in Template 6.2 table 6.2.4 Distribution Customer Numbers for Current Year in accordance with the Notice requirement, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p> <p>Ergon Energy has not populated information in relation to CBD and all variables relating to “Average customer numbers”, which are greyed out and not applicable to it under the RIN issued.</p>
Population of Actual Information in templates	<p>Ergon Energy has provided actual information in Table 6.2.4 for the 2015-16 regulatory year.</p> <p>Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.</p>
Source of Actual Information	Ergon Energy has sourced data from its internal outage management and asset management systems for the relevant regulatory year.
Methodology and assumption's applied in relation to Actual Information	<p>Customer numbers at the start of the reporting period is the number of Customers (by feeder), measured on the first day of the Relevant Regulatory Year.</p> <p>Customer numbers at the end of the reporting period is the number of Customers (by feeder), measured on the last day of the Relevant Regulatory Year.</p> <p>A Customer is a distribution customer (with active accounts) with an active National Metering Identifier (NMI) i.e. inactive accounts are</p>

Addressing Basis of Preparation Requirements

excluded.

Note: the whole of network customer number represents the sum of the total numbers of the customers on all three feeder classifications (UR, SR and LR) for each of the start and end of the report period.

The (greyed out) number of distribution customers is calculated as the average of the number of customers at the beginning of the reporting period and the number of customers at the end of the reporting

Furthermore, the (greyed out) calculated average number of distribution customers for whole of network is the average of the total numbers of customers on all three feeder classifications (UR, SR and LR) at the beginning of the reporting period (1 July) and the total number of customers at the end of the reporting period (30 June).

Population of Estimated Information in Templates	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
How Estimated Information has been produced.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Annual Reporting RIN Basis of Preparation



Template 6.6 STPIS Customer Service

1 July 2015 to 30 June 2016



Version Control

Version	Date	Description
1.0	31/10/16	Final as submitted to AER on 31 October 2016

Foreword

In response to requirements of the Australian Energy Regulator's (AER) Annual Reporting Regulatory Information Notice (RIN), and specific to the information presented in Template 6.6 STPIS Customer Service of Ergon Energy's completed 2015-16 Annual Reporting RIN templates (15-16 AR RIN Templates), this Basis of Preparation document has been prepared by Ergon Energy with a view to:

- demonstrate how the information provided in relation to Template 6.6 STPIS Customer Service(and associated Tables and/or variables) is consistent with the requirements of this notice;
- explain the source from which Ergon Energy obtained the information provided in the template;
- explain the methodology Ergon Energy applied to provide the required information, including any assumptions Ergon Energy made.

In circumstances where Ergon Energy has provided input using Estimated Information in relation to Template 6.6 STPIS Customer Service, Ergon Energy has made comment herein as to :

- why an estimate was required, including why it was not possible to use Actual Information;
- the basis for the estimate, including the approach used, assumptions made and reasons why the estimate is a best estimate, given the information sought in the Notice; and
- what steps Ergon Energy is taking to ensure it can provide the information in the future.

As relevant, Ergon Energy has provided additional detail beyond the minimum requirements if it was considered it may assist a user to gain an understanding of the information presented in the regulatory templates.

No additional requirements were identified as requiring provision for additional information or attachment/s over and above completed templates or Basis of Preparation, in regards to Template 6.6 STPIS Customer Service.

The Basis of Preparation document should be read in conjunction with the information presented in Template 6.6 STPIS Customer Service in Ergon Energy's completed 15-16 AR RIN Templates.

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Template 6.6 STPIS Customer Service

Table 6.6.1 – Telephone Answering

Table 1 - Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared the information provided in Template 6.6 STPIS Customer Service, Table 6.6.1 Telephone Answering in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p> <p>Ergon Energy has not populated information in relation to “Percentage of calls answered within 30 seconds” relative to the “Number of calls after removing excluded events” which is greyed out as an automated field.</p>
Population of Actual Information in templates	<p>Ergon Energy has provided actual information in Table 6.6.1 for the 2015-16 regulatory year.</p> <p>Where information is provided it is done so in accordance with the AER’s definitions and applying the assumptions and methodology that is described within this Basis of Preparation.</p>
Source of Actual Information	<p>Ergon Energy provides a specific telephone line, which receives calls on 132296 and 131670, for electricity outage related calls. Between 1 July 2015 and 30 June 2016 Ergon Energy used a telephony platform supplied by Cisco. This system provides a mechanism to distribute calls to Ergon Energy operators at the Customer Solutions Centre (CSC) and also enable reporting of call activity. Reportable items for this system includes but are not limited to:</p> <ul style="list-style-type: none"> ▪ Recording volume of calls received at the call centre; ▪ Recording the length of time between a caller entering the system and the call answered by an operator; and ▪ Recording the length of time between a caller entering the system and the caller abandoning the call. <p>The system plays an Interactive Voice Recording (IVR) message prior to queuing the call for response by an operator. As stipulated in Appendix A of the Service Target Performance Incentive Scheme (STPIS), the time measured for a call begins after the caller decides to remain on the line after the IVR message is played.</p> <p>Ergon Energy has sourced data from its Cisco reporting system, Cisco Unified Intelligence Centre (CUIC).</p>
Methodology and assumption’s applied in relation to Actual Information	<p>A report is run in CUIC on a daily basis which provides the number of calls presented to agents with the output saved into a spreadsheet. The main spreadsheet (EE1516AR STPIS GOS 15-16.xlsx) then imports the call data via lookup formulas.</p> <p>It should be noted that total calls for the purpose of calculating STPIS grade of service are based on calls queued to agents only and does not include</p>

Minimum Requirements	Ergon Energy Response
	<p>calls terminated by customers as the result of listening to a message through an automated response service.</p> <p>Where major event days (MED) have been declared these dates have been entered in the relevant monthly tab with formulas in place to exclude the calls for these dates from the STPIS calculations. Calls related to specific excluded outages, as outlined in Appendix F of the Notice, are not removed as it is not possible to identify the exact number of calls generated as a result of a particular outage in the CISCO telephony system.</p> <p>All monthly totals are shown on the “YTD Results” summary tab of the main spreadsheet (EE1516AR STPIS GOS 15-16.xlsx) with annual totals for all calls and calls with MED approved exclusions removed.</p>
Population of Estimated Information in Templates	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER’s definition.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER’s definition.
How Estimated Information has been produced.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER’s definition.

Annual Reporting RIN Basis of Preparation



Template 6.7 STPIS Daily Performance

1 July 2015 to 30 June 2016



Version Control

Version	Date	Description
1.0	31/10/16	Final as submitted to AER on 31 October 2016

Foreword

In response to requirements of the Australian Energy Regulator's (AER) Annual Reporting Regulatory Information Notice (RIN), and specific to the information presented in Template 6.7 STPIS Daily Performance of Ergon Energy's completed 2015-16 Annual Reporting RIN templates (15-16 AR RIN Templates), this Basis of Preparation document has been prepared by Ergon Energy with a view to:

- demonstrate how the information provided in relation to Template 6.7 STPIS Daily Performance (and associated Tables and/or variables) is consistent with the requirements of this notice;
- explain the source from which Ergon Energy obtained the information provided in the template;
- explain the methodology Ergon Energy applied to provide the required information, including any assumptions Ergon Energy made.

In circumstances where Ergon Energy has provided input using Estimated information in relation to Template 6.7 STPIS Daily Performance Daily Performance, Ergon Energy has made comment herein as to :

- why an estimate was required, including why it was not possible to use Actual Information;
- the basis for the estimate, including the approach used, assumptions made and reasons why the estimate is a best estimate, given the information sought in the Notice; and
- what steps Ergon Energy is taking to ensure it can provide the information in the future.

As relevant, Ergon Energy has provided additional detail beyond the minimum requirements if it was considered it may assist a user to gain understanding of the information presented in the regulatory templates.

No additional requirements were identified as requiring provision of additional information or attachment/s over and above completed templates or Basis of Preparation, in regards to Template 6.7 STPIS Daily Performance.

The Basis of Preparation document should be read in conjunction with the information presented in Template 6.7 STPIS Daily Performance in Ergon Energy's completed 15-16 AR RIN Templates.

Enquiries or further communications should be directed to:

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 Group Manager Regulatory Affairs
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Template 6.7 STPIS Daily Performance

Table 6.7.1 – Daily Performance Data - Unplanned

Table 6.7.1: Daily Performance Data - Unplanned

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared information provided in Template 6.7 table 6.7.1 Daily Performance Data - Unplanned for Current Year in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix B (template), Appendix A and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p> <p>Ergon Energy has not populated information in relation to MAIFI which is greyed out and not applicable to it for the regulatory control period.</p>
Population of Actual Information in templates	<p>Ergon Energy has provided actual information in Table 6.7.1 for the 2015-16 regulatory year. Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.</p>
Source of Actual Information	<p>Ergon Energy has sourced data from its Cisco reporting system, Cisco Unified Intelligence Centre (CUIC).</p> <p>Ergon Energy provides a specific telephone line, which receives calls on 132296 and 131670, for electricity outage related calls. Between 1 July 2015 and 30 June 2016 Ergon Energy used a telephony platform supplied by Cisco. This system provides a mechanism to distribute calls to Ergon Energy operators at the Customer Solutions Centre (CSC) and also enable reporting of call activity. Reportable items for this system includes but is not limited to:</p> <ul style="list-style-type: none"> ▪ Recording volume of calls received at the call centre; ▪ Recording the length of time between a caller entering the system and the call answered by an operator; and ▪ Recording the length of time between a caller entering the system and the caller abandoning the call. <p>The system plays an Interactive Voice Recording (IVR) message prior to queuing the call for response by an operator. As stipulated in Appendix A of the Service Target Performance Incentive Scheme (STPIS), the time measured for a call begins after the caller decides to remain on the line after the IVR is played.</p> <p>Data was extracted directly from the Cisco reporting system, Cisco Unified Intelligence Centre (CUIC).</p>
Methodology and assumption's applied	<p>A report was run in CUIC on a daily basis to provide the number</p>

Minimum Requirements	Ergon Energy Response
in relation to Actual Information	<p>of calls presented to agents with the output saved into a spreadsheet. The main spreadsheet (EE1516AR STPIS GOS 15-16.xlsx) then imports the call data via lookup formulas.</p> <p>It should be noted that total calls for the purpose of calculating STPIS grade of service are based on calls queued to agents only and does not include calls terminated by customers as the result of listening to a message.</p> <p>Where major event days (MED) have been declared these dates have been entered in the relevant monthly tab with formulas in place to exclude these calls from the STPIS calculations. Calls related to specific excluded outages, as outlined in Appendix F of the Notice, are not removed as it is not possible to identify the exact number of calls related to particular outages in the CISCO telephony system.</p> <p>All daily totals are shown in each of the monthly tabs of the main spreadsheet (EE1516AR STPIS GOS 15-16.xlsx) and enable entry of daily data to be entered into the parameters listed in Table 6.7.1, being:</p> <ul style="list-style-type: none"> ▪ Number of calls received (after removing excluded events) ▪ Number of calls answered in 30 seconds (after removing excluded events)
Population of Estimated Information in Templates	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
How Estimated Information has been produced.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Annual Reporting RIN Basis of Preparation



Template 6.9 STPIS-GSL
1 July 2015 to 30 June 2016



Version Control

Version	Date	Description
1.0	31/10/16	Final as submitted to AER on 31 October 2016

Foreword

In response to requirements of the Australian Energy Regulator's (AER) Annual Reporting Regulatory Information Notice (RIN), and specific to the information presented in Template 6.9 STPIS GSL of Ergon Energy's completed 2015-16 Annual Reporting RIN templates (15-16 AR RIN Templates), this Basis of Preparation document has been prepared by Ergon Energy with a view to:

- demonstrate how the information provided in relation to Template 6.9 STPIS GSL (and associated Tables and/or variables) is consistent with the requirements of this notice;
- explain the source from which Ergon Energy obtained the information provided in the template;
- explain the methodology Ergon Energy applied to provide the required information, including any assumptions Ergon Energy made.

In circumstances where Ergon Energy has provided input using Estimated Information in relation to Template 6.9 STPIS GSL, Ergon Energy has made comment herein as to:

- why an estimate was required, including why it was not possible to use Actual Information;
- the basis for the estimate, including the approach used, assumptions made and reasons why the estimate is a best estimate, given the information sought in the Notice; and
- what steps Ergon Energy is taking to ensure it can provide information in the future.

As relevant, Ergon Energy has provided additional detail beyond the minimum requirements if it was considered it may assist a user to gain an understanding of the information presented in the regulatory templates.

No additional requirements were identified as requiring provision of additional information or attachment/s over and above completed templates or Basis of Preparation, in regards to Template 6.9 STPIS GSL.

This Basis of Preparation document should be read in conjunction with the information presented in Template 6.9 STPIS GSL in Ergon Energy's completed 15-16 AR RIN Templates.

Enquiries or further communications should be directed to:

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Template 6.9 STPIS GSL

Table 6.9.1 – Guaranteed Service Levels – Jurisdictional GSL Scheme

Table 1 - Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared information provided in Template 6.9 STPIS GSL, Table 6.9.1 Guaranteed Service Levels – Jurisdictional GSL Scheme in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p> <p>Ergon Energy has not populated information in relation to Guaranteed Service Levels – AER GSL Scheme which is greyed out and not applicable to if for the regulatory control period.</p> <p>Where GSL parameters that do not fit within the provided sub-tables provided, headings have been entered and the relevant parameter(s) identified.</p>
Population of Actual Information in templates	<p>Ergon Energy has provided actual information in Table 6.9.1 for the 2015-16 regulatory year.</p> <p>Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.</p>
Source of Actual Information	<p>Ergon Energy has sourced data from the GSL Reporting Database for data up to May 2016. For data after this time Cherwell was used as the source.</p>
Methodology and assumption's applied in relation to Actual Information	<p>Section 2.4.2(a) of the Queensland Electricity Distribution Network Code (EDNC) requires distributors to provide the Queensland Competition Authority (QCA) within two months of each quarter, a report detailing compliance with the GSL outlined in clause 2.3 of the EDNC.</p> <p>Data presented to the AER in meeting requirements of Template 6.9.1 Guaranteed Service Levels – Jurisdictional GSL Scheme have been presented in accordance with EDNC requirements and definitions unless otherwise stipulated under the AERs RIN issued.</p> <p>Both numbers for Volumes and Value of Jurisdictional GSL are directly related to the count and sum of payments as identified and recorded as approved in the respective GSL system.</p>
Population of Estimated Information in Templates	<p>Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.</p>
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide	<p>Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.</p>

Minimum Requirements	Ergon Energy Response
the information in the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	
How Estimated Information has been produced.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

**AASB 116:
Property Plant and
Equipment
Accounting Policy
Business Rule**



Table of Contents

1.	Purpose and Scope	1
2.	Responsibilities	1
3.	Definitions, Abbreviations and Acronyms.....	1
4.	References.....	2
5.	Group Accounting Policy.....	2
5.1.	Recognition Principles	2
5.2.	Measurement Upon Initial Recognition	3
5.3.	Measurement after initial recognition	5
5.4.	Impairments	7
5.5.	Changes in decommissioning, restoration and similar provisions	7
5.6.	Transfer of reserve through retained earnings.....	8
5.7.	Useful life of property, plant and equipment.....	8
5.8.	Depreciation	9
5.9.	Compensation for impairment.....	9
5.10.	Derecognition	9
6.	Discussion.....	9
6.1.	Project Structure.....	9
6.2.	Concept.....	9
6.3.	Development.....	10
6.4.	Implementation.....	10
6.5.	Finalisation	10
6.6.	Practical Application of Rules to Project Structure	11

AASB 116: Property Plant and Equipment Accounting Policy Business Rule



1. PURPOSE AND SCOPE

To provide guidelines on the appropriate accounting treatment of property, plant and equipment in order to ensure compliance with applicable accounting standards and Government regulations.

The policies outlined in this document apply to all Business Units and Legal Entities within the Group when accounting for property, plant and equipment.

These guidelines do not apply to:

- *Property, plant and equipment* classified as held for sale in accordance with the *Group* accounting policy for non-current assets held of sale and discontinued operations (see accounting policy reference AP005).
- Biological assets relating to agricultural activity
- Exploration and evaluation assets
- Mineral rights and mineral reserves such as oil, natural gas and similar non-regenerative resources.

2. RESPONSIBILITIES

General Manager Accounting Operations is the Process Owner responsible for approving this Reference document.

Manager Financial Reporting & Credit is responsible for maintaining this Reference document.

Senior Financial Accountant is the Subject Matter Expert (SME) for the content this Reference document.

3. DEFINITIONS, ABBREVIATIONS AND ACRONYMS

Asset	A resource: <ul style="list-style-type: none">a) Controlled by the <i>Group</i> as a result of past events; andb) From which future economic benefits are expected to flow to the <i>Group</i>.
Carrying amount	The amount at which an asset is recognised after deducting any accumulated depreciation and accumulated impairment losses.
Cost	The amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction.
Condition-Based Depreciation	Method of depreciation under which the condition of an asset is assessed periodically. The cost of restoring the asset from its current condition to a predetermined service level is then estimated and any increase recognised as a depreciation expense.
Depreciable amount	The cost of an asset, or other amount substituted for cost, less its residual amount.
Depreciation	The systematic allocation of the depreciable amount of an asset over its useful life.
Development	The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.
Fair value	The amount for which an asset could be exchanged between

AASB 116: Property Plant and Equipment Accounting Policy Business Rule



	knowledgeable, willing parties in an arm's length transaction.
Group	Ergon Energy Corporation Limited and its controlled entities.
Impairment loss	The amount by which the carrying amount of an asset exceeds its recoverable amount.
Intangible asset	An identifiable non-monetary asset without physical substance.
Property, plant and equipment	Tangible items that: a) Are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes; and b) Are expected to be used during more than one period.
Recoverable amount	The higher of an asset's net selling price and its value in use.
Regulated assets	Regulated electricity supply system and other regulated plant and equipment.
Research	Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
Residual value	The estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
Useful life	a) The period over which an <i>asset</i> is expected to be available for use by and entity; or b) The number of production or similar units expected to be obtained from the <i>asset</i> by an entity.

4. REFERENCES

AASB 116 *Property Plant and Equipment*

AASB 138 *Intangible Fixed Assets*

Interpretation 1 *Changes in Existing Decommissioning, Restoration and Similar Liabilities*

Interpretation 1030 *Depreciation of Long-Lived Physical Assets: Condition-Based Depreciation Related Methods*

Project Management Methodology Matrix (P56R02)

5. GROUP ACCOUNTING POLICY

5.1. Recognition Principles

The *cost* of an item of *property, plant and equipment* shall be recognised as an *asset* if:

- It is probable that a future economic benefit associated with the item will flow to the *Group*; and
- The *cost* of the item can be measured reliably.

AASB 116: Property Plant and Equipment Accounting Policy Business Rule



5.2. Measurement Upon Initial Recognition

5.2.1 Initial costs

The *Group* shall measure at its *cost* any item of *property, plant and equipment* that qualifies for recognition as an *asset*.

The *cost* of an item of *property, plant and equipment* comprises:

- Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates;
- Any costs directly attributable to bringing the *asset* to the location and condition necessary for it to be capable of operating in the manner intended by management;
- The initial estimate of the *costs* of dismantling and removing the item and restoring the site on which it is located, the obligation for which the entity incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period. These restoration *costs* should be recognised and measured in accordance with the *Group* accounting policy for provisions, contingent liabilities and contingent assets (see accounting policy reference AP137). Where the effect of the time value of money is material, the amount of the provision must be discounted to the present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the liability.

5.2.1.1 Directly Attributable Costs

Examples of *Costs* that are considered to be directly attributable to bringing an *asset* to the location and condition necessary for it to be capable of operating in the manner intended by management include the following:

- Costs of employee benefits arising from the construction or acquisition of the item;
- Costs of construction materials;
- Costs of site preparation;
- Initial delivery and handling costs;
- Installation and assembly costs;
- Costs of testing whether the asset is functioning properly, after deducting the net proceeds from selling any items produced while testing; and
- Professional fees such as legal costs, architect's fees and engineering costs specific to the purchase or construction of a specific asset. Costs of alternative designs that are subsequently rejected should be expensed.

Note that the above list is for example only and is not exhaustive.

5.2.1.2 Costs That Are Not Directly Attributable

The following are examples of *costs* that are not directly attributable to an item of *property, plant and equipment*:

- The costs of opening a new facility;
- The costs of introducing a new product or service including the costs of advertising and promotional activities;
- The costs of conducting business in a new location or with a new class of customer (including costs of staff training);

AASB 116: Property Plant and Equipment Accounting Policy Business Rule



- The cost of abnormal amounts of wasted materials, labour or other resources incurred in self-constructing an asset.
- Administration and other general overhead costs that are not directly attributable to bringing an asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

Note that the above list is for example only and is not exhaustive

5.2.2 Subsequent costs

The costs of day-to-day servicing of any item of *property, plant and equipment* should not be recognised in its *carrying amount*. Rather, these costs should be recognised as an expense in the Income Statement as they are incurred.

Parts of some items of *property, plant and equipment* may require replacement at regular intervals. The *Group* shall recognise in the *carrying amount* of an item of *property, plant and equipment* the cost of replacing part of such an item when that cost is incurred if the recognition criteria in section 5.1 are met. The *carrying amount* of those parts that are replaced shall be derecognised in accordance with the derecognition provisions of this policy.

5.2.3 Cessation of Cost Capitalisation

Recognition of costs in the *carrying amount* of an item of *property, plant and equipment* ceases when it is in the location and condition necessary for it to operate in the manner intended by management. Therefore, costs incurred in using the item or redeploying it should be expensed. Examples of costs which should be expensed include:

- Costs incurred while the item is capable of operating in the manner intended but has yet to be brought into use or is operating at less than full capacity;
- Initial operating losses e.g. those incurred while demand for the item's output builds up; and
- Costs of relocating or restructuring the Group's operations.

5.2.4 Research and development phase

The concepts of research and development phases of projects assist with management determining at what stage of a project that capitalisation of costs can commence. That is, whether costs can be directly attributable to a specific asset. This concept is outlined in the intangible assets standard but serves as a practical framework for capitalising costs for property, plant and equipment.

The *Group* must distinguish between the *research* phase and the *development* phase of a capital project. This distinction is fundamental to the application of this policy because costs attributable to the *research* phase are expensed when incurred and therefore excluded from the value of the *asset*, whereas costs within the *development* phase are generally considered capital in nature.

The key distinction between a *research* phase and the *development* phase is the point that you have an identifiable *asset*. During the *research* phase, an entity cannot specifically identify the *asset* in question. In the case of the Group, it may be that the transition from the research phase to the *development* phase is identified as the point that the project is formally approved by the appropriate approval committee. This is often the point that the specific *asset* can be identified and is often the stage that a project moves into a *development* phase. However, if you believe that your project moves to the *development* phase sooner, please contact Financial Reporting for assistance.

AASB 116: Property Plant and Equipment Accounting Policy Business Rule



Examples of *research* phases include;

- activities aimed at obtaining new knowledge;
- the search for, evaluation and final selection of, applications of research findings or other knowledge;
- the search for alternatives for materials, devices, products, processes, systems or services; and
- the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

Once an entity moves from the *research* phase into the *development* phase, it is useful to review the project to ensure that the *Group* is able to answer “yes” to all of the following questions:

Question	Yes.	No.
(a) The completion of the <i>asset</i> is technically feasible so that it will be available for use or sale.		
(b) It intends to complete the <i>asset</i> and to use or sell it.		
(c) It is able to use or sell the <i>asset</i> .		
(d) The <i>asset</i> will generate probable future economic benefits. Among other things, the <i>Group</i> must demonstrate the existence of a market for the output of the <i>asset</i> or the <i>asset</i> itself or, if it is to be used internally, the usefulness of the <i>asset</i> ;		
(e) There are adequate technical, financial and other resources available to complete the <i>development</i> and to use or sell the <i>asset</i> .		
(f) It can measure reliably the expenditure attributable to the <i>asset</i> during its development.		

Examples of *development* phases include;

- the design, construction and testing of pre-production or pre-use prototypes and models;
- the design of tools, jigs, moulds and dies involving new technology;
- the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and
- the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

5.3. Measurement after initial recognition

5.3.1 Assets classified as regulated assets

The revaluation model is the measurement basis applied to all regulated *assets* after initial recognition. The following table details the classifications of *property, plant and equipment* as disclosed in the *Group's* annual financial statements and examples of the regulated asset types included in these categories.

Classification in Group financial statements	Asset types (example only)	Measurement basis
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AASB 116: Property Plant and Equipment Accounting Policy Business Rule



Supply system assets	<ul style="list-style-type: none"> Grid connected distribution, sub-transmission and substation assets, and generators embedded within the distribution grid 	Revaluation model
Power station assets	<ul style="list-style-type: none"> Generators and associated distribution assets that are isolated from the regulated grid 	Revaluation model
Land	<ul style="list-style-type: none"> Land associated with the distribution of electricity by the grid eg substation land, depot land, regional office land. 	Revaluation model
Buildings	<ul style="list-style-type: none"> Buildings associated with the distribution of electricity by the grid such as substation buildings, depots and regional offices. 	Revaluation model
Other property, plant and equipment	<ul style="list-style-type: none"> Computers, tools, vehicles, furniture where their use is predominately to support the electricity distribution grid. 	Revaluation model
Work in progress	<ul style="list-style-type: none"> Assets under construction that when completed will predominantly be used to earn regulated income, such as grid connected distribution lines or motor vehicles to be used to maintain or construct grid connected distribution lines. 	Revaluation model

5.3.2 Assets classified as non-regulated assets

The following table details the classifications of *property, plant and equipment* as disclosed in the *Group's* annual financial statements, examples of the non-regulated asset types included in these categories and the measurement basis that applies after initial recognition.

Classification in Group financial statements	Asset types (example only)	Measurement basis
Supply system assets	<ul style="list-style-type: none"> North West Minerals Province Assets Co-generation assets 	Revaluation model
Power station assets	<ul style="list-style-type: none"> Isolated power stations such as those in the Torres Strait 	Revaluation model
Land	<ul style="list-style-type: none"> Land not associated with the distribution of electricity by the grid. This includes land at isolated power stations. 	Revaluation model
Buildings	<ul style="list-style-type: none"> Buildings not associated with the distribution of electricity by the grid. This includes buildings at isolated power stations. 	Revaluation model
Other property, plant and equipment	<ul style="list-style-type: none"> Computers, tools, vehicles, furniture where the use is not to support distribution grid. This includes equipment at isolated power stations. 	Revaluation model
	<ul style="list-style-type: none"> Computers, tools, vehicles, furniture where the use is not to support distribution grid. Includes assets used by Ergon Energy Queensland. 	Cost model
Work in progress	<ul style="list-style-type: none"> Assets under construction that when completed will not be used to earn regulated income eg assets connected with the retailing of electricity. 	Cost model

AASB 116: Property Plant and Equipment

Accounting Policy Business Rule



Note: For the purposes of this policy, “regulated” means regulated by the Australian Energy Regulator (AER). Assets whose return on assets is governed by Queensland Treasury have been referred to as “Non-regulated” in light of the above definition.

The following provides further guidance on the respective measurement methodologies

5.3.3 *Measurement basis of regulated assets after initial recognition*

The *Group* shall carry all *regulated* assets at *fair value*. The *Group* shall carry out a detailed valuation of *regulated* assets with sufficient regularity, as determined by the directors, to ensure the carrying value of *regulated* assets does not differ materially to their *fair value*, and to apply escalation factors to the *asset* values in the intervening years.

Revaluation increments shall be credited directly to the *asset* revaluation reserve, except that, to the extent that an increment reverses a revaluation decrement in respect of that class of *asset* previously recognised as an expense in net profit or loss, the increment is recognised immediately as revenue in net profit or loss.

Revaluation decrements are recognised immediately as expenses in net profit or loss, except that, to the extent that a credit balance exists in the *asset* revaluation reserve in respect of the same class of *assets*, they are debited directly to the *asset* revaluation reserve.

Revaluation increments and decrements recognised directly in equity shall be reported in the Statement of Comprehensive Income.

Accumulated *depreciation* shall be restated proportionately with the change in the gross *carrying amount* of the *asset* so that the *carrying amount* of the *asset* after revaluation equals its revalued amount.

5.3.4 *Measurement basis of non-regulated power station assets after initial recognition*

The *Group* shall carry non-regulated power station *assets* (comprising isolated generation and distribution systems and associated land, buildings and other *property, plant and equipment*) at *fair value*. The *Group* shall carry out a detailed valuation of non-regulated power station *assets* based on advice from experts with sufficient regularity, as determined by the directors, to ensure the carrying value of non-regulated power station *assets* does not differ materially to their *fair value*, and to apply escalation factors to the *asset* values in the intervening years. Section 6.6.2.2 of this policy discusses the methodology employed to determine these escalation factors.

5.3.5 *Measurement basis of non-regulated other property, plant and equipment and work in progress after initial recognition*

The *Group* shall state all other non-regulated *property, plant and equipment* and work in progress, not covered by sections 5.3.3 and 5.3.4, at historical *cost* less accumulated *depreciation* and accumulated *impairment losses*.

5.4. Impairments

The *Group's* accounting policy for impairment should be applied to all *property, plant and equipment* (see accounting policy reference AP136).

5.5. Changes in decommissioning, restoration and similar provisions

In accordance with section 5.2.1, the initial *cost* of *property, plant and equipment* should include, where necessary, an estimate for any decommissioning, restoration or similar *costs*

AASB 116: Property Plant and Equipment Accounting Policy Business Rule



required to dismantle or remove the *asset* at the end of its useful life. Changes in the measurement of an existing liability that result from changes in the estimated timing or amount of the liability, or a change in the discount rate, shall be accounted for as follows:

5.5.1 *Related asset is measured at cost*

If the related *asset* is measured using the *cost* model changes in the liability shall be added to, or deducted from, the *cost* of the related *asset* in the current period.

The amount deducted from the *cost* of the *asset* shall not exceed its *carrying amount*. If a decrease in the liability exceeds the carrying amount of the *asset*, the excess shall be recognised immediately in profit or loss.

If the adjustment results in an addition to the *cost* of an *asset*, the *Group* shall consider whether this is an indication that the new carrying amount of the *asset* may not be fully recoverable. If it is such an indication, the *Group* shall test the *asset* for impairment by estimating its *recoverable amount* and shall account for any *impairment loss* in accordance with the *Group's* accounting policy for impairment (see accounting policy reference AP136).

5.5.2 *Related asset is measured using the revaluation model*

If the related *asset* is measured using the revaluation model, changes in the liability shall be recognised as follows:

- A decrease in the liability shall be credited directly to the revaluation reserve in equity, except that it shall be recognised in profit or loss to the extent that it reverses a revaluation decrease on the *asset* that was previously recognised in profit or loss; or
- An increase in the liability shall be recognised in profit or loss, except that it shall be debited directly to the revaluation reserve in equity to the extent of an credit balance existing in the revaluation reserve in respect of that *asset*.

In the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the *asset* been carried under the *cost* model, the excess shall be recognised immediately in profit or loss.

A change in the liability is an indication that the *asset* may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using *fair value* at reporting date. If a revaluation is necessary, all *assets* in that class shall be revalued.

5.6. Transfer of reserve through retained earnings

The *Group* may transfer the revaluation reserve relating to an item of *property, plant and equipment* directly to retained earnings when the *asset* is derecognised. This may involve transferring the whole of the surplus when the *asset* is retired or disposed of.

Conversely, some of the surplus may be transferred as the *asset* is used by an entity. In such a case, the amount of the surplus transferred would be the difference between *depreciation* based on the revalued *carrying amount* of the *asset* and depreciation based on the *asset's* original cost. It is important to note that in no circumstances are transfers from revaluation reserve to retained earnings recognised in the income statement.

5.7. Useful life of property, plant and equipment

The *residual value* and the *useful life* of *property, plant and equipment* shall be reviewed at the end of each annual reporting period and, if expectations differ from previous estimates, the change(s) shall be accounted for as a change in accounting estimate (see accounting policy reference AP108).

AASB 116: Property Plant and Equipment

Accounting Policy Business Rule



Land and Building are separable assets and shall be accounted for separately. Land has an unlimited *useful life* and therefore is not depreciated. Buildings have a limited *useful life* and therefore are depreciable assets.

5.8. Depreciation

Depreciation shall be calculated on a straight-line basis by reference to the *useful life* of each item of *property, plant and equipment*, other than freehold land and easements which are not depreciated.

Major spares purchased specifically for particular plant shall be capitalised and depreciated on the same basis as the plant to which they relate.

The useful economic life and *depreciation* method used for all *property, plant and equipment* shall be reviewed at least at the end of each annual reporting period and, if there has been a significant change in the expected pattern of consumption of the future economic benefits embodied in the *asset* or the *useful life* of the *asset*, the method shall be changed to reflect the changed pattern.

Condition-based depreciation shall not be adopted.

5.9. Compensation for impairment

Compensation from third parties for items of *property, plant and equipment* that were impaired, lost or given up shall be included in profit and loss when the compensation becomes receivable.

5.10. Derecognition

The *Group* shall derecognise the *carrying amount* of *property, plant and equipment* either:

- On disposal; or
- When no future economic benefits are expected from its use or disposal.

Prior to disposal, the regulated system assets are written off against the revaluation reserve to give a revised carrying amount. The gains and losses on disposal of items of *property, plant and equipment* are determined by comparing the proceeds of disposals with the revised *carrying amounts* of the items. The net gains and losses on disposal shall be included in the Income Statement.

6. DISCUSSION

6.1. Project Structure

The *Group* Project Management Methodology Matrix (P56R02) splits projects into four broad phases:

- Concept
- Development
- Implementation
- Finalisation

Costs captured in each phase must be considered as either operating or capital in nature. In almost all cases, each phase may consist of both capital and operating costs.

6.2. Concept

While not an exhaustive list, according to the Project Management Methodology Matrix (P56R02), the purpose of the Concept phase is to:

- define the project scope at a high level;
- define the business case and high level budget for the project; and

AASB 116: Property Plant and Equipment Accounting Policy Business Rule



- obtain management approval to continue to the scope phase and therefore commit resources to more detailed planning

This phase of the project is generally considered operating in nature as it would usually be considered to constitute the *research* phase of a project as set out in section 5.2.4 of this policy.

6.3. Development

While not an exhaustive list, according to the according to the Project Management Methodology Matrix (P56R02), the purpose of the Development phase is to;

- Compile a detailed work plan
- Compile detailed *cost* estimates
- Make the decision as to whether the project is still required
- Make the decision as to whether scoping should commence
- Assign resources and create a budget
- Engage stakeholders
- Engage service providers
- Procure the design of the project
- Review scope
- Obtain approval for scope from Sponsor, Project Steering Committee or Investment Review Committee (this will establish feasibility)

This phase of the project is generally considered a combination of both operating and capital expenditure.

6.4. Implementation

While not an exhaustive list, according to the Project Management Methodology Matrix (P56R02), the purpose of the Implementation phase is to;

- Allocate responsibility to implementation team and obtain facilities
- Conduct Project Start up Workshop
- Create Project Management Plan
- Obtain approval for Project Management Plan
- Ensure that project is consistent with the Project Scope
- Manage project *costs*
- Manage project time
- Manage project quality
- Manage project human resources
- Manage project communications
- Manage project procurement
- Manage project integration
- Submit project scope change document prepared if required
- Complete pre-close checks

This phase of the project is generally considered a combination of both operating and capital expenditure. Refer to Appendix 1 for examples of *costs* and their nature.

6.5. Finalisation

While not an exhaustive list, according to the Project Management Methodology Matrix (P56R02), the purpose of the Finalisation phase is:

- Practical completion of the project
- Manage financial closeout
- Compile project completion form
- Obtain pre-approval to close
- Conduct final communications
- Review and close project
- Obtain approvals to close
- Capture lessons learned
- Measure and monitor benefits realised.

This phase of the project is generally considered a combination of both operating and capital expenditure. Refer to Appendix 1 for examples of costs and their nature.

6.6. Practical Application of Rules to Project Structure

6.6.1 Measurement upon initial recognition

6.6.1.1 Movement from the research phase to the development phase

Only costs directly attributable to bringing a specific asset to the location and condition necessary for it to operate in the manner intended can be recognised as part of the carrying amount of the asset. Costs associated with the planning stages, while necessary for the good governance of an entity's resources, may not be necessary for the construction of a specific asset. Such costs would be expensed. Examples of these types of costs include:

- Feasibility study costs;
- Costs incurred in connection with the selection of designs; and
- Costs incurred in connection with the identification of sites and requirements

For all Group projects, the point where the project moves from the research phase to the development phase is an important point to identify. When there is a commitment to the development and construction of the asset, an identifiable, future asset exists. For the Group, when appropriate approval to develop is received, there is an identifiable commitment to proceed with the project. While appropriate approval to continue to scope occurs after the concept stage this is not the point when a project moves from research to development stage.

Important points on the phases detailed in section 6.1;

- Generally the concept phase is operating expense as there is no clear commitment that the asset will exist. Note that although there may be an intention to construct an asset, there is no definite commitment to a specifically identifiable asset.
- The development phase is moving towards a combination of both operating and capital expenditure. While most of the costs incurred in the scoping phase will be operating in nature, there may be costs that could be considered capital if the costs incurred are directly attributed to the asset. Such capital costs may include costs of design that occur prior to the formal implementation phase.
- The implementation phase is primarily capital in nature. There may be costs, such as training, incurred in this phase that will be operating in nature.

AASB 116: Property Plant and Equipment Accounting Policy Business Rule



- The finalisation phase will generally be considered capital in nature. However, post implementation reviews after an asset has been completed would be considered operating in nature.

6.6.1.2 Directly attributable costs - Application to project structure

The following table provides guidance on the type of costs usually applicable to various stages of the project and their likely nature.

Cost	Nature (capex/opex)
Concept stage	
Project planning phase	Operating
Creation of concept documentation	Operating
Define project structure	Operating
Needs assessment	Operating
Development stage	
Creation of project scope development	Operating
Creation of project budget	Operating
Commencement of design phases	Capital
Implementation phase	
Asset implementation	Capital
Asset design ¹	Capital
Asset building	Capital
Configuration of asset	Capital
Data Migration and Testing	Capital
Testing stage ¹	Capital
Develop data mapping	Capital
Go-live trial	Capital
User documentation	Capital
Tender phase – if done before approval of project	Operating
Training costs including training the trainer ²	Operating
User training and trainer's expenses ²	Operating
Creation of training manuals ²	Capital
Project Management costs ³	Operating/Capital
Finalisation	
Review project performance	Operating
Decommissioning redundant systems	Operating
Cost of decommissioning new system	Capital
Evolution planning	Operating

¹ The design and testing stage of a capital project occurs after there is an identifiable commitment to proceed with a specific option. The design and testing of the asset is considered part of making the asset ready for use and should be capitalised as part of the value of the asset. The Group must, however, control the underlying asset. If the Group does not control the underlying asset, then it is generally unlikely that costs could be capitalised unless an independent intangible asset could be justified.

² Training is operating in nature as the benefit exists in people. Given the Group do not control people, then training costs cannot be capitalised. Control is essential for an asset. Training manuals however live on despite any staff turnover. The Group will continue to benefit from training manuals despite any movement in staff.

³ Project Management costs should be % split between the time spent on operating tasks and capital tasks

AASB 116: Property Plant and Equipment Accounting Policy Business Rule



6.6.1.3 Allocation of overhead costs to capital

Ergon Energy Corporation Limited (EECL) is a regulated energy distribution company whose primary purpose is to expand, improve and maintain the electricity distribution network. EECL incurs a number of overhead costs necessary to support its capital and maintenance programmes on the network. Without these shared costs neither the capital nor the maintenance programmes could be completed. Therefore, an element of these overhead costs is directly attributable to our capital programme and is capitalised. The balance of overhead expenditure is attributable to EECL's maintenance programme and is expensed immediately.

6.6.2 Measurement after initial recognition

6.6.2.1 Method of valuation and regularity

There are several methods of conducting a revaluation. The following table outlines the guidelines for the method adopted by the Group to conduct revaluations. The regularity of the revaluations has also been included in the table.

Class	Method of revaluation (External/Directors)	Regularity
Supply system assets		
Regulated	<ul style="list-style-type: none"> ▪ Directors' valuation using either: <ul style="list-style-type: none"> - The Regulator's methodology or regulator's inputs as appropriate. This may include information from the Australian Energy Regulator (AER) that is sufficient to be considered fair value or as an input in determining fair value; or - an appropriately qualified employee that has completed the valuation using a methodology acceptable under the relevant standard; or ▪ Independent valuation where an independent advisor has completed the valuation in accordance with the standard. 	At a minimum, 5 yearly valuations with annual indexation in the intervening years where appropriate.
Non-regulated	<ul style="list-style-type: none"> ▪ Directors' valuation where an appropriately qualified employee or advisor has completed the valuation; or ▪ Independent valuation where an independent advisor has completed the valuation. 	At a minimum, 5 yearly valuations with annual indexation in the intervening years where appropriate. 5 yearly revaluations to commence from 30 June 2007.
Power station assets		
Regulated	<ul style="list-style-type: none"> ▪ Directors' valuation using either: <ul style="list-style-type: none"> - The Regulator's methodology or regulator's inputs as appropriate. This may include information from the AER that is sufficient to be considered fair value or as an input in determining fair value; or - an appropriately qualified employee that has completed the valuation 	At a minimum, 5 yearly valuations with annual indexation in the intervening years where appropriate.

AASB 116: Property Plant and Equipment Accounting Policy Business Rule



	<ul style="list-style-type: none"> using a methodology acceptable under the relevant standard; or ▪ Independent valuation where an independent advisor has completed the valuation in accordance with the standard. 	
Non-regulated	<ul style="list-style-type: none"> ▪ Directors' valuation where an appropriately qualified employee or advisor has completed the valuation; or ▪ Independent valuation where an independent advisor has completed the valuation. 	<p>At a minimum, 5 yearly valuations with annual indexation in the intervening years where appropriate.</p> <p>5 yearly revaluations to commence from 30 June 2007.</p>
Land		
Regulated	<ul style="list-style-type: none"> ▪ Directors' valuation using either: <ul style="list-style-type: none"> - The Regulator's methodology or regulator's inputs as appropriate. This may include information from the AER that is sufficient to be considered fair value or as an input in determining fair value; or - an appropriately qualified employee that has completed the valuation using a methodology acceptable under the relevant standard; or ▪ Independent valuation where an independent advisor has completed the valuation in accordance with the standard. 	<p>At a minimum, 5 yearly valuations with annual indexation in the intervening years where appropriate.</p>
Non-regulated	<ul style="list-style-type: none"> ▪ Directors' valuation where an appropriately qualified employee or advisor has completed the valuation; or ▪ Independent valuation where an independent advisor has completed the valuation. 	<p>At a minimum, 5 yearly valuations with annual indexation in the intervening years where appropriate.</p> <p>5 yearly revaluations to commence from 30 June 2007.</p>
Buildings		
Regulated	<ul style="list-style-type: none"> ▪ Directors' valuation using either: <ul style="list-style-type: none"> - The Regulator's methodology or regulator's inputs as appropriate. This may include information from the AER that is sufficient to be considered fair value or as an input in determining fair value; or - an appropriately qualified employee that has completed the valuation using a methodology acceptable under the relevant standard; or ▪ Independent valuation where an independent advisor has completed the valuation in accordance with the standard. 	<p>At a minimum, 5 yearly valuations with annual indexation in the intervening years where appropriate.</p>
Non-regulated	<ul style="list-style-type: none"> ▪ Directors' valuation where an appropriately qualified employee or advisor has completed the valuation; 	<p>At a minimum, 5 yearly valuations with annual indexation in</p>

AASB 116: Property Plant and Equipment Accounting Policy Business Rule



	<ul style="list-style-type: none"> or ▪ Independent valuation where an independent advisor has completed the valuation. 	<p>the intervening years where appropriate.</p> <p>5 yearly revaluations to commence from 30 June 2007.</p>
Other property plant and equipment		
Regulated	<ul style="list-style-type: none"> ▪ Directors' valuation using either: <ul style="list-style-type: none"> - The Regulator's methodology or regulator's inputs as appropriate. This may include information from the AER that is sufficient to be considered fair value or as an input in determining fair value; or - an appropriately qualified employee that has completed the valuation using a methodology acceptable under the relevant standard; or ▪ Independent valuation where an independent advisor has completed the valuation in accordance with the standard. 	<p>At a minimum, 5 yearly valuations with annual indexation in the intervening years where appropriate.</p>

6.6.2.2 Income-based valuation

Regulated assets

Under the *Group* policy for the subsequent measurement after initial recognition of regulated *assets*, all regulated *assets* are subject to an income-based valuation using discounted cash flow techniques.

6.6.2.3 Indexation

Non-regulated asset indexation – Non-regulated Power Station assets

Under the *Group* policy for the subsequent measurement after initial recognition of non-regulated Power Station *assets*, the isolated power stations and associated distribution *assets* have been the subject of annual indexation (see section 5.3.4). A combination of indices is used in calculating the inflation index so that it closely reflects the *cost* of materials used within the network. The index used may be a combination of relevant indices. The following is an example of a method used (note: indexes are subject to change depending on the relevance of the index to the item being revalued).

Index	Name	Weighting
Labour	Queensland Average Weekly Earnings	50%
Materials	Metallic Materials Used in the Fabricated Metal Products Industry (Aluminium)	25%
Other Materials	Articles Produced by Manufacturing Industry – Electronic Equipment & Other	25%

6.6.3 Capitalisation limit

The *Group's* business rule when applying its accounting policy for *property, plant and equipment* is to only capitalise *assets* that qualify as *property, plant and equipment* when their *cost* exceeds \$1,000. This capitalisation limit has been set in order to ease the administrative burden of applying the *Group* accounting policy.

AASB 116: Property Plant and Equipment Accounting Policy Business Rule



The justification for this business rule is that the total qualifying *assets* with a *cost* of less than \$1,000 are not material.

AASB 138: Intangible Assets Accounting Policy Business Rule



Table of Contents

1.	Purpose and Scope	1
2.	Responsibilities	1
3.	Definitions, Abbreviations and Acronyms.....	1
4.	References.....	2
5.	Group Accounting Policy.....	2
5.1.	Recognition principles	2
5.2.	Measurement of intangible assets – elements of cost.....	4
5.3.	Amortisation	5
5.4.	Useful life of intangible assets	5
5.5.	Residual Value	5
5.6.	Internally generated goodwill	5
5.7.	Retirements and disposals of intangible assets	5
5.8.	Web site costs	5
5.9.	Cloud Software.....	6
5.10.	Impairment	6
6.	Discussion.....	6
6.1.	Project structure	6
6.2.	Practical application of rules to project structure.....	7

1. PURPOSE AND SCOPE

To provide guidelines on the appropriate accounting treatment for intangible assets in order to ensure compliance with applicable accounting standards and Government regulations.

The policies outlined in this document apply to all Legal Entities within the Group when accounting for intangible assets.

This policy does not cover:

- Intangible assets held for sale in the ordinary course of business – example inventory and construction contracts
- Deferred tax assets (see accounting policy AASB112)
- Leases (see accounting policy AASB117)
- Employee benefits (see accounting policy AASB119)
- Financial assets (see accounting policy AASB9)
- Goodwill acquired in a business acquisition (see accounting policy AASB003)
- Non-current intangible assets held for sale (see accounting policy AASB005)

2. RESPONSIBILITIES

Group Manager Finance Operations is the Process Owner responsible for approving this Reference document.

Manager Financial Accounting is responsible for maintaining this Reference document.

Senior Financial Accountant is the Subject Matter Expert (SME) for the content this Reference document.

3. DEFINITIONS, ABBREVIATIONS AND ACRONYMS

Amortisation	The systematic allocation of the depreciable amount of an intangible asset over its useful life.
Asset	A resource: <ul style="list-style-type: none">• Controlled by the Group as a result of past events; and• From which future economic benefits are expected to flow to the Group.
Carrying amount	The amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses.
Cost	The amount of cash or cash equivalents paid or the fair value of other consideration given to acquire an asset at the time of its acquisition or construction.
Development	The application of research findings or other knowledge to a plan or design for the production of new or substantially improved materials, devices, products, processes, systems or services before the start of commercial production or use.
Fair value	The price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.
Group	Ergon Energy Corporation Limited and its controlled entities.
Impairment loss	The amount by which the carrying amount of an asset exceeds its recoverable amount.

AASB 138: Intangible Assets

Accounting Policy Business Rule

EE1516 AR IA

Intangible asset	An identifiable non-monetary asset without physical substance.
Recoverable amount	The higher of an asset's net selling price and its value in use.
Research	Original and planned investigation undertaken with the prospect of gaining new scientific or technical knowledge and understanding.
Residual value	The estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.
Useful life	<ul style="list-style-type: none">• The period over which an asset is expected to be available for use by an entity; or• The number of production or similar units expected to be obtained from the asset by an entity.

4. REFERENCES

AASB 138 *Intangible Assets*

Interpretation 132 - *Intangible Assets – Web Site Costs*

Project Management Methodology Matrix (P56R02)

5. GROUP ACCOUNTING POLICY

5.1. Recognition principles

The *Group* shall recognise an *intangible asset* if it meets the following criteria:

- It meets the definition for an *intangible asset*: it is **identifiable**, the *Group* **controls** the *asset* and there is **a future economic benefit**; and
- It is probable that the expected future economic benefits that are attributable to the *asset* will flow to the *Group*; and
- The *cost* of the *asset* can be measured reliably.

5.1.1 Identifiability

An *asset* meets the identifiability criterion in the definition of an *intangible asset* when it:

- is separable, that is, is capable of being separated or divided from the *Group* and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, *asset* or liability; or
- arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

One of the above requirements is necessary to recognise an *intangible asset*.

5.1.2 Control over the resource

The *Group* controls an *asset* if it has the power to obtain future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits. The capacity of the *Group* to control the future economic benefit from an *intangible asset* would normally stem from legal rights. However, legal enforceability of a right is not a necessary condition for control because an entity may be able to control the future economic benefits in some other way.

5.1.3 Existence of future economic benefit

The future economic benefits flowing from an *intangible asset* may include revenue from the sale of products or services, cost savings, or other benefits resulting from the use of the *asset* by the *Group*.

AASB 138: Intangible Assets

Accounting Policy Business Rule

EE1516 AR IA

5.1.4 Internally generated intangible assets

To assess whether an internally generated *intangible asset* meet the criteria for recognition the *Group* should classify the generation of the *asset* into:

- A *research* phase; and
- A *development* phase.

5.1.4.1 Research phase

The *Group* shall not recognise an *intangible asset* arising from the *research* phase of an internal project. Expenditure on the *research* phase of an internal project shall be recognised as an expense when it is incurred.

Examples of research phases include;

- activities aimed at obtaining new knowledge;
- the search for, evaluation and final selection of, applications of *research* findings or other knowledge;
- the search for alternatives for materials, devices, products, processes, systems or services; and
- the formulation, design, evaluation and final selection of possible alternatives for new or improved materials, devices, products, processes, systems or services.

5.1.4.2 Development phase

The *Group* shall recognise an *intangible asset* arising from the *development* phase of an internal project if it can demonstrate the following:

Question	Yes.	No.
The completion of the <i>intangible asset</i> is technically feasible so that it will be available for use or sale.		
It intends to complete the <i>intangible asset</i> and to use or sell it.		
It is able to use or sell the <i>intangible asset</i> .		
The <i>intangible asset</i> will generate probable future economic benefits. Among other things, the <i>Group</i> must demonstrate the existence of a market for the output of the <i>intangible asset</i> or the <i>intangible asset</i> itself or, if it is to be used internally, the usefulness of the <i>intangible asset</i> ;		
There are adequate technical, financial and other resources available to complete the <i>development</i> and to use or sell the <i>intangible asset</i> .		
It can measure reliably the expenditure attributable to the <i>intangible asset</i> during its development.		

Examples of development phases include;

- the design, construction and testing of pre-production or pre-use prototypes and models;
- the design of tools, jigs, moulds and dies involving new technology;
- the design, construction and operation of a pilot plant that is not of a scale economically feasible for commercial production; and
- the design, construction and testing of a chosen alternative for new or improved materials, devices, products, processes, systems or services.

5.2. Measurement of intangible assets – elements of cost

At initial recognition the *Group* shall measure its *intangible assets* at cost.

After initial recognition, *intangible assets* shall be carried at its cost less any accumulated *amortisation* and any accumulated *impairment losses*.

The cost of a separately acquired *intangible asset* comprises:

- Its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates; and
- Any directly attributable cost of preparing the asset for its intended use.

The cost of an internally generated *intangible asset* comprises all directly attributable costs necessary to create, produce, and prepare the asset to be capable of operating in the manner intended by management.

The cost of an internally generated *intangible asset* comprises the sum of expenditure incurred from the date when the *intangible asset* first meets both the recognition criteria for an *intangible asset* set out in section 5.1 and the criteria for the *development* phase as set out in section 5.1.4.2. Expenditure previously recognised as an expense in the Income Statement cannot be reinstated as an *intangible asset*.

Recognition of costs in the *carrying amount* of an *intangible asset* ceases when the asset is in the condition necessary for it to be capable of operating in the manner intended by management.

5.2.1 Costs attributable to the value of an intangible asset

Costs that are considered to be directly attributable to bringing an *intangible asset* to the location and condition necessary for it to be capable of operating in the manner intended by management include the following:

- Costs of employee benefits arising from bringing an asset to its working condition
- Professional fees arising directly from bringing the asset to its working condition
- Costs of testing whether the asset is functioning properly

5.2.2 Costs not attributable to the value of an intangible asset

While not an exhaustive list, the following items are not considered part of the cost of an *intangible asset*;

- Costs of introducing a new product or service (including costs of advertising and promotional activities)
- Costs of conducting business in a new location or with a new class of customer (including costs of training staff)
- Selling, administrative and other general overhead expenditure unless this expenditure can be directly attributed to preparing the asset for use;
- Costs incurred while an asset capable of operating in a manner intended by management has yet to be brought into use; and
- Initial operating losses, such as those incurred while demand for the asset's output builds up.

5.3. Amortisation

The *Group* shall amortise the *cost of intangible assets* on a systematic basis over the estimated *useful life* of the assets unless such *assets* are indefinite.

Amortisation shall begin when the *asset* is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

An *intangible asset* with an indefinite *useful life* shall not be amortised.

5.4. Useful life of intangible assets

The *Group* shall assess whether the *useful life* of an intangible *asset* is finite or indefinite and, if finite, the length of, or number of production or similar units constituting, that *useful life*. An *intangible asset* shall be regarded by an entity as having an indefinite *useful life* when, based on an analysis of all the relevant factors, there is no foreseeable limit to the period over which the *asset* is expected to generate cash inflow for the *Group*.

The *useful life* of an *intangible asset* that arises from contractual or other legal rights shall not exceed the period of the contractual or other legal rights, but may be shorter depending on the period over which the *Group* expects to use the *asset*.

The amortisation period for an *intangible asset* with a finite *useful life* shall be reviewed at least at the end of each reporting period. If the expected *useful life* of the *asset* is different from previous estimates, the *amortisation* period shall be changed accordingly. If there has been a change in the expected pattern of consumption of the future economic benefits embodied in the *asset*, the amortisation method shall be changed to reflect the changed pattern. A change in the *asset's* useful life is accounted for as a change in an accounting estimate.

The *useful life* of an intangible *asset* that is not being amortised should be reviewed each period to determine whether events and circumstances continue to support an indefinite *useful life* assessment for that *asset*.

5.5. Residual Value

The residual value of an intangible *asset* with a finite useful life shall be assumed to be zero unless:

- There is a commitment by a third party to purchase the *asset* at the end of its useful life; or
- There is an active market for the *asset* and:
 - residual value can be determined by reference to that market; and
 - it is probable that such a market will exist at the end of the *asset's* useful life.

The residual value is reviewed at least at the end of each annual reporting period. A change in the *asset's* residual value is accounted for as a change in an accounting estimate.

5.6. Internally generated goodwill

The *Group* shall not recognise internally generated goodwill as an *asset*.

5.7. Retirements and disposals of intangible assets

The *Group* shall derecognise an *intangible asset* upon disposal or when no future economic benefits are expected from its use.

The gain or loss arising from the derecognition of an intangible *asset* shall be determined as the difference between the net disposal proceeds, if any, and the *carrying amount* of the *intangible asset*.

5.8. Web site costs

The *Group* shall recognise an *intangible asset* from the *development* of a web site if, and only if, in addition to complying with the recognition criteria set out in section 5.1 of this policy, the *Group* can

AASB 138: Intangible Assets

Accounting Policy Business Rule

EE1516 AR IA

demonstrate how its web site will generate future economic benefits in accordance with section 5.1.4 of this policy.

In particular, future economic benefits could be demonstrated when, for example, the web site is capable of generating revenues, including direct revenues from enabling orders to be placed. Future economic benefits cannot, however, be demonstrated if a website has been developed solely or primarily for promoting and advertising its own products. Consequently, all expenditure on developing such websites shall be recognised as an expense when incurred.

5.9. Cloud Software

The *Group* shall not recognise an *intangible asset* for the right to use cloud software applications. Cloud software applications remain on the host's server and users do not have the ability to control coding or access privileges. These rights do not meet the definition of an *intangible asset* as they do not meet the control criteria in the recognition principles outlined in section 5.1.

5.10. Impairment

The *Group's* accounting policy for impairment should be applied to all *intangible assets* (see Accounting Policy AASB 136).

6. DISCUSSION

6.1. Project structure

The *Group* Project Management Methodology Matrix (P56R02) splits projects into four broad phases:

- Concept
- Development
- Implementation
- Finalisation

Costs captured in each phase must be considered as either operating or capital in nature. In almost all cases, each phase may consist of both capital and operating costs.

6.1.1 Concept

While not an *exhaustive* list, according to the Project Management Methodology Matrix (P56R02), the purpose of the Concept phase is to:

- define the project scope at a high level;
- define the business case and high level budget for the project; and
- obtain management approval to continue to the scope phase and therefore commit resources to more detailed planning

This phase of the *project* is generally considered operating in nature as it would usually be considered to constitute the *research* phase of a project as set out in section 5.1.4.1 of this policy.

6.1.2 Development

While not an *exhaustive* list, according to the according to the Project Management Methodology Matrix (P56R02), the purpose of the Development phase is to;

- Compile a detailed work plan
- Compile detailed *cost* estimates
- Make the decision as to whether the project is still required
- Make the decision as to whether scoping should commence
- Assign resources and create a budget
- Engage stakeholders
- Engage service providers
- Procure the design of the project
- Review scope

AASB 138: Intangible Assets

Accounting Policy Business Rule

EE1516 AR IA

- Obtain approval for scope from Sponsor, Project Steering Committee or NIRC (this will establish feasibility)

This phase of the project is generally considered a combination of both operating and capital expenditure. Refer to section 6.2.2.2 for examples of costs and their nature.

6.1.3 Implementation

While not an *exhaustive* list, according to the Project Management Methodology Matrix (P56R02), the purpose of the Implementation phase is to;

- Allocate responsibility to implementation team and obtain facilities
- Conduct Project Start up Workshop
- Create Project Management Plan
- Obtain approval for Project Management Plan
- Ensure that project is consistent with the Project Scope
- Manage project costs
- Manage project time
- Manage project quality
- Manage project human resources
- Manage project communications
- Manage project procurement
- Manage project integration
- Submit project scope change document prepared if required
- Complete pre-close checks

This phase of the project is generally considered a combination of both operating and capital expenditure. Refer to section 6.2.2.2 for examples of costs and their nature.

6.1.4 Finalisation

While not an exhaustive list, according to the Project Management Methodology Matrix (P56R02), the purpose of *the* Finalisation phase is:

- Practical completion of the project
- Manage financial closeout
- Compile project completion form
- Obtain pre-approval to close
- Conduct final communications
- Review and close project
- Obtain approvals to close
- Capture lessons learned
- Measure and monitor benefits realised.

This phase of the project is generally considered a combination of both operating and capital expenditure. Refer to section 6.2.2.2 for examples of costs and their nature.

6.2. Practical application of rules to project structure

6.2.1 Intangible assets held by the Group

Intangible assets are identifiable non-monetary asset without physical substance that are controlled *through* custody or legal rights. Common classes of *intangible assets* held by the *Group* include software, licences, customer contracts and other similar rights.

6.2.2 Measurement upon initial recognition

6.2.2.1 Movement from the research phase to the development phase

For all *Group* projects, the point where the project moves from the *research* phase to the *development phase* is an important point to identify. When there is a commitment to the

AASB 138: Intangible Assets

Accounting Policy Business Rule

EE1516 AR IA

development and construction of the *asset*, an identifiable, future *asset* exists. For the *Group*, when appropriate approval to develop is received, there is an identifiable commitment to proceed with the project. While appropriate approval to continue to scope occurs after the concept stage this is not the point when a project moves from *research* to *development* stage.

Once an entity moves from the *research* phase into the *development* phase, it must be able to meet the requirements of a *development* phase as set out in section 5.1.4.2. Accordingly, the *Group* must be able to answer “yes” to all of the questions.

Important points on the phases detailed in section 6.1;

- Generally the concept phase is operating expense as there is no clear commitment that the *asset* will exist. Note that although there may be an intention to construct an *asset*, there is no definite commitment to a specifically identifiable *asset*.
- The *development* phase is moving towards a combination of both operating and capital expenditure. While most of the *costs* incurred in the scoping phase will be operating in nature, there may be *costs* that could be considered capital if the *costs* incurred are directly attributed to the *asset*. Such capital *costs* may include *costs* of design that occur prior to the formal implementation phase.
- The implementation phase is primarily capital in nature. There may be *costs*, such as training, incurred in this phase that will be operating in nature.
- The finalisation phase will generally be considered capital in nature. However, post implementation reviews after an *asset* has been completed would be considered operating in nature.

6.2.2.2 Directly attributable costs – application to project structure

The following *table* provides guidance on the type of costs usually applicable to various stages of the project and their likely nature.

Cost	Nature (capex/opex)
Concept stage	
Project planning phase	Operating
Creation of concept documentation	Operating
Define project structure	Operating
Needs assessment	Operating
Development stage	
Creation of project scope development	Operating
Creation of project budget	Operating
Commencement of design phases	Capital
Implementation phase	
Asset implementation	Capital
Asset design ¹	Capital
Asset building	Capital
Configuration of asset	Capital
Data Migration and Testing	Capital
Testing stage ¹	Capital
Develop data mapping	Capital
Go-live trial	Capital

¹ The design and testing stage of a capital project occurs after there is an identifiable commitment to proceed with a specific option. The design and testing of the asset is considered part of making the asset ready for use and should be capitalised as part of the value of the asset. The Group must, however, control the underlying asset. If the Group does not control the underlying asset, then it is generally unlikely that costs could be capitalised unless an independent intangible asset could be justified.

AASB 138: Intangible Assets

Accounting Policy Business Rule

EE1516 AR IA

User documentation	Capital
Tender phase – all	Operating
Training costs including training the trainer ²	Operating
User training and trainer's expenses ²	Operating
Creation of training manuals ²	Capital
Project Management costs ³	Operating/Capital
Finalisation	
Review project performance	Operating
Decommissioning redundant systems	Operating
Cost of decommissioning new system	Capital
Evolution planning	Operating

6.2.2.3 Allocation of overhead costs to capital

Ergon Energy Corporation Limited (EECL) is a regulated energy distribution company whose primary purpose is to expand, improve and maintain the electricity distribution network. EECL incurs a *number* of overhead costs necessary to support its capital and maintenance programmes on the network. Without these shared costs neither the capital nor the maintenance programmes could be completed. Therefore, an element of these overhead costs is directly attributable to our capital programme and is capitalised. The balance of overhead expenditure is attributable to EECL's maintenance programme and is expensed immediately.

² Training is operating in nature as the benefit exists in people. Given the Group does not control people, then training costs cannot be capitalised. Control is essential for an asset. Training manuals however live on despite any staff turnover. The Group will continue to benefit from training manuals despite any movement in staff.

³ Project Management costs should be % split between the time spent on operating tasks and capital tasks

Annual Reporting RIN Basis of Preparation



Template 7.8 Avoided TUOS Payments

1 July 2015 to 30 June 2016



Version Control

Version	Date	Description
1.0	31/10/16	Final as submitted to AER on 31 October 2016

Foreword

In response to requirements of the Australian Energy Regulator's (AER) Annual Reporting Regulatory Information Notice (RIN), and specific to the information presented in Template 7.8 – Avoided TUOS Payments of Ergon Energy's completed 2015-16 Annual Reporting RIN templates (15-16 AR RIN Templates), this Basis of Preparation document has been prepared by Ergon Energy with a view to:

- demonstrate how the information provided in relation to Template 7.8 – Avoided TUOS Payments (and associated Tables and/or variables) is consistent with the requirements of this notice;
- explain the source from which Ergon Energy obtained the information provided in the template;
- explain the methodology Ergon Energy applied to provide the required information, including any assumptions Ergon Energy made.

In circumstances where Ergon Energy has provided input using Estimated Information in relation to Template 7.8 – Avoided TUOS Payments, Ergon Energy has made comments herein as to:

- why an estimate was required, including why it was not possible to use Actual Information;
- the basis for the estimate, including the approach used, assumptions made and reasons why the estimate is the best estimate, given the information sought in the Notice; and
- what steps Ergon Energy is taking to ensure it can provide the information in the future.

As relevant, Ergon Energy has provided additional detail beyond the minimum requirements if it was considered it may assist a user to gain an understanding of the information presented in the regulatory templates.

The Basis of Preparation document should be read in conjunction with the information presented in Template Template 7.8 – Avoided TUOS Payments in Ergon Energy's completed 15-16 AR RIN Templates.

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Template 7.8 – Avoided TUOS Payments

Table 7.8.1 – Avoided TUOS Payments

Table 1 - Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared the information provided in Template 7.8 Avoided TUOS Payments, Table 7.8.1 Avoided TUOS payment in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice, with amounts represented as \$0's, nominal.</p>
Population of Actual Information in templates	<p>Ergon Energy has provided actual information in Table 7.8.1 for the 2015-16 regulatory year.</p> <p>Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.</p>
Source of Actual Information	<p>Ergon Energy has sourced data from its Ellipse system for the adjustments, and a list of invoices from retailers from the Market Management System within Ergon.</p>
Methodology and assumption's applied in relation to Actual Information	<p>The methodology used in calculating the avoided cost payments is described in the Information Guide for Standard Control Services Pricing.. The payments are calculated by the Service Transaction Centre using the process which is described below.</p> <p>Ergon Energy confirms that in accordance with RIN requirements Avoided TUOS payments are taken to be payments made by Ergon Energy in accordance with clause 5.5(h) of the National Electricity Rules (NER).</p> <p>Avoided TUOS expense is based on the list of invoices from retailers for the 2015-16 regulatory year.</p> <p>The adjustments column consists of:</p> <ul style="list-style-type: none"> ▪ Prior years avoided TUOS payments; ▪ Prior years accrual reversals; ▪ Current year accrual; and ▪ Network support charges <p>Embedded Generators</p> <p>Embedded generator (EG) is taken to have the meaning given in the NER.</p> <p>Furthermore, clause 5.5(h) of the NER requires Distribution Network Service Providers (DNSPs) to calculate "avoided charges for the locational component of prescribed TUOS services", and clause 5.5(i) requires DNSPs to calculate the amount to be passed</p>

Minimum Requirements	Ergon Energy Response
	<p>through to an EG. This is done by:</p> <ul style="list-style-type: none"> ▪ Determining the charges for the locational component of prescribed TUOS services that would have been payable by the DNSP for the relevant financial year “if the EG had not injected any energy at its connection point during that financial year”; and ▪ Determining “the amount by which the charges calculated in subparagraph (1) exceed the amount for the locational component of prescribed TUOS services actually payable by the DNSP, which amount will be the relevant amount for the purposes of paragraph (h) [clause 5.5(h)]”. <p>Avoided TUOS payments are made by Ergon Energy to EGs who have sought access to Ergon Energy’s distribution network under clause 5.5 of the NER and who are registered as a Generator Rules Participant.</p> <p>Also refer to the supplementary attachment for Revenues, for a further breakdown of DUOS and TUOS. Refer to Table 16.1: List of Attachments.</p> <p>Market network service providers</p> <p>Market Network Service Provider is taken to have the meaning given in the NER.</p> <p>A Network Service Provider who has classified any of its network services as a market network service in accordance with Chapter 2 and who is also registered by AEMO as a Market Network Service Provider under Chapter 2.</p> <p>Other (avoided TUOS payment)</p> <p>Other (avoided TUOS payment) are any avoided TUOS payment made by a person that is not an EG or Market Network Service Provider</p> <p>Ergon Energy has nil other (avoided TUOS payment) to report.</p>
Population of Estimated Information in Templates	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER’s definition.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER’s definition.
Changes in Accounting Policies (Financial information - Actual or Estimated)	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER’s definition.

Annual Reporting RIN Basis of Preparation



Template 7.10 Jurisdictional Scheme

1 July 2015 to 30 June 2016



Version Control

Version	Date	Description
1.0	31/10/16	Final as submitted to AER on 31 October 2016

Foreword

In response to requirements of the Australian Energy Regulator's (AER) Annual Reporting Regulatory Information Notice (RIN), and specific to the information presented in Template 7.10 Jurisdictional Schemes of Ergon Energy's completed 2015-16 Annual Reporting RIN templates (15-16 AR RIN Templates), this Basis of Preparation document has been prepared by Ergon Energy with a view to:

- demonstrate how the information provided in relation to Template 7.10 Jurisdictional Schemes (and associated Tables and/or variables) is consistent with the requirements of this notice;
- explain the source from which Ergon Energy obtained the information provided in the template;
- explain the methodology Ergon Energy applied to provide the required information, including any assumptions Ergon Energy made.

In circumstances where Ergon Energy has provided input using Estimated Information in relation to Template 7.10 Jurisdictional Schemes, Ergon Energy has made comment herein as to:

- why an estimate was required, including why it was not possible to use Actual Information;
- the basis for the estimate, including the approach used, assumptions made and reasons why the estimate is a best estimate, given the information sought in the Notice; and
- what steps Ergon Energy is taking to ensure it can provide the information in the future.

No additional requirements were identified as requiring provision of additional information or attachment/s over and above completed templates or Basis of Preparation, in regards to Template 7.10 Jurisdictional Schemes.

The Basis of Preparation document should be read in conjunction with the information presented in Template 7.10 Jurisdictional Schemes in Ergon Energy's completed 15-16 ARRIN Templates.

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Template 7.10 Jurisdictional Schemes

Table 7.10.1 – Jurisdictional Scheme Payments

Table 1 - Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared the information provided in Template 7.10 Jurisdictional Schemes, Table 7.10.1 Jurisdictional Scheme Payments in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix A and Definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p> <p>Jurisdictional Scheme Payments are payments Ergon Energy is obliged to pay under an approved Jurisdictional Scheme, which has the meaning given in clause 6.18.7A(d) of the National Electricity Rules (NER).</p> <p>Total Scheme Payments are reported in \$0's, nominal.</p>
Use of Actual Information	<p>Ergon Energy has provided actual information in Table 7.10.1 for the 2015-16 regulatory year.</p> <p>Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.</p>
Source of Actual Information	<p>Ergon Energy has extracted data from the Ellipse system for the Solar Feed-in-tariff (FiT) Bonus Scheme and the Electricity Industry levy.</p> <p>Ergon Energy has sourced data from NetBill and PEACE for the credits provided to the isolated network in relation to the solar bonus scheme.</p>
Methodology and assumption's used in relation to Actual Information	<p>Jurisdictional schemes relevant to Ergon Energy are programs implemented by state governments that place legislative obligations on DNSPs.</p> <p>Ergon Energy's annual Pricing Proposal sets out how jurisdictional scheme amounts (i.e. the amount(s) we are obligated to pay under the scheme) for each approved jurisdictional scheme are to be passed on to customers and any adjustments to tariffs resulting from the over or under recovery of those amounts. Clause 6.18.2(b)(6B) of the NER also requires our Pricing Proposal to describe how each approved jurisdictional scheme that has been amended since the last jurisdictional scheme approval date meets the jurisdictional scheme eligibility criteria.</p> <p>Current Jurisdictional Schemes relevant to Ergon Energy are:</p> <ul style="list-style-type: none"> schemes set out explicitly under clause 6.18.7A(e) of the NER. For Queensland, this currently includes the Solar Bonus Scheme, which obligates Ergon Energy to pay a FiT for energy supplied into our distribution network from specific micro-embedded generators (PVs). Ergon Energy became subject to the Solar Bonus Scheme on 21 May 2015 (i.e. the date we submitted our 2015–16 Pricing Proposal to the AER). Since that time, the jurisdictional scheme has not been amended; and

Minimum Requirements**Ergon Energy Response**

- schemes determined by the AER to be jurisdictional schemes under clause 6.18.7A(l) of the NER. For Queensland, this currently includes the energy industry levy. Ergon Energy is obligated under our Distribution Authority to pay a proportion of the Queensland Government's funding commitments for the AEMC in relation to this levy. Ergon Energy became subject to this Jurisdictional Scheme when it was approved by the AER on 22 April 2016. There have been no changes since this approval date.

Description of Cost Recovery Method

Consistent with clause 6.18.7A of the NER, Ergon Energy passes through jurisdictional scheme amounts (including any under or over recovery of these amounts) to customers in our tariffs. Attachment 14 of the AER's final distribution determination sets out the requirements Ergon Energy must comply with under clause 6.18.7A of the NER. Specifically, Ergon Energy must:

- earn jurisdictional scheme revenue amounts in the year it incurs those amounts; and
- apply a true-up to account for any under or over recovery of actual revenue (which in practice occurs on a two year lag through adjustments to tariffs)

Once the total jurisdictional revenue to be recovered through tariffs for a particular year is determined (i.e. forecast amount for year t plus under /over recovery amounts for year t-2), this amount is allocated to tariff classes and converted to tariffs consistent with the method outlined in our approved Pricing Proposal.

For the 2015-16 regulatory year, this method is outlined in section 6.13.2 of our approved 2015-16 Pricing Proposal.

It is also important to note actual FIT payments incurred by Ergon Energy in 2013-14 (which were recovered in network tariffs in 2015-16) were recovered through an adjustment made in the Total Annual Revenue (TAR) as a cost pass through amount. These amounts are therefore accounted for and recovered through our DUOS revenue in 2015-16. As the energy industry levy was not a jurisdictional scheme at the time of our 2015-16 Pricing Proposal, jurisdictional scheme revenue allocated to tariffs for 2015-16 only included forecast FIT payments to be incurred in 2015-16.

As part of our 2017-18 annual Pricing Proposal, we will apply a true-up to account for any difference between our actual 2015-16 jurisdictional scheme revenue and our actual 2015-16 jurisdictional scheme payments (for both the FIT and the energy industry levy).

Total Scheme Payments

As relevant to Template 7.10, Jurisdictional Scheme payments have been reported on an accruals basis in accordance with Australian Accounting Standards.

The Payment amounts reported are amounts Ergon Energy is required to pay under the Jurisdictional Scheme obligations to:

- pay to a person;
- pay into a fund established under an Act of a participating jurisdiction;

Minimum Requirements	Ergon Energy Response
	<p>(c) credit against charges payable by a person;</p> <p>(d) reimburse a person;</p> <p>less any amounts recovered by Ergon Energy from any person in respect of those amounts other than under the NER.</p> <p>All values have been extracted from Ellipse.</p> <p>Full year values have been extracted for the Solar Bonus Scheme and the Inter-Company Solar Bonus. The full year statutory amounts for these elements have been prepared on an unbilled basis.</p> <p>The Electricity Industry levy was extracted from Ellipse using Ellipse Activity and element code. The levy is one payment for the year and is therefore presented on a billed basis.</p> <p><i>Isolated Network adjustment to the annual Solar Bonus Scheme amount</i></p> <ol style="list-style-type: none"> 1. A report (DMK533) was run on PEACE data to determine the list of isolated NMIs as at 30 June 2016; 2. NMIs on the isolated network were identified by the feeder class ERGIS; 3. This data was then filtered to identify those isolated NMIs which have a solar system with a capacity associated with them (ie solar panel capacity which is not null and is greater than zero); 4. This filtered NMI list was then used to identify the solar bonus credits processed in NetBill between 1 July 2015 and 13 March 2016. The NetBill data shows the dollar credits and the associated energy exported for each NMI. These credits and energy exported were then summed to give monthly billing totals. <p>NOTE: NetBill was decommissioned in March 2016. All credit transactions from (and including) 14 March were processed in PEACE.</p> <ol style="list-style-type: none"> 5. A report (DMK535) was run on PEACE data to identify the solar bonus credits processed between 14 March 2016 and 30 June 2016. The following filters were entered into the report: <ol style="list-style-type: none"> a. feeder class ERGIS (this filter restricts the data to NMIs on the isolated network); b. Network Tariff Codes of NVG* (NVG is the tariff codes used for embedded generation. The symbol * is used to pick up all variations of the NVG tariff code. ie NVG0, NVGC0, NVGX0, NVG1, NVGC1, NVGX1, NVG2, NVGC2, NVGX2); c. sub charge source description of Network DUoS Volume Charge (this filter restricts the data to the volume charges relating to the previously listed tariff codes); <p>The PEACE data shows the dollar credits and the associated energy exported for each NMI.</p> 6. The NMIs associated with the PEACE solar credits data was then compared to the previously mentioned filtered list of isolated solar NMIs to confirm only the billing for isolated solar NMIs was included. <p>On completion of this check, the PEACE credits and energy exported were then summed to give monthly billing totals.</p> <ol style="list-style-type: none"> 7. The total of the Netbill credits and energy exported was then added to

Minimum Requirements	Ergon Energy Response
	<p>total of the PEACE credits and energy exported to give an annual total for the solar bonus scheme credits provided to customers on Ergon Energy's isolated network.</p> <p>The full year Solar Bonus Scheme value was reduced by the annual total for the Isolated Network Adjustment.</p>
Use of Estimated Information	Not Applicable. Ergon Energy has provided actual information in relation to Template 7.10 Jurisdictional Schemes.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	Not Applicable. Ergon Energy has provided actual information in relation to Template 7.10 Jurisdictional Schemes.
How Estimated Information has been produced.	Not Applicable. Ergon Energy has provided actual information in relation to Template 7.10 Jurisdictional Schemes.

Annual Reporting RIN Basis of Preparation



Template 7.11 DMIS-DMIA
1 July 2015 to 30 June 2016



Version Control

Version	Date	Description
1.0	31/10/16	Final as submitted to AER on 31 October 2016

Foreword

In response to requirements of the Australian Energy Regulator's (AER) Annual Reporting Regulatory Information Notice (RIN), and specific to the information presented in Template 7.11 Demand Management Incentive Scheme of Ergon Energy's completed 2015-16 Annual Reporting RIN templates (15-16 AR RIN Templates), this Basis of Preparation document has been prepared by Ergon Energy with a view to:

- demonstrate how the information provided in relation to Template 7.11 Demand Management Incentive Scheme(and associated Tables and/or variables) is consistent with the requirements of this notice ;
- explain the source from which Ergon Energy obtained the information provided in the template;
- explain the methodology Ergon Energy applied to provide the required information, including any assumptions Ergon Energy made.

In circumstances where Ergon Energy has provided input using Estimated Information in relation to Template 7.11 Demand Management Incentive Scheme, Ergon Energy has made comment herein as to :

- why an estimate was required, including why it was not possible to use Actual Information;
- the basis for the estimate, including the approach used, assumptions made and reasons why the estimate is a best estimate, given the information sought in the Notice; and
- what steps Ergon Energy is taking to ensure it can provide the information in the future.

As relevant, Ergon Energy has provided additional detail beyond the minimum requirements if it was considered it may assist a user to gain an understanding of the information presented in the regulatory templates.

This Basis of Preparation document should be read in conjunction with the information presented in Template 7.11 Demand Management Incentive Scheme in Ergon Energy's completed 15-16 AR RIN Templates, as well as the ***Ergon Energy 1516 Demand Management Innovation Allowance*** (Annual Report) prepared under Schedule 1 requirements as noted below.

Table 1: Additional Requirements (Attachments to Basis of Preparation)

Notice Reference Paragraph	Requirement	Attachment(s) to Template BOP
Schedule 1 Para 6	Provide reporting in relation to Ergon Energy's Demand Management Incentive Allowance. Note: Information provided in response to paragraph 6 of Schedule 1 to this Notice will constitute the provision of an annual report for the purposes of paragraph 3.1.4.1 of the Demand Management Incentive Scheme (DMIS) applying to Ergon Energy (as set out in the 2015-20 Distribution Determination).	Ergon Energy 1516 Demand Management Innovation Allowance (Annual Report) (EE1516AR DMIA)

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Template 7.11 Demand Management Incentive Scheme

Table 7.11.1 – DMIA-Projects submitted for approval

Table 1 - Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared information provided in Template 7.11 table 7.11.1 DMIA Projects submitted for approval for Current Year in accordance with the Notice requirement, including the Principles and Requirements set out in Appendix E and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p> <p>Monetary values are reported as \$0's nominal as required.</p> <p>Of note the total (capex and opex) amount per project, of the Demand Management Innovation Allowance (DMIA) spent in 2015-16 is greyed out as an automated (calculated) field.</p>
Population of Actual Information in templates	<p>Ergon Energy has provided actual information in Table 7.11.1 for the 2015-16 regulatory year.</p> <p>Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.</p>
Source of Actual Information	Ergon Energy has sourced data from its Ellipse financial reporting system for the relevant regulatory year.
Methodology and assumption's applied in relation to Actual Information	<p>Projects detailed represent those submitted for approval under Ergon Energy's 2015-16 Demand Management Innovation Allowance - Annual Report to the AER, for the regulatory year ended 30 June 2016 (attached to the 1516 AR RIN submission). Refer to Table 16-1: List of Attachments.</p> <p>Operating expenditure represent those costs booked to activity code 55000 for the 2015-16 regulatory year as extracted from Ergon Energy's Ellipse financial reporting system.</p> <p>Capital expenditure costs are captured under activity code 55000; however no costs were incurred during the 2015-16 regulatory year relevant to DMIA projects.</p>
Population of Estimated Information in Templates	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions made and	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Minimum Requirements	Ergon Energy Response
reasons why the estimate is best estimate given the information sought in this Notice.	
How Estimated Information has been produced	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Annual Reporting RIN Basis of Preparation



Template 7.13 TARC

1 July 2015 to 30 June 2016



Version Control

Version	Date	Description
1.0	31/10/16	Final as submitted to AER on 31 October 2016

Foreword

In response to requirements of the Australian Energy Regulator's (AER) Annual Reporting Regulatory Information Notice (RIN), and specific to the information presented in Template 7.13 TARC of Ergon Energy's completed 2015-16 Annual Reporting RIN templates (15-16 AR RIN Templates), this Basis of Preparation document has been prepared by Ergon Energy with a view to:

- demonstrate how the information provided in relation to Template 7.13 TARC (and associated Tables and/or variables) is consistent with the requirements of this notice;
- explain the source from which Ergon Energy obtained the information provided in the template;
- explain the methodology Ergon Energy applied to provide the required information, including any assumptions Ergon Energy made.

In circumstances where Ergon Energy has provided input using Estimated Information in relation to Template 7.13 TARC, Ergon Energy has made comment herein as to :

- why an estimate is required, including why it was not possible to use Actual Information;
- the basis for the estimate, including the approach used, assumptions made and reasons why the estimate is a best estimate, given the information sought in the Notice; and
- what steps Ergon Energy is taking to ensure it can provide the information in the future.

No additional requirements were identified as requiring provision of additional information or attachment/s over and above completed templates or Basis of Preparation, in regards to Template 7.13 TARC.

This Basis of Preparation document should be read in conjunction with the information presented in Template 7.13 TARC in Ergon Energy's completed 15-16 AR RIN Templates.

Enquiries or further communications should be directed to:

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Template 7.13 TARC

Table 7.13.1-Total Annual Retailer Charges

Table 1 - Addressing Minimum BOP requirements

Addressing Basis of Preparation Requirements	
Consistency with Notice requirements	<p>Ergon Energy has prepared the information provided in Template 7.13 TARC, Table 7.13.1 Total Annual Retailer Charges in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p> <p>Total Annual Retailer Charges (TARC) are taken to mean the total annual amount of network charges billed by Ergon Energy to all retailers as most recently reported by Ergon Energy to the AER.</p>
Population of Actual Information in templates	<p>Ergon Energy has provided actual information in Table 7.13.1 for the 2015-16 regulatory year.</p> <p>Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.</p>
Source of Actual Information	<p>Ergon Energy has sourced data from template 8.1.1 – Income Statements for revenue as listed below. This data is then adjusted to exclude accruals.</p>
Methodology and assumption's applied in relation to Actual Information	<p>Ergon Energy has reported TARC based on the definition in Appendix A to the Notice, together with the definitions of network charges and shared customer from the National Electricity Rules (NER) and National Electricity Retail Law (NERL) respectively, as well as with reference to Ergon Energy's AER-approved Connection Policy, dated July 2015.</p> <p>The relevant definitions are discussed in more detail below.</p> <p>Network charges are taken to have the meaning given in NER clause 6B.A1.2 whereby, network charges means charges that Ergon Energy is entitled to claim for customer connection services in respect of shared customers under the NER.</p> <p>Shared customer per the meaning in the NERL, is, in relation to a distributor and a retailer, a person who is a customer of the retailer and whose premises are connected to the Ergon Energy's system;</p> <p>Customer connection service is defined in the NERL for premises to mean, any or all of the following:</p> <ul style="list-style-type: none"> (a) a service relating to a new connection for the premises; (b) a service relating to a connection alteration for the premises;

Addressing Basis of Preparation Requirements

(c) a supply service for the premises, including (but not limited to) the energisation, de-energisation or re-energisation of the premises;

(d) a service prescribed by the NER as a customer connection service for the purposes of this definition.

Ergon Energy's *Connection Policy* dated July 2015 covers the scope of services and charging arrangements for the connection services provided by Ergon Energy under Chapter 5A of the NER. Connection services include the services classified by the AER as pre-connection services, connection services, and post-connection services. There may also be charges for other services, such as metering installations, which are not covered by the Connection Policy.

With the above defined terms taken into consideration, Ergon Energy's reported TARC amount consists of the following:

Standard Control Services

- Distribution revenue
- Jurisdictional Scheme Amounts

Alternative Control Services

- Other Revenue – pre-connection services, connection services, post-connection services, metering services*
- Contributions – Metering *
- Annual Metering Service charge*
- Streetlighting NUOS

* *Note: Where services were billed directly to customers, amounts have been excluded.*

Transmission Use of System

- TUOS Revenue

Population of Estimated Information in Templates	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
How Estimated Information has been produced	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Annual Reporting RIN Basis of Preparation



Template 8.1 Income

1 July 2015 to 30 June 2016



Version Control

Version	Date	Description
1.0	31/10/16	Final as submitted to AER on 31 October 2016

Foreword

In response to requirements of the Australian Energy Regulator's (AER) Annual Reporting Regulatory Information Notice (RIN), and specific to the information presented in Template 8.1 Income of Ergon Energy's completed 2015-16 Annual Reporting RIN templates (15-16 AR RIN Templates), this Basis of Preparation document has been prepared by Ergon Energy with a view to

- demonstrate how the information provided in relation to Template 8.1 Income (and associated Tables and/or variables) is consistent with the requirements of this notice ;
- explain the source from which Ergon Energy obtained the information provided in the template;
- explain the methodology Ergon Energy applied to provide the required information, including any assumptions Ergon Energy made.

In circumstances where Ergon Energy has provided input using Estimated Information in relation to Template 8.1 Income, Ergon Energy has made comment herein as to :

- why an estimate was required, including why it was not possible to use Actual Information;
- the basis for the estimate, including the approach used, assumptions made and reasons why the estimate is a best estimate, given the information sought in the Notice; and
- what steps Ergon Energy is taking to ensure it can provide the information in the future.

As relevant, Ergon Energy has provided additional detail beyond the minimum requirements if it was considered it may assist a user to gain an understanding of the information presented in the regulatory templates.

The Basis of Preparation document should be read in conjunction with the information presented in Template 8.1 Income in Ergon Energy's completed 15-16 AR RIN Templates including a Supplementary Schedule to Template 8.1 Income Statement (**EE 1516 AR RSUP**), as well as the following Schedule 1 responses presented in attachments outlined below.

Table 1: Additional Requirements (Attachments to Basis of Preparation)

Notice Reference Paragraph	Requirement	Attachment(s) to Template BOP
Schedule 1 Para 1.1(c)	Provide a Microsoft Excel workbook or other information that reconciles and explains Adjustments between the Audited Statutory Accounts and the Financial Information Templates. Ergon Energy must separately list each Adjustment made to derive the Financial Information Templates. For each Adjustment made: <ul style="list-style-type: none"> ▪ specify the amount of Adjustment; ▪ describe the nature and basis of each Adjustment 	Reconciliation (Audited Statutory Accounts and Regulatory Accounting Statements) (EE1516AR RECON)
Schedule 1 Para 3.1 – 3.4	In respect of cost allocation to the distribution business Ergon Energy is to identify each expenditure or revenue item in Worksheet 8.1 (Income Statement) of the Financial Information Templates that is directly attributable to the Distribution Business. Furthermore, schedule 1 paragraph 3.2 requires identification of each Item that is not directly attributable in the Financial Information Templates:	Cost Allocation to the Distribution Business (EE1516AR CADB)

Notice Reference Paragraph	Requirement	Attachment(s) to Template BOP
	<p>but is allocated on a causation basis to the Distribution Business; else cannot be allocated on a causation basis to the Distribution Business.</p> <p>For each of the items identified not directly attributable but is allocated on a causation basis to the Distribution Business, schedule 1 paragraph 3.3 requires information that:</p> <p>states the amount of the Item that has been allocated;</p> <p>explains the method of allocation and reasons for choosing that method; and</p> <p>states the numeric amount of the allocator(s) used.</p> <p>For each of the items identified as not directly attributable and that cannot be allocated on a causation basis to the Distribution Business, schedule 1 paragraph 3.3 requires information that</p> <p>state its amount;</p> <p>state whether it was material;</p> <p>explain the method of allocation and reasons for choosing that method; and</p> <p>explain the reason(s) why it cannot be allocated on a causation basis.</p>	
Schedule 1 Para 4.1 – 4.4	<p>In relation to Ergon Energy's Service segments (refers to standard control services (SCS), alternative control services (ACS), negotiated services), identify each Item in the Financial Information Templates that is:</p> <ul style="list-style-type: none"> ▪ directly attributable from the Distribution Business to a service segment; and <ul style="list-style-type: none"> ○ state the amount of the <i>Item</i> that has been directly attributable to a service segment. ▪ not directly attributable but is allocated on a causation basis from the Distribution Business to a service segment; and <ul style="list-style-type: none"> ○ state the amount of the Item that has been allocated; ○ explain the method of allocation and reasons for choosing that method; and ○ state the numeric amount of the allocator(s) used. ▪ not directly attributable and cannot be allocated on a causation basis from the Distribution Business to a service segment. <ul style="list-style-type: none"> ○ state the amount of the Item and whether it was material; ○ explain the method of allocation and reasons for choosing that method; and ○ explain the reason(s) why it cannot be allocated on a causation basis. 	<p>Cost Allocation to Service Segments</p> <p>(EE1516AR CASS)</p>

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Template 8.1 Income

On 30 June 2016 the Energex and Ergon Energy Group of companies were merged as subsidiaries under the parent company of Energy Queensland Limited (EQL). At this time application was made to the Australian Securities and Investment Commission (ASIC) for relief under Class Order 98/1418 for Energex and Ergon Energy not to prepare and lodge audited financial reports for 2015-16 to ASIC. Audited Financial Statements will be lodged for EQL.

While the Ergon Energy Group of companies did prepare and have necessary financial information audited, and this information was used as the basis of the Financial Statements prepared, audited and lodged by EQL, separate standalone Financial Statements for Ergon Energy Corporation Ltd were not prepared. As a consequence the financial statements historically used by Ergon Energy to satisfy the “Audited Statutory Accounts” requirements of the RIN are not be available.

The Audited Financial Statements for EQL include a standalone Profit & Loss statement for Ergon Energy (and Energex). It is proposed that this would be sufficient to satisfy the requirements for RIN reporting particularly as it relates to Template 8.1 Income in the Annual Reporting RIN.

The AER reviewed the proposed approach to meet the requirements for RIN information being derived and verifiable against audited statutory accounts. The AER considered the proposed approach to be acceptable and noted for completeness an explanation as to why Ergon Energy is relying upon the audited financial statements of EQL should be included in the basis of preparation. Further, where the RIN requires reconciliation with the audited statutory accounts the parent entity disclosure in the EQL Notes to the financial statements will satisfy the criteria..

Table 8.1.1.1 – Revenue

Table 1 - Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared the information provided in Template 8.1 Income, Table 8.1.1.1 Revenue in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p> <p>Ergon Energy has not populated information in relation to Negotiated Services which is greyed out and not applicable to it for the regulatory control period.</p> <p>Also of note, the item “Pass through revenue (F-factor)” is not applicable to Ergon Energy and not populated (despite not being greyed out).</p>
Population of Actual Information in templates	<p>Ergon Energy has provided actual information in Table 8.1.1.1 for the 2015-16 regulatory year.</p> <p>Where information is provided it is done so in accordance with the AER’s definitions and applying the assumptions and methodology that is described within this Basis of Preparation.</p>
Source of Actual Information	Ergon Energy has sourced data from its Ellipse financial reporting

Minimum Requirements	Ergon Energy Response
	system for the relevant regulatory year.
Methodology and assumption's applied in relation to Actual Information	<p>Distribution Revenue</p> <p>Distribution Revenue is Revenue earned from the provision of SCS; ACS and excludes capital contributions. Ergon Energy does not have negotiated services to consider in this calculation.</p> <p>Revenue is measured at the fair value of the consideration received or receivable. As a network service provider, Ergon Energy receives Distribution Use of System (DUOS) income.</p> <p>As per AASB 118 Revenue, the Economic Entity is using accrual accounting for unbilled network charges.</p> <p>All values have been extracted from Ellipse.</p> <p>Within the audited statutory accounts column the revenue recognised is inclusive of revenue from regulated and unregulated services. The statutory accounts have been prepared on an unbilled basis in 2015-16. The adjustments column consists of:</p> <ul style="list-style-type: none"> ▪ Unregulated revenue (identified by the activity segment of the chart of accounts); ▪ DUOS cross boundary revenue; and ▪ Net current year solar expense. <p>The value of SCS distribution revenue is calculated using total DUOS revenue less:</p> <ul style="list-style-type: none"> ▪ DUOS cross boundary revenue; and ▪ Unregulated revenue. <p>This calculation enables the SCS distribution revenue to be presented on an unbilled basis.</p> <p>The ACS revenue is obtained from a combination of activity codes and products in the general ledger. Metering Services revenue is displayed in the Distribution revenue line for the first time in 2015-16. This is the Annual Metering Charge revenue for the recovery of the Capital and Non-capital charges. The ACS revenue is reported on an accrual basis.</p> <p>Cross Boundary Revenue</p> <p>Cross boundary revenue is the inter- Distribution Network Service Provider (DNSP) revenue which is revenue from another DNSP for using Ergon Energy distribution network.</p> <p>DUOS & TUOS revenue received from Essential Energy for 33kV and 66kV lines, based on metered data for 2015-16.</p> <p>The adjustments column consists of:</p> <ul style="list-style-type: none"> ▪ DUOS cross boundary revenue; ▪ TUOS cross boundary revenue; and ▪ Jurisdictional cross boundary revenue

Minimum Requirements	Ergon Energy Response
	<p>Cross boundary revenue is from billing information.</p> <p>Contributions</p> <p>Capital contributions (contribution) is cash or in kind contributions to capital expenditure (capex) projects and gifted assets.</p> <p>Contributions relates to revenue in accordance with Ergon Energy's Connections Policy for SCS, and Contributions received for the delivery of ACS (such as Large Customer Connections and Real Estate Developments).</p> <p>Cash capital contributions are received from small customers for subdivisions and other small customer initiated capital works (CICW) and gifted assets relate to Urban subdivisions and Commercial and Industrial customers.</p> <p>Contributions for ACS are identifiable by separate codes within Ergon Energy's general ledger.</p> <p>The adjustment between the Audited Statutory Accounts and the Regulated Distribution business relates to contributions received from unregulated sources, including the isolated networks.</p> <p>Interest income</p> <p>Ergon Energy no longer holds Cash Fund accounts, but has retained Working Capital Facility accounts, this is due to the change of funding arrangements by the State Government.</p> <p>Interest is earned on its Working Capital Facility and from loans to SPARQ.</p> <p>In accordance with Ergon Energy's 2015-20 Final Distribution Determination, Attachment 13 (Classification of Services) as interest revenue is not a direct control service it has been reported in the Adjustments column.</p> <p>Jurisdictional scheme amounts</p> <p>Ergon Energy has two approved Jurisdictional Schemes being the Feed-in Tariff, and more recently the Electricity Industry Levy (refer to Basis of Preparation (EE1516AR T7.10 JSCH) relative to Template 7.10.</p> <p>Of note, Ergon Energy's Distribution Authority was updated on the 22 March 2016 with clause 16 subjecting EECL to an Australian Energy Market Commission Levy commencing on 22nd March 2016 with the liability effective from 1st July 2015. Due to timing of the Electricity Industry Levy's introduction and the approval of the scheme occurring during the financial year no forecasts were included in the 2015-16 Pricing Proposal. As such, no revenue recovery of the Electricity Industry levy occurred during 2015-16.</p> <p>The Jurisdictional scheme amounts relating to the the Feed-in Tariff forecast recovery has been extracted from Ellipse using codes for Jurisdictional Scheme Use of System Charge, and Intercompnay</p>

Minimum Requirements	Ergon Energy Response
	<p>Use of SytemJurisdictional Scheme.</p> <p>The full year statutory amounts for these elements have been prepared on an unbilled basis.</p> <p>The adjustments column consists of:</p> <ul style="list-style-type: none"> ▪ Jurisdictional scheme cross boundary revenue <p>The Jurisdictional cross boundary adjustment is from billing information.</p> <p>Amounts reported in Template 7.8 for Jurisdictional Schemes are expenditure for the current year, and will not align to revenue recovery which is based on the the 2015-16 forecast.</p> <p>Profit from sale of fixed assets</p> <p>The disposal of an item of Property, Plant & Equipment (PP&E) may occur in a variety of ways (e.g. by sale or scrapping at the end of its useful life). Ergon Energy's Asset Management Policy and Strategies discusses when assets should be disposed i.e. after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset.</p> <p>In accordance with Ergon Energy's 2015-20 Final Distribution Determination, Attachment 13 (Classification of Services) the sale of inventory, asset or scrap is a non-distribution service that is unregulated. Therefore, the profit on sale of fixed assets has been reported in the Adjustments column (as an unregulated service) as it does not meet the definition for Service Segments (SCS, ACS, and Negotiated Services).</p> <p>The figure reported in the statutory accounts is the amount of proceeds that exceeds the carrying amount of the item.</p> <p>TUOS revenue</p> <p>All values for TUOS revenue have been extracted from Ellipse, using the codes for TUOS Revenue, and Inter-Company TUOS Revenue. The external service provider has supplied information on an unbilled basis. The statutory accounts for TUOS revenue have been prepared on an unbilled basis in 2015-16. The adjustments column consists of:</p> <ul style="list-style-type: none"> ▪ Unregulated revenue (relating to the use of the 220kV Network); ▪ TUOS cross boundary revenue. <p>The TUOS cross boundary revenue adjustment is from billing information.</p> <p>Pass through revenue (F-factor)</p> <p>This category is not applicable to Ergon Energy (it is a Victorian specific factor) . Despite not being greyed out for non-completion, Ergon Energy has no data to report.</p>

Minimum Requirements	Ergon Energy Response
	<p>Other Revenue</p> <p>The values in other revenue are from a range of Inter-Company transactions, and a variety of receipts. The majority of other revenue is from unregulated activities.</p> <p>The adjustments column consists of:</p> <ul style="list-style-type: none"> Unregulated revenue <p>None of the Other revenue is classed as a SCS. The remainder is ACS revenue. The ACS revenue is categorised across service classifications according to their classification in the Ellipse general ledger.</p>
Population of Estimated Information in Templates	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
How Estimated Information has been produced	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Table 8.1.1.2 – Expenditure

Table 2 - Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared the information provided in Template 8.1 Income, Table 8.1.1.2 Expenditure in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p> <p>Ergon Energy has not populated information in relation to Negotiated Services which is greyed out and not applicable to it for the regulatory control period.</p>
Population of Actual Information in templates	<p>Ergon Energy has provided actual information in Table 8.1.1.2 for the 2015-16 regulatory year.</p> <p>Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.</p>

Minimum Requirements	Ergon Energy Response
Source of Actual Information	Ergon Energy has sourced data from its Ellipse financial reporting system for the relevant regulatory year.
Methodology and assumption's applied in relation to Actual Information	<p>TUOS expenditure</p> <p>TUOS costs are Transmission charges to be paid to transmission network service providers.</p> <p>TUOS expense was obtained from an examination of the charges levied upon Ergon Energy and those passed on to retailers. TUOS expense is presented on an accrual basis from information in the General Ledger.</p> <p>The adjustments column consists of:</p> <ul style="list-style-type: none"> ▪ Cross Boundary charges (Energex); ▪ Non-Regulated charges (use of 220kV network) <p>Avoided TUOS expenditure</p> <p>Avoided TUOS payments are the payments by Ergon Energy in accordance with clause 5.5 (h) of the National Electricity Rules (NER).</p> <p>Avoided TUOS expense is based on the list of invoices from retailers for the 2015-16 regulatory year.</p> <p>The adjustments column consists of:</p> <ul style="list-style-type: none"> ▪ Prior years avoided TUOS payments; ▪ Prior years accrual reversals; ▪ Current year accrual; and ▪ Network support charges <p>These payments agree to those Avoided Transmission Use of System Payments provided in Template 7.8 Avoided TUOS Payments (refer to Basis of Preparation (EE1516AR T7.8 AVTUOS) relative to Template 7.8).</p> <p>Cross boundary expenditure</p> <p>Ergon Energy notes that the definition for 'Cross Boundary Charges', is the cost of using another DNSP's distribution network therefore Ergon Energy has included costs of using Energex's distribution network and costs for use of Ergon Energy's unregulated 220kV network. This is because under its Final Distribution Determination, Ergon Energy is allowed to pass through charges it incurs for use of Ergon Energy's unregulated 220kV network as a Designated Pricing Proposal Charge or 'TUOS' charge.</p> <p>The AER's Final Distribution Determination also requires Ergon Energy to maintain a TUOS unders and overs account, and to submit a record of all transmission related payment to the AER as part of its Annual Pricing Proposal.</p> <p>Depreciation</p> <p>The Statutory approach for calculating depreciation has been used</p>

Minimum Requirements	Ergon Energy Response
	<p>on a straight line basis by reference to the useful life of each item of PP&E, other than freehold land and easements which are not depreciated. An assessment of useful lives is performed annually. All values have been extracted from Ellipse.</p> <p>The audited statutory accounts column includes depreciation and amortisation for Ergon Energy. It consists of amortisation of intangible assets such as computer software, licenses and customer contracts and relationships, and depreciation for supply systems, power stations, buildings, and other plant and equipment, as well as impairment of non PP&E assets, i.e. Impairment of Doubtful Debts.</p> <p>The approach for reporting by Service Segment for depreciation expense is in accordance with the AER's email 7th September 2016. It is a subset of the statutory depreciation, yet only for those assets relative to the distribution business.</p> <p>The adjustments column relates to depreciation and amortisation of Ergon Energy's unregulated power station assets comprising isolated generation and distribution systems, and other unregulated assets.</p> <p>Finance charges</p> <p>Finance charges include interest expenses and debt raising costs as a result of Ergon Energy's total borrowings which are used to fund its entire capital works program.</p> <p>Interest expense is not a direct control service in the AER FDD Attachment 13, yet debt raising costs are an approved AER forecast cost. As such, Debt Raising Costs have been reported against service segments.</p> <p>The adjustments column consists of:</p> <ul style="list-style-type: none"> ▪ Interest expense <p>Impairment losses</p> <p>In accordance with Appendix A (Principles & Requirements) to the Notice any revaluations or adjustments for impairment made in the Audited Statutory Accounts must be recorded in the adjustments column in the Financial Information Templates.</p> <p>Impairment losses in the Audited Statutory Accounts are a special non-recurring charge taken to write down an asset with an overstated book value.</p> <p>Impairment losses relate to the writedown of an unregulated asset in the mining sector.</p> <p>The adjustment column consists of:</p> <ul style="list-style-type: none"> ▪ Unregulated expense (identified by the activity segment of the chart of accounts).

Minimum Requirements	Ergon Energy Response
	<p>Jurisdictional scheme amounts</p> <p>Ergon Energy has two approved Jurisdictional Schemes being the Feed-in Tariff, and more recently the Electricity Industry Levy (refer to Basis of Preparation (EE1516AR T7.10 JSCH) relative to Template 7.10).</p> <p>Of note, Ergon Energy's Distribution Authority was updated on 22nd March 2016 with clause 16 subjecting EECL to an Australian Energy Market Commission Levy commencing on 22nd March 2016 with the liability effective from 1st July 2015.</p> <p>The Feed-in Tariff expenses have been extracted from Ellipse. Full year values have been extracted for the Solar Bonus Scheme and the Inter-Company Solar Bonus. The full year statutory amounts for these elements have been prepared on an unbilled basis.</p> <p>The Electricity Industry levy was extracted from Ellipse using a specific Ellipse code. The levy is one payment for the year and is presented on a billed basis.</p> <p>Amounts are fully recoverable via charges to customers under SCS services.</p> <p>In the annual statutory accounts the feed-in tariff is classified as negative revenue. The Electricity Industry levy was classified as Other expenditure. Therefore the statutory value for Jurisdictional scheme expenditure is zero.</p> <p>The adjustment column consists of:</p> <ul style="list-style-type: none"> ▪ Feed-in tariff expenses; ▪ Electricity Industry levy; and ▪ Exclusion of Isolated Solar NMI <p>Loss from sale of fixed assets</p> <p>In accordance with Ergon Energy's 2015-20 Final Distribution Determination, Attachment 13 (Classification of Services) the sale of inventory, asset or scrap is a non-distribution service that is unregulated. Therefore, the loss on sale of fixed assets has been reported in the Adjustments column (as an unregulated service) as it does not meet the definition for Service Segments (SCS, ACS, and Negotiated Services).</p> <p>The disposal of an item of PP&E may occur in a variety of ways (e.g. by sale or scrapping at the end of its useful life). Ergon Energy's Asset Management Policy and Strategies discusses when assets should be disposed i.e. after a specified time or after consumption of a specified proportion of the future economic benefits embodied in the asset.</p> <p>Maintenance expenditure</p> <p>Maintenance expenditure are those expenditures which are directly and specifically attributable to Maintenance that are not capex.</p>

Minimum Requirements	Ergon Energy Response
	<p>The Ergon Energy general ledger records maintenance costs in a series of codes that differentiate between SCS, ACS and unregulated based on the services they provide in accordance with the AER's Final Distribution Determination and the NER.</p> <p>The identification of maintenance costs is performed by mapping these codes into their appropriate RIN reporting category</p> <p>Operating expenditure excluding maintenance expenditure</p> <p>Operating expenditure excluding maintenance expenditure – Ergon Energy's operating expenditure excluding any Maintenance expenditure.</p> <p>The Ergon Energy general ledger records operating costs in a series of codes that differentiate between SCS, ACS and unregulated based on the services they provide in accordance with the AER FDD and the NER.</p> <p>The identification of maintenance costs is performed by mapping these codes into their appropriate RIN reporting category.</p> <p>In the annual statutory accounts the guaranteed service level payments are classified as negative revenue, in the RIN these amounts are included in the adjustments column as they are reported as operating costs.</p> <p>Other</p> <p>The adjustment relates to unclassified costs of operating isolated and unregulated assets.</p>
Population of Estimated Information in Templates	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
How Estimated Information has been produced	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Table 8.1.1.3 – Profit

Table 3 - Addressing Minimum BOP requirements

Addressing Basis of Preparation Requirements	
Consistency with Notice requirements	<p>Ergon Energy has prepared the information provided in Template 8.1 Income, Table 8.1.1.3 Profit in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p> <p>Ergon Energy has not populated information in relation to Negotiated Services which is greyed out and not applicable during the regulatory control period</p>
Population of Actual Information in templates	<p>Ergon Energy has provided actual information in Table 8.1.1.3 for the 2015-16 regulatory year.</p> <p>Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.</p>
Source of Actual Information	<p>Ergon Energy has sourced data from its Ellipse financial reporting system for the relevant regulatory year. A new billing system was introduced in March 2016. The bill timing is based on Statement of Charge dates, these dates are approximately one week after the start of the month. Any difference in timing is adjusted via the accruals process on a monthly basis.</p>
Methodology and assumption's applied in relation to Actual Information	<p>Profit before tax is greyed out and not for completed, being a calculated field (total revenue less total expenses).</p> <p>Income tax expenses (/benefit) is calculated as 30% of profit before tax, for each Service Segment based on the services they provide in accordance with the AER FDD and the NER.</p> <p>Profit after tax is also greyed out and not for completed, being a calculated field (Profit before less Income tax expenses (/ benefit)).</p>
Population of Estimated Information in Templates	<p>Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.</p>
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	<p>Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.</p>

Addressing Basis of Preparation Requirements

How Estimated Information has been produced

Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Ergon Energy

Income Statement - Supplementary Template

2015-16

EECL 1516 APRIN_S1 RSUP

Reporting Requirement: No formal requirement.

This supplementary schedule has been prepared to demonstrate how revenues and expenses reported for RIN purposes map to categories and amounts used in the Unders and Overs Accounts for Pricing Proposal purposes.

Actuals will be referenced in under and over recovery calculations to be submitted to the AER in the relevant annual Pricing Proposal.

Table 1: Relevant revenue categories from Template 8.1 Income

8.1.1.1 - REVENUE	Standard Control Services
	\$0's, nominal
Distribution revenue	1,447,653,419
Cross boundary revenue	4,218,967
Jurisdictional scheme amounts	114,064,227
TUOS revenue	368,569,646

Table 2: Relevant expenditure categories from Template 8.1 Income

8.1.1.2 - EXPENDITURE	Standard Control Services
	\$0's, nominal
TUOS expenditure	347,580,516
Avoided TUOS expenditure	2,072,439
Cross boundary expenditure	6,293,589
Jurisdictional scheme amounts	109,121,884

Table 3: Breakdown of Cross boundary revenue in table 8.1.1.1

Revenue component	Standard Control Services
	\$0's, nominal
Distribution revenue	2,602,848
TUOS revenue	1,541,933
Jurisdictional scheme amounts	74,186
Total Cross boundary revenue	4,218,967

OK

Table 4: Breakdown of Cross boundary expenditure in table 8.1.1.2

Expenditure type	Standard Control Services
	\$0's, nominal
Payments to DNSP (Energex)	5,397,597
Use of unregulated 220kV network (Chumvale)	895,992
Total Cross boundary expenditure	6,293,589

Mapping of RIN to Pricing Proposal Categories

1 Actuals relevant to DUOS unders and overs account	Year t-2 (Actual)
(A) Revenue from DUOS charges	1,450,256,267
2 Actuals relevant to TUOS unders and overs account	
(A) Revenue from designated pricing proposal charges (DPPC)	370,111,579
(B) DPPC related payments	
DPPC charges to be paid to TNSP	347,580,516
Avoided TUOS payments	2,072,439
Inter-distributor payments	6,293,589
3 Actuals relevant to jurisdictional scheme unders and overs account	
(A) Revenue from jurisdictional schemes	114,138,413
(B) Jurisdictional scheme payments	
Jurisdictional scheme payments (Solar Bonus Scheme)	109,044,843
Jurisdictional scheme payments (Energy industry levy)	77,041

PP Revenue: OK
PP Expense: OK

Table 5: Breakdown of TUOS expenditure in table 8.1.1.2

Expenditure type	Standard Control Services
	\$0's, nominal
Regulated charges to Powerlink	341,335,700
Unregulated charges to Powerlink	6,244,816
Total TUOS expenditure	347,580,516

Table 6: Breakdown of Jurisdictional scheme expenditure in table 8.1.1.2

Expenditure type	Standard Control Services
	\$0's, nominal
Queensland SBS	109,044,843
Energy industry levy	77,041
Total Jurisdictional scheme expenditure	109,121,884

Reconciliation of Audited Statutory Accounts to Regulatory Accounting Statements 2015-16

Description	Audited Statutory Accounts	Adjustments	Distribution business	Explanation of adjustments
				\$0's, nominal
8.1.1.1 - REVENUE				
Distribution revenue	1,408,540,424	96,391,629	1,504,932,053	Cross Boundary revenue and Solar feed-in tariff expense shown separately. Non-reg revenue separated.
Cross boundary revenue	-	4,218,967	4,218,967	Adjustment is all cross boundary revenue (DUOS, TUOS, and Jurisdictional).
Contributions	44,653,810	- 1,350,952	43,302,858	Non-reg contributions for Isolated network separated.
Interest income	6,987,695	- 6,987,695	-	Interest income is not a service, the adjustment is all interest income.
Jurisdictional scheme amounts	114,138,413	- 74,186	114,064,227	Jurisdictional cross boundary revenue is shown separately.
Profit from sale of fixed assets	1,473,799	- 1,473,799	-	Profit from sale of fixed assets is excluded as not an AER defined service.
TUOS revenue	371,007,571	- 2,437,925	368,569,646	TUOS cross boundary revenue shown separately. Non-reg revenue separated.
Pass through revenue (F-factor)	-	-	-	Not applicable to Ergon Energy.
Other Revenue	348,252,818	- 330,626,121	17,626,698	Adjustment is Non-reg revenue.
Total revenue	2,295,054,530	- 242,340,082	2,052,714,448	
8.1.1.2 - EXPENDITURE				
TUOS expenditure	353,874,105	- 6,293,589	347,580,516	Cross Boundary expense shown separately. Non-reg expenses separated.
Avoided TUOS expenditure	2,151,821	- 79,383	2,072,439	Adjustment for accruals.
Cross boundary expenditure	-	6,293,589	6,293,589	Cross boundary expense included in Tuos costs above.
Depreciation	431,857,281	- 24,012,704	407,844,577	Non-reg depreciation and regulatory specific CAPEX adjustments that flow to depreciation.
Finance charges	295,854,376	- 292,891,059	2,963,317	Finance charges are not a service, the adjustment is all finance charges less Debt raising costs.
Impairment losses	14,590,968	- 14,590,968	-	Non-reg expense separated.
Jurisdictional scheme amounts	-	109,121,884	109,121,884	Solar feed-in tariff reallocated from revenue to expense. AEMC levy reallocated from Other.
Loss from sale of fixed assets	5,105,674	- 5,105,674	-	Loss from sale of fixed assets is excluded as not an AER defined service.
Maintenance expenditure	281,518,252	- 11,570,378	269,947,874	Non-regulated expenses
Operating expenditure excluding maintenance expenditure	287,762,705	- 96,480,423	191,282,282	Non-regulated expenses
Other	67,123,760	- 67,123,760	-	Non-regulated expenses
8.1.1.3 - PROFIT				
Profit before tax (PBT)	555,215,588	160,392,383	715,607,970	

Income tax expenses (/ benefit)	139,935,645	74,746,747	214,682,391	Adjustments are for Non-Reg items adjusted for tax purposes
Profit after tax	415,279,943	85,645,637	500,925,579	

Opex category	Audited Statutory Accounts	Adjustments	Distribution business	Explanation of adjustments
Preventative Maintenance	109,373,074	(4,093,135)	105,279,939	Non-regulated expenses
Corrective Maintenance	101,516,121	(6,471,172)	95,044,949	Non-regulated expenses
Forced Maintenance	70,629,057	(1,006,070)	69,622,987	Non-regulated expenses
Other Network Maintenance	0	0	0	
Network Operating Costs	40,344,793	(3,861,646)	36,483,147	Non-regulated expenses
Meter Reading	10,782,535	(229,669)	10,552,866	Non-regulated expenses
Customer Service (incl Call Centre)	61,399,749	(8,909,628)	52,490,121	Non-regulated expenses
Other Operating Costs	92,318,647	(83,411,062)	8,907,585	Non-regulated expenses and redundancy allocated below
Training	21,067,484		21,067,484	Nil adjustment
Feed-in-Tariff	0	109,044,843	109,044,843	Solar feed-in tariff reallocated from revenue to expense.
AEMC Levy	0	77,041	77,041	AEMC levy reallocated from other expense.
Debt Raising Costs	0	2,963,317	2,963,317	Debt raising costs were separately accounted for by a benchmark debt raising cost allowance in the Opex Forecasts.
Over Absorbed Overheads	0	0	0	Nil.
Non-network Alternatives	5,097,249	(68,419)	5,028,830	Non-regulated expenses
Corporate Restructuring	43,065,472	0	43,065,472	Nil
Not Proceeding Network Initiated Capital Works	13,686,776	0	13,686,776	Nil

Annual Reporting RIN Basis of Preparation



Template 8.2 Capex
1 July 2015 to 30 June 2016



Version Control

Version	Date	Description
1.0	31/10/16	Final as submitted to AER on 31 October 2016

Foreword

In response to requirements of the Australian Energy Regulator's (AER) Annual Reporting Regulatory Information Notice (RIN), and specific to the information presented in Template 8.2 Capex of Ergon Energy's completed 2015-16 Annual Reporting RIN templates (15-16 AR RIN Templates), this Basis of Preparation document has been prepared by Ergon Energy with a view to

- demonstrate how the information provided in relation to Template 8.2 Capex (and associated Tables and/or variables) is consistent with the requirements of this Notice ;
- explain the source from which Ergon Energy obtained the information provided in the template;
- explain the methodology Ergon Energy applied to provide the required information, including any assumptions Ergon Energy made.

In circumstances where Ergon Energy has provided input using Estimated Information in relation to Template 8.2 Capex, Ergon Energy has made comment herein as to:

- why an estimate was required, including why it was not possible to use Actual Information;
- the basis for the estimate, including the approach used, assumptions made and reasons why the estimate is a best estimate, given the information sought in the Notice; and
- what steps Ergon Energy is taking to ensure it can provide the information in the future.

The Basis of Preparation document should be read in conjunction with the information presented in Template 8.2 Capex in Ergon Energy's completed 15-16 AR RIN Templates as the following Schedule 1 responses presented in attachments outlined below.

Table 1: Additional Requirements (Attachments to Basis of Preparation)

Notice Reference Paragraph	Requirement	Attachment(s) to Template BOP
Schedule 1 Para 1.1(c)	Provide a Microsoft Excel (Excel) workbook or other information that reconciles and explains Adjustments between the Audited Statutory Accounts and the Financial Information Templates. Ergon Energy must separately list each Adjustment made to derive the Financial Information Templates. For each Adjustment made: <ul style="list-style-type: none"> ▪ specify the amount of Adjustment; ▪ describe the nature and basis of each Adjustment 	Reconciliation (Audited Statutory Accounts and Regulatory Accounting Statements) (EE1516AR RECON)
	Provide the Capitalisation Policy for the Relevant Regulatory Year. If Ergon Energy has previously provided the AER with the policies sought in paragraphs 1.1(f) it is not necessary for Ergon Energy to provide the policy again unless it identified a material change in response to paragraphs 5.1 (refer below). NOTE: Ergon Energy's capitalisation policy is incorporated in its two accounting policies 'Property Plant and Equipment' and 'Intangible Assets' which provide guidance in respect of: <ul style="list-style-type: none"> ▪ Key criteria for recognition of an asset; and ▪ Clarification of accounting treatment in respect of initial recognition as an asset and subsequent expenditure, including refurbishment costs. Although there are no material changes to these policies, they have been disclosed as Attachments given this is the first year the AR RIN applies.	Capitalisation Policies: Intangible Assets, Property, Plant and Equipment (EE1516AR IA) (EE1516AR PPE)

Notice Reference Paragraph	Requirement	Attachment(s) to Template BOP
Schedule 1 Para 1.2	Identify all material changes between the Regulatory Accounting Principles and Policies provided in the response to schedule paragraph 1.1(e) (refer Section 5 EE1516 AR RIN Submission), for the Relevant Regulatory Year and the previous regulatory year. For each change identified: <ul style="list-style-type: none"> ▪ explain the nature of and the reasons for the change; and ▪ quantify the effect of the change on information in the Financial Information Templates for the Relevant Regulatory Year. 	Material Changes in Regulatory Accounting Principles and Policies Policy
Schedule 1 Para 4	In relation to Ergon Energy's Service segments (refers to standard control services (SCS), alternative control services (ACS), negotiated services), identify each Item in the Financial Information Templates that is: <ul style="list-style-type: none"> ▪ directly attributable from the Distribution Business to a service segment; and <ul style="list-style-type: none"> ○ state the amount of the <i>Item</i> that has been directly attributable to a service segment. ▪ not directly attributable but is allocated on a causation basis from the Distribution Business to a service segment; and <ul style="list-style-type: none"> ○ state the amount of the Item that has been allocated; ○ explain the method of allocation and reasons for choosing that method; and ○ state the numeric amount of the allocator(s) used. ▪ not directly attributable and cannot be allocated on a causation basis from the Distribution Business to a service segment. <ul style="list-style-type: none"> ○ state the amount of the Item and whether it was material; ○ explain the method of allocation and reasons for choosing that method; and ○ explain the reason(s) why it cannot be allocated on a causation basis. 	Cost Allocation to Service Segments (EE1516AR CASS)

In comparing the 2015-16 data to prior years, it should also be noted as this is the first year of the new regulatory control period, information presented will be in accordance with new Cost Allocation Method (CAM) and new classification of services (CoS) to apply for the 2015-20 regulatory control period.

This will be particularly relevant in the Electricity Distributors Performance Report where an objective and priority of the report is to compare NSPs across jurisdictions and across regulatory control periods.

Enquiries or further communications should be directed to:

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 Mobile: 0427 156 897

Template 8.2 – Capex

Table 8.2.1 – Capex by Purpose – Standard Control Services

Table 1 - Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared the information provided in Template 8.2 Capex, Table 8.2.1 Capex by Purpose – Standard Control Services in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p>
Population of Actual Information in templates	<p>Where information is provided Ergon Energy does so in accordance with the AER’s definitions and applying the assumptions and methodology that is described within this Basis of Preparation.</p>
Source of Actual Information	<p>Capex is recorded by Ergon Energy as either Direct Purchases, or Project costs.</p> <p>Direct purchases relate to the purchase of a complete asset from an outside supplier such as motor vehicles or computers, whereas a construction asset (primarily its distribution assets) is treated as project costs. With constructed projects, one of two data sources is used depending upon whether the project is complete and capitalised into the fixed asset register or whether it remains incomplete.</p> <p>Ergon Energy has therefore drawn Capex data from three principle sources:</p> <ul style="list-style-type: none"> ▪ Ergon Energy’s general ledger; ▪ Ellipse Project Accounting module; and ▪ Excel worksheet for categorisation of WIP construction assets based on Ellipse Estimating module data. <p>In all cases the total Capex is reconciled back to the totals contained in the general ledger.</p> <p>Direct Purchases were extracted from a transactional level report direct from the general ledger which provides details about the asset purchased. This permits reporting in the appropriate asset category as required in the Regulatory Accounting Statements.</p> <p>Where the Project has been capitalised, Business Property Unit codes (BPU) are recorded against the Project to assign the asset category for capitalisation. Using an Access Database, a mapping process is undertaken to identify the AER asset category. This process also identifies unregulated Capex to be excluded.</p> <p>Where the Project remains under construction and is yet to be capitalised, details are extracted from the Ellipse estimating module to ascertain the types of assets under construction.</p>

Minimum Requirements	Ergon Energy Response
	<p>Once the information is extracted into Access mapping tables are applied to covert the type of assets into the RIN asset categories per below methodologies and assumptions.</p>
<p>Methodology and assumption's applied in relation to Actual Information</p>	<p>Ergon Energy has reported forecast and actual Financial Information for SCS Capex by purpose, in categories reflective of those used in AER's final 2015-20 Distribution Determination for Ergon Energy.</p> <p>Ergon Energy has sourced categories from Attachment 6 (Capital Expenditure) of the 2015-20 Distribution Determination, Table 6.3 (assessment of required capex by capex driver 2015–20), and notes capitalised overheads are presented as a separate category. As such, all other categories will be presented as directly attributable costs (exclusive of overheads).</p> <p>Ergon Energy has reported expenditure in table 8.2.1 (and table 8.2.3) <u>inclusive</u> of all capital contributions per RIN requirements.</p> <p>Ergon Energy has removed any sharing of assets from SCS reported expenditure. The definition requires Capex to be the amounts included in the Regulatory Asset Base for Ergon Energy. In Ergon Energy's Final Distribution Determination Attachment 2 (RAB), heading (Separation of ACS and unregulated assets) the AER removed the equivalent of the ACS usage value of assets from the RAB. This approach also meets requirements of Ergon Energy's AER approved CAM par 9.3, Treatment of Capital Expenditure and Shared Assets.</p> <p>Capex – Actual</p> <p>Ergon Energy makes the below comments in relation to the process undertaken to report actual Capex by Categories:</p> <ul style="list-style-type: none"> ▪ Metering <p>Of note, there has been a reclassification of metering services from standard control to alternative control for Type 5 & 6 metering as outlined in Ergon Energy's 2015-20 Final Distribution Determination at Attachment 13 (Classification of Services). As such, Type 5 & 6 metering will not be reported in Table 8.2.1, rather they will be reported in Table 8.2.3 as an ACS. Caution would need to be taken when comparing metering costs for SCS with prior years.</p> ▪ Non-network <p>Non-network capex is extracted from projects and also from direct purchases</p> <p>The process used in reporting Capitalised overheads, and Capital Contributions is described below:</p> <ul style="list-style-type: none"> ▪ Capitalised overheads <p>Within the Ergon Energy Ledger shared costs that have been charged via the overhead allocation process in accordance with the CAM are identified by an element code of 8100 within the chart of accounts hierarchy. The numbers shown against the</p>

Minimum Requirements	Ergon Energy Response
	<p>category, 'Capitalised Overheads' are a summary of these overhead costs .</p> <ul style="list-style-type: none"> <li data-bbox="639 255 959 286">▪ Capital Contributions <p data-bbox="684 309 1434 510">Actual Capital Contributions are not recorded against specific asset categories in the Ellipse general ledger. Therefore, an apportionment process has been applied to report against asset categories. This is based on the percentage split of asset categories for CICW expenditure from the Ellipse Project Accounting module.</p> <p data-bbox="639 533 1390 595">The process used in categorising actual capex costs by voltage level is described below:</p> <p data-bbox="639 618 820 649">Voltage levels</p> <p data-bbox="639 672 1441 806">Ergon Energy has assigned capex to subtransmission, High Voltage (HV) , Low Voltage (LV), and other in accordance with CA RIN definitions in the absence of AR RIN definitions and to ensure alignment in reporting between RIN's.</p> <p data-bbox="639 828 1390 891">Capex has been categorized into Subtransmission, HV, LV and other using the following logic:</p> <ul style="list-style-type: none"> <li data-bbox="639 913 1426 976">▪ Subtransmission: where the nominal voltage is above 33kV, or transforms any voltage to levels above 33kV; <li data-bbox="639 999 1430 1102">▪ High Voltage: where the nominal voltage is at or below 33 kV and above 1 kV, or distribute electricity at voltage levels between the sub transmission and LV sections of the network; <li data-bbox="639 1124 1401 1227">▪ Low Voltage: A line that is not a subtransmission line or a HV feeder or an overhead service wire or an underground service cable. <p data-bbox="639 1249 1385 1384">The dissection by voltage class is prepared by reference to the Asset Register asset class which gives the voltage of each distribution or subtransmission asset. These are appropriately summarized and used to populate the relevant table.</p> <p data-bbox="639 1406 1410 1541">The capex numbers are also adjusted for the proportion of those assets that will be used to provide services other than standard control capex. The amount of the reduction is determined after consideration of the appropriate drivers.</p> <p data-bbox="639 1563 1417 1697">The movement in provisions by asset class is drawn from the calculations performed for the Benchmarking RIN which identifies the capex component for each movement. The total of these movements are then pro-rated across the various asset classes.</p> <p data-bbox="639 1720 1070 1751">Related Party Margin Expenditure</p> <p data-bbox="639 1774 1441 1908">'Related Party Margin Expenditure' comprises only profit margins or management fees paid directly or indirectly to related party contractors (not including actual incurred expenses of the related party contractor) for the regulatory reporting period.</p> <p data-bbox="639 1930 1410 1993">Ergon Energy does not have any profit margins or management fees paid directly or indirectly for related party contracts to report.</p>

Minimum Requirements	Ergon Energy Response
	<p>Capex - CPI adjusted Forecast</p> <p>Ergon Energy has used the forecasts contained in its as 2015-20 Distribution Determination, adjusted for the impact of actual inflation outcomes to be in the same dollar terms as the actual data reported</p> <p>The adjusted amounts were calculated by allowing for a change between forecast and actual Consumer Price Index (CPI) for the 2015-16 regulatory year in the Post Tax Revenue Model (PTRM).</p> <p>The actual CPI entered into the PTRM is consistent with Ergon Energy's annual Pricing Proposal and is based on the relevant Australian Bureau of Statistics (ABS) December to December CPI weighted average of 8 capital cities result sourced from the ABS website.</p> <p>In order to disaggregate the forecasts, a separate Excel spread sheet was produced to recast the AER approved forecast Capex and forecast capital contributions into the RIN formats and into \$2015-16 terms. These figures were then reconciled against the forecast Capex and forecast capital contribution figures derived at the macro level from the CPI adjusted PTRM noted above.</p>
Population of Estimated Information in Templates	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
How Estimated Information has been produced	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Table 8.2.2 – Capex by Purpose – Material Difference Explanation

Table 2 - Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared the information provided in Template 8.2 Capex, Table 8.2.2 Capex by Purpose – Material Difference Explanation in accordance with the Notice requirements, including Schedule 1 requirements, the Principles and Requirements set out in Appendix A and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p> <p>NB. Ergon Energy has reported expenditure in table 8.2.1 <u>inclusive</u> of all capital contributions per RIN requirements.</p> <p>Table 8.2.2 requires Ergon Energy to provide an explanation of the main drivers for material differences between forecast and actual expenditure for SCS that are identified in Table 8.2.1.</p> <p>Differences are calculated in Table 8.2.1 – Capex by Purpose for all SCS categories presented therein.</p> <p>Determination of whether differences are material aligns to the defined term ‘Materiality’ in accounting standard AASB 1031 or upon the withdrawal of AASB 1031, paragraph 5 of the accounting standard AASB 108 as per the definition in Appendix F to the Notice. Generally, any material differences are those which are greater than 10% (between AER approved forecasts (adjusted for the impact of actual inflation outcomes) and Ergon Energy’s reported actual amount).</p> <p>Where the difference between forecast and actual expenditure shown in table 8.2.1 is a Material Difference the main factors driving the difference are entered in Table 8.2.2 Capex by Purpose – Material Difference Explanation.</p> <p>Please also refer to Explanations for material variances (Capex, Opex) which reports against</p> <p>Schedule 1 Para 1.5-1.8 also requires Ergon Energy to identify each difference (where the difference is equal to or greater than ± 10 per cent) between the amount reported in the Financial Information Templates and the amount provided for in the 2015-20 Distribution Determination for the following:</p> <ul style="list-style-type: none"> ▪ total actual capex and total forecast capex. ▪ Explain the reasons for each difference identified

Table 8.2.3 – Capex Other

Table 3 - Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared the information provided in Template 8.2 Capex, Table 8.2.3 Capex Other in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p>
Population of Actual Information in templates	<p>Ergon Energy has provided actual information in Table 8.2.3 for the 2015-16 regulatory year.</p> <p>Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.</p>
Source of Actual Information	<p>Refer to comments made in relation to source of expenditure in Table 8.2.1 – Capex by Purpose – Standard Control Services above.</p>
Methodology and assumption's applied in relation to Actual Information	<p>Table 8.2.3 requires Ergon Energy to report actual and forecast capex that provides ACS.</p> <p>The capex categories for ACS are pre-populated in Table 8.2.3 (Other Capex).</p> <p>Ergon Energy has reported expenditure in table 8.2.3 (and table 8.2.1) <u>inclusive</u> of all capital contributions per RIN requirements.</p> <p>Capex - Actual</p> <p>Ergon Energy makes the below comments in relation to the process undertaken to report actual Capex by the categories for ACS as pre-populated in Table 8.2.3 (Other Capex).</p> <p>Of note, the categories use AER services which align with Appendix A (AER final decision on classification of services for Queensland) of Attachment 13 (Classification of Services) in the 2015-20 Distribution Determination.</p> <ul style="list-style-type: none"> ▪ Public Lighting <p>Data for street lighting is extracted from the Ellipse system in the same manner described above under the Capex heading within the Methodology and Assumption Section for table 8.2.1 – Capex by Purpose – Standard Control Services with further filters applied to activity codes to obtain ACS (street lighting).</p> ▪ Connection Services <p>Data for connection services is extracted from the Ellipse system in the same manner described above under the Capex heading within the Methodology and Assumption Section for table 8.2.1 – Capex by Purpose – Standard Control Services with further filters applied to activity codes to obtain Connection Services capex.</p>

Minimum Requirements

Ergon Energy Response

- **Metering Services**

Data for metering services is extracted from the Ellipse system in the same manner described above under the Capex heading within the Methodology and Assumption Section for table 8.2.1 – Capex by Purpose – Standard Control Services with further filters applied to activity codes to obtain Metering Services capex.

Of note, there has been a reclassification of metering services from standard control to alternative control for Type 5 & 6 metering as outlined in Ergon Energy's 2015-20 Final Distribution Determination at Attachment 13 (Classification of Services). As such, Type 5 & 6 metering will not be reported in Table 8.2.1, rather they will be reported in Table 8.2.3 as an ACS. Caution would need to be taken when comparing metering costs for SCS with prior years.

- **Ancillary Network Services**

Data for Ancillary Services is extracted from the Ellipse system in the same manner described above under the Capex heading within the Methodology and Assumption Section for table 8.2.1 – Capex by Purpose – Standard Control Services with further filters applied to activity codes to obtain Ancillary Services capex.

- **Negotiated Services**

Ergon Energy does not have any services classified as Negotiated for the current regulatory control period. Accordingly, Ergon Energy has not populated this row despite it not being greyed out as 'not for completion'.

The process used in categorising actual capex costs by voltage level is described below:

Voltage levels

Ergon Energy has assigned capex to subtransmission, HV, LV, and other in accordance with CA RIN definitions in the absence of AR RIN definitions and to ensure alignment in reporting between RIN's.

Capex has been categorized into Subtransmission, HV, LV and other using the following logic:

- ***Subtransmission:*** where the nominal voltage is above 33kV, or transforms any voltage to levels above 33kV;
- ***High Voltage:*** where the nominal voltage is at or below 33 kV and above 1 kV, or distribute electricity at voltage levels between the sub transmission and LV sections of the network;
- ***Low Voltage:*** A line that is not a subtransmission line or a HV feeder or an overhead service wire or an underground service cable.

Capex - Forecast

Minimum Requirements	Ergon Energy Response
	<p>Forecasts must be adjusted for the impact of actual inflation outcomes to be in the same dollar terms as the actual data reported in the Financial Information Templates at Appendix B.</p> <p>Actual Inflation applied is consistent with Ergon Energy's annual Pricing Proposal obtained from the ABS for the Weighted Average of 8 capital cities Dec – Dec period sourced from the ABS website.</p> <p>Forecast capex costs for Public Lighting and Metering Services have been obtained from the Metering Capex data model, and Public Lighting pricing model issued with the 2015-20 Distribution Determination adjusted for the impact of actual inflation.</p> <p>As the form of control for Ancillary network services and Connection Services are fee based or quoted services the AER did not approve Capex forecasts. As such, no financial values for forecasts are reported for these categories.</p> <p>Related Party Margin Expenditure</p> <p>'Related Party Margin Expenditure' comprises only profit margins or management fees paid directly or indirectly to related party contractors (not including actual incurred expenses of the related party contractor) for the regulatory reporting period.</p> <p>Ergon Energy does not have any profit margins or management fees paid directly or indirectly for related party contracts to report.</p>
Population of Estimated Information in Templates	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach used, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
How Estimated Information has been produced	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Table 8.2.4 – Capex by Asset Class

Table 4 - Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared the information provided in Template 8.2 Capex, Table 8.2.4 Capex by Asset Class in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice</p>
Population of Actual Information in templates	<p>Ergon Energy has provided actual information in Table 8.2.4 for the 2015-16 regulatory year.</p> <p>Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.</p>
Source of Actual Information	<p>Refer to comments made in relation to source of expenditure in Table 8.2.1 – Capex by Purpose – Standard Control Services above.</p>
Methodology and assumption's applied in relation to Actual Information	<p>Table 8.2.4 (Capex by Asset Class) requires Ergon Energy to report forecast and actual Financial Information for SCS Capex using categories which align with those set out in Ergon Energy's Post Tax Revenue Model and Roll Forward Model issued with the 2015-20 Distribution Determination as per definitions provided in Appendix F to the Notice.</p> <p>Further, the AER requires reporting for Movements in provisions allocated to as-incurred capex by asset class. In accordance with the AER's clarification on the 15 April 2016, the purpose for providing this information is to adjust capex reported in the RAB in the Economic Benchmarking RIN Template 3.3 (Assets) commencing from 2015/16.</p> <p>Ergon Energy has reported expenditure in table 8.2.4 <u>exclusive</u> of all capital contributions per RIN requirements (only tables 8.2.1 and 8.2.5 include capital contributions).</p> <p>Finally, to meet with the definition of capex in Appendix F to the Notice, Ergon Energy is required to remove any sharing of assets in the delivery of ACS. The definition requires Capex to be the amounts included in the Regulatory Asset Base for Ergon Energy. In Ergon Energy's Final Distribution Determination Attachment 2 (RAB), heading (Separation of ACS and unregulated assets) the AER removed the equivalent of the ACS usage value of assets from the RAB. This approach will also meeting the requirements of Ergon Energy's approved CAM par 9.3 Treatment of Capital Expenditure and Shared Assets.</p> <p>Ergon Energy makes the below comments in relation to the process undertaken to report actual Capex by Asset Class in Table 8.2.4.</p>

Minimum Requirements	Ergon Energy Response
	<p>Capex - Asset Class</p> <p>Ergon Energy's asset classes in the the Roll Forward Model and Post-tax Revenue Model are duplicated to separate assets purchased prior to and after 1 July 2010 due to the applicability of differing asset lives. Therefore, for comparability purposes Ergon Energy has selected the asset classes from the RFM. Of note, some asset classes (Street Lighting, Metering Type 5-6) are dedicated to the delivery of ACS, as such no financial values will be reported against these classes.</p> <p>Capex - Actual</p> <p>Capex by asset class is extracted from the Project Accounting module in the Ellipse ERP and by matching to fixed register asset classes and after balancing to the General Ledger provides capex in the AER capex by Asset Class reporting categories. The adjustment in capex for assets used for non-scs purposes is also deducted. This amount is determined by considering a number of relevant cost drivers.</p> <p>Capex - Forecast</p> <p>Forecasts must be adjusted for the impact of actual inflation outcomes to be in the same dollar terms as the actual data reported in the Financial Information Templates at Appendix B.</p> <p>Ergon Energy has used the forecasts contained in its as 2015-20 Distribution Determination, adjusted for the impact of actual inflation outcomes to be in the same dollar terms as the actual data reported.</p> <p>The adjusted amounts were calculated by allowing for a change between forecast and actual CPI for the 2015-16 regulatory year in the PTRM.</p> <p>The actual CPI entered into the PTRM is consistent with Ergon Energy's annual Pricing Proposal and is based on the relevant ABS December to December CPI weighted average of 8 capital cities result sourced from the ABS website.</p> <p>Movements in provisions allocated to as-incurred capex by asset class</p> <p>The movement in provisions is calculated in the Economic Benchmarking RIN Template 3.2.3 Provisions including the amount that relates to capex. This total amount is pro-rated across the asset classes.</p>
Population of Estimated Information in Templates	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions made and reasons why	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Minimum Requirements	Ergon Energy Response
the estimate is best estimate given the information sought in this Notice.	
How Estimated Information has been produced	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Table 8.2.5 – Capital Contribution by Asset Class

Table 5 - Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared the information provided in Template 8.2 Capex, Table 8.2.5 Capital Contribution by Asset Class in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p> <p>Categories in Tables 8.2.5: Capital Contributions by Asset Class will automatically populated as they are linked to Table 8.2.4: Capex by Asset Class.</p>
Population of Actual Information in templates	<p>Ergon Energy has provided actual information in Table 8.2.5 for the 2015-16 regulatory year.</p> <p>Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.</p>
Source of Actual Information	<p>Refer to comments made in relation to source of expenditure in Table 8.2.1 – Capex by Purpose – Standard Control Services above.</p>
Methodology and assumption's applied in relation to Actual Information	<p>Ergon Energy has reported expenditure in table 8.2.5 (and 8.2.1) <u>inclusive</u> of all capital contributions per RIN requirements.</p> <p>Ergon Energy confirms, as per Appendix A 3.1 Capital Contributions is treated in accordance with the method approved in the 2015-20 Distribution Determination.</p> <p>Capital Contributions - Actual</p> <p>Actual Capital Contributions are not recorded against specific asset categories in the Ellipse general ledger. Therefore, an apportionment process has been applied to report against asset categories. This is based on the percentage split of asset categories for CICW expenditure from the Ellipse Project Accounting module.</p> <p>Capital Contributions - Forecast</p> <p>Ergon Energy has sourced financial values for forecasts from Table 6.3 (our assessment of required capex by capex driver 2015–20) to Ergon Energy's 2015-20 Distribution Determination, adjusted for the impact of actual inflation.</p>
Population of Estimated Information in Templates	<p>Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.</p>

Minimum Requirements	Ergon Energy Response
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
How Estimated Information has been produced	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Table 8.2.6 – Disposal by Asset Class

Table 6 - Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared the information provided in Template 8.2 Capex, Table 8.2.6 Disposal by Asset Class in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix A and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p> <p>Categories in Table 8.2.6: Disposals by Asset Class will automatically populate as they are linked to Table 8.2.4: Capex by Asset Class.</p>
Population of Actual Information in templates	Ergon Energy has provided actual information in Table 8.2.6 for the 2015-16 regulatory year. Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.
Source of Actual Information	Refer to comments made in relation to source of expenditure in Table 8.2.1 – Capex by Purpose – Standard Control Services above.
Methodology and assumption's applied in relation to Actual Information	<p>Ergon Energy has reported expenditure in table 8.2.6 <u>exclusive</u> of all capital contributions per RIN requirements (only tables 8.2.1 and 8.2.5 include capital contributions).</p> <p>Disposals - Actual</p> <p>The financial values for actual disposals are required to be reported on a gross proceeds from the sale of assets basis as per definitions provided in Appendix F to the Notice.</p> <p>The Ergon Energy fixed assets register records and reports the value of asset disposals as well as any proceeds received. This reporting is by the asset categories used in the asset register, these are mapped to the AER reporting categories using the mapping table used for the preparation of other AER templates requiring a similar dissection.</p> <p>Disposals - Forecast</p> <p>Ergon Energy has sourced financial values for forecasts from the Post Tax Revenue Model issued with the 2015-20 Distribution Determination, adjusted for the impact of actual inflation.</p> <p>Actual Inflation applied is consistent with Ergon Energy's annual Pricing Proposal obtained from the ABS for the Weighted Average of 8 capital cities Dec – Dec period.</p>
Population of Estimated Information in Templates	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Minimum Requirements	Ergon Energy Response
basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	
How Estimated Information has been produced	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Annual Reporting RIN Basis of Preparation



Template 8.4 Opex

1 July 2015 to 30 June 2016



Version Control

Version	Date	Description
1.0	31/10/16	Final as submitted to AER on 31 October 2016

Foreword

In response to requirements of the Australian Energy Regulator's (AER) Annual Reporting Regulatory Information Notice (RIN), and specific to the information presented in Template 8.4 Operating Expenditure (Opex) of Ergon Energy's completed 2015-16 Annual Reporting RIN templates (15-16 AR RIN Templates), this Basis of Preparation document has been prepared by Ergon Energy with a view to:

- demonstrate how the information provided in relation to Template 8.4 Opex (and associated Tables and/or variables) is consistent with the requirements of this notice ;
- explain the source from which Ergon Energy obtained the information provided in the template;
- explain the methodology Ergon Energy applied to provide the required information, including any assumptions Ergon Energy made.

In circumstances where Ergon Energy has provided input using Estimated Information in relation to Template 8.4 Operating Expenditure (Opex), Ergon Energy has made comment herein as to:

- why an estimate was required, including why it was not possible to use Actual Information;
- the basis for the estimate, including the approach used, assumptions made and reasons why the estimate is a best estimate, given the information sought in the Notice; and;
- what steps Ergon Energy is taking to ensure it can provide the information in the future.

As relevant, Ergon Energy has provided additional detail beyond the minimum requirements if it was considered it may assist a user to gain an understanding of the information presented in the regulatory templates.

The Basis of Preparation document should be read in conjunction with the information presented in Template 8.4 Operating Expenditure (Opex) in Ergon Energy's completed 15-16 AR RIN Templates as well as the following Schedule 1 responses presented in attachments outlined below.

Table 1: Additional Requirements (Attachments to Basis of Preparation)

Notice Reference Paragraph	Requirement	Attachment(s) to Template BOP
Schedule 1 Para 1.1(c)	Provide a Microsoft Excel workbook or other information that reconciles and explains Adjustments between the Audited Statutory Accounts and the Financial Information Templates. Ergon Energy must separately list each Adjustment made to derive the Financial Information Templates. For each Adjustment made: <ul style="list-style-type: none"> ▪ specify the amount of Adjustment; ▪ describe the nature and basis of each Adjustment 	Reconciliation (Audited Statutory Accounts and Regulatory Accounting Statements) (EE1516AR RECON)
Schedule 1 Para 4	In relation to Ergon Energy's Service segments (refers to standard control services (SCS), alternative control services (ACS), negotiated services), identify each Item in the Financial Information Templates that is: <ul style="list-style-type: none"> ▪ directly attributable from the Distribution Business to a service segment; and 	Cost Allocation to Service Segments (EE1516AR CASS)

Notice Reference Paragraph	Requirement	Attachment(s) to Template BOP
	<ul style="list-style-type: none"> o state the amount of the Item that has been directly attributable to a service segment. ▪ not directly attributable but is allocated on a causation basis from the Distribution Business to a service segment; and <ul style="list-style-type: none"> o state the amount of the Item that has been allocated; o explain the method of allocation and reasons for choosing that method; and o state the numeric amount of the allocator(s) used. ▪ not directly attributable and cannot be allocated on a causation basis from the Distribution Business to a service segment. <ul style="list-style-type: none"> o state the amount of the Item and whether it was material; o explain the method of allocation and reasons for choosing that method; and o explain the reason(s) why it cannot be allocated on a causation basis. 	

In comparing the 2015-16 data to prior years, it should also be noted as this is the first year of the new regulatory control period, information presented will be in accordance with new Cost Allocation Method (CAM) and new classification services (CoS) to apply for the 2015-20 regulatory control period.

This will be particularly relevant in the Electricity Distributors Performance Report where an objective and priority of the report is to compare NSPs across jurisdictions and across regulatory control periods.

Enquiries or further communications should be directed to:

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Template 8.4 Operating Expenditure (Opex)

Table 8.4.1 – Operating & Maintenance Expenditure by Purpose

Table 1 - Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared information provided in Template 8.4 Operating Expenditure (Opex), Table 8.4.1 Operating & Maintenance Expenditure in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix E and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice</p> <p>Ergon Energy has not populated information in relation to Negotiated Services which is greyed out and not applicable in this regulatory control period.</p>
Population of Actual Information in templates	<p>Ergon Energy has provided actual information in Table 8.4.1 for the 2015-16 regulatory year.</p> <p>Where information is provided it is done so in accordance with the AER's definitions and applying the assumptions and methodology that is described within this Basis of Preparation.</p>
Source of Actual Information	<p>Ergon Energy has sourced data from three principle sources:</p> <ul style="list-style-type: none"> ▪ Ergon Energy's general ledger; ▪ Ellipse Project Accounting module; and ▪ Microsoft Excel worksheet for categorisation of WIP construction assets based on Ellipse Estimating module data. <p>In all cases the total Opex is reconciled back to the totals contained in the general ledger.</p>
Methodology and assumption's applied in relation to Actual Information	<p>Ergon Energy is to list the opex categories identified in Ergon Energy's regulatory proposal at table 3.2.1.1 current opex categories and cost allocations as per instructions.</p> <p>Ergon Energy must specify any expenditure category where the expense is more than 5 per cent of the total SCS opex.</p> <p>Ergon Energy makes the below comments in relation to the process undertaken to report actual Opex by Categories:</p> <p>Preventive Maintenance</p> <p>Comprises schedule inspection and maintenance activity. This work is carried out at predetermined intervals, or in accordance with prescribed intervals, or in accordance with prescribed criteria, in order to minimise the probability of network failure, minimise total life cycle costs, meet required operating conditions and performance standards, and keep Ergon Energy staff and the public safe. Work that is identified from this program can be undertaken as either asset renewal (defect manual) Capex or corrective</p>

Minimum Requirements	Ergon Energy Response
	<p>maintenance, so that forced and corrective maintenance can be averted.</p> <p>The cost of preventative maintenance is identified by separate codes within the general ledger is extracted for reporting total expenditure.</p> <p>The adjustment relates to the cost of preventative maintenance on Ergon Energy's isolated and unregulated assets. These costs are separately identified in the general ledger.</p> <p>The cost of preventative maintenance on assets that provide ACS is also identified by an activity code within the general ledger coding structure.</p> <p>Corrective Maintenance</p> <p>Involves planned repair work identified and assessed as defects from preventative maintenance or customer reports in order to prevent an unplanned outage or dangerous electrical event. This category of work is planned and carried out regularly. The largest element of Ergon Energy's corrective maintenance program relates to vegetation management.</p> <p>The cost of corrective maintenance is identified by separate codes within the general ledger. Reporting involves extracting the total expenditure.</p> <p>The adjustment relates to the cost of corrective maintenance on Ergon Energy's isolated and unregulated assets. These costs are separately identified in the general ledger. The cost of corrective maintenance on assets that provide ACS is also identified by an activity code within the general ledger coding structure.</p> <p>Forced Maintenance</p> <p>Involves unplanned repair, replacement or restoration work that is carried out as quickly as possible after the occurrence of an unexpected event or failure in order to bring the distribution network to at least its minimum acceptable and safe operating condition. Although it is unplanned, an annual provision is made for this category of expenditure.</p> <p>The cost of forced maintenance is identified by separate codes within the general ledger. Reporting involves extracting the total expenditure.</p> <p>The adjustment relates to the cost of forced maintenance on Ergon Energy's isolated and unregulated assets. These costs are separately identified in the general ledger.</p> <p>The cost of forced maintenance on assets that provide ACS is also identified by an activity code within the general ledger coding structure.</p> <p>Other network maintenance</p> <p>Ergon Energy's maintenance costs are identified by specific codes within the General Ledger hence there are no amounts to be included in 'other'</p> <p>Network Operating costs</p> <p>Net operating costs are separately identified in the Ellipse general ledger. Adjustments relate to amounts directly attributed to the isolated networks.</p> <p>Meter reading</p> <p>Costs incurred in Ergon Energy's capacity as a Metering Data Provider for</p>

Minimum Requirements	Ergon Energy Response
	<p>Types 5, 6, and 7 metering installations and customer service activity reported against the relevant Service Segment in accordance with Ergon Energy's Final Distribution Determination Attachment 13 (Classification of Services).</p> <p>The cost of meter reading is identified by separate codes within the general ledger. Reporting requires extracting the total expenditure from designated codes.</p> <p>The adjustment relates to the cost of meter reading for customers on Ergon Energy's isolated and unregulated networks. These costs are separately identified in the general ledger.</p> <p>Customer service (including Call Centre)</p> <p>Customer Service relates to the cost of providing customer service to customers.</p> <p>Customer Service costs is separately identified in the general ledger.</p> <p>The adjustment relates to the cost of providing customer service to customers on Ergon Energy's isolated and unregulated networks.</p> <p>Other Operating Costs</p> <p>The regulated component of these costs relates, in part, to the DM incentive arrangements, GSLs which are separately identified in the Ellipse general ledger.</p> <p>The adjustment relates to unclassified costs of operating the isolated systems, redundancy payments and unregulated assets</p> <p>Training</p> <p>Training relates to the cost of providing Training to Employees.</p> <p>Training costs are separately identified in the general ledger.</p> <p>Feed-in-tariff</p> <p>A jurisdictional scheme associated with the Queensland Government Solar Bonus Scheme.</p> <p>The Feed-in Tariff is separately identified in the general ledger.</p> <p>Debt raising costs</p> <p>Relates to Queensland Treasury Corporation (QTC) debt administration fees.</p> <p>The debt raising costs are separately identified in the general ledger.</p> <p>Over absorbed overheads</p> <p>Ergon Energy's change in CAM was approved in July 2014. As such with reference to par 9.5 Application and Review of Shared Cost Percentage Rates, where any unallocated balance is less than 10% of the EECL overhead pool, it will remain unallocated. As such reporting of this immaterial difference will no longer be reported as other operating costs for SCS, rather it is presented in the Adjustments column.</p>

Minimum Requirements	Ergon Energy Response
	<p>Non-network alternatives</p> <p>Non-Network Alternatives (NNA) are systems and processes implemented to reduce peak demand on the shared network. As such, all expenditure is related to SCS.</p> <p>NNA costs are separately identified in the general ledger.</p> <p>AEMC</p> <p>A jurisdictional scheme associated with obligated funding of the Australian Energy Market Commission (AEMC) under the Distribution Authority</p> <p>AEMC costs are separately identified in the general ledger.</p> <p>Corporate Restructuring</p> <p>Corporate Restructuring costs relating to the organizational restructure of Ergon Energy including employee redundancy payments.</p> <p>Corporate restructuring costs are separately identified in the general ledger.</p> <p>Not Proceeding Cust. Initiated Capital Works</p> <p>Not proceeding customer initiated capital works are costs Ergon Energy has incurred in progressing customer initiated capital works which did not proceed to completion.</p> <p>Not proceeding customer initiated capital works costs are separately identified in the general ledger.</p> <p>CPI Adjusted Forecasts</p> <p>Forecasts must be adjusted for the impact of actual inflation outcomes to be in the same dollar terms as the actual data reported in the Financial Information Templates at Appendix B.</p> <p>Ergon Energy has used the forecasts contained in its as 2015-20 Distribution Determination, and adjusted these amounts for actual consumer price index (CPI).</p> <p>The adjusted amounts were calculated by allowing for a change between forecast and actual CPI for the 2015-16 regulatory year in the Post Tax Revenue Model (PTRM).</p> <p>The actual CPI entered into the PTRM is based on the relevant Australian Bureau of Statistics (ABS) December to December CPI weighted average of 8 capital cities result sourced from the ABS website.</p>
Population of Estimated Information in Templates	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Minimum Requirements	Ergon Energy Response
made and reasons why the estimate is best estimate given the information sought in this Notice.	
How Estimated Information has been produced	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Table 8.4.2 – Operating & Maintenance Expenditure by Purpose – Margins Only

Table 2 - Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared information provided in Template 8.4 Operating Expenditure (Opex), Table 8.4.2 Operating & Maintenance Expenditure by Purpose Margins Only in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix E and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice</p> <p>Ergon Energy has not populated information in relation to Negotiated Services which is greyed out as results are automatically populated with formulas within the table.</p>
Population of Actual Information in templates	Ergon Energy has provided Actual Information, in accordance with the AER's definition.
Source of Actual Information	Ergon Energy has sourced data from Ergon Energy's general ledger in Ellipse.
Methodology and assumption's applied in relation to Actual Information	<p><i>Related Party Margin Expenditure</i></p> <p>'<i>Related Party Margin Expenditure</i>' comprises only profit margins or management fees paid directly or indirectly to related party contractors (not including actual incurred expenses of the related party contractor) for the regulatory reporting period</p> <p>Ergon Energy does not have any profit margins or management fees paid directly or indirectly for related party contracts to report.</p> <p>Ergon Energy confirms, as required by the AER in Appendix F, Definitions that it has assessed its response to this templates in accordance with the related party definition.</p>
Population of Estimated Information in Templates	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.
Why it was not possible to provide actual information, what steps have been taken to ensure it can provide the information in the future, the basis for the estimate, approach use, assumptions made and reasons why the estimate is best estimate given the information sought in this Notice.	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Minimum Requirements	Ergon Energy Response
How Estimated Information has been produced	Not applicable. Ergon Energy has provided Actual Information, in accordance with the AER's definition.

Table 8.4.3 – Operating & Maintenance Expenditure Explanation of Material Difference

Table 3 - Addressing Minimum BOP requirements

Minimum Requirements	Ergon Energy Response
Consistency with Notice requirements	<p>Ergon Energy has prepared information provided in Template 8.4 Operating Expenditure (Opex), Table 8.4.3 Operating & Maintenance Expenditure Explanation of Material Difference in accordance with the Notice requirements, including the Principles and Requirements set out in Appendix E and definitions in Appendix F to the Notice.</p> <p>Ergon Energy has populated all variables for cells shaded yellow as required by the Notice.</p> <p>Table 8.4.3 requires Ergon Energy to provide an explanation of the main drivers for material differences between forecast and actual expenditure for SCS that are identified in Table 8.4.1.</p> <p>Differences are calculated in Table 8.4.1 – Opex by Purpose for all SCS and ACS categories presented therein.</p> <p>Determination of whether differences are material aligns to the defined term 'Materiality' in accounting standard AASB 108 paragraph 5. Generally, any material differences are those which are greater than 5% to 10% (between AER approved forecasts (adjusted for the impact of actual inflation outcomes) and Ergon Energy's reported actual amount).</p> <p>Where the difference between forecast and actual expenditure are calculated in Table 8.4.1 the main factors driving the difference are entered in Table 8.4.3 – Operating & Maintenance Expenditure – Explanation of Material Difference. Please also refer to Explanations for material variances (Capex, Opex) which reports against Schedule 1 Para 1.5-1.8 also requires Ergon Energy to identify each difference (where the difference is equal to or greater than ± 10 per cent) between the amount reported in the Financial Information Templates and the amount provided for in the 2015-20 Distribution Determination for the following:</p> <ul style="list-style-type: none"> ▪ total actual opex and total forecast opex; and ▪ Explain the reasons for each difference identified.

8.1.1 - INCOME STATEMENT

Description	Audited Statutory Accounts	Adjustments	Distribution business	
	\$0's, nominal			

8.1.1.1 - REVENUE

Distribution revenue	1,408,540,424	96,391,629	1,504,932,053	Directly attributable
Cross boundary revenue	-	4,218,967	4,218,967	Directly attributable
Contributions	44,653,810	- 1,350,952	43,302,858	Directly attributable
Interest income	6,987,695	- 6,987,695	-	NIL
Jurisdictional scheme amounts	114,138,413	- 74,186	114,064,227	Directly attributable
Profit from sale of fixed assets	1,473,799	- 1,473,799	-	NIL
TUOS revenue	371,007,571	- 2,437,925	368,569,646	Directly attributable
Pass through revenue (F-factor)	-	-	-	
Other Revenue	348,252,818	- 330,626,121	17,626,698	Directly attributable
Total revenue	2,295,054,530	- 242,340,082	2,052,714,448	

8.1.1.2 - EXPENDITURE

TUOS expenditure	353,874,105	- 6,293,589	347,580,516	Directly attributable
Avoided TUOS expenditure	2,151,821	- 79,383	2,072,439	Directly attributable
Cross boundary expenditure	-	6,293,589	6,293,589	Directly attributable
Depreciation	431,857,281	- 24,012,704	407,844,577	Directly attributable
Finance charges	295,854,376	- 292,891,059	2,963,317	Causally allocated based on PPE
Impairment losses	14,590,968	- 14,590,968	-	NIL
Jurisdictional scheme amounts	-	109,121,884	109,121,884	Directly attributable
Loss from sale of fixed assets	5,105,674	- 5,105,674	-	NIL
Maintenance expenditure	281,518,252	- 11,570,378	269,947,874	Directly attributable
Operating expenditure excluding maintenance expenditure	287,762,705	- 96,480,423	191,282,282	Directly attributable
Other	67,123,760	- 67,123,760	-	NIL

8.1.1.3 - PROFIT

Profit before tax (PBT)	555,215,587	160,392,383	715,607,970	
Income tax expenses (/ benefit)	139,935,645	74,746,747	214,682,391	Directly attributable
Profit after tax	415,279,943	85,645,637	500,925,579	

Ergon Energy
Schedule 1 Section 4 - Cost allocation to Service Segments
2015-16

EE1516 AR CASS

8.1.1 - INCOME STATEMENT

Description	Distribution business	Standard Control Services	Alternative Control Services	
	\$0's, nominal			

8.1.1.1 - REVENUE

Distribution revenue	1,504,932,053	1,447,653,419	57,278,634	Directly attributable
Cross boundary revenue	4,218,967	4,218,967	-	Directly attributable
Contributions	43,302,858	25,621,828	17,681,030	Directly attributable
Interest income	-	-	-	NIL
Jurisdictional scheme amounts	114,064,227	114,064,227	-	Directly attributable
Profit from sale of fixed assets	-	-	-	NIL
TUOS revenue	368,569,646	368,569,646	-	Directly attributable
Pass through revenue (F-factor)	-	-	-	NIL
Other Revenue	17,626,698	-	17,626,698	Directly attributable
Total revenue	2,052,714,448	1,960,128,086	92,586,362	

8.1.1.2 - EXPENDITURE

TUOS expenditure	347,580,516	347,580,516	-	Directly attributable
Avoided TUOS expenditure	2,072,439	2,072,439	-	Directly attributable
Cross boundary expenditure	6,293,589	6,293,589	-	Directly attributable
Depreciation	407,844,577	392,924,119	14,920,458	Directly attributable
Finance charges	2,963,317	2,891,776	71,541	Causally allocated based on PPE
Impairment losses	-	-	-	NIL
Jurisdictional scheme amounts	109,121,884	109,121,884	-	Directly attributable
Loss from sale of fixed assets	-	-	-	NIL
Maintenance expenditure	269,947,874	252,840,785	17,107,090	Directly attributable
Operating expenditure excluding maintenance expenditure	191,282,282	138,369,670	52,912,612	Directly attributable
Other	-	-	-	NIL

Ergon Energy
Schedule 1 Section 7 - Tax Standard Asset Lives
2015-16

EE1516AR TAX

Ergon Asset Register Class	PTRM Asset Class	Reason For Change in Tax Life
Software Integral Software Intangible Software Datacentre Laptops Computers Mainframe	IT Systems	Change in law effective 1 July 2015 to change in-house software life from 4yrs to 5 yrs. Change in ATO Effective life ruling for laptops (3yrs) to "Mobile/portable computers (including laptops, tablets) 2 yrs – change from 1 July 2016. New more specific category in ATO Effective life ruling from 1 July 2016 for "Mainframe computers" – 5yrs
Substation Fences	Substation Establishment	Reviewed as part of last year's RIN audit. We changed our position on Fences to now treat under the generic 40 year 'capital works' life for structural improvements, rather than treating the fences as part of the building
Telecoms	Communications	Change in rate as per change in ATO Effective life ruling effective 1 July 2015
Cameras Digital	Office Furniture & Equipment	Change in rate as per new specific category for Digital Cameras – effective 1 July 2015
Lights	Buildings	New category in ATO Effective life ruling effective from 1 July 2016 "Light fittings and freestanding lights".